

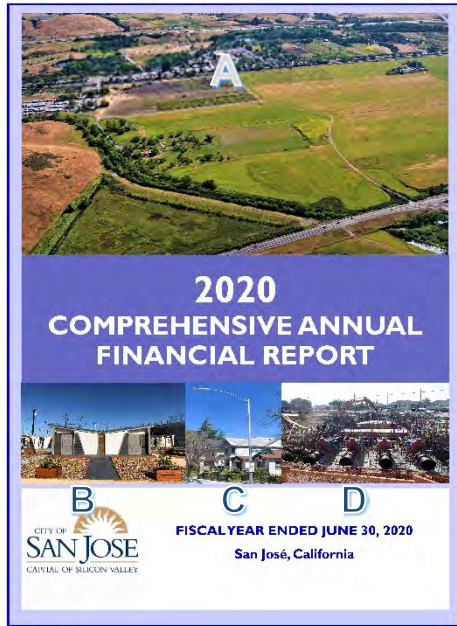


# 2020 COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FISCAL YEAR ENDED JUNE 30, 2020**

**San José, California**



The cover design of this year's Comprehensive Annual Financial Report reflects the continuing focus by the City of San José on developing smart, sustainable, and reliable infrastructure to shape America's next great city, while supporting its most vulnerable residents.

These facilities demonstrate the San José commitment to the environmental protection of wildlife and habitat, as well as water quality and flood prevention, promoting low-income housing, and the maintenance of critical City infrastructure, which are all essential components of the City of San José vision.

The main photo features the City's first significant use of Measure T funding authorized in November 2018 – the purchase and permanent protection of 937 acres in the **North Coyote Valley** through an innovative public and private partnership with Peninsula Open Space Trust and Santa Clara Valley Open Space Authority. This conservation transaction secures a critical "last chance" wildlife linkage between the Santa Cruz and Diablo mountain ranges, mitigating wildfire impact and building climate change resiliency.

*Photo Credit: Peninsula Open Space Trust, 2020*

The featured facilities are as follows:

A - **North Coyote Valley**

B - **Mabury Bridge Housing Community** – On February 27, 2020, Mayor Sam Liccardo was joined by Governor Gavin Newsom at the grand opening of San José's first "tiny home" community, the **Mabury Bridge Housing Community** (BHC). This BHC is one of five (5) City emergency housing developments that provide interim shelter for homeless individuals on public land, and acts as the bridge between homelessness and permanent housing. The Mabury BHC, located on land leased from the Valley Transportation Authority, is the first of two bridge housing communities in San José, and is funded through various State of California homeless and housing programs.

*Photo Credit: City of San José Housing Department*

C - **LED Conversion Program** – The City owns, operates and maintains over 64,000 streetlights. The City has changed approximately 32,000 streetlights to smart, energy-efficient light-emitting diode ("LED") lighting through its **LED Conversion Program** since 2012. A majority of the remaining streetlights will be converted to LED lighting by the end of 2021, with the remaining inventory, consisting of specialty lights requiring customized replacements, to be subsequently updated through City maintenance projects.

*Photo Credit: San José Public Works Department*

D - **Alviso Storm Pump Station** – Storm Sewer Capacity Improvement Capacity improvement projects prevent flooding over larger areas or drainage basins by constructing large-diameter storm sewers or new pump stations that are identified through past areas. The **Alviso Storm Pump Station** project, funded with revenues dedicated to the construction and reconstruction of the City storm sewer system, was completed in September 2019. This project includes the installation of four (4) pumps with a total capacity of 110 cubic feet per second and more than 1,000 feet of force main along Catherine Street to discharge stormwater into the Guadalupe River. The new pump station, in conjunction with the existing 30 cubic feet per second Gold Street Pump Station, will help alleviate the impact of a 100-year flood event to the Alviso community in North San José.

*Photo Credit: San José Public Works Department*

More information about the City of San José is available on the City's website at the following URL:

<https://www.sanjoseca.gov>.

**City of San José**  
California

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## Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2020

Prepared by the Finance Department

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Director of Finance

**City of San José**  
**Comprehensive Annual Financial Report**  
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Budget  
City Attorney  
City Auditor  
City Clerk  
City Manager

Clean Energy  
Environmental Services  
Fire  
Housing  
Human Resources  
Information Technology  
Library

Parks, Recreation and Neighborhood Services  
Planning, Building and Code Enforcement  
Police  
Public Works  
Retirement Services  
Transportation

**City of San José**  
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# Introductory Section



November 30, 2020

HONORABLE MAYOR and CITY COUNCIL

### **THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN JOSÉ**

We are pleased to present the Comprehensive Annual Financial Report (“CAFR”) of the City of San José (“City”) for the fiscal year July 1, 2019 through June 30, 2020 as required by Sections 805(a) and 1215 of the City Charter. Although formally submitted to the Mayor and City Council (“Council”), the CAFR is also intended to provide relevant financial information to the residents of San José, taxpayers, creditors, investors, and other interested parties.

This letter of transmittal provides a non-technical summary of City finances, services, achievements, and economic prospects. We ask that readers who wish a more detailed discussion of the City’s financial results refer to Management’s Discussion & Analysis contained in the Financial Section of the CAFR.

The City Administration is responsible for the accuracy of the information contained in this report, the adequacy of its disclosures, and the fairness of its presentation. We believe this CAFR to be complete and reliable in all material respects. To provide a reasonable basis for making this representation, we have established a comprehensive system of internal controls designed to protect City assets from loss, to identify and record transactions accurately, and to compile the information necessary to produce financial statements in conformity with generally accepted accounting principles.

The City contracted with Macias Gini & O’Connell LLP, a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the City’s financial statements for Fiscal Year 2019-20 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 this report.

In addition, Macias Gini & O’Connell LLP performs an audit of the City’s major program expenditures of federal funds for compliance with the requirements described in the U.S. Office of Management and Budget’s *OMB Compliance Supplement*, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR, and when completed, can be obtained from the City of San José’s website at <https://www.sanjoseca.gov/your-government/appointees/city-auditor/external-financial-audits>.

## Letter of Transmittal

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This CAFR is organized into three sections:

- The Introductory Section is intended to familiarize the reader with the organizational structure of the City, the nature and scope of City services, and specifics of the City's legal operating environment.
- The Financial Section includes Management's Discussion & Analysis, Basic Financial Statements, Notes to Basic Financial Statements, Required Supplementary Information, and other Supplemental Information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for each of the City's major funds, governmental funds, as well as enterprise funds, internal service funds, and fiduciary funds. This section also contains the independent auditor's report on the Basic Financial Statements.
- The Statistical Section presents up to ten years of detailed statistical data on the City's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.

The CAFR includes all funds of the City, as well as all governmental organizations and activities for which the Council has financial accountability. These organizations include the San José-Santa Clara Clean Water Financing Authority, the City of San José Financing Authority, and the Successor Agency to the Redevelopment Agency of the City of San José.

