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# 2011 Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

San José, California

# City of San José
**California**

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## Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

Prepared by Finance Department

Julia H. Cooper
Acting Director of Finance

# City of San José

**Comprehensive Annual Financial Report**
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**Special Assistance**

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Maria Öberg, Finance

Charlene Sun, Finance
Sharon Winslow Erickson, City Auditor's Office

David Wong, Human Resources

**Special Assistance – Departments and Offices**

Airport
Budget
City Attorney
City Auditor
City Clerk
City Manager

Environmental Services
Fire
Housing
Human Resources
Information Technology
Parks, Recreation and Neighborhood Services

Police
Public Works
Redevelopment Agency
Retirement Services
Transportation

**Special Recognition**

Scott P. Johnson, Former Director of Finance
Sylvia Claiborne, Former Accounting Division Manager

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**Statistical Section (Unaudited)**

November 30, 2011

HONORABLE MAYOR and CITY COUNCIL

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

We are pleased to present the Comprehensive Annual Financial Report ("CAFR") of the City of San José ("City") for the fiscal year July 1, 2010 through June 30, 2011 as required by Sections 805(a) and 1215 of the City Charter. Although submitted to the Mayor and City Council for consideration, the CAFR is also intended to provide relevant financial information to the residents of San José, taxpayers, creditors, investors, and other interested parties.

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

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

The City contracted with Macias Gini & O'Connell LLP, a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the City's financial statements for fiscal year 2010-2011 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an "unqualified" or "clean" opinion. The independent auditor's report includes explanatory paragraphs discussing the changes to California Redevelopment Law and the potential impact on the Redevelopment Agency of the City of San José, and that actuarial valuations for the City's two pension plans reflect actuarial accrued liabilities exceeding the actuarial value of their assets for both the retirement and postemployment healthcare plans. The independent auditor's report is included in the Financial Section of this report.

In addition, Macias Gini & O'Connell LLP audited the City's major program expenditures of federal funds for compliance with the Federal Single Audit Act Amendments of 1996, the Office of Management and Budget Circular A-133 regulating Single Audits, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR and may be obtained upon request from the City's Department of Finance.

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This CAFR is organized into three sections:

- The Introductory Section is intended to familiarize the reader with the organizational structure of the City, the nature and scope of City services, and specifics of the City's legal operating environment.
- The Financial Section contains the City's audited financial statements including the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for each of the City's major funds, as well as nonmajor governmental funds, proprietary funds, and fiduciary funds.
- The Statistical Section contains comprehensive statistical data on the City's financial, physical, economic, and social condition.

## REPORTING ENTITY

San José is a charter city that has operated under a council-manager form of government since 1916. Under the City Charter, the Mayor and 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 a four-year term, and Council members are elected by district for staggered four-year terms. The Mayor and Council members are limited to two consecutive four-year terms. Under the Charter, the Mayor recommends policy, program and budget priorities to the 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 responsible for the administration of City affairs, day-to-day operations, and implementation of Council policies. In addition to the City Manager, the City Attorney, City Clerk, City Auditor, and Independent Police Auditor are appointed by and report directly to the City Council. The City Council also acts as the Redevelopment Agency Board and appoints the Director of the Redevelopment Agency ("Agency") to administer redevelopment projects and programs.

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

San José covers approximately 179 square miles at the south end of the San Francisco Bay and is the county seat of Santa Clara County ("County"). With a 2011 estimated population of 958,789[1], it is the tenth largest city in the United States and the third largest city in California. In addition, San José is the oldest city in California, developing from a Spanish pueblo established on November 29, 1777. The City has transformed dramatically from the rich agricultural setting of its early years into the largest city in the Silicon Valley, known as the "Capital of Silicon Valley". Silicon Valley is home to many of the world's largest technology companies and is considered by many to be the top technology center in the world. Service providers account for approximately 78 percent[2] of the County Metropolitan Statistical Areas ("MSA") employment, which includes San José, with the majority of employment related to professional

[1] State of California, Department of Finance, Population Estimates for Cities and Counties, January 2011.
[2] State of California, Employment Development Department, Labor Market Information Division, March 2011.

and business services, education and health services, government, and retail. In addition, durable goods manufacturing, primarily computer equipment, semiconductor components, and electronic instruments account for approximately 16.8 percent[3] of the County MSA employment.

The CAFR 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 Agency, Parking Authority of the City, San José-Santa Clara Clean Water Financing Authority, the City of San José Financing Authority, and the Diridon Development Authority.

## ECONOMIC CONDITION and FISCAL OUTLOOK

Fiscal year 2010-2011 ended much as it began, with the national and local economy awaiting signs of a sustained economic recovery from the national recession. After eight years of budgetary deficits 2010-2011 would prove to be another year of organizational realignment and innovation. The nascent recovery in the City's primary revenues, while encouraging, in the end remained insufficient to cover the level of City expenditures even though City expenditures decreased slightly compared to the prior year. Like many municipalities across the nation as the lingering effects of the national recession continued, the debate of pension reform ensued, and as the year came to a close the City was actively engaged in addressing the issue of the escalating costs of retirement funding.

In fiscal year 2010-2011, the City Council approved a five year Fiscal Reform Plan ("Reform Plan") which was projected to achieve $216.0 million in General Fund savings by fiscal year 2015-2016 through the potential implementation of recommendations related to retirement costs, total employee compensation costs, and organizational changes/efficiencies. In addition the Reform Plan identified a number of potential revenue strategies which could total $46.5 million in revenue by fiscal year 2015-2016. The Reform Plan will act as a policy guide and operational blueprint for assisting in the development of future budgets that achieve fiscal stability and organizational sustainability.

As in previous years, the City continued to utilize principles outlined in the General Fund Structural Deficit Elimination Plan (the "Plan"). The Plan outlines specific strategies for elimination of the General Fund structural budget deficit through the implementation of: cost savings strategies, revenue strategies; and, service reductions/eliminations strategies. During fiscal year 2010-2011, the City maintained its commitment of engaging neighborhoods and residents in the budget formulation process to ensure that the budget was reflective of community priorities. To that end the City Council continued the tradition of conducting a day-long Neighborhood Budget Priority Session, establishing budget meetings in each of the City Council Districts, and conducting a Community Budget Survey to determine neighborhood leaders' and community members' revenue and expenditure priorities. In June 2011, based in part on this community input, the City Council approved a balanced General Fund budget for fiscal year 2011-2012, closing a funding gap of $115.2 million. To address the funding gap a combination of strategies were utilized including: (1) additional funding sources; (2) expanded employee concessions; (3) new service delivery models/efficiencies; and, (4) service reductions/eliminations. These strategies resulted in approximately 70 percent of the funding gap being closed utilizing ongoing budgetary solutions.

As the City adjusts to the unusually tepid growth of this economic recovery, future growth projections for the national and global economies continue to predict only modest growth in the local economy. This economic backdrop is reflected in the deployment of conservative budgetary revenue projections which anticipate only slight growth in Sales Tax and Property Tax for fiscal year 2011-2012. The City's June 2011 unemployment rate of 11.4 percent represents an improvement over the June 2010 unemployment rate of 12.4 percent; in addition these rates represent an improvement over the statewide rate of 12.1

[3] State of California, Employment Development Department, Labor Market Information Division, March 2011.

percent[4] but are still elevated compared to historic local norms. While the City continues to face uncertain economic times, the City will continue to maintain a course of fiscal prudence and community engagement.

Considering the City's budgetary challenges in recent years, the City remains one of the highest rated large California cities (with populations over 250,000 with general obligation credit ratings of Aaa/AAA/AA+, from Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. The rating agencies continue to cite management's demonstrated commitment to strong fiscal management and the diversity of the local economy as the basis of their ratings rationale. Over the years these ratings have translated into significant interest cost savings in the City's debt program which in turn benefits the taxpayers of the San José community. In addition to the City's general obligation credit ratings other reporting entities of the City have a range of credit ratings reflective of the credit rating agencies' assessments of the particular revenue source or security backing the outstanding debt.

## SIGNIFICANT EVENTS and ACCOMPLISHMENTS

Highlights of activities and accomplishments for the fiscal year ended June 30, 2011 include the following:

- In August 2010, the Happy Hollow Park & Zoo became the nation's first amusement park and zoo to receive Leadership in Energy and Environmental Design ("LEED") certification from the U.S. Green Building Council. Happy Hollow Park & Zoo features seven "green" roofs with 56,000 native plant species in addition to the nearly 80,000 new plants that were added to the park's lush landscape.

- In August 2010, the Environmental Services Department ("ESD") opened the first phase of the San José Environmental Innovation Center. The center provides convenient household waste collection services to the public. The facility was designed and constructed with sustainable features to assist in LEED certification.

- In August 2010, San José's Municipal Rose Garden ("Rose Garden") was named *America's Best Rose Garden* by the All-American Rose Selections. The historic garden won the national competition after receiving votes from rose garden lovers across the nation. The Rose Garden was recognized for its remarkable journey of restoration and community support.

- In September 2010, the Edenvale Community Center celebrated its grand opening. The construction of the joint-use facility was a collaborative effort among the City, the Agency, and the Oak Grove School District. The operation collaboration between the City and the Oak Grove School District is designed to create a shared community building and recreational space for public and educational purposes.

- In September 2010, the San José Police Department ("SJPD") received the United Way's annual Community Builder Award. The honor was for SJPD's demonstrated passion for community and exemplary partnership with United Way's key goal areas of collaboration, inclusiveness, and significant impact in the community for its outreach efforts in promoting the United Way's 2-1-1 Program.

- In October 2010, the Parks, Recreation & Neighborhood Services ("PRNS") Capital Grants Program received a *Bright Idea* designation from the Harvard Kennedy School Ash Center for Democratic Governance and Innovation. The program completes its grant applications with active community engagement, which greatly increases its grant-writing output and provides sense of community ownership in park development projects.

[4] State of California, Employment Development Department, Labor Market Information Division, June 2010.

- In October 2010, California Construction Magazine named the Mineta San José International Airport ("Airport") modernization project as best Overall Top Project for Northern California for 2010. California Construction Magazine annually recognizes construction and design excellence in Northern and Southern California.

- In October 2010, the City's Department of Transportation hosted a group of eleven international members of the Climate Group for a tour of the City's first two "smart" LED Streetlight Conversion Projects. The Climate Group is a non-profit group working internationally with government and business leaders to advance green technologies and policies.

- In November 2010, the City's Street Smarts Traffic Safety Education Program was one of four recipients of the Metropolitan Transportation Commission Excellence in Motion Grand Award. The Street Smarts program was honored for its effectiveness in teaching children to be safer pedestrians and bicyclists, and for raising traffic safety awareness among adult drivers.

- In November 2010, the City's Department of Planning, Building and Code Enforcement received the American Planning Association California Chapter 2010 Award of Merit for Best Practices. The award recognized the major efforts of the City to involve community participation in the City's Envision 2040 General Plan Update process.

- In December 2010, San José Public Library became the first library system in the nation that enables staff to add content to the Library's website. The newly designed website allows staff to post blogs updating the community to the latest happenings at the City's 19 neighborhood libraries.

- In December 2010, the City and the U.S. Department of Energy opened the San José Green Vision Clean Energy Showcase. The showcase is an interactive new innovation center housing installations of cutting-edge clean energy technologies. Visitors are provided hands-on demonstrations of advanced solar, wind and energy efficient technologies.

- In February 2011, the San José Mineta International Airport ("Airport") received Silver LEED certification from the U.S. Green Building Council in recognition of the Airport's significant commitment to environmentally sustainable design and construction of Terminal B. The Airport is the first new passenger terminal west of the Mississippi River to be awarded LEED Silver.

- In February 2011, San José's Trail Program received the Exemplary Human Environment Initiatives Award from the Federal Highway Administration. The award was received in the *Encouraging Non-Motorized Transportation* category and was the second award received from the Federal Highway Administration in the past twelve months.

- In March 2011, two San José schools (Independence High School and Union Middle School) won top honors in a state-wide recycling challenge. Both schools had received Youth Education and Improvement Grants and free recycling containers from the ESD's Go Green Schools Program to develop their campus-wide recycling programs.

- In March 2011, the City's work2future managed by the Office of Economic Development, in partnership with Tech BA, and the World Bank, hosted the International Summit on Entrepreneurship and Innovation. The event included participants from over 20 international incubators and business accelerators.

- In March 2011, the City's Edenvale Community Center received LEED Gold certification from the U.S. Green Building Council. One of the key aspects of the building was that three-quarters of the construction and debris were recycled helping to divert the waste from landfills and incinerators.

- In April 2011, the City and the City of San José Financing Authority each issued bonds to finance an expansion of approximately 120,000 square feet and the renovation of the City's San José McEnery Convention Center. In a unique public-private partnership local hoteliers will provide a dedicated source of funding for the renovation and expansion project.

- In May 2011, the 1.24 megawatt solar deployment at the City's Central Service Yard was activated. Comprised of more than 5,300 photovoltaic solar panels and deployed on the rooftops and new parking canopies at the Central Service Yard, the solar power systems are expected to generate more than 1.8 million kilowatt hours of electricity in its first year of operation.

- In May 2011, the City's Green Vision was recognized by the U.S. Chamber's Business Civic Leadership Center. The City received the 2011 Siemens Sustainable Community Award in the large city category which recognizes communities that are taking proactive steps to create sustainable communities through environmental stewardship and innovative thinking.

- In June 2011, the Airport was recognized for having one of the industry's outstanding new parking facilities. The International Parking Institute awarded the Airport's Consolidated Rental Car Facility with one of the 2011 Awards of Merit for the successful public-private partnership between the City and the rental car companies.

- In June 2011, the City's Office of Cultural Affairs Public Art Program was named America's "Public Art Program of the Year" at the Americans for the Arts Annual Conference. The citation also gave special recognition for the innovative use of technology for the Airport's public art program. This was the first time this recognition has been awarded to the City.

## FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

The City is committed to providing excellent municipal services to its diverse residents, businesses and visitors. The City organization is structured into six 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 CSAs are: Community & Economic Development; Environmental & Utility Services; Neighborhood Services; Public Safety; Strategic Support; and Transportation & Aviation Services. The City publishes a five-year Capital Improvement Program ("CIP") that guides the City in the planning, scheduling, and budgeting of capital improvement projects during the next five-fiscal year period. The CIP is updated annually and approved by the City Council. Significant issues and projects included in the 2012-2016 CIP, presented within the CSA structure, are as follows:

### *Community & Economic Development*

- The Community and Economic Development CSA seeks to manage the growth and change of the City in order to encourage a strong economy, create and preserve healthy neighborhoods, ensure a diverse range of employment and housing opportunities, and encourage a diverse range of arts, cultural and entertainment offerings. One of the primary CIP's within this CSA is the Developer Assisted Projects Capital Program whose funding works to ensure that residential developments include the construction of public improvements necessary to maintain or improve the infrastructure of the City. The Developer Assisted Projects Capital Program includes the Underground Utility Fund and the Residential Construction Tax Contribution Fund. This capital program is used to facilitate the undergrounding of existing overhead facilities and to reimburse developers for the construction of certain street improvements throughout the City. Funding for the capital program is derived from fees associated with residential development and as such continued to be impacted by the severe economic downturn. Program funding of $7.2 million has been proposed for the 2012-2016 CIP, of which $3.6 million is allocated in 2011-2012.

***Environmental & Utility Services***

- The Environmental and Utility Services CSA utilizes four CIP's to achieve the outcomes of a reliable utility infrastructure, healthy streams, rivers, marsh, and bay, and a safe, reliable and sufficient water supply. In order to help achieve the CSA objectives the CIP's are structured under the Sanitary Sewer System CIP, Storm Sewer System CIP, Water Pollution Control Plant CIP, and the Water Utility System CIP. The fiscal years 2012-2016 combined funding for the four CIPs programs funding totaling $694.5 million.

- The Sanitary Sewer System Capital Program for fiscal years 2012-2016 programs funding of $212.4 million, of which $105.8 million is allocated in 2011-2012. The program's funding is used to enhance sewer capacity for economic development and to rehabilitate existing sewers. This level of funding assumes a 3.0 percent rate increase in Sewer Service and Use Charge fees in 2011-2012, and assumes increases between 3.0 percent and 5.0 percent in future years. The Sanitary Sewer System consists of approximately 2,200 miles of sewer mains with a replacement value estimated at $3.5 billion. Projects of note in this CIP include the construction of a new Fourth Major Interceptor. The Interceptor System is the primary arterial sewage collection point for all local sewer systems of the City and the ultimate conveyance of sewage to the Water Pollution Control Plant. When completed the Fourth Major Interceptor will allow for one the three older interceptors to be removed from service for routine maintenance or rehabilitation.

- The Storm Sewer System Capital Program for fiscal years 2012-2016 programs funding of $33.1 million, of which $15.5 million is allocated in 2011-2012. This level of funding assumes a 3.0 percent rate increase to allow appropriate investments in capacity and neighborhood storm system improvements. The existing storm sewer main system is approximately 1,000 miles long. The program's 2012-2016 funding objectives include the installation of technology and/or infrastructure to improve the capacity of the storm drain collection system, increase the reliability of storm pump stations, improve the quality of storm water runoff, and to minimize water from pooling in residential areas. Projects of note in 2012-2016 include: replacement or rehabilitation of high-priority storm pump stations ($2.8 million), various small neighborhood storm sewer improvement projects ($2.7 million), and continuation of the Storm Drainage Improvement – Special Corridors Project ($3.8 million).

- The San José/Santa Clara Water Pollution Control Plant ("Plant") is a regional wastewater treatment facility serving eight sewage collection agencies including municipalities and sanitary sewer districts. The Plant's Capital Program for 2012-2016 programs funding totaling $426.7 million, of which $132.3 million is budgeted in 2011-2012. This level of funding assumes a 3.0 percent rate increase in 2011-2012, and 3.0 percent rate increases in the following years. The Plant's five-year CIP was adapted to incorporate preliminary cost estimates for many projects envisioned in the Plant's Master Plan. Development of the Plant's Master Plan is a three-year process initiated in 2008, which will guide the Plant's CIP and land use over the next 30 years. The Plant Master Plan was formulated to address the Plant's aging infrastructure, population and job growth in the region served by the Plant, a new and stricter regulatory environment, and the current availability of better technologies. Projects of note in 2012-2016 include: digester rehabilitation ($37.7 million), headworks enhancement ($38.7 million), and the plant electrical reliability program ($72.5 million).

- The Water Utility System CIP is developed to ensure reliable utility infrastructure for the City's Municipal Water System. The Water Utility System provides water service to approximately 26,000 customers in five Service Areas within the City: Evergreen, North San José, Alviso, Edenvale, and Coyote Valley. The Evergreen Service Area contains approximately 92 percent of the total customers served and accounts for 72% of the total water usage in the system. The Water Utility System CIP programs funding of $22.3 million for fiscal years 2012-2016 and includes the construction of new facilities, maintenance of existing infrastructure, and improvements to the existing Water Utility System facilities.

### *Neighborhood Services*

- The goal of the Neighborhood Services CSA is to provide City services to residents and neighborhoods in ways that promote safe and clean parks, facilities and attractions, and support vibrant cultural, learning and leisure opportunities. In November 2000, voters in San José approved a $228.0 million bond measure for park and recreational facility improvements and a $212.0 million bond measure for library facility improvements. As a result of these bond measures, major investments in the City's libraries, parks, and community centers have been made with the completion of all bond-funded projects anticipated within this five year CIP. Funding for the Neighborhood Services 2012-2016 CIP is programmed at $297.3 million.

- The objective of the Library CIP is to provide readily accessible, quality library services to City residents. The Library Capital Program provides funding to construct new library facilities, renovate existing facilities, acquire materials, install automation equipment, and support general facility improvements. The 2012-2016 Library CIP programs funding of $60.1 million, of which $38.8 million is allocated in 2011-2012. A total of $22.2 million is allocated in the 2012-2016 CIP for the completion of branch library bond projects including the opening of two new branches (Bascom Branch and Southeast Branch) and three expanded/relocated branches (Calabazas Branch, Educational Park Branch, and Seven Trees Branch). In addition to bond funded projects, this CIP provides funding for the acquisition of new library materials ($19.0 million) and automation projects and system maintenance projects ($4.9 million).

- The mission of the Parks, Recreation, and Neighborhood Services Department is "*To build healthy communities through people, parks, and programs".* The stated mission is the basis for the Parks and Community Facilities Development CIP's long-term acquisition, development, and maintenance of parks, recreational facilities, trails, and open space. The 2012-2016 CIP provides funding of $237.2 million, of which $158.0 million is allocated in 2011-2012. The 2012-2016 CIP focuses on delivering projects that will help the parks system become financially and environmentally sustainable by building out the trail network, land banking for future park construction, constructing artificial turf sports fields, and replacing aging infrastructure. The Parks and Recreation Bond Projects Fund totals $35.0 million for the anticipated completion of new softball and soccer sports complexes in the 2012-2016 CIP. In addition to bond-funded projects, this CIP programs funding for trail development in the amount of $17.1 million.

### *Public Safety*

- The Public Safety CSA's core objective is to ensure that the public feels safe anywhere and at anytime in San José. To help effectuate that goal in March 2002, San José voters approved the $159.0 million Neighborhood Security Act Bond Measure to provide the funding for Police and Fire capital improvements. The infrastructure improvements implemented as a result of this funding are intended to result in improved response times to emergency incidents, improved public access to public safety services, and improved working conditions for public safety personnel. The 2012-2016 Public Safety CIP allocates funding of $51.9 million, of which $23.3 million is funded in 2011-2012. The objective of the Public Safety CIP is to provide, maintain, and improve facilities and equipment that support the effective delivery of emergency services. The remaining projects funded by the Neighborhood Security Act Bond Measure are scheduled for completion during the 2012-2016 CIP.

- Police Department Public Safety Bond Program projects include the construction of a South San José Police Substation, community policing centers, renovation of the 9-1-1 Communications Dispatch Center, and a Driver Safety Training Center. The development of previous Public Safety CIP's included partial defunding of community policing centers and the full defunding of the Driver Safety Training Center in order to fully fund the South San José Police Substation. The Police Substation was completed in 2010-2011 however, due to maintenance and operating funding constraints the opening of the substation has been delayed to September 2012.

- Fire Department Public Safety Bond Program projects include the construction of three new fire stations, relocating six fire stations, rebuilding one fire station, remodeling 16 fire stations, and renovating existing Fire Training facilities. In 2011-2012, the focus will be on completing design work and construction for new and relocated fire stations. In addition to the funds provided through the Fire Department Public Safety Bond Program, the 2012-2016 CIP includes $26.0 million of funding for fire apparatus repair and replacement. The City's investment in fire apparatus has significantly improved the quality of the Fire Department's fleet and its ability to respond to emergencies in accordance with established response time performance measures.

***Strategic Support***

- The Strategic Support CSA is comprised of internal functions that enable the five other CSAs to deliver services to the community and to customers. The City departments which comprise the Strategic Support CSA endeavor to design, build, and maintain City facilities while managing the City's financial and technology systems. The Strategic Support CSA includes the Communications, Municipal Improvements, and Service Yards Capital Improvement Programs. The Strategic Support Capital Improvement Program for fiscal years 2012-2016 programs funding of $154.1 million.
- The Communications CIP programs funding of $6.2 million which will primarily be allocated to communications equipment upgrades and replacement. The Communications CIP priorities for 2012-2016 include the replacement of public safety related communications equipment, maintenance of existing radio equipment to extend useful life, and strategic planning for future communication upgrades and technology changes.
- The Municipal Improvements CIP provides capital improvements and maintenance for City facilities and their operating systems not funded in other capital programs. The Municipal Improvements CIP has four ongoing projects which include: Arena repairs, unanticipated/emergency maintenance, fuel tank monitoring, and closed landfill compliance. In addition to the ongoing projects the Municipal Improvements adopted CIP programs funding to support the Convention Center Expansion and Renovation Project. The 2012-2016 Municipal Improvement CIP programs funding of $117.7 million, of which $114.6 million is allocated in 2011-2012.
- The Service Yard's CIP funds the construction and capital improvements of support facilities that maintain City vehicles, buildings, sewer systems, pavement, and related public infrastructure facilities. The 2012-2016 Service Yard CIP programs funding of $30.2 million, of which $3.8 million is allocated in 2011-2012.

***Transportation & Aviation Services***

- The Transportation and Aviation Services CSA facilitates the provision of a safe and efficient transportation system that is dedicated to improving freeways, transit, streets, bicycle and parking facilities, sidewalks, and the Airport and its support facilities. Transportation and Aviation infrastructure and services provide an important resource to support the community's livability and economy. The Transportation and Aviation Services CSA includes the Traffic, Parking, and Airport CIP's. The Transportation and Aviation CIP for fiscal years 2012-2016 programs funding of $715.6 million.

- The mission of the Traffic CIP is to implement a safe, efficient, and environmentally sensitive surface transportation system, consistent with the goals and policies of the City's General Plan. The General Plan defines a network of major streets, bikeways, pedestrian corridors, and regional transportation facilities needed to support land uses within the City. The 2012-2016 Traffic CIP programs funding of $202.7 million, of which $76.9 million is allocated in 2011-2012. The maintenance activities in the Traffic CIP include pavement maintenance, bridge maintenance, traffic signal rehabilitation, and city-wide emergency repairs. The adopted CIP allocates $75.6 million for maintenance activities, of which

$74.0 million is earmarked for pavement maintenance. In addition $23.9 million is allocated toward projects and programs that improve operational efficiency and safety of the City's transportation network. The 2012-2016 CIP also programs $10.8 million for the development of local transportation enhancements including the expansion of pedestrian and bicycle facilities.

- The Parking Capital Program's primary responsibilities are maintaining and improving existing facilities and upgrading and replacing both on-street and off-street parking equipment. The off-street component of the program currently operates eight garages and eight surface lots with approximately 7,300 parking spaces, mostly in the downtown core. The on-street component currently operates approximately 2,600 metered parking spaces in the areas of Downtown, Japantown, Civic Center, and HP Arena/Diridon Station. The 2012-2016 adopted CIP primarily focuses on projects to upgrade equipment, security, and technology of existing parking facilities. The Parking CIP for fiscal years 2012-2016 programs funding of $8.2 million, of which $3.0 million is allocated in 2011-2012.

- The Airport's adopted CIP for fiscal years 2012-2016 programs funding of $504.7 million. The 2012-2016 CIP reflects a transition from the initial implementation of the Terminal Area Improvement Program projects associated with the Airport's $1.3 billion Master Plan to the business needs and opportunities beyond the terminal areas. Non terminal area opportunities include the development of the Airport's west side and the rehabilitation of areas in the northeast and southeast of the airport. In addition, the Airport's Taxiway W Improvements Project addresses safety concerns identified by the FAA Runway Safety Action Team, and will add taxiway capacity on the Airport's west side to support future general aviation demand.

## FINANCIAL INFORMATION

The City's Administration staff is responsible for establishing and maintaining internal controls that 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. 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 Office of 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 major Federal award programs and the City's compliance with applicable laws and regulations related to these award programs.

### *Budgetary Controls*

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

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

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

***Debt Management Policy***

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

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

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

## AWARDS

The Government Finance Officers Association ("GFOA") of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2010. This was the twenty-third consecutive year the City has received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such report must satisfy accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

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

For the twenty first consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the fiscal year beginning July 1, 2010. To qualify for this award, the government unit must publish a budget document that meets program criteria as a policy document, a financial plan, an operations guide, and a communications medium.

## ACKNOWLEDGMENTS

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

In addition, staff in all City departments and the Agency should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The City also recognizes the contributions and positive working relationship with Macias Gini & O'Connell LLP.

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

Respectfully submitted,

DEBRA FIGONE
City Manager

Julia H Cooper

JULIA H. COOPER
Acting Director of Finance

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# 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, 2010

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

GOVERNMENT FINANCE OFFICERS ASSOCIATION

# *Distinguished Budget Presentation Award*

**PRESENTED TO**

## City of San Jose

**California**

For the Fiscal Year Beginning

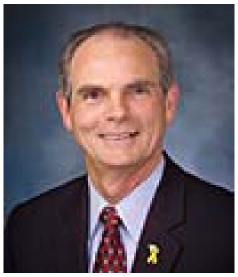
**July 1, 2010**

President

Executive Director

## San José Mayor & City Council

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



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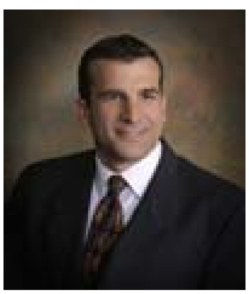

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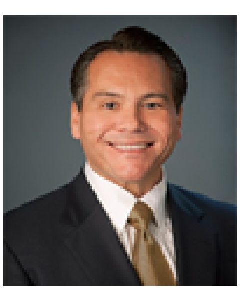

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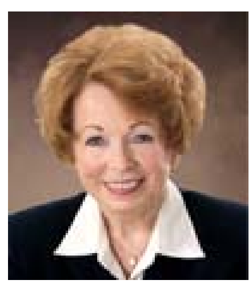

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# CITY ORGANIZATION BY FUNCTION

**RESIDENTS OF SAN JOSE**

**MAYOR AND CITY COUNCIL**

**BOARDS AND COMMISSIONS**

**REDEVELOPMENT AGENCY**

**COUNCIL APPOINTEES**

- Office of City Attorney
- Office of City Auditor
- Office of City Clerk
- Office of Independent Police Auditor

**CITY MANAGER**

- Budget Office
- Economic Development
- Employee Relations
- Communications

**GENERAL GOVERNMENT DEPARTMENTS**

- Finance
- Human Resources
- Information Technology
- Retirement Services

**PUBLIC SAFETY DEPARTMENTS**

- Fire
- Police

**CAPITAL MAINTENANCE DEPARTMENTS**

- Public Works
- Transportation

**COMMUNITY SERVICES DEPARTMENTS**

- Airport
- Convention Facilities
- Environmental Services
- Housing
- Library
- Parks, Recreation & Neighborhood Services
- Planning, Building & Code Enforcement

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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, 2011, 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I.E. to the financial statements, as of July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

The accompanying financial statements have been prepared assuming that the Redevelopment Agency of the City of San José (Agency) will continue as a going concern. As discussed in Notes I.A. and IV.D.5. to the financial statements, as of June 29, 2011, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California unless certain payments can be made to the State of California. Such changes to the California Redevelopment Law have also terminated the authority of redevelopment agencies to undertake new obligations to redevelop property. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated challenging the constitutionality of this legislation. However, based on the Agency's financial condition, the effects of this legislation raise substantial doubt about the Agency's ability to continue as a going concern. Management's plans regarding those matters also are described in Note IV.D.5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note IV.A., based on the most recent actuarial valuations as of June 30, 2010, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2010, the value of the defined benefit pension plans' actuarial accrued liability exceeded the actuarial value of their assets by $653.8 million and $780.9 million, respectively. Also, as described in Note IV.A., based on the most recent actuarial valuations as of June 30, 2010, the independent actuaries determined that, at June 30, 2010, the value of the postemployment healthcare plans' actuarial accrued liability exceeded the actuarial value of its assets by $887.7 million for the Police and Fire Department Retirement Plan and $818.4 million for the Federated City Employees' Retirement System.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedules of revenues, expenditures, and changes in fund balances – budget and actual for the General Fund and the Housing Activities Fund; and the schedules of funding progress listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining nonmajor governmental, internal service, trust and agency funds financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor governmental, internal service, trust and agency funds financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 30, 2011

Management's Discussion and Analysis ("MD&A") provides an overview of the City of San José's ("City") activities and financial performance for the fiscal year ended June 30, 2011. Readers are encouraged to read the MD&A in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal at the beginning of the Introductory Section, and with other portions of this Comprehensive Annual Financial Report ("CAFR"). All amounts have been rounded to the nearest one hundred thousand dollars and one tenth of a percent.

## FINANCIAL HIGHLIGHTS

- The government-wide statement of net assets for the City's governmental and business-type activities indicates that as of June 30, 2011, total assets exceed total liabilities by $5.648 billion. Of this amount, $203.2 million represents unrestricted net assets, which is comprised of a deficit balance of $129.4 million for governmental activities, and a positive balance of $332.6 million for business-type activities. In addition, the City's restricted net assets total $744.8 million ($622.3 million for governmental and $122.5 million for business-type activities) and are dedicated to specific purposes. Lastly, net assets of $4.700 billion are invested in capital assets, net of related debt ($3.810 billion for governmental and $890.0 million for business-related activities).

- Total net assets decreased by $382.0 million or 6.3 percent during 2010-2011 from $6.030 billion to $5.648 billion. Depreciation expense of $442.9 million accounts for this decrease. Excluding depreciation, net assets increased by $60.9 million.

- Governmental funds reported a combined ending fund balance of $1.248 billion at June 30, 2011, which is $63.9 million or 5.4 percent more than the June 30, 2010 balance. Governmental funds that experienced increases in fund balance include Special Assessment Districts ($128.7 million) and the San José Financing Authority Debt Service Fund ($14.0 million). These increases were partially offset by decreases in fund balance for the year including the General Fund ($4.3 million), Redevelopment Agency ($38.9 million), Housing Activities ($2.8 million), and other nonmajor funds ($32.8 million).

- Unassigned fund balance totals $44.6 million, which is 3.6 percent of combined governmental fund balances at June 30, 2011.

- Total noncurrent obligations increased by $94.4 million to $5.315 billion at June 30, 2011, which represents an increase of 1.8 percent compared to $5.220 billion at June 30, 2010. Primary factors leading to this increase include the issuance of $138.4 million of Special Hotel Tax Revenue Bonds and Lease Revenue Bonds to finance the Convention Center Expansion and Renovation Project, an increase of $74.0 million in the City's net other postemployment benefits obligation ("NOPEBO"), an increase of $23.6 million in the County of Santa Clara ("County") pass through obligation, and an increase of $9.8 million in the City's self-insurance obligation. These increases were partially offset by a reduction of $19.4 million in accrued vacation, sick leave and compensatory leave, and principal payments of $128.6 million on outstanding bonds and loans related to governmental and business-type activities.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

In addition, this report also contains other supplementary information.

## Government-wide Financial Statements

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

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

The ***statement of activities*** presents information showing how the net 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. Examples include revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

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

The government-wide financial statements include not only the primary government of the City, but also a legally separate redevelopment agency and four legally separate financing authorities for which the City is financially accountable.

## Fund Financial Statements

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

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

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

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

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

For the year ended June 30, 2011, the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to account for its Public Works program support, employee benefits, and stores, vehicle maintenance, and operations as internal service funds. These services predominantly benefit governmental functions. Therefore, they are included as *governmental activities* in the government-wide financial statements. Individual fund balances for each of the nonmajor internal service funds are provided in the form of *combining statements* elsewhere in this CAFR.

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

**Notes to 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** includes the budgetary schedules for the General Fund and Housing Activities Fund. In addition, pension and other postemployment healthcare schedules present the City's progress toward funding its obligations to provide future pension and other postemployment healthcare benefits for its active and retired employees.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Analysis of net assets:** As noted earlier, net assets may serve as a useful indicator of a government's financial position. As of June 30, 2011, the City's total assets exceed total liabilities by $5.648 billion.

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, 2011 and 2010**
**(in thousands)**

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | FY 2011 | FY 2010 | FY 2011 | FY 2010 | FY 2011 | FY 2010 |
| **Assets:** | | | | | | |
| Current and other assets…….. $ | 1,646,164 | 1,642,082 | 745,374 | 806,956 | 2,391,538 | 2,449,038 |
| Capital assets…………………. | 7,090,733 | 7,412,751 | 2,206,930 | 2,194,124 | 9,297,663 | 9,606,875 |
| Total assets……………. | 8,736,897 | 9,054,833 | 2,952,304 | 3,001,080 | 11,689,201 | 12,055,913 |
| **Liabilities:** | | | | | | |
| Current and other liabilities….. | 259,550 | 317,602 | 466,655 | 487,756 | 726,205 | 805,358 |
| Long-term liabilities…………… | 4,173,724 | 4,061,122 | 1,140,808 | 1,158,967 | 5,314,532 | 5,220,089 |
| Total liabilities………… | 4,433,274 | 4,378,724 | 1,607,463 | 1,646,723 | 6,040,737 | 6,025,447 |
| **Net assets:** | | | | | | |
| Invested in capital assets, net of related debt………… | 3,810,801 | 4,201,672 | 889,674 | 926,638 | 4,700,475 | 5,128,310 |
| Restricted net assets………… | 622,241 | 527,931 | 122,534 | 120,510 | 744,775 | 648,441 |
| Unrestricted net assets………. | (129,419) | (53,494) | 332,633 | 307,209 | 203,214 | 253,715 |
| Total net assets……….. $ | 4,303,623 | 4,676,109 | 1,344,841 | 1,354,357 | 5,648,464 | 6,030,466 |

At June 30, 2011, the City reported positive balances in all three categories of net assets on a total basis.

Net assets invested in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire them) of $4.700 billion comprise 83.2 percent of the City's total net assets. These capital assets facilitate providing services to the San José community, but they are not liquid, and therefore they are not available for future spending.

A portion of the City's net assets, $744.8 million or 13.2 percent are subject to legal restrictions on their use, including $622.2 million in governmental activities and $122.6 million in business-type activities. Of the total net assets, $203.2 million or 3.6 percent represents unrestricted net assets, which comprises a deficit balance of $129.4 million for governmental activities, and a positive balance of $332.6 million for business-type activities. Primary factors contributing to the governmental activities deficit balance are the City's other postemployment benefits and workers' compensation long-term liabilities.

During 2010-2011, the City's total net assets decreased by $382.0 million or 6.3 percent. The decrease in total net assets is slightly lower than the decrease of $391.5 million experienced in 2009-2010. Expenses decreased slightly from the prior fiscal year, which reflects the City's efforts in proactively containing expenses. After having experienced continuous declines in revenues over the past two fiscal years, revenues in 2010-2011 were flat compared to 2009-2010.

Notable changes in the statement of net assets between June 30, 2011 and June 30, 2010 include:

- Capital assets decreased by $309.2 million or 3.2 percent compared to the prior fiscal year. Governmental capital assets decreased by $322.0 million, but were slightly offset by an increase in business-type capital assets of $12.8 million. The decrease in governmental capital assets resulted from asset additions (net) of $40.7 million less $362.4 million in depreciation expense for major infrastructure and other assets, and $14.4 million from the sale of five parcels of land for real estate development by the Redevelopment Agency ("Agency"). The increase in business-type capital assets was primarily due to the completion of several projects at the Norman Y. Mineta San José International Airport ("Airport") during 2010-2011 including the Westside taxiway overlay, Terminal B airport signage, Terminal B parking, South Loop parking, and airfield improvements.

- Current and other assets decreased by $57.5 million or 2.3 percent due to a decrease of $61.6 million for business-type activities, which was slightly offset by an increase of $4.1 million for governmental activities. The decrease is primarily the result of reduced cash balances as business-type activities' bond proceeds were expended on the Airport's construction projects. An increase in current assets for governmental activities is due to two bond issuances for the Convention Center Expansion and Renovation Project (hotel tax bonds and lease revenue bonds), and an increase in the loan receivable balance resulting from issuance of low-income housing loans offset by a decrease in cash balances of governmental activities due to an increase ($92.0 million) in prepayment of City required contributions for pension benefits and postemployment healthcare benefits to Police and Fire Department Retirement Plan ("PFDRP") and Federated City Employees' Retirement System ("FCERS").

- Long-term liabilities increased by a net amount of $94.4 million or 1.8 percent. The overall net increase was primarily the result of an increase of $74.0 million for NOPEBO, $9.8 million for self-insurance obligations due to higher workers' compensation and general liability claims, $23.6 million for the Agency's pass through obligation due to the County, which is a result of the March 2011 settlement agreement with the County, and $138.4 million for the issuance of hotel tax bonds and lease revenue bonds. These increases were partially offset by a reduction in accrued liabilities such as accrued vacation, sick leave and compensatory leave ($19.4 million) and pollution remediation obligation ($0.2 million), and the reduction of the principal payments on the debt and loans ($128.7 million).

- Current and other liabilities for the City decreased by $79.2 million or 9.8 percent due to a decrease of $58.1 million for governmental activities and a decrease of $21.1 million for business-type activities. The decrease for governmental activities is primarily the result of a settlement of $47.2 million to the County for a pass–through tax increment obligation by the Agency (see Note (IV.C.2.), a decrease of $6.9 million in short-term liabilities for commercial paper notes issued to support the City's various public improvements, a reduction of $23.5 million in accounts payable from the prior year and a reduction of $7.0 million for advances, deposits, and reimbursable credits mainly due to checks issued to property owners to distribute surplus funds held in special assessment funds, $0.6 million in interest payable as a result of lower interest rates, and the recognition $1.0 million of previously unrecognized unearned revenue. These decreases were slightly offset by increases of $7.7 million in deposits received from developers, and $9.1 million in accrued liabilities mainly due to recognizing a short term pension liability payable to the FCERS. The decrease for business-type activities is primarily the result of a decrease of $7.3 million in short-term liabilities for commercial paper notes issued in connection with the Airport capital projects and a decrease of $13.8 million in accrued liabilities mainly due to lower activity for Airport capital projects.

- Unrestricted net assets for governmental activities decreased by $75.9 million or 141.9 percent resulting in a deficit of $129.4 million in unrestricted net assets at year-end. A significant part of this reduction in unrestricted net assets is the result of continued under funding of the annual required contribution of the City's other postemployment benefits thereby increasing its NOPEBO and reducing net assets by an additional $68.5 million. At June 30, 2011, the City's NOPEBO balance for governmental activities is $224.1 million.

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

**Statement of Activities**
**For the Years Ended June 30, 2011 and 2010**
**(in thousands)**

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | FY 2011 | FY 2010 | FY 2011 | FY 2010 | FY 2011 | FY 2010 |
| **Revenues:** | | | | | | |
| Program revenues: | | | | | | |
| Fees, fines, and charges for services…………. | $ 316,858 | 291,708 | 349,167 | 323,476 | 666,025 | 615,184 |
| Operating grants and contributions…………….. | 100,045 | 110,926 | 701 | 1,149 | 100,746 | 112,075 |
| Capital grants and contributions…………………… | 33,041 | 49,926 | 19,413 | 46,237 | 52,454 | 96,163 |
| General revenues: | | | | | | |
| Property taxes…………………………………….. | 481,145 | 498,973 | - | - | 481,145 | 498,973 |
| Utility taxes……………………………………….. | 108,528 | 108,151 | - | - | 108,528 | 108,151 |
| Franchise fees……………………………………… | 41,273 | 38,410 | - | - | 41,273 | 38,410 |
| Transient occupancy taxes……………………… | 18,102 | 17,250 | - | - | 18,102 | 17,250 |
| Sales taxes shared revenue……………………… | 137,970 | 123,312 | - | - | 137,970 | 123,312 |
| State of California in-lieu………………………… | 4,889 | 7,169 | - | - | 4,889 | 7,169 |
| Business license tax……………………………… | 36,811 | 34,952 | - | - | 36,811 | 34,952 |
| Marijuana tax……………………………………… | 1,152 | - | - | - | 1,152 | - |
| Unrestricted interest and investment earnings….. | 8,142 | 5,010 | 3,886 | 1,192 | 12,028 | 6,202 |
| Other revenue……………………………………… | 33,237 | 35,786 | - | - | 33,237 | 35,786 |
| Total revenues………………………………….. | 1,321,193 | 1,321,573 | 373,167 | 372,054 | 1,694,360 | 1,693,627 |
| **Expenses:** | | | | | | |
| General government……………………………….. | 148,515 | 137,159 | - | - | 148,515 | 137,159 |
| Public safety………………………………………. | 487,659 | 457,892 | - | - | 487,659 | 457,892 |
| Community services……………………………….. | 254,481 | 260,835 | - | - | 254,481 | 260,835 |
| Sanitation…………………………………………… | 129,138 | 130,343 | - | - | 129,138 | 130,343 |
| Capital maintenance………………………………. | 515,909 | 588,382 | - | - | 515,909 | 588,382 |
| Interest and fiscal charges……………………….. | 163,280 | 161,734 | - | - | 163,280 | 161,734 |
| Norman Y. Mineta San José International Airport…………………………………………… | - | - | 195,867 | 171,976 | 195,867 | 171,976 |
| Wastewater Treatment System……………………. | - | - | 147,283 | 140,831 | 147,283 | 140,831 |
| Municipal Water System……………………………. | - | - | 24,600 | 24,355 | 24,600 | 24,355 |
| Parking System…………………………………….. | - | - | 9,630 | 11,579 | 9,630 | 11,579 |
| Total expenses…………………………………. | 1,698,982 | 1,736,345 | 377,380 | 348,741 | 2,076,362 | 2,085,086 |
| Excess (deficiency) before transfers | (377,789) | (414,772) | (4,213) | 23,313 | (382,002) | (391,459) |
| Transfers……………………………………….. | 5,303 | 3,291 | (5,303) | (3,291) | - | - |
| Change in net assets………………………….. | (372,486) | (411,481) | (9,516) | 20,022 | (382,002) | (391,459) |
| Net assets at beginning of year | 4,676,109 | 5,087,590 | 1,354,357 | 1,334,335 | 6,030,466 | 6,421,925 |
| Net assets at end of year…………………………. | $ 4,303,623 | 4,676,109 | 1,344,841 | 1,354,357 | 5,648,464 | 6,030,466 |

**Governmental activities:** Net assets for governmental activities decreased by $372.5 million or 8.0 percent during 2010-2011 from $4.676 billion to $4.304 billion. Total expenses decreased by 2.2 percent whereas total revenues remained consistent compared with the prior year, even though certain revenue categories experienced increases or decreases. During 2009-2010, revenues and expenses decreased by 2.2 percent and 3.4 percent, respectively.

Although revenues were flat compared to the prior fiscal year and expenses decreased from the prior fiscal year, expenses continue to exceed revenues. Significant elements of the decrease in net assets for governmental activities from June 30, 2010 to June 30, 2011 are as follows:

- Contributing factors resulting in increases to certain revenue categories are as follows; fees, fines, and charges for services increased by $25.2 million or 8.6 percent primarily due to higher developer revenues for in-lieu fees, and fee increases charged by the City for services such as building permits. Sales tax revenue increased by $14.7 million or 11.9 percent showing improvement due to the economic recovery. Transient occupancy tax receipts from guests staying in the City's local hotels increased by $0.9 million or 4.9 percent. For the fourteen largest hotels in the City, the average room rate increased from $117 to $121 and the occupancy rate rose from 55.9 percent to 59.8 percent during the year indicating signs of economic recovery. Business tax revenues increased by $1.9 million or 5.3 percent showing improvement due to the economic recovery. The City's Marijuana tax, implemented effective March 1, 2011, generated $1.2 million, representing 7.0 percent of gross receipts from marijuana business entities operating in the City. Franchise fees increased by $2.9 million or 7.5 percent due to higher rates.

- Contributing factors resulting in decreases to certain revenue categories are as follows; operating grants and contributions decreased by $10.9 million or 9.8 percent principally due to a reduction in Federal and State grants received for street maintenance such as Proposition 1B revenues and Pedestrian Bicycle Facility revenues and community oriented grants like Community Development Block Grant ($1.2 million) and Workforce Investment Administration Grant ($5.0 million). Capital grants and contributions also decreased by $16.9 million or 33.8 percent primarily due to a decrease of $24 million in donation of capital assets from developers and this decrease was offset by increases in capital grants received for the Street Resurfacing and Rehabilitation Project ($8.3 million) under the American Recovery and Reinvestment Act and for the Light Rail Project Phase II from Department of Transportation for Clean Air ($3.5 million). Property tax revenues decreased by $17.8 million or 3.6 percent due to the continued decreasing property values in the City.

- Interest and investment income showed an increase of $3.1 million or 62.5 percent from the prior year due to an increase in the fair value of investments. However, lower cash balances combined with lower interest yields still persist. The increase in pre-payment of the City's contribution to its two retirement plans in July 2010, along with expenditures continuing to outpace revenue increases, caused lower cash balances. In addition, the annualized investment interest yield for the City's investment pool declined from 1.5 percent as of June 30, 2010 to 0.7 percent as of June 30, 2011, reflecting the continued lower interest rate environment experienced in the capital markets.

- General government expenses increased by $11.4 million or 8.3 percent during 2010-2011 due to increases in self-insurance liability ($6.0 million), worker's compensation claims liability ($1.9 million), and the recognition of loss on disposal of capital assets ($3.5 million). The decrease in general government expenses attributable to the General Fund is explained in more detail in the governmental fund section later in this document.

- Public safety expenditures increased $29.8 million or 6.5 percent mainly due to an increase in the pension and healthcare rates. However, the increases were partially offset by a reduction in compensated absence liabilities ($8.1 million) due to a large number of police and fire personnel retirements during fiscal year 2010-2011.

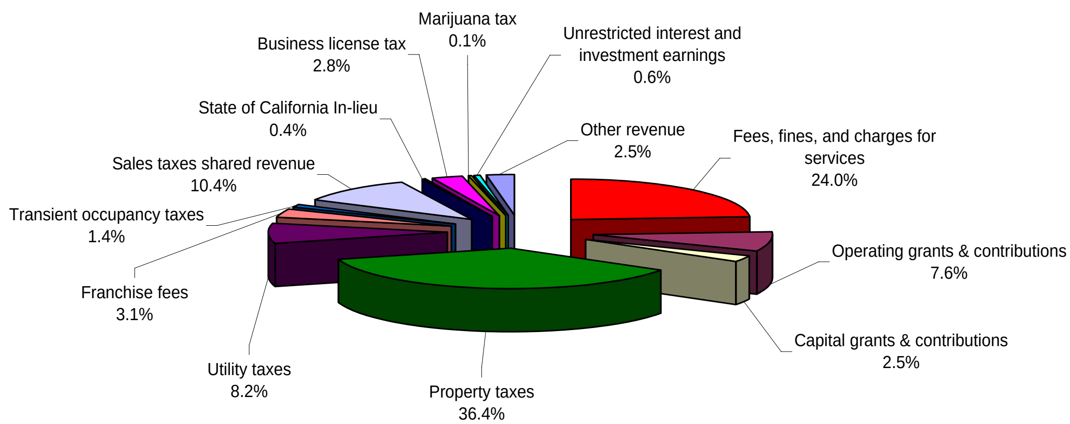
- Community services expenses decreased by $6.4 million or 2.4 percent primarily resulting from large reductions in service levels for branch libraries (open 39 hours per week as compared to 47 hours in the prior year) and for parks maintenance and enhancement combined with staffing level reductions to align with service eliminations.

- Sanitation expenses decreased by $1.2 million or 0.9 percent primarily due to a reduction in costs for the commercial solid waste recycling program.

- Capital maintenance decreased by $72.5 million or 12.3 percent primarily due to extensive reductions in capital spending programs by the Agency ($41.7 million).

- Depreciation expense for infrastructure and other capital assets was $362.4 million, an increase of 2.3 percent from prior year.

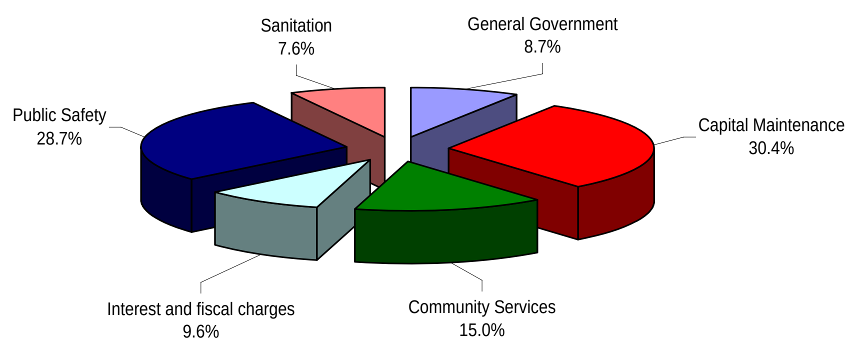
Governmental Activities Revenues 2011




The chart above shows the primary components of governmental activities revenue sources for 2010-2011. Of the $1.321 billion in total revenues generated by governmental activities, 70.8 percent is attributable to three categories: property taxes (36.4 percent); fees, fines, and charges for services (24.0 percent); and sales taxes (10.4 percent). The overall percentage of revenues to total revenues for these three main categories increased slightly over the prior year percentage (69.2 percent) mainly due to higher developer's revenues for in-lieu fees and building permits.

The chart below shows the principal categories of 2010-2011 expenses for governmental activities. Of the $1.699 billion in total expenses incurred by governmental activities, the categories accounting for 74.1 percent of the total are: capital maintenance (30.4 percent); public safety (28.7 percent); and community services (15.0 percent).

Governmental Activities Expenses 2011




**Business-type activities:** Business-type activities net assets decreased by $9.5 million or 0.7 percent to $1.345 billion during 2010-2011.

The notable components of net assets for business-type activities during 2010-2011 are:

- The Airport net assets decreased by $36.1 million or 8.0 percent. The Airport incurred an operating loss of $13.6 million, a decrease in loss of $24.7 million or 64.4 percent compared to the prior year loss of $38.3 million. Operating revenues increased by $16.6 million or 14.9 percent reflecting a slight increase in passenger traffic for international and domestic destinations, and an increase in parking rental activity. Increased revenues were also noted for non airline revenues such as terminal buildings/concessions, and parking and roadway. Operating expenses of $141.4 million were $8.1 million or 5.4 percent lower compared to 2009-2010, highlighted by decreases in general and administrative ($5.3 million) due to outsourcing of custodial services and the reduction in building maintenance staff, and depreciation and amortization ($3.8 million), which were offset by a small increase in operations and maintenance ($1.0 million). Nonoperating expenses exceeded nonoperating revenues by $34.0 million, which represented an increase of $31.8 million from 2009-2010. This increase in net operating expenses was mainly due to the expensing of interest costs in 2010-2011 for construction projects substantially completed in the prior fiscal year.

- Wastewater Treatment System net assets increased by $26.5 million or 3.6 percent from $730.5 million to $757.0 million. Operating revenues increased $9.4 million or 6.0 percent from $158.3 million to $167.7 million primarily due to an $8.7 million or 6.7 percent increase in charges for services due to a 6.0 percent sewer rate increase effective July 1, 2010. Total operating expenses increased by $7.2 million or 5.2 percent primarily due to $4.5 million in support payments to the Santa Clara Valley Water District to collaborate on the development of a local recycled water use program, and a $4.5 million increase in maintenance costs for the aging treatment plant and sewer collection system. These increases in operating expenses were partially offset by $1.8 million in savings through employee compensation reduction, continuous monitoring of expenses and implementing other cost saving measures. Net nonoperating expenses decreased by $2.0 million attributable primarily to an increase in the fair value of investments, and lower interest expense on long-term debt payments. Capital grants and contributions decreased by $2.9 million or 25.8 percent mainly due to a $3.0 million decrease in project costs reimbursement from the California Department of Transportation, and a $4.1 million decrease in capital donations from developers offset by a $4.2 million increase in U.S. Bureau of Reclamation grants for construction of wastewater recycling facilities.

- Municipal Water System net assets increased by $1.2 million or 1.4 percent from $82.9 million to $84.1 million. Operating revenues of $26.0 million increased by $1.2 million or 5.0 percent, which includes a 3.75 percent rate increase effective July 1, 2010. Operating expenses of $24.6 million increased by $0.3 million or 1.2 percent mainly due to higher wholesale prices of water costs.

- Parking System net assets decreased by $1.1 million or 1.2 percent from $88.2 million to $87.1 million. Operating revenues decreased by $0.9 million or 8.8 percent primarily due to less activity at parking facilities as a result of the sluggish economy. Operating expenses decreased by $1.9 million or 16.8 percent reflecting reductions to operations and maintenance costs to offset revenue declines. Net nonoperating revenues increased by $0.1 million mainly from higher fair value of investments.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

As of June 30, 2011, the City's governmental funds reported combined fund balances of $1.248 billion, an increase of $63.9 million or 5.4 percent compared to the balance at June 30, 2010. In accordance with GASB 54, the governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- $1.1 million consists of nonspendable fund balance including prepaid items, advances and deposits, and other assets that are not intended to convert into cash and long-term in nature and do not represent currently available resources;

- $1.008 billion is reported as restricted fund balance that includes restrictions imposed by external parties or enabling legislation. This amount includes unspent bond proceeds, unspent grant revenues, and restricted tax revenues;

- $105.0 million is reported as committed fund balance that includes amounts that have been limited to specific purposes. This amount includes all of the earmarked reserves in the General Fund, and the committed fund balances reported for the Redevelopment Agency Fund, and the non major governmental funds and these fund balances are committed for the purpose of the fund.

- $89.9 million is reported as assigned fund balance that includes amounts that may be used for specific purposes, but do not meet the criteria to be classified as restricted or committed.

- $44.6 million is reported as unassigned fund balance that represents the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications.

Revenues and other financing sources for governmental functions totaled approximately $1.704 billion in 2010-2011, a decrease of $192.3 million or 10.1 percent from 2009-2010 primarily due to lower proceeds from long-term debt and long-term loans, a reduction in investment income due to reduced interest rates, lower collections of property tax, fewer internal transfers, and lower State revenues.

**General Fund:** The General Fund is the chief operating fund of the City. At June 30, 2011, the General Fund's available (unassigned) fund balance is $44.8 million or 26.9 percent of the $166.6 million total General Fund balance. Comparing available fund balance and total fund balance to total fund expenditures may be useful as a measure of the General Fund's capacity to liquidate future obligations. At June 30, 2011, available fund balance represents 6.5 percent of total General Fund expenditures of $685.7 million, while total fund balance represents 24.3 percent of total General Fund expenditures. This measure of financial health shows a slight decline from the prior fiscal year. At June 30, 2010, the same measures were 6.5 percent and 25.0 percent, respectively.

For the fourth consecutive year, revenue sources in 2010-2011 were not sufficient to cover all expenditures. In order to meet the current expenditures, a combination of one-time revenues, use of reserves, and continued reduction in City services coupled with an offset of net transfers from the General Fund resulted in a $4.3 million or 2.5 percent decrease to the General Fund ending fund balance at June 30, 2011.

