



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2020



Milpitas Transit Center and BART Station



City Hall



Future Development: 355 Sango Court
(100% Affordable Housing)



Creighton Park

City of Milpitas
California

CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020

Prepared by
THE FINANCE DEPARTMENT



INTRODUCTORY SECTION

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For the Year Ended June 30, 2020

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CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479 www.ci.milpitas.ca.gov

November 25, 2020

Honorable Mayor and Members of the City Council:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2020 as prepared by the City's Finance Department with support from other City departments. This report is consistent with generally accepted accounting principles. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

The Reporting Entity and its Services

This report combines the financial statements of the Milpitas Public Financing Authority (MPFA), Milpitas Housing Authority (Housing Authority), the Milpitas Municipal Financing Authority (MMFA) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. The MPFA, Housing Authority, MMFA and Terrace Gardens are separate legal entities from the City and are controlled by the City. The MPFA, Housing Authority and MMFA have the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Terrace Gardens Inc. issues its own component unit financial statements. The purpose and authority of the Milpitas Public Financing Authority (MPFA), Milpitas Housing Authority (Housing Authority), the Milpitas Municipal Financing Authority (MMFA) and the Terrace Gardens Inc. are described in Note 1 of this report.

Milpitas is a general law city of the State of California. The City was incorporated in 1954 and operates under a Council-Manager form of government. The City's political and legislative body is the City Council and is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services, and appointment of the City Manager and contract City Attorney. There are four City Council members who are elected at-large for staggered four-year terms, and the Mayor is selected every two years in a separate citywide election.

The City provides a full range of municipal services to the community through its departments such as Building Safety and Housing, Planning, Engineering, Fire, Police, Public Works, and Recreation and Community Services. These departments are supported by the internal departments which include the City Manager's Office, City Attorney's office, Finance, Human Resources, and Information Technology.

Community members of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Art Commission; Community Advisory Commission; Economic Development and Trade Commission; Energy and Environmental Sustainability Commission; Library and Education Advisory Commission; Parks, Recreation and Cultural Resources Commission; Planning Commission; Public Safety and Emergency Preparedness Commission; Science, Technology, and Innovation Commission; Senior Advisory Commission; Veterans Commission; and Youth Advisory Commission.

Economic Condition, Outlook and Activity

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas is considered the “Crossroads of Silicon Valley,” with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880. Milpitas has experienced tremendous growth since its incorporation in 1954. Over the past 66 years, the population growth has increased from 26,561 in 1970 to nearly 84,196. Milpitas is the 4th fastest-growing city in the nation between 2010 and 2019 and the 2nd fastest-growing city (small city category) according to WalletHub.com’s 2020’s Fastest-Growing Cities in America. Since 2016, the local labor market has improved such that employment has surpassed its pre-recession peak in the Silicon Valley. However, as a result of the COVID-19 related impact, as of September 2020, the City’s unemployment rate was 7.9% while the State of California’s unemployment rate was 10.8% and the national unemployment rate was 7.9%. Similarly, most major economic indicators, as discussed below, are in recession territory.

The City is actively managing the worst economic downturn since the Great Depression, which has resulted in a projected long-term annual deficit of \$9 million in the General Fund. The City has implemented several major budget strategies such as non-personnel expenditure reductions, deferral of capital projects, a managed hiring freeze and placing a ballot measure for a ¼ Cent Sales Tax Measure for voter consideration on November 3, 2020. Additionally, the City is considering service and related position reductions and engaging with its bargaining units to achieve wage and benefits reductions. During the past years, the City has set aside reserves to help mitigate the fiscal impact of the inevitable recession, which has served the City well.

The national GDP (Gross Domestic Product) growth decreased at an annual rate of 31.4 percent in the second quarter of 2020 from the previous quarter (according to the BEA, or Bureau of Economic Analysis’ Advanced estimate), and increased 1.5 percent in 2019 from the 2018 annual level. The sharp decline in the second quarter GDP is attributed to COVID-19, with shelter-in-place orders issued in March and limited re-openings of businesses and services in May and June. GDP is the value of goods and services less the value of the goods and services used up in production and is the most popular indicator of the nation’s overall economic health. The downturn in the economic activity due to the COVID-19 pandemic is worse than any recession since World War II in terms of severity, scope, and speed. As of June 2020, the Federal Reserve Board’s advanced projection shows GDP growth to increase to 5.0 percent in 2021, 3.5 percent in 2022.

The CPI (Consumer Price Index), is used by the U.S. Bureau of Labor Statistics to measure inflation. The September 2020 CPI-U (Consumer Price index for all Urban Consumers) increased 1.4 percent over the last 12 months. Core CPI (CPI less food and energy) is 1.7 percent compared to 2.4 percent in September 2019. Core CPI represents a more accurate picture of underlying inflation trends since volatile food and energy products are excluded. While the global economic activity remains uncertain and is largely dependent on the course of the pandemic, the U.S. Bureau of Labor Statistics’ Employment Projections for 2019-2020 shows a projected growth from 162.8 million to 168.8 million over the 2019-29 decade. Overall inflation for items others than food and energy is running below 2 percent, therefore the FOMC (Federal Open Market Committee) decided to lower the target range for federal funds rate to 0-0.25 percent at its September 2020 meeting due to the economic hardship across the nation and world caused by the COVID-19 pandemic. The FOMC noted that inflation continues to run below the 2.0 percent target, as there is weaker demand and lower oil prices which are holding down consumer prices.

The housing market has remained strong during the COVID-19 Pandemic. Single family starts increased 4.1 percent while multi-family starts decreased 22.7 percent. Total housing starts increased 2.8 percent in August compared to the prior year. The median sale price of a single family residential home in Milpitas was \$1.0 million as of September 2020, down approximately 0.1% from last year. Year-over-year prices significantly increased throughout some Bay Area Counties. San Mateo had an increase of 19 percent, 18.6 percent increase in Santa Clara, 18.6 percent increase in Contra Costa, and 13.4 percent increase in Alameda. The C.A.R (California Association of Realtors) forecasts an increase of 3.3 percent to reach 392,510 units in 2021, up from the 2020 projection of 380,060 units. Residential use values increased 8.7 percent, a total of \$1.07 billion, and represented 72% of all growth experienced in the City. Construction for New multi-family residential complexes are the main driver of the growth. The section below entitled “Major Development Activities in the City” will discuss some of the development activities that are occurring in Milpitas.

Consumer Confidence Level

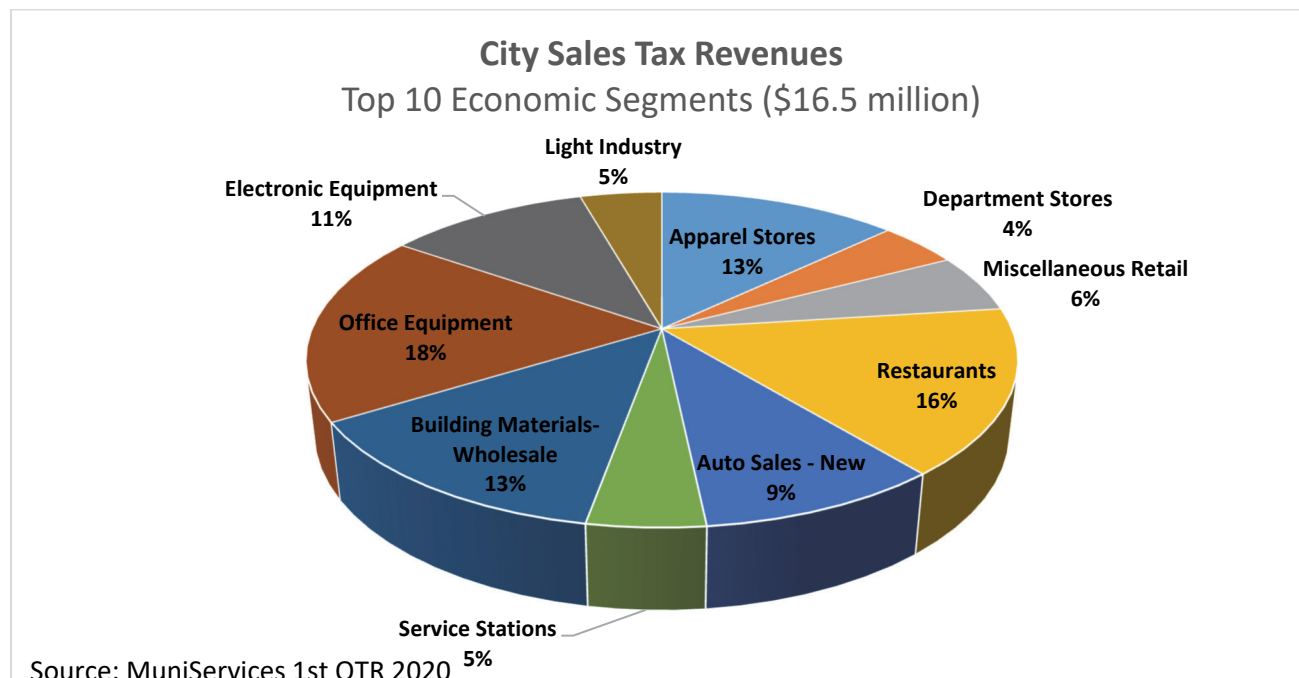
The Conference Board Consumer Confidence Index increased to 101.8 in September, up from 86.3 in August. Although the Consumer Confidence Index increased in September from prior monthly declines, it remains below pre-pandemic levels. Consumer confidence is an indicator designed to measure the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Since consumer spending accounts for more than two-thirds of the U.S. Gross Domestic Product, the index is a good indicator that when consumers’ confidence is high, consumers would likely make more purchases thus further boosting the economy. Employment drives consumer spending, which in turn impacts the economy greatly. Nonfarm payroll employment increased 661,000 in September 2020, and the unemployment rate declined to 7.9 percent from 8.4 percent in August 2020.



Source: The Conference Board

Top Ten Sales Tax Generators by Economic Segment

The shelter-in-place orders and business closures due to the COVID-19 pandemic and social distancing requirements led to a 21% nationwide decline in sales tax revenues through May, compared to 2019 according to the Urban-Brookings Tax Policy Center. The chart below provides a snapshot of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about \$20 million, with the top ten economic segments generating about \$16.5 million. Total sales tax receipts decreased by 5.7 percent from 2019. The sales tax revenue generated from economic segments such as Drug Stores, Florist/Nursery, Food Markets, Office Equipment, Electronic Equipment, Energy Sales, Leasing, and Miscellaneous Other, increased over a year ago, while all other segments decreased such as Apparel Stores, Recreation Products, Miscellaneous Retail, Auto Sales – Used, Service Stations, and Health & Government, which had more than a 20 percent decrease from the prior year.



Major Development Activities in the City

General Plan Update – Considered the blueprint for future development, the General Plan defines a long-term vision for future growth, traffic circulation, economic development, health, housing and resource conservation. In 1994, the General Plan was adopted and has not been comprehensively updated since then. The General Plan update process commenced in late 2016. The current update to the Plan targets land uses that may be outdated or insufficient and identifies opportunity sites where changes to land uses and development patterns may be appropriate over the next 20 years. With input from the community, stakeholders, appointed and elected officials, the Plan update is anticipated to be completed in 2020, with an anticipated adoption by the City Council in late 2020.

Milpitas Metro Specific Plan – The City adopted a Transit Area Specific Plan in June 2008 to encourage medium to high density development surrounding the new Milpitas Transit Center. The Plan was last updated in 2011. The Milpitas Transit Center, which opened to regional bus service in early 2020, includes direct connections to two existing Santa Clara Valley Transportation Authority (VTA) light rail stations and BART service, which opened up mid-June 2020. The intent of the Milpitas Metro Specific Plan (Plan) is to encourage the development of housing and neighborhood amenities such as parks, retail and restaurants and to foster economic development and employment opportunities in the area.

In March 2020, staff and consultants kicked off an update to the Plan to identify opportunities for additional housing units, a renewed emphasis on office, retail, restaurant and other uses in an Adopted Innovation District, and a particular emphasis on improvements to public amenities such as open space and trails. Staff expects to complete the Plan update in early 2021.

Residential Development – Until the COVID-19 Pandemic brought economic uncertainty to the region, a robust economy and high median home prices led to heightened interest in residential development. Outside of the Midtown and Transit Area, several residential developments have been approved and are either under building permit review, under construction, or completed and occupied. These projects include a single-family home development for 38 lots, including ten ADUs (Accessory Dwelling Units), at 1005 Park Victoria Drive and several small-scale infill projects throughout the City.

Non-residential Development – FY 2019-20 was a busy year for commercial development and expansion. The new Legoland Discovery Center is expected to open at the Great Mall in spring 2021. Trader Joe's opened a new Milpitas location on the ground-floor of the Turing Building, a mixed-use development project located at the intersection of Great Mall Parkway and McCandless Drive. Amazon has two new delivery stations and Bridge Pointe Silicon Valley has a new warehouse/office building under development near the McCarthy Ranch area. The H.L. Peninsula Chinese dim sum restaurant is also expected to open in the McCarthy Ranch retail area. Celia's Event Center is expected to open on Dempsey Road, and several new hotels are in various stages of development.

Property owners of the former LifeScan campus and Tasman Tech Park invested in revamping their buildings and outdoor spaces in order to attract new tenants. The City has also approved expansion plans for several ethnic grocery stores and other small businesses in the Midtown area and along the Calaveras Boulevard gateway corridor.

Accounting System and Budgetary Control

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The Finance Department staff remains committed to improving the City's accounting system; to maintain the City's internal accounting controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. Budgetary control is directed by the City Council by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the department level by fund. The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures. The City Manager has limited budget appropriation authority in an amount not to exceed 1% of the total General Fund budget, although the appropriations must be reported to the City Council on a periodic basis. Quarterly reports of revenue and expense are prepared and distributed to the City Council and City departments to monitor spending in relation to the budget. At fiscal year-end, open encumbrances are reported as an assignment of fund balance. The City's accounting records are organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. Each fund is classified by category and fund type:

Category and Fund Type

Governmental Funds:	General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds
Proprietary Funds:	Enterprise Funds and Internal Service Fund
Fiduciary Funds:	Private-Purpose Trust Fund and Agency Funds

Governmental Funds: The basic financial statements necessary to fairly present the financial position and operating results from major governmental funds are the balance sheet, and the statement of revenues, expenditures and changes in fund balance. These funds are maintained using the modified accrual basis of accounting, which is more thoroughly explained in the Notes to the Financial Statements.