### REPORTING ENTITY

San José is a charter city that has operated under a council-manager form of government since 1916<sup>1</sup>. Under the City Charter, the Mayor and Council form the legislative body that represents the community and is empowered to formulate citywide policy. The Council consists of a Mayor and ten Council members. The Mayor is elected at-large for a four-year term and the Council members are elected by district for staggered four-year terms. The Mayor and Council members are limited to two consecutive four-year terms. Under the Charter, the Mayor recommends policy, program, and budget priorities to the Council, which in turn approves policy direction for the City. The City Manager is appointed by the Council and serves as the chief administrative officer of the organization responsible for the administration of City affairs, day-to-day operations, and implementation of Council policies. In addition to the City Manager, the City Attorney, City Clerk, City Auditor, and Independent Police Auditor are appointed by and report directly to the Council.

The City Charter provides that the boards of administration for each of the City's retirement plans, the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan, hire and prescribe the duties of the chief executive officer and chief investment officer within the Office of Retirement Services who serve at the pleasure of the retirement boards. The City Charter also specifies certain duties and obligations of each retirement board and authorizes the chief executive officer to hire and oversee the Office of Retirement Services' employees, subject to any applicable Civil Service Rules.

The City provides a range of municipal services, including police and fire protection, sanitation services, environmental management, maintenance of streets and infrastructure, and the administration of library services, recreational activities including three municipal golf courses, cultural facilities. The City operates a number of enterprises including a parking program, a municipal water system, a wastewater treatment

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<sup>1</sup> After discussions during June and July, the Council voted on July 28, 2020 to establish a Charter Review Commission to bring forward recommendations to the Council on (1) the City's governance structure, (2) alignment of the Mayoral election with the presidential election and term of office of candidate elected to be Mayor in 2022, serving a two year or six year term. The Council approved the formation of the Charter Review Commission on September 22, 2020.

## Letter of Transmittal

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facility, the Mineta San José International Airport, and the San José Clean Energy (SJCE) program. In addition, the City provides oversight of the management of convention, cultural event and hospitality facilities that include the San José McEnery Convention Center, Center for the Performing Arts, California Theatre, Mexican Heritage Plaza, Ice Centre, and the SAP Center at San José – home of the San Jose Sharks of the National Hockey League.

The City organization is structured into six (6) City Service Areas (“CSAs”) that integrate services provided by separate departments and offices into key alignments from the community’s perspective. The CSAs are:

- **Community and Economic Development:** The mission of the Community and Economic Development CSA is to manage the growth and change of the City of San José in order to encourage a strong economy, create and preserve healthy neighborhoods, ensure a diverse range of housing and employment opportunities, and encourage a diverse range of arts, cultural, and entertainment offerings. The outcomes of this CSA include a strong economic base; safe, healthy, attractive, and vital community; diverse range of housing options; and, range of quality events, cultural offerings, and public artworks.
- **Environmental and Utility Services:** The mission of the Environmental and Utility Services CSA is to provide environmental leadership through policy development, program design, and reliable utility services. The outcomes of this CSA include reliable utility infrastructure; healthy streams, rivers, marsh, and bay; “Clean and Sustainable” air, land, and energy; and, safe, reliable, and sufficient water supply.
- **Neighborhood Services:** The mission of the Neighborhood Services CSA is to serve, foster, and strengthen the community by providing access to lifelong learning, opportunities to enjoy life, and preserving healthy neighborhoods. The outcomes for this CSA include safe and clean parks, facilities, and attractions; vibrant cultural, learning, recreation, and leisure opportunities; and, healthy neighborhoods and capable communities.
- **Public Safety:** The mission of the Public Safety CSA is to provide prevention and emergency response services for crime, fire, medical, hazardous, and disaster related situations. The outcomes for this CSA include having the public feel safe anywhere, anytime in San José; and, residents share in the responsibility for public safety.
- **Transportation and Aviation Services:** The mission of the Transportation and Aviation Services CSA is to provide the community with safe, secure, and efficient surface and air transportation systems that support San José’s livability and economic vitality. The outcomes for this CSA include providing safe and secure transportation systems; providing viable transportation choices that promote a strong economy; travelers have a positive, reliable, and efficient experience; preserving and improving transportation assets and facilities; and providing a transportation system that enhances community livability.
- **Strategic Support:** The mission of the Strategic Support is to effectively develop, manage, and safeguard the City’s fiscal, physical, technological, and human resources to enable and enhance the delivery of City services and projects. The outcomes of this CSA include ensuring a high performing workforce that is committed to exceeding internal and external customer expectations; safe and functional public infrastructure, facilities, and equipment; effective use of technology; and, sound fiscal management that facilitates meeting the needs of the community.

San José is the oldest city in California, developing from a Spanish pueblo established in 1777. Situated between the Diablo and Santa Cruz mountain ranges, San José encompasses approximately 181 square miles at the south end of the San Francisco Bay and is the county seat of Santa Clara County. San José’s central location between San Francisco to the north and Monterey/Carmel to the south makes the

## Letter of Transmittal

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“Capital of Silicon Valley” a gateway to adventures throughout California. With a 2020 estimated population of 1,049,187<sup>2</sup>, it is the third most populous city in California and the tenth most populous in the United States.

The City has transformed dramatically from the rich agricultural setting of its early years into the largest city in the Silicon Valley. Silicon Valley is a region in the Southern San Francisco Bay Area of Northern California which serves as a global center of high technology, innovation, and social media. It corresponds roughly to the geographical Santa Clara Valley. The San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) in the Silicon Valley has a large concentration of high-tech employment with 336,200 workers out of a total civilian employment level of 1.04 million<sup>3</sup>. Silicon Valley is home to many of the world’s largest technology companies and is a global center of technology innovation. Commercial, retail, professional, high-tech manufacturing, electronic assembly, and service businesses all have a presence in San José. On the international front, San José attracts significant foreign investment from throughout the globe.

### ECONOMIC CONDITION AND FISCAL OUTLOOK

The local, regional and state economies have all been negatively impacted by the Coronavirus (COVID-19) Pandemic. The Silicon Valley, including the City, experienced a long period of economic expansion from 2010 to 2019, fueled primarily by technology sectors. That run of economic growth came to a sudden end in the first quarter of 2020 as the region, like much of the United States and the world, was forced to abide by restrictive public health orders in order to combat the spread of the COVID-19 Pandemic. The orders resulted in temporary business closures and heavy job losses, particularly in the hospitality and service sectors. Future economic prospects will depend on the status of public health orders, public health condition and consumer confidence, which remain uncertain.

Though service impacts in 2020-2021 are real, the City’s most critical functions and workforce impacts will be addressed by leveraging available revenues, vacancies, and cost saving strategies to minimize more severe actions that otherwise would be necessary. The 2020-2021 Adopted Budget includes decreases to position levels throughout the organization. While layoffs did not occur as part of this budget, primarily due to the number of vacant positions in the organization, the level of staffing decreased by a net 55 positions, from 6,647 full-time equivalent positions in the 2019-2020 Adopted Budget to 6,592 positions in the 2020-2021 Adopted Budget. The City Administration prepared a contingency package of proposals during the development of the 2020-2021 Operating Budget that would be brought forward later in the 2020-2021 should economic conditions worsen further than anticipated. As of August 27, 2020, the Administration did not believe that the contingency package would be necessary for 2020-2021.