In 2010-2011, General Fund revenues of $680.8 million were $31.5 million or 4.9 percent higher than 2009-2010 revenues of $649.3 million. Taxes and special assessments revenues increased by $5.8 million or 1.2 percent, and consisted of increases in following revenue sources: sales tax ($10.7 million), marijuana tax ($1.2 million), electric franchise tax ($2.1 million), utility tax ($0.3 million), and transient occupancy tax ($0.3 million). These increases were partially offset by a continuing decline in property taxes ($7.3 million) due to lower property assessed valuations.

License, Permits & Fines increased by $11.5 million or 14.0 percent representing increased collections of cardroom tax ($2.2 million) due to the increased number of tables both of cardrooms located in the City and betting limit increases to the permissible limit available under State law, planning & building permit fees ($5.8 million), fines & citations ($1.8 million), fire permit fees ($1.2 million), and multi housing permits ($0.4 million). Intergovernmental revenue rose by $2.8 million due to increased Federal funding for Energy and Efficiency and Conservation Block Grant, received under the America Recovery & Reinvestment Act. Additionally, the 911 Emergency community reimbursement from the State of California ($0.7 million), 2009 COPS Technology Program ($0.7 million) contributed to the revenue increase reported in the General Fund. Charges for services increased by $5.1 million due to increased revenue collections experienced at the newly renovated Happy Hollow Park and Zoo resulting from implementing a new service delivery model, and increased service fees generated by Public Works, Planning, Finance, and Parks, Recreation, and Neighborhood Services. Investment income showed gain of $2.1 million over the prior year mainly due to an increase in fair value of investments. Other revenue increased by $4.2 million due to higher lease payments received for the Airport West property, and higher revenues for Public Art and other miscellaneous revenues.

2010-2011 General Fund expenditures of $685.7 million were $2.2 million or 0.3 percent higher than 2009-2010 expenditures of $683.5 million. General government expenditures increased by $2.5 million primarily due to election costs ($1.9 million) incurred by the City, and higher general liability claim costs ($0.5 million). Capital maintenance expenditures increased by $3.5 million primarily due to increased grant expenditures related to Federal funding for Energy and Efficiency and Conservation Program ($3.0 million) and Fire Apparatus Replacement Program ($0.4 million).

Public safety expenditures increased by $5.5 million due to higher grant expenditures ($3.4 million) for the COPS technology grant, Mobile Identification Services Program, Metropolitan Medical Response Program, the Driving Under Influence grant. Additional increases were due to higher worker's compensation claims ($0.9 million) and higher pension contributions for police and fire members ($11.2 million) that were offset by reduction in police and fire personnel costs (($10.0 million) due to the implementation of dynamic deployment and reducing five fire engine companies and one fire truck company and elimination of various fire fighter recruit programs, fire safety public education programs and reducing staff for police patrol services, police field patrol services, and staffing for police investigations, consolidating services of financial crimes and high tech units and restructuring the police warrant units.

Community services expenditures decreased by $6.8 million due to substantial staffing and services cuts in libraries ($4.0 million), and expenditures reduced for park enhancement and maintenance services ($1.9 million), several community support programs ($2.5 million) and summer safety initiative programs ($.5 million) however these decreases were offset by an increase ($2.1 million) in spending for the Children's Health Initiative Program. Sanitation expenses decreased by $0.9 million due to reduced spending for commercial solid waste programs. Infrastructure and fixed asset capital outlay expenditures decreased by $1.9 million due to deferrals of capital projects as a result of budgetary constraints.

**Redevelopment Agency fund:** The Redevelopment Agency fund accounts for the activities of the City's Redevelopment Agency ("Agency") responsible for redeveloping and upgrading blighted areas. Fund balance for the Agency's governmental funds decreased $38.9 million or 39.1 percent to $60.6 million at June 30, 2011. A deficiency of revenues under expenditures of $67.4 million was offset by other financing sources (net) of $28.5 million, including proceeds from the sale of capital assets ($20.0 million) and the reclassification of the pass through obligation due to the County ($23.6 million) to long-term. On June 29, 2011, changes to the California Redevelopment Law have terminated the authority of redevelopment agencies to undertake new obligations to redevelop property. This raises substantial concerns over continuing operations of the Agency. Management's plans regarding those matters also are described in Note IV.D.5 to the financial statements.

The following are some of the highlights for the Agency:

- Revenues decreased $20.0 million or 9.5 percent from $210.5 million in the prior fiscal year to $190.5 million. Revenue decreases were noted in all revenue categories except in rental income. The largest decrease is for the collection of Taxes and Special Assessments ($18.8 million). Lower cash balances and lower market yield on investments resulted in a decrease in investment income ($0.8 million). Intergovernmental revenue and other revenue decreased by $0.3 million and $0.5 million, respectively. The decreases were offset by a slight increase in rental income ($0.3 million).

- Expenditures decreased by $135.2 million or 34.4 percent from the prior fiscal year mainly due to reduced capital program spending and significant staffing reductions. In addition, prior year expenditures included the Agency's pay-off on the Housing Term-loan in the amount of $50.0 million from some of the proceeds from the issuance of Housing set-aside tax allocation bonds series 2010 ABC. Lower capital maintenance costs ($71.8 million) resulted from the Agency's continued elimination of several capital projects and programs as a result of declining tax increment revenue

- Other financing sources (uses) decreased by $39.8 million from $68.3 million in the prior fiscal year to $28.5 million. There was no new issuance of bonds, and proceeds from the sale of capital assets decreased by $13.6 million and there was a net decrease of $53.9 million in transfers in (out). However, the decreases were partially offset by a reporting reclassification of the County pass through obligation of ($23.6 million) due to the Agency's need to defer short term liability to long term obligation.

Additional information about the Agency's finances appears in their separately issued financial statements.

**Housing fund:** The Housing Activities fund accounts for the City's commitment to providing low and moderate income residents with a diverse range of safe and affordable housing opportunities. Objectives include preserving the existing affordable housing stock, increasing the supply of affordable housing, and providing services to homeless and at-risk populations. Twenty percent (20%) of the Agency's gross property tax increment and tax allocation bonds secured by the 20% gross tax increment revenues provide the housing fund's primary resources. As required by California State law, the 20% gross tax increment revenue is used solely for affordable housing. In addition, the City's Housing Activities fund receives resources from the U.S. Department of Housing and Urban Development and the California Department of Housing and Community Development. The fund's loans receivable balance (net) which represents loans to developers of various affordable housing projects and first time home buyers increased during the year by $8.2 million or 2.6 percent to $318.5 million as of June 30, 2011 due to an increase in loans to developers for various projects, including the Orvieto Apartments, Fourth Street Apartments, King Crossing, Archer Studios, and Brookwood housing projects. These additions to the loan receivable balance were offset by an increase in the valuation allowance in the Housing Activities fund based on the City's annual review of the valuations and adjustments reflecting the terms of the loans. The Housing Activities fund also advanced an amount of $14.5 million to the Agency that included funding for the second installment payment for the SERAF in May 2011 in the amount of $12.8 million.

Total expenditures slightly increased by $1.6 million to $42.6 million from $41.0 million in the prior fiscal year.

**Special Assessment Districts fund:** The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of eight special assessment and community facilities districts located in different parts of the City. A total of $57.9 million in special assessment and special tax debt outstanding at June 30, 2011 is secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt. The City is not obligated to cure any deficiency or redeem any debt of special assessment districts. In addition, during 2010-2011, there was an issuance of special tax debt to finance the expansion and renovation of the Convention Center that is discussed below.

Other financing sources and uses increased by a net $134.4 million to $129.6 million primarily due to the issuance of the Special Hotel Tax Revenue Bonds, Series 2011 in the aggregate amount of $107.4 million to finance the Convention Center Expansion and Renovation Project. These bonds payments will be made solely from the revenue derived from the levy of a special tax on hotel properties within the Convention Center Facilities District. Total expenditures for 2010-2011 increased by $0.6 million or 4.9 percent compared to the prior fiscal year.

**Financing Authority fund**: The City's Financing Authority Debt Service fund accounts for the issuance of commercial paper notes secured by lease revenues as a mechanism for financing City public improvements and purposes such as: Phase II improvements of the City's Central Service Yard; non-construction costs for technology, furniture, and equipment at City Hall; capital improvements at the City's HP Pavilion, procuring the consolidated utility billing system; and making the loan to the Housing Activities fund to fund low and moderate income housing activities and programs. The amount of commercial paper notes outstanding decreased from $53.5 million on June 30, 2010 to $46.6 million on June 30, 2011, a decrease of $6.9 million, which represented commercial paper principal payments.

Other financing sources and uses increased by a net $8.1 million or 20.7 percent to $47.4 million due to the issuance of Lease Revenue Bonds, Series 2011A, in the amount of $31.0 million to finance a portion of the costs of the Convention Center Expansion and Renovation Project. In addition, there was a $1.2 million increase in transfers-in offset by a $23.3 million increase in transfers-out.

***Proprietary funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. At June 30, 2011, the unrestricted net assets were $79.9 million for the Norman Y. Mineta San José International Airport, $216.9 million for the Wastewater Treatment System, $14.6 million for the Municipal Water System and $21.2 million for the Parking System. Net assets for proprietary funds fell from $1.354 billion at June 30, 2010 to $1.345 billion at June 30, 2011, resulting in a decrease of $9.5 million or 0.7 percent.

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

## GENERAL FUND BUDGETARY HIGHLIGHTS

The City's Charter requires the City Manager to submit balanced operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1 and ends on the following June 30. Council approved the 2010-2011 budgets in June 2010.

During the fiscal year ended June 30, 2011, there was a $103.2 million increase in the budgeted source and use of funds between the original and final amended operating budget for the General Fund. This increase was due primarily to the issuance of Tax Revenue Anticipation Notes, which accounted for $75 million of the revenue increase and $75.5 million of the expenditure increase. Adjustments to the budgeted revenue estimates were also brought forward based on actual collection trends, anticipated year-end performance, and any changes to anticipated grants and reimbursements during the course of the year. Several revenue categories were adjusted upwards during 2010-2011, including sales tax, marijuana tax, licenses, permits and fines, charges for current services, other revenue, and revenues from intergovernmental. These upward revenue adjustments were partially offset by declines in a number of revenue categories, including property tax, utility tax, franchise fees, investment income, and revenue from the State of California in-lieu. Net upward expenditure adjustments were brought forward to appropriate grant funding received during the year, to adjust expenditure line-items based on revised expenditure projections, and to adjust reserve levels. Net upward adjustments of $15.0 million to the General Fund earmarked reserves were approved in 2010-2011, including the establishment of a 2010-2011 Ending Fund Balance Reserve of $12.9 million.

Actual budgetary basis expenditures of $706.6 million were $51.3 million less than the amended budget and $35.8 million less than the original budget. Savings were experienced over all expenditure categories, except for debt service.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets**

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to $9.298 billion at June 30, 2011. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible assets, and construction-in-progress. The City's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. The result of the new additions less depreciation expense during 2010-2011 yielded a $322.0 million decrease in governmental activities net capital assets offset by a $12.8 million increase in business-type activities net capital assets resulting in an overall decrease of $309.2 million or 3.2 percent in net capital asset balances between June 30, 2010 and June 30, 2011.

Total construction-in-progress decreased by $333.9 million or 70.7 percent from $472.1 million at June 30, 2010 to $138.2 million at June 30, 2011. The construction-in-progress for the governmental activities decreased by $191.9 million mainly due to the completion of the Seven Trees Library and

Community Center, Bascom Library and Community Center, and South San José Police Station. Business-type activities contributed a decrease of $142.0 million to the total construction-in-progress primarily due to the completion of Airport projects that totaled $196.9 million. The completed Airport projects include the following: the improvements of terminal area roadway, which resulted in a widened Airport Blvd and a dedicated shuttle lane between Terminal A and the new rental car garage; Green Island Parking; Terminal B Parking, South Loop Parking and airfield improvements. The reduction in the Airport construction-in-progress was somewhat offset by the ongoing construction of capital projects of approximately $55.0 million related to the Terminal Area Improvement Program, West Side Airfield Reconstruction, public parking improvement projects, and the remainder of North Concourse building projects. The net decrease to construction-in-progress for Wastewater Treatment Systems was $0.6 million.

The City records infrastructure assets at historical cost in the government-wide financial statements and depreciates assets from acquisition date to the end of the current fiscal year as required by GASB Statement No. 34. For governmental fund financial statements recording purposes, capital asset purchases are recorded as expenditures, rather than capitalizing and recording related depreciation. Capital assets, net of depreciation, for governmental and business-type activities in the government-wide financial statements are presented below to illustrate changes between June 30, 2010 and June 30, 2011 (in thousands):

| | | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land | $ | 528,605 | 541,457 | 134,926 | 134,926 | 663,531 | 676,383 |
| Intangible assets | | - | - | 12,882 | 12,882 | 12,882 | 12,882 |
| Construction in progress | | 69,813 | 261,698 | 68,368 | 210,415 | 138,181 | 472,113 |
| Buildings | | 1,161,245 | 1,049,521 | 1,287,753 | 1,294,630 | 2,448,998 | 2,344,151 |
| Improvements, other than buildings | | 194,400 | 123,108 | 614,558 | 477,962 | 808,958 | 601,070 |
| Infrastructure | | 5,107,454 | 5,401,177 | - | - | 5,107,454 | 5,401,177 |
| Furniture and fixtures, vehicles, equipment | | 28,528 | 34,909 | 86,554 | 60,965 | 115,082 | 95,874 |
| Property under capital leases | | 688 | 881 | 1,889 | 2,344 | 2,577 | 3,225 |
| Total capital assets | $ | 7,090,733 | 7,412,751 | 2,206,930 | 2,194,124 | 9,297,663 | 9,606,875 |

Commitments outstanding as of June 30, 2011, related to governmental and business-type activities construction in progress totaled approximately $5.8 million and $33.7 million, respectively. Additional information about the City's capital assets can be found in Note III.D to the financial statements.

**General Fund Bonded Debt Limit**

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value on the City's 2010-2011 tax roll was $123.364 billion, which results in a net total debt capacity of $18.505 billion. As of June 30, 2011, the City had $480.3 million of General Obligation bonds outstanding.

**General Obligation Bonds and Other Bond Ratings**

As of June 30, 2011, the City received affirmation of its general obligation bond ratings from the three major rating agencies: Aaa from Moody's Investors Service; AAA from Standard & Poor's; and AA+ from Fitch Ratings.

Fitch Ratings and Moody's Investors Service reaffirmed the A- and A2 rating on the City's Airport Revenue Bonds of $1.023 billion. Standard & Poor's has not taken any action with respect to its rating of 'A', which was assigned on July 16, 2007. The rating outlook on the bonds remains negative.

As of June 30, 2011, the Redevelopment Agency Tax Allocation Bonds were rated Baa1 from Moody's Investors Service; BBB+ from Standard & Poor's; and BBB- from Fitch Ratings. The Agency Housing Set-Aside Bonds were rated A2 from Moody's; A from Standard & Poor's; and A from Fitch.

Subsequent to June 30, 2011, the Airport Revenue Bonds and the Redevelopment Agency Tax Allocation Bonds were downgraded. On November 10, 2011, Standard & Poor's reduced its ratings on the Airport Bonds from A to A- and revised the outlook from negative to stable. On November 18, 2011, Standard & Poor's reduced its ratings on the Redevelopment Agency TABs from BBB+ to BBB, citing tighter debt service coverage as a result from a decline in assessed values. A negative outlook was assigned because of the amount of assessed value under dispute. The Agency's Housing Set-Aside Bonds remain at its A rating and the negative credit watch was removed and a stable outlook assigned as a result of the successful negotiations with JPMorgan to extend their letter of credit.

### Outstanding Debt

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

At June 30, 2011, the City had $3.705 billion of gross outstanding long-term debt related to governmental activities and $1.110 billion related to business-type activities, for a total of $4.815 billion. These amounts for the fiscal year ended June 30, 2010 were $3.674 billion for governmental activities and $1.131 billion for business-type activities, for a total of $4.805 billion.

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

| | | As of June 30, 2011 | As of June 30, 2010 | Net Change |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| General obligation bonds | $ | 480,320 | 499,970 | (19,650) |
| HUD Section 108 loan | | 21,877 | 22,915 | (1,038) |
| Lease revenue and revenue bonds | | 669,233 | 644,983 | 24,250 |
| Special assessments and special tax bonds | | 163,904 | 60,905 | 102,999 |
| Redevelopment Agency | | 2,369,575 | 2,445,460 | (75,885) |
| Sub-total | | 3,704,909 | 3,674,233 | 30,676 |
| **Business-Type Activities:** | | | | |
| Revenue bonds | | 1,079,125 | 1,096,035 | (16,910) |
| State of CA-Revolving Fund Loan | | 30,651 | 34,487 | (3,836) |
| Sub-total | | 1,109,776 | 1,130,522 | (20,746) |
| **Total:** | $ | 4,814,685 | 4,804,755 | 9,930 |

Additional information about the City's long-term obligations appears in Note III.F. of the notes to the financial statements.

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

- The fiscal challenges faced in 2010-2011 are expected to continue in 2011-2012 and beyond until the local economy improves, primarily through healthy job growth. A set of 2011-2012 budget balancing strategies were developed through a comprehensive community outreach process and City Council Study Sessions including Council Priority Setting Study Session. In June 2011, the City Council approved a balanced General Fund budget for fiscal year 2011-2012, closing a funding gap of approximately $115.2 million through a combination of deep service reductions and eliminations, reductions in employee total compensation, revenue increases, service delivery changes, use of reserves, and funding shifts.

- The adopted 2011-2012 budget includes position eliminations, including approximately 370 full time employees subject to layoff, and an additional 446 employees subject to being moved to different positions through the seniority/bumping process including many moving into lower paying classifications. The total number of City positions has decreased to 1985-1986 levels when the City's population was 740,000.

- To preserve City services and prevent additional layoffs, the Mayor and the City Council approved memoranda of agreements with six bargaining units and implemented the terms of its last, best, and final offer for six bargaining units in order to effect a 10.0% reduction in total compensation (wages and benefits) and roll back of any prior year wage increases for all bargaining units.

- The California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California unless certain payments can be made to the State of California. Such changes to the California Redevelopment Law have also terminated the authority of redevelopment agencies to undertake new obligations to redevelop property. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated challenging the constitutionality of this legislation as discussed in Note IV.D.5. However, based on the Agency's current financial condition, these conditions raise substantial doubt about the Agency's ability to continue as a going concern. Management's plans are also discussed in Note IV.D.5.

- On November 18, 2011, the Mayor submitted a memorandum to the City Clerk requesting that the following items be agendized for the December 6, 2011 City Council meeting: (1) consideration of and action on a Declaration of a Fiscal and Service Level Emergency; and (2) consideration of and action on a Ballot Measure on Pension Reform for the March 2012 election, including ballot measure language and related statements and resolutions.

- As of June 30, 2010, the most recent actuarial valuation date, the Police and Fire Department Retirement Plan ("PFDRP") was 79.8 percent funded for pension benefits. The actuarial accrued liability for pension benefits was $3.230 billion, and the actuarial value of assets was $2.577 billion resulting in an unfunded actuarial accrued liability ("UAAL") of $653.8 million. As of June 30, 2010, the most recent actuarial valuation date, the Federated City Employees' Retirement System ("FCERS") was 68.9 percent funded for pension benefits. The actuarial accrued liability for benefits was $2.510 billion and the actuarial value of assets was $1.729 billion, resulting in a UAAL of $780.9 million.

- As noted in the Trust and Agency Funds section of this CAFR, the PFDRP's net assets experienced an increase of $372.5 million in 2010-2011 following a $270.6 million increase in net assets in the prior year primarily as a result of the appreciation of the fair value of investments caused by the partial recovery of the equity investment market. The FCERS's net assets experienced an increase of $275.3 million in 2010-2011 following a $178.6 million increase in net assets in the prior year primarily as a result of the appreciation of the fair value of investments caused by the partial recovery in the investment market.

- The Boards of Administration for PFDRP and FCERS have each decided to transition from biennial to annual valuations beginning June 30, 2011. The contribution rates effective June 27, 2011, for fiscal year 2011-2012, were based on the June 30, 2010 actuarial valuations for PFDRP and FCERS. It is anticipated that the annual required contribution ("ARC") rates calculated in the June 30, 2011 valuation reports for both PFDRP and FCERS will become effective in 2012-2013 after the respective Boards' approval of the actuarial valuation reports.

- For 2011-2012, the City's contribution rates for pension benefits, as a percentage of payroll, are as follows: for police and fire members of PFDRP, 49.29 percent and 51.05 percent, respectively, and 28.34 percent for FCERS members. These rates represent a significant increase in the City's contribution rates compared to the rates in effect in 2010-2011. For 2011-2012, the City's contribution rates for health and dental benefits, percentage of payroll, are as follows: for police and fire members of PFDRP, 7.61 percent and 5.27 percent, respectively, and 7.16 percent for FCERS members.

- On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for pension benefits and postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for 2011-2012 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the benefit pension plans and the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount of $137.1 million and $108.4 million, respectively, paid by the City on July 1, 2011.

- Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Contributions to PFDRP for the fiscal year ended June 30, 2011 for Fire members of PFDRP were based on the Board's 10-year cash flow funding policy. The Police members of PFDRP and the bargaining units representing the FCERS's members entered into Memoranda of Agreements ("MOA") with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the GASB Statement No. 45 annual required contribution over the next 5 years.

- As of June 30, 2010, the most recent actuarial valuation date, the PFDRP was 6.2 percent funded for other postemployment benefits. The actuarial accrued liability for benefits was $946.3 million, and the actuarial value of assets was $58.6 million resulting in a UAAL of $887.7 million. As of June 30, 2010, the most recent actuarial valuation date, the FCERS was 11.7 percent funded for other postemployment benefits. The actuarial accrued liability for benefits was $926.4 million and the actuarial value of assets was $108.0 million, resulting in a UAAL of $818.4 million.

- In November 2010, San José voters approved Measure U allowing the City to adopt an ordinance to add a new chapter 4.66 to Title 4 of the San José Municipal Code to impose a tax on marijuana businesses in the City up to a rate of 10 percent of gross receipts. City Council set the rate at 7.0 percent of gross receipts, which went into effect March 1, 2011.

- A 3.0 percent rate increase to the Sewer Service and Use Charge was approved, increasing the average residential payment by $0.99 per month, from $32.86 to $33.85 effective as of July 2011. This increase will support the continued rehabilitation and replacement of infrastructure at the Wastewater Treatment Plant and in the sanitary sewer collection systems. A Recycle Plus rate increase of 9.0 percent and Municipal Water rate increase of 6.75 percent were also approved effective as of July 2011. The increased Recycle Plus rate is to provide for ongoing improvements for recycling facilities. The Municipal Water rate increase is to pay for increases in wholesale water costs from the Santa Clara Valley Water District and San Francisco Public Utilities Commission and to cover for ongoing investment in the distribution infrastructure.

- San José's average unemployment rate for calendar year 2010 increased from 12.0 percent to 12.4 percent over the prior year. The City's average unemployment rate for calendar year 2010 was the same as the statewide average of 12.4 percent.

All of these factors were considered in preparing the City's budget for 2011-2012.

## REQUEST FOR INFORMATION

This financial report is designed to provide our residents, taxpayers, customers, investors, and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 200 E. Santa Clara Street, San José, CA 95113.

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# Basic Financial Statements

## City of San José
## Statement of Net Assets
## June 30, 2011
## ($000's)

| | | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 578,999 | 344,301 | 923,300 |
| Receivables (net of allowances for uncollectibles) | | 144,775 | 13,046 | 157,821 |
| Due from outside agencies | | 3,043 | 113 | 3,156 |
| Internal balances | | (17,128) | 17,128 | - |
| Inventories | | 752 | 1,143 | 1,895 |
| Loans receivable (net of allowances for uncollectibles) | | 360,875 | 250 | 361,125 |
| Advances and deposits | | 527 | 5,926 | 6,453 |
| Other assets | | 21,623 | 448 | 22,071 |
| Restricted assets: | | | | |
| Equity in pooled cash and investments held in City Treasury | | 61,354 | 110,832 | 172,186 |
| Cash and investments held with fiscal agent | | 429,881 | 236,538 | 666,419 |
| Other cash and investments | | 12,650 | - | 12,650 |
| Receivables (net of allowances for uncollectibles) | | - | 2,990 | 2,990 |
| Deferred bond issuance costs (net of accumulated amortization) | | 48,813 | 12,659 | 61,472 |
| Capital assets (net of accumulated depreciation): | | | | |
| Nondepreciable | | 598,418 | 216,176 | 814,594 |
| Depreciable | | 6,492,315 | 1,990,754 | 8,483,069 |
| Total assets | | 8,736,897 | 2,952,304 | 11,689,201 |
| **LIABILITIES** | | | | |
| Accounts payable | | 54,715 | 21,978 | 76,693 |
| Accrued liabilities | | 49,787 | 6,344 | 56,131 |
| Interest payable | | 53,465 | 18,796 | 72,261 |
| Due to outside agencies | | 2,006 | - | 2,006 |
| Short-term notes payable | | 46,645 | 410,079 | 456,724 |
| Unearned revenue | | 16,061 | 4,559 | 20,620 |
| Advances, deposits, and reimbursable credits | | 14,861 | 4,899 | 19,760 |
| Other liabilities | | 22,010 | - | 22,010 |
| Noncurrent obligations: | | | | |
| Due within one year | | 134,567 | 28,676 | 163,243 |
| Due in more than one year | | 4,039,157 | 1,112,132 | 5,151,289 |
| Total liabilities | | 4,433,274 | 1,607,463 | 6,040,737 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | | 3,810,801 | 889,674 | 4,700,475 |
| Restricted for: | | | | |
| Debt service | | 58,084 | 17,465 | 75,549 |
| Capital projects | | 381,257 | 105,069 | 486,326 |
| Community services | | 178,333 | - | 178,333 |
| Public safety | | 4,567 | - | 4,567 |
| Unrestricted | | (129,419) | 332,633 | 203,214 |
| Total net assets | $ | 4,303,623 | 1,344,841 | 5,648,464 |

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, 2011
# ($000's)

| Functions/Programs | | Expenses | Program Revenues: Fees, Fines, and Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business -Type Activities | Total |
|---|---|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | | | |
| General government | $ | 148,515 | 25,716 | 13 | - | (122,786) | - | (122,786) |
| Public safety | | 487,659 | 21,454 | 9,368 | - | (456,837) | - | (456,837) |
| Community services | | 254,481 | 85,971 | 47,574 | - | (120,936) | - | (120,936) |
| Sanitation | | 129,138 | 137,677 | - | 61 | 8,600 | - | 8,600 |
| Capital maintenance | | 515,909 | 46,040 | 43,090 | 32,980 | (393,799) | - | (393,799) |
| Interest and fiscal charges | | 163,280 | - | - | - | (163,280) | - | (163,280) |
| **Total governmental activities** | | **1,698,982** | **316,858** | **100,045** | **33,041** | **(1,249,038)** | **-** | **(1,249,038)** |
| Business -Type activities: | | | | | | | | |
| Norman Y. Mineta San José International Airport | | 195,867 | 145,895 | 701 | 10,863 | - | (38,408) | (38,408) |
| Wastewater Treatment System | | 147,283 | 167,721 | - | 8,445 | - | 28,883 | 28,883 |
| Municipal Water System | | 24,600 | 26,010 | - | 105 | - | 1,515 | 1,515 |
| Parking System | | 9,630 | 9,541 | - | - | - | (89) | (89) |
| **Total business-type activities** | | **377,380** | **349,167** | **701** | **19,413** | **-** | **(8,099)** | **(8,099)** |
| **Total** | **$** | **2,076,362** | **666,025** | **100,746** | **52,454** | **(1,249,038)** | **(8,099)** | **(1,257,137)** |

| | | Governmental Activities | Business -Type Activities | Total |
|---|---|---|---|---|
| General revenues: | | | | |
| Taxes: | | | | |
| Property and other taxes | | 481,145 | - | 481,145 |
| Utility | | 108,528 | - | 108,528 |
| Franchise | | 41,273 | - | 41,273 |
| Transient occupancy | | 18,102 | - | 18,102 |
| Business license | | 36,811 | - | 36,811 |
| Marijuana tax | | 1,152 | | 1,152 |
| Sales taxes shared revenue | | 137,970 | - | 137,970 |
| State of California in-lieu | | 4,889 | - | 4,889 |
| Unrestricted interest and investment income | | 8,142 | 3,886 | 12,028 |
| Other revenue | | 33,237 | - | 33,237 |
| Transfers | | 5,303 | (5,303) | - |
| **Total general revenues and transfers** | | **876,552** | **(1,417)** | **875,135** |
| **Change in net assets** | | **(372,486)** | **(9,516)** | **(382,002)** |
| **Net assets - beginning** | | **4,676,109** | **1,354,357** | **6,030,466** |
| **Net assets - ending** | **$** | **4,303,623** | **1,344,841** | **5,648,464** |

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

**City of San José**
**Balance Sheet**
**Governmental Funds**
**June 30, 2011**
**($000's)**

| | | General Fund | Redevelopment Agency | Housing Activities |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 184,039 | 14,938 | 41,521 |
| Receivables (net of allowance for uncollectibles) | | 46,257 | 491 | 5,714 |
| Due from outside agencies | | 2,911 | - | 51 |
| Due from other funds | | 2,728 | 179 | - |
| Loans receivables (net of allowance for uncollectibles) | | 2,142 | 34,835 | 318,470 |
| Advances and deposits | | 268 | 192 | - |
| Restricted assets: | | | | |
| Equity in pooled cash and investments held in City Treasury | | 838 | 1,168 | 6,959 |
| Cash and investments held with fiscal agent | | 11 | 137,478 | 3 |
| Other cash and investments | | - | 9,430 | - |
| Advances to other funds | | 3,951 | 830 | 67,255 |
| Other assets | | - | - | 20,771 |
| Total assets | $ | 243,145 | 199,541 | 460,744 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ | 9,837 | 2,234 | 2,566 |
| Accrued salaries, wages, and payroll taxes | | 41,358 | 931 | 660 |
| Due to other funds | | 44 | 1,061 | 135 |
| Due to other agencies | | 500 | 1,506 | - |
| Short-term notes payable | | - | - | - |
| Deferred revenue | | 4,028 | 34,332 | 35,007 |
| Advances, deposits, and reimbursable credits | | 7 | 957 | - |
| Advances from other funds | | 250 | 97,904 | 14,671 |
| Other liabilities | | 20,500 | - | - |
| Total liabilities | | 76,524 | 138,925 | 53,039 |
| Fund balances: | | | | |
| Nonspendable | | 13 | 192 | - |
| Restricted | | 397 | 51,460 | 407,705 |
| Committed | | 51,587 | 2,667 | - |
| Assigned | | 69,852 | 6,297 | - |
| Unassigned | | 44,772 | - | - |
| Total fund balances | | 166,621 | 60,616 | 407,705 |
| Total liabilities and fund balances | $ | 243,145 | 199,541 | 460,744 |

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

| Special Assessment Districts | San José Financing Authority Debt Service | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| - | - | 320,466 | 560,964 |
| | | | |
| 57,910 | - | 33,243 | 143,615 |
| - | - | 81 | 3,043 |
| - | - | 13,250 | 16,157 |
| | | | |
| - | - | 5,428 | 360,875 |
| 5 | - | 62 | 527 |
| | | | |
| 16,775 | - | 35,614 | 61,354 |
| 147,356 | 61,489 | 83,544 | 429,881 |
| - | - | 3,220 | 12,650 |
| - | 14,091 | 13,142 | 99,269 |
| - | - | 852 | 21,623 |
| 222,046 | 75,580 | 508,902 | 1,709,958 |
| | | | |
| 3,716 | 152 | 34,860 | 53,365 |
| 60 | - | 5,084 | 48,093 |
| - | - | 14,967 | 16,207 |
| - | - | - | 2,006 |
| - | 46,645 | - | 46,645 |
| 57,899 | - | 10,729 | 141,995 |
| 8,643 | - | 5,254 | 14,861 |
| - | 3,321 | 201 | 116,347 |
| - | - | 1,510 | 22,010 |
| 70,318 | 50,118 | 72,605 | 461,529 |
| | | | |
| 5 | - | 914 | 1,124 |
| 151,723 | 25,462 | 371,081 | 1,007,828 |
| - | - | 50,749 | 105,003 |
| - | - | 13,775 | 89,924 |
| - | - | (222) | 44,550 |
| 151,728 | 25,462 | 436,297 | 1,248,429 |
| 222,046 | 75,580 | 508,902 | 1,709,958 |

## City of San José
### Reconciliation of the Governmental Funds Balance Sheet
### to the Statement of Net Assets
### June 30, 2011
### ($000's)

| | | |
|---|---|---|
| **Total fund balances-governmental funds** (Page 27) | | $ 1,248,429 |
| 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 | 528,605 | |
| Construction in progress | 69,813 | |
| Infrastructure assets | 11,352,807 | |
| Other capital assets | 1,861,150 | |
| Accumulated depreciation | 6,730,387 | |
| Total capital assets | | 7,081,988 |
| Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis. | | 68,035 |
| Bond issuance costs are expended in governmental funds when paid, however, such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. Deferred charges, net of amortization | | 48,813 |
| 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. | | 57,899 |
| 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. | | (53,465) |
| Internal service funds are used by management to charge the cost of public works support, employee benefits, and vehicle, maintenance and operations to individual funds. The assets and liabilities are included in governmental activities in the Statement of Net Assets. | | 21,408 |
| 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 | (3,706,417) | |
| Accreted interest on capital appreciation bonds | (1,005) | |
| Accrued vacation, sick leave and compensatory time | (61,761) | |
| Estimated liability for self-insurance | (142,419) | |
| Net other postemployment benefits obligation | (224,110) | |
| Other | (33,772) | |
| Total long-term liabilities | | (4,169,484) |
| **Net assets of governmental activities** (Page 24) | | $ 4,303,623 |

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, 2011**
**($000's)**

| | General Fund | Redevelopment Agency | Housing Activities |
|---|---|---|---|
| **REVENUES** | | | |
| Taxes and special assessments | $ 495,848 | 183,645 | - |
| Licenses, permits, and fines | 93,471 | - | - |
| Intergovernmental | 15,613 | 190 | 17,213 |
| Charges for current services | 33,188 | - | - |
| Rent | - | 1,472 | - |
| Investment income | 3,618 | 1,130 | 8,650 |
| Other revenue | 39,071 | 4,044 | 4,106 |
| Total revenues | 680,809 | 190,481 | 29,969 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | 79,167 | 14,847 | - |
| Public safety | 432,476 | - | - |
| Community services | 120,035 | - | 42,546 |
| Sanitation | 749 | - | - |
| Capital maintenance | 49,625 | 50,892 | 14 |
| Capital outlay | 2,034 | 6,364 | - |
| Debt service: | | | |
| Principal | 1,038 | 74,340 | - |
| Interest and fiscal charges | 553 | 111,432 | - |
| Bond issuance costs | - | - | - |
| Total expenditures | 685,677 | 257,875 | 42,560 |
| Deficiency of revenues under expenditures | (4,868) | (67,394) | (12,591) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Bonds issued | - | - | - |
| Discount on bonds | - | - | - |
| Proceeds from sale of capital assets | 504 | 20,073 | - |
| Reclassification to long-term liability | - | 23,562 | - |
| Transfers in | 29,583 | 25,870 | 36,807 |
| Transfers out | (29,485) | (41,034) | (27,002) |
| Total other financing sources (uses) | 602 | 28,471 | 9,805 |
| Net change in fund balances | (4,266) | (38,923) | (2,786) |
| Fund balances - beginning (as restated) | 170,887 | 99,539 | 410,491 |
| Fund balances - ending | $ 166,621 | 60,616 | 407,705 |

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

| Special Assessment Districts | San José Financing Authority Debt Service | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| 11,974 | - | 113,567 | 805,034 |
| - | - | - | 93,471 |
| - | - | 80,653 | 113,669 |
| - | - | 173,140 | 206,328 |
| - | - | 19,620 | 21,092 |
| 118 | (38) | 3,848 | 17,326 |
| 414 | - | 10,309 | 57,944 |
| 12,506 | (38) | 401,137 | 1,314,864 |
| | | | |
| - | - | 18,795 | 112,809 |
| - | - | 1,784 | 434,260 |
| - | - | 60,369 | 222,950 |
| - | - | 127,560 | 128,309 |
| 168 | - | 113,606 | 214,305 |
| 3,961 | - | 37,320 | 49,679 |
| | | | |
| 4,426 | 8,375 | 19,650 | 107,829 |
| 3,468 | 24,522 | 24,464 | 164,439 |
| 1,355 | 484 | - | 1,839 |
| 13,378 | 33,381 | 403,548 | 1,436,419 |
| (872) | (33,419) | (2,411) | (121,555) |
| | | | |
| 107,425 | 30,985 | - | 138,410 |
| (1,946) | (704) | - | (2,650) |
| - | - | - | 20,577 |
| - | - | - | 23,562 |
| 24,096 | 41,523 | 48,866 | 206,745 |
| (1) | (24,441) | (79,260) | (201,223) |
| 129,574 | 47,363 | (30,394) | 185,421 |
| | | | |
| 128,702 | 13,944 | (32,805) | 63,866 |
| | | | |
| 23,026 | 11,518 | 469,102 | 1,184,563 |
| | | | |
| 151,728 | 25,462 | 436,297 | 1,248,429 |

## City of San José
### Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities
### For the Year Ended June 30, 2011
### ($000's)

| | | | |
|---|---|---|---|
| **Net change in fund balances--total governmental funds** (Page 31) | | $ | 63,866 |
| 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 | 49,679 | | |
| Depreciation expense | (358,821) | | |
| Excess of depreciation expense over capital outlay | | | (309,142) |
| The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations) | | | |
| Donated assets | 11,777 | | |
| Proceeds from sale of capital assets | (20,577) | | |
| Disposal of assets | (3,146) | | |
| | | | (11,946) |
| 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 | 1,839 | | |
| Amortization and refunding of bond issuance costs | (3,121) | | |
| Total bond issuance costs, net of amortization | | | (1,282) |
| 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 bondholders and HUD. | | | 107,829 |
| 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 | (95) | | |
| Net discount on bonds issued | 2,650 | | |
| Decrease in accrued interest expense | 848 | | |
| Amortization of deferred amounts, premiums and discounts | 441 | | |
| Total net interest expense and amortization of discount/premium | | | 3,844 |
| Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. | | | (138,410) |
| 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 decreased by this amount this year. | | | (3,604) |
| Internal service funds are used by management to charge the cost of public works support, employee benefits, and vehicle, maintenance and operations to individual funds. The change in net assets is included in governmental activities in the Statement of Activities. | | | 3,151 |
| Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: | | | |
| Net increase in net OPEB obligation | (68,540) | | |
| Net decrease in vacation, sick leave, and compensatory time | 15,344 | | |
| Net increase in estimated liability for self-insurance | (10,634) | | |
| Net increase in other liabilities | (22,962) | | |
| Total additional expenditures | | | (86,792) |
| **Change in net assets of governmental activities** (Page 25) | | $ | (372,486) |

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

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

# City of San José
# Statement of Fund Net Assets
# Proprietary Funds
# June 30, 2011
# ($000's)

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Norman Y. Mineta San José International Airport | Wastewater Treatment System | Municipal Water System | Parking System | Total | Internal Service Funds |
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ 62,755 | 252,934 | 18,154 | 10,458 | 344,301 | 18,035 |
| Receivables (net of allowance for uncollectibles) | 7,254 | 3,573 | 2,026 | 193 | 13,046 | 1,160 |
| Due from outside agencies | - | 113 | - | - | 113 | - |
| Due from other funds | - | 1,050 | - | - | 1,050 | - |
| Prepaid expenses, advances and deposits | 443 | - | - | - | 443 | - |
| Inventories | - | 1,143 | - | - | 1,143 | 752 |
| Total unrestricted current assets | 70,452 | 258,813 | 20,180 | 10,651 | 360,096 | 19,947 |
| Restricted assets: | | | | | | |
| Equity in pooled cash and investments held in City Treasury | 57,113 | 51,688 | - | 2,031 | 110,832 | - |
| Cash and investments held with fiscal agent | 229,989 | 6,549 | - | - | 236,538 | - |
| Receivables (net of allowances for uncollectibles) | 2,990 | - | - | - | 2,990 | - |
| Prepaid expenses, advances and deposits | 5 | - | - | - | 5 | - |
| Total restricted current assets | 290,097 | 58,237 | - | 2,031 | 350,365 | - |
| Total current assets | 360,549 | 317,050 | 20,180 | 12,682 | 710,461 | 19,947 |
| Noncurrent assets: | | | | | | |
| Deferred bond issuance costs (net of accumulated amortization) | 12,033 | 626 | - | - | 12,659 | - |
| Loan receivable | 250 | - | - | - | 250 | - |
| Advances and deposits | 5,926 | - | - | - | 5,926 | - |
| Advances to other funds | - | 5,405 | - | 11,847 | 17,252 | - |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Nondepreciable | 108,433 | 87,634 | 605 | 19,504 | 216,176 | - |
| Depreciable | 1,408,894 | 468,591 | 68,910 | 44,359 | 1,990,754 | 8,745 |
| Total noncurrent assets | 1,535,536 | 562,256 | 69,515 | 75,710 | 2,243,017 | 8,745 |
| Total assets | $ 1,896,085 | 879,306 | 89,695 | 88,392 | 2,953,478 | 28,692 |

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, 2011**
**($000's)**

| | | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|---|
| | | Norman Y. Mineta San José International Airport | Wastewater Treatment System | Municipal Water System | Parking System | Total | Internal Service Funds |
| **LIABILITIES** | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable | $ | 4,099 | 11,871 | 1,843 | 640 | 18,453 | 1,350 |
| Accrued liabilities | | 1,735 | 4,153 | 313 | 143 | 6,344 | 1,694 |
| Interest payable | | 48 | 317 | - | - | 365 | - |
| Due to other funds | | - | - | 1,000 | - | 1,000 | - |
| Short-term notes payable | | 410,079 | - | - | - | 410,079 | - |
| Accrued vacation, sick leave and compensatory time | | 1,609 | 2,545 | 157 | 186 | 4,497 | - |
| Estimated liability for self-insurance | | 571 | 1,300 | 124 | - | 1,995 | - |
| Advances and deposits payable | | 1,068 | - | - | 2 | 1,070 | - |
| Unearned revenue | | 2,773 | - | - | - | 2,773 | - |
| Loans payable | | - | 3,905 | - | - | 3,905 | - |
| Pollution remediation obligation | | 330 | - | - | - | 330 | - |
| Total current liabilities unrestricted | | 422,312 | 24,091 | 3,437 | 971 | 450,811 | 3,044 |
| Current liabilities payable from restricted assets: | | | | | | | |
| Accounts payable and accrued liabilities | | 3,525 | - | - | - | 3,525 | - |
| Interest payable | | 18,167 | 264 | - | - | 18,431 | - |
| Unearned revenue | | 1,786 | - | - | - | 1,786 | - |
| Current portion of bonds payable | | 12,681 | 4,884 | - | - | 17,565 | - |
| Pollution remediation obligation | | 384 | - | - | - | 384 | - |
| Total current liabilities payable from restricted assets | | 36,543 | 5,148 | - | - | 41,691 | - |
| Total current liabilities | | 458,855 | 29,239 | 3,437 | 971 | 492,502 | 3,044 |
| Noncurrent liabilities: | | | | | | | |
| Accrued vacation, sick leave and compensatory time | | 705 | 1,178 | - | - | 1,883 | 4,240 |
| Estimated liability for self-insurance | | 1,746 | 2,868 | - | - | 4,614 | - |
| Advances from other funds | | - | - | 174 | - | 174 | - |
| Advance contributions from participating agencies | | - | 2,681 | - | - | 2,681 | - |
| Advances, deposits and reimbursable credits | | - | - | 1,148 | - | 1,148 | - |
| Loans payable | | - | 26,746 | - | - | 26,746 | - |
| Bonds payable (net of premium/discount and deferred loss on refunding) | | 1,010,623 | 48,761 | - | - | 1,059,384 | - |
| Net other postemployment benefits obligation | | 7,530 | 10,811 | 815 | 349 | 19,505 | - |
| Total noncurrent liabilities | | 1,020,604 | 93,045 | 2,137 | 349 | 1,116,135 | 4,240 |
| Total liabilities | | 1,479,459 | 122,284 | 5,574 | 1,320 | 1,608,637 | 7,284 |
| **NET ASSETS** | | | | | | | |
| Invested in capital assets, net of related debt | | 272,598 | 483,698 | 69,515 | 63,863 | 889,674 | 8,745 |
| Restricted for debt service | | 9,185 | 6,249 | - | 2,031 | 17,465 | - |
| Restricted for capital projects and other agreements | | 54,942 | 50,127 | - | - | 105,069 | 460 |
| Unrestricted | | 79,901 | 216,948 | 14,606 | 21,178 | 332,633 | 12,203 |
| Total net assets | $ | 416,626 | 757,022 | 84,121 | 87,072 | 1,344,841 | 21,408 |

**City of San José**
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**
**Proprietary Funds**
**For the Year Ended June 30, 2011**
**($000's)**

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Norman Y. Mineta San José International Airport | Wastewater Treatment System | Municipal Water System | Parking System | Total | Internal Service Funds |
| **OPERATING REVENUES** | | | | | | |
| Charges for services | $ 44,054 | 139,394 | 25,952 | 9,541 | 218,941 | 119,872 |
| Rentals and concessions | 76,870 | 2,640 | - | - | 79,510 | - |
| Customer transportation fees | 6,840 | - | - | - | 6,840 | - |
| Service connection, engineering and inspection | - | 2,107 | - | - | 2,107 | - |
| Contributions | - | 16,516 | - | - | 16,516 | - |
| Other | 39 | 7,034 | - | - | 7,073 | - |
| Total operating revenues | 127,803 | 167,691 | 25,952 | 9,541 | 330,987 | 119,872 |
| **OPERATING EXPENSES** | | | | | | |
| Operations and maintenance | 70,809 | 96,457 | 21,026 | 3,421 | 191,713 | 112,651 |
| General and administrative | 19,095 | 23,446 | 1,076 | 3,544 | 47,161 | 356 |
| Depreciation and amortization | 51,532 | 24,357 | 2,491 | 2,520 | 80,900 | 3,567 |
| Materials and supplies | - | 322 | - | 145 | 467 | - |
| Other expenses | - | - | - | - | - | 189 |
| Total operating expenses | 141,436 | 144,582 | 24,593 | 9,630 | 320,241 | 116,763 |
| Operating income (loss) | (13,633) | 23,109 | 1,359 | (89) | 10,746 | 3,109 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| Passenger facility charges | 17,311 | - | - | - | 17,311 | - |
| Operating grants | 701 | - | - | - | 701 | - |
| Investment income | 1,613 | 2,066 | 116 | 91 | 3,886 | 261 |
| Interest expense | (54,431) | (2,990) | (7) | - | (57,428) | - |
| Contributions refunded from participating agencies | - | 291 | - | - | 291 | - |
| Loss on disposal of capital assets | - | (2) | - | - | (2) | - |
| Other revenues, net | 781 | 30 | 58 | - | 869 | - |
| Net nonoperating revenues (expenses) | (34,025) | (605) | 167 | 91 | (34,372) | 261 |
| Income (loss) before capital contributions and transfers | (47,658) | 22,504 | 1,526 | 2 | (23,626) | 3,370 |
| Capital contributions | 10,863 | 8,445 | 105 | - | 19,413 | - |
| Transfers in | 657 | 268 | 20 | 9 | 954 | 87 |
| Transfers out | - | (4,693) | (470) | (1,094) | (6,257) | (306) |
| Changes in net assets | (36,138) | 26,524 | 1,181 | (1,083) | (9,516) | 3,151 |
| Net assets - beginning (as restated) | 452,764 | 730,498 | 82,940 | 88,155 | 1,354,357 | 18,257 |
| Net assets - ending | $ 416,626 | 757,022 | 84,121 | 87,072 | 1,344,841 | 21,408 |

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

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

**City of San José**
**Statement of Cash Flows**
**Proprietary Funds**
**For the Year Ended June 30, 2011**
**($000's)**

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Norman Y. Mineta San José International Airport | Wastewater Treatment System | Municipal Water System | Parking System | Total | Internal Service Funds |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Receipts from customers and users | $ 128,461 | 151,571 | 25,993 | 9,488 | 315,513 | - |
| Cash received from interfund services provided | - | - | - | | - | 119,872 |
| Payments to suppliers | (62,281) | (55,410) | (17,358) | (5,192) | (140,241) | (98,657) |
| Payments to employees | (26,167) | (58,728) | (4,201) | (1,925) | (91,021) | (17,125) |
| Other receipts | 386 | 16,516 | - | - | 16,902 | - |
| Net cash provided by operating activities | 40,399 | 53,949 | 4,434 | 2,371 | 101,153 | 4,090 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | | |
| Transfer from other funds | 672 | 268 | 20 | 9 | 969 | 87 |
| Transfer to other funds | - | (4,693) | (470) | (1,094) | (6,257) | (306) |
| (Advances to) / payments from other funds | - | 1,019 | (1,000) | (3,364) | (3,345) | - |
| Subsidies from operating grants | 286 | - | - | - | 286 | - |
| Advances and deposits received | - | - | 15 | - | 15 | - |
| Net cash provided by (used in) by noncapital and related financing activities | 958 | (3,406) | (1,435) | (4,449) | (8,332) | (219) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | |
| Passenger facility charges received | 18,049 | - | - | - | 18,049 | - |
| Proceeds from commercial paper | 371,344 | - | - | - | 371,344 | - |
| Principal payment on commercial paper | (378,613) | - | - | - | (378,613) | - |
| Subsidies from capital grants | 17,998 | 5,713 | - | - | 23,711 | - |
| Acquisition and construction of capital assets | (88,768) | (23,489) | (233) | (480) | (112,970) | (2,638) |
| Principal paid on debt | (12,120) | (8,626) | - | - | (20,746) | - |
| Interest paid on debt | (54,093) | (2,816) | - | - | (56,909) | - |
| Advances and deposits received | 945 | - | - | - | 945 | - |
| Net cash used in capital and related financing activities | (125,258) | (29,218) | (233) | (480) | (155,189) | (2,638) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Proceeds from sales and maturities of investments | 385,686 | - | - | - | 385,686 | - |
| Purchase of investments | (99,065) | - | - | - | (99,065) | - |
| Interest received | 4,095 | 2,863 | 151 | 91 | 7,200 | 261 |
| Net cash provided by investing activities | 290,716 | 2,863 | 151 | 91 | 293,821 | 261 |
| Net change in cash and cash equivalents | 206,815 | 24,188 | 2,917 | (2,467) | 231,453 | 1,494 |
| Cash and cash equivalents - beginning | 121,401 | 281,265 | 15,237 | 14,956 | 432,859 | 16,541 |
| Cash and cash equivalents - ending | $ 328,216 | 305,453 | 18,154 | 12,489 | 664,312 | 18,035 |

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, 2011**
**($000's)**

| | | Enterprise Funds | | | | |
|---|---|---|---|---|---|---|
| | Norman Y. Mineta San José International Airport | Wastewater Treatment System | Municipal Water System | Parking System | Total | Internal Service Funds |
| **Reconciliation of operating income (loss) to net cash provided by operating activities:** | | | | | | |
| Operating income (loss) | $ (13,633) | 23,109 | 1,359 | (89) | 10,746 | 3,109 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | 51,532 | 24,357 | 2,491 | 2,520 | 80,900 | 3,567 |
| Other nonoperating revenues | 781 | - | 58 | - | 839 | - |
| Decrease (increase) in: | | | | | | |
| Accounts receivable | (1,078) | 381 | (17) | (53) | (767) | (523) |
| Due from outside agencies | - | 15 | - | - | 15 | - |
| Inventories | - | (54) | - | - | (54) | (13) |
| Prepaid expenses, advances and deposits | (289) | - | - | - | (289) | - |
| Increase (decrease) in: | | | | | | |
| Accounts payable and accrued liabilities | 1,848 | 4,132 | 316 | (117) | 6,179 | (276) |
| Accrued vacation, sick leave and compensatory time | (1,205) | (1,127) | 15 | 10 | (2,307) | (1,774) |
| Estimated liability for self-insurance | (657) | (162) | (33) | - | (852) | - |
| Unearned revenue | 1,193 | - | - | - | 1,193 | - |
| Advances and deposits payable | 117 | - | - | - | 117 | - |
| Other liabilities | 1,790 | 3,298 | 245 | 100 | 5,433 | - |
| Total adjustments | 54,032 | 30,840 | 3,075 | 2,460 | 90,407 | 981 |
| Net cash provided by operating activities | $ 40,399 | 53,949 | 4,434 | 2,371 | 101,153 | 4,090 |
| **Reconciliation of cash and cash equivalents to the statement of net assets:** | | | | | | |
| Equity in pooled cash and investments held in City Treasury | | | | | | |
| Unrestricted | $ 62,755 | 252,934 | 18,154 | 10,458 | 344,301 | 18,035 |
| Restricted | 57,113 | 51,688 | - | 2,031 | 110,832 | - |
| Cash and investments held with fiscal agent | 229,989 | 6,549 | - | - | 236,538 | - |
| Less investments not meeting the definition of cash equivalents | (21,641) | (5,718) | - | - | (27,359) | - |
| Cash and cash equivalents | $ 328,216 | 305,453 | 18,154 | 12,489 | 664,312 | 18,035 |
| **Noncash noncapital, capital and related financing, and investing activities:** | | | | | | |
| Acquisition of capital assets on accounts payable and accrued liabilities | $ 2,542 | - | - | - | 2,542 | - |
| Contributions from developers | - | 1,571 | 105 | - | 1,676 | - |
| Redevelopment Agency's equity transfer due to annexation | - | 30 | - | - | 30 | - |
| Amortization of deferred charges and other charges | 345 | 232 | - | - | 577 | - |
| Change in fair value of investments | 1,371 | 251 | - | - | 1,622 | - |

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, 2011**
**($000's)**

| | | Pension Trust Funds | James Lick Private Purpose Trust Fund | | Agency Fund |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | - | 99 | | 3,226 |
| Investments of retirement plans: | | | | | |
| Investments, excluding securities lending collateral: | | | | | |
| Fixed income | | 1,325,515 | - | | - |
| Global equity | | 1,508,703 | - | | - |
| Pooled international equity | | 667,249 | - | | - |
| Private equity | | 312,707 | - | | - |
| International currency contracts, net | | 503 | - | | - |
| Opportunistic | | 59,734 | - | | - |
| Real assets | | 473,198 | - | | - |
| Real estate | | 217,702 | - | | - |
| Securities lending cash collateral investment pool | | 502,109 | - | | - |
| Total investments | | 5,067,420 | - | | - |
| Receivables: | | | | | |
| Accrued investment income | | 12,243 | - | | 2 |
| Employee contributions | | 4,089 | - | | - |
| Employer contributions | | 16,920 | - | | - |
| Other | | 13,911 | - | | - |
| Total assets | | 5,114,583 | 99 | $ | 3,228 |
| **LIABILITIES** | | | | | |
| Due to brokers | | 22,238 | - | | - |
| Securities lending collateral, due to borrowers | | 504,915 | - | | - |
| Other liabilities | | 3,961 | - | | 3,228 |
| Total liabilities | | 531,114 | - | $ | 3,228 |
| **NET ASSETS** | | | | | |
| Held in trust for: | | | | | |
| Employees' pension benefits | | 4,388,345 | - | | |
| Employees' postemployment healthcare benefits | | 195,124 | - | | |
| Other purpose | | - | 99 | | |
| Total net assets | $ | 4,583,469 | 99 | | |

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, 2011
## ($000's)

| ADDITIONS | | Pension Trust Funds | James Lick Private Purpose Trust Fund |
|---|---|---|---|
| Investment income: | | | |
| Interest | $ | 74,353 | 5 |
| Dividends | | 29,413 | - |
| Net rental income | | 12,923 | - |
| Net change in fair value of plan investments | | 608,113 | - |
| Investment expenses | | (13,467) | - |
| Total investment income | | 711,335 | 5 |
| Securities lending income: | | | |
| Securities lending income | | 4,267 | - |
| Securities lending rebates and expenses | | (1,238) | - |
| Total securities lending income | | 3,029 | - |
| Contributions: | | | |
| Employer | | 171,245 | - |
| Employees | | 81,501 | - |
| Total contributions | | 252,746 | - |
| Total additions | | 967,110 | 5 |
| **DEDUCTIONS** | | | |
| General and administrative | | 6,284 | - |
| Health insurance premiums | | 55,643 | - |
| Refunds of contributions | | 2,415 | - |
| Retirement and other benefits: | | | |
| Death benefits | | 15,096 | - |
| Retirement benefits | | 239,887 | - |
| Total deductions | | 319,325 | - |
| Change in net assets | | 647,785 | 5 |
| Net assets held in trust for pension, postemployment healthcare benefits and other purposes: | | | |
| Beginning of year | | 3,935,684 | 94 |
| End of year | $ | 4,583,469 | 99 |

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

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# INDEX TO THE NOTES

## I. Summary of Significant Accounting Policies



## II. Stewardship, Compliance, and Accountability



## III. Detailed Notes on all Funds



## IV. Other Information

## I. Summary of Significant Accounting Policies

### A. Reporting Entity

The City of San José, California (the "City"), was chartered on March 25, 1850, and has operated under a Council–Manager form of government since 1916. The City has defined its reporting entity in accordance with generally accepted accounting principles ("GAAP") in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary 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 substantially the same as the City's primary government, and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

- **Redevelopment Agency of the City of San José** – The Redevelopment Agency of the City of San José (the "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 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 Agency.

  Until June 29, 2011, the Agency has had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a redevelopment project area. As of June 29, 2011, changes to the California Redevelopment Law have terminated the authority of redevelopment agencies to undertake new obligations to redevelop property. The validity of this new law is currently being litigated. Due to the uncertainty of the status of the new law and the fact that it became effective on the penultimate date of the fiscal year, for the purposes of these Notes, the City will treat the new law as a subsequent event, as discussed further in Note IV.D. Subsequent Events.

- **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 and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San José – Santa Clara Water Pollution Control Plant (the "Plant"). The Clean Water Financing Authority is governed by a five-member Board of Directors, three are members of the San José City Council and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara subsequently entered into an Improvement Agreement, which requires each city to make base payments that are at least equal to each city's allocable share of debt service requirements of the Clean Water Financing Authority's outstanding revenue bonds.

