



COUNCIL AGENDA: 12/10/2019

ITEM: 3.7

FILE NO: 19-1181

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: December 10, 2019

SUBJECT: Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2019.

RECOMMENDATION:

As recommended by the Public Safety, Finance and Strategic Support Committee on November 21, 2019, accept the draft Fiscal Year 2018-2019 Comprehensive Annual Financial Report for the City of San José.

CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action. (Finance)

[Public Safety, Finance and Strategic Support Committee referral 11/21/19 - Item (d)3]

TO BE HEARD CONCURRENTLY WITH ITEM 9.1 (19-1176)



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: November 14, 2019

Approved

Date

11/14/19

**SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL
YEAR ENDED JUNE 30, 2019**

RECOMMENDATION

Accept the draft Fiscal Year 2018-2019 Comprehensive Annual Financial Report for the City of San José ("FY 2019 CAFR") and refer the final FY 2019 CAFR to the December 10, 2019 City Council Meeting for full Council acceptance.

OUTCOME

To provide an overview of the Fiscal Year 2018-2019 Comprehensive Annual Financial Report ("CAFR") to the Public Safety Finance & Strategic Support Committee ("PSFSS") and 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 2018-2019 CAFR provides a detailed description of the City's financial activities for the period of July 1, 2018 through June 30, 2019, 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 2018-2019 CAFR provides a comprehensive review of the City's financial operations. This year the Finance Department is presenting the draft CAFR to the PSFSS Committee with the final CAFR to be presented to the full Council at their December 10, 2019 meeting.

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 (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.

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 and for FY 2017-18. The auditors expressed an opinion that the City's financial statements for Fiscal Year 2018-2019 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, 2019, the following are the key financial results:

- Total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$4.055 billion. Of this amount, a deficit of \$2.367 billion represents unrestricted net position, which is comprised of a deficit balance of \$2.658 billion for governmental activities, and a positive balance of \$290.1 million for business-type activities. In addition, the City's restricted net position totals \$1.110 billion (\$1.037 billion for governmental activities and \$73 million for business-type activities) based on the restrictions imposed by the enabling legislations or debt covenants. Lastly, net position of \$5.312 billion is the City's net investment in capital assets, which include \$4.330 billion from governmental activities and \$982 million 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.
- Governmental funds reported a combined ending fund balance of \$1.559 billion at June 30, 2019, which is \$135 million or 9.5 percent more than the June 30, 2018 balance. The increase was attributable to an increase in the General Fund of \$121.5 million, the Housing Activities Fund of \$15 million, the Low and Moderate Income Housing Asset Fund of \$18.3 million, the Special Assessment Districts Fund of \$4.6 million, the Nonmajor Governmental Funds of \$19.6 million, and offset by decrease in the San José Financing Authority Debt Service Fund of \$44 million.
- Total long-term liabilities (excluding net pension and Other Postemployment Benefits (OPEB) –decreased by \$61.4 million to \$2.485 billion at June 30, 2019, which represents a decrease of 2.4 percent compared to \$2.546 billion at June 30, 2018. The primary factors leading to the decrease in long-term liabilities for governmental activities of \$97.6 million was primarily due to redemptions, loan payoffs, and scheduled debt service payments totaling \$89.8 million. Outside of the scheduled debt service of \$42.9 million, the majority of the reduction was the redemption of the City of San José Financing Authority Series 2008C and 2008D Lease Revenue Bonds for \$28.5 million from the sale of the Hayes Mansion and Conference Center and final maturity of the New Market Tax Credit Financing (NMTC) obligation for \$18.4 million due to the termination of the program. The primary factors leading to the increase in long-term liabilities for business-type activities of \$36.3 million was due to the scheduled debt service payments of \$35.7 million offset by a draw from the Waste Water Revenue note for \$70.6 million.
- Net pension liability decreased by \$63.3 million or 2 percent during FY 2019 to \$3.129 billion from \$3.192 billion. Deferred outflows of resources related to pensions decreased by \$215.2 million or 23.1 percent, and deferred inflows of resources related to pensions increased by \$76.3 million or 1,699.2 percent. The decrease resulted from changes of assumptions and differences between expected and actual actuarial experience in the City of San José Police and Fire Department Retirement Plan.

- As of June 30, 2019, total net OPEB liability was \$923.3 million which included \$840.5 million in governmental activities and \$82.8 million in business-type activities. The total net OPEB liability decreased by \$148 million or 13.8% due to changes of benefits and assumptions in both plans.

CONCLUSION

To provide an overview of the Fiscal Year 2018-2019 Comprehensive Annual Financial Report ("CAFR") to the PSFSS Committee and the City Council. The CAFR provides relevant financial information to the City Council, residents of San José, creditors, investors, and other interested parties.

EVALUATION & FOLLOW-UP

There is no evaluation or follow-up needed.

CLIMATE SMART SAN JOSE

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

PUBLIC OUTREACH

This memorandum and the draft CAFR will be posted on the City's website for the November 21, 2019, PSFSS Committee meeting and final CAFR will be posted to the City's website and a hard copies distributed to the Council for the December 10, 2019, City 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.

November 14, 2019

Subject: Fiscal Year 2018-19 Comprehensive Annual Financial Report

Page 5

CEQA

Not a Project, File No. PP10-069 (a), City Organizational & Administrative Activities.

JULIA H. COOPER
Director of Finance

Attachment

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