The June 2020 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.06 million was 8.1% drop from the June 2019 level of 1.17 million. Between June 2019 and June 2020, employment contracted by 93,900 jobs in the San José MSA, including 30,100 jobs in the leisure and hospitality sector. Other sectors that decreased include trade, transportation, and utilities (down 15,400 jobs), professional and business services (down 10,700 jobs), manufacturing (8,200 jobs), information (6,900 jobs) and government (6,700 jobs)<sup>4</sup>.

The unemployment rates at the local, state, and national levels all have continued to remain high since April 2020 compared to the prior year. In June 2020, the unemployment rate of 10.8 percent for the San José MSA was much higher than the 2.7 percent experienced in June 2019. The San José MSA’s June 2020 unemployment rate continued to be lower than the unadjusted unemployment for the State (15.1 percent) and the nation (11.1 percent)<sup>5</sup>.

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<sup>2</sup> State of California, Department of Finance, E-1 Population Estimates for Cities, Counties, and State with Annual Percentage Change – January 1, 2019 and 2020 (Released May 2020).

<sup>3</sup> State of California, Employment Development Department, Labor Market Information Division Press Release, July 17, 2020.

<sup>4</sup> Ibid

<sup>5</sup> Ibid

## Letter of Transmittal

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Construction valuation in San José increased in FY 2019-20 to \$1.79 billion and showed a slight increase from \$1.74 billion in FY 2018-19. However, the number of new residential dwelling unit permits issued in FY 2019-20 totaled 1,992 which is substantially lower than the 2,985 issued in the previous fiscal year. Construction activity in the residential category was lower than the previous year, while commercial and industrial activity increased. Private construction activity is a driver for several development-related taxes and fees and is an indicator of future activity for several other categories, such as storm and sanitary sewer system fees.

The COVID-19 Pandemic and the resulting shelter-in-place orders have affected sectors of the local real estate market. According to data from the County of Santa Clara Association of Realtors, for the months March 2020 through June 2020, the number of property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranging from 10% to 54%. However, the median single-family home prices has continued to grow with year-over-year increases ranging from 3% to 14% from March 2020 through June 2020 when compared to the same time period in the prior year.

The revenue categories that experienced decreases due to COVID-19 Pandemic Impact included: Sales Tax, Transient Occupancy Tax, Licenses and Permits, Business Taxes, and Charges for Current Services. This financial performance for FY 2019-20 will also be factored into the development of the FY 2022-2026 General Fund Five-Year Financial Forecast scheduled for release in February 2021. However, the City received one-time Coronavirus Relief Fund (CRF) federal assistance of approximately \$178 million that, consistent with the Coronavirus Aid, Relief, and Economic Security (CARES) Act, has been used to fund necessary expenditures incurred due to the public health emergency with respect to the COVID-19 Pandemic commencing as of March 1, 2020 and continuing through December 30, 2020. These uses include food distribution, emergency housing and shelter, and various public health functions in partnership with the County of Santa Clara. Additional information on all federal and state financial assistance provided to the City for the COVID-19 Pandemic can be found in the Management's Discussion and Analysis section of this document.

The 2019-2020 Adopted Budget followed City Council direction to focus on targeted, strategic spending, as well as saving for the future, which included preserving most of the ongoing forecasted General Fund surplus of \$5.1 million in anticipation of a deficit in 2020-2021 and allocating \$10.0 million to the Budget Stabilization Reserve. Actions taken in the 2018-2019 Annual Report added an additional \$5.0 million to the Budget Stabilization Reserve, bringing the new total reserve amount to \$32 million. These actions proved prescient as the City's near-term and long-term budgetary outlook was dramatically impacted by the COVID-19 Pandemic and associated public health orders to prevent the spread of the disease.

On April 28, 2020, the City Council approved a number of actions to resolve a forecasted General Fund revenue shortfall of \$45 million as a result of the COVID-19 Pandemic. While the 2019-2020 shortfall was resolved through expenditure reductions and other offsetting revenue actions without tapping the Budget Stabilization Reserve, \$11.0 million of the reserve was used to balance the General Fund in 2020-2021, bringing the reserve total down to \$21.0 million as of June 30, 2020.

Due to careful forecasting, monitoring, and management, 2019-2020 revenues and expenditures ended the year very close to revised budgeted expectations. The impact of the economic uncertainty caused by the COVID-19 Pandemic continues to be evaluated, particularly credit implications for the City and its ability to access the capital markets.

The City's current general obligation credit ratings are Aa1/AA+/AA+ from Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch"), respectively. These credit ratings were confirmed by Moody's in August 2020 and by S&P and Fitch in September 2020; remained unchanged from the prior year; and are third highest among the nation's ten largest cities. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence, sound financial management, and prudent budgetary practices.

## Letter of Transmittal

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As of June 30, 2020, the City of San José Financing Authority (Authority) had the following bonds outstanding with the ratings as noted in the table below.

Date	Series	Moody's	S&P	Fitch
June 30, 2020	2003A, 2006A, 2013A and 2013B 2007A, 2011A	Aa2 Aa3	AA AA	AA AA
	Rating Outlook	Stable	Stable	Stable

Subsequent to June 30, 2020, the Authority issued its Taxable Lease Revenue Bonds, Series 2020A (Civic Center Refunding Project) to, among other purposes, refund the following series of Authority Bonds: Series 2006A, 2007A and 2013A Bonds. The 2020A Bonds are rated by Moody's, S&P and Fitch: Aa2, AA and AA, respectively. Also subsequent to June 30, 2020, the Authority issued its Taxable Lease Revenue Bonds, Series 2020B (Ice Centre Project) to fund an expansion of the Ice Centre and refund the Series 2008E Bonds, which had been directly placed and were unrated. The 2020B Bonds are rated by Moody's, S&P and Fitch: Aa3, AA and AA-, respectively. Ratings for these subsequent bonds issues are summarized in the following table with the all the Authority's outstanding Lease Revenue Bonds.

Date	Series	Moody's	S&P	Fitch
September 24, 2020	2003A, 2013B and 2020A (2006A*, 2007A*, and 2013A*) 2011A	Aa2 Aa3	AA AA	AA AA
	Rating Outlook	Stable	Stable	Stable
October 15, 2020	2020B	Aa3	AA	AA-
	Rating Outlook	Stable	Stable	Stable

*\*refunded with the 2020A Bonds*

As of June 30, 2020, the underlying ratings on the City of San José Airport Revenue Bonds were rated a by Moody's, S&P, and Fitch: A2, A and A, respectively, all with a stable outlook. In October 2020, S&P downgraded the underlying rating to A- from A with a negative outlook.

As of June 30, 2020, sewer revenue bonds issued by the San José-Santa Clara Clean Water Financing Authority were rated as follows by Moody's, S&P and Fitch: Aa2, AAA, and AAA.

### Successor Agency to the Redevelopment Agency of the City of San José (SARA)

Beginning July 1, 2018, pursuant to Health and Safety Code section 34179(j), the individual successor agency oversight boards within Santa Clara County were combined into one county-wide oversight board ("Oversight Board"). The Oversight Board as of July 1, 2018 is comprised of seven member representatives with one member appointed by each of the following: County Board of Supervisors, the city selection committee established pursuant to Section 50270 of the Government Code, the independent special district selection committee established pursuant to Section 56332 of the Government Code, the County Superintendent of Education, the Chancellor of the California Community Colleges, a public appointment made by the County Board of Supervisors, and the recognized employee organization representing the largest number of successor agency employees in the County. The Oversight Board is staffed by the County of Santa Clara Auditor-Controller and tasks have been delegated among the County Finance Agency, the Office of the County Executive, the Clerk of the Board of Supervisors, and Office of the County Counsel.