- **City of San José Financing Authority** – The City of San José Financing Authority (the "Authority") was created by a Joint Exercise of Powers Agreement between the City and the 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.

- **San José Diridon Development Authority** – The San José Diridon Development Authority (the "Diridon Authority") was created in March 2011 by a Joint Exercise of Powers Agreement between the City and the Agency. The Diridon Authority was created for the purposes of constructing, maintaining, operating, and future redevelopment of properties within the Diridon area of the City, and is authorized to issue bonds for this purpose. The Diridon Authority is governed by an 11-member Governing Board, which consists of the members of the City Council.

Separate financial reports for the fiscal year ended June 30, 2011, containing additional information and more detailed information regarding financial position, changes in financial position, and, where applicable, cash flows, are available from the City's Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

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

### B. Financial Statement Presentation

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

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

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

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

The City reports the following major governmental funds:

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

The ***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 Agency's primary source of funds is from the incremental property taxes collected within certain project areas related to the increase in assessed valuation resulting from redevelopment.

The ***Housing Activities Fund*** is a special revenue fund that accounts for the City's affordable housing activities. Under California Redevelopment Law, redevelopment agencies are required to deposit a minimum of twenty percent of incremental property taxes to set-aside funds for low and moderate income housing and related expenditures. In addition, this fund also receives funding from federal and state grants for various housing programs.

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 or special taxes are levied.

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

The City reports the following major enterprise funds:

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

The ***Wastewater Treatment System Fund*** accounts for the financing, construction and operations of the Plant 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 garage facilities, parking lots, and parking meters located within the City.

The City also reports the following types of funds:

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

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

The ***James Lick Private Purpose Trust Fund*** is used to account for resources legally held in trust for use towards the support of the EMQ Families First Agency (a.k.a. Eastfield Ming Quong). 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 the San José Arena.

### C. 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 funds and fiduciary 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. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility users tax 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 resources, 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 as 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, franchise fees, investment income, 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. All other revenue items are considered measurable and available only when cash is received by the City.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

**D. 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.

**E. New Pronouncements**

During the year ended June 30, 2011, the City implemented the following GASB Statements:

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under previous reporting standards, the City's governmental fund balances were reported under three categories: reserved, unreserved, and designated. The new reporting standard replaces these three fund balance categories with five new classifications: nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Additional disclosure concerning the implementation of GASB 54 is available in Note III.H.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus.* This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investments pools which improve financial reporting by providing more complete information, by providing consistency of measurements, and by providing clarifications of existing standards. This standard did not have any effect on the City's financial statements.

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

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements ("SCAs"), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In November 2010, GASB issued Statement No.61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34.* The Statement modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board ("FASB") Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions.* This Statement sets forth criteria to establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2012.

### F. Assets, Liabilities, and Net Assets or Equity

#### *1. Cash and Cash Equivalents*

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

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

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

***3. Deposits and Investments***

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended.

This Statement requires governmental entities to report investments at fair value in the statement of net assets or balance sheet and to recognize the corresponding change in fair value of investments in the year in which the change occurred.

**Pooled Cash and Investments held in City Treasury.** 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 assigned to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the fiscal year ended June 30, 2011, the total investment income from these investments assigned and transferred to the General Fund was approximately $2,537,000.

**Retirement Systems.** The Retirement Systems' investment policies authorize various types of investments. These investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently audited financial statements and other fund information. The fair value of separate real estate properties is based on annual independent appraisals. In addition, per the Retirement Systems' Real Estate Investment Guidelines, mortgage loans at fair value on the separate real estate properties are not allowed to exceed 50% of the property's fair value. Purchases and sales of securities are reflected on the date of trade. Investment income is recognized as earned. Rental income from real estate activity is recognized as earned, net of expenses.

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

***4. Inventories***

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

***5. 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. In general, special assessment and special tax bonds are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. There is no reserve for delinquent receivables since priority liens exist against the related properties and 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.

#### *6. 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, non-current portions of these are offset equally by either a deferred credit or a fund balance in the nonspendable, restricted or committed account to indicate they do not constitute expendable financial resources available for appropriation.

#### *7. 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.

#### *8. 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 and deferred amounts on refundings. 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.

#### *9. Restricted Assets*

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

#### *10. Capital Assets*

Capital assets include land, buildings, improvements, vehicles and equipment, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives 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 and the proprietary funds' statement of net assets. 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 value at the time received. Capital outlay is recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term or the estimated useful life of the asset and is included in depreciation and amortization.

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

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

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

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

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

Vacation pay may be accumulated up to two times the annual accrual rate, not to exceed a maximum of 400 hours for non-sworn employees.

Employees represented by the San José Police Officer's Association ("SJPOA") may carry over to the next payroll calendar year not more than 200 hours of unused vacation leave. Employees represented by the International Association of Firefighters, Local 230, may carryover to the next payroll calendar year not more than 200 hours of unused vacation leave for employees on a 40-hour workweek and 240 hours for those employees on a 56-hour workweek.

Employees in the FCERS who retire with at least 15 years of service or 20 years for police officers and firefighters in the PFDRP may be eligible to receive, upon retirement, sick leave payouts based on percentages of accumulated sick hours as determined by the respective collective bargaining agreements.

### *12. Inter-fund Transactions*

Inter-fund transactions are reflected as loans, services provided, reimbursements and/or transfers. Loans and balances related to unsettled service transactions are reported as receivables and payables as appropriate, are subject to elimination upon consolidation of similar fund types, and are referred to as either "due to/from other funds," i.e., the current portion of inter-fund loans and unsettled service transactions, or "advances to/from other funds," i.e., the non-current portion of inter-fund 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".

Services provided are deemed to be at market or near market rates and are treated as revenues and expenditures/expenses. Reimbursements are defined as when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund 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*

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 is accounted for in the General Fund and the enterprise funds on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements and the enterprise fund financial statements, the estimated liability for all self-insurance liability claims is recorded as a liability.

### *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. At June 30, 2011, the government-wide statement of net assets reported restricted assets of $622,241,000 in governmental activities and $122,534,000 in business-type activities. Of these amounts $411,091,000 and $72,875,000, respectively are restricted by enabling legislation.

- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

### *15. Fund Balances*

As discussed at Note I.E., the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011. Under GASB 54, the financial statements reporting for governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. As of June 30, 2011, fund balance for government funds consist of the following categories:

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

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

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

- *Assigned Fund Balance* – includes amounts that are intended to be used for specific purposes through City Council budgetary actions. For all governmental funds other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed must be designated as assigned fund balance.

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

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

With the adoption of GASB 54, the City reviewed its governmental fund classifications and determined that the following special revenue funds: Public Works Program Support Fund, Employee Benefits Fund, and Stores, Vehicle Maintenance, and Operation Fund did not meet the new special revenue fund criteria of GASB 54 and as such reclassified these funds as internal service funds. As a result, the beginning fund balances/net assets were restated as follows:

| | Nonmajor Governmental Funds | Internal Service Funds |
|---|---|---|
| Fund balances/Net assets, as previously reported | $ 483,699,000 | $ - |
| Reclassify funds: | | |
| Public Works Program Support | (4,116,000) | 4,116,000 |
| Employee Benefits | (5,096,000) | 5,096,000 |
| Stores, Vehicle Maintenance, and Operation Funds | (5,385,000) | 5,385,000 |
| Convert to accrual basis of accounting: | | |
| Record capital assets | - | 9,674,000 |
| Record compensated absences | - | (6,014,000) |
| Fund balances/Net assets, as restated | $ 469,102,000 | $ 18,257,000 |

### *16. Property Taxes*

Property taxes are collected on behalf of and remitted to the City by the County of Santa Clara (the "County"). The amount of property tax 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)<br>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 fiscal year ended June 30, 2011, was approximately $119.2 billion, a decrease of approximately 3% from the previous year. The City's tax rate was approximately $0.189 per $100 of assessed valuation, which included the 1% basic levy and additional levies for general obligation bonds Measures "O" and "P" (2000) and Measure "O" (2002).

### *17. Wastewater Treatment System*

The Wastewater Treatment System is an enterprise of the City and is comprised of the Plant, including South Bay Water Recycling, and the San José Sewage Collection System.

The Plant provides wastewater treatment services to the City and to six other sewage collection agencies. The Clean Water Financing Authority was established to provide financing for the capital programs of the Plant including the regional water reclamation program. The City's sewer service rates pay for the City's share of the Plant operations, maintenance, and administration and capital costs.

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the fiscal year ended June 30, 2011, the City's portion of the capital and operating costs was approximately 81.0% and, based on operations through the fiscal year ended June 30, 2011, the City's interest in the net assets of the Plant was approximately 81.1%.

## II. Stewardship, Compliance, and Accountability

### A. Deficit Fund Balance

A deficit fund balance of $222,000 was reported in the non-major capital projects Fiber Optics Development Fund. It will be eliminated with future transfers from the General Fund.

### B. Deficit Unrestricted Net Assets – Governmental Activities

At June 30, 2011, the City reports a deficit unrestricted net assets in its Statement of Net Assets – governmental activities in the amount of $129,419,000. This deficit is primarily due to the City's accrual of certain long-term liabilities, such as compensated absences and estimated claims, that are recognized as expenses under the accrual basis of accounting as the liabilities are incurred; however, these expenses are not budgeted (funded) until the liabilities are anticipated to come due; and the City's recognition of other postemployment benefit (OPEB) obligations for OPEB costs in which the actuarial annual required contributions are greater than the amount funded into the OPEB plans to date. Pursuant to the City's latest agreements with most of its bargaining units, the funding to fully fund the OPEB's annual required contributions will be phased in over a five year period (see Note IV.A.).

## III. Detailed Notes on All Funds

### A. Cash, Deposits and Investments

As of June 30, 2011, total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

| | Governmental Activities | Business-type Activities | Fiduciary Funds: Pension Trust | Fiduciary Funds: Private-Purpose Trust | Fiduciary Funds: Agency | Carrying Value |
|---|---|---|---|---|---|---|
| Equity in pooled cash and investments | $ 578,999 | $ 344,301 | $ - | $ 99 | $ 3,226 | $ 926,625 |
| Restricted investments: | | | | | | |
| Equity in pooled cash and investments | 61,354 | 110,832 | - | - | - | 172,186 |
| Cash and investments with fiscal agents | 429,881 | 236,538 | - | - | - | 666,419 |
| Other cash and investments | 12,650 | - | - | - | - | 12,650 |
| Investments of retirement plans | - | - | 5,067,420 | - | - | 5,067,420 |
| Total deposits and investments | $ 1,082,884 | $ 691,671 | $ 5,067,420 | $ 99 | $ 3,226 | $ 6,845,300 |
| Deposits | | | | | | $ 27,005 |
| Investments | | | | | | 6,818,295 |
| Total deposits and investments | | | | | | $ 6,845,300 |

**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."

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

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

**Investments of Retirement Systems.** The Retirement Systems' funds are invested pursuant to policy guidelines established by the respective Boards. The objective of each investment policy is to maximize the expected return of the funds at an agreed upon level of risk. The Retirement

Boards have established percentage guidelines for types of investments to ensure the portfolio is diversified.

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

***1. Governmental and Business-Type Activities***

**Interest Rate Risk.** Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability to hold investments until their respective maturity dates; however, the Investment Policy does not prohibit the sale of securities prior to maturity. The average maturity of the City's pooled cash and investments as of June 30, 2011, was approximately 376 days. However, any portfolio restructuring requires prior conceptual approval in writing from the Director of Finance. Section 17.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

**Credit Quality Risk.** Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's Investment Policy has mitigated credit risk by limiting investments to the safest type of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

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

As of June 30, 2011, the City's pooled and fiscal agent investments in LAIF was approximately $370,808,000. The weighted average maturity of LAIF was 237 days. The total amount recorded by all public agencies in the LAIF pool at that date was approximately $24.0 billion. Of that amount, 94.99% was invested in non-derivative financial products and 5.01% in structured notes and asset backed securities.

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

The City Council adopted an investment policy (the "Policy") on April 2, 1985, as last amended on September 28, 2010, related to the City's cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy.

The following table identifies the investment types that are authorized by the Policy as of June 30, 2011:

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

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

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Farm Credit Banks, the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.
- Purchases of Bankers' Acceptances ("BAs") are limited to issues by domestic U.S. or foreign banks, which must be rated by Fitch Ratings ("Fitch") as follows: an issuer rating of "B" or better for domestic U.S. banks, "C" or better for California banks or "A/B" or better for foreign banks. Additionally, foreign BAs must be in U.S. dollar denominations. BAs eligible for investment must be rated "P1, A1, F1" or better from two of the three nationally recognized rating services; Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), or Fitch, respectively.
- Deposits up to the Federal Deposit Insurance Corporation ("FDIC") limit may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Uninsured time deposits are limited to issuances from banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Additionally, concerning uninsured time

deposits, depositories must have an issuer rating of "B" or better by Fitch and be collateralized in a manner prescribed by state law for depositories.

- Commercial paper eligible for investment must be rated "P1, A1 or F1" or better by two of the three nationally recognized rating services; Moody's, S&P or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of $500,000,000 and shall issue debt, other than commercial paper, if any, that is rated "A3, A- or A-" or higher, respectively, by Moody's, S&P or Fitch.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer rating of "A/B" or better by Fitch and may not exceed the net worth of the issuing institution.

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

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

- Corporate notes eligible for investment must be rated "A3, A- or A-" or better by two of the three nationally recognized rating services; Moody's, S&P or Fitch, respectively.

- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount of $50,000,000 per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is $50,000,000.

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

- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states, respectively. Eligible securities must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch.

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

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

The following schedule indicates the interest rate risk, credit quality risk and concentration of credit risk of the City's investments, as of June 30, 2011. The credit ratings listed are for Moody's and S&P, respectively. Certain investments, such as obligations, which are backed by the full faith and credit of the United States Government, are exempt from credit rating disclosures (dollars in thousands):

| | | Maturity | | | | |
|---|---|---|---|---|---|---|
| **Type of Investment** | **Credit Rating** | **Under 30 Days** | **31 - 180 Days** | **181 - 365 Days** | **1 - 5 Years** | **Carrying Value** |
| Pooled investments in the City Treasury: | | | | | | |
| Federal Farm Credit Banks | Aaa / AAA | $ - | $ 20,222 | $ - | $ 70,184 | $ 90,406 |
| Federal Farm Credit Banks - Callable | Aaa / AAA | - | - | - | 5,019 | 5,019 |
| Federal Home Loan Banks | Aaa / AAA | - | 10,009 | 4,998 | 112,127 | 127,134 |
| Federal Home Loan Banks - Callable | Aaa / AAA | - | - | - | 9,988 | 9,988 |
| Federal Home Loan Banks - Discount | P-1 / A-1+ | 13,000 | - | 853 | - | 13,853 |
| Federal Home Loan Mortgage Corporation | Aaa / AAA | - | - | 10,138 | 70,313 | 80,451 |
| Federal Home Loan Mortgage Corporation - Callable | Aaa / AAA | - | - | - | 20,023 | 20,023 |
| Federal Home Loan Mortgage Corporation - Discount | P-1 / A-1+ | 15,232 | 111,221 | 23,755 | - | 150,208 |
| Federal National Mortgage Association | Aaa / AAA | - | - | - | 85,300 | 85,300 |
| Federal National Mortgage Association - Callable | Aaa / AAA | - | - | - | 22,571 | 22,571 |
| Federal National Mortgage Association - Discount | P-1 / A-1+ | 144,270 | 40,000 | 24,623 | - | 208,893 |
| Commercial paper - Discounted | P-1 / A-1+ | 75,649 | 56,385 | - | - | 132,034 |
| Medium-term notes | Aaa / AAA | - | 25,305 | - | - | 25,305 |
| Negotiable certificates of deposit | P-1 / A-1 | - | 40,016 | - | - | 40,016 |
| Money market mutual funds | AAAm | - | - | 2,190 | - | 2,190 |
| California local agency investment fund | Not Rated | - | - | 71,124 | - | 71,124 |
| Total pooled investments in the City Treasury | | 248,151 | 303,158 | 137,681 | 395,525 | 1,084,515 |
| Investments with fiscal agents: | | | | | | |
| U.S. Treasury bills | Exempt | 63,346 | - | 4,890 | - | 68,236 |
| Federal Home Loan Banks | Aaa / AAA | 10,030 | 12,567 | 52,349 | 817 | 75,763 |
| Federal Home Loan Banks - Discount | P-1 / A-1+ | - | 914 | - | - | 914 |
| Federal National Mortgage Association - Discount | P-1 / A-1+ | - | - | 1,951 | - | 1,951 |
| Commercial paper | P-1 / A-1+ | 35,331 | 1,366 | - | - | 36,697 |
| Medium-term notes | Aaa / AAA | - | - | - | 826 | 826 |
| Money market mutual funds | AAAm | 182,075 | 214 | - | - | 182,289 |
| California local agency investment fund | Not Rated | - | - | 287,034 | - | 287,034 |
| Total investments with fiscal agents | | 290,782 | 15,061 | 346,224 | 1,643 | 653,710 |
| Other investments: | | | | | | |
| California local agency investment fund | Not Rated | - | - | 12,650 | - | 12,650 |
| Total other investments | | - | - | 12,650 | - | 12,650 |
| Total Citywide investments (excluding Retirement Systems) | | $ 538,933 | $ 318,219 | $ 496,555 | $ 397,168 | 1,750,875 |
| Retirement Systems: | | | | | | |
| Total investments in Retirement Systems | | | | | | 5,067,420 |
| Total investments | | | | | | $ 6,818,295 |

**Custodial Credit Risk.** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name. The investments held by the City were not subject to custodial credit risk at June 30, 2011.

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

As of June 30, 2011, the City's pooled investments in the City Treasury have investments in U.S. Agencies that represents 5% or more of the total pooled investments in the following:

| | |
|---|---|
| Federal Farm Credit Banks | 8.8% |
| Federal Home Loan Banks | 13.9% |
| Federal Home Loan Mortgage Corporation | 23.1% |
| Federal National Mortgage Association | 29.2% |

In addition, as of June 30, 2011, the Agency has $35,331,000 invested in commercial paper. This represents tax increment money sent to the Agency's fiscal agent for future debt service payment on the Agency's outstanding Tax Allocation Bonds. Under the bond indenture, investments in commercial paper are limited to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the Agency's policy to limit its investments in this investment type to the top rating issued by NRSROs. As of June 30, 2011, the Agency's investment in commercial paper includes investments in General Electric Capital Corporation (11.5%) and Union Bank (11.5%), which exceeded the 5% concentration risk threshold (total Agency investments with fiscal agent), but is a permitted investment under the bond indenture.

As of June 30, 2011, the San José Financing Authority, Airport and Wastewater Funds investments with its fiscal agents totaled $61,489,000, $229,989,000, and $6,549,000, respectively, which includes $47,447,000, $22,597,000, and $5,719,000, respectively, invested in bonds with Federal Home Loan Banks.

**Foreign Currency Risk.** The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2011, the investments in the City's investment pool were not subject to foreign currency risk.

### *2. Retirement Systems*

**Investment Policies –** The City's Municipal Code delegates authority to the Retirement Systems' Boards of Administration to reinvestment moneys of the Retirement Systems as provided in the Municipal Code. The Retirement Boards have adopted detailed investment guidelines consistent with the limitations set forth in the Municipal Code. In fiscal year 2010, the Boards approved new asset allocations to target higher expected returns at similar risk levels by changing the asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments. The Retirement Systems' investment asset allocations are as follows:

| | Type of Investment | Policy Limits and Descriptions |
|---|---|---|
| PFDRP | Equity - Target of 40% | Minimum of 30% and maximum of 50% of the fair value of the aggregate portfolio.<br>U.S. Large Cap - Target 18%<br>U.S. Small Cap - Target 5%<br>Non U.S. Developed Markets - Target 12%<br>Non U.S. Emerging Markets - Target 5% |
| | Fixed Income - Target of 25% | Minimum of 15% and maximum of 35% of the fair value of the aggregate portfolio.<br>Core Fixed Income - Target 5%<br>U.S. Treasury Inflation Protected Securities (TIPS) - Target 10%<br>Long Duration Fixed Income - Target 5%<br>Opportunistic Credit - Target 5% |
| | Alternative Assets - Target of 35% | Minimum of 10% and maximum of 60% of the fair value of the aggregate portfolio.<br>Funds allotted to the alternatives asset class are temporarily invested in other asset classes.<br>Private Equity - Target 5%<br>Real Estate - Target 10%<br>Inflation-Linked Assets - Target 10%<br>Absolute Return - Target 5%<br>Opportunistic - Target 5% |
| FCERS | Global Equity - Target 49% | Minimum of 43% and maximum of 55% of the fair value of the aggregate portfolio. |
| | Fixed Income - Target 20% | Minimum of 15% and maximum of 25% of the fair value of the aggregate portfolio. |
| | Alternatives - Target of 31% | Minimum of 26% and maximum of 36% of the fair value of the aggregate portfolio.<br>Funds allotted to the alternatives asset class are temporarily invested in other asset classes.<br>Real Estate - Target 5%<br>Real Assets - Target 10%<br>Hedge Funds - Target 5%<br>Private Equity - Target 6%<br>Opportunistic - Target 5% |

As of June 30, 2011, PFDRP's separate real estate properties include: apartment complexes in Houston, TX and Colorado Springs, CO; office buildings in Denver, CO, O'Fallon, MO, San José, CA, in Chicago, IL, and in Anchorage, AK; and warehouses in Minneapolis, MN. As of June 30, 2011, the office buildings in O'Fallon, MO and Anchorage, AK had mortgage loans payable of approximately $20,200,000, which do not exceed 50% of the assets as allowed in PFDRP's Real Estate Investment Guidelines. As of June 30, 2011, FCERS held a warehouse located in Northern California with no outstanding mortgage loans.

At June 30, 2011, the Retirement Systems held the following investments (dollars in thousands):

| | PFDRP | FCERS | Total |
|---|---|---|---|
| Securities and other: | | | |
| Fixed income: | | | |
| Domestic fixed income | $ 666,669 | $ 407,359 | $ 1,074,028 |
| Collective short-term investments | 40,479 | 35,738 | 76,217 |
| International fixed income | 15,417 | 2,256 | 17,673 |
| Corporate convertible bonds | 72,133 | 52,675 | 124,808 |
| Pooled fixed income bond funds | 11,359 | 21,430 | 32,789 |
| Total fixed income | 806,057 | 519,458 | 1,325,515 |
| Global equity | 1,030,206 | 478,497 | 1,508,703 |
| Pooled international equity | 170,697 | 496,552 | 667,249 |
| Private equity | 220,064 | 92,643 | 312,707 |
| International currency contracts, net | 413 | 90 | 503 |
| Opportunistic | 26,949 | 32,785 | 59,734 |
| Real assets | 306,243 | 166,955 | 473,198 |
| Real estate | 127,029 | 90,673 | 217,702 |
| Securities lending cash collateral investment pool | 340,167 | 161,942 | 502,109 |
| Total investments | $ 3,027,825 | $ 2,039,595 | $ 5,067,420 |

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

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

As of June 30, 2011, PFDRP's investments include $22,695,000 of bank loan securities that were floating rate securities tied to the 1 and 3 month London Interbank Offered Rate (LIBOR).

As of June 30, 2011, FCERS's investments include $23,145,000 of bank loan securities that were floating rate securities tied to the 1 and 3 month LIBOR. FCERS also has exposure on its fully collateralized infrastructure swaps with a notional amount of $37,408,000 in which it receives the total S&P Global Infrastructure Index rate, net of the 3-month U.S. LIBOR plus 55 basis points.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity as of June 30, 2011, concerning the fair value of investments and interest rate risk (dollars in thousands):

| | PFDRP | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 - 3 months | 3 - 6 months | 6 months - 1 year | 1 - 5 years | 5 - 10 years | More than 10 years | **Total Fair Value** | **Total Cost** |
| Domestic fixed income: | | | | | | | | |
| Asset backed securities | $ - | $ - | $ 2,025 | $ 4,017 | $ - | $ 1,367 | $ 7,409 | $ 7,368 |
| Bank loans | - | - | - | 21,743 | - | - | 21,743 | 19,428 |
| Collateralized mortgage obligations | - | - | - | - | - | 20,148 | 20,148 | 19,455 |
| Corporate bonds | - | 1,015 | 507 | 36,039 | 31,403 | 105,672 | 174,636 | 160,935 |
| FHLMC | - | - | - | - | - | 15,210 | 15,210 | 14,720 |
| FNMA | - | - | - | - | 2,847 | 47,994 | 50,841 | 49,967 |
| GNMA | - | - | - | - | - | 6,074 | 6,074 | 5,948 |
| State and local obligations | - | - | - | - | - | 7,519 | 7,519 | 7,321 |
| U.S. TIPS | - | - | - | 130,966 | 136,773 | 48,441 | 316,180 | 298,737 |
| U.S. Treasury securities | - | 12,151 | - | 5,486 | 8,993 | 20,279 | 46,909 | 47,162 |
| Total domestic fixed income | - | 13,166 | 2,532 | 198,251 | 180,016 | 272,704 | 666,669 | 631,041 |
| International fixed income | - | 701 | - | 3,346 | 5,878 | 5,492 | 15,417 | 16,824 |
| Collective short-term investments | 4,106 | - | - | - | - | 36,373 | 40,479 | 40,437 |
| Corporate convertible bonds | - | - | 3,646 | 52,654 | 6,209 | 9,624 | 72,133 | 67,125 |
| Pooled fixed income bond funds | - | - | - | - | - | 11,359 | 11,359 | 10,853 |
| Total fixed income | $ 4,106 | $ 13,867 | $ 6,178 | $ 254,251 | $ 192,103 | $ 335,552 | $ 806,057 | $ 766,280 |

| | FCERS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 - 3 months | 3 - 6 months | 6 months - 1 year | 1 - 5 years | 5 - 10 years | More than 10 years | **Total Fair Value** | **Total Cost** |
| Domestic fixed income: | | | | | | | | |
| Asset backed securities | $ - | $ - | $ - | $ 960 | $ - | $ 408 | $ 1,368 | $ 1,059 |
| Bank loans | - | - | 1,635 | 21,595 | 1,103 | - | 24,333 | 21,684 |
| Corporate bonds | - | 1,122 | - | 19,751 | 15,412 | 3,534 | 39,819 | 34,249 |
| FHLMC | - | - | 2,179 | 6,104 | - | - | 8,283 | 8,155 |
| FNMA | - | - | - | 7,290 | - | - | 7,290 | 7,125 |
| Other U.S. Government agency | - | 3,341 | 1,519 | - | - | - | 4,860 | 5,057 |
| U.S. TIPS | - | - | - | 83,297 | 85,061 | 28,656 | 197,014 | 179,921 |
| U.S. Treasury securities | - | - | 19,085 | 55,933 | 49,374 | - | 124,392 | 120,365 |
| Total domestic fixed income | - | 4,463 | 24,418 | 194,930 | 150,950 | 32,598 | 407,359 | 377,615 |
| International fixed income | - | - | - | 565 | 1,133 | 558 | 2,256 | 1,865 |
| Collective short-term investments | 35,738 | - | - | - | - | - | 35,738 | 35,774 |
| Corporate convertible bonds | - | - | 3,244 | 38,331 | 4,330 | 6,770 | 52,675 | 47,883 |
| Pooled fixed income bond funds | - | - | - | - | - | 21,430 | 21,430 | 19,500 |
| Total fixed income | $ 35,738 | $ 4,463 | $ 27,662 | $ 233,826 | $ 156,413 | $ 61,356 | $ 519,458 | $ 482,637 |

***Custodial Credit Risk*** – The Retirement Systems do not have a policy regarding custodial credit risk. As of June 30, 2011 all of the Retirement Systems' investments, excluding invested securities lending collateral, are held in the Retirement Systems' names, and/or are not exposed to custodial credit risk. Securities lending collateral are invested in the lending agent's investment fund (see discussion on securities lending below).

***Credit Quality Risk*** – PFDRP's Investment Policy dictates that all domestic and international bonds and notes in which PFDRP's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three rating services: Moody's, S&P, or Fitch. In the event that ratings are provided by only two agencies and the third is non-rated, the more conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, the security shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization from PFDRP, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the PFDRP's investment policy at the time of purchase, the investment manager is permitted to hold up to 2% of the PFDRP's portfolio managed by the individual manager, using the lowest of Moody's, S&P, and Fitch's rating in the event of a split-rated security.

FCERS's Investment Policy dictates that assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed income investment grade shall be defined as being rated Baa/BBB or better by Moody's or S&P. "Yankee" bonds issued by foreign countries and denominated in U.S. dollars are allowed so long as they are rated Baa/BBB or better by Moody's or S&P. If a security is not rated by Moody's or S&P, the equivalent rating determined by the investment manager's research department will be used. Should a current holding fall below this standard, the manager shall notify FCERS of the downgrade and confer with FCERS staff as to whether the security will continue to be held or disposed. Up to 10% investment in BB or B securities will be permitted with written authorization of the FCERS's Board. The investment managers employed to manage fixed-income securities will have discretion in the day-to-day management of the funds under their control.

The Retirement Systems may hedge against the possible adverse effects of currency fluctuations on the Retirement Systems' portfolios of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

The following table provides information as of June 30, 2011 concerning credit risk (dollars in thousands):

| | PFDRP | | FCERS | |
|---|---|---|---|---|
| S&P quality Rating | Fair Value | Fair value as a % of fixed income investments | Fair Value | Fair value as a % of fixed income investments |
| AAA | $ 81,831 | 18.8% | $ 5,927 | 3.0% |
| AA | 33,518 | 7.7% | 874 | 0.4% |
| A | 84,196 | 19.4% | 9,827 | 5.0% |
| BBB | 69,651 | 16.0% | 21,190 | 10.7% |
| BB | 28,497 | 6.6% | 32,876 | 16.6% |
| B | 18,629 | 4.3% | 22,768 | 11.5% |
| CCC & below | 1,601 | 0.4% | 2,811 | 1.4% |
| Not rated | 116,958 | 26.9% | 101,779 | 51.4% |
| Total investments exposed to credit risk | 434,881 | 100.0% | 198,052 | 100.0% |
| Exempt * | 371,176 | | 321,406 | |
| Total fixed income investments | $ 806,057 | | $ 519,458 | |

* Investments issued or explicitly guaranteed by the U.S. government are not considered to have credit risk and are considered exempt.

***Foreign Currency Risk*** – This is the risk that changes in the exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the Retirement Systems' investment policies permit individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuation on the underlying asset value.

The following tables provide information as of June 30, 2011, concerning the fair value of investments and foreign currency risk (dollars in thousands):

**PFDRP**

| Currency Name | Cash | Private Equity | Equity | Fixed Income | Pending Foreign Currency Exchanges | Total Exposure |
|---|---|---|---|---|---|---|
| Australian Dollar | $ - | $ - | $ 376 | $ - | $ - | $ 376 |
| Brazilian Real | 13 | - | 5,151 | 81 | - | 5,245 |
| Canadian Dollar | 33 | - | 15,055 | - | (16) | 15,072 |
| Chilean Peso | - | - | 536 | - | - | 536 |
| Danish Krone | 8 | - | 2,360 | - | - | 2,368 |
| Egyptian Pound | - | - | 549 | - | - | 549 |
| Euro Currency | 1,843 | - | 92,655 | 4,404 | 1 | 98,903 |
| Hong Kong Dollar | 41 | - | 9,777 | 586 | 3 | 10,407 |
| Indian Rupee | - | - | 2,526 | - | (3) | 2,523 |
| Indonesian Rupiah | - | - | 3,664 | - | - | 3,664 |
| Israeli Shekel | 9 | - | 1,024 | - | - | 1,033 |
| Japanese Yen | 1,172 | - | 77,155 | 4,048 | 21 | 82,396 |
| Mexican Peso | - | - | 785 | - | - | 785 |
| New Taiwan Dollar | 566 | - | 1,374 | - | 3 | 1,943 |
| New Zealand Dollar | - | - | 1,051 | - | - | 1,051 |
| Norwegian Krone | - | - | 401 | - | (9) | 392 |
| Philippine Peso | - | - | 412 | - | - | 412 |
| Pound Sterling | 1,127 | - | 58,830 | 3,827 | 404 | 64,188 |
| Singapore Dollar | - | - | 3,707 | - | - | 3,707 |
| South African Rand | - | - | 3,016 | - | - | 3,016 |
| South Korean Won | 12 | - | 4,206 | - | (3) | 4,215 |
| Swedish Krona | - | - | 6,691 | - | 9 | 6,700 |
| Swiss Franc | - | - | 12,796 | - | 3 | 12,799 |
| Thailand Baht | - | - | 795 | - | - | 795 |
| Turkish Lira | - | - | 744 | - | - | 744 |
| Total | $ 4,824 | $ - | $ 305,636 | $ 12,946 | $ 413 | $ 323,819 |

**FCERS**

| Currency Name | Cash | Private Equity | Equity | Fixed Income | Pending Foreign Currency Exchanges | Total Exposure |
|---|---|---|---|---|---|---|
| Australian Dollar | $ 25 | $ - | $ 12,131 | $ - | $ - | $ 12,156 |
| British Pound Sterling | 364 | - | 41,929 | 2,739 | 100 | 45,132 |
| Canadian Dollar | 7 | - | 4,308 | - | 21 | 4,336 |
| Danish Krone | - | - | 3,979 | - | - | 3,979 |
| Euro Currency | 63 | 8,774 | 47,886 | 3,206 | (5) | 59,924 |
| Hong Kong Dollar | 5 | - | 4,234 | 440 | 3 | 4,682 |
| Indian Rupee | - | - | - | - | (3) | (3) |
| Indonesian Rupiah | - | - | - | 107 | - | 107 |
| Japanese Yen | 331 | - | 41,991 | 3,004 | (40) | 45,286 |
| New Taiwan Dollar | - | - | - | - | 4 | 4 |
| Norwegian Krone | 1 | - | 3,904 | - | - | 3,905 |
| Singapore Dollar | - | - | 2,905 | - | - | 2,905 |
| South Korean Won | - | - | - | - | (3) | (3) |
| Swedish Krona | 21 | - | 5,746 | - | 13 | 5,780 |
| Swiss Franc | - | - | 19,242 | - | - | 19,242 |
| Total | $ 817 | $ 8,774 | $ 188,255 | $ 9,496 | $ 90 | $ 207,432 |

***Concentration of Credit Risk*** – PFDRP's investment policy does not limit the amount that can be invested in a single issuer. However, it limits the aggregate amount that can be invested in each class of investments, limits the portion of the total PFDRP assets that a manager can hold in a single security with the exception of government backed securities and real estate equity to 5%, and limits the PFDRP assets placed with an investment manager to represent no more than 10% of that manager's total assets. FCERS's investment policy limits investment managers to no more than 10% of FCERS's assets under their management to be invested in securities of any single issuer with the exception of U.S. Government and its agencies.

**Derivatives** – The Retirement Systems' investment policies allow for investments in derivative instruments that comply with the Retirement Systems' basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the Retirement Systems specifically prohibit investment managers from using derivative or synthetic securities that expose the Retirement Systems to potentially high price volatility or are leveraged, or whose marketability may become severely limited. Derivative investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The fair value of derivative investments that are not exchange traded, such as swaps, and rights is determined by the Retirement Systems' custodians based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2011. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts of derivative instruments outstanding as of June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (amounts in thousands):

**PDFRP**

| Investment Derivative Instruments | Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2011: Classification | Amount | Fair Value at June 30, 2011: Classification | Amount | Notional Amount |
|---|---|---|---|---|---|
| Commodity swaps | Investment income/ (loss) | $ 77,183 | Commodities | $ - | $ - |
| International currency forwards | Investment income/ (loss) | (2,579) | International currency contracts, net | 413 | 82,520 |
| Rights | Investment income/ (loss) | 21 | Global Equity | 1 | 3 |
| Warrants | Investment income/ (loss) | (1) | Global Equity | - | - |
| Total derivative instruments | | $ 74,624 | | $ 414 | |

**FCERS**

| Investment Derivative Instruments | Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2011: Classification | Amount | Fair Value at June 30, 2011: Classification | Amount | Notional Amount |
|---|---|---|---|---|---|
| Commodity swaps | Investment income/ (loss) | $ 9,483 | Commodity swaps | $ - | $ - |
| Infrastructure swaps | Investment income/ (loss) | 3,298 | Infrastructure swaps | 1,269 | 37,408 |
| Foreign currency forwards | Investment income/ (loss) | (1,184) | Foreign currency contracts, net | 90 | - |
| Future options bought/written | Investment income/ (loss) | 697 | Fixed income - collective short-term investments | - | - |
| Rights | Investment income/ (loss) | 912 | Equity (domestic and foreign) | 2 | - |
| Total derivative instruments | | $ 13,206 | | $ 1,361 | |

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2011:

***Counterparty Credit Risk*** – The Retirement Systems are exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded.

As of June 30, 2011, PFDRP held rights with a fair value of approximately $1,000 and a notional value of $3,000 held by an unrated counterparty. PFDRP's investments 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, 2011, total commitments in forward currency contracts to purchase and sell international currencies were $82,520,000 and $82,520,000 respectively, with fair values of $82,566,000 and $82,153,000, respectively, held by counterparties with an S&P rating of at least AA-.

FCERS entered into an infrastructure swap with a notional value of $37,408,000 held by a counterparty with an A+ rating. FCERS's investments 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, 2011, total commitments in forward currency contracts to purchase and sell international currencies were $26,265,000 and $26,265,000 respectively, with fair values of $26,244,000 and $26,154,000, respectively, held by counterparties with an S&P rating of at least AA-.

***Interest Rate Risk*** – The Retirement Systems had exposure to interest rate risk on their fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices, with unrealized gains and losses collateralized to minimize counterparty risk. As of June 30, 2011, PFDRP did not hold commodity swaps. As of June 30, 2011, FCERS invested in an infrastructure swap with a notional amount of approximately $37,408,000 in which it receives the total return S&P Global Infrastructure Index rate, net of the 3-month U.S. LIBOR plus 55 basis points. The infrastructure swap was executed in April 2011 and matures in April 2012 with a quarterly rate reset frequency. FCERS derivative instruments had maturity dates of less than one year. The Retirement Systems do not have a policy regarding interest rate risk, however, the Retirement Systems do settle on a transaction plus one day basis (T+1), therefore limiting Retirement Systems' exposure to counterparty risk.

***Foreign Currency Risk*** – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Retirement Systems' investment policies permit individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Retirement Systems' investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Retirement Systems utilize these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2011, the Retirement Systems' net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Retirement Systems' commitments relating to forward currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2011, concerning the fair value of forward currency contracts and foreign currency risk (dollar in thousands):

| | **Pending Foreign Currency Exchanges** | | | **Rights** |
|---|---|---|---|---|
| Currency Name | PFDRP | FCERS | Total | FCERS |
| Australian Dollar | $ - | $ - | $ - | $ 2 |
| British Pound Sterling | - | 100 | 100 | - |
| Canadian Dollar | (16) | 21 | 5 | - |
| Euro Currency | 1 | (5) | (4) | - |
| Hong Kong Dollar | 3 | 3 | 6 | - |
| Indian Rupee | (3) | (3) | (6) | - |
| Japanese Yen | 21 | (40) | (19) | - |
| New Taiwan Dollar | 3 | 4 | 7 | - |
| Norwegian Krone | (9) | - | (9) | - |
| Pound Sterling | 404 | - | 404 | - |
| South Korean Won | (3) | (3) | (6) | - |
| Swedish Krona | 9 | 13 | 22 | - |
| Swiss Franc | 3 | - | 3 | - |
| Total | $ 413 | $ 90 | $ 503 | $ 2 |

**Securities Lending.** The municipal code and the investment policies, adopted by the Retirement Boards permit the use of a securities lending program with its principal custodian banks ("Custodians"). The Retirement Systems do not have a threshold for the amounts of securities on loan. The investment policy of FCERS requires that loan maturities cannot exceed one year, and no more than 15% of the portfolio can be lent longer than six months. The custodial agreements with the Custodians authorize such Custodian 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 Systems receive a fee from the borrower for the use of the loaned securities. As of June 30, 2011, the Retirement Systems' had no exposure to borrower credit risk related to the securities lending transactions as the Custodians are responsible for the 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 Custodian is required to credit the Retirement Systems' account with the market value of such unreturned loaned securities if the loaned securities are not returned by the borrower. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the Retirement Systems or borrowers.

Securities lending collateral represents investments in an investment pool purchased with cash collateral, as well as securities collateral that may not be pledged or sold without a default by the borrower. Securities lending transactions collateralized with securities that cannot be pledged or sold without 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 investments made with cash collateral with the securities on loan.

PFDRP authorized State Street Corporation ("State Street") to invest and reinvest cash and collateral in State Street's Quality D Short-term Investment fund, which consists of a liquidity pool and a liquidating account known as the duration pool. The duration pool was established and allocated the asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each Quality D Fund owns a specified percentage interest in the duration pool, which is redeemable only in kind, not cash. The Quality D duration pool will not make additional investments. At the time of purchase, all securities with maturities of 13 months or less shall be rated at least A1, P1 or F1 by at least any two nationally recognized statistical rating organizations ("NRSROs"), or be determined by the Investment Manager to be of comparable quality. Securities with maturities in excess of 13 months shall be rated at least A-, A3 or A- by at least any two of NRSROs, or be determined by the Investment Manager to be of comparable quality. The fund may invest up to 10% of its assets at time of purchase in commingled vehicles that conform with the State Street's Investment Policy Guidelines. As of June 30, 2011, the cash collateral pool for the duration and liquidity pool totaled \$6.3 billion and \$17.2 billion, respectively. The weighted average maturities for the duration and liquidity pool were 35.97 and 31.67 days, respectively. The cash collateral duration pool included asset backed securities (54.97%), certificates of deposit (13.56%), bank notes (23.16%), U.S. Agency (8.22%) and other securities (.09%). As of June 30, 2011, the underlying securities loaned by PFDRP as a whole amounted to approximately \$340,802,000. The cash collateral and the non-cash collateral totaled \$342,973,000 and \$3,527,000, respectively, at carrying cost. The net asset value (NAV) of the cash collateral pool at June 30, 2011 was at \$1.00 or \$222,580,000 and \$0.9767 or \$117,587,000 for the liquidity and duration pools, respectively on a mark to market basis. The NAV of less than \$1.00 for the duration pool is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of \$0.9767 of the duration cash collateral pool results in an unrealized loss of approximately \$2,806,000 for PFDRP. PFDRP's investment in the liquidity and duration cash collateral investment pools are presented in the statement of net plan assets at their respective NAV or \$340,167,000. The unrealized loss of \$2,806,000 for the duration pool is reflected in the securities lending income earnings line of the statement of changes in fiduciary net assets. PFDRP is exposed to market risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

FCERS authorized The Northern Trust Company ("Northern Trust") to invest and reinvest cash collateral in Northern Trust's pooled investment vehicle, which must have a weighted average life of 60 days or less. Securities with maturities of 13 months or more must have a rating of A or better. Securities with maturities of less than 13 months must be rated at least P-3. As of June 30, 2011, the size of the cash collateral pooled vehicle was \$27.8 billion with a weighted average life of 21 days. The cash collateral investments included time deposits (12% of the pool), repurchase agreements (22%), asset backed securities (4%), certificates of deposit (20%), variable rate securities (9%) and commercial paper and other bank notes (33%). As of June 30, 2011, the underlying securities loaned by FCERS as a whole amounted to \$162,705,000. The cash collateral and the non-cash collateral totaled \$161,942,000 and \$4,345,000, respectively. As of June 30, 2011, the net asset value of the cash collateral pool was 100% based on a combination of mark-to-model and mark-to-market basis.

The Retirement Systems are exposed to investment risk including the possible loss of principal values in the cash collateral pools due to the fluctuation in the market value of the assets held by the cash collateral pools.

The loaned securities as of June 30, 2011 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, international corporate bonds, domestic equity securities, and international equity securities. In return, the Retirement Systems receive collateral in the form of cash or securities equal to at least 102% for domestic and 105% for international of the market value of transferred securities plus accrued interest for reinvestment.

The following table provides information concerning securities lent and collateral received as of June 30, 2011 (dollars in thousands):

| | PFDRP | FCERS | Total Fair Value |
|---|---|---|---|
| **Type of Investment Lent** | | | |
| For Cash Collateral: | | | |
| U.S. treasury notes and bonds | $ 35,864 | $ 53,217 | $ 89,081 |
| U.S. government agency securities | - | 4,097 | 4,097 |
| Domestic corporate bonds | 45,785 | 24,297 | 70,082 |
| International corporate bonds | 252 | - | 252 |
| Domestic equity securities | 239,823 | 66,279 | 306,102 |
| International equity securities | 15,590 | 10,570 | 26,160 |
| Total Lent for Cash Collateral | 337,314 | 158,460 | 495,774 |
| For Non-Cash Collateral: | | | |
| U.S. treasury notes and bonds | - | 3,321 | 3,321 |
| Domestic corporate bonds | - | 146 | 146 |
| Domestic equity securities | 3,488 | 90 | 3,578 |
| International equity securities | - | 688 | 688 |
| Total Lent for Non-Cash Collateral | 3,488 | 4,245 | 7,733 |
| Total Securities Lent | $ 340,802 | 162,705 | $ 503,507 |
| **Type of Collateral Received** | | | |
| Cash Collateral * | $ 340,167 | $ 161,942 | $ 502,109 |
| Non-Cash Collateral: | | | |
| For lent U.S. treasury notes and bonds | - | 3,391 | 3,391 |
| For lent domestic corporate bonds | - | 149 | 149 |
| For lent domestic equity securities | 3,527 | 92 | 3,619 |
| For lent international equity securities | - | 713 | 713 |
| Total Non-Cash Collateral | 3,527 | 4,345 | 7,872 |
| Total Collateral Received | $ 343,694 | 166,287 | $ 509,981 |

* Amount represents the mark-to-market value of PFDRP's cash collateral pool at a 100% liquidity portfolio and 97.67% for the duration portfolio for fiscal year 2011.

## B. Receivables, Net of Allowances

At June 30, 2011, receivables of the City's major individual funds and nonmajor funds taken in aggregate, including the applicable allowance for uncollectible accounts are as follows (dollars in thousands):

| Receivables – Governmental Activities: | General Fund | Redevelopment Agency | Housing Activities | Special Assessment Districts | Total Nonmajor Funds | Internal Service Funds | Governmental Activities |
|---|---|---|---|---|---|---|---|
| Taxes | $ 30,219 | $ - | $ - | $ - | $ 4,771 | $ - | $ 34,990 |
| Accrued interest | 133 | 67 | 1,504 | 10 | 1,631 | - | 3,345 |
| Grants | 3,435 | - | 4,168 | - | 13,127 | - | 20,730 |
| Special assessments | - | - | - | 57,899 | - | - | 57,899 |
| Other | 25,429 | 424 | 45 | 1 | 17,679 | 1,160 | 44,738 |
| Less: allowance for uncollectibles | (12,959) | - | (3) | - | (3,965) | - | (16,927) |
| Total receivables, net | $ 46,257 | $ 491 | $ 5,714 | $ 57,910 | $ 33,243 | $ 1,160 | $ 144,775 |

| Business-Type Activities: | Norman Y. Mineta San José International Airport | Wastewater Treatment System | Municipal Water System | Parking System | Total Business-Type Activities |
|---|---|---|---|---|---|
| Accounts | $ 9,594 | $ 1,616 | $ 2,803 | $ 194 | $ 14,207 |
| Accrued interest | 100 | 228 | 13 | 8 | 349 |
| Grants | 1,172 | 2,138 | - | - | 3,310 |
| Less: allowance for uncollectibles | (622) | (409) | (790) | (10) | (1,830) |
| Total receivables, net | $ 10,244 | $ 3,573 | $ 2,026 | $ 193 | $ 16,036 |

Special assessment receivables in the amount of $57,899,000 are not expected to be collected within the subsequent year.

## C. Loans Receivable, Net of Allowances

The composition of the City's loans receivable balance for governmental activities, net of the allowance for uncollectible accounts, as of June 30, 2011 is as follows (dollars in thousands):

| Type of Loan | General Fund | Redevelopment Agency | Housing Activities | Nonmajor Funds | Total Governmental Activities |
|---|---|---|---|---|---|
| 20% Housing Program Developer, rehabilitation, second mortgage and relocation loans | $ - | $ - | $ 564,811 | $ - | $ 564,811 |
| Loans funded by federal grants | - | - | 49,553 | 7,657 | 57,210 |
| Economic development, real estate developer and other loans | 2,142 | 46,376 | 48,101 | 765 | 97,384 |
| Less: allowance for uncollectables | - | (11,541) | (343,995) | (2,994) | (358,530) |
| Total loans, net | $ 2,142 | $ 34,835 | $ 318,470 | $ 5,428 | $ 360,875 |

California Community Redevelopment Law requires that at least 20% of the incremental tax revenues generated from certain 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.

Typical loans and related terms are summarized as follows:

| Loan Type | Interest Rate | Due |
|---|---|---|
| New Construction and Permanent | 0 - 4% | up to 55 years |
| Multi-unit rental rehabilitation | 3% | 5 or more years |
| Take-out (first time homebuyer) | 4% | 7 to 40 years |
| Home improvement | 3 - 6% | 1 to 30 years |

Loans are secured by first, second, third or lower in lien-property deeds of trust except for 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 maturity dates.

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 55 years. Generally, these loans are to be repaid through fixed payments or net cash flow payments from project operations and the term and potential risk of each loan varies. Because of the net cash flow feature of these subordinate loans, there is greater risk of variability in the timing of payments and, potentially, a lower probability of eventual repayment on these subordinate loans than on other loan types.

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

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

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

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and 20% Housing Program loans receivable as of June 30, 2011.

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, 2011. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2011, amounts committed to extend credit under normal lending agreements totaled approximately $35,765,000.

## D. Capital Assets

### *1. Summary Schedule*

The following is a summary of capital assets activity for the fiscal year ended June 30, 2011 (dollars in thousands):

| | Balance July 1, 2010, | Additions | Deletions | Transfers | Balance June 30, 2011 |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 541,457 | $ 1,563 | $ 14,415 | $ - | $ 528,605 |
| Construction in progress | 261,698 | 36,564 | 50 | (228,399) | 69,813 |
| Total capital assets, not being depreciated | 803,155 | 38,127 | 14,465 | (228,399) | 598,418 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 1,384,245 | 8,104 | 21,135 | 155,285 | 1,526,499 |
| Improvements, other than buildings | 132,939 | 2,055 | - | 71,949 | 206,943 |
| Infrastructure | 11,340,293 | 11,379 | - | 1,135 | 11,352,807 |
| Vehicles and equipment | 107,554 | 4,430 | 5,036 | 30 | 106,978 |
| Furnitures and fixtures | 26,507 | - | - | - | 26,507 |
| Property under capital leases | 13,379 | - | - | - | 13,379 |
| Total capital assets, being depreciated | 13,004,917 | 25,968 | 26,171 | 228,399 | 13,233,113 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 334,724 | 42,469 | 11,939 | - | 365,254 |
| Improvements, other than buildings | 9,831 | 2,712 | - | - | 12,543 |
| Infrastructure | 5,939,116 | 306,237 | - | - | 6,245,353 |
| Vehicles and equipment | 85,920 | 8,124 | 4,974 | - | 89,070 |
| Furnitures and fixtures | 13,232 | 2,655 | - | - | 15,887 |
| Property under capital leases | 12,498 | 193 | - | - | 12,691 |
| Total accumulated depreciation | 6,395,321 | 362,390 | 16,913 | - | 6,740,798 |
| Total capital assets, being depreciated, net | 6,609,596 | (336,422) | 9,258 | 228,399 | 6,492,315 |
| Governmental activities capital assets, net | $ 7,412,751 | $ (298,295) | $ 23,723 | $ - | $ 7,090,733 |
| **Business-type Activities:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 134,926 | $ - | $ - | $ - | $ 134,926 |
| Intangible assets | 12,882 | - | - | - | 12,882 |
| Construction in progress | 210,415 | 75,248 | - | (217,295) | 68,368 |
| Total capital assets, not being depreciated | 358,223 | 75,248 | - | (217,295) | 216,176 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 1,573,520 | 12,015 | - | 25,660 | 1,611,195 |
| Improvements, other than buildings | 888,113 | 3,796 | - | 160,728 | 1,052,637 |
| Vehicles and equipment | 180,803 | 2,302 | 42 | 30,907 | 213,970 |
| Property under capital leases | 13,406 | - | - | - | 13,406 |
| Total capital assets, being depreciated | 2,655,842 | 18,113 | 42 | 217,295 | 2,891,208 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 278,890 | 44,552 | - | - | 323,442 |
| Improvements, other than buildings | 410,151 | 27,928 | - | - | 438,079 |
| Vehicles and equipment | 119,838 | 7,618 | 40 | - | 127,416 |
| Property under capital leases | 11,062 | 455 | - | - | 11,517 |
| Total accumulated depreciation | 819,941 | 80,553 | 40 | - | 900,454 |
| Total capital assets, being depreciated, net | 1,835,901 | (62,440) | 2 | 217,295 | 1,990,754 |
| Business-type activities capital assets, net | $ 2,194,124 | $ 12,808 | $ 2 | $ - | $ 2,206,930 |

#### *2. Depreciation*

Depreciation expense charged to various governmental and business-type activities of the City for the fiscal year ended June 30, 2011 is as follows (dollars in thousands):

| | | |
|---|---|---|
| **Governmental activities:** | | |
| General government | $ | 10,722 |
| Public safety | | 8,312 |
| Capital maintenance | | 307,035 |
| Community services | | 32,754 |
| Capital assets held by City's internal service funds | | 3,567 |
| Total depreciation expense - governmental activities | $ | 362,390 |
| **Business-type activities:** | | |
| Norman Y. Mineta San José International Airport | $ | 51,185 |
| Wastewater Treatment System | | 24,357 |
| Municipal Water System | | 2,491 |
| Parking System | | 2,520 |
| Total depreciation expense - business-type activities | $ | 80,553 |

#### *3. Capitalized Interest*

Interest costs that related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested tax-exempt debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. There was no capitalized interest cost for the year ended June 30, 2011.

#### *4. Construction Commitments*

Commitments outstanding as of June 30, 2011, related to governmental and business-type activities construction in progress totaled approximately $5,841,000 and $33,675,000, respectively.

### E. Leases

#### *1. Operating Leases as Lessee*

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

**Governmental Activities**

The City has ongoing commitments under operating lease agreements for business equipment, office facilities and land necessary for City operations, which expire at various dates through 2021. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund, Nonmajor Governmental Funds and the Redevelopment Agency Fund under these operating lease agreements for the fiscal year ended June 30, 2011 amounted to approximately $1,952,000, $1,220,000, and $3,118,000, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2011, are as follows (dollars in thousands):

| Fiscal Year Ending June 30, | General Fund | Redevelopment Agency | Nonmajor Governmental Funds | Total Govermental Activities |
|---|---|---|---|---|
| 2012 | $ 1,824 | $ 1,884 | $ 422 | $ 4,130 |
| 2013 | 1,570 | 1,441 | 127 | 3,138 |
| 2014 | 918 | 1,362 | 97 | 2,377 |
| 2015 | 235 | 978 | - | 1,213 |
| 2016 | 114 | 859 | - | 973 |
| 2017-2021 | 88 | 2,419 | - | 2,507 |
| Totals | $ 4,749 | $ 8,943 | $ 646 | $ 14,338 |

## Business-Type Activities

**Airport Office Lease.** The City leases the Airport's office space under a lease agreement, which, as amended, expires in December 2014. The City decided to terminate the lease agreement effective November 30, 2010. In accordance with the provisions of the lease agreement, a termination payment in the amount of $905,000 was paid to the landlord in July 2010.

**Airport Gas-Powered Buses.** In December 2007, the City entered into an operating lease and maintenance agreement for fourteen compressed natural gas powered buses for the Airport. The term of the agreement is from August 1, 2008 to July 31, 2015. In September 2009, the agreement was amended to add ten buses for the period of June 30, 2010 to May 31, 2017. Rental expenses for the Airport buses for the year ended June 30, 2011 was approximately $1,848,000.

**Future Minimum Payments.** The future minimum payments anticipated under these commitments, as of June 30, 2011, are as follows (dollars in thousands):

| Fiscal Year Ending June 30, | Operating Leases |
|---|---|
| 2012 | $ 2,234 |
| 2013 | 2,241 |
| 2014 | 2,249 |
| 2015 | 2,258 |
| 2016 | 1,067 |
| 2017 | 881 |
| Total | $ 10,930 |

### *2. Operating Leases as Lessor*

The City also leases building space, facilities, and/or the privilege of operating a concession to tenants and concessionaries resulting in the receipt of annual rents, which are described as follows:

**Governmental Activities**

In October 1991, the City entered into a 15-year agreement (the "initial term") 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 agreement was subsequently amended on December 19, 2000 extending the agreement for an additional 10 years (the "extended term"). The initial term commenced on October 24, 1991 and terminated on July 31, 2008. The extended term commenced on August 1, 2008 and terminates on July 31, 2018. As part of the amended agreement, the Manager is required to pay the City annual minimum rental and hockey rental payments of $1,642,000 and $1,460,000, respectively, as defined by the agreement. Amounts in addition to the annual minimum rental payments include reimbursements for repair and maintenance expenditures and other fees which fluctuate based on the level of annual activities. In the fiscal year ended June 30, 2011, the City received approximately $5,610,000 from the Manager. As of June 30, 2011, leased assets had a total historic cost of approximately $118,114,000 and accumulated depreciation of approximately $47,576,000.

**Business-Type Activities**

**Airline-Airport Lease and Operating Agreements.** The City entered into an Airline-Airport lease and operating agreement with various passenger and cargo airlines ("Signatory Airlines") serving the Airport. The airline lease agreement, which took effect on December 1, 2007, is scheduled to expire on June 30, 2012 and may be extended for one additional five-year term by mutual agreement of the City and the Signatory Airlines. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which will provide the airlines the ability to continue to conduct operations and occupy leased space through the extended term. The existing rates and charges structure, as well as all other terms and conditions, will remain unchanged.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City's Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the new airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9,000,000. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first $1,000,000 of the City's share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of the City's share shall be applied to the capital costs of the Airport's Master Plan Program. For the fiscal year ended June 30, 2011, the Airport's revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by approximately $34,472,000. The surplus received during the fiscal year ended June 30, 2011 will be distributed in accordance with the revenue sharing provisions of the airline lease agreement, and/or used in the budget balancing actions for fiscal year 2013.