Proprietary Funds: Generally accepted accounting principles applicable to private commercial business are applicable to proprietary funds of a government agency. The basic financial statements required to present the financial position and operating results from major proprietary funds are the statement of net position, statement of revenues, expenses, and changes in fund net position, and the statement of cash flows. The accrual basis of accounting is utilized as explained in the Notes to the Financial Statements.

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as a Private-Purpose Trust Fund and Agency Funds. The full accrual basis of accounting is used as explained in the Notes to the Financial Statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Financial Analysis

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Long Term Financial Planning

Each year the City adopts a balanced budget by June 30. The City has fiscal policies that include the use of one-time revenues for one-time expenditures only, including capital outlay and reserves. The City also adopted reserve policies that requires unassigned fund balance which is made up of the Contingency Reserve to be at least 16.67% of the annual operating expenditures and the Budget Stabilization Reserve with a reserve target of 16.67% of the annual operating expenditures in the General Fund. Additional reserves are included in Note 10.

The City developed a five-year Capital Improvement Plan detailing specific budgeted capital projects. Each of the projects is consistent with the budget priorities of the City. The fiscal year 2019-20 Adopted Capital Improvement Project (CIP) Budget totaled \$62.5 million. The CIP included improvements to the City's infrastructure which includes community improvements, parks, streets, water, sewer and storm drain utilities.

In addition, the City produces an annual ten-year General Fund Forecast. The Forecast allows the City Council and the community to assess the financial sustainability of City services in the long term. The projection also identifies the type of commitments and resource demands in the next ten years as known and points out areas of both opportunity and risk as the City navigates through fiscal cycles. This long-term forecast provides an invaluable planning tool and is an indication of sound fiscal planning and strategy.

Independent Audit

Each year the City requires an independent annual audit of the City's financial records, the results of its operations, and cash flows. This report includes the opinion of the City's independent auditors, Maze & Associates, for the basic financial statements of the City. In addition, the document also contains the auditors' report on Internal Control over Financial Reporting and on compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Awards

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. The City has received this award for the last twenty-five years.

Acknowledgments

We extend our appreciation to the entire staff in the Finance Department and other departments who assisted in the process of compiling the information for this report. In addition, we extend a special "thank you" to our external auditors who contributed to make this document possible. Their efforts and continued dedication are greatly appreciated. We sincerely thank the Mayor and members of the City Council for their support, interest, and integrity in directing the financial affairs of the City in a responsible and prudent manner in preparation for the inevitable economic downturn and during this economic crisis.

Respectfully submitted,



Steven G. McHarris
City Manager



Walter C. Rossman
Deputy City Manager/Director of Finance

DIRECTORY OF OFFICIALS

June 30, 2020

City Council

Mayor	Rich Tran
Vice-Mayor	Bob Nuñez
Councilmember	Karina R. Dominguez
Councilmember	Carmen Montano
Councilmember	Anthony Phan

City Manager

Steven G. McHarris

Assistant City Manager

Ashwini Kantak

Deputy City Manager

Walter C. Rossmann

Building & Housing Director

Sharon Goei

City Attorney

Christopher Diaz

City Clerk

Mary Lavelle

Director of Finance

Vacant

Director of Recreation & Community Services

Renee Lorentzen

Economic Development Director

Alex Andrade

Engineering Director/City Engineering

Steve Erickson

Fire Chief

Brian Sherrard

Human Resources Director

Jeannine Seher

Information Services Director

Mike Luu

Planning & Neighborhood Services Director

Ned Thomas

Police Chief

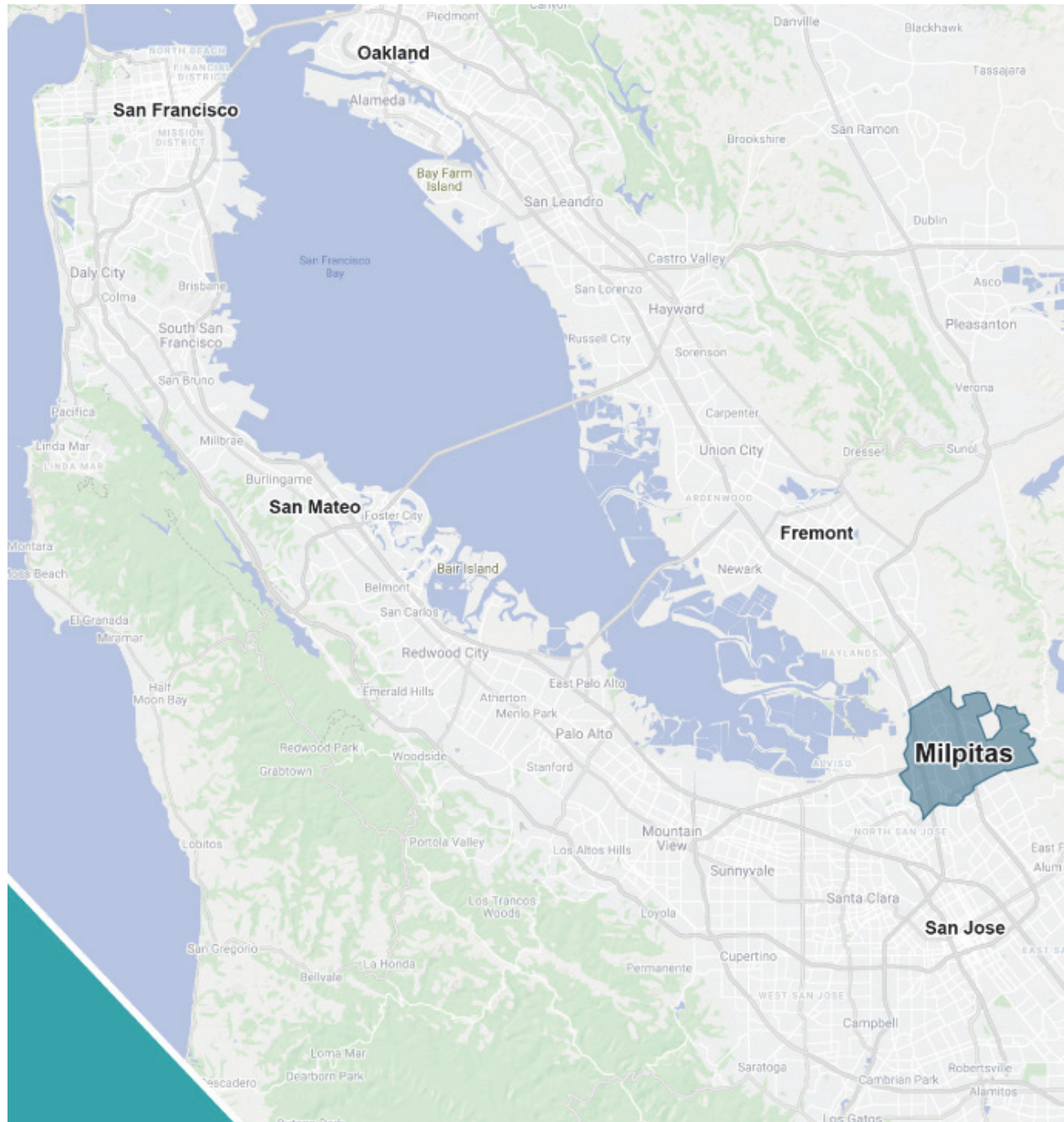
Armando Corpuz

Public Information Officer

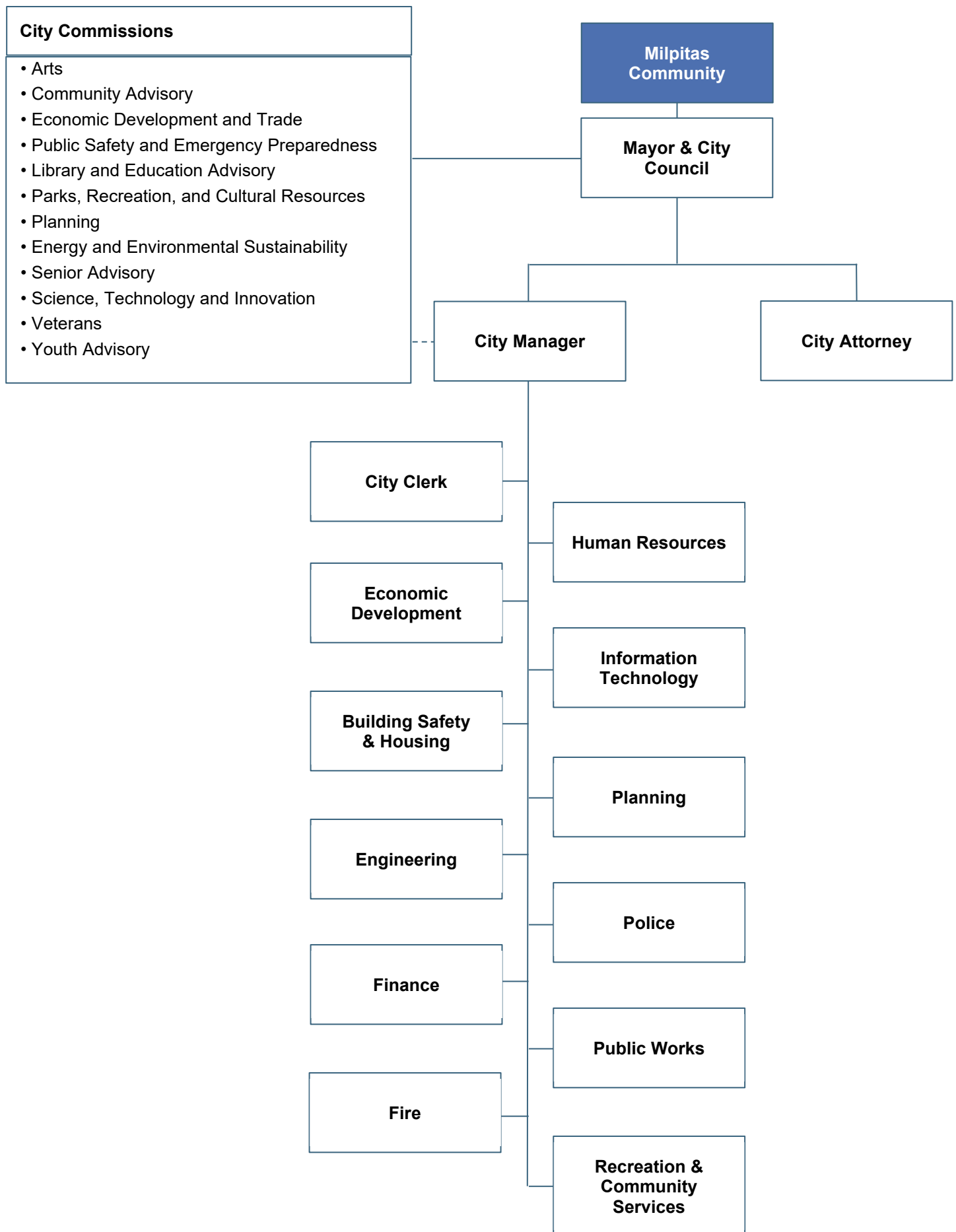
Charmaine Angelo

Public Works Director

Tony Ndah



The City of Milpitas is located near the southern tip of San Francisco Bay, forty-five miles south of San Francisco. Milpitas is often called the “Crossroads of Silicon Valley” with most of its 13.6 square miles of land situated between two major freeways (I-880 and I-680), State Route 237, and a county expressway. The light rail line opened for service in 2004 and an extension of BART, with a major multi-modal station, is in the planning stages.





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Milpitas
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Milpitas, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2019, which represent 1.10%, 1.62%, and 1.15% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and discretely presented component unit of the City as of June 30, 2020, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
November 4, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2020. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL YEAR 2020 FINANCIAL HIGHLIGHTS

The City's revenues in Fiscal Year 2020 reflect a declining local economy growth due to COVID-19 in the South Bay region. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2020 was at 7.6%, a significant increase of 4.9% from last year's 2.7%. The property tax revenue and franchise fee has increased slightly, however, sales taxes, hotel/motel taxes and other taxes have shown a decrease in revenue due to the Shelter-in-Place order implemented by the State on March 12, 2020.

Fiscal 2020 financial highlights include the following:

City-wide:

- The City's total net position was \$619.9 million at June 30, 2020. Of this total, \$409.5 million were Governmental and \$210.4 million were Business-type, a net increase of total \$9.9 million from prior year's total of \$610 million primarily due to a net increase in assets over liabilities. Net asset increases were primarily due to increases in cash and investments and capital assets offset by net liability increases primarily due to increased pension liabilities.
- City-wide revenues include program revenues of \$112.8 million, general revenues and transfers of \$84.9 million, totaling \$198 million, a decrease of \$18.2 million from the prior year's total of \$215.9 million primarily due to COVID-19 impact which resulted in slowing down project activities and collecting less developer fees as well as decreased sales tax, hotel/motel tax, and other tax receipts.
- Total City-wide expenses were \$188 million, an increase of \$22 million from the prior year's \$166 million primarily due to increase in personnel and benefit cost.