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Total Redevelopment Property Tax Trust Fund (RPTTF) revenue distributed by the County to the SARA in FY 2019-20 was \$139,507,764 which was used to pay debt service and debt-related expenses on the Successor Agency Senior and Subordinate Tax Allocation Bonds (SARA TABs) and other enforceable obligations. During the year ended June 30, 2020, the County withheld \$42,491,675 in RPTTF for payments for its current year's pass-through payments. As of June 30, 2020, the SARA TABs were rated AA- by S&P and AA by Fitch with a stable outlook. The SARA TABs are not rated by Moody's.

### **SIGNIFICANT COMMUNITY EVENTS AND SERVICE DELIVERY ACCOMPLISHMENTS**

San José is a city in transition, as an organization and as a place. In addition to responding to the effects of the COVID-19 Pandemic, San José continues to transition from a suburb of orchards in the Valley of Heart's Delight to an urban city in the heart of the new Silicon Valley. In 2017, City Manager David Sykes developed the following Enterprise Priorities, which serve as the primary focus of his Senior Leadership Team. Significant events and service delivery accomplishments for the fiscal year ended June 30, 2020 are presented in alignment with these priorities.

**Emergency Management and Preparedness:** No issue is more important than the lives and safety of our residents. The City has more work to do to ensure San José is well-prepared for earthquakes and other disasters, particularly for those who are most vulnerable. As a City, preparedness for emergencies and commitment to this priority requires relentless attention and support. The City's events and accomplishments that have supported this priority include:

#### *Preparedness*

On September 16, 2019, the Office of Emergency Management (OEM) held a Quake-Ready Community Resilience Unconventional Conference that brought together over 200 stakeholders from throughout the City for a full day of discussion on how the City and its residents can achieve earthquake resilience in three years. By December 2019, OEM developed appropriate plans and programs that continue to integrate the response of volunteers with City staff in response to an emergency, including Community Emergency Response Team (CERT) and Radio Amateur Civil Emergency Services (RACES). The thirteen (13) CERT training sessions included a course in every Council District and one session delivered in Vietnamese. The CERT program to date has graduated a total of 326 participants and registered each attendee as a Volunteer Disaster Service Worker.

On January 30, 2020, OEM held a City Council Study Session on Emergency Management that engaged the Mayor and City Council in discussions on actions to take during an emergency; on how the EOC collects information, creates situation status reports, and communicates with the elected; on the updated plans and procedures; and on the Emergency Management Work Plan.

#### *PG&E Public Safety Power Shutoffs*

From July until October 2019, the City developed and executed a Power Vulnerability Plan to respond to PG&E Public Safety Power Shutoffs (PSPS) that led to activation of the City's Emergency Operations Center (EOC) on October 9-10, 2019 and then again on October 26-27, 2019. An After-Action Report was also developed as part of the October 2019 PSPS EOC Activations and accepted by the City Council on March 17, 2020. As part of the two October 2019 PSPS Events, the City Emergency Public Information team used a variety of platforms to get messages out to the public, including Facebook, Twitter, Nextdoor, AlertSCC (Everbridge), the City's website, and a call center. The City also dedicated ten (10) bilingual staff to operate a call center to reach out to approximately 900 at-risk PG&E Medical Baseline City residents and patients.

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### *COVID- 19 Pandemic*

In January 2020, with response to the COVID-19 Pandemic, the City developed a Pandemic Response Plan that included a five-stage Pandemic Response Table, five-stage Resilience to Recovery Table, and a COVID-19 Roadmap. The plan was deployed on March 4, 2020 and resulted in the activation of more than 600 City employees. Staff activations included 150 in EOC leadership and another 480 in EOC support roles, including direct service in the community for food distribution, food delivery, temporary housing, and several other areas. One effort has been coordination of a local Great Plates Delivered program, wherein ten (10) local, minority-owned restaurants have been involved in providing high-quality meals to seniors and high-risk vulnerable populations. As part of the COVID-19 Pandemic communication efforts, the City released regular weekday Flash Reports for the period between March and October 2020 that provided the public with information about the City's response to slow the spread of the virus and reduce the number of people infected. These Flash Reports were translated into Spanish, Vietnamese, and Mandarin.

**Creating Housing and Preventing Homelessness:** All people in San José need a place they can call home, and feel they belong as a vital part of the city around them. If San José is welcoming everyone home to San José, it is critical to address the housing and homelessness crises that confront the City. The Mayor and Council have set a goal of adding 25,000 residential units in the next five years – including 10,000 affordable units. Assisting existing homeless residents requires the City begin to work outside traditional silos and align amongst several public and private partnerships to creatively and effectively address the challenge. The City's events and accomplishments that have supported this priority include:

### *Emergency Housing*

On February 27, 2020, Mayor Sam Liccardo was joined by Governor Gavin Newsom at the grand opening of San José 's first "tiny home" community, the Mabury Bridge Housing Community (BHC). Mabury BHC is one of five (5) emergency housing developments that provides interim shelter for homeless individuals on public land and acts as the bridge between homelessness and permanent housing. The Mabury BHC, located on land leased from the Valley Transportation Authority (VTA), is the first of two bridge housing communities in San José. The second BHC is still under development on State-owned Caltrans land adjacent to Felipe Ave at the intersection of Highways 280, 680, and 101. The Mabury BHC development is funded through a combination of State Homeless Emergency Assistance Program (HEAP) funds and Housing Authority Litigation Award (HALA) funds and the second BHC adjacent to Felipe Ave is funded with HALA funds only.

In response to the COVID-19 Pandemic, the Mayor and City Council directed the City Administration to expand emergency housing development efforts to shelter the most vulnerable homeless residents in San José. Following this direction, the Administration identified three sites, expeditiously procured contractors, designed and initiated construction on three (3) Emergency Interim Housing (EIH) communities. The three EIH communities are located at the following sites: (1) the intersection of Monterey and Bernal Road, (2) on Evans Lane, and (3) on Rue Ferrari on State Caltrans property. These three sites will provide a total of 209 individual units that will serve up to 317 people. Monterey Bernal will serve up to 78 individuals, Evans Lane will serve up to 49 families, and Rue Ferrari will serve up to 118 individuals and couples. The three EIH communities are funded through State Housing and Homelessness Assistance Program (HHAP) funds with only the Rue Ferrari site having CRF funding, in addition to HHAP funding.

The goal of the two BHC developments is to rapidly rehouse residents that have fallen into homelessness and who are awaiting permanent housing. The two BHCs are expected to serve between 80 -100 residents per year, with 40 residents rotating to permanent housing every 4 to 6 months and include 40 emergency sleeping cabins as well as community facilities with showers, a kitchen, laundry facilities, a computer room, and space where residents will receive supportive services, including assistance with employment and housing searches. The three EIH communities will continue to serve the most vulnerable during the pandemic. Once the pandemic is over, it is anticipated that the three EIH communities will transition to BHCs.