**Other Leases.** 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 one month to 27 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount. Rental revenues from the operating leases were $76,044,000 for the fiscal year ended June 30, 2011.

The future minimum rentals to be received from the operating leases, as of June 30, 2011, are as follows (dollars in thousands):

| Fiscal Year Ending June 30, | Amount |
|---|---|
| 2012 | $ 74,854 |
| 2013 | 35,608 |
| 2014 | 35,619 |
| 2015 | 31,405 |
| 2016 | 31,382 |
| 2017-2021 | 155,404 |
| 2022-2026 | 25,326 |
| 2027-2031 | 26,993 |
| 2032-2036 | 23,471 |
| 2037-2041 | 10,215 |
| Total | $ 450,277 |

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 $1,194,000 from month-to-month rentals in the fiscal year ending June 30, 2012. As of June 30, 2011, leased assets had historic costs of approximately $1,031,000,000 and accumulated depreciation of approximately $75,461,000.

## F. Long-Term Debt and Other Obligations

### *1. Summary Schedule of Long-Term Debt*

The following is a summary of long-term debt of the City as of June 30, 2011 (dollars in thousands, unless otherwise noted):

| | Purpose | Issue Amount | Issue Date | Final Maturity | Range of Interest Rates | Principal Payments ($ millions) | Balance June 30, 2011 |
|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | |
| City of San Jose: | | | | | | | |
| General Obligation Bonds: | | | | | | | |
| Series 2001 (Libraries and Parks) | Community Facilities | $ 71,000 | 06/06/2001 | 09/01/2031 | 4.75-5.125% | 2.37 | $ 49,670 |
| Series 2002 (Libraries, Parks, Public Safety) | Community Facilities | 116,090 | 07/18/2002 | 09/01/2032 | 4.00-5.00% | 3.87 | 85,130 |
| Series 2004 (Libraries, Parks, Public Safety) | Community Facilities | 118,700 | 07/14/2004 | 09/01/2034 | 4.00-5.00% | 3.96 | 94,970 |
| Series 2005 (Libraries and Public Safety) | Community Facilities | 46,300 | 06/23/2005 | 09/01/2035 | 3.00-4.50% | 1.54-1.55 | 38,600 |
| Series 2006 (Libraries and Parks) | Community Facilities | 105,400 | 06/29/2006 | 09/01/2036 | 4.00-5.00% | 3.51-3.52 | 91,360 |
| Series 2007 (Parks and Public Safety) | Community Facilities | 90,000 | 06/20/2007 | 09/01/2037 | 4.00-5.50% | 3.00 | 81,000 |
| Series 2008 (Libraries and Parks) | Community Facilities | 33,100 | 06/25/2008 | 09/01/2038 | 4.00-5.00% | 1.10-1.11 | 30,890 |
| Series 2009 (Public Safety) | Community Facilities | 9,000 | 06/25/2009 | 09/01/2039 | 4.00-5.00% | 0.30 | 8,700 |
| | | | | | | | 480,320 |
| HUD Section 108 Note (FMC) | Economic Development | 25,810 | 02/10/2005 | 08/01/2024 | Variable | 1.04-2.22 | 21,877 |
| City of San Jose Financing Authority: | | | | | | | |
| Lease Revenue Bonds: | | | | | | | |
| Series 1993B (Community Facilities) | Community Facilities | 18,045 | 04/13/1993 | 11/15/2012 | 6.00% | 0.25-0.29 | 1,528 |
| Series 1997B (Fire, Childcare, Library Land) | Community Facilities | 9,805 | 07/29/1997 | 08/01/2012 | 4.85-4.875% | 0.37-0.41 | 755 |
| Series 2002B (Civic Center Project) | Civic Center | 292,425 | 11/14/2002 | 06/01/2037 | 3.75-4.25% | 0.21-33.45 | 291,650 |
| Series 2003A (Central Service Yard) | Refunding | 22,625 | 09/18/2003 | 10/15/2023 | 3.40-4.70% | 1.00-1.61 | 16,500 |
| Series 2006A (Civic Center Project) | Refunding | 57,440 | 06/01/2006 | 06/01/2039 | 4.00-5.00% | 0.00-17.44 | 57,440 |
| Series 2007A (Recreational Facilities) | Refunding | 36,555 | 06/28/2007 | 08/15/2030 | 4.125-4.75% | 0.91-2.22 | 32,485 |
| Series 2008A (Civic Center) | Refunding | 60,310 | 08/14/2008 | 06/01/2039 | Variable | 0.00-21.89 | 56,920 |
| Series 2008B-1 (Civic Center Garage) | Refunding | 17,640 | 07/10/2008 | 06/01/2039 | Variable | 0.36-0.945 | 17,280 |
| Series 2008B-2 (Civic Center Garage) | Refunding | 17,640 | 07/10/2008 | 06/01/2039 | Variable | 0.36-0.945 | 17,280 |
| Series 2008C (Hayes Mansion) | Refunding | 10,915 | 06/26/2008 | 06/01/2027 | Variable | 0.00-4.57 | 10,915 |
| Series 2008D (Taxable) (Hayes Mansion) | Refunding | 47,390 | 06/26/2008 | 06/01/2025 | Variable | 2.10-4.20 | 43,385 |
| Series 2008E-1 (Taxable) (Ice Centre) | Refunding | 13,015 | 07/03/2008 | 06/02/2025 | Variable | 0.59-1.26 | 12,460 |
| Series 2008E-2 (Taxable) (Ice Centre) | Refunding | 13,010 | 07/03/2008 | 06/02/2025 | Variable | 0.595-1.26 | 12,455 |
| Series 2008F (Taxable) (Land Acquisition) | Refunding | 67,195 | 06/11/2008 | 06/01/2034 | Variable | 1.605-4.81 | 67,195 |
| Series 2011A (Convention Center) | Convention Center | 30,985 | 04/12/2011 | 05/01/2042 | 3.00-5.75% | 0.43-2.165 | 30,985 |
| | | | | | | | 669,233 |
| Special Assessment Bonds with Limited Governmental Commitment: | | | | | | | |
| Special Assessment Bonds: | | | | | | | |
| Series 24K (Seismic Retrofit) | Seismic Retrofit | 1,494 | 06/29/1993 | 09/02/2013 | 8.50% | 0.01 | 24 |
| Series 24Q (Hellyer-Piercy) | Public Infrastructure | 27,595 | 06/26/2001 | 09/02/2023 | 5.10-5.875% | 1.07-2.05 | 19,525 |
| Series 24R (2002 Consolidated Refunding) | Consolidated Refunding | 13,940 | 07/03/2002 | 09/02/2015 | 3.90-4.38% | 0.82-1.07 | 5,065 |
| Special Tax Bonds: | | | | | | | |
| CFD No. 1 (Capitol Expressway Auto Mall) | Public Infrastructure | 4,100 | 11/18/1997 | 11/01/2022 | 5.40-5.70% | 0.17-0.30 | 2,665 |
| CFD No. 6 (Great Oaks-Route 85) | Public Infrastructure | 12,200 | 12/18/2001 | 09/01/2023 | 4.80-6.00% | 0.46-0.87 | 8,305 |
| CFD No. 9 (Bailey/Highway 101) | Public Infrastructure | 13,560 | 02/13/2003 | 09/01/2032 | 5.10-6.65% | 0.27-0.95 | 11,605 |
| CFD No. 10 (Hassler-Silver Creek) | Public Infrastructure | 12,500 | 07/23/2003 | 09/01/2023 | 4.10-5.25% | 0.52-0.94 | 9,290 |
| Series 2011 (Convention Center) | Public Infrastructure | 107,425 | 04/12/2011 | 05/01/2042 | 3.00-6.50% | 0.4-7.71 | 107,425 |
| | | | | | | | 163,904 |
| Redevelopment Agency: | | | | | | | |
| Tax Allocation Bonds: | | | | | | | |
| Series 1993 (Merged Area Refunding) | Advance Refundings | 692,075 | 12/01/1993 | 08/01/2015 | 6.00% | 0.00-18.20 | 32,835 |
| Series 1997 (Merged Area) | Redevelopment Projects | 106,000 | 03/27/1997 | 08/01/2028 | 5.375-5.625% | 0.01-0.72 | 6,110 |
| Series 1999 (Merged Area) | Redevelopment Projects | 240,000 | 01/06/1999 | 08/01/2019 | 4.75% | 0.00-7.17 | 12,920 |
| Series 2002 (Merged Area) | Redevelopment Projects | 350,000 | 01/24/2002 | 08/01/2019 | 4.00-4.50% | 0.00-11.29 | 22,565 |
| Series 2003 (Merged Area) | Redevelopment Projects | 135,000 | 12/22/2003 | 08/01/2033 | 4.00-5.00% | 0.00-34.10 | 127,545 |
| Series 2004A (Merged Area) | Refunding | 281,985 | 05/27/2004 | 08/01/2019 | 4.229-5.25% | 8.78-31.90 | 201,990 |
| Series 2005A (Merged Area) | Refunding | 152,950 | 07/25/2005 | 08/01/2028 | 4.00-5.00% | 0.30-26.21 | 141,250 |
| Series 2005B (Merged Area) | Refunding | 67,130 | 07/25/2005 | 08/01/2015 | 5.00% | 4.23-21.56 | 67,130 |
| Series 2006A (Taxable) (Merged Area) | Redevelopment Projects | 14,300 | 11/14/2006 | 08/01/2022 | 5.65% | 1.80-6.00 | 13,300 |
| Series 2006B (Merged Area) | Redevelopment Projects | 67,000 | 11/14/2006 | 08/01/2035 | 4.50-5.00% | 1.00-21.00 | 67,000 |
| Series 2006C (Merged Area) | Refunding | 423,430 | 12/15/2006 | 08/01/2032 | 3.75-5.00% | 12.00-74.28 | 423,430 |
| Series 2006D (Merged Area) | Refunding | 277,755 | 12/15/2006 | 08/01/2023 | 4.00-5.00% | 0.61-67.33 | 276,165 |
| Series 2007A (Taxable) (Merged Area) | Redevelopment Projects | 21,330 | 11/07/2007 | 08/01/2017 | 5.10% | 1.76-2.67 | 16,035 |
| Series 2007B (Merged Area) | Redevelopment Projects | 191,600 | 11/07/2007 | 08/01/2036 | 4.25-5.00% | 1.53-23.97 | 191,600 |
| Series 2008A (Merged Area) | Redevelopment Projects | 37,150 | 12/17/2008 | 08/01/2018 | 5.25-6.50% | 3.27-13.09 | 30,980 |
| Series 2008B (Merged Area) | Redevelopment Projects | 80,145 | 11/13/2008 | 08/01/2035 | 6.25-7.00% | 4.24-29.07 | 80,145 |
| | | | | | | | 1,711,000 |
| Revenue Bonds (Subordinate): | | | | | | | |
| Series 1996A (Merged Area) | Redevelopment Projects | 29,500 | 06/27/1996 | 07/01/2026 | Variable | 1.00-2.00 | 24,000 |
| Series 1996B (Merged Area) | Redevelopment Projects | 29,500 | 06/27/1996 | 07/01/2026 | Variable | 1.00-2.00 | 24,000 |
| Series 2003A (Taxable) (Merged Area) | Redevelopment Projects | 45,000 | 08/27/2003 | 08/01/2028 | Variable | 1.13-2.70 | 33,870 |
| Series 2003B (Merged Area) | Redevelopment Projects | 15,000 | 08/27/2003 | 08/01/2032 | Variable | 0.00-3.90 | 15,000 |
| | | | | | | | 96,870 |

| | Purpose | Issue Amount | Issue Date | Final Maturity | Range of Interest Rates | Principal Payments ($ millions) | Balance June 30, 2011 |
|---|---|---|---|---|---|---|---|
| **Governmental Activities (continued):** | | | | | | | |
| Redevelopment Agency (continued): | | | | | | | |
| City of San Jose Financing Authority Revenue Bonds (Subordinate): | | | | | | | |
| Series 2001A (4th & San Fernando) | Parking Facility | 48,675 | 04/10/2001 | 09/01/2026 | 4.125-5.25% | 1.61-3.21 | 36,710 |
| Series 2001F (Convention Center) | Refunding | 186,150 | 07/01/2001 | 09/01/2022 | 4.25-5.00% | 8.79-14.73 | 137,805 |
| | | | | | | | 174,515 |
| HUD Section 108 Note (Masson/Dr. Eu/Security) | Redevelopment Projects | 5,200 | 02/11/1997 | 08/01/2016 | Variable | 0.33-0.47 | 2,365 |
| HUD Section 108 Note (CIM Block 3/Central Place) | Redevelopment Projects | 13,000 | 02/08/2006 | 08/01/2025 | Variable | 0.57-1.14 | 12,430 |
| HUD Section 108 Note (Story/King Retail) | Redevelopment Projects | 18,000 | 06/30/2006 | 08/01/2025 | Variable | 0.75-1.57 | 16,625 |
| | | | | | | | 31,420 |
| CSCDA - 2005 ERAF Loan | Redevelopment Projects | 19,085 | 04/27/2005 | 08/01/2015 | 4.77-5.01% | 2.04-2.36 | 8,775 |
| CSCDA - 2006 ERAF Loan | Redevelopment Projects | 14,920 | 05/03/2006 | 08/01/2016 | 5.53-5.67% | 1.53-1.91 | 8,555 |
| | | | | | | | 17,330 |
| Housing Set-Aside Tax Allocation Bonds: | | | | | | | |
| Series 1997E (AMT) (Merged Area) | Affordable Housing | 17,045 | 06/23/1997 | 08/01/2027 | 5.75-5.85% | 0.34-3.67 | 17,045 |
| Series 2003J (Taxable) (Merged Area) | Afford. Housing/Refunding | 55,265 | 07/10/2003 | 08/01/2024 | 4.125-5.25% | 2.02-3.51 | 37,750 |
| Series 2003K (Merged Area) | Afford. Housing/Refunding | 13,735 | 07/10/2003 | 08/01/2029 | 3.52-4.40% | 0.23-1.07 | 6,975 |
| Series 2005A (Merged Area) | Refunding | 10,445 | 06/30/2005 | 08/01/2024 | 3.75-5.00% | 0.97-2.27 | 10,445 |
| Series 2005B (Taxable) (Merged Area) | Refunding | 119,275 | 06/30/2005 | 08/01/2035 | 4.41-5.46% | 0.70-8.30 | 111,695 |
| Series 2010A-1 (Merged Area) | Afford. Housing/Refunding | 54,055 | 04/29/2010 | 08/01/2035 | 5.00-5.50% | 1.24-6.30 | 54,055 |
| Series 2010A-2 (Merged Area) | Afford. Housing/Refunding | 2,655 | 04/29/2010 | 08/01/2017 | 4.00-5.00% | 0.50-1.66 | 2,655 |
| Series 2010B (Taxable) (Merged Area) | Afford. Housing/Refunding | 10,695 | 04/29/2010 | 08/01/2015 | 1.362-4.881% | 1.09-3.78 | 6,920 |
| | | | | | | | 247,540 |
| Housing Set-Aside Tax Allocation Bonds (Subordinate): | | | | | | | |
| Series 2010C (Taxable) (Merged Area) | Afford. Housing/Refunding | 93,000 | 04/29/2010 | 08/01/2035 | Variable | 2.30-5.21 | 90,900 |
| Total Governmental Activities - Bonds, Certificates of Participation and Notes Payable | | | | | | | $ 3,704,909 |
| **Business-type Activities:** | | | | | | | |
| Norman Y. Mineta San Jose International Airport: | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 1998A (AMT) | Refunding | $ 14,015 | 01/27/1998 | 03/01/2018 | 4.50-4.75% | 0.73-1.09 | $ 6,540 |
| Series 2001A | Runway Construction | 158,455 | 08/14/2001 | 03/01/2031 | 4.10-5.239% | 3.83-10.06 | 131,335 |
| Series 2002A | Refunding | 53,600 | 01/09/2003 | 03/01/2018 | 4.776-5.375% | 0.00-9.29 | 53,600 |
| Series 2002B (AMT) | Refunding | 37,945 | 01/09/2003 | 03/01/2012 | 4.809-5.00% | 2.38-6.55 | 2,380 |
| Series 2004C (AMT) | Airport Facilities | 75,730 | 06/24/2004 | 03/01/2026 | 4.625-5.25% | 1.00-10.59 | 72,730 |
| Series 2004D | Airport Facilities | 34,270 | 06/24/2004 | 03/01/2028 | 5.00% | 0.00-12.56 | 34,270 |
| Series 2007A (AMT) | Airport Facilities | 545,755 | 09/13/2007 | 03/01/2047 | 5.00-6.00% | 0.00-73.50 | 545,755 |
| Series 2007B | Airport Facilities | 179,260 | 09/13/2007 | 03/01/2037 | 4.25-5.00% | 0.00-28.80 | 179,260 |
| | | | | | | | 1,025,870 |
| Clean Water Financing Authority: | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 2005A | Refunding | 54,020 | 10/05/2005 | 11/15/2016 | 3.25-5.00% | 4.79-5.80 | 31,835 |
| Series 2009A | Refunding | 21,420 | 01/29/2009 | 11/15/2020 | 3.00-4.626% | 0.00-5.41 | 21,420 |
| | | | | | | | 53,255 |
| State of California - Revolving Fund Loan | Wastewater Facilities | 73,566 | 06/24/1997 | 05/01/2019 | Various | 1.77-3.77 | 30,651 |
| Total Business-type Activities - Bonds and Loan Payable | | | | | | | $ 1,109,776 |
| Grand Total | | | | | | | $ 4,814,685 |

### *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 (as defined by Section 1216 of the City Charter) and debt margin as of June 30, 2011, are approximately $18,504,600,000 and $18,024,280,000, respectively.

In accordance with the California Community Redevelopment Law, the Agency establishes its own legal debt limit and a separate tax increment limit, based primarily on the aggregate of all future projected tax increment revenues from existing redevelopment areas. On April 7, 2009, the City Council/Agency Board approved the amendment to the Agency's Redevelopment Plans for the Merged Project Area by increasing the tax increment limit from $7.6 billion to $15.0 billion and to establish a single limit of $7.6 billion for the bonded indebtedness that may be outstanding at any one time. On May 5, 2009, the City Council/Agency Board approved the amendment to the

Agency's Redevelopment Plan for the Strong Neighborhoods Initiative ("SNI") Redevelopment Project by authorizing the collection of tax increment from a portion of the SNI project called Diridon Area.

### *4. Arbitrage*

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service ("IRS") at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the City's tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, the rebate amount calculated has been recorded as a liability reportable to the IRS. The rebate liability amount is recorded as a liability in the Governmental Activities column of the government-wide statements in the amount of $310,000.

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

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

As of June 30, 2011, the City has recorded approximately $57,899,000 of deferred revenue and related special assessments receivables in the Special Assessment Districts Fund. These balances consist primarily of property tax assessments and/or special taxes to be collected in the future by the County of Santa Clara for future debt service of the special assessment districts and the community facilities districts.

The City issued Special Hotel Tax Revenue Bonds, Series 2011 (Convention Center Expansion and Renovation Project), which are secured by a first lien on the Convention Center Facilities District No. 2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT) as defined in the bond documents that is appropriated by City Council as part of the City's annual budget process to pay debt service. The Base Special Tax and Additional Special Tax (as defined in the bond documents) are property-based taxes levied on hotel properties within the Convention Center Financing District and remitted to the City on a monthly or quarterly basis in the same manner as the City's Transient Occupancy Tax. The estimated deferred revenue of $57,899,000 as of June 30, 2011 noted above does not include special taxes associated with the 2011 bonds because these special taxes are calculated based on occupancy and a percentage of room rent and therefore the amount is undeterminable. Please refer to Notes III.F.8. and III.F.11. for further discussions on the 2011 bonds.

On May 25, 2010, the City Council approved staff recommendations for surplus funds held by the City related to expired special assessment districts. Surplus funds of $11,105,000 as of June 30, 2009, were documented and a disposition plan for these funds was adopted. All funds were transferred and accounted for in fiscal year 2009-2010 according to the disposition plan. Surplus funds of $4,410,000, plus investment income, consisting primarily of bond proceeds for the construction of district improvements, were transferred to the General Fund. Surplus funds of $6,695,000, plus investment income, consisting primarily of property assessments and bond reserve funds, are to be disbursed as refunds to eligible past assessees within three years. Surplus claim forms were mailed to eligible past assessees in March 2011. Unclaimed funds in amounts unforeseeable will become the property of the City after the following claim deadlines: March 27, 2012 (one year claim period for assessments) and May 12, 2014 (three year claim period plus the required noticing period for reserves and water main deposit repayments).

### *6. Conduit Debt*

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with IRS requirements in order to meet the tax-exempt status, the owner is required to set aside a certain percentage of all units built for low to moderate-income households. The bonds are payable solely from payments made on the related secured loans. These tax-exempt housing bonds have maturity dates that are due at various dates through January 1, 2047. As of June 30, 2011, the outstanding conduit multi-family housing revenue bonds issued by the City aggregated to approximately $516,271,000.

In August 1997, the 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 a private developer for rental housing project on Agency-owned land in the Japantown Redevelopment Area. The Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as a 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. Additionally, 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. As of June 30, 2011, the outstanding balance was $9,677,000.

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

### *7. Variable-Rate Demand Bonds*

Included in long-term debt is $334,760,000 of variable-rate demand bonds issued by the Authority and the Agency. These entities issued these bonds to provide variable-rate exposure to the debt portfolio and to provide additional flexibility with respect to restructuring or redeeming the debt issued for certain projects. The Authority and the Agency have entered into credit facilities that support the variable-rate demand bonds. Under the reimbursement agreements related to these credit facilities, the trustee is authorized to draw an amount sufficient to pay the purchase price of bonds that have been tendered and have not otherwise been remarketed. The scheduled redemption of these bonds is incorporated in the Annual Requirements to Maturity schedules (see Note III.F.9.).

The credit facilities that support the variable-rate bonds as of June 30, 2011 are as follows (dollars in thousands):

| | Balance June 30, 2011 | Credit Facility Description: Provider | Credit Facility Description: Expiration Date |
|---|---|---|---|
| City of San José Financing Authority: | | | |
| Lease Revenue Bonds: | | | |
| Series 2008A (Civic Center) | $ 56,920 | Union Bank | 10/21/2013 |
| Series 2008B (Civic Center Garage) | 34,560 | Bank of America, N.A./Union Bank | 10/21/2013 |
| Series 2008C (Hayes Mansion) | 10,915 | U.S. Bank | 10/21/2013 |
| Series 2008D (Taxable) (Hayes Mansion) | 43,385 | U.S. Bank | 10/21/2013 |
| Series 2008E (Taxable) (Ice Centre) | 24,915 | Bank of America, N.A./U.S. Bank | 10/21/2013 |
| Series 2008F (Taxable) (Land Acquisition) | 67,195 | Bank of America, N.A. | 05/02/2014 |
| Total variable rate lease revenue bonds | 237,890 | | |
| Redevelopment Agency: | | | |
| Revenue Bonds: | | | |
| Series 1996A (Merged Area) | 24,000 | JPMorgan Chase Bank, N.A. | 11/25/2011 * |
| Series 1996B (Merged Area) | 24,000 | JPMorgan Chase Bank, N.A. | 11/25/2011 * |
| Series 2003A (Taxable) (Merged Area) | 33,870 | JPMorgan Chase Bank, N.A. | 11/25/2011 * |
| Series 2003B (Merged Area) | 15,000 | JPMorgan Chase Bank, N.A. | 11/25/2011 * |
| Total variable-rate revenue bonds | 96,870 | | |
| Total variable-rate demand bonds | $ 334,760 | | |

* Subsequently extended to July 1, 2012.

**City of San José Financing Authority Variable-Rate Demand Lease Revenue Bonds.** The Authority's $237,890,000 variable-rate demand lease revenue bonds are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Authority's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Authority's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

The Authority's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortization amounts and periods ranging from 3 to 5 years. The interest rate, and principal amortization schedule of an unreimbursed draw are determined by the take-out provisions of the applicable reimbursement agreement, which will remain in effect until all principal of an unreimbursed draw is amortized. For example, if a draw occurs on June 30, 2011, then the take-out provision will remain in effect until June 30, 2014 or June 30, 2016, depending on the agreement. If the unreimbursed draws represent a significant portion of the outstanding debt, the principal will generally be amortized over multiple years because, under State law, lease payments may not exceed the fair rental value for the leased property. Per the terms of the reimbursement agreements, the providers of the credit facilities have the right to require an appraisal of the applicable leased property to increase the amount of the rent payable.

The Authority is required to pay the credit facility providers an annual commitment fee ranging from 0.60% to 1.10% for each credit facility based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility. As of June 30, 2011, the letters of credit supporting Series 2008 ABCDE had an expiration date of October 21, 2013 and the Series 2008F had an expiration date of May 2, 2014. There are no unreimbursed draws made on the credit facilities supporting Series 2008 ABCDEF bonds at June 30, 2011.

**Redevelopment Agency Variable-Rate Revenue Demand Bonds.** The Agency's $96,870,000 variable-rate revenue demand bonds ("1996 and 2003 Bonds") are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Agency's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Agency's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

In connection with the issuance of the 1996 and 2003 Bonds, the Agency obtained letters of credit as credit facilities for the bonds. At June 30, 2011, the letters of credit were set to expire on November 25, 2011, but have been extended through July 1, 2012 as discussed in Note IV. D: Subsequent Events. The Agency's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortized from the date of the draw to the expiration of the credit facility. As of June 30, 2011, there have been no draws under the credit facilities. The Agency shall immediately reimburse the bank for any drawing or drawings made under the letters of credit.

The Agency is required to pay the credit facility provider an annual commitment fee for each credit facility ranging from 2.10% to 2.30%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility. In addition, the Agency made the required deposit with JP Morgan Chase Bank, N.A., a liquidity reserve in the amount of $5,000,000, as well as deeds of trust on several Agency owned parcels. One of these parcels (California Theatre) was subsequently transferred to the City subject to the deeds of trust in favor of JP Morgan Chase Bank, N.A.

The Agency's $90,900,000 variable rate Housing Set-Aside Tax Allocation Bonds, Series 2010C were directly purchased by Wells Fargo Bank. Because the bonds were directly purchased, the bond indenture does not require a credit facility to support the debt service payments until the bank's tender date of April 29, 2013, or such other date agreed to in writing by the Agency and Wells Fargo Bank.

### *8. Summary of Changes in Long-term Obligations*

**Governmental Activities** - The changes in long-term obligations for the year ended June 30, 2011 are as follows (dollars in thousands):

| | July 1, 2010 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2011 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Long-term debt payable: | | | | | |
| General Obligation bonds | $ 499,970 | $ - | $ (19,650) | $ 480,320 | $ 19,650 |
| HUD Section 108 loan | 22,915 | - | (1,038) | 21,877 | 1,074 |
| San Jose Financing Authority | | | | | |
| Lease revenue bonds | 643,552 | 30,985 | (6,309) | 668,228 | 8,620 |
| Accreted interest on capital appreciation bonds | 1,431 | 95 | (521) | 1,005 | 540 |
| Special assessment and special tax bonds with limited governmental commitment | 60,905 | 107,425 | (4,426) | 163,904 | 3,577 |
| Redevelopment Agency | | | | | |
| Revenue bonds | 284,150 | - | (12,765) | 271,385 | 13,605 |
| HUD Section 108 notes payable | 33,000 | - | (1,580) | 31,420 | 1,675 |
| Merged Area tax allocation bonds | 1,757,730 | - | (46,730) | 1,711,000 | 49,200 |
| Housing Set-Aside tax allocation bonds | 349,845 | - | (11,405) | 338,440 | 9,460 |
| California Statewide Communities Development Authority - ERAF loan | 20,735 | - | (3,405) | 17,330 | 3,570 |
| Total long-term debt payable | 3,674,233 | 138,505 | (107,829) | 3,704,909 | 110,971 |
| Less deferred amounts: | | | | | |
| For refunding gain (loss) | (46,192) | - | 3,634 | (42,558) | (3,634) |
| For issuance premiums | 54,874 | - | (4,237) | 50,637 | 4,237 |
| For issuance discounts | (4,278) | (2,650) | 162 | (6,766) | (166) |
| Total deferred amounts | 4,404 | (2,650) | (441) | 1,313 | 437 |
| Total long-term debt payable and deferred amounts | 3,678,637 | 135,855 | (108,270) | 3,706,222 | 111,408 |
| Other Long-term obligations: | | | | | |
| Hayes Mansion construction loan | 1,200 | - | - | 1,200 | - |
| Arbitrage liability | 275 | 35 | - | 310 | - |
| Accrued vacation, sick leave and compensatory time | 83,120 | 39,422 | (56,541) | 66,001 | 22,599 |
| Accrued landfill postclosure costs | 8,370 | - | (465) | 7,905 | 465 |
| Estimated liability for self-insurance | 131,785 | 29,704 | (19,070) | 142,419 | - |
| Net other postemployment benefits (OPEB) obligation | 155,570 | 68,540 | - | 224,110 | - |
| Pollution remediation obligation | 2,165 | 192 | (362) | 1,995 | 95 |
| Pass through obligation to County | - | 23,562 | - | 23,562 | - |
| Total other long-term obligations | 382,485 | 161,455 | (76,438) | 467,502 | 23,159 |
| Governmental activities long-term obligations | $ 4,061,122 | $ 297,310 | $ (184,708) | $ 4,173,724 | $ 134,567 |

**General Obligation Bonds** are issued pursuant to a two-thirds majority voter authorization. In 2000 and 2002, San José voters approved three ballot measures (Measures O and P in 2000 and Measure O in 2002) that authorized the total issuance of $598,820,000 of general obligation ("GO") bonds for library, parks and public safety projects. GO bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount. The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. As of June 30, 2011, the City of San José had issued $589,590,000 of GO bonds with proceeds split for three purposes: library projects ($205,885,000), parks and recreation projects ($228,030,000), and public safety projects ($155,675,000). Total principal and interest remaining on the bonds as of June 30, 2011 is approximately $765,613,000, with the final payment due on September 1, 2039.

The City plans to issue the final series of GO bonds in fiscal year 2012. A total of $9,230,000 of the authorization remains un-issued for the library and public safety programs. The proceeds of those bonds would be used to fund a portion of the library and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.

**Lease Revenue Bonds** are issued primarily to finance various capital improvements to be leased to the City and are secured by lease rental revenue from "lessee" departments in the General Fund and Nonmajor Governmental Funds. The lease rental revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Total principal, interest, and accreted value remaining on the bonds as of June 30, 2011 is approximately $1,062,430,000, with the final payment due on May 1, 2042.

**Special Assessment and Special Tax Bonds** are issued by the City to finance public improvements in special assessment or tax districts established by the City and are secured by assessments or special taxes levied on properties located within the special districts. The assessments and special taxes, as applicable, are calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. Total principal and interest remaining on the bonds as of June 30, 2011 is approximately $333,398,000, with the final payment due on May 1, 2042.

*Special Hotel Tax Revenue Bonds*, Series 2011 was issued by the City on April 12, 2011 to finance the costs of the Convention Center Expansion and Renovation Project (the “Project”). The 2011 Bonds are generally payable from three sources of funds: (i) revenues generated by the levy of the Base Special Tax; (ii) Revenues generated by the levy of the Additional Special Tax; and (iii) Available Transient Occupancy Tax to the extent appropriated by the City Council for this purpose. A full description of the sources of repayment can be found in the Official Statement of the 2011 Bonds. Please refer to Notes III.F.5. and III.F.11. for further discussions on the 2011 bonds.

**Redevelopment Agency’s Merged Area Tax Allocation Bonds (TABs),** (comprised of Series 1993, Series 1997, Series 1999, Series 2002, Series 2003, Series 2004A, Series 2005 A & B, Series 2006 A, B, C & D, Series 2007 A & B, and Series 2008 A &B, collectively the “Senior TABs”) are issued primarily to finance redevelopment projects and are secured primarily by a pledge of tax increment revenues (minus the 20% Housing Set Aside and other statutory deductions) consisting of a portion of taxes levied upon all taxable properties within each of the tax increment generating redevelopment project areas constituting the Merged Area Redevelopment Project, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2011, assuming no growth in assessed value throughout the term of each constituent project area, the total accumulated 80% tax increment revenue through the period of the bonds would be approximately $2,938,513,000. These revenues have been pledged until the year 2036, the final maturity date of the bonds. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2011 is approximately $2,762,921,000. The 80% tax increment revenues recognized during the fiscal year ended June 30, 2011 was $146,916,000 to cover the February 1 and August 1 debt service. The total debt service (principal and interest) on the Senior TABs amounted to $131,781,000 for fiscal year 2010-2011.

**Redevelopment Agency’s Variable Rate Revenue Bonds** (comprised of Series 1996 A & B, and Series 2003 A & B, collectively the “Subordinate Variable Rate Bonds”) are issued primarily to finance redevelopment projects within the Merged Area Redevelopment Project. The bonds are ratably and equally secured by a pledge of the subordinated tax increment revenues and are subordinate to the Merged Area Tax Allocation Bonds of the Agency.

**Redevelopment Agency Housing Set-Aside Tax Allocation Bonds** (comprised of Series 1997E, Series 1999, Series 2003 J & K, Series 2005 A & B, and Series 2010 A-1, A-2 & B, and the 2010

Subordinate Series 2010C, collectively the "Housing TABs") are issued to finance affordable housing projects and are secured by a pledge of and lien upon the 20% tax increment revenue set-aside for the low and moderate income housing fund. As of June 30, 2011, assuming no growth in assessed value throughout the term of each constituent project area, the total accumulated 20% tax increment revenue through the period of the bonds would be approximately $734,628,000. These revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Housing Set-Aside Tax Allocation Bonds as of June 30, 2011 is approximately $530,064,000. The 20% tax increment revenue recognized during the fiscal year ended June 30, 2011 was approximately $36,729,000. The total debt service of Housing TABs for fiscal year 2010-2011 was approximately $25,344,000.

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

**Business-Type Activities** - The changes in long-term obligations for the year ended June 30, 2011 are as follows (dollars in thousands):

| | July 1, 2010 | Additional Obligations and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2011 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Business-Type Activities:** | | | | | |
| Norman Y. Mineta San Jose International Airport: | | | | | |
| Revenue bonds | $ 1,037,990 | $ - | $ (12,120) | $ 1,025,870 | $ 12,620 |
| Deferred amounts: | | | | | |
| For refunding | (2,064) | - | 479 | (1,585) | (399) |
| For issuance premiums | 5,090 | - | (363) | 4,727 | 505 |
| For issuance discounts | (5,751) | - | 43 | (5,708) | (45) |
| Clean Water Financing Authority: | | | | | |
| Revenue bonds | 58,045 | - | (4,790) | 53,255 | 4,945 |
| Deferred amounts: | | | | | |
| For refunding | (1,757) | - | 379 | (1,378) | (297) |
| For issuance premiums | 2,004 | - | (236) | 1,768 | 236 |
| State of California - Revolving Fund Loan | 34,487 | - | (3,836) | 30,651 | 3,905 |
| Accrued vacation, sick leave and compensatory time | 8,687 | 3,640 | (5,947) | 6,380 | 4,497 |
| Estimated liability for self-insurance | 7,449 | 1,055 | (1,895) | 6,609 | 1,995 |
| Net other postemployment benefits (OPEB) obligation | 14,073 | 5,432 | - | 19,505 | - |
| Pollution remediation obligation | 714 | 210 | (210) | 714 | 714 |
| Business-type long-term obligations | $ 1,158,967 | $ 10,337 | $ (28,496) | $ 1,140,808 | $ 28,676 |

**Airport Revenue Bonds** are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Airport's Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Airport's Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and monies derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in the current fiscal year totaled approximately $99,045,000, which is composed of $46,598,000 of net general airport revenues and $52,447,000 of other available funds. Bond debt service payable from general airport revenues in the current fiscal year totaled approximately $32,502,000, which is net of $21,388,000 of bond debt service paid from the passenger facility charges ("PFC"). The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year will be at least 125% of annual debt service for such fiscal year plus any other available funds, as defined in the Master Trust Agreement. Annual debt service, as defined in the Master Trust Agreement, is equal to Debt Service of a given fiscal year excluding interest funded from the proceeds and applied toward the payment of interest, less the Available PFC Revenues, as defined in the Master Trust Agreement for such fiscal year. Total principal and interest remaining on the bonds as of June 30, 2011 is approximately $2.0 billion, with the final payment due on March 1, 2047.

Ambac Indemnity Corporation (Ambac), a subsidiary of Ambac Financial, has issued a reserve fund surety bond of $4,250,000 that expires on March 1, 2018 and is on deposit in the General Account of the Bond Reserve Fund, securing the Series 1998A, 2001A, 2002A, and 2002B Airport Revenue Bonds. The reserve requirement in the General Account is also satisfied, in part, by a $6,600,000 surety bond from National Public Finance Guaranty Corporation ("NPFG"), as successor to the MBIA Insurance Corporation. The ratings of Ambac and NPFG were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the General Account. The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of deposit.

The Ambac surety bond expires on March 1, 2018 and the NPFG surety bond expires on March 1, 2016. According to the Master Trust Agreement for the Airport Revenue Bonds, in the event that such surety bonds for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve (as defined in the Master Trust Agreement), the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments. See note below regarding Ambac's filing for bankruptcy protection.

The City plans to issue Series 2011C Airport Revenue Bonds to refund a portion of the outstanding Series 2001A Airport Revenue Bonds. Since the Series 2011C Airport Revenue Bonds are economic refunding bonds, which are anticipated to result in a decrease in annual debt service associated with the Series 2001A Airport Revenue Bonds being refunded, no net deposit to the General Account of the Bond Reserve Fund will be required in conjunction with the issuance of Series 2011C Airport Revenue Bonds.

**San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds** are issued primarily to finance the construction of capital improvements at the Plant and the City has pledged its net systems revenues as security for its obligations under the improvement agreement to make base payments and additional payments with respect to the outside revenue bonds. The net system revenues available to pay debt service in the current fiscal year totaled approximately $62,099,000. Bond debt service payable from net system revenues in the current fiscal year totaled approximately $6,958,000. The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service. The City's allocable percentage of annual debt service is currently 100%. Total principal and interest remaining on the bonds as of June 30, 2011 is approximately $63,960,000, with the final payment due on November 15, 2020.

### *9. Annual Requirements to Maturity*

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2011 are as follows (dollars in thousands):

| | Governmental Activities | | | | |
|---|---|---|---|---|---|
| | City of San Jose General Obligation Bonds and HUD Loan [1] | | City of San Jose Financing Authority Lease Revenue and Reassessment Revenue Bonds [1,2,3,4] | | |
| Fiscal Year Ending June 30, | Principal | Interest | Principal | Accreted Interest | Interest |
| 2012 | $ 20,724 | $ 22,347 | $ 9,160 | $ 495 | $ 22,128 |
| 2013 | 20,770 | 21,479 | 10,374 | 510 | 21,917 |
| 2014 | 20,826 | 20,586 | 11,275 | - | 21,136 |
| 2015 | 20,887 | 19,711 | 12,385 | - | 20,896 |
| 2016 | 20,968 | 18,826 | 13,845 | - | 20,637 |
| 2017 - 2021 | 106,107 | 80,587 | 89,960 | - | 97,245 |
| 2022 - 2026 | 106,420 | 57,333 | 121,285 | - | 83,045 |
| 2027 - 2031 | 98,265 | 33,354 | 122,860 | - | 63,585 |
| 2032 - 2036 | 73,215 | 11,114 | 163,580 | - | 36,566 |
| 2037 - 2041 | 14,015 | 728 | 111,340 | - | 5,918 |
| 2041 - 2045 | - | - | 2,164 | - | 124 |
| Total | $ 502,197 | $ 286,065 | $ 668,228 | $ 1,005 | $ 393,197 |

| | Governmental Activities | | | | | |
|---|---|---|---|---|---|---|
| | Special Assessment Bonds with Limited Governmental Commitment | | Redevelopment Agency Redevelopment Project Bonds and HUD Loans [1,3] | | Redevelopment Agency Housing Set-Aside Bonds [1] | |
| Fiscal Year Ending June 30, | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | $ 3,577 | $ 9,920 | $ 68,050 | $ 92,073 | $ 9,460 | $ 14,308 |
| 2013 | 3,683 | 9,406 | 71,205 | 88,892 | 9,845 | 13,973 |
| 2014 | 4,224 | 9,227 | 74,995 | 85,458 | 10,310 | 13,606 |
| 2015 | 5,630 | 9,026 | 78,720 | 81,810 | 10,795 | 13,200 |
| 2016 | 5,615 | 8,751 | 80,340 | 77,977 | 11,330 | 12,760 |
| 2017 - 2021 | 28,050 | 39,513 | 449,010 | 331,044 | 65,965 | 56,093 |
| 2022 - 2026 | 27,260 | 31,284 | 491,255 | 218,790 | 79,780 | 40,430 |
| 2027 - 2031 | 20,905 | 25,059 | 425,350 | 111,350 | 81,495 | 21,899 |
| 2032 - 2036 | 25,215 | 17,792 | 286,810 | 30,397 | 59,460 | 5,997 |
| 2037 - 2041 | 32,035 | 9,015 | 5,400 | 115 | - | - |
| 2041 - 2045 | 7,710 | 501 | - | - | - | - |
| Total | $ 163,904 | $ 169,494 | $ 2,031,135 | $ 1,117,906 | $ 338,440 | $ 192,266 |

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Airport Revenue Bonds [4] | | Wastewater Treatment System Revenue Bonds and Loans | |
| Fiscal Year Ending June 30, | Principal | Interest | Principal | Interest |
| 2012 | $ 12,620 | $ 52,801 | $ 8,850 | $ 2,569 |
| 2013 | 13,165 | 52,211 | 9,102 | 2,310 |
| 2014 | 21,795 | 51,550 | 9,369 | 2,048 |
| 2015 | 22,855 | 50,446 | 9,643 | 1,736 |
| 2016 | 23,965 | 49,288 | 9,993 | 1,414 |
| 2017 - 2021 | 126,010 | 227,410 | 36,949 | 3,028 |
| 2022 - 2026 | 152,700 | 192,927 | - | - |
| 2027 - 2031 | 155,030 | 151,641 | - | - |
| 2032 - 2036 | 320,430 | 105,914 | - | - |
| 2037 - 2041 | 127,190 | 25,483 | - | - |
| 2042 - 2046 | 40,495 | 10,456 | - | - |
| 2047 - 2051 | 9,615 | 577 | - | - |
| Total | $ 1,025,870 | $ 970,704 | $ 83,906 | $ 13,105 |

[1] Projected interest payments for the variable rate series of bonds are based on the following rates in effect on June 30, 2011:
Financing Authority Lease Revenue Bonds: Series 2008A (0.07%), Series 2008B-1 (0.03%), Series 2008B-2 (0.04%), Series 2008C (0.05%), Series 2008D (0.15%), Series 2008E-1 (0.15%), Series 2008E-2 (0.15%), Series 2008F (0.16%). Redevelopment Agency Revenue Bonds: Series 1996A (0.05%), Series 1996B (0.04%), Series 2003A (0.17%), Series 2003B (0.04%). Redevelopment Agency Housing Set-Aside Tax Allocation Bonds: Series 2010C (1.97%). HUD Section 108 Notes: City and Agency Loans (0.454%). Each series may be set at different interest rate calculation modes, including daily, weekly, monthly, and long rates."

[2] Amount shown is accreted value payable in each period. As of June 30, 2011, $1,005,000 of value had accreted on the outstanding capital appreciation bonds, which combined with the $668,228,000 principal amount of outstanding lease revenue bonds totals $669,324,000 of outstanding lease revenue debt.

[3] Projected debt service payments for the Authority Series 2001A Parking Revenue Bonds and Series 2001F Lease Revenue Bonds are included in the Agency Redevelopment Project category, reflecting that the Agency is the primary source of payment for those bonds.

[4] Does not include notional amortization of outstanding commercial paper notes. Airport Revenue Bonds include addition of the 2011A-1 and 2011A-2 bonds and the defeasance of the 1998A and partial refunding of the 2001A bonds.

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

### *10. Impact of the Ambac Financial Group Inc. Bankruptcy Filing*

On November 9, 2010, Ambac Financial Group Inc. (Ambac Financial) filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac Financial is a holding company whose affiliates provide financial guarantees and financial services to its customers.

Ambac Assurance Corporation (Ambac Assurance), a subsidiary of Ambac Financial, has issued a reserve fund surety bond for the Redevelopment Agency's Series 1998, 1999 and 2005B tax allocation bonds and the Series 2006D tax allocation refunding bonds. According to the bond indenture for each of these series of bonds, in the event that such surety bond for any reason lapses or expires, the Redevelopment Agency must immediately (1) deliver a letter of credit, or (2) deliver to the trustee a surety bond or an insurance policy, or (3) make the required deposits to the bond reserve fund.

It is uncertain at this time whether the Ambac Financial bankruptcy will cause the financial guaranty insurance policies or the reserve fund surety bonds to lapse or expire. If such an event does occur, the Agency will be required to take one of the three actions documented above in order to maintain compliance with the bond indenture.

Ambac Assurance has also issued a reserve fund surety bond that is on deposit in the General Account of the Bond Reserve Fund, securing the Series 1998A, 2001A, 2002A, and 2002B Airport Revenue Bonds and the Series 2011A-1 and the Series 2011A-2 Airport Revenue Bonds (issued in July 2011). According to the Master Trust Agreement for these bonds, in the event that such surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve (as defined in the Master Trust Agreement), the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

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

It is uncertain at this time whether the Ambac Financial bankruptcy will cause the reserve fund surety bonds to lapse or expire. If such an event does occur, it is uncertain whether and when the Airport or the Authority would be required to take one of the actions described above in order to maintain compliance with the respective bond indenture.

### *11. New Debt Issuances and Short-Term Debt Activities*

**Governmental Activities**

**Convention Center Bonds**

The City and the San José Financing Authority each issued a series of bonds for the purpose of financing the renovation and expansion of the San José McEnery Convention Center. The City issued $107,425,000 of Special Hotel Tax Bonds, Series 2011 and the Authority issued $30,985,000 in Lease Revenue Bonds, Series 2011A.

The Special Hotel Tax Bonds bear interest at fixed rates ranging from 3.00% to 6.50% and have a final maturity date of May 1, 2042. The Special Hotel Tax Bonds are secured by a first lien on the Convention Center Facilities District No. 2008-1 special tax revenues and any Available Transient Occupancy Tax (Available TOT) appropriated by City Council as part of the City's annual budget process to pay debt service. The Base Special Tax and Additional Special Tax (as defined in the bond documents) are property-based taxes levied on hotel properties within the Convention Center Financing District and remitted to the City on a monthly or quarterly basis in the same manner as the City's Transient Occupancy Tax. Please refer to Notes III.F.5. and III.F.8. for further discussions on the 2011 bonds.

The Lease Revenue Bonds bear interest at fixed rates ranging from 3.00% to 5.75% and have a final maturity date of May 1, 2042. The Lease Revenue Bonds are secured by lease payments made from the City's General Fund appropriations to the Authority under a Facility Lease for use and occupancy of certain facilities.

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

The City's CP Program utilizes a lease revenue financing structure. Under this program, the Authority is able to issue commercial paper notes ("CP Notes") at prevailing interest rates for periods of maturity not to exceed 270 days. The CP Notes are secured by a pledge of lease revenues from various City assets and additionally secured by a direct-pay letter of credit ("LOC") provided by State Street Bank and Trust Company ("State Street") and the California State Teachers' Retirement System ("CalSTRS") (together, the "Banks"). The current Letter of Credit Agreement between the Authority and the Banks expires on January 27, 2013. Per the terms of the Letter of Credit Agreement, the Banks are severally but not jointly responsible for payments on the draws made on the LOC. The respective obligations of the Banks are: State Street Bank at 75% and the CalSTRS at 25%. State Street serves as the agent for the Banks.

The current Letter of Credit and Reimbursement Agreement specifies an annual commitment fee equal to 1.25% per annum of the daily average Stated Amount and Unutilized Commitment of the Letter of Credit in effect from time to time for the period from January 27, 2010 to and including the Letter of Credit Expiration Date; provided, however, that in the event that the long-term unsecured general obligation debt ratings of the City are downgraded by two or more Rating Agencies, the annual commitment fee shall increase by 15 basis points (0.15%) per annum for each rating category (including each "+" or "-" or numerical designation) below the "Aa1" category by Moody's or the "AA+" category by Fitch or S&P through the "A2" category by Moody's or the "A" category by Fitch or S&P and by 20 basis points (0.20%) per annum for every rating category (including each "+" or "-" or numerical designation) below the "A2" category by Moody's or the "A" category by Fitch or S&P (and if such ratings are withdrawn or suspended, for purposes of this provision, such ratings shall be deemed to be downgraded below the "Baa2" category by Moody's or the "BBB" category by Fitch or S&P).

Interest on any Principal Advances (draws under the Letter of Credit that are not reimbursed by the City on the same day) are calculated at various increasing interest rates depending on the number of days the Principal Advance remains outstanding ranging from the rate of (i) the Alternative Base plus 0.75% per annum for the period from the date of the Principal Advance to and including the date thirty days thereafter to (ii) the Alternative Base Rate plus 2.25% per annum for the period from the date ninety-one days after the Principal Advance and thereafter.

Interest on any Default Advances (draws that are not reimbursed by the City following the Letter of Credit Expiration Date or if an Event of Default has occurred as defined under the Letter of Credit and Reimbursement Agreement) are payable at the Default Rate from the date of such Default Advance until payment in full, payable in arrears, upon demand, and the unpaid amount of each Default Advance is due immediately upon demand by the Banks, but if no demand is made, then on each Quarterly Date in an amount equal to the then fair rental value with respect to the Components subject to the Sublease for such quarterly period; provided, however, that the unpaid amount of each Default Advance shall be paid by the Authority in each year only to the extent of the then fair rental value with respect to the Components subject to the Sublease for such Base Rental Period. The Default Rate means, on any particular date, a rate of interest per annum equal to the Alternative Base Rate in effect on such date, plus 3.25% per annum. The Alternative Base Rate means, for any day, the higher of (i) the Reference Rate (prime rate), in effect on such date plus 3%, (ii) the Fed Funds Rate, plus 3%, or (iii) the LIBOR Index Rate plus 3%; provided, that at no time shall the Alternative Base Rate be less than the Floor Rate (7% per annum) nor higher than the Maximum Rate (10% per annum).

The Authority issues the CP Notes under the Marks-Roos Local Bond Pooling Act of 1985 pursuant to an Amended and Restated Trust Agreement between the Authority and Wells Fargo Bank, National Association (as amended and supplemented, the “Trust Agreement”) and an Amended and Restated Issuing and Paying Agent Agreement between the Authority and Wells Fargo Bank, National Association. Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The City has leased to the Authority various City-owned facilities pursuant to a Site Lease, as amended (the “Site Lease”). The Authority subleased these same facilities back to the City pursuant to a Sublease, as amended (the “Sublease”) in exchange for the rental payments which support repayment of the CP Notes. The facilities subject to the Site and Sublease (pursuant to the Third Amendments to the Site Lease and to the Sublease, both dated March 1, 2011, which substituted leased assets) are: the Tech Museum, the Animal Care Center, Fire Station No. 1, and the South San José Police Substation.

As of June 30, 2011, $27,068,000 of tax-exempt commercial paper notes were outstanding at an interest rate of 0.18% and $19,577,000 of taxable commercial paper notes were outstanding at an interest rate of 0.25%. The changes in commercial paper notes during the fiscal year ended June 30, 2011 are as follows (dollars in thousands):

| July 1, 2010 | Additions | Deletions | June 30, 2011 |
|---|---|---|---|
| $53,530 | $1,546 | $8,431 | $46,645 |

This program was initially established on January 13, 2004, whereby the City Council and the Authority each adopted a resolution authorizing the issuance of the Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed $98,000,000. This commercial paper program was initially 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.

On June 21, 2005, the City Council and the Authority each adopted a resolution authorizing the issuance of taxable lease revenue commercial paper notes, under the same $98,000,000 not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable commercial paper notes to pay for expenses otherwise authorized under the commercial paper program, but ineligible to be paid from tax-exempt commercial paper proceeds. The City Council and the Authority approved an expansion of the capacity of the lease revenue commercial paper program from $98,000,000 to $116,000,000 on November 15, 2005.

### 2010 Tax and Revenue Anticipation Note

On July 1, 2010, the City issued a short-term note for cash flow borrowing purposes to facilitate the prefunding of the employer retirement contributions. The Initial Note Portion of $40,000,000 was purchased by JP Morgan Chase Bank, N.A. on the closing date of the financing, July 1, 2010. At the City's discretion, additional borrowings may occur under the terms of the 2010 Note and the Note Purchase Agreement; specifically, at any time up to the Commitment Termination Date of June 30, 2011 and up to the Unutilized Commitment amount $35,000,000. On October 8, 2010, the City drew down the remaining Unutilized Commitment in the amount of $35,000,000 per the Note Purchase Agreement. Security for repayment of the 2010 is a pledge of the City's 2010-2011 secured property tax revenues received on and after April 1, 2011 plus all other legally available General Fund revenues of the City, if required. The City repaid the $75,000,000 2010 Note on January 31, 2011.

## <u>Business-Type Activities</u>

### Airport Commercial Paper Notes Payable

The Airport Commercial Paper Notes program was established in November 1999, pursuant to City Council Resolution 69200, to provide interim financing for Airport capital needs in anticipation of issuance of Airport revenue bonds that would replace the short-term notes with permanent long-term financing. Airport commercial paper notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues.

Under the Airport's Commercial Paper Notes 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 Notes program is also secured by Letters of Credit ("LOC") summarized below (dollars in thousands):

| Credit Facility Description | | | |
|---|---|---|---|
| Provider | | LOC Capacity[1] | Expiration Date |
| Bank of America, N.A. | $ | 76,545 | 01/11/2013 |
| Citibank, N.A. | | 100,000 | 01/12/2012 |
| JPMorgan Chase Bank, N.A. | | 100,000 | 01/11/2013 |
| Lloyds TSB Bank plc | | 128,586 | 09/07/2011 |
| Wells Fargo, N.A. | | 75,000 | 01/13/2014 |
| Total | $ | 480,131 | |

*1. Reflects principal component of the LOC commitment.*

The terms of each bank's credit facility are specified in the respective Letter of Credit and Reimbursement Agreement (the "Reimbursement Agreement"). In general, the bank agrees to advance funds to the Issuing and Paying Agent in an amount sufficient to pay the principal and interest due on maturing commercial paper notes in an amount not to exceed the stated amount of the related LOC. In the event that the commercial paper dealer is unable to find investors to purchase commercial paper notes to repay the advance from the bank, the City must pay interest to the bank based on a formula specified in the Reimbursement Agreement. Additionally, each bank has a separate Fee Letter to specify the commitment fee payable by the City and the other fees and charges imposed by the bank related to the issuance of its LOC.

The outstanding balance for the Airport commercial paper notes as of June 30, 2011 is summarized in the table below (dollars in thousands):

| LOC Provider | Outstanding as of June 30, 2011 | Interest Rate |
|---|---|---|
| Bank of America, N.A. | $ 18,344 | 0.22 - 0.24% |
| Citibank, N.A. | 100,000 | 0.22 - 0.25% |
| JPMorgan Chase Bank, N.A. | 100,000 | 0.22 - 0.25% |
| Lloyds TSB Bank plc | 119,740 | 0.20% |
| Wells Fargo, N.A. | 71,995 | 0.20 - 0.25% |
| Total | $ 410,079 | |

The change in Airport commercial paper notes payable during fiscal year 2011 is as follows (dollars in thousands):

| June 30, 2010 | Additions | Deletions | June 30, 2011 |
|---|---|---|---|
| $417,348 | $371,344 | $378,613 | $410,079 |

The Airport is planning to issue general airport revenue bonds to refund subordinated commercial paper notes issued to help fund the costs of the Consolidated Rental Car Facility. Although the commercial paper notes have short-term maturities, the Airport's intent is to pay the remaining balance on a long-term basis based on the assumption that taxable commercial paper will be paid on a 30-year amortization period with the first principal payments paid in fiscal 2012.

### *12. Landfill Post-closure Costs*

The City has five closed landfills for which post-closure 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 $7,905,000 related to the closed landfills is recorded in the government-wide financial statements as of June 30, 2011. The City's Environmental Compliance Officer performs an annual evaluation of the aforementioned liability. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City does not own or operate any open landfills at this time.

### *13. Estimated Liability for Self-Insurance*

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees, unemployment claims, and employee health and dental insurance. During fiscal year 2011, the City maintained an all-risk property policy including boiler and machinery exposures, coverage for loss due to business interruption and flood. The City did not carry earthquake insurance as it was not available at reasonable rates. A summary of insurable coverage for the policy period October 1, 2010 to October 1, 2011 is provided below:

| Coverages | Limit per Occurence | Deductible Per Occurrence |
|---|---|---|
| Property, including Business Interruption | $1 billion | $100,000 |
| Flood Zone, Special Flood Hazard Area | $15 million per occurrence and annual aggregate | 5% of values at risk ($1 million minimum deductible) |
| Flood Zone B | $25 million per occurrence and annual aggregate | 2% of values at risk ($100,000 minimum deductible) |
| Flood, Other Locations | $100 million per occurrence and annual aggregate | $100,000 |

During fiscal year 2011, for the policy period of October 1, 2010 to October 1, 2011, the City maintained an airport liability policy covering the Airport, which provides a limit of $200,000,000 combined single limit for bodily injury and property damage with a $25,000,000 each occurrence limit for personal injury subject to a per occurrence deductible of $25,000 and an aggregate deductible of $25,000. The Airport's $200,000,000 liability policy specifically excluded war and terrorism from its coverage. During the past three years, there have been not been any instances that the amount of claim settlements exceeding the insurance coverage. A separate automobile policy provided coverage for the off-premise operations of Airport vehicles including shuttle bus fleets. Coverage included $1,000,000 single combined limit per occurrence. Physical damage coverage was available for the Airport Shuttle Bus Fleet and is subject to a $25,000 comprehensive and collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. As part of general support services, the City charges the Airport for the cost of general liability coverage.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, new discovered information and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information and changes in the law. The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims. The workers' compensation estimate includes allocated loss adjustment expenses, which represent the direct cost associated with the defense of individual claims as well as unallocated loss adjustment expenses, which represent the costs to administer all claims to final settlement, which may be years into the future and have been discounted to their present value using a rate of 3.5% for the amounts recorded.

