



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper
Director of Finance

SUBJECT: SEE BELOW

DATE: December 3, 2020

Approved

Date

12/4/20

**SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL
YEAR ENDED JUNE 30, 2020**

RECOMMENDATION

Accept the Fiscal Year 2019-2020 Comprehensive Annual Financial Report for the City of San José (“City”).

OUTCOME

To provide an overview of the fiscal year 2019-2020 Comprehensive Annual Financial Report (“CAFR”) to the City Council. The CAFR provides relevant financial information to the City Council, residents of San José, creditors, investors, and other interested parties. The CAFR serves to help meet the Strategic Support City Service Area Strategic Goal: “Customers have the financial information they need to make informed decisions”.

BACKGROUND

The fiscal year 2019-2020 CAFR provides a detailed description of the City’s financial activities for the period of July 1, 2019 through June 30, 2020, and is generally divided into the following sections:

- an Introductory Section intended to familiarize the reader with the organizational structure of the City, the scope of City services, and the specifics of the City’s legal operating environment;
- a Financial Section which contains the City’s audited financial statements including the independent auditor’s report; and

- a Statistical Section which contains up to ten (10) years of statistical data on the City's financial trends, revenue and debt capacity, operating information, and demographic and economic information.

ANALYSIS

The fiscal year 2019-2020 CAFR provides a comprehensive review of the City's financial operations and can be viewed at the following link and a copy is attached to this memorandum:

<https://www.sanjoseca.gov/your-government/appointees/city-auditor/external-financial-audits>

The City Charter requires the preparation of annual financial statements that are audited by an independent auditor and then submitted to the City Council. The independent auditor is retained by the City Council and works under the direction of the City Auditor. Also, annual audited financial statements are required by continuing disclosure agreements for the outstanding bonds issued by the City, the City of San José Financing Authority, the San José-Santa Clara Clean Water Financing Authority, and the Successor Agency to the Redevelopment Agency. In some cases, the continuing disclosure agreements specify December 31 of each year as the deadline for providing audited financial statements to investors via the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board.

The CAFR is prepared by the Accounting Division of the Finance Department and represents the culmination of a concerted team effort by Finance Department staff along with significant involvement of other City departments and the City Auditor. The CAFR is submitted to the City Council for consideration and acceptance, and to give staff the opportunity to provide an overview of the relevant financial information contained in the CAFR to the residents of San José, creditors, investors, taxpayers, and other interested parties.

In February 2018, the City contracted with Macias Gini & O'Connell, LLP ("Auditors"), a firm of Certified Public Accountants licensed to practice in the State of California, to perform the City's annual independent audit through fiscal years ending June 30, 2020. For fiscal year 2019-2020, the Auditors expressed an opinion that the City's financial statements are fairly stated in accordance with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an "unmodified" or "clean" opinion. The independent auditor's report is included in the Financial Section of the CAFR.

For the fiscal year ended June 30, 2020, the following are the key financial results:

- As of June 30, 2020, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$3.961 billion. Of this amount, a deficit of \$2.569 billion represents unrestricted net position, which is comprised of a deficit balance of \$2.860 billion for governmental activities, and a positive balance of \$290.6 million for business-type activities. In addition, the City's restricted net position totals \$1.177 billion (\$1.101 billion for governmental activities and \$76.1 million for business-type activities),

based on the restrictions imposed by the enabling legislations or debt covenants. Lastly, net position of \$5.353 billion is the City's net investment in capital assets, which includes \$4.263 billion from governmental activities and \$1.090 billion from business-type activities.

- The net position increased by \$115.3 million or 2.9 percent during FY 2019 to \$4.055 billion from \$3.939 billion. Governmental Activities accounted for \$27 million of the increase mainly due to the increases in property tax, sales tax, and other tax related revenues. Business-type activities accounted for \$88.7 million of the increase primarily from a change in accounting principal with the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the City to reports its net Other Postemployment Benefits (“OPEB”) liability separately on the Government-Wide Statements of Net Position and the Proprietary Funds Statement of Net Fund Position.
- Net position decreased by \$93.9 million or 2.32 percent during FY 2020 to \$3.961 billion from \$4.055 billion. Governmental Activities accounted for \$206.0 million of the decrease mainly due to the increases in general government expenses. Business-type activities accounted for \$112.1 million of the increase, primarily from increases of revenues from fees, fines, and charges for services.
- Governmental funds reported a combined ending fund balance of \$1.869 billion at June 30, 2020, which is \$309.9 million or 19.88 percent more than the June 30, 2019 balance. The change was attributable to an increase in the General Fund of \$45.7 million, the Housing Activities Fund of \$19.9 million, the Low- and Moderate-Income Housing Asset Fund of \$17.4 million, the San José Financing Authority Debt Service Fund of \$5.0 million, the Nonmajor Governmental Funds of \$225.2 million, and a decreasing offset in the Special Assessment Districts Fund of \$3.3 million. Unassigned fund balance of governmental funds is \$51.7 million, which is 2.76 percent of the combined governmental fund balances at June 30, 2020.
- Total long-term liabilities increased by \$501.5 million to \$7.039 billion at June 30, 2020, which represents an increase of 7.67 percent compared to \$6.537 billion at June 30, 2019. The primary factors leading to the increase in long-term liabilities for governmental activities of \$459.3 million was mainly due to the increase of pension liability by \$226.8 million and general obligation bonds by \$145.8 million. The City issued \$502.0 million of General Obligation Bonds to finance projects and to refund the City's outstanding general obligation bonds totaling \$356.2 million. The primary factors leading to the increase in long-term liabilities for business-type activities of \$42.2 million was due to the increase of pension liability by \$27.3 million.
- As of June 30, 2020, total net OPEB liability was \$976.5 million, which included \$892.1 million in governmental activities and \$84.4 million in business-type activities. The total net OPEB liability increased by \$53.7 million or 5.8%, due to changes of benefits and assumptions in both plans. In FY 2020, the City revised its pension expense allocation methodology to align calculation methods for pension and OPEB expenses. The basis of the two calculations now references the same source reports. Total allocated expenses did

not change in the governmental funds; however, for pension expense it did result in a greater allocation to the general government activities. Lastly, OPEB expense increased \$30.7 million due to the higher OPEB liability in FY 2020.

CONCLUSION

Acceptance of the Fiscal Year 2019-2020 Comprehensive Annual Financial Report provides relevant financial information to the City Council, residents of San José, creditors, investors, and other interested parties.

EVALUATION AND FOLLOW-UP

There is no evaluation or follow-up needed.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum and the CAFR will be posted to the City Council Agenda website for the December 15, 2020 Council Meeting.

COORDINATION

The Finance Department has coordinated this memorandum with the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

HONORABLE MAYOR AND CITY COUNCIL

December 3, 2020

Subject: Fiscal Year 2019-20 Comprehensive Annual Financial Report

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CEQA

Not a Project, File No. PP17-010, City Organizational & Administrative Activities resulting in no changes to the physical environment.

/s/

JULIA H. COOPER

Director of Finance

Attachment – FY 2019-2020 Comprehensive Annual Financial Report

For questions, please contact Luz Cofresí-Howe, Assistant Director of Finance at (408) 535-7041.