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The creation of Emergency Housing is part of a larger regional plan, the Community Plan to End Homelessness, including efforts in prevention, intervention, and construction of interim housing and permanent supportive housing. Multiple non-profit, private, and public partners have stepped up to collectively commit to ending the homelessness crisis in Silicon Valley.

**Safe, Vibrant, and Inclusive Neighborhoods and Public Life:** The diverse mosaic of people who live, work and play in San José deserve vibrant, beautiful, clean, safe, and inclusive public spaces and places that inspire growth and connection. The people of San José need access to high quality opportunities that build community and individual activity through learning and sharing information, ideas, and experiences across generations, cultures, and points of view. The City's events and accomplishments that have supported this priority include:

### *Police Reforms Work Plan Development*

On June 9, June 12, and June 16, 2020, the San José Mayor and City Councilmembers provided substantial policy guidance on the development of a Police Reforms Work Plan (Work Plan). Among others, the Work Plan would accomplish the following two primary objectives:

- **Use of Force Review:** Establish a process, consistent with that advocated by the Obama Foundations' My Brother's Keeper Alliance Mayoral Action Pledge, to review the San José Police Department's use of force policies, engage the community on proposed changes, seek the feedback of our community on the findings, and produce recommendations to reform those policies.
- **Public Safety Community Process and Relations/Future of Policing (Reimagining Community Safety):** Create a Public Safety Community Process tasked with evaluating and recommending new ways in which our police department intervenes with social issues and reduces social conflicts that are noncriminal in nature.

On August 3, 2020, subsequent to the Work Plan objectives being defined, Police Chief announced his retirement in December 2020. The Administration quickly added to the work plan an executive recruitment process to select his successor. The recruitment process will be informed by engagement with the workforce, community, and City Council.

### *Aircraft Rescue and Fire Fighting Facility/Fire Station 20*

In December 2019, the Airport was awarded \$10 million in federal funding for the replacement and relocation of the Aircraft Rescue and Fire Fighting (ARFF) Facility, also Fire Station 20. The relocation improved airfield safety with direct access to the primary landing runway and provided space for ARFF personnel and vehicles. An additional \$6.97 million was awarded in September 2020. The federal grants are administered by the U.S. Department of Transportation and the Federal Aviation Administration (FAA). To leverage the FAA funding, funding from the City's Measure T general obligation bonds will be added to augment off-airport operations that will improve emergency response capabilities. Planning and design work started in FY 2019-20 and the project is expected to progress and be completed late in the calendar year 2021.

### *San José Al Fresco*

On May 13, 2020, the Joint Meeting for the Rules and Open Government Committee and Committee of the Whole approved forwarding a recommendation to the full Council direction to the City Manager to bring forward for Council consideration, recommendations that would simplify and expand the process for businesses to operate outdoors, referred to as San José Al Fresco. The goal was to provide additional space for hard-hit businesses to operate within the public health restrictions in place to combat the COVID-19 Pandemic.

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Between June and September 2020, the City Manager, in his capacity as Director of Emergency Services, issued five Emergency Declarations allowing the expansion of business operations while maintaining compliance with the County's Order and Social Distancing Protocol which were subsequently ratified by the City Council. These declarations included expansion of business uses into private parking lots, on public sidewalks, into on-street parking spaces, onto public streets that the City closed to vehicular and bicycle traffic, in City-owned parking lots and into public parks and plazas. Each declaration further assisted in the economic recovery of businesses in the City.

Reimagining the use of public space for outdoor seating and services was critical to enable sufficient social distancing for the safety of employees and the public. The National Restaurant Association estimates that more than one (1) million restaurant employees in California have been laid off or furloughed since the beginning of the coronavirus outbreak in March. This represents at least 70 percent of the 1,467,000 employees that were working at California's eating and drinking places in February.

***The Future of Downtown:*** Downtown is everyone's neighborhood. Our highest priority is to drive and integrate the complex mix of commercial and residential development, transportation improvements, and public space enhancements to positively shape our City center for generations. The most transformational opportunity is the Downtown West Station Area where the planned transit station expansion aims to connect growing, regional and state travel services, and attract substantial private investment. The City's events and accomplishments that have supported this priority include:

### *City/Google Memorandum of Understanding (MOU) for the Diridon Station Area*

On December 4, 2018, the City Council approved a Memorandum of Understanding and property sale agreements with Google. The Memorandum of Understanding reflects the City's and Google's vision and shared goals for the Diridon Station area and will guide the formal project planning and approval process. The MOU affirms the City and Google's intent to negotiate a Development Agreement as part of the project approval process. The Development Agreement will include a Community Benefits Plan that would include a negotiated payment to support community investments over and above City project requirements. Major categories of community priorities would be considered, based on input received to-date as part of the City's extensive Civic Engagement efforts.

San José anticipates numerous benefits from the potential development of the Diridon Station Area, including; at least 20,000 permanent jobs and 1,500 construction jobs during construction build-out; thousands of new homes, including affordable homes; new tax revenue for City services and schools; new parks, public spaces and infrastructure upgrades; and ongoing benefits from increased transit use such as shorter commutes, reduced congestion, and pollution prevention.

Throughout 2019-2020, City staff met with Google representatives and the public to identify a program of community benefits that would be delivered by Google through its Downtown West project and plan and Development Agreement. The Environmental Impact Report (EIR) for the Downtown West project was prepared, but because of the impacts of the COVID-19 Pandemic, the EIR was released later than intended on October 7, 2020. The City led a coordinated outreach program for community engagement, predominately through the Station Area Advisory Group, but also through myriad neighborhood and community groups. Much of the interaction was virtual and engaged via surveys as well as video conferences. Parallel to the City's engagement regarding the Downtown West project, the City initiated work on an amended Diridon Station Area Plan (DSAP), which updates the 2014-adopted DSAP and accounts for the discrete Downtown West plan within the wider borders of DSAP. In spring 2020, agencies working on the Diridon Integrated Station Concept plan (DISC), Caltrain, California High Speed Rail, VTA, and City of San José, released the Phase 1 plan for a new rail station at Diridon Station. City engagement with this continues to ensure coordination between the rail operator needs and planned development projects such as Downtown West, as well as protection of existing neighborhoods along the rail corridor.

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**Building the San José of Tomorrow – Private Development Services:** To drive economic investment and development in San José, the City must transform its planning, building, and permitting processes for small and large-sized businesses. The City will address the efficiency and flow of our Development Services processes, because it is building the future San José that is outlined in the San José Envision 2040 General Plan. The City's events and accomplishments that have supported this priority include:

### *Technology Enhancements to Improve Permitting and Development Services*

In July 2019, the departments in the City that oversee private development completed a major contract amendment of the Integrated Permitting System (IPS) contract reducing the cost of the contract by \$3.1 million. This amendment follows the late 2018 Scope and Schedule Summit help with the IPS vendors to ensure that these departments were prioritizing the appropriate features for a successful technology implementation.

In November 2019, the City Transformation Team of consisting of representatives from the departments/programs of Planning, Public Works, Fire and Building completed a major upgrade of the City's AMANDA permitting system that included a cloud-based geographic information system (GIS), electronic content management system, and digital workflows.

