



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: November 26, 2018

Approved

Date

11/29/18

**SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL
YEAR ENDED JUNE 30, 2018**

RECOMMENDATION

Accept the Fiscal Year 2017-2018 Comprehensive Annual Financial Report for the City of San José.

OUTCOME

To provide an overview of the fiscal year 2017-2018 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 2017-2018 CAFR provides a detailed description of the City's financial activities for the period of July 1, 2017 through June 30, 2018, 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 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 2017-2018 CAFR provides a comprehensive review of the City's financial operations and can be viewed at the following link:

<http://www.sanjoseca.gov/index.aspx?NID=759>

The City Charter requires the preparation of annual financial statements that are audited by an independent auditor and then are submitted to the City Council. The independent auditor is retained by the City Council and works under the direction of the City Auditor. Additionally, annual audited financial statements are required by the 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 many 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 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.

The City contracted with Macias Gini & O'Connell, LLP ("the Auditors"), a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. This is the first year that Macias Gini & O'Connell provided independent audit services for the City under a new agreement. They previously were City's independent auditors from fiscal year 1999-2000 to fiscal year 2014-2015. The auditors expressed an opinion that the City's financial statements for fiscal year 2017-2018 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 "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, 2018, the following are the key financial results:

- Total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources at June 30, 2018 by \$3.939 billion (net position) for all reporting entities, a \$740.1 million decrease (15.8 percent) from the net position of \$4.679 billion at June 30, 2017. The decrease in the City's net position was primarily due to the

implementation of Governmental Accounting Standards Board (GASB) Statement No. 75 effective July 1, 2017, which requires the City to report its net Other Postemployment Benefits liability (net OPEB liability) separately on the Government-Wide Statements of Net Position and the Proprietary Funds Statement of Net Fund Position. As of June 30, 2018, total OPEB liability was \$1.071 billion. Expenses exceeded revenues although property and sales taxes and other tax related revenues increased by \$68.5 million over the prior year. These amounts exclude Trust and Agency Funds which include pension trust funds, private purpose trust funds, and agency funds as assets of these fiduciary funds are held in a trustee or agency capacity for others and therefore cannot be used to support the City's own programs.

- Total net pension liability increased by \$181.4 million to \$3.192 billion as of June 30, 2018, of which \$2.836 billion was for governmental activities and \$356.5 million was for business-type activities. The increases were mainly due to a net gain of \$104.2 million between projected and actual investment earnings on the Retirement Plans' assets, and an increase of \$241.3 million to the net pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.
- Total long-term liabilities (excluding net pension and OPEB liabilities) decreased by \$238.7 million to \$2.546 billion at June 30, 2018, which represents a decrease of 8.6 percent compared to \$2.785 billion at June 30, 2017. The primary factors leading to the decrease in long-term liabilities for governmental activities of \$199.1 million were the scheduled debt service payments of \$58.9 million, and refunding of two series City of San Jose Financing Authority (the Authority) Bonds, \$67.1 million Series 2001F Lease Revenue Bonds and \$23.9 million 2001A Lease Revenue Bonds as part of the 2017 Tax Allocation Bond refunding. In addition, the Authority defeased \$37.1 million 2008F Bonds in 2017-2018 with property sales proceeds. The primary factors leading to the decrease in long-term liabilities for business-type activities of \$39.6 million was due to the scheduled debt service payments.
- Governmental funds reported combined ending fund balance of \$1.424 billion at June 30, 2018, which is \$9.1 million or 0.6 percent greater than the June 30, 2017 balance. Of the combined ending fund balances, \$979.6 million is reported as restricted fund balance that includes restrictions imposed by external parties or enabling legislation, including unspent bond proceeds, unspent grant revenues, and restricted tax revenues.

EVALUATION & FOLLOW-UP

There is no evaluation or follow-up needed.

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PUBLIC OUTREACH

This memorandum and the CAFR will be posted to the City Council Agenda website for the December 11, 2018 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.

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

For questions, please contact Lisa Taitano, Assistant Director of Finance at (408) 535-7041.