



# Memorandum

**TO:** HONORABLE MAYOR AND CITY COUNCIL

**FROM:** Scott P. Johnson

**SUBJECT:** SEE BELOW

**DATE:** November 22, 2010

Approved

Date 11/24/10

**SUBJECT:** ACCEPTANCE OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT & COMPREHENSIVE ANNUAL DEBT REPORT FOR FISCAL YEAR ENDED JUNE 30, 2010

## **RECOMMENDATION**

City Council acceptance of the following annual reports:

- Comprehensive Annual Financial Report for the City of San José for Fiscal Year 2009-10
- Comprehensive Annual Debt Report for the City of San José for Fiscal Year 2009-10

## **OUTCOME**

City Council acceptance of the Fiscal Year 2009-10 Comprehensive Annual Financial Report (“CAFR”) and Fiscal Year 2009-10 Comprehensive Annual Debt Report (“CADR”) will provide relevant financial information to the City Council, residents of San José, creditors, investors, and other interested parties. Both documents serve to implement the disclosure practices described in the City’s Debt Management Policy, and to help meet the Strategic Support City Service Area Strategic Goal: “Customers have the financial information they need to make informed decisions”.

## **BACKGROUND**

The FY 2009-2010 CAFR provides a detailed description of the City’s financial activities for the period of July 1, 2009 through June 30, 2010, 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; and

- A Statistical Section which contains comprehensive data on the City's financial, physical, economic, social and political condition.

The auditor's opinion contained in the document's Financial Section represents their unqualified opinion that the City's financials are presented fairly and in conformity with Generally Accepted Accounting Principles ("GAAP").

The FY 2009-2010 CADR provides a detailed description of the City's debt issuance and management activities for the period of July 1, 2009 through June 30, 2010, and is divided into four key sections:

- An overview of the City's debt management program;
- A summary of recent debt issuance activity;
- A discussion of the key debt administration tasks; and
- A review of the City's outstanding debt portfolio.

## **ANALYSIS**

The FY 2009-2010 CAFR and FY 2009-2010 CADR provide comprehensive reviews of the City's financial operations and debt management portfolio activities (links provided below). The sections below provide a brief overview of each document.

### **Comprehensive Annual Financial Report**

The FY 2009-2010 CAFR is submitted to the Mayor and City Council for consideration and acceptance and to provide relevant financial information to the residents of San José, creditors, investors, and other interested parties. Ensuring the financial integrity of our public institutions is crucial to maintaining the public's trust. Federal legislation and the Securities and Exchange Commission require top executives of publicly-traded companies to attest personally to the accuracy of their companies' financial results. Although this regulation does not apply to governmental agencies, the Introductory Section includes voluntary oaths from the City Manager and Director of Finance attesting to the accuracy, reliability, and completeness of the CAFR as a means of conveying the importance of the City's commitment to excellence in financial reporting and maintaining the public's trust.

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 2009-2010 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 "unqualified" or "clean" opinion. The independent auditor's report is included in the Financial Section of the CAFR.

### **Financial highlights**

For the fiscal year ended June 30, 2010, the City achieved the following key financial results:

- Total assets exceed total liabilities at June 30, 2010 by \$6.030 billion (net assets).

- Governmental funds reported combined ending fund balances of \$1.199 billion at June 30, 2010, which are \$216.6 million or 15.3 percent less than the June 30, 2009 balances.
- Unreserved fund balance for the General Fund is \$143.6 million at June 30, 2010 and represents 21.0 percent of total General Fund expenditures during FY 2009-2010.
- Total non-current obligations decreased by \$52.0 million during FY 2009-2010 to \$5.220 billion at June 30, 2010, a decrease of 1.0 percent over the amount of \$5.272 billion at June 30, 2009.

### **Comprehensive Annual Debt Report**

The FY 2009-2010 CADR discusses the activities undertaken and managed by the Debt Management Program within the Treasury Division of the Finance Department. Major sections of the report summarize recent debt issuance activity; discuss key debt administration tasks; review the City's outstanding debt portfolio; and describe projects anticipated in the next fiscal year.