In January 2020, the Planning Division with the Development Service Information Technology team deployed an improved, automated imaging process that streamlined the document publishing process savings hundreds of staff time hours per year and improving the quality of scanned documents for the public.

In January 2020, the Transformation Team launched the Development Service Performance Measure dashboard outlining critical metrics that highlight the performance of critical process in the permit application process.

In April 2020, the City Transformation Team launched the new Digital Inspection Form for the City's sixty (60) building inspectors that allows them to digitally complete their inspection notices on tablets in the field using voice-to-text technology. These updated forms make the building inspection forms clearer and readily accessible to the customer, with the notices available generally within five minutes.

### *Development Services Improved Workflows*

The City has undertaken a review of workflows to improve processes, which included enhancements and improvements for Public Works and Fire. In Fall 2019, Public Works launched six updated AMANDA workflows that improve the City's process for issuing Public Work permits. This upgrade also enabled integration with the electronic plan review software that was deployed in August 2020. In April 2020, Fire Prevention launched an update of their Fire Engineering permit AMANDA workflows that improve the process for issuing Fire permits. This upgrade also enables the future integration with the electronic plan review software for the Fire team in early 2021.

**Smart, Sustainable and Reliable City: 21<sup>st</sup> Century Infrastructure:** Competing in the global economy and addressing climate imperatives requires updating the City's energy, water, waste, transportation, and internet connectivity infrastructure, as well as translating traditional infrastructure such as roads and streetlights into 21st century infrastructure. From the launch of a Clean Energy program, long-term investments in the Regional Wastewater Facility and San José International Airport, and new strategies for Broadband and Digital Inclusion, as well as Automated/Electric Vehicles, the City focuses on developing smart, sustainable, and reliable infrastructure to shape America's next great city. The City's events and accomplishments that have supported this priority include:

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### *One of the Most Innovative Cities in the US*

In December 2019, the Center for Digital Government has recognized the City of San José as one of the nation's leading local government municipalities in their annual Digital Cities Survey. Now in its 19th year, the annual survey recognizes cities using technology to tackle social challenges, enhance services, strengthen cybersecurity, and more. The City of San José placed second in the "500,000 or More" population category. Among the City of San José's initiatives are the expansion of digital equity through public-private partnerships, seeking to bridge the digital divide in San José through a Digital Inclusion Fund to connect 50,000 households with universal device access and universal connectivity.

This distinction recognizes numerous civic innovation programs implemented by City departments and the Mayor's Office of Technology & Innovation (MOTI). The initiatives represent Mayor Liccardo's Smart City Vision which was adopted unanimously by the full City Council in March 2016 to make San José the most innovative city in the country by 2020. The Smart City Vision is defined by a series of core values and goals that influence the transformative, user-centric technology being developed for the benefit of our communities. 2019 is the third consecutive year San José has placed in this survey's top ten.

### *City of San José Clean Energy (SJCE)*

City Council approved the establishment of San José Clean Energy (SJCE) in 2017. SJCE began providing electric generation service to its customers in September 2018 in the first of three phases with Phase I service limited to the City's facilities. Phase II launch (residential and large commercial accounts) began in February 2019; and Phase III launch (small commercial customers) began in June 2019. As of June 30, 2020, SJCE serves over 325,000 customer accounts in San José with clean electricity at rates that are lower than those of PG&E while maintaining an opt-out rate below 2%.

In FY 2019-20, SJCE contracted for more than 250 megawatts (MW) of new renewable energy from sources like wind and solar and 10 MW of battery storage, which will come online over the next few years. The contracts include a particularly innovative power purchase agreement (PPA) that will improve grid reliability through the guaranteed daily delivery of renewable energy for 16 hours from early morning till late evening. The unique format of this PPA will help meet demand in the late afternoon and evening hours, when electricity use is high but renewable energy availability is typically low. As a Community Choice Energy provider, SJCE's goal is to reduce the impacts of climate change by procuring clean energy at competitive rates and finding solutions to imgrid reliability.

Operated by the Community Energy Department, SJCE is the City's Community Choice Energy program. Through Community Choice, local governments like the City of San José buy electricity from cleaner sources, while the investor-owned utility (PG&E, for San José) continues to distribute the electricity, maintain the powerlines, respond to power outages, and provide billing.

SJCE offers two service options. GreenSource, its default option, includes 45% renewable energy from solar and wind and is 80% carbon-free overall. San José's Climate Smart goal is to make GreenSource 100% carbon-free by 2021. For a small premium, customers can upgrade to TotalGreen to power their home or business with 100% renewable energy.

SJCE is committed to offering programs that improve access to the benefits of renewable energy and electrification in San José. In FY 2019-20, SJCE received City Council approval to develop and co-fund an electric vehicle (EV) charging infrastructure program in partnership with the California Energy Commission, the California Electric Vehicle Infrastructure Project (CALeVIP). In FY 2020-21, SJCE will finalize its Programs Roadmap, launch CALeVIP, apply to the California Public Utilities Commission to administer energy efficiency and community solar programs, and promote access to backup power for San José residents subject to PG&E public safety power shutoffs.

### *Electric Vehicle Charging Stations*

In October 2019, the City through SJCE partnered with the California Energy Commission (CEC) to fund an incentive project for the installation of electric vehicle (EV) charging stations in public, workplace, and

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multi-family housing locations. The CEC allocated \$10 million for San José and the City Council matched \$4 million, for a total of up to \$14 million to be disbursed over the next two to four years.

This investment would result in approximately 100 new Direct Current Fast Charging (DCFC) stations and 1,400 new Level 2 charging stations. DCFC, or “supercharging,” stations can charge a vehicle to 80% in 20-30 minutes, while Level 2 chargers provide 20-40 miles of charge per hour. Making charging stations ubiquitous helps spur further EV adoption. Since transportation is the leading source of emissions in Silicon Valley, encouraging electric vehicles can go a long way in supporting California’s climate goals. SJCE staff have recommended to the CEC to structure the funding such that at least 25% of the charging stations be installed in low-income and disadvantaged communities.

### *North Coyote Purchase – Environmental Protection of Wildlife and Habitat and Water Quality and Flood Prevention*

On November 6, 2019, San José City Council unanimously approved the purchase and permanent protection of 937 acres in the North Coyote Valley through an innovative public and private partnership among Peninsula Open Space Trust (POST), Santa Clara Valley Open Space Authority (OSA) and the City and the purchase was completed in phases between November 2019 and June 2020. This conservation transaction secures a critical “last chance” wildlife linkage between the Santa Cruz and Diablo mountain ranges. This irreplaceable landscape features natural floodplains and wildlife habitat and mitigates wildfire impact and builds climate change resiliency.

One of the largest “natural infrastructure” transactions in the country, the deal reflected a growing trend by cities to invest in natural floodplain protection as a more responsible fiscal alternative to incurring the human and financial costs that natural disasters such as floods have on communities. The \$93.46 million transaction was funded in part by \$46.3 million from Measure T General Obligation Bonds. POST provided \$42.16 million in cash and real property that included significant contributions from private foundations and individuals and the Authority contributed \$5 million.