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2011. The City Attorney and, with respect to workers' compensation claims, 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.

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

| | |
|---|---|
| Liability as of July 1, 2009 | $ 139,953 |
| Claims and changes in estimates during 2010 | 25,934 |
| Claims payments | (26,653) |
| Liability as of June 30, 2010 | 139,234 |
| Claims and changes in estimates during 2011 | 31,273 |
| Claims payments | (21,479) |
| Liability as of June 30, 2011 | $ 149,028 |

**Owner Controlled Insurance Programs -** On March 31, 2004, the City bound certain liability insurance coverage for the major components of the North Concourse Project through an owner-controlled insurance program ("OCIP") with Chartis, formerly American International Group ("AIG"), AIU Holdings, Inc. and AIU LLC ("AIU"). An OCIP is a single insurance program that provides insurance coverage for construction jobsite risk of the project owner, general contractors and all subcontractors associated with construction at the designated project site. The North Concourse Project has been completed and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project have been completed. All remaining work associated with the opening of the facility is covered by the Terminal Area Improvement Project ("TAIP") OCIP, as described below, or is addressed in the contracts for work not covered by the TAIP OCIP by requiring the contractors performing such work to provide insurance coverage naming the City as an additional insured.

The City was also required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of $3,900,000 available in a cash working fund. The full amount of the claims loss reserve had been deposited with the insurance carrier and was recorded as advances and deposits in the accompanying statement of net assets. The claims loss reserve funds the deductible of up to $250,000 per occurrence to a maximum loss exposure to the City of $3,900,000. Due to the positive performance of this OCIP, the City was able to negotiate a large portion of the unused claims reserve in advance of the 10-year coverage term and in March 2010, the amount of $2,517,000 was returned to the Airport. Over the next 12 months, Chartis will continue to review the loss reserve fund and future disbursements will be expected if no completed operation claims arise over the next 10 years.

On March 15, 2007, the City found additional liability insurance through another OCIP for major components of the Airport's TAIP OCIP through Chartis. The coverage for this program as of June 30, 2011 is as follows:

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

The liability under the TAIP OCIP is based upon an estimated payroll of $92,500,000 for the covered projects and a construction period of 57 months, commencing on March 15, 2007 through December 31, 2010. In the event that the actual payroll for the covered TAIP projects exceeds the estimated $92,500,000 payroll or in the event the construction period extends beyond 57 months, the City will be obligated to pay increased premiums for the TAIP OCIP and, in addition, may be required to augment the claims loss reserve fund. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of $8,900,000. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of $8,900,000. The City was able to negotiate a reduction in funding to 74% of the claims loss reserve and interest generated remains in the fund. As of June 30, 2009, the full amount of $6,500,000 was deposited with Chartis and the balance at June 30, 2011 is $4,860,000. This deposit is recorded as advances and deposits in the accompanying statement of net assets.

### *13. Net Other Postemployment Benefits (OPEB) Obligation*

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively and as such, the City did not have a net OPEB obligation at transition, July 1, 2007. The PFDRP and FCERS calculated a net OPEB obligation in accordance with GASB 45 as discussed in Note IV A.2. Beginning in fiscal year 2010, the City initiated a five-year phase-in to fully pre-fund retiree healthcare benefits for the majority of its employee units, with the exception of members of the San José Firefighters Union (International Association of Firefighters, Local 230). The phase-in plan will continue to result in an incremental increase in retiree healthcare contributions for both the City and its employees over the next three years. Phasing-in to fully pre-fund retiree healthcare benefits does not mean that the existing obligation is paid off immediately. It is projected that it will take approximately 30 years to pay off the existing unfunded retiree healthcare liability. At June 30, 2011, the City recorded net OPEB obligations totaling $243,615,000 in the government-wide financial statements, of which $224,110,000 is in governmental activities and $19,505,000 is in business-type activities.

### *14. Pollution Remediation Obligations*

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including five active leaking petroleum storage tank sites: Fire Stations #5 and #16, Las Plumas Warehouse, Family Shelter, and the Airport, as discussed in Note IV C.1. The Agency is obligated for the management and cleanup of one ground water accumulation and contamination site at the Adobe office building site and a potential obligation related to the Miraido Village site. Although the City and Agency have significant experience in estimating these types of cleanups, the calculation of the expected outlays related to this pollution remediation is based on estimates provided by both City engineers and consultants and engineers hired by the City and the Agency. The amount of the estimated pollution remediation liability assumes that there will be no major increases in the cost of providing these cleanup services. As of June 30, 2011, the government-wide statement of net assets reported a net pollution remediation obligation in the amount of $1,995,000 in governmental activities, and $714,000 in business-type activities.

### *15. Pass-through Obligation to the County of Santa Clara*

In 1983, the Agency and the County of Santa Clara (County) entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project Area (County Pass-Through Payment). In 1993, the Agency, the County, and the City entered into a Settlement Agreement, which continued the County pass-through payment. As of June 30, 2011, the Agency either paid and/or settled all of the outstanding pass-through payment obligations to the County, except the $23,562,000 that has been reported in government-wide statement of net assets in governmental activities. As a result, the Agency reclassified this obligation from an accrued liability to a long-term obligation during fiscal year 2010-2011.

### G. Interfund Transactions

The composition of interfund balances as of June 30, 2011, with explanations of transactions, is as follows (dollars in thousands):

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

| Receivable Fund | Payable Fund | Amount | |
|---|---|---|---|
| General Fund | Redevelopment Agency | $ 1,061 | (1) |
| | Nonmajor Governmental Funds | 1,667 | (2) |
| Redevelopment Agency | General Fund | 44 | (3) |
| | Housing Activities | 135 | (4) |
| Nonmajor Governmental Funds | Nonmajor Governmental Funds | 13,250 | (5) |
| Wastewater Treatment System | Nonmajor Governmental Funds | 50 | (6) |
| | Municipal Water System | 1,000 | (7) |
| | | $ 17,207 | |

(1) $993 represents reimbursement for services performed for the Agency, $27 represents accrual of pooled cash fund discount and interest and $41 represents rent for the property located at 406 N. Autumn Street.

(2) $1,440 represents accrual of gas tax transfer and $227 represents accrual of construction and conveyance tax transfer.

(3) Represents accrual of fair value change in the pooled cash funds.

(4) Represents a true up of tax increment revenues transferred to the Housing Activities Fund based on County's year-end adjustments.

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

(6) Represents short-term portion of loan for Fiber Optics Conduit project.

(7) Represents short-term portion of loan for the North Coyote Valley Water Project.

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

| Receivable Fund | Payable Fund | | Amount | |
|---|---|---|---|---|
| General Fund | San José Financing Authority | $ | 3,321 | (1) |
| | Redevelopment Agency | | 630 | (2) |
| Redevelopment Agency | Housing Activities | | 580 | (3) |
| | General Fund | | 250 | (4) |
| Housing Activities | Redevelopment Agency | | 67,255 | (2) |
| San José Financing Authority | Housing Activities | | 14,091 | (5) |
| Nonmajor Governmental Funds | Redevelopment Agency | | 13,142 | (2) |
| Parking System | Redevelopment Agency | | 11,847 | (2) |
| Wastewater Treatment System | Nonmajor Governmental Funds | | 201 | (6) |
| | Municipal Water System | | 174 | (7) |
| | Redevelopment Agency | | 5,030 | (2) |
| | | $ | 116,521 | |

(1) Represents a $3,297 loan to support the Rancho Del Pueblo golf course and $24 represents a loan for Seismic District bond purchase.
(2) See detailed Agency discussion in table below.
(3) Represents discounted loan to the YWCA Villa Nueva Housing project.
(4) Represents executive staff home loan.
(5) Represents proceeds of the commercial paper notes loaned to the Housing Activities fund in connection with the SERAF loan.
(6) Represents a long-term loan and interest for the Fiber Optics Conduit project and is scheduled to be paid by June 30, 2013.
(7) Represents a loan for the North Coyote Valley Water Project.

At June 30, 2011, the City has advances receivable from the Agency as follows (in thousands):

| Receivable Fund | Purpose | | Amount |
|---|---|---|---|
| General Fund | Property transfer | $ | 630 |
| Housing Activities | SERAF principal | | 64,816 |
| | SERAF interest and fees | | 2,439 |
| Nonmajor Governmental Funds | SERAF principal | | 5,000 |
| | SERAF interest and fees | | 30 |
| | Parkland in-lieu voucher program | | 8,112 |
| Parking System | Parking fund loans | | 11,847 |
| Wastewater Treatment System | SERAF principal | | 5,000 |
| | SERAF interest and fees | | 30 |
| | | $ | 97,904 |

**Property Transfer.** On April 20, 2010, the Agency and the City entered into a cooperation agreement, under which the City conveyed the real property located at 406 N. Autumn Street for the purchase price of $630,000 to the Agency so the Agency could exchange the property for the other parcels with developers needed to form land assemblage necessary for the proposed City owned Autumn Street Extension Project. The Agency's obligation to pay the City the purchase price is due upon the Agency completing the exchange with the developer and upon the City's notification to the Agency that the City has issued a Certificate of Occupancy for private development on that property. As of June 30, 2011, the Certificate of Occupancy has not been issued on the property.

**Redevelopment Agency Supplemental Education Revenue Augmentation Fund ("SERAF").** In July 2009, the State Legislature adopted, and the Governor signed, Assembly Bill No. 26x4, which mandated redevelopment agencies in the State make deposits to SERAF accounts established in each county treasury with deposits totaling $1.7 billion for fiscal year 2009-10 and $350,000,000 for fiscal year 2010-11. Pursuant to the state mandate, the Agency paid approximately $62,200,000 on May 10, 2010 and $12,800,000 on May 10, 2011 to the County of Santa Clara SERAF account, making the Agency's total SERAF obligation approximately $75,000,000.

To enable the Agency to make the SERAF payments, the Agency entered into a loan agreement with the City and the City of San José Financing Authority on May 6, 2010 and a First Amendment to the loan agreement on May 10, 2011 (together, the "SERAF Loan Agreement"). In accordance with the SERAF Loan Agreement, the City provided $74,816,000 in initial principal funding to the Agency (together with applicable interest and fees, the "SERAF Loan") from the following sources:

- $64,816,000 from Housing Activities Fund (Low and Moderate Income Housing, the "Low-Mod Housing Fund"); of which $52,000,000 was advanced to the Agency in fiscal year 2009-10 and the remaining $12,816,000 was advanced in fiscal year 2010-11. The funding sources of the Low-Mod Housing Fund for the SERAF Loans were as follows: (1) $40,000,000 from the issuance of Housing Set-Aside Tax Allocation Bonds ("Housing TABs"), Series 2010C; (2) $12,000,000 from proceeds of City of San José Financing Authority Lease Revenue Commercial Paper Notes (the "Commercial Paper Notes"); and (3) $12,816,000 from the Low-Mod Housing Fund. The Housing TABs and the Commercial Paper Notes provided sufficient funds to support various affordable housing projects and programs and freed up a corresponding amount in the Low-Mod Housing Fund to be loaned to the Agency.

  The First Amendment to the SERAF Loan Agreement allowed the issuance of Commercial Paper Notes to be delayed until the City determines that funding is needed for future Low-Mod Housing projects in an amount not to exceed $25,000,000 in total initial principal amount. As of June 30, 2011, an initial loan of $12,000,000 in principal (leaving a remaining balance of $13,000,000 available to be loaned to the Low-Mod Housing Fund) and an additional loan of $2,100,000 in accrued interest and fees associated with the SERAF Loan have been funded through the issuance of Commercial Paper Notes for a combined total outstanding Commercial Paper Notes balance of $14,100,000.

  The Lease Revenue Commercial Paper program is a General Fund backed program and therefore, to the extent that the Commercial Paper Notes are required to be redeemed for any reason and if neither the Low-Mod Housing Fund nor the Agency is able to repay the portion of the SERAF Loan funded from the Commercial Paper Notes, then the General Fund or any other legally available fund would be required to make the necessary payment. Under the SERAF Loan Agreement, the Agency has the option to make interest payments on an ongoing basis, or to pay accrued interest upon final payment of the SERAF Loan in fiscal year 2015-2016. Assuming the Low-Mod Housing Fund borrows the remaining $13,000,000 available under the SERAF Loan Agreement as described above through the issuance of Commercial

Paper Notes and if the Agency elects to pay the accrued interest with its repayment of the outstanding principal of the SERAF Loan in fiscal year 2015-2016, the outstanding principal amount is projected to increase from $25,000,000 to approximately $35,000,000 by fiscal year 2015-2016.

- $10,000,000 from three other City funds: the Subdivision Park Trust Special Revenue Fund, Community Facility Revenue Special Revenue Fund (Ice Centre), and the Wastewater Treatment System (Sewage Treatment Plant Connection Fee). To the extent that these funds require replenishment at any time due to the capital needs of the respective programs, and the Agency is unable to repay the Loan in whole or in part, the General Fund or any other legally available fund would be required to make the necessary payment.

  These funds advanced $10,000,000 in principal funds to the Agency in fiscal year 2009-2010. As of June 30, 2011, the balance outstanding including accrued interest is $10,060,000.

In summary, at June 30, 2011, the City has advanced a total of $77,315,000 related to SERAF to the Agency representing principal of $74,816,000 and accrued interest and fees of $2,499,000.

**Parkland In-Lieu Voucher Program.** In June 2001, the Agency Board, in relation to Parkland Dedication Ordinance ("PDO") and Park Impact Ordinance ("PIO"), adopted a resolution approving a Parkland In-Lieu Fee Low-Income Unit Voucher Program ("Voucher Program") for the payment of subsidized parkland fees for low-income residential units by the Agency. On October 26, 2004, the Board extended the program until December 31, 2005. Under the PDO/PIO, developers of new residential projects are required to dedicate parkland, construct improvements and/or pay equivalent in-lieu fees for neighborhood and community–serving parks. Developers of low-income residential units were issued a voucher from the City's Housing Department to present to the City's Building Division in lieu of the payment of parkland fees, required by PDO/PIO. The Agency would then reimburse the City's Subdivision Parks Trust Fund in the amount of the voucher. As of June 30, 2011, the Agency owed the City $8,112,000 related to the Voucher Program. On June 22, 2010, the Agency and the City entered a cooperation agreement whereby the Agency agreed to transfer the amounts owed to the City in fiscal year 2016.

**Parking Fund Loans.** At June 30, 2011, the Agency owes the City $11,847,000 in Parking Fund Loans. On April 12, 2005, the Agency entered into a loan agreement with the City in an amount of $6,800,000 from the future facilities reserve within the City's Parking System Fund. The City advanced the loan to the Agency in two installments: $3,400,000 on April 15, 2005, and $3,400,000 on February 1, 2006. Interest on the loaned amounts originally accrued monthly on a compounded basis based on the City's investment portfolio's rate of return. The Agency used the loan proceeds for programs or projects contained in its Adopted Budget.

On June 12, 2007, the City Council/Agency Board amended the term of the loan to extend the loan maturity date to July 31, 2012, and removed the provision for any future interest beyond June 30, 2007, in exchange for the Agency promising to acquire property for a new downtown parking facility in the Almaden-Gateway Redevelopment Project Area.

Due to the economic downturn and the unexpected size of the payment the Agency is required by the State to make to the SERAF, the Agency made substantial reductions starting in its fiscal year 2010 Capital and Operating Budget and its 2010-2015 Capital Improvement Program. In order to assist the Agency in remitting the Agency's required payment to SERAF, the City has agreed to reimburse the Agency from the City's Parking Systems Fund two years of debt service payments to be made by the Agency on the 4$^{th}$ & San Fernando Parking Garage Revenue Bonds. Under the terms of the Second Amendment to Loan Agreement approved by the City Council on February 23, 2010 and executed on October 4, 2010, the Agency shall repay to the City the principal amount of the initial loan on or before June 30, 2015. If the principal payment is not made on or before June 30, 2015, interest will be calculated monthly on a compounded basis, at the rate earned on funds within the City's investment portfolio from July 1, 2007 to the final date of payment. The revised agreement further requires the Agency to pay the City the remaining loan on or before June 30, 2016, provided that the City and Agency acknowledge that an extension of the repayment due date may be necessary depending on City and Agency priorities at such time. As of June 30, 2011, the City advanced to the Agency a total of $5,047,000 for debt service payments on the 4th & San Fernando Parking Garage Revenue Bonds.

### *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 schedules summarize the City's transfer activity with explanations of transactions (dollars in thousands):

**Between governmental and business-type activities:**

| Transfers from | Transfers to | | Amount | |
|---|---|---|---|---|
| General Fund | Airport | $ | 214 | (1) |
| | Municipal Water System | | 20 | (1) |
| | Parking System | | 9 | (1) |
| | Wastewater Treatment System | | 268 | (1) |
| Parking System | General Fund | | 462 | (2) |
| | Nonmajor Governmental Funds | | 632 | (3) |
| Nonmajor Governmental Funds | Airport | | 443 | (4) |
| Municipal Water System | Nonmajor Governmental Funds | | 140 | (5) |
| | San José Financing Authority | | 160 | (5) |
| | General Fund | | 170 | (6) |
| Wastewater Treatment System | General Fund | | 4 | (7) |
| | Nonmajor Governmental Funds | | 3,170 | (8) |
| | San José Financing Authority | | 1,519 | (9) |
| | | $ | 7,211 | |

(1) Refund of postemployment benefit contribution.
(2) Transfer to the General Fund for miscellaneous non-downtown receipts.
(3) Transfer of $450 for convention center parking receipts and $182 for City Hall debt service payments.
(4) Transfer for reimbursable expenses.
(5) Transfer for City Hall debt service payments.
(6) Transfers of late fees collected to reimburse expenses.
(7) Transfer for interest earnings.
(8) $1,540 is funding for the household hazardous waste facility and $1,630 is for City Hall debt service payments.
(9) Repayment of commercial paper.

### Between governmental activities:

| Transfers from | Transfers to | Amount | |
|---|---|---|---|
| General Fund | Redevelopment Agency | $ 79 | (1) |
| | Housing Activities | 44 | (2) |
| | San José Financing Authority | 1,389 | (3) |
| | Nonmajor Governmental Funds | 27,375 | (4) |
| | Internal Service Funds | 87 | (5) |
| Redevelopment Agency | General Fund | 382 | (6) |
| | Housing Activities | 36,763 | (7) |
| | San José Financing Authority | 3,364 | (8) |
| | Nonmajor Governmental Funds | 525 | (9) |
| Housing Activities | Redevelopment Agency | 25,344 | (10) |
| | Nonmajor Governmental Funds | 918 | (10) |
| | San José Financing Authority | 552 | (10) |
| | General Fund | 188 | (11) |
| Nonmajor Governmental Funds | Redevelopment Agency | 447 | (12) |
| | General Fund | 28,277 | (13) |
| | Nonmajor Governmental Funds | 15,554 | (14) |
| | San José Financing Authority | 34,539 | (15) |
| San José Financing Authority | Nonmajor Governmental Funds | 345 | (16) |
| | Special Assessment Districts | 24,096 | (17) |
| Special Assessment Districts | General Fund | 1 | (18) |
| Internal Service Fund | General Fund | 99 | (19) |
| | Nonmajor Governmental Funds | 207 | (20) |
| | | $ 200,269 | |

(1) Transfer of $20 for San José Municipal Stadium transformer and $59 refunded for Small Business Chambers.

(2) Refund of postemployment benefit contribution.

(3) Debt service payments of $373 for the 1997B bond series, $423 for the 2003A bond series and $593 for the 2008F bond series.

(4) Transfer for various debt service payments, loan repayments, operations and subsidies.

(5) Transfer for vehicle and fleet replacement.

(6) $354 for San José Arena pass-through payment and $28 for rent received for the property at Keyes Street.

(7) $36,729 for 20% increment tax transfers as required under California Community Redevelopment Law and $34 in interest earnings.

(8) Debt service payment for 4th & San Fernando parking garage.

(9) $230 for capital projects and $295 for capital project refund.

(10) Transfer for debt service payments.

(11) Reimbursement on behalf of the Agency for loan administration and fees associated with the SERAF loan.

(12) $88 for interest on the Watson Park restoration project, $181 for reimbursement of capital outlay and $178 is for various Project Service Memorandum refunds.

(13) Various transfers for project savings, operations, interest earnings, and capital projects.

(14) Various transfers for debt service, operations, capital projects, and project savings.

(15) Various transfers for debt service payments.

(16) Transfer of commercial paper proceeds.

(17) Transfer of bond proceeds for Convention Center expansion and renovation project.

(18) Transfer of interest earnings to the General Fund.

(19) Transfer for interest earnings and Plan and Specification program.

(20) Transfer for City Hall debt service payments.

### H. Governmental Fund Balances

As of June 30, 2011, total fund balances for the City's major and nonmajor governmental funds are as follows (dollars in thousands):

| | General Fund | Redevelopment Agency | Housing Activities | Special Assessment Districts | San José Financing Authority Debt Service | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Nonspendable:** | | | | | | | |
| Long-term receivables | $ 13 | $ 192 | $ - | $ 5 | $ - | $ 62 | $ 272 |
| Advances and deposits | - | - | - | - | - | 852 | 852 |
| Subtotal | 13 | 192 | - | 5 | - | 914 | 1,124 |
| **Restricted for:** | | | | | | | |
| Public safety | 300 | - | - | - | - | 4,267 | 4,567 |
| Community services | 97 | - | 407,705 | - | - | 90,474 | 498,276 |
| Capital Maintenance | - | - | - | 151,723 | - | 240,187 | 391,910 |
| Debt service | - | 51,460 | - | - | 25,462 | 36,153 | 113,075 |
| Subtotal | 397 | 51,460 | 407,705 | 151,723 | 25,462 | 371,081 | 1,007,828 |
| **Committed to:** | | | | | | | |
| General government | 26,367 | 2,667 | - | - | - | - | 29,034 |
| Public safety | 5,567 | - | - | - | - | 864 | 6,431 |
| Community services | 11,853 | - | - | - | - | 25,423 | 37,276 |
| Sanitation | 49 | - | - | - | - | 21,251 | 21,300 |
| Capital Maintenance | 7,501 | - | - | - | - | 3,211 | 10,712 |
| Capital outlay | 250 | - | - | - | - | - | 250 |
| Subtotal | 51,587 | 2,667 | - | - | - | 50,749 | 105,003 |
| **Assigned to:** | | | | | | | |
| General government | 18,834 | | - | - | - | - | 18,834 |
| Public safety | 36,759 | - | - | - | - | - | 36,759 |
| Community services | 8,402 | - | - | - | - | 495 | 8,897 |
| Sanitation | 64 | - | - | - | - | - | 64 |
| Capital Maintenance | 5,793 | 6,297 | - | - | - | 13,280 | 25,370 |
| Subtotal | 69,852 | 6,297 | - | - | - | 13,775 | 89,924 |
| **Unassigned** | 44,772 | - | - | - | - | (222) | 44,550 |
| **Total fund balances** | **$ 166,621** | **$ 60,616** | **$ 407,705** | **$ 151,728** | **$ 25,462** | **$ 436,297** | **$ 1,248,429** |

**City Reserves Policy.** The City adopted the Reserves Policy in October 2004. It formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. A contingency, cash, and emergency reserve funds were setup in the General Fund to account for one-time purposes or as part of multi-year financial plan to balance the budget and avoid operating deficits. The minimum requirements for each fund were also established accordingly.

The ***Contingency Reserve Fund*** was created to meet unexpected circumstances such as a General Fund revenue shortfall. The policy established a minimum of three percent of the operating budget as the reserve balance. As of June 30, 2011, the contingency amount accounts for $30,000,000 of the unassigned fund balance.

The ***Cash Reserve Fund*** was created for the payment of any authorized expenditures of the City for any fiscal year in anticipation of and before the collection of taxes and other revenues of the City for such fiscal year, and for the payment of authorized expenses of the City for any fiscal year which became due and payable and must be paid prior to the receipt of tax payments and other revenues for such fiscal year. A reserve shall be built up in said fund from any available sources other than restricted sources in an amount which the Council deems sufficient for said purposes. As of June 30, 2011, the cash reserve amount accounts for $5,000 of the unassigned fund balance.

The ***Emergency Reserve Fund*** was created for the purpose of meeting any public emergency involving or threatening the lives, property or welfare of the people of the City or property of the City. A reserve shall be built up in said fund from any available sources, other than restricted sources, in an amount which the Council deems desirable. As of June 30, 2011, the emergency reserve amount accounts for $3,000,000 of the unassigned fund balance.

## IV. Other Information

### A. Defined Benefit Retirement Plans

### A. 1 City Sponsored Defined Benefit Pension Plans

#### *1. Plan Description*

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

The separately issued annual reports of PFDRP and FCERS, together with the City's Municipal code provide more detailed information about the Retirement Systems. Those reports may be obtained from the City of San José Department of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112.

The Defined Benefit Pension Plans provide general retirement benefits including pension, death, and disability benefits to members. Benefits are based on average final compensation, years of service, and limited required cost-of-living increases. The Defined Benefit Pension Plans are administered by the Director of Retirement, an employee of the City, under the direction of the City Manager and the Boards of Administration for the Retirement Systems. The contribution and benefit provisions and all other requirements are established by the City Charter and City's Municipal Code.

The current membership in the Defined Benefit Pension Plans as of June 30, 2011, is as follows:

| | PFDRP | FCERS |
|---|---|---|
| Defined Benefit Pension Plans: | | |
| Retirees and beneficiaries currently receiving benefits | 1,889 | 3,430 |
| Terminated vested members not yet receiving benefits | 79 | 672 |
| Active members | 1,886 | 3,519 |
| Total | 3,854 | 7,621 |

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

#### *2. Funding Policy*

It has been the Retirement Systems' Boards policy to obtain actuarial valuations every two years. However, the Retirement Systems' Boards took action to obtain actuarial evaluations every year beginning June 30, 2010. Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For pension plans, the assumptions include those about future employment trends, mortality rates, level of salary increases, and investment rate of return. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The contributions to the Defined Benefit Pension Plans from 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.

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for pension benefits to PFDRP and FCERS. The lump sum prepayment for fiscal year 2011 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the pension plans. The Boards of Administration for the PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City on July 1, 2010.

The City and five bargaining units with members in FCERS entered into Memorandum of Agreement ("MOA") during fiscal year 2011 to require the employees represented by these bargaining units ongoing and one-time additional retirement contributions. Additionally, the employees represented by the Police Officers Association ("POA") also agreed to make additional contributions in fiscal years 2011. They were applied to reduce the contributions that the City would otherwise be required to make for the unfunded pension liability from June 27, 2010 through June 25, 2011. The City calculated and implemented the additional contribution rate during fiscal year 2011. The contribution rates provided below do not reflect the additional retirement contributions.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for fiscal year 2011 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2009, except for the period June 26, 2011 through June 30, 2011, which were based on the June 30, 2010 valuation. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2011 are as follows (dollars in thousands):

| | PFDRP | | | FCERS | | |
|---|---|---|---|---|---|---|
| | City | Participants | Total | City | Participants | Total |
| Actuarial Rate: | | | | | | |
| Defined Benefit Pension Plan: | | | | | | |
| 7/01/10 - 6/25/11 (police members) | 38.32% (1) | 9.81% | | | | |
| 7/01/10 - 6/25/11 (fire members) | 40.24% (1) | 10.09% | | | | |
| 7/01/10 - 6/25/11 | | | | 25.75% (1), (2) | 4.54% | |
| 6/26/11 - 6/30/11 (police members) | 49.29% | 10.46% | | | | |
| 6/26/11 - 6/30/11 (fire members) | 51.05% | 10.76% | | | | |
| 6/26/11 - 6/30/11 | | | | 28.34% (3) | 4.68% | |
| Annual Pension Contribution | | | | | | |
| Defined Benefit Pension Plan | $ 77,918 (4) | $ 29,629 | $ 107,547 | $ 59,180 | $ 24,602 | $ 83,782 |

(1) The actual contribution rate paid by the City for fiscal year ended June 30, 2011 differed as a result of the City exercising its option to make annual lump sum payments. In fiscal year 2011 the contribution rates paid by the City differed due to police members making on-time additional retirement contributions that were applied to reduce the City's contributions.

(2) In fiscal year 2010-2011, the City initially funded a contribution rate of 23.18% and later funded an additional 2.57% to provide for the actuarial required contribution.

(3) The resolutions adopted by the Retirement Plans' Boards setting the contribution rates for fiscal year 2011-2012 provide that the City's Budget Office may adjust the employer's contribution rates in order to achieve a minimum dollar contribution for fiscal year 2011-2012.

(4) In fiscal year 2010-2011, the City's contribution was offset by 0.45% on account of a transfer of $1,200,000 from the Supplemental Retiree Benefit Reserve (SRBR) to the valuation assets which was applied to reduce the City's annual required contribution for fiscal year 2010-2011.

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

In October 2011, FCERS's actuary presented the FCERS Board with its analysis of the FCERS's ARC funding for fiscal year 2010-2011. The actuarial analysis of the ARC determined that a remaining payment of $8,046,000 or 2.57% of covered payroll would be required to fund the fiscal year 2010-2011 ARC. Since this amount was not paid until fiscal year 2011-2012, the City has recognized the amount as a current liability as reflected on its basic financial statements for the fiscal year ended June 30, 2011.

The following is three-year trend information for the City's Defined Benefit Pension Plans (dollars in thousands):

| | Fiscal year ended | | Annual Pension Cost (APC) | Percent APC Contributed | Net Pension Obligation |
|---|---|---|---|---|---|
| **PFDRP** | 6/30/09 | $ | 53,103 | 100% | $ - |
| | 6/30/10 | | 52,315 | 100% | - |
| | 6/30/11 | (1) | 77,918 | 100% | - |
| **FCERS** | 6/30/09 | | 57,020 | 100% | - |
| | 6/30/10 | | 54,566 | 100% | - |
| | 6/30/11 | (1) | 59,180 | 100% | - |

*(1)* These amounts represent the annual pension cost factoring in the City's elected lump-sum prepayment.

### *4. Funded Status and Funding Progress*

**PFDRP's Funded Status and Funding Progress.** As summarized in the table below, as of June 30, 2010, the most recent actuarial valuation date, PFDRP was 79.8% funded for pension benefits (a decrease from 86.7% in the June 30, 2009 valuation) representing the difference between the actuarial value of assets and the actuarial accrued liabilities ("AAL") resulted in an unfunded actuarial accrued liability ("UAAL") of $653,751,000. The UAAL does not reflect the impact of approximately $354,000,000 of deferred pension and healthcare net investment losses resulting from unfavorable investment returns from fiscal years 2006 through 2010. PFDRP's actuarial valuation uses a five-year smoothing method for investment returns. This means that, for actuarial valuation purposes, the annual gains or losses, as calculated at year-end, are smoothed (amortized) with the net gains and losses resulting from the prior four years. As of the June 30, 2010 actuarial valuation date, PFDRP's AAL increased by approximately $267,000,000 due to demographic experience losses and changes in actuarial assumptions as recommended by the PFDRP's Board's actuary in the June 30, 2010 experience study. PFDRP's UAAL increased from approximately $393,900,000 as of June 30, 2009 to $653,751,000 as of June 30, 2010.

The net change to the UAAL was primarily the result of:

(a) unfavorable investment returns during fiscal years 2008 and 2009;

(b) lower than expected salary increases;

(c) more deaths than expected among retirees/beneficiaries;

(d) more service retirements offset by fewer disability retirements;

(e) reduction in the discount rate from 8.00%, net of expenses, to 7.75%, net of expenses; and

(f) other changes in actuarial assumptions and experience.

In addition, the June 30, 2010 valuation reflects the PFDRP's return to an 80-120% market value corridor from the one year 70-130% market value corridor used in the June 30, 2009 valuation. The market value of assets corridor limits the smoothing of assets to be no greater than 120% and no less than 80% of the market value of assets as of June 30, 2010. Under this practice, any investment gains or losses that would cause the smoothed assets to fall outside of this 80-120% market value corridor would be recognized immediately rather than be smoothed over the next five years. The total unrecognized investment losses, for pension and health assets, were approximately $354,000,000 before and after the application of the 120% market value of assets corridor.

**FCERS's Funded Status and Funding Progress.** As summarized in the table below, as of the June 30, 2010 actuarial valuation date, FCERS was 69% funded on an actuarial basis for pension benefits. FCERS's UAAL of $780,944,000 does not reflect the impact of approximately $245,000,000 of deferred investment losses resulting from investment returns in fiscal years 2008 and 2009.

As of June 30, 2010, FCERS's most recent actuarial valuation, the funded status of FCERS decreased from 71% to 69%. The decrease in pension funding status was due to an increase in the AAL and a decrease in the actuarial value of assets. The net return on the market value of assets for the period from July 1, 2009 to June 30, 2010 was better-than-expected. However, on an actuarial asset value basis, the smoothing in of the less-than-expected returns for the period from July 1, 2007 to June 30, 2009 reduced the actuarial value of assets. The increase in the UAAL was due to deferred investment losses from fiscal years' 2008 and 2009 and changes in actuarial assumptions as recommended by FCERS's new actuary for the June 30, 2010 valuations.

FCERS's June 30, 2010 actuarial valuation includes actuarial assumption changes approved by FCERS including phasing in the impact of changes in economic assumptions on contribution rates of the following:

(a) an increase in the investment return assumption from 7.75%, net of expenses, to 7.95%, net of expenses;

(b) an increase in the underlying inflation assumption from 3.67% to 3.90%; and

(c) an increase in the payroll growth assumption from 3.83% to 3.90%.

The increase in the discount rate and payroll wage inflation rate assumptions are due to FCERS transition to phasing in the discount and wage inflation rate.

The June 30, 2010 valuation also included the impact of a 30/20 layered amortization methodology adopted by FCERS in the June 30, 2009 valuation. Previously FCERS amortized the UAAL over a 30-year open amortization basis. There was no impact of this change on the June 30, 2009 valuation as the amortization for the first year of a 30-year closed amortization period is the same as a 30 year open period.

**Defined Benefit Pension Plans' Funded Status and Funding Progress Summary**

| | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | UAAL | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| PFDRP | 6/30/10 | $ 2,576,705 | $ 3,230,456 | $ 653,751 | 80% | $ 222,699 | 294% |
| FCERS | 6/30/10 | 1,729,414 | 2,510,358 | 780,944 | 69% | 275,869 | 283% |

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

In fiscal year 2010-2011, the Retirement Systems' Boards approved an establishment of "floor funding method" for payment of annual required contributions ("ARC") for pension benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ARC as the greater of the annual dollar contribution amount established in the valuation, or the ARC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year 2011-2012 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for fiscal year 2011-2012.

### 5. Actuarial Methods and Assumptions

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

| | PFDRP | |
|---|---|---|
| **Description** | **Method/Assumption** | **Method/Assumption** |
| Valuation date | June 30, 2009 | June 30, 2010 |
| Actuarial cost method | Entry age normal cost method | Entry age normal cost method |
| Amortization method for actuarial accrued liabilities | Level percentage of payroll (assuming a 4.25% total payroll increase) | Level percentage of payroll (assuming a 4.25% total payroll increase) |
| Remaining amortization period | (1) Outstanding balance of unfunded accrued liability calculated through June 30, 2003 valuation amortized over next 8 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 8 years; and (3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with June 30, 2005 valuation. | (1) Outstanding balance of the unfunded accrued liability calculated through the June 30, 2003 valuation amortized over next 7 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 7 years; and (3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation. |
| Actuarial asset valuation method | 5 year smoothed market with a 70% to 130% Market Value Corridor | 5 year smoothed market with a 80% to 120% Market Value Corridor |
| Investment rate of return | 8% per annum | 7.75% per annum |
| Post-retirement mortality | RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 4 years)<br>RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 1 year) | RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 4 years)<br>RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. |
| Active service, withdrawal, death, disability service retirement | Based upon the June 30, 2009 Actuarial Experience Analysis. | Based upon the June 30, 2009 Actuarial Experience Analysis. |
| Salary increases | 9.75% for the first 5 years of service, 6.75% for 6-7 years of service, and 6% for 8+ years of service. The total salary increase of 4.25% is for combined inflation and real across-the-board salary increase. | 9.75% for the first 5 years of service, 6.75% for 6-7 years of service, and 6% for 8+ years of service. The total salary increase of 4.25% is for combined inflation and real across-the-board salary increase. |

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

| | **FCERS** | |
|---|---|---|
| **Description** | **Method/Assumption** | **Method/Assumption** |
| Valuation date | June 30, 2009 | June 30, 2010 |
| Actuarial cost method | Entry age normal cost method | Entry age normal cost method |
| Amortization method for unfunded actuarial accrued liabilities | Level percentage of payroll | Level percentage of payroll |
| Remaining amortization period | 20-year layered, closed, level percentage of payroll with the June 30, 2009 UAAL amortized over a closed 30-year period. | 20-year layered, closed, level percentage of payroll with the June 30, 2009 UAAL amortized over a closed 30-year period. |
| Actuarial asset valuation method | 5 year smoothed market | 5 year smoothed market |
| Investment rate of return | 7.75% per annum | 7.95% per annum |
| Postretirement mortality | The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table. | The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table. |
| Active service, withdrawal, death, disability service retirement | Tables based upon current experience | Tables based upon current experience |
| Salary increases | The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service. | The base annual rate of salary increase is 3.90% inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service. |

### A. 2 Postemployment Healthcare Plans

#### *1. Plan Description*

In addition to the Defined Benefit Pension Plans, the City also sponsors and administers two single employer postemployment healthcare plans, the Police and Fire Department Postemployment Healthcare Plan and the Federated City Employees' Postemployment Healthcare Plan, which together cover eligible full-time and certain part-time employees of the City. The postemployment healthcare plans are accounted for in the Pension Trust Funds.

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

The Postemployment Healthcare Plans provide medical and dental benefits to eligible retirees. Benefits are 100% of the premium cost for the lowest priced medical insurance plan and 100% of the premium cost for a dental insurance plan available to an active City employee. The Postemployment Healthcare Plans are administered by the Director of Retirement, an employee of the City, under the direction of the City Manager and Boards of Administration for the Retirement Systems. The contribution and benefit provisions and all other requirements are established by the City's Municipal Code and Memoranda of Agreements (MOAs).

The current membership in the Postemployment Healthcare Plans as of June 30, 2011, is as follows:

| | PFDRP | FCERS |
|---|---|---|
| Postemployment Healthcare Plans: | | |
| Retirees and beneficiaries currently receiving benefits | 1,798 | 3,073 |
| Terminated vested members not yet receiving benefits | 31 | 86 |
| Active members | 1,886 | 3,519 |
| Total | 3,715 | 6,678 |

#### *2. OPEB Funding Policy*

As stated above in the Defined Benefit Pension Plan section of this note, it has been the Retirement Systems' Boards policy to obtain actuarial valuations every two years. However, the Retirement Systems' Boards took action to obtain actuarial evaluations every year beginning as of June 30, 2010. Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For postemployment healthcare plans, the assumptions include those about future employment trends, mortality rates, level of salary increases, healthcare cost trend, and investment rates of return. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

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

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for fiscal year 2011 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City on July 1, 2010, respectively.

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Contributions to PFDRP for periods prior to June 26, 2011 for Fire members of PFDRP were based on the Board's 10-year cash flow funding policy. Effective June 28, 2009, the Police members of PFDRP entered into a MOA and the bargaining units representing the FCERS's members entered into MOAs with the City to increase the contribution rates for retiree health and dental in order to phase-in to fully funding the GASB Statement No. 43 ARC over the next 5 years; fiscal year 2011 was the second year of the phase-in. The MOA between the City and Police members of the PFDRP further provided that the PFDRP member contribution rate shall not have an incremental increase of more than 1.25% and 1.35% of pensionable pay in each year for the Police members and City, respectively. Additionally, the MOA with PFDRP members provided that if the retiree healthcare contributions exceed 10% of Police member and 11% of City contributions, respectively, (excluding the implicit rate subsidy) the parties shall meet and confer on how to address the contributions above 10% and 11%. Effective June 26, 2011, the Fire members of PFDRP entered into a MOA with the City to fully fund the ARC over a five year period subject to the same limitations specified in the MOA with Police members.

The MOA between the City and the bargaining units representing the members of FCERS provided that the five-year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the FCERS members or the City; the fiscal year ended June 30, 2011 was the second year of the five-year phase-in. Notwithstanding these limitations on incremental increases, the agreements with members of FCERS further provide that by the end of the five-year phase-in the City and the members shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

The contributions are not currently sufficient to provide adequate assets to pay benefits in accordance with the requirements of GASB Statement No. 43. The contribution rates for the Postemployment Healthcare Plans for the City and the participating employees for fiscal year 2011 were based on actuarial valuations dated June 30, 2009, except for the period June 26, 2011 through June 30, 2011, which were based on the June 30, 2010 valuation. The contribution rates in effect and the amounts contributed to the PFDRP and the FCERS for the fiscal year ended June 30, 2011 are as follows (dollars in thousands):

| | PFDRP | | | FCERS | | |
|---|---|---|---|---|---|---|
| | City | Participants | Total | City | Participants | Total |
| Actuarial Rate: | | | | | | |
| Postemployment Healthcare Plan: | | | | | | |
| 7/01/10 - 6/25/11 (police members) | 6.26% (1) | 5.76% | | | | |
| 7/01/10 - 6/25/11 (fire members) | 3.92% (1) | 3.61% | | | | |
| 7/01/10 - 6/25/11 | | | | 6.41% (1) | 5.76% | |
| 6/26/11 - 6/30/11 (police members) | 7.61% (2) | 7.01% | | | | |
| 6/26/11 - 6/30/11 (fire members) | 5.27% (2) | 4.86% | | | | |
| 6/26/11 - 6/30/11 | | | | 7.16% (2) | 6.52% | |
| Annual OPEB Contribution | | | | | | |
| Postemployment Healthcare Plan: | $ 17,001 | $ 11,229 | $ 28,230 | $ 21,071 | $ 16,041 | $ 37,112 |

(1) The actual contribution rate paid by the City for fiscal year ended June 30, 2011 differed as a result of the City exercising its option to make annual lump sum payments.

(2) The resolutions adopted by the Retirement Plans' Boards setting the contribution rates for fiscal year 2011-2012 provide that the City's Budget Office may adjust the employer's contribution rates in order to achieve a minimum dollar contribution for fiscal year 2011-2012.

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

The City's annual other postemployment benefit cost and net OPEB obligation for PFDRP and FCERS as of and for the fiscal year ended June 30, 2011, were as follows (dollars in thousands):

| | PFDRP | FCERS |
|---|---|---|
| Annual required contribution | $ 62,322 | $ 47,593 |
| Interest on net OPEB obligation | 6,744 | 4,200 |
| Adjustment to annual required contribution | (4,958) | (3,264) |
| Annual OPEB cost | 64,108 | 48,529 |
| Contributions made | (12,118) | (17,683) |
| Implicit rate subsidy | (4,939) | (3,925) |
| Increase in net OPEB obligation | 47,051 | 26,921 |
| Net OPEB obligation – beginning of year | 107,054 | 62,589 |
| Net OPEB obligation – end of year | $ 154,105 | $ 89,510 |

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

| | Fiscal year ended | Annual OPEB Cost | Total Employer Contributions | Percent Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|---|
| **PFDRP** | 6/30/09 | $ 46,334 | $ 12,548 | 27% | $ 84,512 |
| | 6/30/10 | 38,536 | 15,994 | 42% | 107,054 |
| | 6/30/11 | 64,108 | 17,057 | 27% | 154,105 |
| **FCERS** | 6/30/09 | 33,725 | 15,918 | 47% | 44,760 |
| | 6/30/10 | 39,414 | 21,585 | 55% | 62,589 |
| | 6/30/11 | 48,529 | 21,608 | 45% | 89,510 |

### *4. OPEB Funded Status and Funding Progress*

As summarized in the table below, as of June 30, 2010, the most recent actuarial valuation date, PFDRP and FCERS was 6% and 12% funded, respectively on an actuarial basis for OPEB, respectively. Changes to the UAAL were primarily the result of changes in the actuarial assumptions including the expected rate of return on plan investments, payroll growth assumption, and healthcare trend assumption changes to reflect current experience and the actuary's expectation for the future. The specific funding status for each OPEB plan is summarized in the table below, as of the June 30, 2010 valuation date (dollars in thousands):

| | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | UAAL | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| PFDRP | 6/30/2010 | $ 58,586 | $ 946,308 | $ 887,722 | 6% | $ 222,699 | 399% |
| FCERS | 6/30/2010 | 108,011 | 926,371 | 818,360 | 12% | 275,869 | 297% |

The Schedule of Funding Progress, presented as RSI following the Notes to Basic Financial Statements, presents information about whether the actuarial value of plan assets increased or decreased in fiscal year 2011 over the transition year in relation to the actuarial accrued liability for benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

In fiscal year 2010-2011, the Retirement Systems' Boards approved an establishment of "floor funding method" for payment of annual required contributions ("ARC") for postemployment healthcare benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ARC as the greater of the annual dollar contribution amount established in the valuation, or the ARC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year 2011-2012 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for fiscal year 2011-2012.

***5. OPEB Actuarial Methods and Assumptions***

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The contributions rates for the fiscal year ended June 30, 2011 were based on the actuarial valuation performed as of June 30, 2009, except for the period June 26, 2011 through June 30, 2011, which were based on the June 30, 2010 valuation. .

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

**PFDRP**

| Description | Method/Assumption | Method/Assumption |
|---|---|---|
| Valuation date | June 30, 2009 | June 30, 2010 |
| Actuarial cost method | Entry age normal cost method | Entry age normal cost method |
| Amortization method for actuarial accrued liabilities | 30 years, level percentage of pay | 30 years, level percentage of pay |
| Remaining amortization period | 30 years as of June 30, 2009, open | 30 years as of June 30, 2010, open |
| Actuarial asset valuation method | 5 year smoothed market with a 70% to 130% Market Value Corridor | 5 year smoothed market with a 80% to 120% Market Value Corridor |
| Discount rate* | 6.7% | 6.3% |
| Projected payroll increases | The total salary increase of 4.25% is for combined inflation (3.50%) and real across-the-board salary increase (0.75%). | The total salary increase of 4.25% is for combined inflation (3.50%) and real across-the-board salary increase (0.75%). |
| Heathcare cost trend rate: | | |
| Medical | Projected premiums for FY2009-2010 and 8.25% beginning FY2010-2011, decreasing by 0.50% for each year for 7 years until it reaches an ultimate rate of 5%. | Projected premiums for FY2010-2011 and 9.75% beginning FY2011-2012, decreasing by 0.50% for each year for 10 years until it reaches an ultimate rate of 5%. |
| Dental | 5% | 5% |

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

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

**FCERS**

| Description | Method/Assumption | Method/Assumption |
|---|---|---|
| Valuation date | June 30, 2009 | June 30, 2010 |
| 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 | 20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period | 20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period |
| Actuarial asset valuation method | Market value | Market value |
| Discount rate* | 6.70% | 6.71% |
| Inflation rate | 3.67% | 3.90% |
| Salary increases | The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service | The base annual rate of salary increase is 3.90% inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service |
| Projected payroll increases | 3.83% | 3.90% |
| Heathcare cost trend rate: | | |
| Medical | The valuation assumes that future medical inflation will be at a rate of 10% per annum graded down each year in 0.50% increments to an ultimate rate of 4.5% for medical-pre age 65 and 7.5% per annum graded down each year in 0.25% increments to an ultimate rate of 4.5% for medical-post age 65. | The valuation assumes that future medical inflation will be at a rate of 9.5% per annum graded down to 4.5% per annum over a 15 year period for medical-pre age 65 and 7.0% to 4.5% per annum graded down over a 15 year period for medical-post age 65. |

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

### A. 3 California Public Employees' Retirement System (CalPERS)

**Plan Description.** The Mayor and members of the City Council are eligible to participate in the Public Employees' Retirement Fund ("Fund") of the State of California's Public Employees' Retirement System ("CalPERS"), a cost-sharing multiple-employer plan. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The City's CalPERS plan is under the CalPERS Miscellaneous 2% at 55 Risk Pool. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service. Benefit provisions and other requirements are established by State statute and by City resolution. CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95814.

**Funding Policy.** The City is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the Fund's Board of Administration. The required employer contribution rate for the year ended June 30, 2011 was 14.139%. The contractual employee cost sharing is 7.0%, cost-of -living adjustments are 2.0% per year, and benefits are based on a final average compensation period of 36 months. The total contribution requirements for local agencies are established and may be amended by CalPERS. The City's contributions to CalPERS for the years ended June 30, 2011, 2010, and 2009 were $108,000, $127,000, and $133,000, respectively, equal to the required contributions for each year.

### B. Defined Contribution Retirement Plan

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

The Agency's total payroll for the fiscal year ended June 30, 2011 for all non-civil service employees was approximately $9,000,000. Contributions to the Retirement Plan during the year ended June 30, 2011, made by both the Agency and the participating employees, amounted to approximately $565,000 and $216,000, respectively.

## C. Commitments and Contingencies

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

**Purchase Commitments.** As of June 30, 2011, the Airport was obligated for purchase commitments of approximately $13,300,000, primarily for the remainder of the costs for Terminal Area Improvement Program projects. Additionally, the Airport has projected that it will expend or encumber approximately $197,900,000 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 PFCs, federal grants, bond proceeds and other Airport revenues.

**Fuel Storage Facility.** In 1985, the Airport and a fuel supplier with a fuel storage facility adjacent to the City who owned a fuel tank farm facility discovered a fuel leak whereby petroleum products had been released into the soil and ground water from either or both of the City owned facility and/or the other fuel supplier facility. The Airport and a fuel supplier with a fuel storage facility adjacent to the City owned facility agreed to share the costs of a study to develop an acceptable cleanup program for the contaminated site. The cleanup program submitted to the Santa Clara Valley Water District, the responsible regulatory authority, was approved and the cleanup program commenced during the fiscal year ended June 30, 1991. Under an operating agreement, the Airport implemented a groundwater extraction system to control the migration of the contamination and begin efforts to remediate the contamination. The agreement expired but Chevron continued the work.

In November 2009, the City entered into an agreement with the fuel supplier for coordinated corrective actions at the existing fuel tank farms at a cost to the City not to exceed $1,000,000 and authorizing the Director of Aviation to approve additional expenditures in excess of $1,000,000 subject to appropriation of funds by City Council. The agreement provides for a 50-50 cost sharing responsibility for actual future costs until successful closure of the site. The agreement also required the City to pay its 50% share of the past costs that the fuel supplier has incurred during the period after expiration of the prior agreement and before the new agreement was in place. During the year ended June 30, 2011, the Airport paid its share of the remediation costs totaling $211,000.

The fuel supplier is responsible for administering the new agreement including retaining a corrective action contractor. The agreement is also structured to facilitate potential reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (the "Plume Fund"). Reimbursement from the Plume Fund is potentially available up to $1,500,000 for each party.

Due to the proximity of the closed City jet fuel farm to the adjacent fuel supplier jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the fuel supplier site to be closed, and investigation/remediation to be done on both sites at once. The new jet fuel farm was constructed off-Airport across Highway 101 and was placed in service in December 2009. The fuel supplier fuel farm was subsequently closed upon commencement of the new fuel farm.

The fuel supplier is currently conducting an investigation of the combined site in preparation of the site's final remediation plan. One component of the investigation is the subsurface condition underneath the aboveground storage tanks ("ASTs") and underground storage tanks ("USTs") at both the fuel supplier and the City fuel farms. The fuel supplier has recently demolished its fuel farm and removed its USTs, and is sampling the soil underneath its site. The demolition of the City fuel farm and removal of the USTs is currently underway. The completion of the remediation plan is contingent upon sampling and testing of the subsurface soil condition of the City fuel farm site. Once the plan is completed, it will be submitted to the County for its review and approval. The implementation of the remediation plan will commence after its approval by the County.

With the adoption of GASB Statement No. 49, the Airport has accrued $714,000 as of June 30, 2011 to cover the estimated remaining costs of its portion of the interim remediation system. Latest estimates of costs to further investigate and cleanup this site is between $1,000,000 and $2,000,000 depending upon the method of accomplishment and actual remediation requirements.

**Acoustical Treatment Program.** The Airport had 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 $788,000 on noise attenuation projects during the fiscal year ended June 30, 2010. The Airport completed its ACT program during the fiscal year ended June 30, 2010. Accordingly, there were no expenditures for the ACT program during the fiscal year ended June 30, 2011.

**Master Plan.** The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected through 2017, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City in June 1997 and approved by the FAA in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the Terminal Area Improvement Program. In June 2010, the City Council approved another major amendment to the Master Plan shifting the plan horizon from 2017 to 2027; reducing airline facilities serving cargo demand from 53 acres to 28 acres; and increasing the 56 acres designated for general aviation development to 102 acres. Development of the request for proposal for a second full service fixed based operator is underway and is anticipated that a lease will be approved by the City in fiscal year 2012. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

***2. Redevelopment Agency ("Agency")***

**Agency Reimbursements and Obligations to the City.** The Agency has various obligations to the General Fund and various other City funds (see Note III.G.2.), which are subordinate to debt service on its Senior TABs, its Subordinate Variable Rate Bonds and its Housing TABs, as well as other statutory and secured obligations (together, "Senior Agency Obligations"). To the extent that tax increment in any year is insufficient to pay the City after paying Senior Agency Obligations, the Agency may not be able to pay the obligations due to the City. Similarly, if for any reason the Agency's payment obligations on the Senior Agency Obligations are accelerated, there may not be sufficient funds to pay the obligations due to the City. The City is aware of three current circumstances beyond the control of the City and the Agency that could impact the Agency's ability to continue to make payments to the City: (1) implementation of legislation to eliminate redevelopment (discussed further below); (2) declining tax increment revenues; and (3) acceleration of certain obligations relating to the Agency's Subordinate Variable Rate Bonds (discussed further below). Additionally, other circumstances could arise that could adversely affect the Agency's ability to continue to make payments to the City. The City has not made adjustments to the financial statements due to this uncertainty.

**Implementation of Legislation to Eliminate Redevelopment Agencies.** AB X1 26 provides, among other things, that agreements between a redevelopment agency and the city that created the agency are not enforceable obligations, unless such agreements were entered into at the time of the issuance of indebtedness obligations, solely for the purpose of securing or repaying those indebtedness obligations. As such, if the Supreme Court upholds the constitutionality of AB X1 26, and it is implemented as currently written, the Agency may not be legally authorized to repay many of the obligations it owes to the City.

Due to the uncertainty of the status of the new law and the fact that it became effective on the penultimate date of the fiscal year, the City has not made adjustments to the financial statements due to this uncertainty. The City treated the new law as a subsequent event, as discussed in Note IV.D. Subsequent Events.

**Acceleration of Obligations Relating to the Agency's Variable Rate Merged Area Redevelopment Project Revenue Bonds (Subordinate Tax Allocation Bonds).** The Agency's Subordinate Variable Rate Bonds are currently supported by letters of credit from JPMorgan Chase Bank, National Association ("JP Morgan"). As of June 30, 2011, the letters of credit were set to expire on November 25, 2011, but have subsequently been extended to July 1, 2012. If the Agency (or, its successor agency under the provisions of AB X1 26) is unable to extend the expiration date of the letters of credit or to replace the letters of credit prior to the expiration date, or if the Agency or its successor agency defaults on its obligations to reimburse JP Morgan for amounts drawn on the letters of credit to pay debt service on the Subordinate Variable Rate Bonds, JP Morgan could elect to cause the trustee for such bonds to draw on the letters of credit to redeem the bonds in full. In such case, all tax increment in excess of the amounts needed to pay debt service on the Agency's Senior TABs could be required to be paid to JP Morgan until JP Morgan is reimbursed in full, with interest, for such draws. As of June 30, 2011, the outstanding principal amount of Subordinate Variable Rate Bonds was $96,900,000. It could take the Agency several years to repay JP Morgan if JP Morgan were to direct the bond trustee to draw on the letters of credit to redeem all such bonds.

**Tax Sharing Agreement with the County of Santa Clara.**

*1983 and 2001 Settlement Agreement*

In 1983, the Agency and the County of Santa Clara (the County) entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project Area (the County Pass-Through Payment). On December 16, 1993, the Agency, the County, and the City entered into a Settlement Agreement, which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City, and the Agency approved an Amended and Restated Agreement (the "Amended Agreement"). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires the Agency to transfer funds to the County to pay for such projects in an amount of 20% of the proceeds of any bonds secured by 80% tax increment (excludes refinancing bonds) (the "Delegated Payment").

In August 2004, the City and the Agency filed a lawsuit seeking a judicial determination as to whether the County had breached an agreement entered into among the parties in May 2001 (the 2001 Agreement). In April 2005, the County filed a cross complaint against the City and the Agency alleging, among other things, breach of the 2001 Agreement, breach of the 2001 Agreement's implied covenant of good faith and fair dealing, and intentional interference with prospective economic relations.

In February 2006, the San Mateo Superior Court granted County's motion for Summary Judgment holding that the County had not breached the 2001 Agreement. Subsequently, the City, the Agency and the County settled the lawsuit. Under the terms of the settlement, the Agency agreed to pay the $22,500,000 in three installments of $7,500,000 over a three-year period. The final installment payment was made on July 1, 2009.

*March 16, 2011 Settlement Agreement*

In September 2009, the Agency informed the County that due to the SERAF requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-2010 pass-through payment. The Agency further informed the County that it had reserved restricted funds for the fiscal year 2008-2009 pass-through ($21,300,000) pending negotiations regarding the payment. On August 20, 2010, the County submitted an invoice to the Agency in the amount of $45,200,000, which included the fiscal year 2008-2009 pass-through amount of $21,300,000, the fiscal year 2009-2010 amount of $19,200,000 and interest of $4,700,000.