In 2009-10, the Finance Department oversaw the issuance of over \$310 million of new debt consisting of eight series of bonds as well as commercial paper notes. This served to increase the outstanding debt portfolio to over \$5.8 billion, consisting of 120 series of bonds for the City, Redevelopment Agency, and related entities.

Aside from new debt issuances, a large and growing proportion of work effort (~75%) for the City's Debt Management program involves the ongoing administration of the \$5.8 billion total portfolio which encompasses the following major activities:

- Pay debt service;
- Invest and disburse bond funds;
- Monitor trustee-held accounts and investment agreements;
- Comply with bond covenants and IRS requirements including arbitrage rebate compliance;
- Provide continuing disclosure and other reports to the municipal bond market;
- Ensure market pricing of variable rate debt;
- Manage liquidity and credit enhancement contracts; and
- Evaluate potential refunding opportunities.

In addition to providing debt issuance and related debt administrative services, a significant amount of Debt Management staff resources have been devoted to providing financial advisory services to numerous City-wide projects during FY 2009-10. These projects include the following:

- The evaluation of Pension Obligation Bonds;
- Financial analysis associated with the prepayment of annual employer retirement contributions;

- Renewals of letters of credit for the City's variable rate debt programs;
- Financial analysis associated with procuring a power purchase agreement for a 1.3 megawatt solar system at the Central Service Yard, the 50 megawatt renewable energy project, clean and renewable energy bonds and qualified energy conservation bonds;
- Development and implementation of the loan to the Redevelopment Agency to fund the Agency's Supplemental Education Revenue Augmentation Fund ("SERAF") obligation;
- Analysis and recommendations to Council on the plan of action for the Proposition 1A securitization project;
- Financial modeling for the financing plan for the convention center expansion;
- Inactive improvement district close-out;
- Assess the financial feasibility of development proposals for the Airport West Property; and
- Various projects related to multi-family housing.

In FY 2010-11 it is anticipated that the Department will oversee the issuance of \$357 million in new debt, and will take on a variety of projects to implement Council direction and inform decision-making. These projects include but are not limited to: review of strategies to prepay the City's annual employer retirement contributions, continued administration of the Supplemental Education Revenue Augmentation Fund ("SERAF") loan to the Redevelopment Agency, development of Airport West Property, letter of credit renewals for the City's variable-rate debt programs, financing plans for the convention center expansion project, County of Santa Clara's 911 emergency medical response request for proposals, and the 50 megawatt renewable energy project.

The City continues to receive the highest general credit ratings despite the difficult financial and economic conditions the national and local economy has been faced with. In August 2010, Standard & Poor's ("S&P") reaffirmed the City's general credit rating of AAA. As part of an overall recalibration of their ratings to a global scale, both Moody's and Fitch revised the City's underlying rating to Aaa and AAA, respectively.

Currently the City is in an enviable position as a "pure AAA" credit, the highest rating possible. Among all California cities with a population greater than 250,000, San José is the only one to have achieved this recognition of credit strength.

### **EVALUATION AND FOLLOW-UP**

The FY 2009-2010 CAFR and FY 2009-2010 CADR documents both serve to implement the disclosure practices described in the City's Debt Management Policy, and to help meet the Strategic Support City Service Area Strategic Goal: "Customers have the financial information they need to make informed decisions".

### **PUBLIC OUTREACH/INTEREST**

Although this item does not meet the criteria listed below, this memo will be posted as a part of the November 30, 2010 City Council agenda on the City's website.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

### **COORDINATION**

The Finance Department has coordinated this memorandum with the City Attorney's Office.

### **CEQA**

Not a project, File No. PP10-069 (a) Annual Reports.

/s/  
SCOTT P. JOHNSON  
Director of Finance

For questions, please contact Scott P. Johnson, Director of Finance, at (408) 535-7000.

### **Links:**

1. FY 2009-2010 Comprehensive Annual Financial Report for the City of San José.  
Web Link: [http://www.csjfinance.org/cafr/CAFR\\_2010.pdf](http://www.csjfinance.org/cafr/CAFR_2010.pdf)
2. FY 2009-2010 Comprehensive Annual Debt Report for the City of San José.  
Web Link: [http://www.csjfinance.org/DebtReport/2010\\_CADR.pdf](http://www.csjfinance.org/DebtReport/2010_CADR.pdf)