



Memorandum

TO: HONORABLE MAYOR AND CITY
COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: November 29, 2011

Approved

Date

11/29/11

**SUBJECT: ACCEPTANCE OF THE COMPREHENSIVE ANNUAL FINANCIAL
REPORT & COMPREHENSIVE ANNUAL DEBT REPORT FOR FISCAL
YEAR ENDED JUNE 30, 2011**

RECOMMENDATION

It is recommended that the Council accept the following annual reports:

- (a) Comprehensive Annual Financial Report for the City of San José for Fiscal Year 2010-2011; and
- (b) Comprehensive Annual Debt Report for the City of San José for Fiscal Year 2010-2011

OUTCOME

Council acceptance of the Fiscal Year 2010-11 Comprehensive Annual Financial Report (“CAFR”) and Fiscal Year 2010-11 Comprehensive Annual Debt Report (“CADR”) will provide relevant financial information to the 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 Fiscal Year 2010-2011 CAFR provides a detailed description of the City's financial activities for the period of July 1, 2010 through June 30, 2011, 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, and social.

The Fiscal Year 2010-2011 CADR provides a detailed description of the City's debt issuance and management activities for the period of July 1, 2010 through June 30, 2011, 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 Fiscal Year 2010-2011 CAFR and Fiscal Year 2010-2011 CADR provide comprehensive reviews of the City's financial operations and debt management portfolio activities, respectively (links provided below). The sections below provide a brief overview of each document.

Comprehensive Annual Financial Report

The CAFR is prepared by the Accounting Division of the Finance Department and represents the culmination of a concerted team effort by the entire staff of the Finance Department along with support and input from other City departments. The CAFR is submitted to the Mayor and Council for consideration and acceptance and to provide relevant financial information to the residents of San José, creditors, investors, taxpayers, and other interested parties.

Pursuant to City Charter Section 1215, 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 2010-2011 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.

For the fiscal year ended June 30, 2011, the City achieved the following key financial results:

- Total assets exceed total liabilities at June 30, 2011 by \$5.648 billion (net assets) for all reporting entities.
- Governmental funds reported combined ending fund balances of \$1.248 billion as of June 30, 2011, which are \$148.6 million or 13.5 percent less than the June 30, 2010 balances.
- Unassigned fund balance totals \$44.6 million, which is 3.6 percent of combined governmental fund balances as of June 30, 2011. The use of the unassigned balance is subject to restrictions and Council directives.
- Total noncurrent obligations increased by \$94.4 million to \$5.315 billion as of June 30, 2011, which represents an increase of 1.8 percent compared to \$5.220 billion as of June 30, 2010.

Comprehensive Annual Debt Report

The CADR discusses the activities undertaken and managed by the Debt Management Program within the Treasury Division of the Finance Department. This annual report is prepared pursuant to Section II (B) of the City Council adopted Debt Management Policy. 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 fiscal year 2010-11, the Finance Department oversaw the issuance of over \$345 million of new debt consisting of five series of bonds as well as a tax revenue anticipation note and commercial paper notes. The outstanding debt portfolio is over \$5.8 billion, consisting of 130 series of bonds including multifamily housing revenue bonds, two commercial paper programs, and seven loans for the City, the Redevelopment Agency, and other related entities.

The City continues to receive high general credit ratings from all three national rating agencies despite the difficult financial and economic conditions faced nationally and locally. In March 2011, Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's") reaffirmed the City's general credit rating of AAA and Aaa, respectively. However, Fitch Ratings ("Fitch") downgraded the City's general obligation rating from AAA to AA+ but changed the credit outlook from negative to stable. Fitch downgraded the City's general obligation rating to reflect a reduction of General Fund, fund balance after several years of structural imbalance, high and rising pension and retiree healthcare costs, and reduced expenditure flexibility following significant labor concessions and service reductions already implemented.

PUBLIC OUTREACH/INTEREST

- 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)**

Although this item does not meet the criteria listed above, this memorandum will be posted as a part of the December 13, 2011 City Council agenda on the City's website. The reports are scheduled to be posted by December 2, 2011.

COORDINATION

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

CEQA

Not a project, File No. PP10-69(a) Annual Reports.

/s/

JULIA H. COOPER
Acting Director of Finance

For questions, please contact Julia H. Cooper, Acting Director of Finance, at (408) 535-7000.

Links:

1. FY 2010-2011 Comprehensive Annual Financial Report for the City of San José.
Web Link: http://www.csjfinance.org/cafr/2011_CAFR_FINAL.pdf
2. FY 2010-2011 Comprehensive Annual Debt Report for the City of San José.
Web Link: http://www.csjfinance.org/DebtReport/2011_CADR.pdf