

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Parks and Recreation  
Commission

**SUBJECT:** SEE BELOW

**DATE:** February 7, 2018

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Approved

Date

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**COUNCIL DISTRICT:** Citywide

**SUBJECT: 2016-2017 STATUS REPORT ON THE PARKS AND RECREATION BOND  
PROJECTS**

## RECOMMENDATION

Accept this report on the status of San José Safe Neighborhood Parks and Recreation Bond Projects.

## OUTCOME

This report provides an opportunity to review the status of the projects funded by the San José Safe Neighborhood Parks and Recreation Bond Program approved by voters in November 2000. This report also gives the community the opportunity to provide input on the remaining projects to be delivered by the Parks and Recreation Bond Program. Acceptance of this report, together with the audit of the Parks and Recreation Bond Projects Fund for the year ending June 30, 2017, would conclude the review of the implementation of the Parks and Recreation Bond Program for 2016-2017 by the Parks and Recreation Commission (PRC).

## BACKGROUND

In November 2000, the City of San José voters approved a \$228 million General Obligation Bond, specifically known as the San José Safe Neighborhood Parks and Recreation Bond (Measure P), for the purpose of acquiring property for and constructing improvements to parks and recreation facilities throughout the City. This bond passed with an over 78% approval rating.

**HONORABLE MAYOR AND CITY COUNCIL**

February 7, 2018

**Subject: Status Report on Parks Bond Program**

Page 2

On April 10, 2001, the City Council designated the PRC as a Committee of the Whole (Committee) to conduct the citizen's oversight review responsibilities associated with Measure P. The Parks Bond Citizen Oversight Committee (COC) meetings provided the public with the opportunity to understand, review, and address any significant and relevant issues related to the implementation of the parks and recreation bond projects.

On May 7, 2013, the City Council consolidated the Parks and Recreation Bond COC with the PRC. All Parks and Recreation Bond COC related business is now on the agenda to be heard by the combined PRC.

The Parks and Recreation Bond COC (now the PRC) has conducted public hearings on the status of projects. This report provides an update on the status of the remaining projects through June 30, 2017.

**ANALYSIS**

**I. Project Status**

2016-2017 marks the seventeenth year of the City's implementation of the Parks and Recreation Bond Program. Improvements to sixty-nine neighborhood parks, seven regional parks projects, construction/renovation of nine community centers/facilities and five trail projects have been completed. The status for the two remaining projects, the bond funded softball and soccer facilities are listed below.

**Coleman Soccer Fields Complex**

In April 2016, the City Council agreed to a Memorandum of Understanding (MOU), which outlined a plan to sell the Coleman Soccer Fields Site (adjacent to the San Jose Airport, at Coleman Ave. and Champions Way) to the San Jose Earthquakes and the Coleman Airport Partners (which, combined, are known as the Developers), and pursue the development of a different site, in the Guadalupe Gardens south of the Airport, for an expanded soccer fields project. The MOU includes the understanding that if project construction on the Guadalupe Gardens site does not begin by December 31, 2017, the Developers will cover the rebid risk cost involved with building the original scope of the project at the original Coleman Soccer Fields site if certain conditions are met.

Following the April 19, 2016 City Council meeting, staff began working with the San José Earthquakes, Guadalupe River Park Conservancy, and other partners to develop a potential seven field joint soccer complex at the Guadalupe Gardens site. The project scope included four community soccer fields, three Earthquakes academy fields and a six-acre park.

Ultimately, after several months of working towards the goal of placing the complex in the Guadalupe Gardens, staff has been unable to identify a path forward for the development of the

**HONORABLE MAYOR AND CITY COUNCIL**

February 7, 2018

**Subject: Status Report on Parks Bond Program**

Page 3

soccer complex. While there are several challenges in placing the soccer fields at this location, the most significant challenge is related to State and local guidelines for development within an airport "inner safety zone" as defined by Caltrans and the County Airport Land Use Commission (ALUC). An inner safety zone is an area close to the ends of an airport's runways in which land uses and density should be restricted due to the risk of an aircraft accident or emergency landing. Staff is in the process of evaluating options to move forward for a citywide soccer complex and will return to the Mayor and City Council with a recommendation in early 2018.