On March 9, 2011, the County filed a lawsuit in the Santa Clara Superior Court against the Agency, City and San José Diridon Development Authority (the “San José parties”) to recoup these payments.

On March 16, 2011, a Settlement Agreement was reached and entered into between the County of Santa Clara and the San José parties with the following terms and conditions:

1. The Agency will pay the County $21,500,000 from tax-exempt bond proceeds by April 15, 2011, but in no event later than June 30, 2011. The County will use those funds for purposes consistent with limitations imposed by federal law or regulation on the use of tax-exempt bond proceeds.

2. The Agency will pay the County $5,000,000 in unrestricted funds by June 30, 2011.

3. By June 30, 2011, the Agency will acquire the Old City Hall property from the City and the Agency will transfer title to the County. The County shall be responsible for demolition of existing buildings and improvements, including CEQA clearance and mitigation, demolition, removal or remediation of hazardous materials in the existing buildings and improvements. The Agency will provide marketable title and remain liable for existing, unknown subsurface hazardous materials not associated with the existing buildings and improvements to the extent consistent with existing law. The County will accept the buildings and related improvements in “as is” condition. The Parties agree that the value of the Old City Hall site, under the terms set forth herein, is $10,000,000. In consideration of the transfer of the property from the City to the Agency, the Agency shall transfer to the County the Agency owned properties, which the County acknowledges have been valued at approximately $10,000,000 or less.

The Agency satisfied all the terms and conditions listed above by: paying the County $21,500,000 on March 30, 2011 and $5,000,000 on May 15, 2011, and transferring the old City Hall property on June 30, 2011. Additionally, the Agency owes the County $23,562,000 in 5 equal annual installments ($4,712,000 per installment plus interest accrued as of the payment date) no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

***3. San José – Santa Clara Water Pollution Control Plant***

For fiscal year 2012-2016, the Five Year capital improvement program includes approximately $15,000,000.00, the South Bay Water Recycling ("SBWR") project, a regional water reclamation program to recycle highly treated wastewater for irrigation and industrial uses in the cities of San José, Santa Clara, and Milpitas, California. This program is part of an action plan, developed by the City and other agencies tributary to the Plant and adopted by the Regional Water Quality Control Board ("RWQCB"), to control the amount of effluent discharged by the Plant into San Francisco Bay.

The SBWR distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately $140,000,000 funded by the tributary agencies, grants, and bond proceeds.

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which described the projects necessary to reduce average dry weather effluent flow from the Plant to below 120,000,000 gallons per day and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I non-potable reuse system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated cost for implementing these projects was $127,500,000. In April 2010, the City approved construction of the $14,777,000 Phase 1C facilities including an additional nine miles of pipeline. As of June 30, 2011 an amount of $120,139,000 has been expended or encumbered. These estimated costs 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. Retirement Systems – Unfunded Commitments***

As of June 30, 2011, the PFDRP and FCERS had unfunded commitments to contribute capital for private equity and direct lending investments in the amount of $116,135,000 and $38,376,000, respectively.

***5. Federal Financial Assistance Programs***

The City participates in a number of federally assisted grant programs, primarily with the HUD, the FAA, the Department of Transportation, the Department of Homeland Security, the Department of Labor, the Department of Energy, 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 are audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the fiscal year ended June 30, 2011, these programs are still subject to financial and compliance audits by Federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

### *6. Encumbrances*

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to contracts not yet performed and purchase orders not yet filled (executory contracts; and open purchase orders). Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities but, rather, as restricted or committed governmental fund balance. As of June 30, 2011, total governmental fund encumbrance balances for the City are as follows (dollars in thousands):

| | | |
|---|---|---|
| General Fund | $ | 20,933 |
| Redevelopment Agency | | 10,154 |
| Housing Activities | | 34,102 |
| Special Assessment Districts | | 52 |
| Nonmajor governmental funds | | 39,517 |
| Total governmental funds | $ | 104,758 |

## D. Subsequent Events

### 1. Tax and Revenue Anticipation Note

On July 1, 2011, the City issued a short-term note for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. The Initial Note Portion of $100,000,000 was purchased by JP Morgan Chase Bank, N.A. on the closing date of the financing, July 1, 2011. At the City's discretion, additional borrowings may occur under the terms of the 2011 Note and the Note Purchase Agreement; specifically, at any time up to the Commitment Termination Date of June 30, 2012 and up to the Unutilized Commitment amount of $25,000,000. Security for repayment of the 2011 Note is a pledge of the City's 2012 secured property tax revenues (excluding property taxes levied for general obligation bonds) and sales tax revenues received during fiscal year 2012 plus all other legally available General Fund revenues of the City, if required. The final maturity for the 2011 Note is June 30, 2012 and the repayment of the 2011 Note has been budgeted in fiscal year 2012 and is anticipated to be paid after the first half of secured property tax revenues is received from the County Auditor-Controller and General Fund cash balances begin to rise in January 2012.

### 2. Credit Facilities Renewals and Extensions

As discussed in Note III F.7.; Variable-rate Demand Bonds, the principal and interest payment of the 1996 and 2003 Merged Area Revenue Bonds are supported by the letters of credit under a reimbursement agreement with JP Morgan-Chase Bank, N.A. The letters of credit were set to expire on November 25, 2011. Failure to extend or replace the letters of credit would require the Agency to redeem the bonds upon the expiration date of the Letters of Credit.

JP Morgan-Chase Bank, N.A. has agreed on October 24, 2011 to extend the 1996 and 2003 Letters of Credit to July 1, 2012, under the same terms of an amendment to reimbursement agreements that amend both the 1996 and 2003 reimbursement agreements.

### 3. New Airport Revenue Bonds issuance

In July 2011, the City issued Airport Revenue Bonds Series 2011A-1 and Series 2011A-2 in the amounts of $150,405,000 and $86,380,000, respectively. The Series 2011 A-1 Bonds were issued to (i) refund subordinated commercial paper notes originally issued to refund the Airport Revenue Bond Series 2004A and Series 2004B, (ii) to refund all of the outstanding Airport Revenue

Refunding Bonds, Series 1998A, (iii) to make a cash deposit to the General Account of the Bond Reserve Fund, and (iv) to pay a portion of the costs of issuing Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 6.25% and will mature in March 2034.

The Series 2011A-2 Bonds were issued to refund $85,625,000 aggregate principal amount of the outstanding Series 2001A, and to pay a portion of the costs of issuing the Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 5.25%.

**4. New Market Tax Credit Financing for the Construction of the Environmental Center**

On October 25, 2011, the City Council adopted a resolution authorizing the City Manager to execute agreements and related documents as necessary in connection with the closing of the New Markets Tax Credit ("NMTC") financing transaction for the Environmental Innovation Center ("EIC") project, which was executed on November 8, 2011. The facility will ultimately house a Clean Technology Demonstration Center, a Habitat for Humanity ReStore center, and a Household Hazardous Waste drop-off facility.

The NMTC program, enacted by Congress and administered by the U.S. Department of the Treasury, was created to promote economic development in distressed areas. Each year, the Treasury's Community Development Financial Institution Fund competitively allocates tax credits to eligible organizations referred to as Community Development Entities ("CDEs"). CDEs solicit private equity investments in exchange for federal income tax credits over a seven-year compliance period totaling 39% of the qualified equity investment made into a qualified active low-income business ("QALICB") that sponsors a project benefiting its community.

The financing structure requires the City to divest its ownership interest in the EIC project for a minimum period of seven years through a ground lease of the EIC with the EIC QALICB, Inc., an independent nonprofit corporation formed by the City on June 20, 2011. The structure also requires the City to serve several key capacities as the leverage lender, developer, ground lessor, and master tenant.

**5. Potential Dissolution of Redevelopment Agency - AB X1 26 & 27**

On June 29, 2011, as part of the approval of the State budget, the Governor of California signed two bills that impact the future of redevelopment agencies in the State. One of these bills, Assembly Bill X1 26, provides for the immediate suspension of all redevelopment activity except as required under existing enforceable obligations and requires the dissolution of redevelopment agencies throughout the State by October 1, 2011. The second bill, Assembly Bill X1 27, enables cities and counties to retain their redevelopment agencies by paying a specified amount to the State, as established by formula. These actions were expected to result in the transfer of $1.7 billion in funds from redevelopment agencies to the State to help resolve the State's budget deficit.

On July 18, 2011, the City joined the California Redevelopment Association, the League of California Cities, and others in filing a petition with the California Supreme Court challenging the constitutionality of this new legislation.

On August 1, 2011, the Agency received information from the State Department of Finance regarding the amount that would be required in order to participate in AB X1 27. According to the information received, the City would be required to pay $47,000,000 in fiscal year 2011-2012 to avoid the dissolution of the Agency. Additional payments estimated at between $10,000,000 through $13,000,000 would be required each year thereafter in order to continue operating.

On August 11, 2011, the California Supreme Court issued a partial stay of AB X1 26 and stayed all of AB X1 27 ("Stay".) The Stay preserved the status quo and left in place those provisions of AB X1 26, which suspended redevelopment activity.

On August 17, 2011, the California Supreme Court modified the Stay to clarify and to exclude from the Stay a single provision, which provision directed the State Director of Finance to determine the payment required for each redevelopment agency to participate in AB X1 27 and set forth the process for calculation of the payment amount. The California Supreme Court also set a briefing schedule, which is designed to facilitate an oral argument as soon as possible in 2011 with a decision prior to January 15, 2012.

On August 22, 2011, the Agency filed an appeal with the State Department of Finance pursuant to AB X1 27, claiming that the payment required to avoid dissolution under AB X1 26 should be reduced from $47,000,000 to $35,000,000. The State has notified the Agency that the appeal was denied for being untimely, but the deadlines under the statute are under review by the California Supreme Court in connection with the above mentioned litigation. At this date, neither the City nor the Agency has identified funds to make this payment. Therefore, it is assumed that the Agency will dissolve if the legislation is upheld.

If the California Supreme Court does not find the bills to be unconstitutional, the bills would result in the following:

***Assembly Bill X1 26***

**Suspends Redevelopment Activity.** As of June 29, 2011, the Agency (and the City's Housing Department as it pertains to the use of the Low and Moderate Income Housing Fund) cannot incur new obligations and debt. More specifically, the Agency and Housing Department cannot enter into or amend contracts, renew or extend leases or other agreements, and dispose of or transfer real property or other assets. Agencies are required to continue to make scheduled payments on bonds and other legally binding agreements, and to manage existing contracts, projects, and other agreements.

**Dissolves Redevelopment Agencies**. Unless a redevelopment agency makes payment under Assembly Bill X1 27, as described below, it is dissolved, and all assets and responsibilities for closing out the activities of the former agency are transferred to a "Successor Agency." This provision was to take effect as of October 1, 2011 but has been stayed by the California State Supreme Court.

**Creates Successor Agencies**. The Successor Agency is presumed to be the sponsoring community of the redevelopment agency (i.e., the City). The responsibility of a Successor Agency includes making payments and performing obligations of the former redevelopment agency in accordance with a schedule of enforceable obligations. Enforceable obligations include; bonds, loans, legally required payments, including payments for pension obligations, judgments or settlements, and other legally binding and enforceable agreements. The liability of the Successor Agency is limited to the extent of the total tax increment received to repay the former Agency's indebtedness and the value of assets transferred to it for disposition. Specifically called out as not enforceable are obligations between the sponsoring community (i.e., the City) and the Agency, except for reimbursement agreements and other similar agreements entered into at the time of debt issuance, for the purpose of repaying that debt. Additionally, a Successor Agency is required to dispose of the former agency's assets in an expeditious fashion, to transfer the housing functions to its sponsoring community, to wind down the affairs of the former agency (including the payment of debt and completion of obligated projects), to prepare administrative budgets, and to provide support to the "Oversight Board." In the event that tax increment revenues are not sufficient to cover enforceable obligations, the City would remain responsible for those obligations under which it has previously assumed payment liability (i.e., the HUD 108 loan, ERAF loan and Series 2001A and 2001F bonds). For additional information regarding long-term debt, please refer to Note III.F. Additionally, the City has loaned the Agency $97,904,000 from various sources that it may not be able to recover from future tax increment.

**Transfer of Housing Functions**. The sponsoring community may choose to assume the housing functions and the housing assets of the dissolved agency. Should the sponsoring community choose not to assume these responsibilities, all assets and functions would be transferred to the local housing authority. This provision was to be effective as of October 1, 2011 but is also subject to the Stay. The Agency has delegated the management of its housing functions to the City through a Coop Agreement entered into November 10, 1987 and it is the intent of the City Administration to retain that authority.

**Creation of Oversight Boards**. The Oversight Board, which is comprised of seven member representatives from local government bodies, is tasked with reviewing and approving the actions of the Successor Agency. Two of the seven members would be City representatives appointed by the Mayor-one of which must be an employee from the recognized employee organization representing the largest number of employees working for the redevelopment agency as of the date of dissolution. The remaining members are appointed by the County (2), the County Superintendent of Education (1), the Chancellor of California Community Colleges (1), and the largest special district taxing entity in the Merged Project.

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed above, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California unless certain payments can be made to the State of California. Such changes to the California Redevelopment Law have also terminated the authority of redevelopment agencies to undertake new obligations to redevelop property. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated challenging the constitutionality of this legislation. However, based on the Agency's financial condition, the effects of this legislation raise substantial doubt about the Agency's ability to continue as a going concern. Management's plans regarding those matters are described above. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 6. U.S. Government Debt Downgrade

On August 5, 2011, Standard & Poor's lowered its long-term credit rating on debt of the U.S. government from AAA to AA+. That action affected Standard & Poor's view of U.S public finance debt instruments that are directly or indirectly backed by the U.S. As a result, on August 8, 2011, Standard & Poor's lowered its long-term credit ratings of U.S. government-sponsored enterprises and public debt issues that have credit enhancement guarantees by those government-sponsored enterprises to AA+. These credit downgrades relate to the credit risk associated with the City's investments in U.S. Treasury obligations and U.S. government agency securities (FFCB, FHLB, FHLMC and FNMA).

Required Supplementary Information

### General Fund
### Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
### For the Year Ended June 30, 2011
### ($000's)

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts Budgetary Basis Variance with Final Budget Over (Under) | Actual Amounts Budgetary Basis | Budgetary to GAAP Differences | Actual Amounts GAAP Basis |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Taxes: | | | | | | |
| Property | $ 199,052 | 194,909 | (95) | 194,814 | - | 194,814 |
| Sales | 127,232 | 138,756 | (786) | 137,970 | - | 137,970 |
| Utility | 113,457 | 108,557 | (29) | 108,528 | - | 108,528 |
| State of California in-lieu | 6,906 | 5,129 | (240) | 4,889 | - | 4,889 |
| Franchise | 43,121 | 41,556 | (283) | 41,273 | - | 41,273 |
| Marijuana | - | 1,120 | 32 | 1,152 | - | 1,152 |
| Other | 6,684 | 6,684 | 538 | 7,222 | - | 7,222 |
| Licenses, permits and fines | 88,687 | 91,516 | 1,955 | 93,471 | - | 93,471 |
| Intergovernmental | 19,641 | 28,507 | (12,894) | 15,613 | - | 15,613 |
| Charges for current services | 30,614 | 40,851 | (7,663) | 33,188 | - | 33,188 |
| Investment income | 4,837 | 3,968 | (741) | 3,227 | 391 | 3,618 (1) |
| Other revenues | 32,519 | 114,379 | (75,220) | 39,159 | (88) | 39,071 (3) |
| Total revenues | 672,750 | 775,932 | (95,426) | 680,506 | 303 | 680,809 |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | 96,929 | 98,989 | (11,924) | 87,065 | (7,898) | 79,167 (2) |
| Public safety | 446,457 | 451,751 | (15,882) | 435,869 | (3,393) | 432,476 (2) |
| Capital maintenance | 66,845 | 71,002 | (15,310) | 55,692 | (6,067) | 49,625 (2) |
| Community services | 123,898 | 131,568 | (8,007) | 123,561 | (3,526) | 120,035 (2) |
| Sanitation | 946 | 955 | (157) | 798 | (49) | 749 (2) |
| Capital outlay | 5,787 | 2,034 | - | 2,034 | - | 2,034 (2) |
| Debt service: | | | | | | |
| Principal | 1,038 | 1,038 | - | 1,038 | - | 1,038 |
| Interest | 553 | 553 | - | 553 | - | 553 |
| Total expenditures | 742,453 | 757,890 | (51,280) | 706,610 | (20,933) | 685,677 |
| Excess (deficiency) of revenues over expenditures | (69,703) | 18,042 | (44,146) | (26,104) | 21,236 | (4,868) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Proceeds for sale of capital assets | 1,800 | 500 | - | 504 | - | 504 |
| Transfers in | 22,700 | 26,050 | 3,533 | 29,583 | - | 29,583 |
| Transfers out | (31,106) | (29,490) | (5) | (29,485) | - | (29,485) |
| Total other financing sources (uses) | (6,606) | (2,940) | 3,528 | 602 | - | 602 |
| Net change in fund balances | (76,309) | 15,102 | (40,618) | (25,502) | 21,236 | (4,266) |
| Fund balance - beginning | 141,397 | 141,397 | - | 141,397 | 29,490 | 170,887 |
| Beginning encumbrance | - | - | - | 20,635 | (20,635) | - |
| Fund balance - ending | $ 65,088 | 156,499 | (40,618) | 136,530 | 30,091 | 166,621 |

**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) Loan repayments for which budgets are prepared.

See accompanying notes to the required supplementary information.

(Continued)

### Housing Activities
### Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
### For the Year Ended June 30, 2011
### ($000's)

| | | Budgeted Amounts | | Actual Amounts Budgetary Basis Variance with Final Budget | Actual Amounts Budgetary | Budgetary to GAAP | Actual Amounts | |
|---|---|---|---|---|---|---|---|---|
| | | Original | Final | Over (Under) | Basis | Differences | GAAP Basis | |
| **REVENUES** | | | | | | | | |
| Intergovernmental | $ | 30,179 | 25,929 | (8,716) | 17,213 | - | 17,213 | |
| Investment income | | 9,298 | 7,524 | 1,017 | 8,541 | 109 | 8,650 | (1) |
| Other revenues | | 9,053 | 11,204 | 3,156 | 14,360 | (10,254) | 4,106 | (3) |
| Total revenues | | 48,530 | 44,657 | (4,543) | 40,114 | (10,145) | 29,969 | |
| **EXPENDITURES** | | | | | | | | |
| Current: | | | | | | | | |
| Capital maintenance | | 8 | 15 | (1) | 14 | - | 14 | |
| Community services | | 113,009 | 103,757 | (7,709) | 96,048 | (53,502) | 42,546 | (2), (3) |
| Total expenditures | | 113,017 | 103,772 | (7,710) | 96,062 | (53,502) | 42,560 | |
| Excess (deficiency) of revenues over expenditures | | (64,487) | (59,115) | 3,167 | (55,948) | 43,357 | (12,591) | |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | | |
| Transfers in | | 48,315 | 36,727 | 80 | 36,807 | - | 36,807 | |
| Transfers out | | (40,354) | (40,469) | 652 | (39,817) | 12,815 | (27,002) | |
| Total other financing sources (uses) | | 7,961 | (3,742) | 732 | (3,010) | 12,815 | 9,805 | |
| Net change in fund balances | | (56,526) | (62,857) | 3,899 | (58,958) | 56,172 | (2,786) | |
| Fund balance - beginning | | 8,828 | 8,828 | - | 8,828 | 401,663 | 410,491 | |
| Beginning encumbrance | | - | - | - | 45,300 | (45,300) | - | |
| Fund balance - ending | $ | (47,698) | (54,029) | 3,899 | (4,830) | 412,535 | 407,705 | |

**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, present value discount/ allowance, and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

(Continued)

# City of San José
# Required Supplementary Information (Unaudited)
# June 30, 2011

**Schedule of Funding Progress**
**($000's)**

**Police and Fire Department Retirement Plan - Defined Benefit Pension Plan**

| Actuarial Valuation Date (4) | | Actuarial Value of Assets (1) | Actuarial Accrued Liability (AAL) (2) | Unfunded (Overfunded) AAL | Funded Ratio | Annual Covered Payroll (3) | (Overfunded) Unfunded AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 6/30/07 | $ | 2,365,790 | 2,372,386 | 6,596 | 100% | 227,734 | 3% |
| 6/30/09 | | 2,569,569 | 2,963,482 | 393,913 | 87% | 243,196 | 162% |
| 6/30/10 | | 2,576,705 | 3,230,456 | 653,751 | 80% | 222,699 | 294% |

**Federated City Employees' Retirement System - Defined Benefit Pension Plan**

| Actuarial Valuation Date (4) | | Actuarial Value of Assets (1) | Actuarial Accrued Liability (AAL) (2) | Unfunded AAL | Funded Ratio | Annual Covered Payroll (3) | Unfunded AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 6/30/07 | $ | 1,622,851 | 1,960,943 | 338,092 | 83% | 291,405 | 116% |
| 6/30/09 | | 1,756,588 | 2,486,155 | 729,567 | 71% | 308,697 | 236% |
| 6/30/10 | | 1,729,414 | 2,510,358 | 780,944 | 69% | 275,869 | 283% |

(1) Excludes accounts payable, postemployment healthcare plan assets, supplemental retiree benefit reserve.
(2) Excludes postemployment healthcare liability.
(3) Prior to June 30, 2009, annual covered payroll represented the actuarial estimate of annual covered payroll for the subsequent year.
(4) Actuarial valuations have been performed biennially through June 30, 2009. Effective June 30, 2010, the PFDRP and FCERS transitioned to annual valuations.

**Police and Fire Department Retirement Plan - Postemployment Healthcare Benefit Plan**

| Actuarial Valuation Date | | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL | Funded Ratio | Annual Covered Payroll | Unfunded AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 6/30/07 | $ | 45,393 | 666,228 | 620,835 | 7% | 227,734 | 273% |
| 6/30/09 | | 55,618 | 761,604 | 705,986 | 7% | 243,196 | 290% |
| 6/30/10 | | 58,586 | 946,308 | 887,722 | 6% | 222,699 | 399% |

**Federated City Employees' Retirement System - Postemployment Healthcare Benefit Plan**

| Actuarial Valuation Date | | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL | Funded Ratio | Annual Covered Payroll | Unfunded AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 6/30/07 | $ | 96,601 | 616,749 | 520,148 | 16% | 271,833 | 191% |
| 6/30/09 | | 85,564 | 796,448 | 710,884 | 11% | 308,697 | 230% |
| 6/30/10 | | 108,011 | 926,371 | 818,360 | 12% | 275,869 | 297% |

(Continued)

## I. Budgetary Information

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

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, nonpersonal) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department. The City's legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within the Comprehensive Annual Financial Report itself. As a result, the City prepares a separate report to demonstrate compliance with its legal level of budgetary control.

Annual budgets are prepared for the General Fund and all Special Revenue Funds, except for the Special Assessment Special Services fund and Emergency Reserve fund. Capital project budgets are based on a project time frame rather than a fiscal year time frame. Debt Service Funds appropriations were adopted by the Council when the formal bond resolutions were approved. Therefore, Capital Project Funds and Debt Service Funds are not reported on budgetary basis.

## II. Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States ("GAAP") basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process ("budgetary basis") to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial schedules, while encumbered amounts are not recognized as expenditures on GAAP basis until the equipment, supplies or services are received.

- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When loan repayments are received, they are recorded as reductions to receivables on a GAAP basis, but are recognized as revenues on a budgetary basis.

- Net decreases were made to certain GAAP basis loans receivable to reflect carrying amounts at a discounted present value and allowances for bad debts. The discount is treated as an expenditure on a GAAP basis and is not included in the budgetary basis financial schedules. In addition, the allowance for bad debts is not included in the budgetary basis financial schedules, but is an expenditure on a GAAP basis.

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial schedules.

(Continued)

- The Community Facility Revenue non-major special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial schedules.

- Certain line of credit transactions are recognized as expenditures in the budgetary basis financial schedules but are recorded as an asset in the GAAP basis financial statements. When the outside agency draws down on the line of credit, the City records an asset, advances to other agencies, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules. When the outside agency pays down the line of credit, the City records a reduction to its assets in the GAAP basis financial statements and revenues on the budgetary basis financial schedules.

- Certain grant revenues received in advance are recognized on the budgetary basis financial schedules, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

### III. Budget Revisions

On October 18, 2011, the City Council approved certain fiscal year 2011 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedule of revenues, expenditures, and changes in fund balances - budget and actual reflect such budget revisions.

(Concluded)

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Combining Nonmajor Governmental Funds

# City of San José
# Combining Balance Sheet
# Nonmajor Governmental Funds
# June 30, 2011
# ($000's)

| | | Special Revenue Funds | Debt Service Funds | Capital Project Funds | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 294,075 | - | 26,391 | 320,466 |
| Receivables (net of allowance for uncollectibles) | | 30,948 | 129 | 2,166 | 33,243 |
| Due from outside agencies | | 38 | 43 | - | 81 |
| Due from other funds | | 1,604 | - | 11,646 | 13,250 |
| Loans receivable (net) | | 5,428 | - | - | 5,428 |
| Advances and deposits | | 23 | - | 39 | 62 |
| Restricted assets: | | | | | |
| Equity in pooled cash and investments held in City Treasury | | - | 35,509 | 105 | 35,614 |
| Cash and investments held with fiscal agent | | - | 643 | 82,901 | 83,544 |
| Other cash and investments | | 3,220 | - | - | 3,220 |
| Advances to other funds | | 13,142 | - | - | 13,142 |
| Other assets | | 852 | - | - | 852 |
| Total assets | $ | 349,330 | 36,324 | 123,248 | 508,902 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $ | 30,864 | 171 | 3,825 | 34,860 |
| Accrued salaries, wages, and payroll taxes | | 4,469 | - | 615 | 5,084 |
| Due to other funds | | 3,271 | - | 11,696 | 14,967 |
| Deferred revenue | | 10,729 | - | - | 10,729 |
| Advances, deposits, and reimbursable credits | | 5,254 | - | - | 5,254 |
| Advances from other funds | | - | - | 201 | 201 |
| Other liabilities | | 1,510 | - | - | 1,510 |
| Total liabilities | | 56,097 | 171 | 16,337 | 72,605 |
| Fund balances: | | | | | |
| Nonspendable | | 875 | - | 39 | 914 |
| Restricted | | 241,114 | 36,153 | 93,814 | 371,081 |
| Committed | | 50,749 | - | - | 50,749 |
| Assigned | | 495 | - | 13,280 | 13,775 |
| Unassigned | | - | - | (222) | (222) |
| Total fund balances | | 293,233 | 36,153 | 106,911 | 436,297 |
| Total liabilities and fund balances | $ | 349,330 | 36,324 | 123,248 | 508,902 |

# City of San José
## Combining Statement of Revenues, Expenditures and Changes in Fund Balances
## Nonmajor Governmental Funds
## For the Year Ended June 30, 2011
## ($000's)

| | | Special Revenue Funds | Debt Service Funds | Capital Project Funds | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes and special assessments | $ | 57,277 | 43,029 | 13,261 | 113,567 |
| Intergovernmental | | 58,436 | - | 22,217 | 80,653 |
| Charges for current services | | 165,459 | - | 7,681 | 173,140 |
| Rent | | 19,620 | - | - | 19,620 |
| Investment income | | 2,353 | 258 | 1,237 | 3,848 |
| Other revenues | | 7,916 | - | 2,393 | 10,309 |
| Total revenues | | 311,061 | 43,287 | 46,789 | 401,137 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | | 18,795 | - | - | 18,795 |
| Public safety | | 1,784 | - | - | 1,784 |
| Community services | | 60,369 | - | - | 60,369 |
| Sanitation | | 127,560 | - | - | 127,560 |
| Capital maintenance | | 83,067 | - | 30,539 | 113,606 |
| Capital outlay | | 8,991 | - | 28,329 | 37,320 |
| Debt service: | | | | | |
| Principal | | - | 19,650 | - | 19,650 |
| Interest and fiscal charges | | - | 24,464 | - | 24,464 |
| Total expenditures | | 300,566 | 44,114 | 58,868 | 403,548 |
| Excess (deficiency) of revenues under (over) expenditures | | 10,495 | (827) | (12,079) | (2,411) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | | 17,764 | 24,912 | 6,190 | 48,866 |
| Transfers out | | (44,483) | (24,141) | (10,636) | (79,260) |
| Total other financing sources (uses) | | (26,719) | 771 | (4,446) | (30,394) |
| Net change in fund balances | | (16,224) | (56) | (16,525) | (32,805) |
| Fund balances - beginning | | 309,457 | 36,209 | 123,436 | 469,102 |
| Fund balances - ending | $ | 293,233 | 36,153 | 106,911 | 436,297 |

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# Nonmajor Special Revenue Funds

# City of San José
# Combining Balance Sheet
# Nonmajor Special Revenue Funds
# June 30, 2011
# ($000's)

| | | Prusch Memorial Park (Funds 131, 151) | Gift Trust (Fund 139) | Emergency Communication System Support Fee (Fund 154) | Workforce Investment Act (Funds 290-294, 299) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 373 | 2,663 | - | - |
| Receivables (net of allowance for uncollectibles) | | - | 4 | - | 5,346 |
| Due from outside agencies | | - | - | - | - |
| Due from other funds | | - | - | - | - |
| Loans receivable (net) | | - | - | - | - |
| Advances and deposits | | - | - | - | - |
| Restricted assets: | | | | | |
| Other cash and investments | | - | - | - | - |
| Advances to other funds | | - | - | - | - |
| Other assets | | - | - | - | - |
| Total assets | $ | 373 | 2,667 | - | 5,346 |
| **LIABILITIES** | | | | | |
| Accounts payable | $ | 15 | 46 | - | 2,920 |
| Accrued salaries, wages and payroll taxes | | 1 | 9 | - | 466 |
| Due to other funds | | - | - | - | 877 |
| Deferred revenue | | - | - | - | - |
| Advances, deposits and reimbursable credits | | - | - | - | - |
| Other liabilities | | - | - | - | - |
| Total liabilities | | 16 | 55 | - | 4,263 |
| **FUND BALANCES** | | | | | |
| Nonspendable | | - | - | - | - |
| Restricted | | 357 | - | - | 1,083 |
| Committed | | - | 2,612 | - | - |
| Assigned | | - | - | - | - |
| Total fund balances | | 357 | 2,612 | - | 1,083 |
| Total liabilities and fund balances | $ | 373 | 2,667 | - | 5,346 |

| San José Arena Enhancement (Fund 301) | Special Assessment Maintenance Districts (Funds 302, 351-369 371-374, 376) | Ng Shing Gung Capital Maintenance (Fund 303) | North San José Traffic Impact Fee (Fund 349) | Special Assessment Special Services (Fund 350) |
|---|---|---|---|---|
| - | 18,296 | 55 | - | - |
| 87 | 44 | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 87 | 18,340 | 55 | - | - |
| - | 97 | - | - | - |
| - | 57 | - | - | - |
| 87 | - | - | - | - |
| - | 84 | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 87 | 238 | - | - | - |
| - | - | - | - | - |
| - | 18,102 | 55 | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | 18,102 | 55 | - | - |
| 87 | 18,340 | 55 | - | - |

(Continued)

**City of San José**
**Combining Balance Sheet**
**Nonmajor Special Revenue Funds**
**June 30, 2011**
**($000's)**

| | | Subdivision Park Trust (Fund 375) | Construction and Property Conveyance Tax (Funds 377-398) | Emergency Reserve (Funds 405-407) | 1943 Gas Tax Maintenance and Construction (Fund 409) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 72,240 | 80,138 | - | - |
| Receivables (net of allowance for uncollectibles) | | 50 | 2,575 | - | 661 |
| Due from outside agencies | | - | - | - | - |
| Due from other funds | | - | - | - | - |
| Loans receivable (net) | | - | - | - | - |
| Advances and deposits | | - | 20 | - | - |
| Restricted assets: | | | | | |
| Other cash and investments | | - | - | - | - |
| Advances to other funds | | 11,130 | - | - | - |
| Other assets | | - | - | - | - |
| Total assets | $ | 83,420 | 82,733 | - | 661 |
| **LIABILITIES** | | | | | |
| Accounts payable | $ | 4,691 | 3,176 | - | - |
| Accrued salaries, wages and payroll taxes | | 124 | 479 | - | - |
| Due to other funds | | - | 227 | - | 661 |
| Deferred revenue | | 18 | - | - | - |
| Advances, deposits and reimbursable credits | | - | - | - | - |
| Other liabilities | | - | - | - | - |
| Total liabilities | | 4,833 | 3,882 | - | 661 |
| **FUND BALANCE** | | | | | |
| Nonspendable | | - | 20 | - | - |
| Restricted | | 78,587 | 78,831 | - | - |
| Committed | | - | - | - | - |
| Assigned | | - | - | - | - |
| Total fund balances | | 78,587 | 78,851 | - | - |
| Total liabilities and fund balances | $ | 83,420 | 82,733 | - | 661 |

| 1964 Gas Tax Maintenance and Construction (Funds 410-411) | Storm Drainage Fee (Funds 413, 427) | Supplemental Local Law Enforcement (Fund 414) | Federal LLEBG Program (Fund 415) | Underground Utility (Fund 416) |
|---|---|---|---|---|
| - | 227 | 1,448 | - | 1,898 |
| 778 | 1 | 1 | - | 293 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 778 | 228 | 1,449 | - | 2,191 |
| - | - | 197 | - | - |
| - | - | - | - | 17 |
| 778 | - | - | - | - |
| - | - | 1,208 | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 778 | - | 1,405 | - | 17 |
| - | - | - | - | - |
| - | 228 | 44 | - | 2,174 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | 228 | 44 | - | 2,174 |
| 778 | 228 | 1,449 | - | 2,191 |

(Continued)

# City of San José
# Combining Balance Sheet
# Nonmajor Special Revenue Funds
# June 30, 2011
# ($000's)

| | | State Drug Forfeiture (Fund 417) | Library Parcel Tax (Fund 418) | Federal Drug Forfeiture (Fund 419) | Residential Construction Tax Contribution (Fund 420) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 1,534 | 6,626 | 2,684 | 1,110 |
| Receivables (net of allowance for uncollectibles) | | 1 | 3 | 2 | 1 |
| Due from outside agencies | | - | 7 | - | - |
| Due from other funds | | - | - | - | - |
| Loans receivable (net) | | - | - | - | - |
| Advances and deposits | | - | - | - | - |
| Restricted assets: | | | | | |
| Other cash and investments | | - | - | - | - |
| Advances to other funds | | - | - | - | - |
| Other assets | | - | - | - | - |
| Total assets | $ | 1,535 | 6,636 | 2,686 | 1,111 |
| **LIABILITIES** | | | | | |
| Accounts payable | $ | - | 157 | - | - |
| Accrued salaries, wages and payroll taxes | | - | 272 | 1 | 1 |
| Due to other funds | | - | - | - | - |
| Deferred revenue | | - | - | - | - |
| Advances, deposits and reimbursable credits | | - | - | - | - |
| Other liabilities | | - | - | - | - |
| Total liabilities | | - | 429 | 1 | 1 |
| **FUND BALANCE** | | | | | |
| Nonspendable | | - | - | - | - |
| Restricted | | 1,535 | 6,207 | 2,685 | - |
| Committed | | - | - | - | 1,110 |
| Assigned | | - | - | - | - |
| Total fund balance | | 1,535 | 6,207 | 2,685 | 1,110 |
| Total liabilities and fund balance | $ | 1,535 | 6,636 | 2,686 | 1,111 |

| Arterial and Major Collectors (Fund 421) | Community Facility Revenue (Funds 422,432,438) | Integrated Waste Management (Fund 423) | Tobacco Settlement (Fund 426) | Building and Structures Construction Tax (Fund 429) |
|---|---|---|---|---|
| 1,140 | 9,114 | 39,289 | 262 | 12,608 |
| 1 | 481 | 9,951 | 2 | 4,714 |
| - | - | - | - | - |
| - | - | - | - | 1,604 |
| - | - | - | 600 | - |
| - | - | - | - | 3 |
| - | - | - | - | - |
| - | 2,012 | - | - | - |
| - | - | - | - | - |
| 1,141 | 11,607 | 49,240 | 864 | 18,929 |
| 21 | 503 | 16,274 | - | 941 |
| 8 | 855 | 584 | - | 445 |
| - | - | - | - | - |
| - | 101 | 6,500 | - | - |
| - | 623 | 4,631 | - | - |
| - | - | - | - | - |
| 29 | 2,082 | 27,989 | - | 1,386 |
| - | - | - | - | 3 |
| - | - | - | - | 17,540 |
| 1,112 | 9,525 | 21,251 | 864 | - |
| - | - | - | - | - |
| 1,112 | 9,525 | 21,251 | 864 | 17,543 |
| 1,141 | 11,607 | 49,240 | 864 | 18,929 |

(Continued)

# City of San José
# Combining Balance Sheet
# Nonmajor Special Revenue Funds
# June 30, 2011
# ($000's)

| | | Development Enhancement (Fund 439) | Community Development Block Grant (Funds 441, 304) | Economic Development Administration Loans (Fund 444) | Storm Drainage Service Use Charge (Funds 446, 469) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 852 | - | 121 | 30,712 |
| Receivables (net of allowance for uncollectibles) | | 1 | 2,516 | - | 245 |
| Due from outside agencies | | - | - | - | 31 |
| Due from other funds | | - | - | - | - |
| Loans receivable (net) | | 20 | 4,731 | 77 | - |
| Advances and deposits | | - | - | - | - |
| Restricted assets: | | | | | |
| Other cash and investments | | - | 5 | - | - |
| Advances to other funds | | - | - | - | - |
| Other assets | | 852 | - | - | - |
| Total assets | $ | 1,725 | 7,252 | 198 | 30,988 |
| **LIABILITIES** | | | | | |
| Accounts payable | $ | - | 854 | - | 703 |
| Accrued salaries, wages and payroll taxes | | - | 216 | - | 842 |
| Due to other funds | | - | 641 | - | - |
| Deferred revenue | | - | 1,499 | - | - |
| Advances, deposits and reimbursable credits | | - | - | - | - |
| Other liabilities | | - | - | - | - |
| Total liabilities | | - | 3,210 | - | 1,545 |
| **FUND BALANCE** | | | | | |
| Nonspendable | | 852 | - | - | - |
| Restricted | | - | 4,042 | 198 | 29,443 |
| Committed | | 873 | - | - | - |
| Assigned | | - | - | - | - |
| Total fund balance | | 1,725 | 4,042 | 198 | 29,443 |
| Total liabilities and fund balance | $ | 1,725 | 7,252 | 198 | 30,988 |

| Transient Occupancy Tax (Fund 461) | Lake Cunningham (Fund 462) | Edward Brown Memorial Justice (Funds 474, 477) | Municipal Golf Courses (Fund 518) | Convention and Cultural Facilities (Fund 536, 481) | Total |
|---|---|---|---|---|---|
| 3,235 | 732 | 411 | 388 | 5,919 | 294,075 |
| 830 | - | - | - | 2,360 | 30,948 |
| - | - | - | - | - | 38 |
| - | - | - | - | - | 1,604 |
| - | - | - | - | - | 5,428 |
| - | - | - | - | - | 23 |
| - | - | - | - | 3,215 | 3,220 |
| - | - | - | - | - | 13,142 |
| - | - | - | - | - | 852 |
| 4,065 | 732 | 411 | 388 | 11,494 | 349,330 |
| 6 | 51 | 54 | 79 | 79 | 30,864 |
| 47 | 1 | 7 | - | 37 | 4,469 |
| - | - | - | - | - | 3,271 |
| - | - | 347 | - | 972 | 10,729 |
| - | - | - | - | - | 5,254 |
| - | - | - | - | 1,510 | 1,510 |
| 53 | 52 | 408 | 79 | 2,598 | 56,097 |
| - | - | - | - | - | 875 |
| - | - | 3 | - | - | 241,114 |
| 4,012 | 680 | - | 309 | 8,401 | 50,749 |
| - | - | - | - | 495 | 495 |
| 4,012 | 680 | 3 | 309 | 8,896 | 293,233 |
| 4,065 | 732 | 411 | 388 | 11,494 | 349,330 |

# City of San José
## Combining Statement of Revenues, Expenditures and Changes in Fund Balances
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | | Prusch Memorial Park (Funds 131, 151) | Gift Trust (Fund 139) | Emergency Communication System Support Fee (Fund 154) | Workforce Investment Act (Funds 290-294, 299) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes and special assessments | $ | - | - | - | - |
| Intergovernmental | | - | - | - | 17,541 |
| Charges for current services | | - | - | - | - |
| Rent | | 74 | - | - | - |
| Investment income | | 3 | 15 | - | - |
| Other revenues | | - | 911 | - | - |
| Total revenues | | 77 | 926 | - | 17,541 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | | - | - | - | - |
| Public safety | | - | - | - | - |
| Community services | | 50 | 822 | - | 17,900 |
| Sanitation | | - | - | - | - |
| Capital maintenance | | - | - | - | - |
| Capital outlay | | - | - | - | - |
| Total expenditures | | 50 | 822 | - | 17,900 |
| Excess (deficiency) of revenues over (under) expenditures | | 27 | 104 | - | (359) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | | - | 404 | - | 26 |
| Transfers out | | - | - | (6) | - |
| Total other financing sources (uses) | | - | 404 | (6) | 26 |
| Net change in fund balances | | 27 | 508 | (6) | (333) |
| Fund balances - beginning | | 330 | 2,104 | 6 | 1,416 |
| Fund balances - ending | $ | 357 | 2,612 | - | 1,083 |

| San José Arena Enhancement (Fund 301) | Special Assessment Maintenance Districts (Funds 302, 351-369 371-374, 376) | Ng Shing Gung Capital Maintenance (Fund 303) | North San José Traffic Impact Fee (Fund 349) | Special Assessment Special Services (Fund 350) |
|---|---|---|---|---|
| - | 8,147 | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 3 | 121 | - | - | - |
| 87 | 161 | 2 | - | - |
| 90 | 8,429 | 2 | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | 8,296 | - | - | - |
| - | - | - | - | - |
| - | 8,296 | - | - | - |
| 90 | 133 | 2 | - | - |
| 979 | 820 | 3 | - | - |
| (1,079) | - | - | (4,557) | (86) |
| (100) | 820 | 3 | (4,557) | (86) |
| (10) | 953 | 5 | (4,557) | (86) |
| 10 | 17,149 | 50 | 4,557 | 86 |
| - | 18,102 | 55 | - | - |

(Continued)

# City of San José
## Combining Statement of Revenues, Expenditures and Changes in Fund Balances
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | | Subdivision Park Trust (Fund 375) | Construction and Property Conveyance Tax (Funds 377-398) | Emergency Reserve (Funds 405-407) | 1943 Gas Tax Maintenance and Construction (Fund 409) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes and special assessments | $ | - | 21,384 | - | - |
| Intergovernmental | | - | 2,862 | - | 6,866 |
| Charges for current services | | 8,818 | - | - | - |
| Rent | | - | - | - | - |
| Investment income | | 501 | 912 | - | - |
| Other revenues | | - | 1,593 | - | - |
| Total revenues | | 9,319 | 26,751 | - | 6,866 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | | - | - | - | - |
| Public safety | | - | - | - | - |
| Community services | | - | - | - | - |
| Sanitation | | - | - | - | - |
| Capital maintenance | | 10,985 | 25,033 | - | 6,866 |
| Capital outlay | | 720 | 1,367 | - | - |
| Total expenditures | | 11,705 | 26,400 | - | 6,866 |
| Excess (deficiency) of revenues over (under) expenditures | | (2,386) | 351 | - | - |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | | 330 | 1,054 | - | - |
| Transfers out | | (635) | (8,246) | (3,382) | - |
| Total other financing sources (uses) | | (305) | (7,192) | (3,382) | - |
| Net change in fund balances | | (2,691) | (6,841) | (3,382) | - |
| Fund balances - beginning | | 81,278 | 85,692 | 3,382 | - |
| Fund balances - ending | $ | 78,587 | 78,851 | - | - |

| | | | | |
|---|---|---|---|---|
| **1964 Gas Tax Maintenance and Construction (Funds 410-411)** | **Storm Drainage Fee (Funds 413, 427)** | **Supplemental Local Law Enforcement (Fund 414)** | **Federal LLEBG Program (Fund 415)** | **Underground Utility (Fund 416)** |
| - | - | - | - | - |
| 8,803 | 4 | 396 | - | 811 |
| - | 137 | - | - | 31 |
| - | - | - | - | - |
| - | 6 | 10 | - | 11 |
| - | - | - | - | - |
| 8,803 | 147 | 406 | - | 853 |
| | | | | |
| - | - | - | - | - |
| - | - | 424 | 4 | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 8,803 | 30 | - | - | 441 |
| - | - | 11 | - | - |
| 8,803 | 30 | 435 | 4 | 441 |
| - | 117 | (29) | (4) | 412 |
| | | | | |
| - | - | - | - | - |
| - | (4) | - | - | (27) |
| - | (4) | - | - | (27) |
| - | 113 | (29) | (4) | 385 |
| - | 115 | 73 | 4 | 1,789 |
| - | 228 | 44 | - | 2,174 |

(Continued)

# City of San José
## Combining Statement of Revenues, Expenditures and Changes in Fund Balances
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | | State Drug Forfeiture (Fund 417) | Library Parcel Tax (Fund 418) | Federal Drug Forfeiture (Fund 419) | Residential Construction Tax Contribution (Fund 420) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes and special assessments | $ | - | 7,283 | - | 186 |
| Intergovernmental | | - | - | - | - |
| Charges for current services | | - | - | - | - |
| Rent | | - | - | - | - |
| Investment income | | 15 | 45 | 18 | 8 |
| Other revenues | | 87 | - | 405 | - |
| Total revenues | | 102 | 7,328 | 423 | 194 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | | - | - | - | - |
| Public safety | | - | - | 34 | - |
| Community services | | - | 5,324 | - | - |
| Sanitation | | - | - | - | - |
| Capital maintenance | | - | 2,759 | - | 33 |
| Capital outlay | | - | 140 | - | - |
| Total expenditures | | - | 8,223 | 34 | 33 |
| Excess (deficiency) of revenues over (under) expenditures | | 102 | (895) | 389 | 161 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | | - | 24 | - | - |
| Transfers out | | - | (51) | - | (10) |
| Total other financing sources (uses) | | - | (27) | - | (10) |
| Net change in fund balances | | 102 | (922) | 389 | 151 |
| Fund balances - beginning | | 1,433 | 7,129 | 2,296 | 959 |
| Fund balances - ending | $ | 1,535 | 6,207 | 2,685 | 1,110 |

| Arterial and Major Collectors (Fund 421) | Community Facility Revenue (Funds 422,432,438) | Integrated Waste Management (Fund 423) | Tobacco Settlement (Fund 426) | Building and Structures Construction Tax (Fund 429) |
|---|---|---|---|---|
| - | - | - | - | 9,397 |
| - | - | 61 | - | 9,409 |
| 13 | 11,945 | 110,829 | - | - |
| - | 2,678 | - | - | - |
| 9 | 60 | 237 | 20 | 101 |
| - | 4,391 | - | 210 | 47 |
| 22 | 19,074 | 111,127 | 230 | 18,954 |
| - | 18,795 | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | 107,939 | - | - |
| 169 | 533 | - | - | 14,115 |
| - | - | 2,910 | - | 2,780 |
| 169 | 19,328 | 110,849 | - | 16,895 |
| (147) | (254) | 278 | 230 | 2,059 |
| - | 5,768 | 1,788 | - | - |
| - | (3,673) | (4,512) | (7,202) | (463) |
| - | 2,095 | (2,724) | (7,202) | (463) |
| (147) | 1,841 | (2,446) | (6,972) | 1,596 |
| 1,259 | 7,684 | 23,697 | 7,836 | 15,947 |
| 1,112 | 9,525 | 21,251 | 864 | 17,543 |

(Continued)

# City of San José
## Combining Statement of Revenues, Expenditures and Changes in Fund Balances
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | | Development Enhancement (Fund 439) | Community Development Block Grant (Funds 441, 304) | Economic Development Administration Loans (Fund 444) | Storm Drainage Service Use Charge (Funds 446, 469) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes and special assessments | $ | - | - | - | - |
| Intergovernmental | | - | 10,167 | 13 | - |
| Charges for current services | | - | - | - | 30,719 |
| Rent | | - | - | - | - |
| Investment income | | 8 | - | - | 167 |
| Other revenues | | - | - | - | 5 |
| Total revenues | | 8 | 10,167 | 13 | 30,891 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | | - | - | - | - |
| Public safety | | - | - | - | - |
| Community services | | - | 9,012 | - | - |
| Sanitation | | - | - | - | 19,621 |
| Capital maintenance | | - | 1,409 | - | 3,042 |
| Capital outlay | | - | - | - | 828 |
| Total expenditures | | - | 10,421 | - | 23,491 |
| Excess (deficiency) of revenues over (under) expenditures | | 8 | (254) | 13 | 7,400 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | | 1 | - | - | 50 |
| Transfers out | | (691) | - | - | (1,764) |
| Total other financing sources (uses) | | (690) | - | - | (1,714) |
| Net change in fund balances | | (682) | (254) | 13 | 5,686 |
| Fund balances - beginning | | 2,407 | 4,296 | 185 | 23,757 |
| Fund balances - ending | $ | 1,725 | 4,042 | 198 | 29,443 |

| Transient Occupancy Tax (Fund 461) | Lake Cunningham (Fund 462) | Edward Brown Memorial Justice (Funds 474,477) | Municipal Golf Courses (Fund 518) | Convention and Cultural Facilities (Fund 536, 481) | Total |
|---|---|---|---|---|---|
| 10,880 | - | - | - | - | 57,277 |
| - | - | 1,503 | - | - | 58,436 |
| - | 629 | - | 546 | 1,792 | 165,459 |
| - | - | - | - | 16,868 | 19,620 |
| 40 | 5 | 8 | 4 | 26 | 2,353 |
| - | - | - | 17 | - | 7,916 |
| 10,920 | 634 | 1,511 | 567 | 18,686 | 311,061 |
| | | | | | |
| - | - | - | - | - | 18,795 |
| - | - | 1,322 | - | - | 1,784 |
| 5,455 | - | - | 6 | 21,800 | 60,369 |
| - | - | - | - | - | 127,560 |
| - | 88 | - | 415 | 50 | 83,067 |
| - | 14 | 218 | - | 3 | 8,991 |
| 5,455 | 102 | 1,540 | 421 | 21,853 | 300,566 |
| | | | | | |
| 5,465 | 532 | (29) | 146 | (3,167) | 10,495 |
| | | | | | |
| 1 | - | - | 1,000 | 5,516 | 17,764 |
| (5,018) | (826) | - | (1,917) | (334) | (44,483) |
| (5,017) | (826) | - | (917) | 5,182 | (26,719) |
| 448 | (294) | (29) | (771) | 2,015 | (16,224) |
| 3,564 | 974 | 32 | 1,080 | 6,881 | 309,457 |
| 4,012 | 680 | 3 | 309 | 8,896 | 293,233 |

## 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, 2011
## ($000's)

| | | Prusch Memorial Park (Funds 131, 151) | | | Gift Trust (Fund 139) | |
|---|---|---|---|---|---|---|
| | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| **REVENUES** | | | | | | |
| Taxes and special assessments | $ - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - |
| Charges for current services | - | - | - | - | - | - |
| Rent | 77 | 74 | (3) | - | - | - |
| Investment income | - | 2 | 2 | - | 10 | 10 |
| Other revenues | - | - | - | 616 | 911 | 295 |
| Total revenues | 77 | 76 | (1) | 616 | 921 | 305 |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | - | - | - |
| Community services | 130 | 50 | (80) | 3,131 | 823 | (2,308) |
| Sanitation | - | - | - | - | - | - |
| Capital maintenance | - | - | - | - | - | - |
| Capital outlay | - | - | - | - | - | - |
| Total expenditures | 130 | 50 | (80) | 3,131 | 823 | (2,308) |
| Excess (deficiency) of revenues over (under) expenditures | (53) | 26 | 79 | (2,515) | 98 | 2,613 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | - | - | - | - | 404 | 404 |
| Transfers out | - | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | 404 | 404 |
| Net change in fund balances | $ (53) | 26 | 79 | (2,515) | 502 | 3,017 |
| Fund balances - beginning | | 300 | | | 2,015 | |
| Prior year encumbrances | | 14 | | | 4 | |
| Fund balances - ending | | $ 340 | | | $ 2,521 | |

| Emergency Communication System Support Fee (Fund 154) | | | Workforce Investment Act (Funds 290-294, 299) | | | San José Arena Enhancement (Fund 301) | | |
|---|---|---|---|---|---|---|---|---|
| Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 24,186 | 17,542 | (6,644) | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | (42) | (42) | - | - | - | - | 3 | 3 |
| - | - | - | - | - | - | 100 | 88 | (12) |
| - | (42) | (42) | 24,186 | 17,542 | (6,644) | 100 | 91 | (9) |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 24,691 | 17,900 | (6,791) | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 24,691 | 17,900 | (6,791) | - | - | - |
| - | (42) | (42) | (505) | (358) | 147 | 100 | 91 | (9) |
| - | - | - | 26 | 26 | - | 979 | 979 | - |
| - | (6) | (6) | - | - | - | (1,089) | (1,079) | 10 |
| - | (6) | (6) | 26 | 26 | - | (110) | (100) | 10 |
| - | (48) | (48) | (479) | (332) | 147 | (10) | (9) | 1 |
| | 48 | | | 928 | | | 9 | |
| | - | | | 487 | | | - | |
| | $ - | | | $ 1,083 | | | $ - | |

(Continued)

## City of San José
## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | Special Assessment Maintenance Districts (Funds 302, 351-369, 371-374, 376) | | | Ng Shing Gung Capital Maintenance (Fund 303) | | |
|---|---|---|---|---|---|---|
| | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| **REVENUES** | | | | | | |
| Taxes and special assessments | $ 8,277 | 8,147 | (130) | - | - | - |
| Intergovernmental | - | - | - | - | - | - |
| Charges for current services | - | - | - | - | - | - |
| Rent | - | - | - | - | - | - |
| Investment income | 267 | 81 | (186) | - | - | - |
| Other revenues | - | 161 | 161 | - | 2 | 2 |
| Total revenues | 8,544 | 8,389 | (155) | - | 2 | 2 |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | - | - | - |
| Community services | - | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - |
| Capital maintenance | 10,587 | 9,462 | (1,125) | 5 | - | (5) |
| Capital outlay | - | - | - | - | - | - |
| Total expenditures | 10,587 | 9,462 | (1,125) | 5 | - | (5) |
| Excess (deficiency) of revenues over (under) expenditures | (2,043) | (1,073) | 970 | (5) | 2 | 7 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | 820 | 820 | - | 3 | 3 | - |
| Transfers out | - | - | - | - | - | - |
| Total other financing sources (uses) | 820 | 820 | - | 3 | 3 | - |
| Net change in fund balances | $ (1,223) | (253) | 970 | (2) | 5 | 7 |
| Fund balances - beginning | | 16,103 | | | 50 | |
| Prior year encumbrances | | 1,046 | | | - | |
| Fund balances - ending | | $ 16,896 | | | $ 55 | |

| North San José Traffic Impact Fee (Fund 349) | | | Subdivision Park Trust (Fund 375) | | | Construction and Property Conveyance Tax (Funds 377-398) | | |
|---|---|---|---|---|---|---|---|---|
| Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| - | - | - | - | - | - | 20,855 | 21,384 | 529 |
| - | - | - | - | - | - | 3,200 | 2,862 | (338) |
| - | - | - | 6,193 | 8,818 | 2,625 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | 323 | 323 | 825 | 1,039 | 214 |
| - | - | - | - | - | - | 1,569 | 1,593 | 24 |
| - | - | - | 6,193 | 9,141 | 2,948 | 26,449 | 26,878 | 429 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 35,979 | 13,100 | (22,879) | 65,127 | 33,015 | (32,112) |
| - | - | - | 720 | 720 | - | 1,367 | 1,367 | - |
| - | - | - | 36,699 | 13,820 | (22,879) | 66,494 | 34,382 | (32,112) |
| - | - | - | (30,506) | (4,679) | 25,827 | (40,045) | (7,504) | 32,541 |
| - | - | - | 330 | 330 | - | 7 | 1,054 | 1,047 |
| (4,557) | (4,557) | - | (643) | (635) | 8 | (8,280) | (8,246) | 34 |
| (4,557) | (4,557) | - | (313) | (305) | 8 | (8,273) | (7,192) | 1,081 |
| (4,557) | (4,557) | - | (30,819) | (4,984) | 25,835 | (48,318) | (14,696) | 33,622 |
| | 4,557 | | | 69,046 | | | 76,560 | |
| | - | | | 1,119 | | | 8,824 | |
| | $ - | | | $ 65,181 | | | $ 70,688 | |

(Continued)