Fund Level:

- Governmental Fund balances were \$279.9 million, a net increase of \$7.4 million from fiscal 2019 primarily due to an increase of \$13.9 million in the Transit Area Impact Fee Fund offset with a decrease of \$5.9 million in the General Fund.
- Governmental Fund revenues were \$141.2 million in fiscal 2020, down \$20.1 million from the prior year's \$161.3 million, primarily due to COVID-19 related impacts which resulted in slowing down project activities causing the City to collect less developer fees compared to the prior year as well as decreased sales tax, hotel/motel tax, and other tax receipts.
- Governmental Fund expenditures were \$139.1 million in fiscal 2020, an increase of \$17.2 million from fiscal 2019 level of \$121.9 million primarily due to increases in capital outlay and personnel and benefits cost.
- General Fund revenues of \$99.4 million represented a decrease of \$8.7 million from fiscal 2019 revenues of \$108.1 million caused primarily by decreased sales tax, hotel/motel tax, and other tax receipts.
- Net other financing uses of the General Fund were (\$2.5) million in fiscal 2020 while fiscal 2019 had a total other financing uses of (\$6.9) million. The decrease is due to less General Fund funds being transferred out to fund capital projects in fiscal year 2020.
- General Fund balance of \$95 million at the fiscal 2020 year-end was \$5.9 million less than the fund balance at fiscal 2019 year-end primarily to offset loss in revenue caused by COVID-19.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report consists of eight parts:

- 1) Introductory section, which includes the Transmittal Letter and general information,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
- 4) Required Supplementary Information,
- 5) Supplementary Information,
- 6) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
- 7) Statistical information,
- 8) Other report.

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net position for the year.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities, deferred inflows/outflows of resources and fund balances, but exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these Non-major funds. Major Funds are explained below.

The City is the Successor Agency of the Milpitas Redevelopment Agency. It holds funds to make payments according to the enforceable obligations schedules and eventually dispose of other assets and properties of the former Redevelopment Agency for the benefits of the taxing agencies. The City is also the depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of the Successor Agency, Local Improvement Districts and other entities. These statements are separate from the City's financial statements and their balances are excluded from the City's fund balances.

Together, all these statements are called the Basic Financial Statements.

The City-wide Financial Statements

All of the City's basic services are considered to be governmental activities, including general government, building safety and inspection, public safety, public works maintenance, recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The City-wide financial statements can be found in pages 21-23 of this report.

All of the City's business-type activities includes water and sewer which are also reported in the basic financial statements. Unlike governmental services, these activities are supported by charges paid by users based on the amount of their service consumption.

The City's financial statements include the activities of four other separate legal entities, the Milpitas Public Financing Authority (MPFA), the Milpitas Housing Authority (Housing Authority), the Milpitas Municipal Financing Authority (MMFA) and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of these entities' governing boards.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the citywide financial statements.

Enterprise and internal service fund financial statements are prepared on the full accrual basis and include all these funds' assets and liabilities, both current and long-term.

The Fund financial statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of the City's activities.

The City has four other Major Governmental Funds in fiscal 2020 in addition to the General Fund. These are the Housing Authority Fund, the Street Improvement Fund, the Transit Area Impact Fee Fund, and the General Government Capital Projects Fund, each of which is discussed in detail below.

Both of the City's Enterprise Funds are reported as Major Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other major governmental funds that are Special Revenue Funds. The City has one major Special Revenue Fund, the Housing Authority Fund.

Fiduciary Statements

The City is the Successor Agency of the former Redevelopment Agency and the agent for certain local improvement districts ("Districts"). The City holds property tax revenue distributed from the Redevelopment Property Tax Trust Fund ("RPTTF") to pay outstanding recognized obligations for the Successor Agency. The City also holds amounts collected from property owners which await transfer to the Districts' bond trustees. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position and the Agency Funds Statement of Changes in Assets and Liabilities.

CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal 2019 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

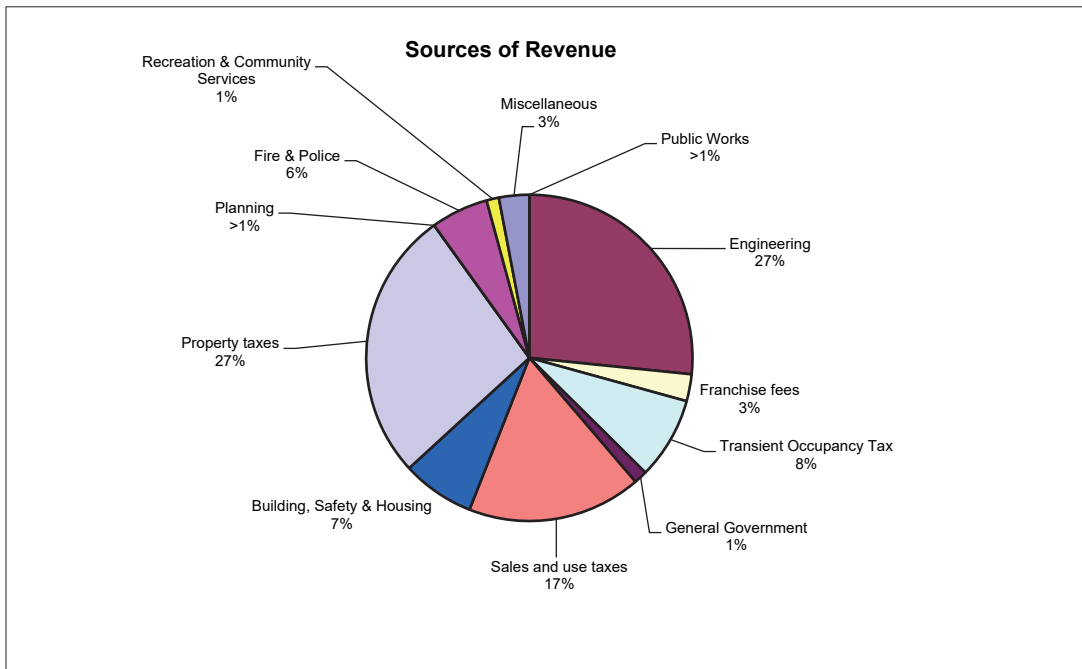
Table 1
Governmental Net Position at June 30
(in Millions)

	Governmental Activities	
	2020	2019
Cash and investments	\$267.0	\$252.7
Other assets	48.7	52.6
Capital assets	344.5	327.3
Total assets	660.2	632.6
Deferred Outflows of Resources		
–Related to pensions and OPEB	35.9	32.8
Net Pension liabilities	196.2	182.4
Net OPEB liability	12.5	40.0
Total OPEB liability	26.2	0
Other liabilities	37.1	32.7
Total liabilities	272.2	255.1
Deferred Inflows of Resources		
–Related to pensions and OPEB	14.6	3.6
Net position:		
Net investment in capital assets	344.5	326.5
Restricted	158.7	146.0
Unrestricted	(93.9)	(65.8)
Total net position	\$409.3	\$406.7

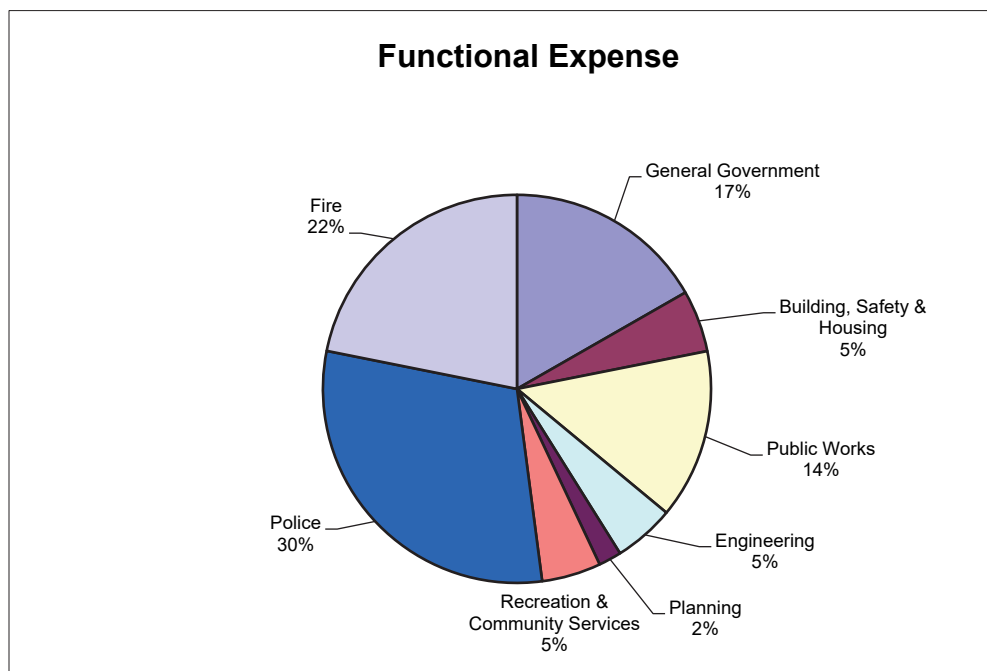
The City's governmental net position was \$409.3 million at June 30, 2020, an increase of \$2.6 million from 2019. This increase is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments increased \$14.3 million principally due to increased revenue from property tax.
- Other assets decreased \$3.9 million from last year due to the net activity between receivables and decrease in prepaids, materials, supplies and deposits.
- Capital assets increased \$17.2 million from last year, resulting from \$15.4 million of depreciation, offset by \$34 million in asset additions, net of retirements in fiscal 2020.
- Deferred outflows of resources related to pension and OPEB increased \$3.1 million from last year due to changes in actuarial results.

Fiscal Year 2020 Governmental Activities



As the Sources of Revenue Chart above shows, \$37.3 million or 26% of the City's fiscal 2020 governmental activities revenue came from impact fees, \$37.7 million or 26% came from property taxes, while \$24.2 million or 17% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, transient occupancy taxes, and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. The composition of Fiscal 2020's capital assets is shown in detail at Table 8.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Position as summarized below.

Table 2
Changes in Governmental Net Position
(in Millions)

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
Expenses		
General Government	\$24.0	\$25.3
Building, Safety and Housing	7.4	5.4
Recreation and Community Services	7.1	7.0
Public Works	20.3	20.1
Engineering	7.3	6.5
Planning	2.7	1.9
Police	43.5	35.9
Fire	31.5	26.5
Total expenses	<u>143.8</u>	<u>128.6</u>
Revenues		
Program revenues:		
Charges for services	15.6	20.6
Operating contributions and grants	10.6	8.3
Capital Grants	33.4	47.2
Total program revenues	<u>59.6</u>	<u>76.1</u>
General revenues:		
Taxes:		
Property taxes	37.7	33.8
Sales and use taxes	24.2	28.0
Transient Occupancy taxes	11.4	14.5
Other taxes	0.8	0.8
Franchise fees	5.2	5.1
Investment earnings	2.8	4.5
Miscellaneous	0.5	0.4
Total general revenues	<u>82.6</u>	<u>87.1</u>
Total Revenues	<u>142.5</u>	<u>163.2</u>
Surplus (Deficit) before transfers	(1.3)	34.36
Transfers	4.2	2.5
Changes in net position	<u>2.9</u>	<u>37.1</u>
Beginning net position	<u>406.7</u>	<u>369.6</u>
Ending net position	<u>\$409.6</u>	<u>\$406.7</u>

Table 2 compares fiscal 2020 expenses and revenues with those of fiscal 2019. Expenses increased by \$15.2 million in fiscal 2020, due to an increase in positions and increases in salaries and benefits costs.

Table 2 shows that total governmental revenues decreased 20.7 million in fiscal 2020. Program revenues decreased \$16.1 million while general revenues decreased \$4.6 million. The program revenues decreased \$16.1 million from fiscal 2019, the net activity was due to decreases of \$4.7 million in charges for services, \$13.7 million decrease in capital grants and \$2.3 million increases in operating contributions. The general revenue decreased \$4.6 million from fiscal 2019, the net activity was due to decreases of \$3.8 million in sales and uses taxes, decreases of \$3.1 million in hotel/motel taxes, and decreases of \$1.7 million in investment earnings due to COVID-19 impact to the economy. The decreases are offset with \$3.9 million increases in Property tax and \$0.1 million increases in Franchise Fee.

Table 3 presents the net cost of each of the City's largest programs—general government, building, safety and housing, recreation and community services, public works, engineering, planning, police, and fire. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs was \$84 million.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2020	2019
General Government	\$(22.2)	\$(22.8)
Building, Safety and Housing	2.7	6.9
Recreation and Community Services	(5.1)	(3.0)
Public Works	(20.3)	(20.1)
Engineering	30.0	43.5
Planning	(2.0)	(1.1)
Police	(39.1)	(32.4)
Fire	(28.0)	(23.4)
Totals	\$(84.0)	\$(52.4)

Business-type Activities

Table 4
Business-Type Net Position at June 30
(in Millions)

	Business-Type Activities	
	2020	2019
Cash and investments	\$118.7	\$74.6
Other assets	3.9	4.4
Capital assets	158.8	139.8
Total assets	281.4	218.8
Deferred Outflows of Resources		
– Related to Pensions and OPEB	1.2	1.1
Other liabilities	3.6	3.0
Net pension liabilities	4.3	4.7
Net OPEB liability	3.8	4.0
Long-term Debt	59.4	4.8
Total liabilities	71.1	16.5
Deferred Inflows of Resources		
– Related to Pensions and OPEB	1.1	0.2
Net position:		
Net investment in capital assets	99.3	135.0
Restricted	63.1	59.2
Unrestricted	48.0	8.9
Total net position	\$210.4	\$203.1

The net position of business-type activities were \$210.4 million in fiscal 2020, an increase of \$7.3 million from fiscal 2019. Total assets increased \$62.6 million, deferred outflows increased \$0.1 million and deferred inflows increased \$0.9 million in 2020. The increase in net position was due to increase in total assets of \$62.7 million. The increase in total assets is comprised of \$44.1million increase in cash due to the bond proceed received from water and sewer bond issuance, decrease of \$0.5 million in other assets and \$19 million increases in capital assets. The increases are offset by additional liability of \$55.5 million recorded in fiscal year 2020 in which the \$54.6 million is an additional debt balance recorded for water and sewer revenue bond.