### *Mineta San José International Airport*

A second shared-use lounge opened in the fall of 2019 in Terminal A and the new Clear Channel all-digital advertising program was rolled out at the Airport in the spring of 2020. In May 2020, the Airport was awarded \$65.6 million in federal CARES Act funds. The funds can be used for any airport purpose over the next four years. In addition, the Airport was awarded about \$20 million in federal funds from the FAA and the TSA to fund the new Aircraft Rescue and Fire Fighting Facility, Perimeter Protection project, and the Pavement Management Study. Approximately \$12.5 million of the federal funds were awarded during FY 2019-20, with the balance being awarded in the subsequent fiscal year.

### *Leadership in Energy and Environmental Design (LEED)*

The U.S. Green Building Council recognized the City of San José as a leader in green building and sustainability on February 27, 2020 honoring the San José Environmental Innovation Center (EIC), a former wax paper factory now a sustainability showcase building featuring eco-friendly tenants and programs. The EIC achieved the highest level of certification earning LEED Platinum. LEED helps buildings and communities achieve high performance in key areas of human and environmental health and is the most widely used green building rating system and an international symbol of excellence.

The EIC was overhauled through a collaboration between the San José Environmental Services and Public Works departments and Group 4 Architecture. The EIC has more than twenty (20) green features, including solar-tracking skylights, electric vehicle charging stations, composting toilets, drought-tolerant landscaping, pervious pavement and a 1,164-panel solar power system. The EIC is a zero net energy facility, generating more energy than it consumes. It debuted in 2014 and completed the LEED certification process in 2019. The LEED Platinum certification is the latest recognition of the City’s

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environmental leadership. Last year, San José became the first city in California to earn LEED Platinum certification, a new program recognizing cities' efforts to improve sustainability and quality of life.

**Strategic Fiscal Positioning and Resource Deployment:** City will continue to be both strategic and responsible in how it manages and balances the City's \$4.1 billion budget as well as smart and efficient in how it serves the community. San José will always look for opportunities to be cost-effective in all aspects of its service delivery system while working to ensure equity and inclusion in how services are delivered. If new or expanded revenues are considered, San José will minimize impacts to its tax, rate, and fee payers to the extent possible. The City's events and accomplishments that have supported this priority include:

### *City of San José General Obligation (GO) Bonds and Measure T*

On July 25, 2019, the City of San José issued \$502 million of General Obligation Bonds ("2019 GO Bonds"), to finance new projects and to refund all outstanding GO Bonds under the following authorizations: (1) Measure T, approved by the voters on November 6, 2018 in the not-to-exceed amount of \$650 million for public safety, disaster preparedness, environmental protection and infrastructure purposes; (2) Measure O (approved by the voters on November 7, 2000 in the not-to-exceed amount of \$211.79 million for library projects); (3) Measure P (approved by the voters on November 7, 2000 in the not-to-exceed amount of \$228.03 million, and (4) Measure O (approved by the voters on March 5, 2002 in the not-to-exceed amount of \$159.0 million for public safety projects). Of the 2019 GO Bonds issued, \$239.9 million was issued under Measure T authorization for critical infrastructure and land acquisition projects; \$9.2 million issued under prior and remaining Measure O authorizations (2000 and 2002) for library and public safety projects; and \$252.9 million in GO refunding bonds that refunded all of the prior general obligation bonds issued under Measure O (2000), Measure P (2000) and Measure O (2002). At the end of FY 2020, the City has \$410.1 million remaining authorization under Measure T.

**Powered by People:** Over 6,600 employees power the City of San José and the success as a City is dependent on the ability to create a dynamic and engaged workforce. Employees' ability to provide excellent service is strengthened when investing in attracting talent, providing opportunities for career growth, enabling an environment focused on health, safety, and wellness, and retaining a diverse workforce in a workplace that is equitable and inclusive. The City's events and accomplishments that have supported this priority include:

In June 2020, the City Council approved the creation of a new Office of Racial Equity in the City Manager's Office. This Office will be responsible for advancing a citywide racial equity framework that will examine and improve San José's internal policies, practices, and systems to eradicate any structural and/or institutional racism that may exist in our City government. The Office of Racial Equity will achieve this goal through community engagement, policy analysis and development, trainings, data collection, as well as stronger accountability measures for City departments.

## FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

The City publishes a five-year Capital Improvement Program ("CIP") that guides the City in the planning, scheduling, and budgeting of capital improvement projects. The CIP is updated annually and approved by the City Council. The CIP maintains critical investment to sustain, enhance, and develop a wide array of public infrastructure to improve system reliability, enhance recreational experience, advance public safety, and ensure that San José is well-positioned for further economic growth and opportunity while building on the efforts of the last several years of making targeted investments that align with the City's economic development and community livability goals contained within the Envision San José 2040 General Plan.

Though our community and organization are challenged by the impacts of the COVID-19 Pandemic, the City's work to plan for the future and maintain public infrastructure continues. Even in this challenging

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environment, the Envision San José 2040 General Plan (General Plan) guides the CIP with a focus on the renovation, renewal, and expansion of critical public assets, ranging from the infrastructure that is integrated into daily life such as roadways and the sewer collection and treatment systems, to parks and sports fields that promote community health, to fire and police facilities that helps keep our community safe, and to airport facilities to meet the long-term travel needs of our residents and businesses. While capital revenue allocation is often restricted to specific uses, considerations of equity within those allowable uses is an important factor in the development of the CIP. Many of the projects included in this document result from the technical analysis necessary to identify new or deferred infrastructure rehabilitation needs, along with community and City Council conversations to help ensure that resources are allocated with an understanding of how communities will benefit or be impacted by a recommended capital improvement.

As always, this is an evolving process, but one that the Administration takes seriously and will become even more important as the region works to recover from the pandemic. Over a five-year period, the 2021-2025 CIP totals \$3.7 billion, a 7.9% decrease over the 2020-2024 Adopted CIP of \$4.0 billion, a historically large CIP. The 2020-2021 Proposed Capital Budget reflects a 30.6% decrease from the 2019-2020 Adopted Capital Budget of \$1.5 billion. This lower level is driven by reduced revenues or activity levels across several capital programs. Notable declines in funding include reduced resources for parks and recreation facilities due to lower expected revenues from Conveyance taxes collected on real estate transactions, a lower level of transportation improvements due to reduced construction taxes collected from private development activity that are dedicated to transportation improvements, and a lower level of capital investment at the Airport due to significantly reduced passenger activity levels.

Other significant reductions over the five-year period are related to the timing of financing proceeds with no substantial changes to overall program objectives, including the Measure T – Disaster Preparedness, Public Safety, and Infrastructure Bond program – which received funding from the City’s first round of bonds under the Measure T authorization in 2019-2020 – and modifications to the timing of financing proceeds for improvements at the Water Quality Control Plant.

Even before the onset of the COVID-19 Pandemic, the City lacked sufficient resources to fully maintain and fund its entire infrastructure portfolio. The Status Report on Deferred Infrastructure Maintenance Backlog, accepted by the City Council on February 25, 2020, identifies an infrastructure backlog of approximately \$1.6 billion, with an additional \$90.7 million needed annually to maintain the City’s infrastructure in a sustained functional condition. Though the existing backlog of \$1.6 billion is expected to decrease as Measure T projects are fully implemented – including \$300 million for street paving – the City must continue to search for additional resources and leverage grant opportunities to ensure San José’s public assets are appropriately maintained.