# City of San José
## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | 1943 Gas Tax Maintenance and Construction (Fund 409) | | | 1964 Gas Tax Maintenance and Construction (Funds 410-411) | | |
|---|---|---|---|---|---|---|
| | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| **REVENUES** | | | | | | |
| Taxes and special assessments | $ - | - | - | - | - | - |
| Intergovernmental | 7,482 | 6,866 | (616) | 9,144 | 8,803 | (341) |
| Charges for current services | - | - | - | - | - | - |
| Rent | - | - | - | - | - | - |
| Investment income | - | - | - | - | - | - |
| Other revenues | - | - | - | - | - | - |
| Total revenues | 7,482 | 6,866 | (616) | 9,144 | 8,803 | (341) |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | - | - | - |
| Community services | - | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - |
| Capital maintenance | 7,482 | 6,866 | (616) | 9,144 | 8,803 | (341) |
| Capital outlay | - | - | - | - | - | - |
| Total expenditures | 7,482 | 6,866 | (616) | 9,144 | 8,803 | (341) |
| Excess (deficiency) of revenues over (under) expenditures | - | - | - | - | - | - |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - | - |
| Net change in fund balances | $ - | - | - | - | - | - |
| Fund balances - beginning | | - | | | - | |
| Prior year encumbrances | | - | | | - | |
| Fund balances - ending | | $ - | | | $ - | |

| Storm Drainage Fee (Funds 413, 427) | | | Supplemental Local Law Enforcement (Fund 414) | | | Federal LLEBG Program (Fund 415) | | |
|---|---|---|---|---|---|---|---|---|
| Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| - | - | - | - | - | - | - | - | - |
| 4 | 4 | - | 881 | 937 | 56 | - | - | - |
| 105 | 137 | 32 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | 4 | 4 | - | 6 | 6 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 109 | 145 | 36 | 881 | 943 | 62 | - | - | - |
| | | | | | | | | |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 1,606 | 1,367 | (239) | 4 | 4 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 31 | 31 | - | - | - | - | - | - | - |
| - | - | - | 12 | 12 | - | - | - | - |
| 31 | 31 | - | 1,618 | 1,379 | (239) | 4 | 4 | - |
| 78 | 114 | 36 | (737) | (436) | 301 | (4) | (4) | - |
| - | - | - | - | - | - | - | - | - |
| (5) | (4) | 1 | - | - | - | - | - | - |
| (5) | (4) | 1 | - | - | - | - | - | - |
| 73 | 110 | 37 | (737) | (436) | 301 | (4) | (4) | - |
| | 115 | | | 363 | | | - | |
| | - | | | 378 | | | 4 | |
| | $ 225 | | | $ 305 | | | $ - | |

(Continued)

# City of San José
## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | Underground Utility (Fund 416) | | | State Drug Forfeiture (Fund 417) | | |
|---|---|---|---|---|---|---|
| | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| **REVENUES** | | | | | | |
| Taxes and special assessments | $ - | - | - | - | - | - |
| Intergovernmental | 725 | 811 | 86 | - | - | - |
| Charges for current services | - | 31 | 31 | - | - | - |
| Rent | - | - | - | - | - | - |
| Investment income | - | 7 | 7 | 25 | 12 | (13) |
| Other revenues | - | - | - | 80 | 87 | 7 |
| Total revenues | 725 | 849 | 124 | 105 | 99 | (6) |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | 186 | - | (186) |
| Community services | - | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - |
| Capital maintenance | 2,016 | 441 | (1,575) | - | - | - |
| Capital outlay | - | - | - | - | - | - |
| Total expenditures | 2,016 | 441 | (1,575) | 186 | - | (186) |
| Excess (deficiency) of revenues over (under) expenditures | (1,291) | 408 | 1,699 | (81) | 99 | 180 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | - | - | - | - | - | - |
| Transfers out | (28) | (27) | 1 | - | - | - |
| Total other financing sources (uses) | (28) | (27) | 1 | - | - | - |
| Net change in fund balances | $ (1,319) | 381 | 1,700 | (81) | 99 | 180 |
| Fund balances - beginning | | 1,789 | | | 1,433 | |
| Prior year encumbrances | | - | | | - | |
| Fund balances - ending | | $ 2,170 | | | $ 1,532 | |

| Library Parcel Tax (Fund 418) | | | Federal Drug Forfeiture (Fund 419) | | | Residential Construction Tax Contribution (Fund 420) | | |
|---|---|---|---|---|---|---|---|---|
| Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| 7,100 | 7,283 | 183 | - | - | - | 200 | 186 | (14) |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | 34 | 34 | - | 12 | 12 | - | 5 | 5 |
| - | - | - | 393 | 405 | 12 | - | - | - |
| 7,100 | 7,317 | 217 | 393 | 417 | 24 | 200 | 191 | (9) |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 117 | 34 | (83) | - | - | - |
| 6,234 | 5,340 | (894) | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 3,184 | 2,775 | (409) | - | - | - | 333 | 33 | (300) |
| 140 | 140 | - | - | - | - | - | - | - |
| 9,558 | 8,255 | (1,303) | 117 | 34 | (83) | 333 | 33 | (300) |
| (2,458) | (938) | 1,520 | 276 | 383 | 107 | (133) | 158 | 291 |
| 24 | 24 | - | - | - | - | - | - | - |
| (51) | (51) | - | - | - | - | (10) | (10) | - |
| (27) | (27) | - | - | - | - | (10) | (10) | - |
| (2,485) | (965) | 1,520 | 276 | 383 | 107 | (143) | 148 | 291 |
| | 6,771 | | | 2,296 | | | 959 | |
| | 358 | | | - | | | - | |
| | $ 6,164 | | | $ 2,679 | | | $ 1,107 | |

(Continued)

# City of San José
## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | Arterial and Major Collectors (Fund 421) | | | Community Facility Revenue (Funds 422,432,438) | | |
|---|---|---|---|---|---|---|
| | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| **REVENUES** | | | | | | |
| Taxes and special assessments | $ - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - |
| Charges for current services | 25 | 13 | (12) | - | - | - |
| Rent | - | - | - | 3,068 | 2,678 | (390) |
| Investment income | 15 | 5 | (10) | - | 43 | 43 |
| Other revenues | - | - | - | 4,520 | 4,391 | (129) |
| Total revenues | 40 | 18 | (22) | 7,588 | 7,112 | (476) |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | 2,448 | 1,638 | (810) |
| Public safety | - | - | - | - | - | - |
| Community services | - | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - |
| Capital maintenance | 498 | 183 | (315) | 2,632 | 533 | (2,099) |
| Capital outlay | - | - | - | - | - | - |
| Total expenditures | 498 | 183 | (315) | 5,080 | 2,171 | (2,909) |
| Excess (deficiency) of revenues over (under) expenditures | (458) | (165) | 293 | 2,508 | 4,941 | 2,433 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | - | - | - | 5,900 | 5,768 | (132) |
| Transfers out | - | - | - | (9,645) | (9,473) | 172 |
| Total other financing sources (uses) | - | - | - | (3,745) | (3,705) | 40 |
| Net change in fund balances | $ (458) | (165) | 293 | (1,237) | 1,236 | 2,473 |
| Fund balances - beginning | | 1,259 | | | 7,061 | |
| Prior year encumbrances | | - | | | - | |
| Fund balances - ending | | $ 1,094 | | | $ 8,297 | |

| Integrated Waste Management (Fund 423) | | | Tobacco Settlement (Fund 426) | | | Building and Structures Construction Tax (Fund 429) | | |
|---|---|---|---|---|---|---|---|---|
| Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| - | - | - | - | - | - | 4,500 | 9,397 | 4,897 |
| - | 61 | 61 | - | - | - | 20,676 | 9,409 | (11,267) |
| 111,560 | 110,829 | (731) | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 250 | 237 | (13) | - | 14 | 14 | 100 | 67 | (33) |
| - | - | - | - | 99 | 99 | 214 | 47 | (167) |
| 111,810 | 111,127 | (683) | - | 113 | 113 | 25,490 | 18,920 | (6,570) |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 127,030 | 110,935 | (16,095) | - | - | - | - | - | - |
| - | - | - | - | - | - | 35,335 | 17,861 | (17,474) |
| 2,910 | 2,910 | - | - | - | - | 2,780 | 2,780 | - |
| 129,940 | 113,845 | (16,095) | - | - | - | 38,115 | 20,641 | (17,474) |
| (18,130) | (2,718) | 15,412 | - | 113 | 113 | (12,625) | (1,721) | 10,904 |
| 1,788 | 1,788 | - | - | - | - | - | - | - |
| (4,513) | (4,513) | - | (7,202) | (7,202) | - | (463) | (463) | - |
| (2,725) | (2,725) | - | (7,202) | (7,202) | - | (463) | (463) | - |
| (20,855) | (5,443) | 15,412 | (7,202) | (7,089) | 113 | (13,088) | (2,184) | 10,904 |
| | 16,707 | | | 7,202 | | | 10,510 | |
| | 6,699 | | | 34 | | | 5,436 | |
| | $ 17,963 | | | $ 147 | | | $ 13,762 | |

(Continued)

# City of San José
## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | Development Enhancement (Fund 439) | | | Community Development Block Grant (Funds 441,304) | | |
|---|---|---|---|---|---|---|
| | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| **REVENUES** | | | | | | |
| Taxes and special assessments | $ - | - | - | - | - | - |
| Intergovernmental | - | - | - | 13,297 | 11,826 | (1,471) |
| Charges for current services | - | - | - | - | - | - |
| Rent | - | - | - | - | - | - |
| Investment income | 28 | 6 | (22) | - | - | - |
| Other revenues | - | - | - | - | - | - |
| Total revenues | 28 | 6 | (22) | 13,297 | 11,826 | (1,471) |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | - | - | - |
| Community services | - | - | - | 12,457 | 9,963 | (2,494) |
| Sanitation | - | - | - | - | - | - |
| Capital maintenance | - | - | - | 4,116 | 2,659 | (1,457) |
| Capital outlay | - | - | - | - | - | - |
| Total expenditures | - | - | - | 16,573 | 12,622 | (3,951) |
| Excess (deficiency) of revenues over (under) expenditures | 28 | 6 | (22) | (3,276) | (796) | 2,480 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | 1 | 1 | - | - | - | - |
| Transfers out | (691) | (691) | - | - | - | - |
| Total other financing sources (uses) | (690) | (690) | - | - | - | - |
| Net change in fund balances | $ (662) | (684) | (22) | (3,276) | (796) | 2,480 |
| Fund balances - beginning | | 1,535 | | | 7,522 | |
| Prior year encumbrances | | - | | | 1,384 | |
| Fund balances - ending | | $ 851 | | | $ 8,110 | |

| Economic Development Administration Loans (Fund 444) | | | Storm Drainage Service Use Charge (Funds 446, 469) | | | Transient Occupancy Tax (Fund 461) | | |
|---|---|---|---|---|---|---|---|---|
| Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| - | - | - | - | - | - | 10,029 | 10,880 | 851 |
| 28 | 15 | (13) | - | - | - | - | - | - |
| - | - | - | 30,224 | 30,719 | 495 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 100 | 114 | 14 | - | 33 | 33 |
| - | - | - | - | 5 | 5 | - | - | - |
| 28 | 15 | (13) | 30,324 | 30,838 | 514 | 10,029 | 10,913 | 884 |
| 120 | - | (120) | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 7,138 | 5,631 | (1,507) |
| - | - | - | 24,789 | 21,269 | (3,520) | - | - | - |
| - | - | - | 13,577 | 5,436 | (8,141) | - | - | - |
| - | - | - | 828 | 828 | - | - | - | - |
| 120 | - | (120) | 39,194 | 27,533 | (11,661) | 7,138 | 5,631 | (1,507) |
| (92) | 15 | 107 | (8,870) | 3,305 | 12,175 | 2,891 | 5,282 | 2,391 |
| - | - | - | 50 | 50 | - | 1 | 1 | - |
| - | - | - | (1,765) | (1,764) | 1 | (5,018) | (5,018) | - |
| - | - | - | (1,715) | (1,714) | 1 | (5,017) | (5,017) | - |
| (92) | 15 | 107 | (10,585) | 1,591 | 12,176 | (2,126) | 265 | 2,391 |
| | 105 | | | 22,017 | | | 3,366 | |
| | - | | | 1,740 | | | 197 | |
| | $ 120 | | | $ 25,348 | | | $ 3,828 | |

(Continued)

# City of San José
## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
## Nonmajor Special Revenue Funds
## For the Year Ended June 30, 2011
## ($000's)

| | Lake Cunningham (Fund 462) | | | Edward Brown Memorial Justice (Funds 474,477) | | |
|---|---|---|---|---|---|---|
| | Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| **REVENUES** | | | | | | |
| Taxes and special assessments | $ - | - | - | - | - | - |
| Intergovernmental | - | - | - | 340 | 320 | (20) |
| Charges for current services | 666 | 629 | (37) | - | - | - |
| Rent | - | - | - | - | - | - |
| Investment income | - | 3 | 3 | - | 7 | 7 |
| Other revenues | - | - | - | - | - | - |
| Total revenues | 666 | 632 | (34) | 340 | 327 | (13) |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | 1,677 | 1,584 | (93) |
| Community services | - | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - |
| Capital maintenance | 246 | 121 | (125) | - | - | - |
| Capital outlay | 14 | 14 | - | 218 | 218 | - |
| Total expenditures | 260 | 135 | (125) | 1,895 | 1,802 | (93) |
| Excess (deficiency) of revenues over (under) expenditures | 406 | 497 | 91 | (1,555) | (1,475) | 80 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | - | - | - | - | - | - |
| Transfers out | (826) | (826) | - | - | - | - |
| Total other financing sources (uses) | (826) | (826) | - | - | - | - |
| Net change in fund balances | $ (420) | (329) | 91 | (1,555) | (1,475) | 80 |
| Fund balances - beginning | | 928 | | | 1,445 | |
| Prior year encumbrances | | 47 | | | 118 | |
| Fund balances - ending | | $ 646 | | | $ 88 | |

| Municipal Golf Courses (Fund 518) | | | Convention and Cultural Facilities (Funds 536, 481) | | |
|---|---|---|---|---|---|
| Budget | Budgetary Basis Actual | Variance Over (Under) | Budget | Budgetary Basis Actual | Variance Over (Under) |
| - | - | - | - | | - |
| - | - | - | - | | - |
| 638 | 546 | (92) | 1,335 | 1,792 | 457 |
| - | - | - | 12,601 | 16,868 | 4,267 |
| - | 3 | 3 | 4 | 13 | 9 |
| - | 17 | 17 | - | - | - |
| 638 | 566 | (72) | 13,940 | 18,673 | 4,733 |
| | | | | | |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 27 | 13 | (14) | 22,652 | 22,002 | (650) |
| - | - | - | - | - | - |
| 420 | 415 | (5) | 1,116 | 343 | (773) |
| - | - | - | 3 | 3 | - |
| 447 | 428 | (19) | 23,771 | 22,348 | (1,423) |
| | | | | | |
| 191 | 138 | (53) | (9,831) | (3,675) | 6,156 |
| | | | | | |
| 1,000 | 1,000 | - | 5,255 | 5,516 | 261 |
| (1,918) | (1,917) | 1 | (334) | (334) | - |
| (918) | (917) | 1 | 4,921 | 5,182 | 261 |
| | | | | | |
| (727) | (779) | (52) | (4,910) | 1,507 | 6,417 |
| | 1,073 | | | 6,661 | |
| | 7 | | | 510 | |
| | $ 301 | | | $ 8,678 | |

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# Nonmajor Debt Service Funds

# City of San José
## Combining Balance Sheet
## Nonmajor Debt Service Funds
## June 30, 2011
## ($000's)

| | | 2000 Series B Camden Park Refunding (Fund 203) | 1993 A&B Community Facilities Financing (Fund 204) | GO Bonds Parks, Libraries & Public Safety (Fund 209) | City Hall (Fund 210) | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Receivables (net of allowances for uncollectibles) | $ | - | - | 129 | - | 129 |
| Due from outside agencies | | - | - | 43 | - | 43 |
| Restricted assets: | | | | | | |
| Equity in pooled cash and investments held in City Treasury | | 100 | - | 34,353 | 1,056 | 35,509 |
| Cash and investments held with fiscal agent | | - | - | 643 | - | 643 |
| Total assets | $ | 100 | - | 35,168 | 1,056 | 36,324 |
| **LIABILITIES** | | | | | | |
| Accounts payable | $ | - | - | - | 171 | 171 |
| **FUND BALANCES** | | | | | | |
| Restricted for debt service | | 100 | - | 35,168 | 885 | 36,153 |
| Total liabilities and fund balances | $ | 100 | - | 35,168 | 1,056 | 36,324 |

**City of San José**
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**
**Nonmajor Debt Service Funds**
**For the Year Ended June 30, 2011**
**($000's)**

| | | 2000 Series B Camden Park Refunding (Fund 203) | 1993 A&B Community Facilities Financing (Fund 204) | GO Bonds Parks, Libraries & Public Safety (Fund 209) | City Hall (Fund 210) | Total |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Property taxes | $ | - | - | 43,029 | - | 43,029 |
| Investment income | | 1 | 1 | 181 | 75 | 258 |
| Total revenues | | 1 | 1 | 43,210 | 75 | 43,287 |
| **EXPENDITURES** | | | | | | |
| Debt service: | | | | | | |
| Principal | | - | - | 19,650 | - | 19,650 |
| Interest and fiscal charges | | - | 1 | 23,085 | 1,378 | 24,464 |
| Total expenditures | | - | 1 | 42,735 | 1,378 | 44,114 |
| Excess (deficiency) of revenues over(under) expenditures | | 1 | - | 475 | (1,303) | (827) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | | - | - | - | 24,912 | 24,912 |
| Transfers out | | (203) | (395) | - | (23,543) | (24,141) |
| Total other financing sources (uses) | | (203) | (395) | - | 1,369 | 771 |
| Net change in fund balances | | (202) | (395) | 475 | 66 | (56) |
| Fund balances - beginning | | 302 | 395 | 34,693 | 819 | 36,209 |
| Fund balances - ending | $ | 100 | - | 35,168 | 885 | 36,153 |

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# Nonmajor Capital Project Funds

**City of San José**
**Combining Balance Sheet**
**Nonmajor Capital Project Funds**
**June 30, 2011**
**($000's)**

| | | Fiber Optics Development (Fund 007) | Capital Improvements (Funds 408, 424) | Civic Center (Fund 425) | RDA Capital Projects (Fund 450) | Construction Excise Tax (Funds 348,349,464 465,470,478-480) |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 29 | 450 | - | 1,820 | 23,654 |
| Receivables (net of allowance for uncollectibles) | | - | - | - | 2 | 2,164 |
| Due from other funds | | - | - | - | - | 11,646 |
| Advances and deposits | | - | 5 | - | - | 34 |
| Restricted assets: | | | | | | |
| Equity in pooled cash and investments held in City Treasury | | - | - | - | - | 105 |
| Cash and investments held with fiscal agent | | - | - | 994 | - | - |
| Total assets | $ | 29 | 455 | 994 | 1,822 | 37,603 |
| **LIABILITIES** | | | | | | |
| Accounts payable | $ | - | - | - | 304 | 1,082 |
| Accrued salaries, wages and payroll taxes | | - | - | 3 | 15 | 369 |
| Due to other funds | | 50 | - | 714 | - | - |
| Advances from other funds | | 201 | - | - | - | - |
| Total liabilities | | 251 | - | 717 | 319 | 1,451 |
| **FUND BALANCES** | | | | | | |
| Nonspendable | | - | 5 | - | - | 34 |
| Restricted | | - | 450 | 277 | 1,503 | 23,276 |
| Assigned | | - | - | - | - | 12,842 |
| Unassigned | | (222) | - | - | - | - |
| Total fund balance | | (222) | 455 | 277 | 1,503 | 36,152 |
| Total liabilities and fund balance | $ | 29 | 455 | 994 | 1,822 | 37,603 |

| Parks Bond Projects (Fund 471) | Branch Libraries Bond Projects (Fund 472) | Civic Center Improvement (Fund 473) | Neighborhood Security Bond Projects (Fund 475) | San José Financing Authority (Funds 858-859) | Other Capital Projects | Total |
|---|---|---|---|---|---|---|
| - | - | - | - | - | 438 | 26,391 |
| - | - | - | - | - | - | 2,166 |
| - | - | - | - | - | - | 11,646 |
| - | - | - | - | - | - | 39 |
| - | - | - | - | - | - | 105 |
| 35,802 | 24,626 | - | 16,824 | 4,655 | - | 82,901 |
| 35,802 | 24,626 | - | 16,824 | 4,655 | 438 | 123,248 |
| 699 | 527 | - | 1,213 | - | - | 3,825 |
| 64 | 60 | - | 104 | - | - | 615 |
| 424 | 7,536 | - | 2,972 | - | - | 11,696 |
| - | - | - | - | - | - | 201 |
| 1,187 | 8,123 | - | 4,289 | - | - | 16,337 |
| - | - | - | - | - | - | 39 |
| 34,615 | 16,503 | - | 12,535 | 4,655 | - | 93,814 |
| - | - | - | - | - | 438 | 13,280 |
| - | - | - | - | - | - | (222) |
| 34,615 | 16,503 | - | 12,535 | 4,655 | 438 | 106,911 |
| 35,802 | 24,626 | - | 16,824 | 4,655 | 438 | 123,248 |

**City of San José**
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**
**Nonmajor Capital Project Funds**
**For the Year Ended June 30, 2011**
**($000's)**

| | | Fiber Optics Development (Fund 007) | Capital Improvements (Funds 408, 424) | Civic Center (Fund 425) | RDA Capital Projects (Fund 450) | Construction Excise Tax (Funds 348,349,464 465,470,478-480) |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Taxes | $ | - | - | - | - | 13,261 |
| Intergovernmental | | - | - | - | - | 22,217 |
| Charges for current services | | - | - | - | - | 7,681 |
| Investment income | | - | 3 | 6 | 24 | 712 |
| Other revenues | | - | - | - | - | 2,299 |
| Total revenues | | - | 3 | 6 | 24 | 46,170 |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| Capital maintenance | | - | - | 362 | 2,452 | 27,017 |
| Capital outlay | | - | - | - | 1,376 | 717 |
| Total expenditures | | - | - | 362 | 3,828 | 27,734 |
| Excess (deficiency) of revenues over (under) expenditures | | - | 3 | (356) | (3,804) | 18,436 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | | 50 | - | - | 230 | 4,557 |
| Transfers out | | - | (2) | - | (938) | (8,467) |
| Total other financing sources (uses) | | 50 | (2) | - | (708) | (3,910) |
| Net change in fund balances | | 50 | 1 | (356) | (4,512) | 14,526 |
| Fund balances - beginning | | (272) | 454 | 633 | 6,015 | 21,626 |
| Fund balances - ending | $ | (222) | 455 | 277 | 1,503 | 36,152 |

| Parks Bond Projects (Fund 471) | Branch Libraries Bond Projects (Fund 472) | Civic Center Improvement (Fund 473) | Neighborhood Security Bond Projects (Fund 475) | San José Financing Authority (Funds 858-859) | Other Capital Projects | Total |
|---|---|---|---|---|---|---|
| - | - | - | - | - | - | 13,261 |
| - | - | - | - | - | - | 22,217 |
| - | - | - | - | - | - | 7,681 |
| 201 | 163 | - | 100 | 25 | 3 | 1,237 |
| 55 | - | 25 | - | 14 | - | 2,393 |
| 256 | 163 | 25 | 100 | 39 | 3 | 46,789 |
| 22 | 20 | - | 666 | - | - | 30,539 |
| 6,019 | 13,287 | - | 6,930 | - | - | 28,329 |
| 6,041 | 13,307 | - | 7,596 | - | - | 58,868 |
| (5,785) | (13,144) | 25 | (7,496) | 39 | 3 | (12,079) |
| 964 | - | 344 | 45 | - | - | 6,190 |
| - | (714) | - | (45) | (470) | - | (10,636) |
| 964 | (714) | 344 | - | (470) | - | (4,446) |
| (4,821) | (13,858) | 369 | (7,496) | (431) | 3 | (16,525) |
| 39,436 | 30,361 | (369) | 20,031 | 5,086 | 435 | 123,436 |
| 34,615 | 16,503 | - | 12,535 | 4,655 | 438 | 106,911 |

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# Internal Service Funds

## City of San José
## Statement of Fund Net Assets
## Internal Service Funds
## June 30, 2011
## ($000's)

| | | Public Works Programs Support (Fund 150) | Employee Benefits (Funds 155-161) | Stores, Vehicle Maintenance and Operations (Funds 551-553) | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 4,683 | 9,574 | 3,778 | 18,035 |
| Receivables (net of allowance for uncollectibles) | | 42 | 1,052 | 66 | 1,160 |
| Inventories | | - | - | 752 | 752 |
| Total current assets | | 4,725 | 10,626 | 4,596 | 19,947 |
| Capital assets (net of accumulated depreciation): | | | | | |
| Depreciable | | - | - | 8,745 | 8,745 |
| Total assets | | 4,725 | 10,626 | 13,341 | 28,692 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | | 63 | 500 | 787 | 1,350 |
| Accrued liabilities | | 713 | 509 | 472 | 1,694 |
| Total current liabilities | | 776 | 1,009 | 1,259 | 3,044 |
| Noncurrent liabilities: | | | | | |
| Accrued vacation, sick leave and compensatory time | | 3,268 | 49 | 923 | 4,240 |
| Total liabilities | | 4,044 | 1,058 | 2,182 | 7,284 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | | - | - | 8,745 | 8,745 |
| Restricted for capital projects and other agreements | | 54 | - | 406 | 460 |
| Unrestricted | | 627 | 9,568 | 2,008 | 12,203 |
| Total net assets | $ | 681 | 9,568 | 11,159 | 21,408 |

**City of San José**
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**
**Internal Service Funds**
**For the Year Ended June 30, 2011**
**($000's)**

| | | Public Works Programs Support (Fund 150) | Employee Benefits (Funds 155-161) | Stores, Vehicle Maintenance and Operations (Funds 551-553) | Total |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Charges for services | $ | 11,318 | 89,611 | 18,943 | 119,872 |
| **OPERATING EXPENSES** | | | | | |
| Operations and maintenance | | 9,976 | 85,025 | 17,650 | 112,651 |
| General and administrative | | 201 | 17 | 138 | 356 |
| Depreciation and amortization | | - | - | 3,567 | 3,567 |
| Other expense | | - | - | 189 | 189 |
| Total operating expenses | | 10,177 | 85,042 | 21,544 | 116,763 |
| Operating income (loss) | | 1,141 | 4,569 | (2,601) | 3,109 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Investment income | | 184 | 57 | 20 | 261 |
| Income (loss) before transfers | | 1,325 | 4,626 | (2,581) | 3,370 |
| Transfers in | | - | - | 87 | 87 |
| Transfers out | | (88) | (117) | (101) | (306) |
| Changes in net assets | | 1,237 | 4,509 | (2,595) | 3,151 |
| Net assets - beginning, as restated | | (556) | 5,059 | 13,754 | 18,257 |
| Net assets - ending | $ | 681 | 9,568 | 11,159 | 21,408 |

# City of San José
# Statement of Cash Flows
# Internal Service Funds
# For the Year Ended June 30, 2011
# ($000's)

| | | Public Works Programs Support (Fund 150) | Employee Benefits (Funds 155-161) | Stores, Vehicle Maintenance and Operations (Funds 551-553) | Total |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash received from interfund services provided | $ | 11,318 | 89,611 | 18,943 | 119,872 |
| Cash payment to suppliers of goods and services | | (63) | (84,166) | (14,428) | (98,657) |
| Cash payment to employees for services | | (11,381) | (1,605) | (4,139) | (17,125) |
| Net cash provided by (used in) operating activities | | (126) | 3,840 | 376 | 4,090 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Transfer from other funds | | - | - | 87 | 87 |
| Transfer to other funds | | (88) | (117) | (101) | (306) |
| Net cash used in noncapital financing activities | | (88) | (117) | (14) | (219) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Acquisition and construction of capital assets | | - | - | (2,638) | (2,638) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Interest received | | 184 | 57 | 20 | 261 |
| Net change in cash and cash equivalents | | (30) | 3,780 | (2,256) | 1,494 |
| Cash and cash equivalents - beginning | | 4,713 | 5,794 | 6,034 | 16,541 |
| Cash and cash equivalents - ending | $ | 4,683 | 9,574 | 3,778 | 18,035 |
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:** | | | | | |
| Operating income (loss) | **$** | 1,141 | 4,569 | (2,601) | 3,109 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | | - | - | 3,567 | 3,567 |
| Decrease (increase) in: | | | | | |
| Accounts receivable | | (29) | (486) | (8) | (523) |
| Inventories | | - | - | (13) | (13) |
| Increase (decrease) in: | | | | | |
| Accounts payable and accrued liabilities | | 166 | (255) | (187) | (276) |
| Accrued vacation, sick leave and compensatory time | | (1,404) | 12 | (382) | (1,774) |
| Total adjustments | | (1,267) | (729) | 2,977 | 981 |
| Net cash provided by (used in) operating activities | $ | (126) | 3,840 | 376 | 4,090 |

# Trust and Agency Funds

**City of San José**
**Combining Statement of Pension Net Assets**
**Pension Trust Funds**
**June 30, 2011**
**($000's)**

| | Federated City Employees' Retirement System (Funds 134 and 140) | Police and Fire Plan (Funds 135 and 141) | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Investments at fair value: | | | |
| Investments, excluding securities lending collateral | $ 1,877,653 | 2,687,658 | 4,565,311 |
| Securities lending cash collateral investment pool | 161,942 | 340,167 | 502,109 |
| Receivables: | | | |
| Accrued investment income | 3,893 | 8,350 | 12,243 |
| Employee contributions | 2,007 | 2,082 | 4,089 |
| Employer contributions | 12,942 | 3,978 | 16,920 |
| Brokers and others | 2,379 | 11,532 | 13,911 |
| Total assets | 2,060,816 | 3,053,767 | 5,114,583 |
| **LIABILITIES** | | | |
| Due to brokers | 1,405 | 20,833 | 22,238 |
| Securities lending collateral, due to borrowers | 161,942 | 342,973 | 504,915 |
| Other liabilities | 1,397 | 2,564 | 3,961 |
| Total liabilities | 164,744 | 366,370 | 531,114 |
| **NET ASSETS HELD IN TRUST FUND FOR:** | | | |
| Employees' pension benefits | 1,760,618 | 2,627,727 | 4,388,345 |
| Employees' postemployment healthcare benefits | 135,454 | 59,670 | 195,124 |
| Net assets held in trust for pension and postemployment healthcare benefits | $ 1,896,072 | 2,687,397 | 4,583,469 |

# City of San José
## Combining Statement of Changes in Pension Net Assets
## Pension Trust Funds
## For the Year Ended June 30, 2011
## (000's)

| | Federated City Employees' Retirement System (Funds 134 and 140) | Police and Fire Plan (Funds 135 and 141) | Total |
|---|---|---|---|
| **ADDITIONS** | | | |
| Investment income: | | | |
| Interest | $ 28,141 | 46,212 | 74,353 |
| Dividends | 8,922 | 20,491 | 29,413 |
| Net rental income | 3,028 | 9,895 | 12,923 |
| Net appreciation in fair value of plan investments | 272,086 | 336,027 | 608,113 |
| Investment expenses | (3,643) | (9,824) | (13,467) |
| Securities lending activities: | | | |
| Securities lending income | 559 | 3,708 | 4,267 |
| Securities lending rebates and expenses | (72) | (1,166) | (1,238) |
| Contributions: | | | |
| Employer | 76,326 | 94,919 | 171,245 |
| Employees | 40,643 | 40,858 | 81,501 |
| Total additions | 425,990 | 541,120 | 967,110 |
| **DEDUCTIONS** | | | |
| General and administrative | 3,083 | 3,201 | 6,284 |
| Health insurance premiums | 27,370 | 28,273 | 55,643 |
| Refund of contributions | 1,980 | 435 | 2,415 |
| Retirement and other benefits: | | | |
| Death benefits | 7,883 | 7,213 | 15,096 |
| Retirement benefits | 110,415 | 129,472 | 239,887 |
| Total deductions | 150,731 | 168,594 | 319,325 |
| Net increase | 275,259 | 372,526 | 647,785 |
| Net assets held in trust for pension and postemployment healthcare benefits | | | |
| Beginning of year | 1,620,813 | 2,314,871 | 3,935,684 |
| End of year | $ 1,896,072 | 2,687,397 | 4,583,469 |

**City of San José**
**Combining Statement of Defined Benefit**
**and Postemployment Healthcare Plan Net Assets**
**Federated City Employees' Retirement System**
**June 30, 2011**
**($000's)**

| | | **Federated Retirement (Fund 134)** | | **Federated Cost of Living (Fund 140)** | |
|---|---|---|---|---|---|
| | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total Fund 134 | Defined Benefit Pension Plan | Total |
| **ASSETS** | | | | | |
| Investments at fair value: | | | | | |
| Investments, excluding securities lending collateral | $ 1,279,283 | 133,143 | 1,412,426 | 465,227 | 1,877,653 |
| Securities lending cash collateral investment pool | 112,196 | 11,677 | 123,873 | 38,069 | 161,942 |
| Receivables: | | | | | |
| Accrued investment income | 2,697 | 281 | 2,978 | 915 | 3,893 |
| Employee contributions | 1,008 | 842 | 1,850 | 157 | 2,007 |
| Employer contributions | 8,763 | 1,211 | 9,974 | 2,968 | 12,942 |
| Brokers and Others | 1,660 | 173 | 1,833 | 546 | 2,379 |
| Total assets | 1,405,607 | 147,327 | 1,552,934 | 507,882 | 2,060,816 |
| **LIABILITIES** | | | | | |
| Due to brokers | 973 | 101 | 1,074 | 331 | 1,405 |
| Securities lending collateral, due to borrowers | 112,196 | 11,677 | 123,873 | 38,069 | 161,942 |
| Other liabilities | 953 | 95 | 1,048 | 349 | 1,397 |
| Total liabilities | 114,122 | 11,873 | 125,995 | 38,749 | 164,744 |
| **NET ASSETS HELD IN TRUST FOR:** | | | | | |
| Employees' pension benefits | 1,291,485 | - | 1,291,485 | 469,133 | 1,760,618 |
| Employees' postemployment healthcare benefits | - | 135,454 | 135,454 | - | 135,454 |
| Net assets held in trust for pension and postemployment healthcare benefits | $ 1,291,485 | 135,454 | 1,426,939 | 469,133 | 1,896,072 |

**City of San José**
**Combining Statement of Defined Benefit and Postemployment Healthcare Plan**
**Changes in Plan Net Assets**
**Federated City Employees' Retirement System**
**For the Year Ended June 30, 2011**
**($000's)**

| | | Federated Retirement (Fund 134) | | Federated Cost of Living (Fund 140) | |
|---|---|---|---|---|---|
| | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total Fund 134 | Defined Benefit Pension Plan | Total |
| **ADDITIONS** | | | | | |
| Investment income: | | | | | |
| Interest | $ 19,557 | 1,984 | 21,541 | 6,600 | 28,141 |
| Dividends | 6,200 | 629 | 6,829 | 2,093 | 8,922 |
| Net rental income | 2,104 | 213 | 2,317 | 711 | 3,028 |
| Net appreciation in fair value of plan investments | 189,619 | 19,238 | 208,857 | 63,229 | 272,086 |
| Investment expenses | (2,529) | (256) | (2,785) | (858) | (3,643) |
| Securities lending activities: | | | | | |
| Securities lending income | 389 | 39 | 428 | 131 | 559 |
| Securities lending rebates and expenses | (50) | (5) | (55) | (17) | (72) |
| Contributions: | | | | | |
| Employer | 42,180 | 17,146 | 59,326 | 17,000 | 76,326 |
| Employees | 21,513 | 16,041 | 37,554 | 3,089 | 40,643 |
| Total additions | 278,983 | 55,029 | 334,012 | 91,978 | 425,990 |
| **DEDUCTIONS** | | | | | |
| General and administrative | 2,131 | 216 | 2,347 | 736 | 3,083 |
| Health insurance premiums | - | 27,370 | 27,370 | - | 27,370 |
| Refund of contributions | 1,734 | - | 1,734 | 246 | 1,980 |
| Retirement and other benefits: | | | | | |
| Death benefits | 4,801 | - | 4,801 | 3,082 | 7,883 |
| Retirement benefits | 87,154 | - | 87,154 | 23,261 | 110,415 |
| Total deductions | 95,820 | 27,586 | 123,406 | 27,325 | 150,731 |
| Net increase | 183,163 | 27,443 | 210,606 | 64,653 | 275,259 |
| Net assets held in trust for pension and postemployment healthcare benefits | | | | | |
| Beginning of year | 1,108,322 | 108,011 | 1,216,333 | 404,480 | 1,620,813 |
| End of year | $ 1,291,485 | 135,454 | 1,426,939 | 469,133 | 1,896,072 |

**City of San José**
**Combining Statement of**
**Defined Benefit and Postemployment Healthcare Plan Net Assets**
**Police and Fire Department Retirement Plan**
**June 30, 2011**
**(000's)**

| | | Police and Fire Retirement (Fund 135) | | | Police and Fire Cost of Living (Fund 141) | |
|---|---|---|---|---|---|---|
| | | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total Fund 135 | Defined Benefit Pension Plan | Total |
| **ASSETS** | | | | | | |
| Investments at fair value: | | | | | | |
| Investments, excluding securities lending collateral | $ | 1,763,429 | 58,637 | 1,822,066 | 865,592 | 2,687,658 |
| Securities lending cash collateral investment pool | | 223,549 | 7,434 | 230,983 | 109,184 | 340,167 |
| Receivables: | | | | | | |
| Accrued investment income | | 5,548 | 184 | 5,732 | 2,618 | 8,350 |
| Employee contributions | | 1,028 | 625 | 1,653 | 429 | 2,082 |
| Employer contributions | | 2,096 | 549 | 2,645 | 1,333 | 3,978 |
| Brokers and others | | 7,843 | 261 | 8,104 | 3,428 | 11,532 |
| Total assets | | 2,003,493 | 67,690 | 2,071,183 | 982,584 | 3,053,767 |
| **LIABILITIES** | | | | | | |
| Due to brokers | | 14,140 | 469 | 14,609 | 6,224 | 20,833 |
| Securities lending collateral, due to borrowers | | 225,393 | 7,495 | 232,888 | 110,085 | 342,973 |
| Other liabilities | | 1,712 | 56 | 1,768 | 796 | 2,564 |
| Total liabilities | | 241,245 | 8,020 | 249,265 | 117,105 | 366,370 |
| **NET ASSETS HELD IN TRUST FOR:** | | | | | | |
| Employees' pension benefits | | 1,762,248 | - | 1,762,248 | 865,479 | 2,627,727 |
| Employees' postemployment healthcare benefits | | - | 59,670 | 59,670 | - | 59,670 |
| Net assets held in trust for pension and postemployment healthcare benefits | $ | 1,762,248 | 59,670 | 1,821,918 | 865,479 | 2,687,397 |

## City of San José
## Combining Statement of Defined Benefit and Postemployment Healthcare Plan
## Changes in Plan Net Assets
## Police and Fire Department Retirement Plan
## For the Year Ended June 30, 2011
## ($000's)

| | | Police and Fire Retirement (Fund 135) | | | Police and Fire Cost of Living (Fund 141) | |
|---|---|---|---|---|---|---|
| | | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total Fund 135 | Defined Benefit Pension Plan | Total |
| **ADDITIONS** | | | | | | |
| Investment income: | | | | | | |
| Interest | $ | 30,453 | 1,020 | 31,473 | 14,739 | 46,212 |
| Dividends | | 13,501 | 452 | 13,953 | 6,538 | 20,491 |
| Net rental income | | 6,501 | 218 | 6,719 | 3,176 | 9,895 |
| Net appreciation in fair value of plan investments | | 222,193 | 7,439 | 229,632 | 106,395 | 336,027 |
| Investment expenses | | (6,580) | (220) | (6,800) | (3,024) | (9,824) |
| Securities lending activities: | | | | | | |
| Securities lending income | | 2,472 | 83 | 2,555 | 1,153 | 3,708 |
| Securities lending rebates and expenses | | (769) | (26) | (795) | (371) | (1,166) |
| Contributions: | | | | | | |
| Employer | | 42,100 | 17,001 | 59,101 | 35,818 | 94,919 |
| Employees | | 22,788 | 11,229 | 34,017 | 6,841 | 40,858 |
| Total additions | | 332,659 | 37,196 | 369,855 | 171,265 | 541,120 |
| **DEDUCTIONS** | | | | | | |
| General and administrative | | 2,176 | 73 | 2,249 | 952 | 3,201 |
| Health insurance premiums | | - | 28,273 | 28,273 | - | 28,273 |
| Refund of contributions | | 344 | - | 344 | 91 | 435 |
| Retirement and other benefits: | | | | | | |
| Death benefits | | 4,228 | - | 4,228 | 2,985 | 7,213 |
| Retirement benefits | | 101,420 | - | 101,420 | 28,052 | 129,472 |
| Total deductions | | 108,168 | 28,346 | 136,514 | 32,080 | 168,594 |
| Net increase | | 224,491 | 8,850 | 233,341 | 139,185 | 372,526 |
| Net assets held in trust for pension and postemployment healthcare benefits | | | | | | |
| Beginning of year | | 1,537,757 | 50,820 | 1,588,577 | 726,294 | 2,314,871 |
| End of year | $ | 1,762,248 | 59,670 | 1,821,918 | 865,479 | 2,687,397 |

**City of San José**
**Statement of Changes in Assets and Liabilities**
**Arena Capital Reserve Agency Fund**
**For the Year Ended June 30, 2011**
**($000's)**

| | | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Equity in pooled cash and investments held in City Treasury | $ | 2,149 | 1,085 | 8 | 3,226 |
| Receivables: | | | | | |
| Accrued interest | | 7 | 2 | 7 | 2 |
| Total assets | $ | 2,156 | 1,087 | 15 | 3,228 |
| **LIABILITIES** | | | | | |
| Other liabilities | $ | 2,156 | 1,072 | - | 3,228 |
| Total liabilities | $ | 2,156 | 1,072 | - | 3,228 |

# Statistical Section

# Statistical Section (Unaudited)

This section of the comprehensive annual financial report for the City of San José presents detailed information as a context to the information presented in the financial statements, note disclosures, and required supplementary information and to provide a framework to assess the economic condition affecting the City of San José.

GASB issued Statement No. 44, *Economic Condition Reporting; The Statistical Section – an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition affecting a government. During fiscal year 2005-2006, the City implemented this statement and added new information that financial statement users have identified as important and eliminated certain schedules previously required.

| Contents | Schedule |
|---|---|
| Financial Trends | I - IV |
| *These schedules present trend information to help the reader understand the City's financial performance and condition.* | |
| Revenue Capacity | V - VIII |
| *These schedules contain information regarding property tax, the City's most significant local revenue source.* | |
| Debt Capacity | IX - XIII |
| *These schedules present information regarding the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.* | |
| Demographic and Economic Information | XIV-XVI |
| *These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the City's financial activities.* | |
| Operating Information | XVII-XVIII |
| *These schedules contain service and infrastructure data related to services the City provides and the activities it performs.* | |
| Other Information | XIX |
| *This schedule shows the outstanding multifamily housing revenue bonds of which the City of San José is a conduit issuer.* | |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF SAN JOSE
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
($ 000's)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| **Governmental activities** | | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 6,629,815 | $ 6,252,648 | $ 6,118,214 | $ 5,755,755 | $ 5,402,375 | $ 5,193,578 | $ 4,769,191 | $ 4,400,552 | $ 4,201,672 | $ 3,810,801 |
| Restricted | 376,155 | 551,968 | 229,871 | 380,102 | 735,931 | 501,391 | 662,863 | 654,124 | 527,931 | 622,241 |
| Unrestricted | 508,517 | 266,281 | 217,204 | 181,646 | (107,947) | 79,524 | 95,863 | 32,914 | (53,494) | (129,419) |
| Total governmental activities net assets | $ 7,514,487 | $ 7,070,897 | $ 6,565,289 | $ 6,317,503 | $ 6,030,359 | $ 5,774,493 | $ 5,527,917 | $ 5,087,590 | $ 4,676,109 | $ 4,303,623 |
| **Business-type activities** | | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 462,193 | $ 513,697 | $ 651,130 | $ 672,893 | $ 689,045 | $ 750,334 | $ 823,223 | $ 885,744 | $ 926,638 | $ 889,674 |
| Restricted | 212,912 | 178,166 | 178,620 | 178,548 | 187,370 | 158,992 | 160,153 | 103,694 | 120,510 | 122,534 |
| Unrestricted | 369,044 | 391,585 | 330,904 | 335,016 | 350,079 | 339,562 | 281,494 | 339,254 | 307,209 | 332,633 |
| Total business-type activities net assets | $ 1,044,149 | $ 1,083,448 | $ 1,160,654 | $ 1,186,457 | $ 1,226,494 | $ 1,248,888 | $ 1,264,870 | $ 1,328,692 | $ 1,354,357 | $ 1,344,841 |
| **Primary government** | | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 7,092,008 | $ 6,766,345 | $ 6,769,344 | $ 6,428,648 | $ 6,091,420 | $ 5,943,912 | $ 5,592,414 | $ 5,286,296 | $ 5,128,310 | $ 4,700,475 |
| Restricted | 589,067 | 730,134 | 408,491 | 558,650 | 923,301 | 660,383 | 823,016 | 757,818 | 648,441 | 744,775 |
| Unrestricted | 877,561 | 657,866 | 548,108 | 516,662 | 242,132 | 419,086 | 377,357 | 372,168 | 253,715 | 203,214 |
| Total primary government net assets | $ 8,558,636 | $ 8,154,345 | $ 7,725,943 | $ 7,503,960 | $ 7,256,853 | $ 7,023,381 | $ 6,792,787 | $ 6,416,282 | $ 6,030,466 | $ 5,648,464 |

Note:
For fiscal year ended June 30, 2009, the Airport reclassified certain components of net assets from restricted to unrestricted to conform with the provisions of its new Airline Lease Agreement and new Master Trust Agreement. The reclassifications have no effect on the financial position or changes in financial position. As a result, this schedule was not adjusted to reflect these reclassifications for prior fiscal years.

CITY OF SAN JOSE

CHANGE IN NET ASSETS

LAST TEN FISCAL YEARS

(ACCRUAL BASIS OF ACCOUNTING)

($ 000's)



| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| **Expenses** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | $ 130,963 | $ 125,482 | $ 143,335 | $ 108,070 | $ 180,633 | $ 120,362 | $ 142,886 | $ 172,077 | $ 137,159 | $ 148,515 |
| Public safety | 305,906 | 323,461 | 353,009 | 326,029 | 351,331 | 393,449 | 476,570 | 463,196 | 457,892 | 487,659 |
| Community services | 268,633 | 222,250 | 277,404 | 210,936 | 220,719 | 276,343 | 211,511 | 276,396 | 260,835 | 254,481 |
| Sanitation | 82,562 | 77,001 | 76,889 | 89,159 | 91,353 | 99,720 | 113,525 | 122,705 | 130,343 | 129,138 |
| Capital maintenance | 586,231 | 652,748 | 502,819 | 502,586 | 514,025 | 528,727 | 569,636 | 595,547 | 588,382 | 515,909 |
| Unallocated interest and fiscal charges | 105,077 | 121,647 | 127,052 | 136,955 | 144,444 | 154,135 | 170,852 | 166,672 | 161,734 | 163,280 |
| Total governmental activities expenses | 1,479,372 | 1,522,589 | 1,480,508 | 1,373,735 | 1,502,505 | 1,572,736 | 1,684,980 | 1,796,593 | 1,736,345 | 1,698,982 |
| Business-type activities: | | | | | | | | | | |
| Norman Y. Mineta San José | | | | | | | | | | |
| International Airport | 109,814 | 112,723 | 117,122 | 122,882 | 125,770 | 139,623 | 153,927 | 140,641 | 171,976 | 195,867 |
| Wastewater Treatment System | 108,491 | 102,148 | 101,627 | 111,026 | 108,510 | 111,435 | 134,882 | 126,788 | 140,831 | 147,283 |
| Municipal Water System | 16,295 | 15,577 | 19,089 | 18,328 | 19,896 | 22,618 | 26,017 | 25,416 | 24,355 | 24,600 |
| Parking System | 6,931 | 7,479 | 9,952 | 8,652 | 10,058 | 9,787 | 10,127 | 11,800 | 11,579 | 9,630 |
| Total business-type activities expenses | 241,531 | 237,927 | 247,790 | 260,888 | 264,234 | 283,463 | 324,953 | 304,645 | 348,741 | 377,380 |
| Total primary government expenses | $ 1,720,903 | $ 1,760,516 | $ 1,728,298 | $ 1,634,623 | $ 1,766,739 | $ 1,856,199 | $ 2,009,933 | $ 2,101,238 | $ 2,085,086 | $ 2,076,362 |
| **Program Revenues** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | $ 18,570 | $ 10,533 | $ 18,646 | $ 34,550 | $ 51,449 | $ 56,125 | $ 32,585 | $ 30,906 | $ 29,986 | $ 25,716 |
| Public safety | 17,306 | 19,569 | 18,856 | 21,411 | 18,377 | 21,776 | 45,845 | 39,254 | 20,343 | 21,454 |
| Community services | 54,381 | 55,361 | 53,635 | 67,276 | 78,736 | 73,671 | 88,050 | 66,090 | 75,208 | 85,971 |
| Sanitation | 74,440 | 71,794 | 80,265 | 86,166 | 86,957 | 95,548 | 121,793 | 125,198 | 135,099 | 137,677 |
| Capital maintenance | 28,029 | 32,871 | 28,359 | 27,365 | 28,998 | 26,559 | 37,580 | 36,340 | 31,072 | 46,040 |
| Operating grants and contributions | 54,319 | 51,691 | 46,034 | 63,909 | 76,004 | 93,090 | 94,357 | 115,965 | 110,926 | 100,045 |
| Capital grants and contributions | 110,551 | 70,726 | 81,229 | 48,715 | 60,337 | 68,835 | 48,075 | 26,306 | 49,926 | 33,041 |
| Total governmental program revenues | 357,596 | 312,545 | 327,024 | 349,392 | 400,858 | 435,604 | 468,285 | 440,059 | 452,560 | 449,944 |
| Business-type activities: | | | | | | | | | | |
| Charges for services | | | | | | | | | | |
| Norman Y. Mineta San José | | | | | | | | | | |
| International Airport | 114,952 | 113,047 | 113,758 | 112,273 | 117,983 | 118,978 | 138,532 | 138,999 | 130,030 | 145,895 |
| Wastewater Treatment System | 102,446 | 103,041 | 99,511 | 113,850 | 109,587 | 113,772 | 129,568 | 151,516 | 158,256 | 167,721 |
| Municipal Water System | 17,298 | 17,538 | 20,013 | 19,149 | 20,284 | 22,399 | 24,154 | 25,807 | 24,732 | 26,010 |
| Parking System | 8,284 | 10,144 | 9,583 | 9,473 | 9,756 | 9,777 | 11,226 | 11,052 | 10,458 | 9,541 |
| Operating grants and contributions | 2,404 | 5,685 | 5,724 | 5,570 | 8,398 | 8,284 | 8,444 | 9,326 | 1,149 | 701 |
| Capital grants and contributions | 21,499 | 16,821 | 80,651 | 21,584 | 32,956 | 17,927 | 9,162 | 18,618 | 46,237 | 19,413 |
| Total business-type activities program revenues | 266,883 | 266,276 | 329,240 | 281,899 | 298,964 | 291,137 | 321,086 | 355,318 | 370,862 | 369,281 |
| Total primary government revenues | $ 624,479 | $ 578,821 | $ 656,264 | $ 631,291 | $ 699,822 | $ 726,741 | $ 789,371 | $ 795,377 | $ 823,422 | $ 819,225 |

SCHEDULE II
(Concluded)

CITY OF SAN JOSE
CHANGE IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
($ 000's)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| **Net (Expenses) Revenues** | | | | | | | | | | |
| Governmental activities | $ (1,121,776) | $ (1,210,044) | $ (1,153,484) | $ (1,024,343) | $ (1,101,647) | $ (1,137,132) | $ (1,216,695) | $ (1,356,534) | $ (1,283,785) | $ (1,249,038) |
| Business-type activities | 25,352 | 28,349 | 81,450 | 21,011 | 34,730 | 7,674 | (3,867) | 50,673 | 22,121 | (8,099) |
| Total primary government | (1,096,424) | (1,181,695) | (1,072,034) | (1,003,332) | (1,066,917) | (1,129,458) | (1,220,562) | (1,305,861) | (1,261,664) | (1,257,137) |
| **General Revenues and Other Changes in Net Assets** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property | 356,136 | 351,902 | 338,210 | 398,541 | 430,426 | 467,917 | 495,731 | 507,273 | 498,973 | 481,145 |
| Utility | 66,889 | 65,785 | 68,455 | 73,081 | 75,489 | 79,129 | 82,255 | 93,619 | 108,151 | 108,528 |
| Franchise | 34,432 | 32,093 | 31,712 | 33,722 | 36,760 | 40,415 | 41,064 | 41,067 | 38,410 | 41,273 |
| Transient occupancy | 6,820 | 14,600 | 14,166 | 15,957 | 19,214 | 21,400 | 23,900 | 19,261 | 17,250 | 18,102 |
| Business license | 35,401 | 35,594 | 36,201 | 36,936 | 37,236 | 39,502 | 39,901 | 38,597 | 34,952 | 36,811 |
| Marijuana tax | - | - | - | - | - | - | - | - | - | 1,152 |
| Sales taxes shared revenues | 133,241 | 122,757 | 126,426 | 128,822 | 136,031 | 145,340 | 149,500 | 127,802 | 123,312 | 137,970 |
| State of California in-lieu | 51,306 | 53,787 | 41,455 | 20,850 | 5,817 | 5,911 | 9,244 | 8,839 | 7,169 | 4,889 |
| Unrestricted interest and investment earnings | 70,124 | 59,287 | 17,040 | 17,594 | 23,682 | 39,359 | 65,721 | 34,092 | 5,010 | 8,142 |
| Other revenue | 21,262 | 22,994 | 26,368 | 44,343 | 42,076 | 35,875 | 53,420 | 40,372 | 35,786 | 33,237 |
| Gain on sale of capital assets | 706 | 317 | 4,487 | - | - | - | - | - | - | - |
| Transfers | 5,842 | 7,338 | (48,782) | 6,711 | 7,772 | 6,418 | 9,383 | 5,285 | 3,291 | 5,303 |
| Special items | - | - | (7,862) | - | - | - | - | - | - | - |
| Total governmental activities | 782,159 | 766,454 | 647,876 | 776,557 | 814,503 | 881,266 | 970,119 | 916,207 | 872,304 | 876,552 |
| Business-type activities | | | | | | | | | | |
| Unrestricted interest and investment earnings | 26,619 | 15,861 | 3,024 | 11,503 | 13,079 | 21,138 | 29,232 | 18,434 | 1,192 | 3,886 |
| Transfers | (5,842) | (7,338) | (7,268) | (6,711) | (7,772) | (6,418) | (9,383) | (5,285) | (3,291) | (5,303) |
| Total business-type activities | 20,777 | 8,523 | (4,244) | 4,792 | 5,307 | 14,720 | 19,849 | 13,149 | (2,099) | (1,417) |
| Total primary government | $ 802,936 | $ 774,977 | $ 643,632 | $ 781,349 | $ 819,810 | $ 895,986 | $ 989,968 | $ 929,356 | $ 870,205 | $ 875,135 |
| **Change In Net Assets** | | | | | | | | | | |
| Governmental activities | $ (339,617) | $ (443,590) | $ (505,608) | $ (247,786) | $ (287,144) | $ (255,866) | $ (246,576) | $ (440,327) | $ (411,481) | $ (372,486) |
| Business-type activities | 46,129 | 36,872 | 77,206 | 25,803 | 40,037 | 22,394 | 15,982 | 63,822 | 20,022 | (9,516) |
| Total Primary government | $ (293,488) | $ (406,718) | $ (428,402) | $ (221,983) | $ (247,107) | $ (233,472) | $ (230,594) | $ (376,505) | $ (391,459) | $ (382,002) |

CITY OF SAN JOSE
FUND BALANCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
($ 000's)

***Data prior to GASB 54 implementation:***

| | Fiscal Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| **General Fund** | | | | | | | | | |
| Reserved | $ 52,218 | $ 33,918 | $ 29,582 | $ 29,514 | $ 33,267 | $ 35,708 | $ 48,511 | $ 32,400 | $ 27,269 |
| Unreserved | 197,311 | 163,735 | 153,757 | 162,517 | 203,703 | 244,889 | 228,622 | 178,793 | 143,618 |
| Total General Fund | $ 249,529 | $ 197,653 | $ 183,339 | $ 192,031 | $ 236,970 | $ 280,597 | $ 277,133 | $ 211,193 | $ 170,887 |
| **Other Governmental Funds** | | | | | | | | | |
| Reserved | $ 557,551 | $ 894,117 | $ 666,185 | $ 633,171 | $ 573,567 | $ 539,761 | $ 695,408 | $ 704,866 | $ 711,231 |
| Unreserved, reported in: | | | | | | | | | |
| Special revenue funds | 207,677 | 202,580 | 191,129 | 248,863 | 268,344 | 285,532 | 299,078 | 314,128 | 280,031 |
| Debt service funds | - | - | - | - | (15,109) | (31,493) | (31,067) | - | (1,373) |
| Capital project funds | 323,377 | 202,475 | 284,743 | 301,019 | 293,622 | 307,713 | 263,207 | 185,549 | 38,384 |
| Total Other Governmental Funds | $ 1,088,605 | $ 1,299,172 | $ 1,142,057 | $ 1,183,053 | $ 1,120,424 | $ 1,101,513 | $ 1,226,626 | $ 1,204,543 | $ 1,028,273 |

***Data incorporating GASB 54 implementation[(1)]:***

| | Fiscal Year | |
|---|---|---|
| | 2010[(2)] | 2011 |
| **General Fund** | | |
| Nonspendable | $ 13 | $ 13 |
| Restricted | 489 | 397 |
| Committed | 55,414 | 51,587 |
| Assigned | 70,527 | 69,852 |
| Unassigned | 44,443 | 44,772 |
| Total General Fund | $ 170,887 | $ 166,621 |
| **Other Governmental Funds** | | |
| Nonspendable | $ 1,149 | $ 1,111 |
| Restricted | 953,322 | 1,007,431 |
| Committed | 55,741 | 53,416 |
| Assigned | 4,106 | 20,072 |
| Unassigned | (642) | (222) |
| **Total Other Governmental Funds** | $ 1,013,676 | $ 1,081,808 |

*Note: There are some changes made to this schedule effective fiscal year 2011.*

*(1) The City implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions", beginning fiscal year 2011. Certain data required by GASB 54 was not readily available for yea*
*The City of San José has elected to show nine years of data prior to GASB 54 implementation, and two years of data incorporating GASB 54 for this schedule.*

*(2) The retrospective 2010 information is provided to show comparable information as if GASB 54 were implemented in fiscal year 2010.*