Table 5
Changes in Business-Type Net Position
(in Millions)

	Business-Type Activities	
	2020	2019
Expenses		
Water Utility	\$28.7	\$25.2
Sewer Utility	14.4	12.2
Total expenses	<u>43.1</u>	<u>37.4</u>
Revenues		
Program revenues:		
Charges for services	52.4	47.2
Operating grants	0.2	0.1
Capital grants	0.6	2.7
Total program revenues	<u>53.1</u>	<u>50.0</u>
General revenues:		
Investment earnings	2.3	2.7
Total general revenues	<u>2.3</u>	<u>2.7</u>
Total Revenues	<u>55.5</u>	<u>52.7</u>
Excess before transfers	11.5	15.3
Net Transfers	<u>(4.2)</u>	<u>(2.5)</u>
Changes in net position	7.2	12.8
Beginning net position	<u>203.1</u>	<u>190.3</u>
Ending net position	<u>\$210.3</u>	<u>\$203.1</u>

Table 5 compares fiscal 2020 expenses and revenues with those of fiscal year 2019. Total expenses increased by \$6.5 million in fiscal 2020 due to an increase in personnel services and an increase in water purchase and contractual services. Total program revenues increased by \$3.1 million primarily due to an increase in charges for services related to a rate increase and an increase in operating grants. Total general revenue decreased \$0.4 million from interest earnings. The net transfers represent reimbursements of administration costs to the General Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Table 6 below summarizes activities and balances of the governmental funds at the fund level:

Table 6
Financial Highlights of Governmental Funds at Fund Level at June 30
(in Millions)

	2020	2019
Total assets	\$308.5	\$297.5
Total liabilities	26.6	23.0
Total deferred inflows of resources	1.7	1.5
Total fund balances	280.2	272.5
Total revenues	141.4	161.4
Total expenditures	139.1	121.9
Total other financing sources	5.4	3.3

At June 30, 2020, the City's governmental funds reported combined fund balances of \$280.2 million, an net increase of \$7.7 million from last year. The fund balances of the Housing Authority Fund, Street Improvement Fund, Transit Area Impact Fee Fund and General Government Capital Improvement Fund increased \$0.1 million, \$1.4 million, \$13.9 million, and \$1 million respectively. General Fund and Other Governmental Funds decreased \$5.7 and \$3.1 million, respectively.

Revenues at the fund level totaled \$141.4 million, a net decrease of \$20 million. Revenues for the Street Improvement Fund, General Government Capital Improvement and Other Governmental Funds increased \$2.2 million, \$0.4 million and \$1.6 million, respectively while General Fund, Housing Authority and Transit Area Impact Fee decreased \$8.3 million, \$0.1 million and \$15.8 million, respectively.

Expenditures net increased \$17.2 million this year to \$139.1 million from last year's \$121.9 million. The expenditures of the General Fund, Transit Area Impact Fee Fund, General Government Capital Improvement Fund and Other Government Fund increased \$9.5 million, \$2 million, \$2.2 million and \$6.9 million, respectively while the Housing Authority Fund and Street Improvement Fund decreased \$1.4 million and \$2 million respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues decreased to \$99.7 million this fiscal year, down \$8.4 million from the prior fiscal year. Increases came from property tax revenue, franchise fee, and intergovernmental revenue. Property tax revenue increased \$4.0 million due to the continued demand in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax, hotel/motel taxes, licenses and permits, charges for services experienced significant decreases in fiscal year 2020. Sales tax reduced from \$28.9 million in fiscal year 2019 to \$25.1 million. COVID-19 virus causing sales tax generating business to close since March 12, 2020 to comply with the Shelter-in-Place order which was partially offset with residents shopping online.

General Fund expenditures increased \$9.5 million to \$102.8 million in fiscal 2020 primarily due to an increase in salary and benefits costs.

Net Other Financing Sources decreased by \$4.4 million. Transfers out were approximately \$8.5 million, as compared to Transfers out of \$13.9 million in fiscal 2019 due to transfers to fund future capital projects, affordable housing and equipment fund. Transfers in consisted of \$6 million from other funds for operating costs.

For the City's General Fund, actual revenues of \$99.4 million were \$6.7 million less than the final budgeted revenues of \$106.1 million. Property taxes and Use of Money and Property exceeded budget by \$1.1 million and \$1.4 million respectively. However, budgeted Sales taxes, Hotel/Motel taxes, Franchise Fees, Licenses and fines, Intergovernmental, Charges of Services and Other Revenue exceeded Actuals by \$2 million, \$0.8 million, \$0.2 million, \$4.1 million, \$0.3 million and \$1.8 million, respectively.

At the end of the year, actual General Fund expenditures were \$105.6 million, \$12.2 million less than final budget of \$117.8 million. Savings were primarily in Non-departmental \$5.7 million for decreased payroll, benefits and utility expenditures, Recreation and Community Services \$1.3 million, Police \$1.3 million, City Manager \$0.8 million, Information Services \$0.5 million, Fire \$0.9 million.

The difference in General Fund original expenditure budget and final expenditure budget was \$0.6 million. The additional appropriations consisted of \$0.6 million of expenditures funded by additional grants.

Housing Authority

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were \$0.9 million in fiscal 2020, comprised of \$0.9 million of interest, rental income and repayment of housing loans. Total expenditures were \$0.7 million for administration, interest forgiveness related to a restructure of an affordable housing loan, management of two affordable housing units and one commercial property with eight tenants.

Street Improvement Capital Project

This Street Improvement Capital Project Fund accounts for the majority of the street capital projects activity in the City that is not developed in the Transit Area. The Fund's revenues were \$3.8 million in fiscal 2020, an increase of \$2.2 million from fiscal 2019. The increase in revenues was mainly due to reimbursement Measure B local monies from VTA. Fund expenditures were \$6.1 million in fiscal 2020, a decrease of \$2 million from fiscal 2019, due to decreased in capital outlay. Net transfers were \$3.7 million in fiscal 2020, a decrease in \$1.6 million from fiscal 2019 due returning unexpended capital improvement project funds back to the General Fund, Gas Tax Fund, Water Fund, Sewer Fund, General Government Capital Improvement Fund and Transit Area Impact Fee Fund. Transfers in of \$6.3 million were from the General Fund, Gas Tax Special Revenue Fund, and Transit Area Impact Fee Capital Projects Fund provided funding for street capital improvement project.

Transit Area Impact Fee

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal 2020, fund revenues were \$24.2 million, primarily from fees collected from developers. Expenditures were \$10.2 million, consisting of \$10 million capital improvement project, \$0.1 interest expense and fees and \$0.03 million general government. The transfers out of \$0.5 million to the Street Improvement Capital Project fund, Water Utility Capital Project Fund and the Park Improvement Capital Project fund provided funding to capital projects.

General Government Capital Projects

The General Government Capital Projects Fund accounts for construction and maintenance of general government projects and assets in the City. In fiscal 2020, expenditures of \$8.1 million consisted of \$7.4 million of capital improvement project expenditures and \$0.7 million debt service. The transfers in of \$9.7 million were primarily from the General Fund, Gas Tax Fund, Lighting and Landscape Maintenance District Fund, Park Improvement Fund, Community Planning Fund, and Equipment Management fund for the purpose of capital project funding. The transfers out of \$1.5 million were to the Park Improvement Fund, and Storm Drain Development to fund capital project.

Other Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

Fund Balance Classifications

Fund balances are classified in five categories: nonspendable, restricted, committed, assigned and unassigned based on a hierarchy of constraint. Further details on fund balance classifications can be found in Note 10B.

Table 7 shows the classification of the fund balances of the major governmental funds.

Table 7
Fund Balances at June 30 – Major Governmental Funds
(in Millions)

	2020	2019
General Fund		
Nonspendable	\$ 10.2	\$ 10.2
Committed	44.0	43.9
Assigned	6.1	5.9
Unassigned	34.4	40.7
Total	<u>\$94.8</u>	<u>\$100.7</u>
 Housing Authority Fund		
Restricted	<u>\$39.4</u>	<u>\$39.3</u>
 Street Improvement Fund		
Restricted	<u>\$9.1</u>	<u>\$7.4</u>
 Transit Area Impact Fee Fund		
Restricted	<u>\$62.2</u>	<u>\$48.3</u>
 General Government Project Fund		
Nonspendable	\$ 0.0	\$ 0.1
Assigned	28.8	27.8
Total	<u>\$28.8</u>	<u>\$27.9</u>

At June 30, 2020, the fund balance of the General Fund was \$94.8 million: \$10.2 million was classified as nonspendable, comprised of \$0.6 for prepaid materials and supplies, \$4.2 million of property held for resale, and \$5.4 million for advances to other funds; \$33.9 million for PERS Rate Stabilization \$1.2 million for Artificial turf replacement, \$2 million for Technology replacement and \$7 million for Facilities replacement were classified as committed; \$6.1 million of the fund balance comprised of \$1 million of changes in investment market value, \$2 million for uninsured claims and \$3 million for encumbrances, was classified as assigned; \$34.4 million of the fund balance comprised of \$17.3 million for contingency reserve and \$17.1 million for budget stabilization.

The fund balances of the Housing Authority Fund, Street Improvement Fund and the Transit Area Impact Fee Fund were also classified as restricted because the amounts were restricted for specific purposes.

The fund balance of the General Government Fund was \$28.8 million: \$28.8 million classified as assigned due to Council's reserve policy.

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased \$5.2 million from last year, while operating expenses increased \$0.7 million. Total operating revenues and total operating expenses were \$52.4 million and \$43.1 million, respectively. Non-operating revenues were \$1.6 million in fiscal 2020, a decrease of \$1.1 million from the prior year. Capital contributions decreased by \$1 million and net transfers out increased by \$1.8 million.

Water Utility

Water fund revenues were \$32.8 million in fiscal 2020, an increase of \$3.4 million from prior year. . The increase in revenues was primarily due to rate increase in the water utility. Expenses were \$28.7 million in fiscal 2020, up \$3.5 million from prior year, primarily due to increased purchased water expense of \$0.7 million ,personnel services of \$0.5 million and \$1.5 million in services and supplies. Net position of the Water Utility Fund increased \$2.9 million in the current year to a total of \$86.9 million. The increase comprised of \$32.7 million of operating revenues for the current year, \$28.7 million of operating expenses, which result in \$4.0 million operating income. The water fund also received \$1.3 million in interest income, \$0.1 million of grants, \$0.2 million of capital contributions and net of transfers of -\$2.7 million, and this resulted in increase of net position of \$2.9 million.

This Fund's Net Position includes \$29.2 million invested in capital assets, \$32.9 million in restricted net position, and \$24.8 million in unrestricted net position.

Sewer Utility

Sewer fund revenues were \$19.6 million in fiscal 2020, up \$1.8 million from the prior year due to an increase in usage. Expenses were \$14.4 million in fiscal 2020, an increase of \$2.3 million from the prior year due to an increase in sewer treatment services. Non-operating revenues and expenses in fiscal year 2020 consisted of \$1.1 million interest income, and \$0.9 million interest expense. Net position of the Sewer Utility Fund increased \$4.3 million in the current year to a total of \$123.5 million. The increase comprised of \$19.6 million of operating revenues for the current year, \$14.4 million of operating expenses, which result in \$5.2 million operating income. The sewer fund also received \$1.1 million in interest income, net of interest expense of \$0.8 million, \$0.3 million of capital contributions and net of transfers of -\$1.5 million, and this resulted in increase of net position of \$4.3 million.

\$23.1 million of the Fund's Net Position in the amount of \$123.5 million was unrestricted at the fiscal year end. Of the remainder, \$70.2 million was invested in capital assets and \$30.2 million was restricted as to use.

CAPITAL ASSETS

The City records the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computes the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2020, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 8 below:

Table 8
Capital Assets at Year-end
(in Millions)

	2020	2019
<i>Governmental Activities:</i>		
Land	\$ 73.7	\$ 68.4
Construction in progress	81.2	62.9
Buildings and improvements	173.4	173.4
Other improvements	30.6	30.6
Machinery and equipment	46.5	45.2
Landscape system	30.0	30.0
Storm system	74.3	74.3
Street system	276.7	271.2
Traffic system	19.9	19.3
Less accumulated depreciation	(461.9)	(448.0)
Totals	\$344.5	\$327.3
<i>Business-type Activities:</i>		
Land	\$ 1.1	\$ 1.1
Construction in progress	12.3	12.8
Distribution facilities	81.2	80.5
Water Service lines	17.0	16.9
Sewer lines	86.1	84.0
Capacity rights	100.6	78.0
Less accumulated depreciation	(139.5)	(133.5)
Totals	\$158.8	\$139.8

The principal additions in fiscal 2020 were to the land, construction-in-progress, machinery and equipment, landscape system, street system, traffic system, and capacity rights activities. Construction in progress included the Montague Pedestrian Overcrossing at Piper Drive, Police Department Communications, Fire Station number 2 replacement, Street Resurfacing Project, and Sports Center Skate Park.

The City depreciates all its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives and current year activities may be found in Note 8.