Arcadia Ballpark

Arcadia Ballpark project construction contract was awarded to Goodland Landscape Construction, Inc. for \$16,791,161 with a 5 percent contingency of \$840,000. The facility is to be built on approximately 14.49 acres of land in Council District 8. The construction of the ballpark facility began in fall 2017, and is anticipated to complete open in spring 2019. The City is continuing work on the development of a operations and marketing plan prior to the opening date of the facility to ensure that the City is operating at the best possible cost recovery model.

**II. Annual Audit of the Parks and Recreation Bond Projects Fund**

The Parks and Recreation Bond Projects Fund (Fund 471) is supported solely by General Obligation (GO) Bond proceeds and accounts only for expenses that are eligible to be paid for by the bond proceeds. GO Bonds were issued in six series between 2001 and 2008 to provide funding for projects that include those funded by the Parks and Recreation Bond Program.

A total of \$228,030,000 in General Obligation Bonds (the entire Parks and Recreation Bond Program authorization) was issued to fund Parks and Recreation Bond projects. These bond proceeds, combined with interest earnings and other revenues of \$26,269,510, provided total revenues of \$254,299,510 through 2016-2017. A total of \$225,237,491 of these funds has been expended and \$20,734 encumbered through June 2017. The balance of the funds will be used to complete the projects indicated above. There are no new projects to be funded by the Parks and Recreation Bond Program.

The independent accounting firm of Grant Thornton, LLP completed their annual audit of the Parks and Recreation Bond Projects Fund (Fund 471) for the fiscal year that ended on June 30, 2017 and submitted its report to the City on October 13, 2017. The report was presented to the PRC on February 7, 2018.

The audit is posted on the City's website: <http://www.sanjoseca.gov/prc>. Copies can also be obtained from the Parks, Recreation and Neighborhood Services Department on the 9th floor of City Hall at 200 East Santa Clara Street, San José, California.

### EVALUATION AND FOLLOW-UP

The PRC reports on the status of the Parks and Recreation Bond Program to the City Council on an annual basis.

### COORDINATION

This report was coordinated with the Finance Department, the City Manager's Budget Office, the City Auditor's Office and the City Attorney's Office.

### PUBLIC OUTREACH/INTEREST

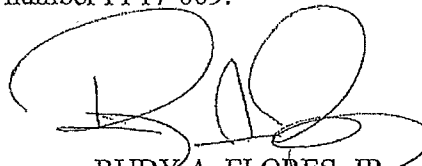
The City posted this item on the PRC's website for its February 7, 2018 meeting. Outreach was conducted through posting of flyers in community centers and libraries.

### FISCAL/POLICY ALIGNMENT

This report meets the legal commitment and requirement of the PRC to review the implementation of the Parks and Recreation Bond Program and provide the public with opportunities to understand, review, and address any significant and relevant issues related to the implementation of the Program.

### CEQA

Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action. Public Project number PP17-009.



RUDY A. FLORES, JR.  
Chair, Parks and Recreation Commission

For questions please contact Nicolle Burnham, Deputy Director, Parks, Recreation and Neighborhood Services Department, at (408) 793-5514.

#### Attachments:

1. TCWG Bonds and Parcel Tax Letter, dated October 20, 2017
2. Parks and Recreation Bond Projects Fund Accountants' Report for Year Ended June 30, 2017



City Council  
Parks and Recreation Commission  
Library and Early Education Commission  
Neighborhoods Commission  
City of San José, California

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Ladies and Gentlemen:

In connection with our audits of the financial statements of the Branch Library Bond Projects Fund, the Parks and Recreation Bond Projects Fund, the Library Parcel Tax Fund, and the Neighborhood Security Bond Projects Fund of the City of San José, California (collectively, the "Funds"), as of June 30, 2017 and for the year then ended, auditing standards generally accepted in the United States of America ("US GAAS") require that we communicate the following information related to our audit to management, the respective oversight committees, and the City Council.