CITY OF SAN JOSE
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
($ 000's)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| **REVENUES** | | | | | | | | | | |
| Taxes and special assessments | $ 663,580 | $ 676,229 | $ 646,732 | $ 686,088 | $ 730,905 | $ 788,690 | $ 827,531 | $ 808,152 | $ 806,979 | $ 805,034 |
| Licenses, permits, and fines | 70,803 | 73,687 | 83,631 | 86,518 | 90,351 | 88,611 | 89,656 | 84,274 | 81,983 | 93,471 |
| Intergovernmental | 79,756 | 78,946 | 67,254 | 81,352 | 80,003 | 92,051 | 96,930 | 120,460 | 101,527 | 113,669 |
| Charges for current services | 173,942 | 177,567 | 202,564 | 225,397 | 250,975 | 265,381 | 296,281 | 322,002 | 308,164 | 206,328 |
| Rent | 10,705 | 9,142 | 7,856 | 8,211 | 9,836 | 10,326 | 13,789 | 12,740 | 19,676 | 21,092 |
| Investment income and other revenues | 185,944 | 133,246 | 68,082 | 97,499 | 106,571 | 140,631 | 169,506 | 106,979 | 73,729 | 75,270 |
| Total revenues | 1,184,730 | 1,148,817 | 1,076,119 | 1,185,065 | 1,268,641 | 1,385,690 | 1,493,693 | 1,454,607 | 1,392,058 | 1,314,864 |
| **EXPENDITURES** | | | | | | | | | | |
| General government | 176,880 | 185,256 | 190,132 | 198,319 | 212,964 | 227,255 | 238,747 | 259,699 | 235,571 | 112,809 [2] |
| Public safety | 284,259 | 307,991 | 325,301 | 334,169 | 343,576 | 370,575 | 418,869 | 420,483 | 428,594 | 434,260 |
| Community services | 249,222 | 194,959 | 249,079 | 194,509 | 203,273 | 254,525 | 191,541 | 249,624 | 233,355 | 222,950 |
| Sanitation | 82,760 | 76,799 | 77,507 | 89,368 | 91,908 | 99,746 | 111,965 | 123,477 | 130,114 | 128,309 |
| Capital maintenance | 288,203 | 338,504 | 177,688 | 178,262 | 210,032 | 233,910 | 248,203 | 282,230 | 279,396 | 214,305 |
| Capital outlay | 228,996 | 201,059 | 278,536 | 289,985 | 203,573 | 130,669 | 171,575 | 173,434 | 126,137 | 49,679 |
| Debt service: | | | | | | | | | | |
| Principal | 41,897 | 45,056 | 54,966 | 50,752 | 63,567 | 67,487 | 71,621 | 88,738 | 152,239 | 107,829 |
| Interest and fiscal charges | 91,800 | 126,531 | 129,641 | 138,253 | 145,698 | 150,600 | 167,837 | 164,785 | 162,790 | 164,439 |
| Bond issuance costs | 11,025 | 10,443 | 11,175 | 6,822 | 6,676 | 20,664 | 4,718 | 2,926 | 1,068 | 1,839 |
| Payment to refunded bond escrow agent | 6,429 | 17,331 | 14,916 | 2,022 | 9,282 | 14,974 | 12,992 | 3,143 | - | - |
| Total expenditures | 1,461,471 | 1,503,929 | 1,508,941 | 1,482,461 | 1,490,549 | 1,570,405 | 1,638,068 | 1,768,539 | 1,749,264 | 1,436,419 |
| Deficiency of revenues under expenditures | (276,741) | (355,112) | (432,822) | (297,396) | (221,908) | (184,715) | (144,375) | (313,932) | (357,206) | (121,555) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | | | | |
| Bonds issued | 434,858 | 541,493 | 216,725 | 245,025 | 151,320 | 171,300 | 246,030 | 162,875 | 160,405 | 138,410 |
| Refunding bonds issued | 191,725 | 21,555 | 373,610 | 195,870 | 277,520 | 737,740 | 125,500 | 88,380 | - | - |
| Premium / (discount) on bonds | (189) | (3,778) | 16,795 | 3,127 | 20,477 | 30,124 | 1,645 | (1,072) | 22 | (2,650) |
| Payment to refunded bond escrow agent | (189,650) | (53,122) | (352,829) | (126,899) | (289,673) | (745,137) | (116,908) | (84,982) | (56,735) | - |
| Reclassification of debt | - | - | - | - | - | - | - | (5,300) | - | 23,562 |
| Proceeds from sale of capital assets | 2,277 | 317 | 4,487 | 4,482 | 11,449 | 8,491 | - | 8,365 | 33,647 | 20,577 |
| Loan proceeds | - | - | 3,200 | 19,427 | 25,094 | - | 374 | 50,000 | - | - |
| Transfers in | 182,943 | 569,750 | 187,128 | 192,968 | 231,092 | 221,671 | 239,207 | 265,681 | 310,277 | 206,745 |
| Transfers out | (177,101) | (562,412) | (179,860) | (186,916) | (223,061) | (214,758) | (229,824) | (258,038) | (306,986) | (201,223) |
| Total other financing sources (uses) | 444,863 | 513,803 | 269,256 | 347,084 | 204,218 | 209,431 | 266,024 | 225,909 | 140,630 | 185,421 |
| Special Item | - | - | (7,862) | - | - | - | - | - | - | - |
| Net change in fund balance | $ 168,122 | $ 158,691 | $ (171,428) | $ 49,688 | $ (17,690) | $ 24,716 | $ 121,649 | $ (88,023) | $ (216,576) | $ 63,866 |
| Debt service as a percentage of noncapital[1] expenditures | 11.37% | 14.50% | 16.22% | 16.02% | 16.98% | 16.19% | 17.21% | 16.09% | 19.41% | 19.63% |

*Note: (1) Debt ratio was calculated by dividing debt service expenditure excluding bond issuance costs by total government expenditures excluding capital outlay.*

*(2) In 2011, as a result of the implementation of GASB 54, Public Works Program Support Fund (Fund 150), Employee Benefits Fund (Funds 155-161), and Stores Vehicle Maintenance and Operations Fund (Funds 551-553) were converted from Special Revenue Funds to Internal Service Funds.*

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

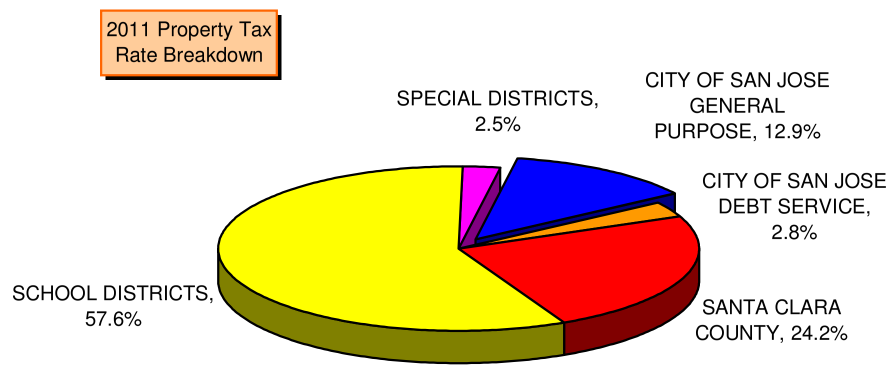
| | City | | | | | Redevelopment Agency | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Secured | Unsecured | Less: Exemptions | Net Taxable Assessed Value | Direct Rate | Secured | Unsecured | Less: Exemptions | Net Taxable Assessed Value | Direct Rate |
| 2002 | $ 61,143,626 | $ 4,676,212 | $ 1,844,586 | $ 63,975,252 | 0.138% | $ 12,296,146 | $ 5,583,448 | $ 0 | $ 17,879,594 | 1.054% |
| 2003 | 65,530,209 | 4,371,115 | 1,985,708 | 67,915,616 | 0.137% | 13,266,320 | 5,466,624 | 0 | 18,732,944 | 1.057% |
| 2004 | 71,389,828 | 4,062,051 | 2,373,902 | 73,077,977 | 0.134% | 11,685,532 | 5,277,110 | 0 | 16,962,642 | 1.003% |
| 2005 | 76,286,940 | 3,979,113 | 2,733,404 | 77,532,649 | 0.133% | 11,197,792 | 3,843,039 | 0 | 15,040,831 | 0.997% |
| 2006 | 84,455,121 | 3,800,649 | 3,020,934 | 85,234,836 | 0.139% | 11,211,222 | 3,822,707 | 0 | 15,033,929 | 0.997% |
| 2007 | 92,922,334 | 3,908,432 | 3,214,283 | 93,616,483 | 0.136% | 12,116,350 | 3,975,452 | 0 | 16,091,802 | 1.006% |
| 2008 | 100,183,489 | 4,397,235 | 3,487,434 | 101,093,290 | 0.136% | 13,948,249 | 4,104,730 | 0 | 18,052,979 | 1.024% |
| 2009 | 104,823,540 | 4,686,153 | 3,682,139 | 105,827,554 | 0.132% | 15,256,509 | 4,253,680 | 0 | 19,510,189 | 1.037% |
| 2010 | 102,272,875 | 4,826,605 | 4,081,360 | 103,018,120 | 0.129% | 15,888,334 | 4,115,097 | 0 | 20,003,431 | 1.012% |
| 2011 | 100,551,658 | 4,317,806 | 4,180,818 | 100,688,646 | 0.127% | 14,633,045 | 3,861,489 | 0 | 18,494,534 | 0.993% |

Note:

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the value of the property is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

*Source: Department of Finance, County of Santa Clara*

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




| Fiscal Year | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| City of San José: | | | | | | | | | | |
| General purpose | 0.155 | 0.155 | 0.156 | 0.156 | 0.156 | 0.156 | 0.156 | 0.156 | 0.156 | 0.156 |
| Debt service | 0.009 | 0.019 | 0.026 | 0.026 | 0.029 | 0.033 | 0.032 | 0.033 | 0.035 | 0.033 |
| | 0.164 | 0.174 | 0.182 | 0.182 | 0.185 | 0.189 | 0.188 | 0.189 | 0.191 | 0.189 |
| Santa Clara County | 0.290 | 0.292 | 0.292 | 0.292 | 0.292 | 0.292 | 0.292 | 0.292 | 0.292 | 0.292 |
| School districts | 0.622 | 0.667 | 0.656 | 0.656 | 0.669 | 0.670 | 0.628 | 0.684 | 0.699 | 0.694 |
| Special districts | 0.030 | 0.032 | 0.039 | 0.039 | 0.031 | 0.031 | 0.030 | 0.031 | 0.031 | 0.030 |
| | 1.105 | 1.166 | 1.169 | 1.169 | 1.177 | 1.182 | 1.137 | 1.195 | 1.212 | 1.205 |

Note:

1. The above tax rates are applied per $100 of assessed valuation.
2. In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within as broken down in the pie chart above. In addition to the 1.00% fixed amount, the property owners are charged taxes as a percentage of assessed property values for the payment of school district bonds.

*Source: Department of Finance, County of Santa Clara*

# CITY OF SAN JOSE
## PRINCIPAL PROPERTY TAXPAYERS
## CURRENT YEAR AND NINE YEARS AGO
($ 000's)

| Taxpayer | 2011 Taxable Assessed Value | 2011 Percent of Total City Taxable Assessed Value | 2002 Taxable Assessed Value | 2002 Percent of Total City Taxable Assessed Value |
|---|---|---|---|---|
| Cisco Technology Inc. | $ 1,219,572 | 1.02% | $ - | - |
| Blackhawk Parent LLC | 763,219 | 0.64% | - | - |
| Hitachi Global Storage Techs, Inc. | 561,194 | 0.47% | - | - |
| VF Mall LLC | 490,941 | 0.41% | 329,232 | 0.40% |
| Legacy Partners | 470,686 | 0.39% | - | - |
| Mission West Properties LP | 386,132 | 0.32% | - | - |
| Carr NP Properties LLC | 374,589 | 0.31% | - | - |
| Hercules Holding II LLC | 372,483 | 0.31% | - | - |
| Adobe Systems Inc. | 360,906 | 0.30% | - | - |
| FRIT San Jose Town & Country Village LLC | 345,693 | 0.29% | - | - |
| Sobrato Group | 344,552 | 0.29% | 262,648 | 0.32% |
| San Jose Water Works | 297,974 | 0.25% | - | - |
| Oakridge Mall LP | 254,387 | 0.21% | - | - |
| Tishman Speyer Archstone-Smith | 234,859 | 0.20% | - | - |
| Ebay Inc. | 218,779 | 0.18% | - | - |
| International Business Machines Corporation | 214,573 | 0.18% | 1,410,146 | 1.72% |
| Park Center Plaza Investors LP | 180,163 | 0.15% | - | - |
| Xilinx Inc. | 175,269 | 0.15% | 216,430 | 0.26% |
| WPV San Jose LLC | 167,000 | 0.14% | - | - |
| Laramar San Jose Parts LLC | 152,491 | 0.13% | - | - |
| Total assessed property valuation, local secured net | $ 7,585,463 | 6.36% | $ 2,218,456 | 2.71% |
| Total City of San José net assessed property valuation (including RDA): | | | | |
| FY 2001-2002 | | | $ 81,854,846 | |
| FY 2010-2011 | $ 119,183,180 | | | |

*Source: California Municipal Statistics, Inc.*

SCHEDULE VIII

# CITY OF SAN JOSE
## PROPERTY TAX LEVIES AND COLLECTIONS
## LAST TEN FISCAL YEARS
($ 000's)

| Fiscal Year | Tax Levied for the Fiscal Year | Collected within the Fiscal Year of Levy | | Collections in Subsequent Years | Total Collections to Date | |
|---|---|---|---|---|---|---|
| | | Amount | Percent of Levy | | Amount | Percent of Levy |
| 2002 | $ 88,526 | $ 88,286 | 99.7 | $ 0 | $ 88,286 | 99.7 |
| 2003 | 93,592 | 93,592 | 100.0 | 0 | 93,592 | 100.0 |
| 2004 | 97,748 | 95,407 | 97.6 | 0 | 95,649 | 97.9 |
| 2005 | 105,486 | 105,486 | 100.0 | 0 | 105,486 | 100.0 |
| 2006 | 118,803 | 117,360 | 98.8 | 209 | 117,570 | 99.0 |
| 2007 | 127,693 | 127,141 | 99.6 | 213 | 127,354 | 99.7 |
| 2008 | 137,290 | 135,866 | 99.0 | 223 | 136,088 | 99.1 |
| 2009 | 139,735 | 139,501 | 99.8 | 234 | 139,735 | 100.0 |
| 2010 | 132,901 | 132,175 | 99.5 | 246 | 132,421 | 99.6 |
| 2011 | 127,527 | 127,418 | 99.9 | 219 | 127,637 | 100.1 |

Note: The tax levied for the current year is based on estimates provided by the County of Santa Clara. The tax levied for prior years are adjusted to reflect actual tax collections.

*Source: Finance Department, County of Santa Clara*
*Finance Department, City of San José*

# CITY OF SAN JOSE
## RATIOS OF OUTSTANDING DEBT BY TYPE
## LAST TEN FISCAL YEARS
($ 000's)

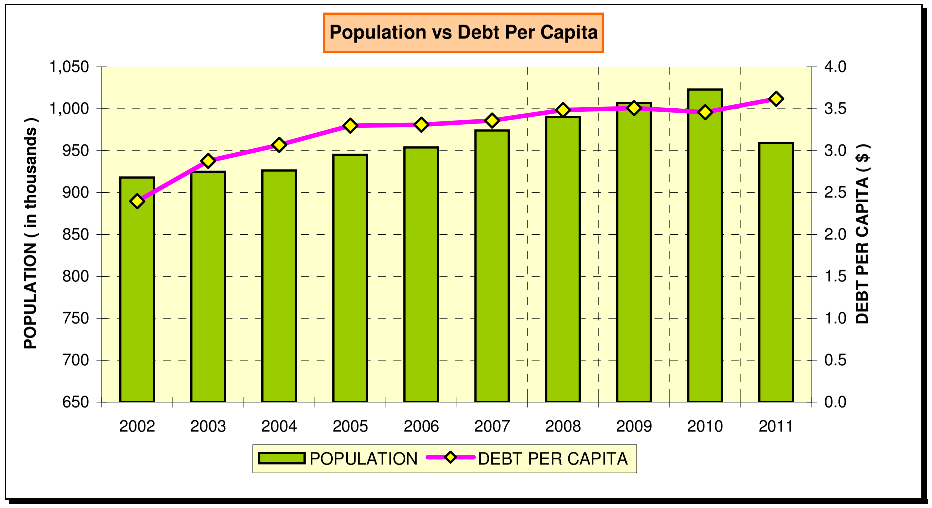
| | Governmental Activities | | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | General Obligation Bonds | Tax Allocation Bonds | Notes & Loans | Lease Revenue Bonds | Special Assessment Bonds | Revenue Bonds | Total Governmental Activities |
| 2002 | $ 71,000 | $ 1,628,780 | $ 4,490 | $ 204,839 | $ 96,096 | $ 295,905 | $ 2,301,110 |
| 2003 | 184,720 | 1,605,925 | 4,315 | 578,100 | 80,708 | 291,985 | 2,745,753 |
| 2004 | 178,480 | 1,735,480 | 4,125 | 581,978 | 85,142 | 346,760 | 2,931,965 |
| 2005 | 337,240 | 1,782,775 | 23,347 | 655,235 | 79,434 | 339,595 | 3,217,626 |
| 2006 | 432,445 | 1,745,275 | 92,786 | 646,070 | 75,007 | 331,870 | 3,323,453 |
| 2007 | 510,710 | 1,796,345 | 89,926 | 641,551 | 71,580 | 322,460 | 3,432,572 |
| 2008 | 528,565 | 1,978,935 | 86,166 | 629,324 | 68,151 | 312,240 | 3,603,381 |
| 2009 | 519,320 | 2,055,505 | 131,858 | 655,137 | 64,886 | 301,250 | 3,727,956 |
| 2010 | 499,970 | 2,107,575 | 76,650 | 644,983 | 60,905 | 284,150 | 3,674,233 |
| 2011 | 480,320 | 2,049,440 | 70,627 | 669,233 | 163,904 | 271,385 | 3,704,909 |

| | Business-type Activities | | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Airport Revenue Bonds | Clean Water Revenue Bonds | Wastewater Revolving Fund Loans | Total Business-type Activities | Total Primary Government | Percentage of Property Value | Debt Per Capita |
| 2002 | $ 282,485 | $ 104,960 | $ 62,798 | $ 450,243 | $ 2,751,353 | 3.36% | $ 3.00 |
| 2003 | 268,770 | 99,285 | 59,479 | 427,534 | 3,173,287 | 3.66% | 3.43 |
| 2004 | 512,500 | 95,745 | 56,099 | 664,344 | 3,596,309 | 3.99% | 3.88 |
| 2005 | 503,885 | 92,035 | 52,658 | 648,578 | 3,866,204 | 4.18% | 4.09 |
| 2006 | 494,910 | 81,150 | 49,153 | 625,213 | 3,948,666 | 3.94% | 4.14 |
| 2007 | 485,545 | 77,185 | 45,585 | 608,315 | 4,040,887 | 3.68% | 4.15 |
| 2008 | 1,060,815 | 72,875 | 41,953 | 1,175,643 | 4,779,024 | 4.01% | 4.83 |
| 2009 | 1,049,635 | 62,685 | 38,254 | 1,150,574 | 4,878,530 | 3.89% | 4.84 |
| 2010 | 1,037,990 | 58,045 | 34,487 | 1,130,522 | 4,804,755 | 3.91% | 4.70 |
| 2011 | 1,025,870 | 53,255 | 30,651 | 1,109,776 | 4,814,685 | 4.04% | 5.02 |

Note: Data pertaining to personal income specific to the City of San José is not readily available, thus the total debt outstanding is expressed as a percentage of property value. Outstanding Debt amount does not include Commercial Paper notes.

*Sources: Department of Finance, City of San José*
*Department of Finance, County of Santa Clara*

CITY OF SAN JOSE
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
($ 000'S)




| Fiscal Year | Outstanding General Debt: General Obligation Bonds | Tax Allocation Bonds | Lease Revenue Bonds | Revenue Bonds | Total | Assessed Value | Population | Ratio of General Bonded Debt to Assessed Value | General Bonded Debt Per Capita |
|---|---|---|---|---|---|---|---|---|---|
| 2002 | $ 71,000 | $ 1,628,780 | $ 204,839 | $ 295,905 | $ 2,200,524 | $ 81,854,846 | 917,971 | 0.026883 | 2.40 |
| 2003 | 184,720 | 1,605,925 | 578,100 | 291,985 | 2,660,730 | 86,648,560 | 925,000 | 0.030707 | 2.88 |
| 2004 | 178,480 | 1,735,480 | 581,978 | 346,760 | 2,842,698 | 90,040,619 | 926,200 | 0.031571 | 3.07 |
| 2005 | 337,240 | 1,782,775 | 655,235 | 339,595 | 3,114,845 | 92,573,480 | 945,000 | 0.033647 | 3.30 |
| 2006 | 432,445 | 1,745,275 | 646,070 | 331,870 | 3,155,660 | 100,268,765 | 954,000 | 0.031472 | 3.31 |
| 2007 | 510,710 | 1,796,345 | 641,551 | 322,460 | 3,271,066 | 109,708,285 | 974,000 | 0.029816 | 3.36 |
| 2008 | 528,565 | 1,978,935 | 629,324 | 312,240 | 3,449,064 | 119,146,269 | 990,000 | 0.028948 | 3.48 |
| 2009 | 519,320 | 2,055,505 | 655,137 | 301,250 | 3,531,212 | 125,337,743 | 1,007,000 | 0.028174 | 3.51 |
| 2010 | 499,970 | 2,107,575 | 644,983 | 284,150 | 3,536,678 | 123,021,551 | 1,023,000 | 0.028748 | 3.46 |
| 2011 | 480,320 | 2,049,440 | 669,233 | 271,385 | 3,470,378 | 119,183,180 | 959,000 | 0.029118 | 3.62 |

Note: Total Outstanding General Debt excludes special assessment and special tax bonds and notes and loans payable.

*Source: Finance Department, City of San José*

CITY OF SAN JOSE
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2011

| | |
|---|---|
| City Net Taxable Assessed Valuation | $ 100,688,646,000 |
| Redevelopment Agency Net Taxable Assessed Valuation | 18,494,534,000 |
| Total Net Taxable Assessed Valuation | $ 119,183,180,000 |

| | % Applicable | Outstanding Debt as of 06/30/11 | Estimated Share of Overlapping Debt |
|---|---|---|---|
| *Direct and Overlapping Tax and Assessment Debt:* | | | |
| City of San Jose Community Facilities Districts | 100.00% | $ 31,865,000 | $ 31,865,000 |
| City of San Jose Special Assessment Bonds | 100.00% | 24,613,739 | 24,613,739 |
| Alum Rock Union School District | 74.73% | 78,005,328 | 58,290,261 |
| Berryessa Union School District | 94.21% | 39,113,031 | 36,850,342 |
| Cambrian School District | 67.51% | 18,759,944 | 12,664,463 |
| Campbell Union High School District | 61.69% | 167,315,000 | 103,208,258 |
| Campbell Union School District | 49.01% | 119,646,120 | 58,642,153 |
| Cupertino Union School District | 16.48% | 122,899,991 | 20,247,774 |
| East Side Union High School District | 95.03% | 553,217,260 | 525,738,959 |
| Evergreen School District | 99.43% | 116,220,071 | 115,552,968 |
| Evergreen School District Community Facilities District No. 92-1 | 100.00% | 3,520,000 | 3,520,000 |
| Foothill-DeAnza Community College District | 4.63% | 650,224,288 | 30,131,394 |
| Franklin-McKinley School District | 99.62% | 69,911,314 | 69,644,253 |
| Fremont Union High School District | 10.00% | 265,975,108 | 26,602,830 |
| Gavilan Joint Community College District | 7.89% | 102,100,000 | 8,056,711 |
| Los Gatos Union School District | 1.40% | 98,340,000 | 1,372,826 |
| Los Gatos-Saratoga Joint Union High School District | 0.63% | 55,215,000 | 345,646 |
| Luther Burbank School District | 22.03% | 8,713,104 | 1,919,671 |
| Milpitas Unified School District | 0.00% | 45,915,000 | 92 |
| Moreland School District | 76.29% | 71,683,662 | 54,685,315 |
| Morgan Hill Unified School District | 19.17% | 60,709,040 | 11,640,958 |
| Mount Pleasant School District | 87.62% | 7,559,992 | 6,624,292 |
| Oak Grove School District | 99.80% | 110,074,352 | 109,859,707 |
| Orchard School District | 100.00% | 51,164,960 | 51,164,960 |
| San Jose Unified School District | 98.03% | 505,867,986 | 495,882,152 |
| San Jose-Evergreen Community College District | 87.15% | 236,993,794 | 206,542,461 |
| Santa Clara County | 38.11% | 334,900,000 | 127,633,739 |
| Santa Clara Unified School District | 3.95% | 252,260,000 | 9,956,702 |
| Santa Clara Valley Water District Benefit Assessment District | 38.11% | 143,160,000 | 54,559,708 |
| Santa Clara Valley Water District Zone W-1 | 45.85% | 405,000 | 185,684 |
| Union School District | 73.33% | 72,645,524 | 53,273,142 |
| West Valley Community College District | 28.20% | 213,049,346 | 60,073,524 |
| Total Direct and Overlapping Tax and Assessment Debt | | 4,632,042,954 | 2,371,349,684 |
| *Overlapping Other Debt:* | | | |
| Alum Rock Union School District Certificates of Participation | 74.73% | 28,000,000 | 20,923,280 |
| East Side Union High School District Post Employment Obligations | 95.03% | 31,635,000 | 30,063,690 |
| Foothill-DeAnza Community College District General Fund Obligations | 4.63% | 21,215,000 | 983,103 |
| Franklin-McKinley School District Certificates of Participation | 99.62% | 5,380,000 | 5,359,448 |
| Los Gatos-Saratoga Joint Union High School District Certificates of Participation | 0.63% | 9,650,000 | 60,409 |
| Luther Burbank School District Certificates of Participation | 22.03% | 2,152,408 | 474,219 |
| Midpeninsula Regional Open Space Park District General Fund Obligations | 0.01% | 131,003,031 | 19,650 |
| Morgan Hill Unified School District Certificates of Participation | 19.18% | 13,505,000 | 2,589,584 |
| San Jose Unified School District Certificates of Participation | 98.03% | 109,122,992 | 106,968,904 |
| San Jose-Evergreen Community College District Benefit Obligations | 87.15% | 46,775,000 | 40,764,880 |
| Santa Clara County Board of Education Certificates of Participation | 38.11% | 12,580,000 | 4,794,364 |
| Santa Clara County General Fund Obligations | 38.11% | 786,980,000 | 299,925,948 |
| Santa Clara County Pension Obligations | 38.11% | 386,024,822 | 147,117,920 |
| Santa Clara County Vector Control District Certificates of Participation | 38.11% | 3,800,000 | 1,448,218 |
| Santa Clara Unified School District Certificates of Participation | 3.95% | 12,980,000 | 512,321 |
| West Valley-Mission Community College District General Fund Obligations | 28.20% | 56,120,000 | 15,824,156 |
| Total Gross Direct and Overlapping General Fund Debt | | 1,656,923,253 | 677,830,094 |
| Total Overlapping Debt | | $ 6,288,966,207 | |
| City Direct Debt | | | 480,320,000 |
| Total Direct and Overlapping Debt | | | $ 1,158,150,094 |

Notes:
Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and business of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt, of each overlapping government. The City direct debt in this schedule includes General Obligation Bonds only, it does not include Special Hotel Tax Revenue Bonds (Convention Center Expansion and Renovation project), Series 2011.

*Source: California Municipal Statistics, Inc.*
*Finance Department, County of Santa Clara*

SCHEDULE XII

CITY OF SAN JOSE
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
($ 000's)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Calculation of Debt Limit | | | | | | | | | | |
| Gross assessed value for fiscal year | $ 83,699,432 | $ 88,634,267 | $ 92,414,521 | $ 95,306,884 | $ 103,289,698 | $ 112,922,568 | $ 122,633,703 | $ 129,019,882 | $ 127,102,911 | $ 123,363,998 |
| Debt limit at 15% of assessed value (1) | x .15 | x .15 | x .15 | x .15 | x .15 | x .15 | x .15 | x .15 | x .15 | x .15 |
| Debt limit applicable to fiscal year | $ 12,554,915 | $ 13,295,140 | $ 13,862,178 | $ 14,296,033 | $ 15,493,455 | $ 16,938,385 | $ 18,395,055 | $ 19,352,982 | $ 19,065,437 | $ 18,504,600 |
| Calculation of Legal Debt Margin | | | | | | | | | | |
| Debt limit applicable to fiscal year | $ 12,554,915 | $ 13,295,140 | $ 13,862,178 | $ 14,296,033 | $ 15,493,455 | $ 16,938,385 | $ 18,395,055 | $ 19,352,982 | $ 19,065,437 | $ 18,504,600 |
| Less: total general obligation bonds | 71,000 | 184,720 | 178,480 | 337,240 | 432,445 | 510,710 | 528,565 | 519,320 | 499,970 | 480,320 |
| Legal debt margin | $ 12,483,915 | $ 13,110,420 | $ 13,683,698 | $ 13,958,793 | $ 15,061,010 | $ 16,427,675 | $ 17,866,490 | $ 18,833,662 | $ 18,565,467 | $ 18,024,280 |
| Total debt applicable to the limit as a percentage of debt limit | 0.6% | 1.4% | 1.3% | 2.4% | 2.8% | 3.0% | 2.9% | 2.7% | 2.6% | 2.6% |

Note: (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
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
($ 000's)

## NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

| Year | Gross Revenues and Other Available Funds (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage (3) |
|---|---|---|---|---|---|---|---|
| | | | | Principal | Interest | Total | |
| 2002 | $ 115,856 | $ 71,564 | $ 44,292 | $ 6,124 | $ 7,884 | $ 14,008 | 3.13 |
| 2003 | 127,816 | 73,300 | 54,516 | 6,610 | 11,036 | 17,646 | 3.09 |
| 2004 | 125,664 | 71,313 | 54,351 | 5,993 | 11,460 | 17,453 | 3.11 |
| 2005 | 127,425 | 73,654 | 53,771 | 7,608 | 10,324 | 17,932 | 3.00 |
| 2006 | 137,412 | 78,320 | 59,092 | 8,975 | 12,448 | 21,423 | 2.76 |
| 2007 | 140,901 | 86,509 | 54,392 | 8,776 | 12,061 | 20,837 | 2.61 |
| 2008 | 159,318 | 96,126 | 63,192 | 9,753 | 11,814 | 21,567 | 2.93 |
| 2009 | 164,086 | 90,927 | 73,159 | 11,195 | 11,842 | 23,037 | 3.18 |
| 2010 | 158,110 | 82,574 | 75,536 | 7,065 | 19,714 | 26,779 | 2.82 |
| 2011 | 175,894 | 76,850 | 99,044 | 12,135 | 20,367 | 32,502 | 3.05 |

*(1) Includes operating and other revenues and prior year's surplus, excludes Passenger Facility Charges and other items as defined in the Master Trust Agreement.*

*(2) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.*

*(3) Debt coverage is calculated by dividing net revenue available for debt service by total debt service requirements.*

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

## WASTEWATER TREATMENT SYSTEM

| Year | Gross Revenues (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage |
|---|---|---|---|---|---|---|---|
| | | | | Principal | Interest | Total | |
| 2002 | $ 118,409 | $ 84,059 | $ 34,350 | $ 13,385 | $ 5,881 | $ 19,266 | 1.78 |
| 2003 | 112,333 | 78,798 | 33,535 | 8,994 | 5,385 | 14,379 | 2.33 |
| 2004 | 101,281 | 78,393 | 22,888 | 6,920 | 5,057 | 11,977 | 1.91 |
| 2005 | 119,995 | 87,749 | 32,246 | 7,151 | 5,037 | 12,188 | 2.65 |
| 2006 | 116,453 | 85,936 | 30,517 | 14,389 | 4,775 | 19,164 | 1.59 |
| 2007 | 124,754 | 89,313 | 35,441 | 7,533 | 3,786 | 11,319 | 3.13 |
| 2008 | 141,777 | 105,779 | 35,998 | 7,943 | 3,405 | 11,348 | 3.17 |
| 2009 | 165,484 * | 101,833 | 63,651 | 8,179 | 3,276 | 11,455 | 5.56 |
| 2010 | 159,124 | 113,648 | 45,476 | 8,407 | 3,038 | 11,445 | 3.97 |
| 2011 | 170,078 | 120,225 | 49,853 | 8,626 | 2,816 | 11,442 | 4.36 |

*(1) Includes operating and other revenues.*

*(2) Includes operating expenses less depreciation and amortization.*

** Rate increase effective July 1, 2008.*

*Source: Environmental Services Department, City of San José*

SCHEDULE XIV

# CITY OF SAN JOSE
## DEMOGRAPHIC AND ECONOMIC STATISTICS
## LAST TEN FISCAL YEARS

| Fiscal Year | Population (1) | Net Taxable Assessed Values (2) ($000's) | Per Capita Taxable Property Values | Average Unemployment Rate % (3) |
|---|---|---|---|---|
| 2002 | 917,971 | $ 81,854,846 | $ 89,169 | 4.2 |
| 2003 | 925,000 | 86,648,560 | 93,674 | 9.8 |
| 2004 | 926,200 | 90,040,619 | 97,215 | 9.6 |
| 2005 | 945,000 | 92,573,480 | 97,961 | 7.2 |
| 2006 | 954,000 | 100,268,765 | 105,104 | 6.0 |
| 2007 | 974,000 | 109,708,285 | 112,637 | 5.0 |
| 2008 | 990,000 | 119,146,269 | 120,350 | 5.3 |
| 2009 | 1,007,000 | 125,337,743 | 124,466 | 6.6 |
| 2010 | 946,000 (*) | 123,021,551 | 130,044 | 12.2 |
| 2011 | 959,000 | 119,183,180 | 124,279 | 12.2 |

Note: Data pertaining to personal income is not readily available, thus the City used taxable assessed values to calculate per capita taxable property values.

*Sources/Notes:*

1. *State of California, Department of Finance, Population Estimates for California Cities.*
2. *Department of Finance, County of Santa Clara*
3. *State of California, Employment Development Department, Labor Market Information Division*

*(*) Revised by State of California Department of Finance due to using the 2010 Census counts as the new benchmark in estimating populations for California Cities.*

SCHEDULE XV

CITY OF SAN JOSE
PRINCIPAL EMPLOYERS
CURRENT YEAR AND FIVE YEARS AGO

| Company or Organization | 2011 Number of Employees | 2011 Rank | 2011 Percent of Total Employment | 2006 Number of Employees | 2006 Rank | 2006 Percent of Total Employment |
|---|---|---|---|---|---|---|
| County of Santa Clara | 15,420 | 1 | 1.78% | 14,860 | 2 | 1.70% |
| Cisco Systems | 11,600 | 2 | 1.34% | 16,500 | 1 | 1.89% |
| IBM | 6,750 | 3 | 0.78% | 5,800 | 4 | 0.66% |
| City of San José(*) | 5,250 | 4 | 0.61% | 6,670 | 3 | 0.76% |
| San Jose State University | 3,300 | 5 | 0.38% | 3,100 | 5 | 0.35% |
| eBay Inc. | 3,000 | 6 | 0.35% | 2,200 | 8 | 0.25% |
| San Jose Unified School District | 2,690 | 7 | 0.31% | 1,820 | 13 | 0.21% |
| Xilinx, Inc. | 2,440 | 8 | 0.28% | 2,300 | 7 | 0.26% |
| Sanmina-SCI | 2,310 | 9 | 0.27% | 2,100 | 9 | 0.24% |
| Hitatchi | 2,000 | 10 | 0.23% | 2,800 | 6 | 0.33% |
| Adobe Systems, Inc. | 2,000 | 11 | 0.23% | 2,000 | 10 | 0.23% |
| Kaiser Permanente | 1,920 | 12 | 0.22% | na(**) | na(**) | na(**) |
| Good Samaritan Hospital | 1,850 | 13 | 0.21% | 1,850 | 12 | 0.21% |
| Cadence Design Systems | 1,560 | 14 | 0.18% | 1,750 | 14 | 0.20% |
| Brocade Communication | 1,450 | 15 | 0.17% | 2,000 | na(**) | na(**) |

Note: Data pertaining to principal employers for nine years ago is not readily available. As such, we used 2006 information which was the earliest available.

(*) Full-time employees.

(**) Companies or organizations not included in top 15 principal employers in 2006

*Source: California Employment Development Department, Labor Market Information Division*

CITY OF SAN JOSE
FULL-TIME AND PART-TIME CITY EMPLOYEES
LAST TEN FISCAL YEARS

SCHEDULE XVI

| | Full-Time and Part-Time Employees as of June 30 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 [4] |
| City Council Staff | 100 | 99 | 97 | 97 | 94 | 85 | 93 | 80 | 83 | 81 |
| City Manager's Office | 115 | 97 | 95 | 108 | 109 | 126 | 117 | 118 | 104 | 68 |
| City Auditor's Office | 28 | 28 | 23 | 21 | 20 | 17 | 17 | 19 | 16 | 14 |
| City Attorney's Office | 98 | 93 | 91 | 88 | 82 | 87 | 85 | 87 | 79 | 71 |
| City Clerk's Office | 18 | 20 | 13 | 14 | 15 | 19 | 21 | 21 | 16 | 12 |
| Information Technology | 129 | 113 | 109 | 117 | 100 | 102 | 143 | 141 | 128 | 99 |
| Planning, Building & Code Enforcement | 349 | 335 | 336 | 320 | 309 | 351 | 367 | 328 | 272 | 295 |
| Police Department | 2,018 | 1,990 | 1,962 | 1,898 | 1,881 | 1,934 | 1,927 | 1,953 | 1,831 | 1,715 |
| Independent Police Auditor | 8 | 6 | 6 | 5 | 6 | 6 | 6 | 5 | 6 | 6 |
| Fire Department | 831 | 796 | 775 | 766 | 801 | 859 | 867 | 828 | 816 | 712 |
| Library Department | 577 | 528 | 543 | 589 | 621 | 733 [2] | 712 | 701 | 651 | 566 |
| Finance Department | 137 | 107 | 106 | 106 | 133 [1] | 127 | 142 | 139 | 127 | 114 |
| Human Resources | 175 | 189 | 146 | 123 | 139 | 164 | 179 | 148 | 140 | 93 |
| Airport | 348 | 361 | 362 | 360 | 347 | 360 | 367 | 343 | 281 | 190 |
| Convention & Cultural Facities | 155 | 129 | 118 | 93 | 71 | 78 | 72 | 69 | 53 | 8 |
| General Services Department | 351 | 338 | 325 | 298 | 178 [1] | 189 | 208 | 304 [3] | 303 | 234 |
| Transportation | 519 | 500 | 480 | 452 | 447 | 431 | 478 | 462 | 444 | 408 |
| Public Works Department | 464 | 455 | 440 | 383 | 365 | 347 | 361 | 332 | 293 | 240 |
| Office of Economic Development | 44 | 46 | 54 | 60 | 85 | 75 | 76 | 90 | 90 | 107 |
| Environmental Services Department | 414 | 408 | 401 | 424 | 418 | 460 | 477 | 498 | 499 | 486 |
| Parks, Recreation & Neighborhood Services | 3,159 | 2,323 | 1,944 | 1,960 | 2,214 | 1,956 | 1,909 | 1,709 [3] | 1,717 | 1,521 |
| Housing Department | 64 | 67 | 70 | 66 | 67 | 80 | 85 | 86 | 83 | 65 |
| Retirement Services | 21 | 23 | 23 | 21 | 26 | 29 | 29 | 30 | 28 | 28 |
| | 10,122 | 9,051 | 8,519 | 8,369 | 8,528 | 8,615 | 8,738 | 8,491 | 8,060 | 7,133 |

Note:

1. Effective FY 2005-2006, the Purchasing Group and the Parks Maintenance Group were transferred from the General Services Department to the Finance Department and the Parks, Recreation & Neighborhood Services Department.
2. Effective FY 2006-2007, the City opened the Evergreen and Cambian Libraries.
3. Effective FY 2008-2009, the Animal Care Services Division was transferred from the Parks, Recreation & Neighborhood Services Department to the General Services Department.
4. Decrease primarily due to layoffs and a number of eliminated positions as a cost-savings strategy to reduce the $115.2 million budget shortfall.

*Source: Finance Department, City of San José*

CITY OF SAN JOSE
OPERATING INDICATORS
LAST TEN FISCAL YEARS

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| AIRPORT: | | | | | | | | | | |
| Takeoffs Per Year: | | | | | | | | | | |
| Commercial Airline Operations | 145,271 | 129,317 | 113,972 | 98,892 | 97,198 | 97,596 | 96,860 | 86,672 | 76,024 | 73,094 |
| Cargo Commercial Airlines Operations | 6,582 | 5,815 | 4,636 | 3,594 | 3,464 | 3,388 | 3,140 | 2,554 | 2,076 | 2,046 |
| Taxi / Commuter Commercial | 5,690 | 10,385 | 19,032 | 29,672 | 30,756 | 28,806 | 29,504 | 23,830 | 19,776 | 16,172 |
| General Aviation | 97,661 | 78,618 | 62,510 | 63,708 | 61,907 | 55,021 | 55,146 | 46,674 | 33,439 | 30,503 |
| Military Flights | 295 | 211 | 125 | 99 | 83 | 103 | 64 | 242 | 275 | 276 |
| Landings Per Day: | | | | | | | | | | |
| Commercial | 432 | 199 | 189 | 181 | 180 | 178 | 177 | 155 | 134 | 125 |
| General Aviation | 266 | 108 | 86 | 87 | 85 | 75 | 76 | 64 | 46 | 42 |
| Number of Passengers Per Year: | | | | | | | | | | |
| Business | 6,394,000 | 4,320,000 | 5,136,000 | 5,148,960 | 5,208,960 | 5,113,920 | 5,116,800 | 4,200,000 | 3,950,400 | 4,026,720 |
| Non-Business | 7,367,000 | 6,480,000 | 5,564,000 | 5,578,040 | 5,643,040 | 5,540,080 | 5,543,200 | 4,550,000 | 4,279,600 | 4,362,280 |
| ENVIRONMENT AND UTILITIES: | | | | | | | | | | |
| Water: | | | | | | | | | | |
| Gallons of Wastewater Treated Per Day (in millions) | 122 | 118 | 118 | 116 | 116 | 116 | 116 | 107 | 106 | 167 |
| Gallons of Municipal Water Consumption Per Year (in billions) | 7.2 | 7.0 | 7.0 | 7.4 | 7.7 | 7.7 | 8.3 | 8.7 | 7.9 | 6.8 |
| Recycled Materials: | | | | | | | | | | |
| Tons of Recyclables | 100,637 | 95,217 | 69,615 | 100,703 | 104,631 | 105,648 | 132,821 | 129,462 | 120,511 | 120,819 |
| Tons of Yard Trimmings | 123,066 | 127,401 | 135,733 | 141,061 | 146,706 | 161,142 | 123,473 | 125,676 | 128,728 | 130,637 |
| Gallons of Used Motor Oil | 210,135 | 212,276 | 194,645 | 244,647 | 249,477 | 165,357 | 120,098 | 116,864 | 123,318 | 122,745 |
| FIRE: | | | | | | | | | | |
| Fires Per Year | 2,250 | 2,245 | 2,200 | 1,700 | 2,794 | 3,270 | 3,172 | 3,018 | 1,659 | 1,570 |
| Hazardous Materials Incidents Per Year | 600 | 500 | 500 | 350 | 221 | 330 | 546 | 841 | 368 | 291 |
| Fire Safety Code Inspections Per Year | 13,000 | 16,000 | 16,000 | 16,000 | 16,050 | 14,123 | 16,989 | 12,056 | 11,073 | 11,508 |
| Emergency Medical Calls Per Year | NA | 40,000 | 40,000 | 40,650 | 41,322 | 41,616 | 40,534 | 46,533 | 49,036 | 49,683 |
| LIBRARIES: | | | | | | | | | | |
| Circulation | 9,368,248 | 11,635,848 | 13,491,212 | 14,170,776 | 14,449,984 | 14,200,000 | 14,250,000 | 14,399,685 | 15,000,000 | 13,560,762 |
| Reference Questions | 413,080 | 500,345 | 536,073 | 529,641 | 489,282 | 550,000 | 600,000 | 648,721 | 650,000 | 748,647 |
| PARKS, RECREATION AND NEIGHBORHOOD SERVICES: | | | | | | | | | | |
| Annual Participant Hours / Attendance in Recreation Programs (*) | 11,500,000 | 11,160,164 | 4,226,800 | 3,592,800 | 3,679,836 | 2,610,890 | 2,740,500 | 2,200,000 | 2,050,000 | 2,030,000 |
| POLICE: | | | | | | | | | | |
| 911 Calls Per Year | 220,612 | 212,152 | 202,891 | 235,100 | 317,884 | 368,855 | 400,155 | 457,360 | 405,739 | 669,594 |
| 311 Calls Per Year | 292,922 | 285,214 | 301,144 | 300,700 | 265,548 | 259,834 | 257,100 | 256,648 | 343,868 | 435,312 |
| Cases Investigated Per Year | 25,000 | 32,472 | 33,202 | 24,262 | 37,399 | 42,000 | 46,096 | 45,000 | 38,006 | 35,090 |
| BUILDING PERMITS: | | | | | | | | | | |
| Number issued: | | | | | | | | | | |
| New Buildings | 789 | 1,023 | 1,166 | 1,206 | 1,201 | 1,534 | 916 | 593 | 369 | 388 |
| Building Alterations | 7,968 | 8,976 | 8,924 | 8,547 | 8,025 | 7,718 | 7,272 | 6,165 | 6,020 | 6,677 |
| Value: | | | | | | | | | | |
| New Buildings | 673,270,409 | 552,699,198 | 473,149,068 | 532,785,367 | 466,877,910 | 535,783,080 | 455,272,352 | 332,315,767 | 298,573,631 | 388,496,732 |
| Building Alterations | 322,390,480 | 371,974,285 | 331,486,068 | 273,798,097 | 358,482,282 | 412,444,929 | 439,999,543 | 342,053,067 | 301,370,071 | 383,794,593 |

Note:

(*) For fiscal years 2002 and 2003, participation was measured using hours. Effective FY 2003-2004, participation was changed from hours to attendance.

*Source: 2011-2012 Adopted Operating Budget*
*City Manager's Office, City of San José*

CITY OF SAN JOSE
CAPITAL ASSET STATISTICS
BY FUNCTION
LAST TEN FISCAL YEARS

SCHEDULE XVIII

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| AIRPORT: | | | | | | | | | | |
| Terminals | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Runways | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Public Parking Spaces: | | | | | | | | | | |
| Short-Term Parking | 3,100 | 2,878 | 2,888 | 2,888 | 2,888 | 2,856 | 2,383 | 2,383 | 2,695 | 2,539 |
| Long-Term Parking | 4,100 | 4,100 | 4,000 | 4,050 | 4,050 | 3,646 | 3,991 | 3,991 | 3,600 | 3,085 |
| ENVIRONMENT AND UTILITIES: | | | | | | | | | | |
| Wastewater: | | | | | | | | | | |
| Miles of Municipal Sewer Mains | 2,169 | 2,169 | 2,181 | 2,190 | 2,195 | 2,200 | 2,200 | 2,200 | 2,251 | 2,258 |
| Maximum Daily Capacity (millions of gallons) | 167.0 | 167.0 | 167.0 | 167.0 | 167.0 | 167.0 | 167.0 | 167.0 | 167.0 | 167.0 |
| Water: | | | | | | | | | | |
| Meters in Municipal Service Water Area | 25,161 | 25,500 | 26,025 | 26,416 | 26,954 | 26,954 | 26,230 | 26,500 | 26,475 | 26,300 |
| Miles of Water Mains | 360 | 311 | 325 | 330 | 340 | 340 | 343 | 344 | 344 | 344 |
| FIRE: | | | | | | | | | | |
| Station | 31 | 31 | 31 | 31 | 31 | 31 | 34 | 34 | 34 | 33 |
| LIBRARIES: | | | | | | | | | | |
| Main Library | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Branches | 17 | 17 | 17 | 17 | 20 | 20 | 21 | 21 | 21 | 21 |
| PARKS, RECREATION AND NEIGHBORHOOD SERVICES: | | | | | | | | | | |
| Park Sites | 149 | 149 | 170 | 194 | 159 | 163 | 174 | 183 | 188 | 189 |
| Community Centers | 19 | 19 | 19 | 27 | 28 | 30 | 38 | 42 | 10 | 12 |
| POLICE: | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Vehicles and Motorcycles | 451 | 418 | 412 | 399 | 384 | 384 | 387 | 390 | 384 | 382 |
| Horses and Dogs | 32 | 34 | 33 | 23 | 26 | 29 | 27 | 27 | 27 | 26 |
| Aircraft | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |

*Source: City Manager's Office, City of San José*

**CONDUIT ISSUER OF MULTIFAMILY HOUSING REVENUE BONDS OUTSTANDING(1)**

**June 30, 2011**

| Project Name | Series | Date Issued | Issue Amount | 6/30/2011 Balance | Maturity/ Redemption | Annual Fees(2) |
|---|---|---|---|---|---|---|
| Siena at Renaissance Square | 1996A | 08/22/96 | $ 50,000,000 | $ 60,000,000 | 12/01/29 | $ 75,000 |
| Almaden Lake Village Apartments | 1997A | 03/27/97 | 25,000,000 | 25,000,000 | 03/01/32 | 33,750 |
| Coleman Senior Apartments | 1998 | 04/24/98 | 8,050,000 | 6,961,983 | 05/01/30 | 8,945 |
| Italian Gardens Senior Apartments | 1998 | 04/24/98 | 8,000,000 | 6,917,497 | 05/01/30 | 8,888 |
| Carlton Plaza | 1998A | 04/24/98 | 12,000,000 | 12,000,000 | 10/15/32 | 15,000 |
| The Gardens Apartments | 1999A | 05/12/99 | 18,970,000 | 18,755,000 | 01/01/32 | 23,862 |
| Helzer Court Apartments | 1999A | 06/02/99 | 16,948,000 | 15,783,000 | 12/01/41 | 26,122 |
| Ohlone-Chynoweth Commons Apartments | 1999 | 06/04/99 | 16,200,000 | - | 05/30/09 | 20,250 |
| Kimberly Woods Apartments | 1999A | 12/20/99 | 16,050,000 | 16,050,000 | 12/01/29 | 20,062 |
| Almaden Lake Village Apartments | 2000A | 03/29/00 | 2,000,000 | 2,000,000 | 03/01/32 | na |
| Sixth and Martha Family Apartments Phase I | 2000 | 07/21/00 | 9,900,000 | 8,735,000 | 03/01/33 | 12,375 |
| Craig Gardens Apartments | 2000A | 12/05/00 | 7,100,000 | 4,269,909 | 12/01/32 | 8,875 |
| El Parador Apartments | 2000A | 12/07/00 | 6,130,000 | 5,695,000 | 01/01/41 | 14,412 |
| El Parador Apartments | 2000B | 12/07/00 | 900,000 | 415,000 | 01/01/16 | na |
| Monte Vista Gardens Senior Housing | 2000A | 12/08/00 | 3,740,000 | 3,017,710 | 07/15/33 | 9,350 |
| San Jose Lutheran Seniors Apartments | 2001A-1 | 07/11/01 | 3,850,000 | 3,434,821 | 02/15/34 | 6,250 |
| Sixth and Martha Family Apartments Phase II | 2001C | 08/01/01 | 9,000,000 | 7,430,000 | 04/01/34 | 11,250 |
| The Villages Parkway Senior Apartments | 2001D | 08/01/01 | 6,800,000 | 5,240,000 | 04/01/34 | 8,500 |
| Lenzen Housing | 2001B | 08/22/01 | 8,395,000 | 7,820,000 | 02/20/43 | 11,868 |
| Terramina Square Apts/North White Rd Proj | 2001F | 11/15/01 | 16,845,000 | 16,139,542 | 04/01/44 | 21,056 |
| Villa de Guadalupe Apartments | 2001E | 11/27/01 | 6,840,000 | 6,840,000 | 01/01/32 | 9,687 |
| Villa de Guadalupe Apartments | 2001E (Tax.) | 11/27/01 | 760,000 | 100,089 | 04/01/12 | na |
| Almaden Senior Housing Apartments | 2001G | 12/05/01 | 6,050,000 | 2,940,000 | 07/15/34 | 7,562 |
| Betty Anne Gardens Apartments | 2002A | 04/05/02 | 11,000,000 | 6,900,000 | 04/01/34 | 13,750 |
| El Paseo Apartments | 2002B | 04/05/02 | 9,600,000 | 4,745,000 | 10/01/34 | 12,000 |
| Sunset Square Apartments | 2002E | 06/26/02 | 10,904,000 | 4,169,000 | 06/01/34 | 13,360 |
| Villa Monterey Apartments | 2002F | 06/27/02 | 11,000,000 | 10,300,000 | 07/15/35 | 13,750 |
| Monte Vista Gardens Senior Housing Apartments, Phase II | 2002C-1 | 07/24/02 | 3,465,000 | 2,866,154 | 02/01/35 | 4,581 |
| Pollard Plaza Apartments | 2002D | 08/06/02 | 14,000,000 | 7,095,000 | 08/01/35 | 17,500 |
| Evans Lane Apartments | 2002H | 10/08/02 | 31,000,000 | - | 04/15/36 | 38,750 |
| Hacienda Villa Creek Senior Apartments | 2002G-1 | 10/10/02 | 4,453,000 | 3,629,000 | 12/01/34 | 8,750 |
| Kennedy Apartment Homes | 2002K | 12/11/02 | 14,000,000 | 9,175,000 | 12/15/35 | 17,500 |
| Fallen Leaves Apartments | 2002J-1 | 12/18/02 | 13,360,000 | 11,335,000 | 06/01/36 | 23,500 |
| Fallen Leaves Apartments | 2002J-2 (Sub.) | 12/18/02 | 3,340,000 | 2,905,000 | 05/01/36 | na |
| Turnleaf Apartments | 2003A | 06/26/03 | 15,290,000 | 15,090,000 | 06/21/36 | 19,112 |
| The Oaks of Almaden Apartments | 2003B-1 | 07/29/03 | 4,365,000 | 3,822,872 | 02/15/36 | 10,437 |
| Cinnabar Commons | 2003C | 08/07/03 | 25,900,000 | 25,300,000 | 02/01/37 | 32,375 |
| Almaden Family Apartments | 2003D | 11/14/03 | 31,300,000 | 24,615,000 | 11/15/37 | 39,125 |
| Trestles Apartments | 2004A | 03/04/04 | 7,325,000 | 7,325,000 | 03/01/37 | 10,781 |
| Trestles Apartments | 2004A (Sub.) | 03/04/04 | 1,300,000 | 1,143,800 | 04/15/37 | na |
| Vintage Tower Apartments | 2004B-1 | 06/28/04 | 4,150,000 | 3,188,271 | 01/15/37 | 6,875 |
| Delmas Park | 2004C-1 | 10/15/04 | 13,780,000 | 12,932,137 | 01/01/47 | 24,223 |
| Raintree Apartments | 2005A | 02/01/05 | 21,100,000 | 20,600,000 | 02/01/38 | 26,375 |
| Paseo Senter I | 2005B-1 | 12/21/05 | 6,142,200 | 4,902,746 | 12/01/38 | 7,500 |
| Paseo Senter II | 2005C-1 | 12/21/05 | 4,903,000 | 3,795,825 | 06/01/38 | 7,500 |
| Casa Feliz Studio Apartments | 2007A | 06/13/07 | 11,000,000 | - | 12/01/09 | 7,500 |
| Almaden Family Apartments | 2007B (Sub.) | 12/17/07 | 6,385,000 | 4,905,634 | 11/15/37 | na |
| Curtner Studios | 2007C-1 | 12/19/07 | 5,520,000 | 5,368,683 | 12/01/39 | 7,500 |
| Fairgrounds Senior Housing Apartments | 2008B | 05/08/08 | 26,000,000 | 13,615,000 | 05/01/41 | 32,500 |
| Las Ventanas Apartments | 2008B | 07/15/08 | 25,900,000 | 25,900,000 | 07/01/38 | na |
| Brookwood Terrace Family Apts (3) | 2009B-1 | 12/23/09 | 7,780,000 | 7,780,000 | 01/01/44 | 17,000 |
| Brookwood Terrace Family Apts | 2009B-2 | 12/23/09 | 5,445,000 | 5,445,000 | 01/01/44 | na |
| Fourth Street Apts (4) | 2010A-1 | 06/02/10 | 5,620,000 | 3,509,931 | 01/01/14 | 28,750 |
| Fourth Street Apts | 2010A-2 | 06/02/10 | 17,380,000 | 17,380,000 | 01/01/14 | na |
| Orvieto Family Apartments | 2010B-1 | 07/20/10 | 7,760,000 | 7,760,000 | 08/01/29 | 17,750 |
| Orvieto Family Apartments | 2010B-2 | 07/20/10 | 6,440,000 | 50,001 | 08/01/29 | na |
| Kings Crossing Apartments | 2010C | 09/17/10 | 24,125,000 | 3,177,061 | 09/01/45 | 30,156 |
| **Grand Total** | | | **$ 620,560,200** | **$ 456,270,665** | | **$ 841,964** |

(1) California Government Code Chapter 10.7 "Conduit Financing Transparency and Accountability" requires additional reporting and public disclosures by public agencies that issue certain revenue bonds, including conduit revenue bonds. This table provides the information required by section 5872 of Chapter 10.7 which includes disclosure of fees imposed on borrowers by conduit financing provider, expenditures related to fees, dollar amount and nature of fees and expenses, amount of any authorized, but unsold bonds at end of June 30, 2011, and amount of debt issued and outstanding at end of reporting period. As of June 30, 2011 the City has served as a conduit issuer for only multifamily housing revenue bonds.

(2) Annual monitoring fees and upfront fees are collected pursuant to City Council Policy No. 1-16, Policy for the Issuance of Multifamily Housing Revenue Bonds. The annual monitoring fee is charged to reimburse the City for monitoring the restricted units, the reimbursement agreement and ensure compliance with tax law. The annual monitoring fees are deposited in the Housing Activities Fund.