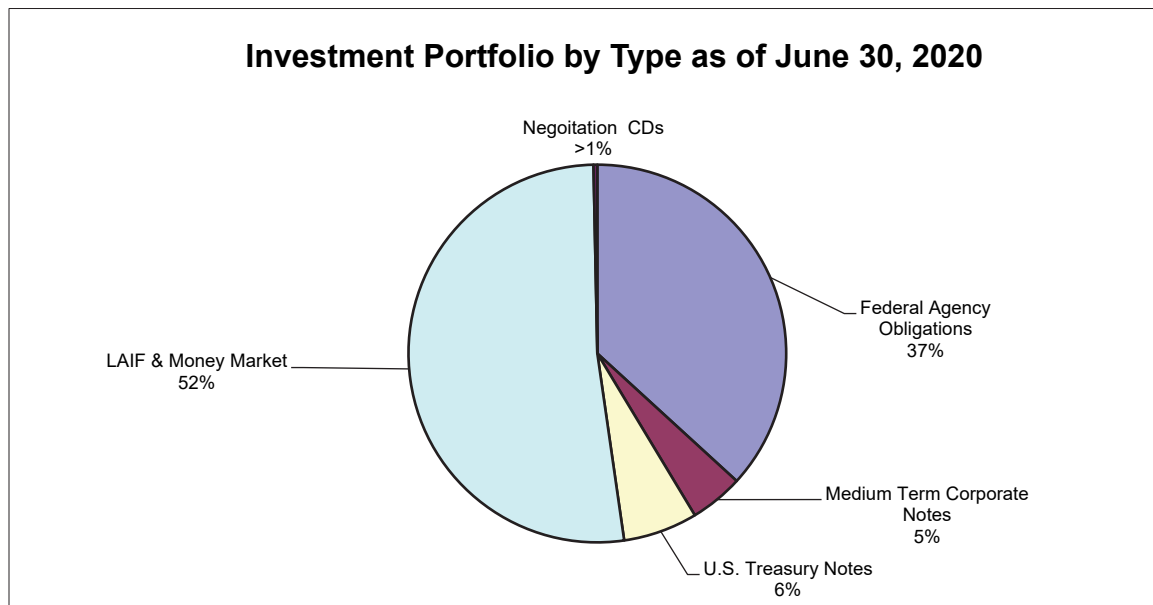
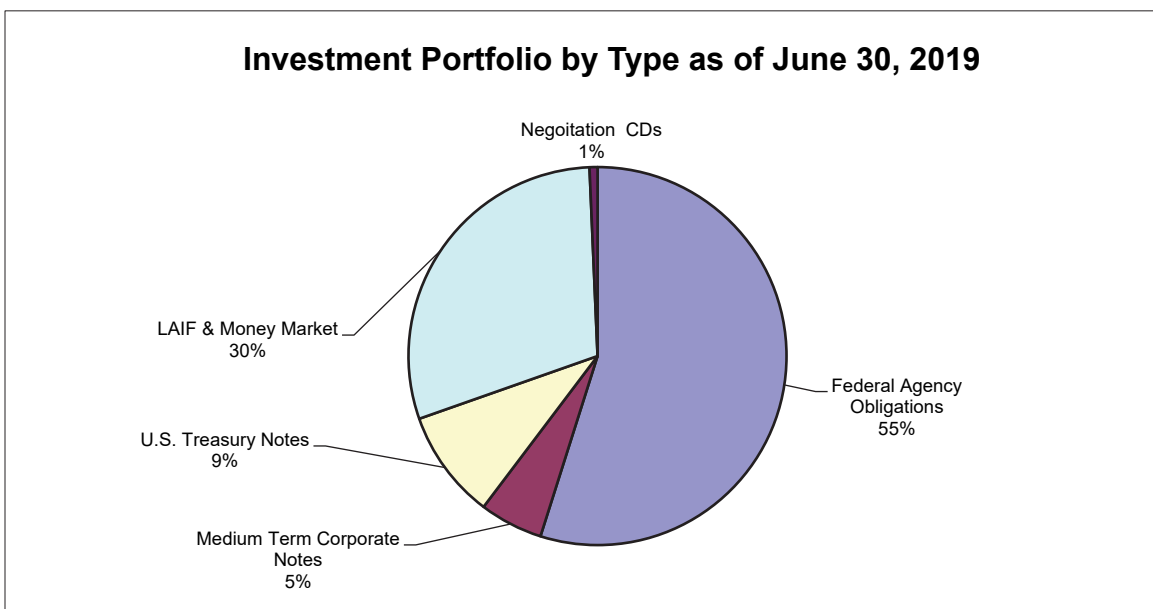
CASH AND INVESTMENTS

The City outsourced the management of the City's investments to Chandler Asset Management effective June 1, 2020 and held in a custodial account with The Bank of New York. The managed portfolio consists of securities invested in accordance with City's investment policy and the California Government Code.

Total cash and investments increased \$59.3 million from \$326.4 million to \$385.7 million. This increase was due to proceeds from the debt issuance of water and sewer revenue bond.

Total investment earnings for fiscal year 2020 were \$5.1 million. City's investment income from interest and dividends on investments was \$1.2 million in 2020. The change in fair value for the portfolio for the fiscal year ending June 30, 2020 was an unrealized gain on investments of \$3.9 million.

The following graphs depict the make-up of \$383.6 million cash and investments at June 30, 2020 and \$334.2 million at June 30, 2019.



DEBT ADMINISTRATION

The City's debt was issued to finance Sewer infrastructure improvements. This debt issue is secured by sewer revenue. In fiscal 2018, the City refunded the 2006 Sewer Bonds with the 2017 Wastewater Revenue Refunding Bonds to reduce interest rate cost over the life of the bond issuance. In fiscal 2020, Milpitas Municipal Financing Authority issued Wastewater Revenue Bonds, Series 2019 and Water Revenue Bonds, Series 2019 in an amount of \$29.8 million and \$17.2 million respectively. Each of the City's debt issues are discussed in detail in Note 9 to the financial statements. At June 30, 2020 the City's debt is comprised of:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2020	Balance June 30, 2019
Governmental Activity Debt:		
Capital Lease (Network Upgrade)	\$0.0	\$0.7
4.25%, due January 21, 2023		
Total Governmental-type Activity Debt	<u>\$ 0.0</u>	<u>\$ 0.7</u>
Business-type Activity Debt:		
Wastewater Revenue Refunding Bonds, 2017 Series		
2.0% - 5.0%, due November 1, 2026	<u>3.8</u>	<u>4.2</u>
Plus: Unamortized bond premium	<u>0.5</u>	<u>0.6</u>
Wastewater Revenue Bonds, 2019 Series		
4.0% - 5.0%, due November 1, 2049	<u>29.8</u>	
Plus: Unamortized bond premium	<u>5.3</u>	
Water Revenue, 2019 Series		
4.0% - 5.0%, due June 1, 2049	<u>17.1</u>	
Plus: Unamortized bond premium	<u>2.9</u>	
Total Business-type Activity Debt	<u>\$ 59.4</u>	<u>\$ 4.8</u>

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Department, at 455 East Calaveras Boulevard, Milpitas, CA 95035-5479 or to the City's website at www.ci.milpitas.ca.gov.

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position reports the difference between the City's total assets and deferred outflows of resources and the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the City's net position by subtracting total liabilities and deferred inflows of resources from total assets and deferred outflows of resources.

The Statement of Net Position summarizes the financial position of the City's Governmental Activities in a single column, and the financial position of all the City's Business-type Activities in a single column; these columns are followed by a Total column that presents the financial position of the primary government. This column is followed by a column that displays the discretely presented component unit.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, deferred inflows/outflows of resources, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by the program, and follows these with the expenses of its Business-type Activities. Program revenues – that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities, Business-type Activities or discretely presented component unit column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

Both of these Statements include the financial activities of the City and the blended component units: the Milpitas Public Financing Authority (MPFA), the Milpitas Economic Development Corporation (EDC), the City of Milpitas Housing Authority (Housing Authority) and the Milpitas Municipal Financing Authority (MMFA). The Financing Authorities and Housing Authority are legally separate component units of the City, because they are controlled by the City and the City is financially accountable for their activities. The EDC is a California nonprofit public benefit Corporation that is also a legally separate component unit of the City because it is governed by a board consisting of the members of the City Council. The EDC became inactive as of June 30, 2015. The balances and the activities of the discretely presented component unit of Terrace Gardens, Inc. are included in these statements as separate columns.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

CITY OF MILPITAS
STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc. (As of December 31, 2019)
ASSETS				
Cash and investments available for operations (Note 3)	\$266,994,623	\$83,469,754	\$350,464,377	\$99,922
Restricted cash and investments (Note 3)		35,183,496	35,183,496	2,693,631
Receivables:				
Accounts	2,358,017	3,377,375	5,735,392	3,974
Due from other governments	5,431,034	88,808	5,519,842	
Interest	1,127,386	346,254	1,473,640	
Loans receivable (Note 5)	32,514,834		32,514,834	
Prepays, materials, supplies and deposits (Note 1E)	744,149	178,699	922,848	58,645
Property held for resale (Note 6)	6,533,018		6,533,018	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	154,940,979	13,443,024	168,384,003	1,565,277
Depreciable capital assets, net	189,529,867	145,336,153	334,866,020	5,905,551
Total assets	660,173,907	281,423,563	941,597,470	10,327,000
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	30,298,664	643,311	30,941,975	
Related to OPEB (Note 12E)	5,601,555	540,883	6,142,438	
Total deferred outflows of resources	35,900,219	1,184,194	37,084,413	
LIABILITIES				
Accounts payable	4,824,955	2,534,756	7,359,711	185,444
Accrued payroll	3,825,444	134,550	3,959,994	7,867
Interest payable		316,163	316,163	
Uninsured claims payable (Note 13):				
Due within one year	1,172,486		1,172,486	
Due in more than one year	6,002,189		6,002,189	
Refundable deposits	2,918,014	88,739	3,006,753	76,200
Unearned revenue	9,658,173	6,922	9,665,095	6,865
Accrued vacation (Note 12F):				
Due within one year	2,790,494	161,610	2,952,104	18,309
Due in more than one year	3,327,531	136,475	3,464,006	
Sick leave payable (Note 12F):				
Due within one year	936,941	54,262	991,203	
Due in more than one year	1,908,264	134,732	2,042,996	
Net pension liabilities (Note 11C):				
Due in more than one year	196,207,535	4,276,403	200,483,938	
Net OPEB liability (Note 12C):				
Due in more than one year	12,496,648	1,500,257	13,996,905	
Total OPEB liability (Note 12D)				
Due in more than one year	26,173,174	2,331,698	28,504,872	
Long term debt (Note 9):				
Due within one year		1,210,000	1,210,000	
Due in more than one year		58,238,333	58,238,333	
Total liabilities	272,241,848	71,124,900	343,366,748	294,685
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	3,108,185	62,297	3,170,482	
Related to OPEB (Note 12E)	11,448,264	1,038,254	12,486,518	
Total deferred inflows of resources	14,556,449	1,100,551	15,657,000	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	344,470,846	99,330,844	443,801,690	7,470,828
Restricted for:				
Capital projects	107,224,518	63,084,429	170,308,947	
Redevelopment and community development activities	49,729,435		49,729,435	
Other programs	1,762,001		1,762,001	
Total restricted net position	158,715,954	63,084,429	221,800,383	
Unrestricted	(93,910,971)	47,967,033	(45,943,938)	2,561,487
Total net position	\$409,275,829	\$210,382,306	\$619,658,135	\$10,032,315

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$24,049,645	\$1,808,856	\$47,605		(\$22,193,184)	
Building, Safety and Housing	7,417,540	6,620,733	3,460,748		2,663,941	
Recreation and Community Services	7,095,913	1,144,805	577,816		(5,373,292)	
Public Works	20,342,422				(20,342,422)	
Engineering	7,314,207	2,131,684	1,711,111	\$33,423,034	29,951,622	
Planning	2,741,169	451,739	360,803		(1,928,627)	
Police	43,504,697	1,087,176	3,342,045		(39,075,476)	
Fire	31,472,283	2,402,518	1,142,995		(27,926,770)	
Interest on long term debt	36,710				(36,710)	
Total Governmental Activities	143,974,586	15,647,511	10,643,123	33,423,034	(84,260,918)	
Business-type Activities:						
Water Utility	28,749,785	32,792,346	140,154	281,064		\$4,463,779
Sewer Utility	15,240,501	19,565,623	30,745	319,763		4,675,630
Total Business-type Activities	43,990,286	52,357,969	170,899	600,827		9,139,409
Total Primary Government	\$187,964,872	\$68,005,480	\$10,814,022	\$34,023,861	(84,260,918)	9,139,409
Component Unit:						
Terrace Gardens Inc.	\$2,368,820	\$2,220,123	\$12,263			
General revenues:						
Taxes:						
Property taxes					37,684,295	
Sales and use taxes					24,173,315	
Hotel/Motel taxes					11,376,522	
Other taxes					835,720	
Franchise fees, unrestricted					5,173,191	
Motor vehicle in-lieu, unrestricted					60,333	
Investment earnings					2,808,428	2,261,236
Gain from sale of property					42,754	
Miscellaneous					445,967	
Transfers (Note 4)					4,187,368	(4,187,368)
Total general revenues and transfers					86,787,893	(1,926,132)
Change in Net Position					2,526,975	7,213,277
Net position-Beginning					406,748,854	203,169,029
Net position-Ending					\$409,275,829	\$210,382,306

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component Unit
	Terrace Gardens Inc. (year ended December 31, 2019)
Total	
(\$22,193,184)	
2,663,941	
(5,373,292)	
(20,342,422)	
29,951,622	
(1,928,627)	
(39,075,476)	
(27,926,770)	
(36,710)	
(84,260,918)	
4,463,779	
4,675,630	
9,139,409	
(75,121,509)	
	(\$136,434)
37,684,295	
24,173,315	
11,376,522	
835,720	
5,173,191	
60,333	
5,069,664	40,263
42,754	
445,967	
84,861,761	40,263
9,740,252	(96,171)
609,917,883	10,128,486
\$619,658,135	\$10,032,315



FUND FINANCIAL STATEMENTS

The Fund Financial Statements present individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit, which are not accounted for in another fund.

HOUSING AUTHORITY FUND

Established to plan and address the housing needs of the City and to act as the Housing Successor Agency for the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

STREET IMPROVEMENT FUND

Established to account for the construction and maintenance of the street system in Milpitas. Financing may be provided through state and federal grants.

TRANSIT AREA IMPACT FEE FUND

Established to account for capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

GENERAL GOVERNMENT CAPITAL PROJECT FUND

Established to account for the construction and maintenance of general government projects. Financing provided by the General Fund.



CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2020

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
ASSETS				
Cash and investments available for operations (Note 3)	\$96,110,257	\$8,223,834	\$9,304,902	\$68,387,298
Receivables:				
Accounts	979,460			1,378,557
Due from other governments	5,074,187			
Interest	418,524	34,091	39,977	291,330
Loans receivable, net (Note 5)		28,855,124		
Prepays, materials, supplies and deposits (Note 1E)	594,977	4,110		
Property held for resale (Note 6)	4,200,000	2,333,018		
Advances to other funds (Note 4B)	5,394,208			
Total Assets	\$112,771,613	\$39,450,177	\$9,344,879	\$70,057,185
LIABILITIES				
Accounts payable	\$2,446,074	\$12,490	\$240,805	\$655,195
Accrued payroll	3,720,608	12,492	3,420	1,705
Refundable deposits	2,886,205	12,100		438,806
Unearned revenue	8,667,844			
Advances from other funds (Note 4B)				5,394,208
Total Liabilities	17,720,731	37,082	244,225	6,489,914
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - accounts receivable (Note 7D)				1,378,557
Unavailable revenue - interest on advances to other funds	274,458			
Total Deferred Inflows of Resources	274,458			1,378,557
FUND BALANCES				
Fund balances (Note 10):				
Nonspendable	10,189,185	4,110		
Restricted		39,408,985	9,100,654	62,188,714
Committed	44,081,915			
Assigned	6,118,015			
Unassigned	34,387,309			
TOTAL FUND BALANCES	94,776,424	39,413,095	9,100,654	62,188,714
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$112,771,613	\$39,450,177	\$9,344,879	\$70,057,185

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

- Deposits payable
- Unavailable revenue
- Net pension liability and pension-related deferred outflows/inflows of resources
- Net OPEB liability
- Total OPEB liability
- Deferred outflows/inflows of resources related to OPEB liabilities
- Non-current portion of accrued vacation and sick leave
- Non-current portion of uninsured claims payable

NET POSITION OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
\$28,594,225	\$43,916,684	\$254,537,200
		2,358,017
	356,847	5,431,034
118,257	173,290	1,075,469
	3,659,710	32,514,834
	16,008	615,095
		6,533,018
		5,394,208
<u>\$28,712,482</u>	<u>\$48,122,539</u>	<u>\$308,458,875</u>
\$182,440	\$1,145,722	\$4,682,726
8,183	45,169	3,791,577
	18,843	3,355,954
	990,329	9,658,173
		5,394,208
<u>190,623</u>	<u>2,200,063</u>	<u>26,882,638</u>
		1,378,557
		274,458
		1,653,015
	16,008	10,209,303
	44,660,338	155,358,691
		44,081,915
28,521,859	1,246,130	35,886,004
		34,387,309
<u>28,521,859</u>	<u>45,922,476</u>	<u>279,923,222</u>
<u>\$28,712,482</u>	<u>\$48,122,539</u>	
		344,470,846
		12,357,668
		438,000
		1,653,015
		(169,017,056)
		(12,496,648)
		(26,173,174)
		(5,846,709)
		(8,858,660)
		(7,174,675)
		<u>\$409,275,829</u>

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
REVENUES				
Property taxes	\$37,799,083			
Sales taxes	25,058,325			
Hotel /Motel taxes	11,376,522			
Franchise fees	5,173,191			
Other taxes	1,049,047			
Licenses and fines	9,039,341			
Use of money and property	3,060,413	\$857,422	\$171,643	\$2,080,274
Intergovernmental	1,582,302		3,608,409	
Charges for services	4,891,110			
Developer contributions			11,087	22,158,628
Other	392,536			
Total Revenues	99,421,870	857,422	3,791,139	24,238,902
EXPENDITURES				
Current:				
General Government	17,900,376	745,198		27,774
Building, Safety and Housing	5,633,523			
Recreation and Community Services	5,226,706			
Public Works	8,202,655			
Engineering	3,412,607			
Planning	1,950,945			
Police	34,029,212			
Fire	26,415,595			
Capital outlay			6,099,040	10,035,284
Debt service:				
Principal				
Interest and fees				103,958
Total Expenditures	102,771,619	745,198	6,099,040	10,167,016
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,349,749)	112,224	(2,307,901)	14,071,886
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4A)	6,019,566		6,289,458	380,000
Transfers (out) (Note 4A)	(8,549,721)		(2,290,509)	(545,000)
Total Other Financing Sources (Uses)	(2,530,155)		3,998,949	(165,000)
NET CHANGE IN FUND BALANCES	(5,879,904)	112,224	1,691,048	13,906,886
Fund balances at beginning of year	100,656,328	39,300,871	7,409,606	48,281,828
FUND BALANCES AT END OF YEAR	\$94,776,424	\$39,413,095	\$9,100,654	\$62,188,714

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
		\$37,799,083
		25,058,325
		11,376,522
		5,173,191
	\$3,583,106	4,632,153
		9,039,341
\$896,127	1,025,913	8,091,792
29,000	3,869,246	9,088,957
	336,920	5,228,030
	2,514,772	24,684,487
	590,338	982,874
<u>925,127</u>	<u>11,920,295</u>	<u>141,154,755</u>
	472,731	19,146,079
	150,000	5,783,523
		5,226,706
	1,385,699	9,588,354
	146,819	3,559,426
	164,988	2,115,933
	272,138	34,301,350
		26,415,595
7,367,537	8,603,681	32,105,542
728,307		728,307
50,729		154,687
<u>8,146,573</u>	<u>11,196,056</u>	<u>139,125,502</u>
<u>(7,221,446)</u>	<u>724,239</u>	<u>2,029,253</u>
9,389,070	4,821,418	26,899,512
<u>(1,500,000)</u>	<u>(8,626,914)</u>	<u>(21,512,144)</u>
<u>7,889,070</u>	<u>(3,805,496)</u>	<u>5,387,368</u>
667,624	(3,081,257)	7,416,621
<u>27,854,235</u>	<u>49,003,733</u>	<u>272,506,601</u>
<u>\$28,521,859</u>	<u>\$45,922,476</u>	<u>\$279,923,222</u>

CITY OF MILPITAS
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$7,416,621
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital expenditures are therefore added back to fund balance	
(Internal service fund additions of \$2,680,785 have already been added to capital assets)	29,866,254
Depreciation expense is deducted from the fund balance	
(Depreciation expense is net of internal service fund depreciation of \$1,091,230 which has already been allocated to serviced funds.)	(14,277,738)

LONG-TERM DEBT PROCEED AND PAYMENTS

Lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of lease principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.	
Capital contributions and repayment of debt principal are added back to fund balance	728,307

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Interest payable	14,019
Non-current portion of accrued vacation and sick leave	(1,041,532)
Non-current portion of uninsured claims payable	(960,002)
Net pension liabilities and pension-related deferred outflows/inflows of resources	(13,505,033)
Net OPEB liability	(27,461,506)
Total OPEB liability	26,173,174
Deferred outflows/inflows of resources related to OPEB liabilities	(5,625,747)
Unavailable revenue	103,959

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.	
The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Position - All Internal Service Funds	1,096,199
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$2,526,975

See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$34,914,700	\$36,686,700	\$37,799,083	\$1,112,383
Sales taxes	26,971,932	27,146,932	25,058,325	(2,088,607)
Hotel /Motel taxes	19,547,938	12,164,938	11,376,522	(788,416)
Franchise fees	4,937,000	5,337,000	5,173,191	(163,809)
Other taxes	1,128,000	1,128,000	1,049,047	(78,953)
Licenses and fines	15,250,296	13,186,296	9,039,341	(4,146,955)
Use of money and property	1,708,000	1,708,000	3,060,413	1,352,413
Intergovernmental	1,327,927	1,846,077	1,582,302	(263,775)
Charges for services	6,534,914	6,647,914	4,891,110	(1,756,804)
Other	226,000	226,000	392,536	166,536
Total Revenues	112,546,707	106,077,857	99,421,870	(6,655,987)
Expenditures				
Current:				
General Government:				
City Manager	4,674,006	4,624,006	3,823,609	800,397
City Attorney	1,190,364	1,315,364	1,214,130	101,234
Finance	4,549,580	4,411,880	4,186,013	225,867
Human Resources	2,110,798	2,059,161	1,930,344	128,817
Information Services	3,803,383	3,539,760	3,076,248	463,512
Non-departmental	8,160,673	10,580,506	4,872,199	5,708,307
Building, Safety and Housing	6,778,951	6,280,695	5,847,333	433,362
Recreation and Community Services	6,653,545	6,570,305	5,236,551	1,333,754
Public Works	9,514,192	9,267,781	8,790,242	477,539
Engineering	4,105,381	3,879,807	3,590,207	289,600
Planning	1,998,445	1,991,866	1,991,864	2
Police	36,693,472	35,619,579	34,327,695	1,291,884
Fire	26,787,133	27,551,725	26,688,026	863,699
Debt service:				
Principal	100,000	100,000		100,000
Total Expenditures	117,119,923	117,792,435	105,574,461	12,217,974
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,573,216)	(11,714,578)	(6,152,591)	5,561,987
OTHER FINANCING SOURCES (USES)				
Transfers in	6,019,566	6,019,566	6,019,566	
Transfers (out)	(6,800,000)	(8,549,721)	(8,549,721)	
Total Other Financing Sources (Uses)	(780,434)	(2,530,155)	(2,530,155)	
NET CHANGE IN FUND BALANCE	(\$5,353,650)	(\$14,244,733)	(8,682,746)	\$5,561,987
Adjustment to budgetary basis:				
Encumbrance expenditures			2,802,842	
Fund balance at beginning of year			100,656,328	
FUND BALANCE AT END OF YEAR			\$94,776,424	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Use of money and property	\$741,000	\$185,000	\$857,422	\$672,422
Total Revenues	741,000	185,000	857,422	672,422
Expenditures				
Current:				
General Government:				
City Manager		86,234	3,598	82,636
City Attorney		12,025	12,025	
Finance	311,912	88,686	55,765	32,921
Non-departmental	260,632	7,862,729	673,810	7,188,919
Planning	228,780			
Total Expenditures	801,324	8,049,674	745,198	7,304,476
NET CHANGE IN FUND BALANCE	(\$60,324)	(\$7,864,674)	112,224	\$7,976,898
Fund balances at beginning of year			39,300,871	
FUND BALANCE AT END OF YEAR			\$39,413,095	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of *major funds* extends to Proprietary Funds. The City has identified the funds below as major proprietary funds.

Financial reporting standards do not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

WATER UTILITY FUND

Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

SEWER UTILITY FUND

Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, billing and collection.

NON-MAJOR INTERNAL SERVICE FUND

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of computer systems on a cost reimbursement basis.

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2020

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
ASSETS				
Current Assets				
Cash and investments				
available for operations (Note 3)	\$43,363,539	\$40,106,215	\$83,469,754	\$12,457,423
Restricted cash and investments (Note 3)	19,272,990	15,910,506	35,183,496	
Receivables:				
Accounts	2,104,523	1,272,852	3,377,375	
Due from other governments	52,240	36,568	88,808	
Interest	179,681	166,573	346,254	51,917
Prepays, materials, supplies and deposits (Note 1E)	162,065	16,634	178,699	129,054
Total current assets	65,135,038	57,509,348	122,644,386	12,638,394
Noncurrent assets:				
Capital assets and capacity rights (Note 8):				
Land and construction in progress	12,033,231	1,409,793	13,443,024	
Depreciable capital assets, net	37,160,486	108,175,667	145,336,153	8,392,395
Total noncurrent assets	49,193,717	109,585,460	158,779,177	8,392,395
Total assets	114,328,755	167,094,808	281,423,563	21,030,789
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	365,445	277,866	643,311	
Related to OPEB (Note 12E)	282,970	257,913	540,883	
Total deferred outflows of resources	648,415	535,779	1,184,194	
LIABILITIES				
Current liabilities:				
Accounts payable	2,388,891	145,865	2,534,756	142,229
Accrued payroll	89,002	45,548	134,550	33,867
Interest payable	224,242	91,921	316,163	
Refundable deposits	88,695	44	88,739	60
Unearned revenue	3,461	3,461	6,922	
Accrued vacation (Note 12F)	80,805	80,805	161,610	56,687
Sick leave payable (Note 12F)	27,131	27,131	54,262	8,090
Certificates of Participation (Note 9)		475,000	475,000	
Revenue Bonds (Note 9)	290,000	445,000	735,000	
Total current liabilities	3,192,227	1,314,775	4,507,002	240,933
Non-current liabilities:				
Accrued vacation (Note 12F)	85,407	51,068	136,475	28,214
Sick leave payable (Note 12F)	68,976	65,756	134,732	11,579
Net pension liabilities (Note 11C):	2,429,292	1,847,111	4,276,403	
Net OPEB liability (Note 12C)	741,864	758,393	1,500,257	
Total OPEB liability (Note 12D)	1,248,513	1,083,185	2,331,698	
Certificates of Participation (Note 9)		3,622,809	3,622,809	
Revenue Bonds (Note 9)	19,725,061	34,890,463	54,615,524	
Total non-current liabilities	24,299,113	42,318,785	66,617,898	39,793
Total liabilities	27,491,340	43,633,560	71,124,900	280,726
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	35,389	26,908	62,297	
Related to OPEB (Note 12E)	553,020	485,234	1,038,254	
Total deferred inflows of resources	588,409	512,142	1,100,551	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	29,178,656	70,152,188	99,330,844	8,392,395
Restricted for capital projects	32,869,666	30,214,763	63,084,429	
Unrestricted	24,849,099	23,117,934	47,967,033	12,357,668
Total net position	\$86,897,421	\$123,484,885	\$210,382,306	\$20,750,063

See accompanying notes to financial statements

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2020

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	\$32,665,458	\$19,293,825	\$51,959,283	\$4,242,517
Developer contributions		17,760	17,760	
Other operating revenue	126,888	254,038	380,926	1,696
Total Operating Revenues	32,792,346	19,565,623	52,357,969	4,244,213
OPERATING EXPENSES				
Purchased water	18,612,316		18,612,316	
Sewer treatment services		5,947,282	5,947,282	
Personnel services	3,910,585	1,947,744	5,858,329	1,491,370
Services and supplies	3,404,396	2,264,643	5,669,039	875,572
Depreciation	1,830,330	4,135,891	5,966,221	1,091,230
Repairs and maintenance	992,158	75,794	1,067,952	596,873
Total Operating Expenses	28,749,785	14,371,354	43,121,139	4,055,045
Operating Income (Loss)	4,042,561	5,194,269	9,236,830	189,168
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets				42,754
Interest income	1,161,908	1,099,328	2,261,236	295,048
Interest expense		(869,147)	(869,147)	
Subventions and grants	140,154	30,745	170,899	
Total Nonoperating Revenues (Expenses)	1,302,062	260,926	1,562,988	337,802
Income (Loss) Before Contributions and Transfers	5,344,623	5,455,195	10,799,818	526,970
Capital contributions				1,769,229
Capital contributions - connection fees	281,064	319,763	600,827	
Transfers in (Note 4A)	3,089	119,879	122,968	300,000
Transfers (out) (Note 4A)	(2,741,851)	(1,568,485)	(4,310,336)	(1,500,000)
Change in net position	2,886,925	4,326,352	7,213,277	1,096,199
Net position-beginning	84,010,496	119,158,533	203,169,029	19,653,864
Net position-ending	\$86,897,421	\$123,484,885	\$210,382,306	\$20,750,063