### FINANCIAL INFORMATION

The City’s Administration is responsible for establishing and maintaining internal controls that safeguard the City’s assets from loss, theft, or misuse, and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and that the evaluation of costs and benefits is subject to management estimates and judgments.

#### ***Single Audit***

As a recipient of federal, state and county funding, the City is responsible for providing assurance that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these award programs. Internal controls are subject to periodic evaluation by management, the Office of the City Auditor, and the City’s external independent auditors.

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As part of the City's single audit procedures, tests are performed to test the effectiveness of the internal controls over major federal award programs and the City's compliance with applicable laws and regulations related to these award programs.

### ***Budgetary Controls***

The City maintains budgetary controls through the City Council's adoption of an annual appropriation ordinance and by maintaining an encumbrance accounting system. Expenditures for City operations and other purposes identified in the annual budget cannot legally exceed the budgeted amounts approved by the City Council.

The City also uses encumbrance accounting as another technique for accomplishing budgetary control. An encumbrance is a commitment of a future expenditure earmarked for a purpose that reduces the amount of budgetary authority available for general spending. At the end of the fiscal year, encumbered appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse.

The City continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

### ***Debt Management Policy***

The City's Debt Management Policy was adopted by the City Council on May 21, 2002 and most recently revised on March 7, 2017 and is reviewed annually. The Debt Management Policy establishes the following equally important objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure financial controls are in place with respect to proceeds of debt issuances; and
- Ensure compliance with applicable State and Federal laws.

## AWARDS

The Government Finance Officers Association ("GFOA") of the United States and Canada awarded its Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2019. This was the thirty-second consecutive year the City has received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such report must satisfy accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

The Certificate of Achievement is valid for only one year. The City believes this CAFR continues to conform to the Certificate of Achievement Program requirements and will be submitting it to GFOA for consideration of the annual award.

For the thirtieth consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the fiscal year beginning July 1, 2019. To qualify for this award, the government unit must publish a budget document that meets program criteria as a policy document, a financial plan, an operations guide, and a communications medium.

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### ACKNOWLEDGMENTS

The preparation of this CAFR represents the culmination of a concerted team effort by the entire staff of the Finance Department. Many members of the Department demonstrated exemplary personal determination and dedicated many long days of focused attention to produce this document.

In addition, staff in all City departments should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The City also recognizes the contributions and positive working relationship with Macias Gini & O'Connell LLP.

Finally, we wish to express our sincere appreciation to the Mayor and City Council for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors, especially their role in guiding the City to a secure financial condition that assures resources are available to provide core services to the community.

Respectfully submitted,



DAVID SYKES  
City Manager



JULIA H. COOPER  
Director of Finance



Government Finance Officers Association

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Reporting

Presented to

**City of San Jose  
California**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morill*

Executive Director/CEO



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of San Jose  
California**

For the Fiscal Year Beginning

**July 1, 2019**

*Christopher P. Morill*

Executive Director

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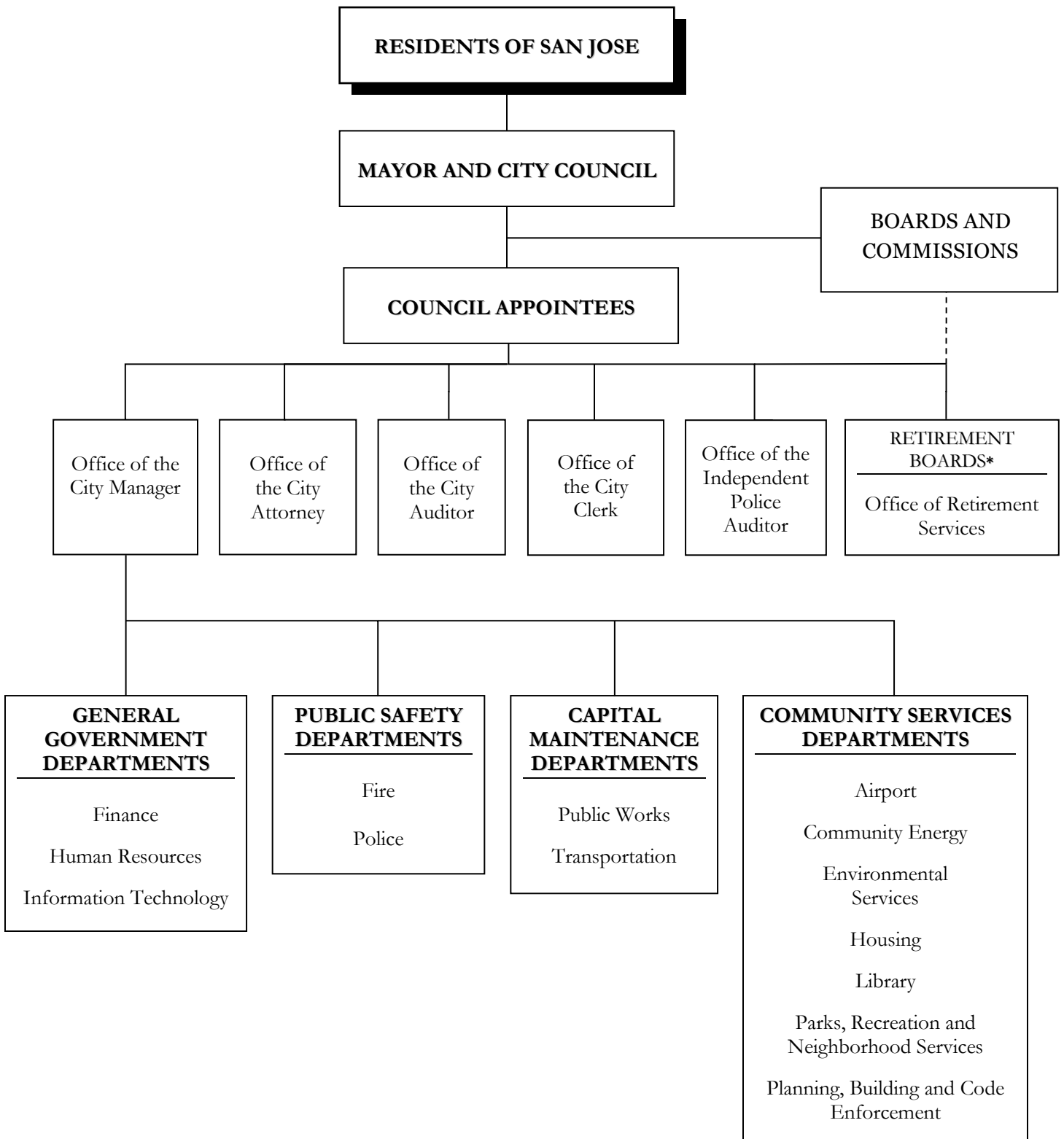
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**CITY OF SAN JOSE  
2019-2020 ADOPTED OPERATING BUDGET**

**CITY ORGANIZATION BY FUNCTION**



\* Federated City Employees' Retirement System Board of Administration and Police and Fire Department Retirement Plan Board of Administration

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# Financial Section