### Responsibilities

#### **Our responsibilities**

We are responsible for:

- Performing audits under US GAAS and GAGAS of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with a modified accrual basis of accounting
- Reporting on whether the Fund's internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements
- Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole
- Examining compliance with certain provisions of Measure P, Measure S and Measure O
- Communicating specific matters to you

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

#### **Those Charged with Governance and management responsibilities**

Those Charged with Governance (City Council):

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the City's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:



- Entity strategies and related business risks that may result in heightened risks of material misstatement
- Matters warranting particular audit attention
- Significant communications with regulators
- Matters related to the effectiveness of internal control and your related oversight responsibilities
- Your views regarding our current communications and your actions regarding previous communications

Management:

- Defining the reporting entity (the “Funds”)
- Preparing and fairly presenting the financial statements in accordance with GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations

**Audit scope and results**

**City of San José Bond and Parcel Tax program summary**

We were engaged to perform audits of the following four funds and an examination of each of the Fund’s compliance with certain provisions of the Measures outlined below.

Fund	Oversight Committee	Compliance Measure
Parks and Recreation Bond Projects Fund (Fund 471)	Parks and Recreation Commission	Measure P
Branch Library Bond Projects Fund (Fund 472)	Library and Early Education Commission	Measure O (2000)
Neighborhood Security Bond Projects Fund (Fund 475)	Neighborhoods Commission	Measure O (2002)
Library Parcel Tax Fund (Fund 418)	Library and Early Education Commission	Measure S



**Materiality**

Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark. We believe that total assets is the appropriate benchmark for each of the Bond Project Funds and that total revenue is the appropriate benchmark for the Library Parcel Tax. Financial statement items greater than materiality are in scope. Other areas less than materiality may be in scope if qualitative factors are present (for example, related party relationships or transactions and fraud risk).

**Significant risks and other focus areas**

Based on our risk assessments, we identified the following areas of significant audit focus.

Areas of focus
Equity in Pooled Cash and Investments (418, 471, 472, 475)  (Fund 472 has a negative cash balance, presented as a Due to Other Funds in the financial statements, which is part of the City's pooled cash and investments pool)
Investments in Fiscal Agents (471, 472, 475)
Expenditures (418, 471, 472, 475)
Compliance with Measure P (471), Measure O (472, 475), and Measure S (418)
Parcel Tax Revenues (418)
Intergovernmental Revenues / Operating Transfers Out (472 / 475)
Other Income (475)

**Unrecorded misstatements, including omitted disclosures**

Refer to Appendix A for the Schedule of unrecorded misstatements, including omitted disclosures identified during the audits.

**Quality of accounting practices and alternative treatments**

**Accounting policies**

Accounting policies are consistency and appropriately applied. The significant accounting policies are disclosed in the financial statements.



**Internal control matters**

A deficiency in internal control (“control deficiency”) exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Our responsibilities related to internal control consist of the following:

- Obtain reasonable assurance about whether the financial statements are free of material misstatement
- Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control
- We express no opinion on the effectiveness of internal control
- Control deficiencies that are of a lesser magnitude than a significant deficiency were communicated to management.

\* \* \*

This communication is intended solely for the information and use of management and the City Council of the City of San José and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

GRANT THORNTON LLP

*Grant Thornton LLP*

October 20, 2017  
 San José, California





**Appendix A – Schedule of recorded misstatements, including omitted disclosures**

Description	Increase (Decrease) to:			Change in Fund Balance
	Assets	Liabilities	Fund Balance	
<u>Recorded adjustments - Fund 472</u>				
1 VILLAGE SQUARE BRANCH				(23,343)
MISC POST-CONSTRUCTION COSTS				23,343
<i>To reverse impact of improper reclassification entry.</i>				
<u>Unrecorded adjustments - Fund 472</u>				
1 VILLAGE SQUARE BRANCH				(11,721)
OPENING FUND BALANCE			11,721	
<i>To reverse impact of prior-year over accrual.</i>				
Net impact	\$ -	\$ -	\$ 11,721	\$ (11,721)

**Other recorded adjustments (disclosures only)**

In conjunction with the recorded adjustment to the financial statements outlined above, we also identified two disclosure recorded adjustments related to total encumbrances at year-end. The audit team determined that the following adjustments were appropriate to more properly reflect true encumbrances at year-end:

1. Reduced total encumbrances for Fund 471 by \$110,000 (from \$130,734 to \$20,734).
2. Reduced total encumbrances for Fund 475 by \$119,692 (from \$405,680 to \$285,988).

**Omitted disclosures**

We have identified the following unrecorded disclosure adjustment during the audit of the Funds (471, 472, 475):

- The policy for allocating indirect expenses to functions in the statement of revenues, expenditures, and changes in fund balance.