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$32,644,312	\$19,672,349	\$52,316,661	\$4,244,213
Payments to suppliers	(22,402,902)	(8,352,971)	(30,755,873)	(777,975)
Payments to employees for salaries and benefits	(3,651,166)	(1,961,499)	(5,612,665)	(1,468,530)
Net cash provided by operating activities	6,590,244	9,357,879	15,948,123	1,997,708
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	140,154	30,745	170,899	
Transfers in	3,089	119,879	122,968	300,000
Transfers (out)	(2,741,851)	(1,568,485)	(4,310,336)	(1,500,000)
Cash Flows from Noncapital Financing Activities	(2,598,608)	(1,417,861)	(4,016,469)	(1,200,000)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Proceeds from issuance of debt	17,210,000	29,840,000	47,050,000	
Bond premium	3,062,132	5,495,463	8,557,595	
Principal paid on long-term debt	(155,000)	(460,000)	(615,000)	
Interest paid	122,171	(1,062,514)	(940,343)	
Proceeds from sale of capital assets				42,754
Acquisition of capital assets	(1,701,065)	(23,184,856)	(24,885,921)	(911,556)
Capital contributions - connection fees	281,064	319,763	600,827	
Cash Flows from Capital and Related Financing Activities	18,819,302	10,947,856	29,767,158	(868,802)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	1,172,666	1,110,742	2,283,408	304,196
Cash Flows from Investing Activities	1,172,666	1,110,742	2,283,408	304,196
Net increase (decrease) in cash and cash equivalents	23,983,604	19,998,616	43,982,220	233,102
Cash and investments at beginning of period	38,652,925	36,018,105	74,671,030	12,224,321
Cash and investments at end of period	\$62,636,529	\$56,016,721	\$118,653,250	\$12,457,423
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$4,042,561	\$5,194,269	\$9,236,830	\$189,168
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,830,330	4,135,891	5,966,221	1,091,230
Change in assets and liabilities:				
Receivables, net	(131,059)	106,682	(24,377)	
Materials, supplies and deposits	306,457	5,034	311,491	676,633
Accrued payroll	25,671	5,953	31,624	
Accounts and other payables	278,701	(59,058)	219,643	40,677
Due to retirement system	(92,232)	(317,032)	(409,264)	
Due to OPEB	329,815	286,140	615,955	
Net cash provided by operating activities	\$6,590,244	\$9,357,879	\$15,948,123	\$1,997,708
NONCASH TRANSACTIONS:				
Contributions and transfers of capital assets				\$1,769,229

See accompanying notes to financial statements



FIDUCIARY FUNDS

FIDUCIARY FUNDS

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

SUCCESSOR AGENCY TO THE MILPITAS REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND

The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used to make payments that are on the Recognized Obligation Payment Schedule and to dispose of assets and property of the former Redevelopment Agency for the benefit of the taxing agencies.

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments.

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments (Note 3)	\$9,683,730	\$771,757
Restricted cash and investments (Note 3)	<u>2,156</u>	<u> </u>
Total Assets	<u>9,685,886</u>	<u><u>\$771,757</u></u>
LIABILITIES		
Accounts payable	12,364	\$492
Interest payable	1,582,250	
Refundable deposits		771,265
Long-term obligations (Note 15C):		
Due in one year	9,818,669	
Due in more than one year	<u>108,061,422</u>	<u> </u>
Total Liabilities	<u>119,474,705</u>	<u><u>\$771,757</u></u>
NET POSITION (DEFICIT)		
Held in trust for other governments	<u><u>(\$109,788,819)</u></u>	

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Property taxes	\$17,704,410
Use of money and property	<u>70,621</u>
Total additions	<u>17,775,031</u>
Deductions:	
General and administrative	35,985
Debt service:	
Interest and fees	<u>6,725,810</u>
Total deductions	<u>6,761,795</u>
Net change in net position	11,013,236
Net position (deficit) - beginning	<u>(120,802,055)</u>
Net position (deficit) - ending	<u><u>(\$109,788,819)</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milpitas was incorporated as a general law city on January 26, 1954. The City operates under the Council-Manager form of government and provides the following services: public safety; fire and building inspection; engineering; public works; water; sewer; sanitation; recreation services; building and safety; planning and zoning; general administration services and economic development.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. *Reporting Entity*

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. Each discretely presented component unit, on the other hand, is reported in a separate column in the basic financial statements to emphasize it is legally separate from the government.

PRIMARY GOVERNMENT

The financial statements of the primary government of the City of Milpitas include the activities of the City as well as the Milpitas Public Financing Authority, the Milpitas Economic Development Corporation, the City of Milpitas Housing Authority and the Milpitas Municipal Financing Authority, all of which are controlled by and dependent on the City. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

Blended Component Units

The Milpitas Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Sewer Utility Enterprise Fund.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the former Milpitas Redevelopment Agency under the laws of the State of California. As discussed in Note 15, the Redevelopment Agency was dissolved effective January 31, 2012. The Corporation was organized for the purpose of encouraging and facilitating the City's economic development, affordable housing and other community programs. The Corporation is governed by a board of directors consisting of the members of the City Council. Under an operating agreement with the Redevelopment Agency, the Corporation received funding from the Agency and will use the funds for redevelopment purposes consistent with the California Community Redevelopment Law, Health and Safety Code Section 33000 and to implement and carry out the Redevelopment Plans. The Corporation also entered into a Service Agreement with the City under which the City will perform the necessary services on an independent contractor basis to eliminate blight, provide affordable housing, improve the public realm, facilitate public and private developments, stimulate economic development, and create jobs. The Corporation is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Corporation. The Corporation became inactive as of June 30, 2015.

The City of Milpitas Housing Authority, formed in February 2011, is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Housing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Housing Authority. The Financial activities of the Housing Authority are included in the Housing Authority Special Revenue Fund.

The Milpitas Municipal Financing Authority, formed in March 2016, is a separate government entity whose purpose is to assist with the financing and refinancing of public programs, projects and capital improvements for the benefit of the City and the Housing Authority. The Municipal Financing Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Municipal Financing Authority is controlled by the City and the Housing Authority and has the same governing body as the City, which also performs all accounting and administrative functions for the Municipal Financing Authority. As of June 30, 2019, no financial activities have been undertaken by the Municipal Financing Authority.

Separate financial statements are not issued for the Milpitas Public Financing Authority, Milpitas Economic Development Corporation, City of Milpitas Housing Authority or Milpitas Municipal Financing Authority.

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The former Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2019 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial statements for Terrace Gardens, Inc. may be obtained from Terrace Gardens, Inc., 186 Beresford Court, Milpitas, CA 95035.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government, the City and its blended and discretely presented component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities, except for interfund services provided and used, which are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including franchise fees that are based on gross receipts and all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category- *governmental*, *proprietary*, and *fiduciary*-are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues and expenses, such as charges for services and the related costs, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as subsidies, investment earnings and any related costs, result from nonexchange transactions or ancillary activities.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, hotel taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are incurred for public safety, public works, recreation services and the other governmental services described above.

Housing Authority Fund – Established to plan and address the housing needs of the City and to act as the Housing Successor of the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

Street Improvement Fund – Established to account for the construction and maintenance of the street system in Milpitas. Financing is provided through State and Federal grants.

Transit Area Impact Fee Fund – Established to account for the capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

General Government Capital Projects Fund – Established to account for the construction and maintenance of general government projects. Financing is provided by the General Fund.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Utility Fund – Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

Sewer Utility Fund – Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, and billing and collection.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City also reports the following fund types:

Internal Service Fund – The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of the online permit development system on a cost reimbursement basis.

Fiduciary Funds – Trust funds account for assets held by the City as an agent for various functions. The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. This fund accounts for winding down the affairs of the former Milpitas Redevelopment Agency and makes payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies.

Agency funds are used to account for assets held by the City as an agent for negotiated employee benefits, the Senior Advisory Commission, and Local Improvement Districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual are sales taxes, significant building permit fees, and interest revenue. Forfeitures, licenses, other permits and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Grant funding received in advance of the related expenditure is accounted for as unearned revenue.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary.

E. Prepaids, Materials, Supplies and Deposits

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed, rather than when purchased.

Materials and supplies are valued at cost on a first-in first-out basis. Supplies in the enterprise and internal funds consist principally of materials and supplies for utility and internal operations. Materials and supplies of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expense or expenditure in the funds at the time individual inventory items are consumed.

Prepaids, materials, supplies and deposits in governmental funds are equally offset by nonspendable fund balance which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position or balance sheet reports a separate section for deferred outflows of resources. This separate net statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has pension-related deferred outflows of resources arising from certain changes in the collective net pension liability.

In addition to liabilities, the statement of net position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflows of resources arising from certain changes in the collective net pension liability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Property Tax*

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

H. *Revenue Recognition for Water Utility and Sewer Utility*

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

I. *Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

J. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

The City adopts an annual operating budget on or before June 30 of the previous fiscal year, except for the Park Improvement and Storm Drain Capital Projects Funds which are budgeted on a project basis. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the City Council by resolution. Because Milpitas is a general law city, it is not subject to a budgetary process prescribed by statute or charter.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager's budget control remains at the level of department and/or project within any one fund. The City Manager may approve supplemental appropriations in the General Fund providing the total increase does not exceed 1% of the original total General Fund expenditure budget subject to the following. All additional appropriations that require the use of reserves must be approved by City Council. Expenditures cannot exceed the appropriated budget at the department level within each fund without City Council approval.

The City Manager is authorized to amend appropriations within the various departments and projects within a fund, provided that the amount of the amended appropriation is \$100,000 or less. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceeds \$100,000 require prior approval of the City Council.

Budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to the original appropriations which were amended.

B. *Adjustments to GAAP Basis from Budgetary Basis*

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures are budgeted on a project length basis rather than a fiscal year. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements. The Street Improvement, Park Improvement, General Government Project, Storm Drain Development and Transit Area Impact Fee Capital Projects Funds are budgeted on a project length basis and therefore are not comparable on an annual basis.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 3 – CASH AND INVESTMENTS

The City pools cash from all sources and all funds except Cash and Investments held by Trustees, certain investments of the Successor Agency to the Milpitas Redevelopment Agency, and Terrace Gardens, Inc. so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

The City invests in individual investments, money market mutual funds, and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust and Custody Department of a bank as the custodian of certain City managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or other agreements.

Cash and investments available for operations	\$350,464,377
Restricted Cash and Investments	<u>35,183,496</u>
Total Primary Government cash and investments	<u>385,647,873</u>
 Cash and investments available for operations	 99,922
Restricted Cash	<u>2,693,631</u>
Total Component Unit cash and investments	<u>2,793,553</u>
 Cash and investments in Fiduciary Funds (separate statement)	 <u>10,457,643</u>
Total cash and investments	<u><u>\$398,899,069</u></u>

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

C. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy, updated or adopted on an annual basis, and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		40%	30%
Commercial Paper – Pooled Funds	270 Days	A	40%	(A)
Commercial Paper – Non-Pooled Funds	270 Days	A	25%	(A)
Negotiable Certificates of Deposit	5 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans (Non-negotiable)	5 Years		100%	No Limit
Medium-Term Corporate Notes	5 Years	A	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		100%	No Limit
Money Market Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		100%	No Limit

- (A) Eligible Commercial Paper and Medium-Term Corporate Notes combined may not represent more than 10% of outstanding paper of an issuing corporation.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	5 Years		100%	No Limit
Bankers Acceptances	180 Days	A	20%	\$5,000,000 or 10%
Commercial Paper – Pooled Funds	270 Days	A	40%	(A)
Commercial Paper – Non-Pooled Funds	270 Days	A	25%	(A)
Negotiable Certificates of Deposit	5 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium-Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	No Limit
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

(A) The combined total of commercial paper and medium-term corporate notes may not represent more than 10% of the outstanding paper and notes of an issuing corporation.

E. Investments Authorized for Terrace Gardens Inc.

Terrace Gardens, Inc. investments conform with the California Government Code.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 36 Months	36 to 60 Months	Total	Percentage of Portfolio
<i>City and Successor Agency:</i>					
Federal Agency Obligations	\$49,490,357	\$63,073,701	\$28,588,545	\$141,152,603	35.37%
Medium-Term Corporate Notes	7,090,805	7,282,823	3,163,184	17,536,812	4.40%
U.S. Treasury Notes	12,029,881	12,367,110		24,396,991	6.12%
California Local Agency Investment Fund	182,197,528			182,197,528	45.68%
Mutual Funds (U.S. Securities)	17,050,112			17,050,112	4.27%
Negotiable Certificates of Deposit	1,263,793			1,263,793	0.32%
<i>Terrace Gardens, Inc.:</i>					
Nonnegotiable Certificates of Deposit	2,396,792			2,396,792	0.60%
Total Investments	<u>\$271,519,268</u>	<u>\$82,723,634</u>	<u>\$31,751,729</u>	385,994,631	
<i>Demand Deposits - City of Milpitas</i>				12,507,677	3.14%
<i>Demand Deposits - Terrace Gardens</i>				396,761	0.10%
Total Cash and Investments				<u>\$398,899,069</u>	<u>100.00%</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Each regular LAIF account is permitted to have up to 15 transactions per month, with a minimum transaction amount of \$5,000, a maximum transaction amount of \$75 million and at least 24 hours advance notice for withdrawals of \$10 million or more. Bond proceeds accounts are subject to a one-time deposit with no cap and are set up with a monthly draw down schedule. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2020 these investments matured in an average of 191 days.

