



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: November 19, 2021

Approved

Date

11/22/2021

SUBJECT: ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2021

RECOMMENDATION

Accept the Fiscal Year 2020-2021 Annual Comprehensive Financial Report for the City of San José.

OUTCOME

To provide an overview of the fiscal year 2020-2021 Annual Comprehensive Financial Report (“ACFR”) to the City Council. The ACFR provides relevant financial information to the City Council, residents of San José, creditors, investors, and other interested parties.

BACKGROUND

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 website of the Municipal Securities Rulemaking Board.

The ACFR 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 ACFR is submitted to the

City Council for consideration and acceptance, and to provide the residents of San José, creditors, investors, taxpayers and other interested parties an overview of the relevant financial information contained in the ACFR.

ANALYSIS

The fiscal year 2020-2021 ACFR provides a detailed description of the City of San José's ("City") financial activities for the period of July 1, 2020 through June 30, 2021, and is organized into the following sections:

- 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;
- Financial Section which contains the City's audited financial statements including the independent auditor's report; and
- Statistical Section which contains up to ten (10) years of statistical data on the City's financial trends, revenue, debt capacity, operating information, and demographic and economic information.

The fiscal year 2020-2021 ACFR 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>

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, 2021. For fiscal year 2020- 2021, 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 ACFR.

For the fiscal year ended June 30, 2021, the following are the key financial results:

- As of June 30, 2021, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$3.710 billion. Of this amount, an accounting deficit of \$2.756 billion represents the City's unrestricted net position, which is comprised of an accounting deficit balance of \$2.978 billion for governmental activities, and a positive balance of \$222.4 million for business-type activities. The primary factor contributing to the accounting deficit in the unrestricted net position is the City's net pension and other post-employment benefit ("OPEB") liabilities, \$3.592

billion and \$864.9 million, respectively¹. In addition, the City's restricted net position totals \$1.166 billion (\$1.116 billion for governmental activities and \$49.8 million for business-type activities), based on the restrictions imposed by the enabling legislations or debt covenants. Lastly, the City's net investment in capital assets is \$5.300 billion, which includes \$4.090 billion from governmental activities and \$1.210 billion from business-type activities.

- The net position decreased by \$238.1 million or 6.03 percent during FY 2021 to \$3.710 billion from \$3.948 billion. Governmental Activities accounted for \$263.1 million of the decrease mainly due to total expense of \$2.191 billion exceeding the total revenue and transfers of \$1.928 billion. Business-type activities accounted for \$25.0 million of the increase primarily due to total revenue of \$802.0 million exceeding the total expense and transfers of \$777.0 million.
- Governmental funds reported a combined ending fund balance of \$1.861 billion at June 30, 2021, which is \$3.9 million or 0.21 percent higher than the June 30, 2020 balance. The change was attributable to a decrease in the General Fund of \$46.9 million, the Housing Activities Fund of \$11.0 million, the Special Assessment Districts Fund of \$2.1 million, the San José Financing Authority Debt Service Fund of \$16.7 million, and offset by an increase in the Low- and Moderate-Income Housing Asset Fund of \$22.7 million, and the Nonmajor Governmental Funds of \$57.9 million.
- Total long-term liabilities increased by \$154.3 million to \$7.193 billion at June 30, 2021, which represents an increase of 2.19 percent compared to \$7.039 billion at June 30, 2020. The primary factors leading to the increase in long-term liabilities for governmental activities of \$182.5 million was due to the increase of pension liability by \$206.3 million and debt service activities by \$63.2 million, offset by the decrease of Other Postemployment Benefits ("OPEB") liability by \$104.2 million. The primary factor leading to the decrease in long-term liabilities for business-type activities of \$28.2 million was the result of a bond refunding and the scheduled debt service payments.

CONCLUSION

Acceptance of the Fiscal Year 2020-2021 Annual Comprehensive Financial Report provides relevant financial information to the City Council, residents of San José, creditors, investors, and other interested parties.

¹ GASB No. 68 and GASB No. 75, which the City implemented in Fiscal Year 2014-2015 and Fiscal Year 2017-2018 respectively, requires governments providing defined benefit pensions and other post-employment benefits to recognize their long-term obligation for defined benefit pension and other post-employment benefits as a liability.

EVALUATION AND FOLLOW-UP

There is no evaluation or follow-up needed at this time.

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 ACFR will be posted to the City Council Agenda website for the December 7, 2021 Council Meeting.

COORDINATION

The preparation of the ACFR is an extensive coordinated effort across every department in the City. Additionally, pursuant to the Disclosure Policies and Procedures² a substantially final draft of the ACFR was distributed to the Core Disclosure Working Group³ and the Group met to review, and comments have been incorporated into the final ACFR. 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.

² Disclosure Policies and Procedures, effective June 30, 2020 -

<https://www.sanjoseca.gov/home/showpublisheddocument/61169/637292207533100000>

³ Members of the Core Disclosure Working Group include the City Manager, City Attorney, Budget Director, Finance Director and other members as deemed appropriate which included Assistant City Manager, Directors of the Airport, Community Energy, Environmental Services, Human Resources/Employee Relations and Retirement Services; along with key members of the City Attorney's Office, Assistant Director of Finance, Deputy Directors of Finance (Accounting and Debt & Treasury Management), Deputy Director of Aviation, Assistant to the City Manager/Employee Relations.

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CEQA

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

/s/
JULIA H. COOPER
Director of Finance

For questions, please contact Rick Bruneau, Deputy Director of Finance, Accounting Division, at (408) 535-8310 or by email at rick.bruneau@sanjoseca.gov.

Attachment