Mutual funds are available for withdrawal on demand and at June 30, 2020 matured in an average of 13 days.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

G. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2020 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA	AA+/AA/AA-	A+/A/A-	Total
Federal Agency Obligations		\$141,152,603		\$141,152,603
Medium-Term Corporate Notes	\$2,034,731	9,254,288	\$6,247,793	17,536,812
Totals	<u>\$2,034,731</u>	<u>\$150,406,891</u>	<u>\$6,247,793</u>	158,689,415
<i>Not rated:</i>				
California Local Agency Investment Fund				182,197,528
Mutual Funds (U.S. Securities)				17,050,112
Negotiable Certificates of Deposit				1,263,793
<i>Exempt from credit rate disclosure:</i>				
U.S. Treasury Notes				24,396,991
Total Investments				<u>\$383,597,839</u>

All of the unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2020.

Terrace Gardens, Inc. invests only in Nonnegotiable Certificates of Deposit. At December 31, 2019, all of Terrace Gardens' Nonnegotiable Certificates of Deposit totaling \$2,396,792 were fully insured by Federal Deposit Insurance.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

H. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the City's investments as of June 30, 2020:

	Level 2	Total
<i>Investments by Fair Value Level:</i>		
Federal Agency Obligations	\$141,152,603	\$141,152,603
Medium-Term Corporate Notes	17,536,812	17,536,812
U.S. Treasury Notes	24,396,991	24,396,991
Negotiable Certificates of Deposit	1,263,793	1,263,793
Subtotal	<u>\$184,350,199</u>	184,350,199
<i>Investments Measured at Amortized Cost:</i>		
Mutual Funds (U.S. Securities)		17,050,112
<i>Investments Measured at Cost:</i>		
<i>Terrace Gardens, Inc.</i>		
Nonnegotiable Certificates of Deposit		2,396,792
<i>Investments Exempt from Fair Value Hierarchy:</i>		
California Local Agency Investment Fund		<u>182,197,528</u>
Total Investments		<u>\$385,994,631</u>

Federal Agency Obligations totaling \$141.2 million, Medium Term Corporate Notes of \$17.5 million, U.S. Treasury Notes totaling \$24.4 million, and Negotiable Certificates of Deposit of \$1.3 million, classified in Level 2 of the fair value hierarchy, are valued using pricing techniques of matrix pricing or market corroborated pricing, with inputs such as yield curves or indices. These prices are obtained from various pricing sources by our custodian bank.

I. Significant Investments

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total entity-wide investments are as follows at June 30, 2020:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	\$72,232,500
Federal Home Loan Bank	Federal Agency Obligations	34,333,467
Federal Home Loan Mortgage Corporation	Federal Agency Obligations	20,424,934
Federal National Mortgage Association	Federal Agency Obligations	14,161,702

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 4 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2020 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Governmental Funds:		
General Fund	Street Improvement Capital Projects Fund	\$26,564 (A)
General Fund	Water Utility Enterprise Fund	2,725,061 (B)
General Fund	Sewer Utility Enterprise Fund	1,568,485 (B)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	99,456 (B)
General Fund	Community Facility District Special Revenue Fund	1,600,000 (B)
Street Improvement Capital Projects Fund	General Fund	1,600,000 (C)
Street Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	245,000 (C)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	4,444,458 (C)
Transit Area Impact Fee Capital Projects Fund	Street Improvement Capital Projects Fund	380,000 (A)
General Government Capital Projects Fund	General Fund	4,149,721 (C)
General Government Capital Projects Fund	Street Improvement Capital Projects Fund	1,256,349 (A)
General Government Capital Projects Fund	Gas Tax Special Revenue Fund	800,000 (C)
General Government Capital Projects Fund	Lighting & Landscape Maintenance District Special Revenue Fund	108,000 (C)
General Government Capital Projects Fund	Community Planning Special Revenue Fund	500,000 (C)
General Government Capital Projects Fund	Park Improvement Capital Projects Fund	75,000 (C)
General Government Capital Projects Fund	Storm Drain Development Capital Projects Fund	1,000,000 (A)
General Government Capital Projects Fund	Equipment Management Internal Service Fund	1,500,000 (C)
Gas Tax Special Revenue Fund	Street Improvement Capital Projects Fund	521,418 (A)
Affordable Housing Unrestricted Special Revenue Fund	General Fund	2,000,000 (B)
Park Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	300,000 (C)
Park Improvement Capital Projects Fund	General Government Capital Projects Fund	1,250,000 (C)
Storm Drain Development Capital Projects Fund	General Fund	500,000 (C)
Storm Drain Development Capital Projects Fund	General Government Capital Projects Fund	250,000 (C)
	Governmental Funds Subtotal	<u>26,899,512</u>
Proprietary Funds:		
Water Utility Enterprise Fund	Street Improvement Capital Projects Fund	3,089 (A)
Sewer Utility Enterprise Fund	Street Improvement Capital Projects Fund	103,089 (A)
Sewer Utility Enterprise Fund	Water Utility Enterprise Fund	16,790 (A)
	Enterprise Funds Subtotal	<u>122,968</u>
Equipment Management Internal Service Fund	General Fund	<u>300,000</u> (B)
	Total Interfund Transfers	<u><u>\$27,322,480</u></u>

(A) To Return Unexpended Project Funds

(B) Transfer for Operating Cost

(C) To Fund capital projects

B. Long-Term Interfund Advance

In June 2014, the General Fund advanced \$5,000,000 to the Transit Area Impact Fee Capital Projects Fund. The advance will be repaid when the fund collects sufficient impact fees from developers. The advance bears simple interest at the monthly investment return of the City's portfolio. At June 30, 2020, the balance of the advance was \$5,394,208.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 5 – LOANS RECEIVABLE

The City and former Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing, and for other purposes. With the dissolution of the Redevelopment Agency as discussed in Note 15, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012.

These loans were comprised of the following at June 30, 2020:

Housing and Community Development Loans:	
Rehabilitation Loans	<u>\$3,659,710</u>
Housing Authority Loans:	
Milpitas Housing Associates	3,274,500
Parc Metropolitan Housing Development	56,101
Parc North Associates LLC	530,222
Mid-Peninsula Milpitas Affordable Housing Associates	17,570,908
KB Home South Bay Inc.	1,272,900
Western Pacific Housing Inc.	1,820,203
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	3,370,473
Resources for Community Development	<u>159,817</u>
Total Housing Authority Loans Receivable	<u>28,855,124</u>
Total Loans Receivable	<u><u>\$32,514,834</u></u>

A. Rehabilitation Loans

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2020, the City had outstanding rehabilitation loans of \$3,659,710 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2020, the City received principal payment of \$89,343 from all participants and accrued interest of \$8,973.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 5 – LOANS RECEIVABLE (Continued)

B. Milpitas Housing Associates Loan

In fiscal 1997, the former Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bore interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. In January 2020, the City Council and the Housing Authority Commission approved a restructuring of the loan, which, 1) lowered the interest rate from 5.45% to a simple interest of 3.05% effective July 1, 2017, 2) forgave accrued interest of \$1,541,074 through fiscal year 2017, and 3) approved the foregoing of residual receipts totaling \$200,000 annually. As a result, fiscal year 2018 interest was recalculated to be \$91,500 and accrued and the prior fiscal year 2018 accrued interest of \$247,489 was written off. During fiscal year 2020, interest of \$91,500 was accrued, and as of June 30, 2020, principal and accrued interest outstanding totaled \$3,274,500.

C. Parc Metropolitan Housing Development Loans

The Housing Authority provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the year ended June 30, 2020, the Housing Authority received principal payments of \$2,053 and as of June 30, 2020, there were \$56,101 in loans outstanding.

D. Parc North Associates LLC Loan

In September 2003, the former Redevelopment Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of \$1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61st month after the recordation of the deeds of trust and continues until the loans are paid in full. During fiscal year 2020, principal of \$133,564 was paid and as of June 30, 2020, there were \$530,222 of such loans outstanding.

E. Mid-Peninsula Milpitas Affordable Housing Associates

In December 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with Mid-Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of \$1 million to the Developer and will provide a development loan up to \$14.6 million to the Developer. No interest is accrued on the first \$5 million of loan proceeds. The remaining \$9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by a second deed of trust on the property. Construction began in fiscal year 2006 and was completed in December 2008. During fiscal year 2020, interest of \$288,789 was accrued, and as of June 30, 2020, principal and accrued interest outstanding totaled \$17,570,908.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 5 – LOANS RECEIVABLE (Continued)

F. KB Home South Bay Inc. Loans

In January 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D). In addition, the former Redevelopment Agency would provide a total of \$4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, approximately \$5,000,000 of subsidies to twenty-five moderate income households on Parcel D. The silent-second mortgages are not due for 45 years or upon the sale, renting or leasing of the property. Interest begins on the 37th month after the recordation of the Deed of Trust and continues until the loans are paid in full.

Due to changes in the housing market and stricter lending requirements which had created unforeseen challenges in finding qualified buyers for the affordable units, the former Redevelopment Agency amended the Agreement in February 2009 to establish an in-lieu housing payment of \$1,702,000 to remove the affordable restrictions on 46 of the 67 remaining unsold affordable units (\$37,000 for each unit). This amount was paid in equal parts to the Agency and to the County. In addition, the commitment for silent-second mortgages was reduced \$2,300,000 to \$1,950,000, and the total number of affordable units was reduced from 110 to 64.

As of June 30, 2020, there were \$1,004,900 of loans to Parcel C households outstanding. As of June 30, 2020 subsidies totaling \$1,272,900 had been provided.

G. Western Pacific Housing Inc., Loans

In August 2005, the former Redevelopment Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The former Redevelopment Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The former Redevelopment Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. Principal of \$1,162 was repaid in fiscal year 2020 and as of June 30, 2020 there were \$623,203 such loans outstanding.

In August 2008 the Owner Participation Agreement was amended to reduce the number of units to be constructed by Western Pacific Housing Inc. to 137 and provide for the conversion of 7 of the moderate income units to low income units. In addition, in August 2008 the 327 unconstructed units of the project were sold to Lyon Milpitas LLC and the Agency entered into a new Owner Participation Agreement with Lyon Milpitas LLC to complete the construction of the affordable housing units.

In September 2006, the former Redevelopment Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. Interest will begin on the date of the promissory note but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2020, there were \$1,197,000 of silent second loans outstanding.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 5 – LOANS RECEIVABLE (Continued)

H. *Shapell Industries*

In June 2004, the former Redevelopment Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2020, there were \$800,000 of silent second loans outstanding.

I. *MIL Aspen Associates, Ltd.*

In April 2007, the former Redevelopment Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a \$2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. During the year ended June 30, 2020, interest of \$161,813 accrued, and as of June 30, 2020, principal and accrued interest totaled \$3,370,473.

J. *Resources for Community Development*

In November 2017, the Housing Authority entered into a predevelopment loan agreement with Resources for Community Development for certain predevelopment costs necessary for the development of a 102-unit affordable rental housing project, 355 Sango Court Apartments, of which 101 will be affordable and 1 will be an above moderate income (AMI) managers unit. The unit mix will include 40 units with project based subsidy providing supportive housing for chronically homeless veterans and individuals at or below 30% AMI, 31 units that will provide permanent housing to households with incomes at or below 30% AMI, and 30 units providing permanent housing to households with incomes at or below 60% AMI. Under the terms of the agreement, the City provided a \$147,768 loan to the Developer. The loan bears interest of 3% and is repayable on May 30, 2022. During the year ended June 30, 2020, \$892 of interest was accrued, and as of June 30, 2020, principal and accrued interest totaled \$159,817.

K. *Sango Court, L.P.*

In May 2019, the Housing Authority authorized a development loan to Sango Court, L.P. in the amount of \$6,500,000 for construction of affordable housing at 355 Sango Court Apartments. However, the loan and regulatory documents will not be fully executed until the developer has finalized all other funding sources for the development. As of June 30, 2020, the developer had not finalized project funding and therefore had not drawn down on the loan.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 6 – PROPERTY HELD FOR RESALE OR REDEVELOPMENT

A. General Fund

Pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, a land parcel was transferred from the Successor Agency to the Housing Authority in June 2014. However, that parcel was not subject to housing related provisions and was transferred to the City from the Housing Authority in June 2014.

The land parcel is accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

As of June 30, 2020, property totaling \$4,200,000 is held by the General Fund.

B. Housing Authority

The former Redevelopment Agency had purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer. The City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the property held for resale of the Redevelopment Agency's Housing Reserve Fund as of February 1, 2012.

In fiscal year 2010 the Agency purchased five housing units for \$1,503,718 in the Parc Metro Subdivision. During fiscal year 2011, the Agency purchased one additional Parc Metro Subdivision unit for \$305,095, one Centria Subdivision housing unit for \$248,056, and four KB Home Subdivision housing units for \$1,273,892. One of the KB Home Subdivision units with a book value of \$374,253 was sold in August 2011. Two of the KB Home Subdivision units with a book value of \$376,795 and \$294,921 were sold in December 2012 and February 2013, respectively. Four of the Parc Metro Subdivision units were sold in fiscal year 2013, with a total book value of \$1,245,559, and one unit with a book value of \$258,160 was sold in fiscal year 2019. The Centria unit was sold in fiscal year 2017 for \$296,000. The units were purchased in order to retain them as affordable housing units and are being held for future resale. The remaining units are rented to tenants.

In February 2011, the Agency purchased additional property along South Main Street in the amount of \$1,800,000 which is intended to be incorporated into the Midtown Specific Plan for housing development. The purchase of this property had been funded by a loan from the Housing Reserve Special Revenue Fund to the Redevelopment Capital Projects Fund, and with the dissolution of the Agency as of February 1, 2012, the State Department of Finance approved the property as a housing asset and the property was transferred to the Housing Authority as the successor housing agency.

As of June 30, 2020, property totaling \$2,333,018 is held by the Housing Authority. The Housing Authority is required to develop or sell the properties on or before August 31, 2022.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 7 – DEVELOPMENT AND TAX SHARING AGREEMENTS

The City and former Redevelopment Agency have entered into the development agreements below in an effort to provide incentives to develop new businesses, new tax revenues and affordable housing.

A. *South Main Senior Lifestyles, LLC.*

In August 2009, the former Redevelopment Agency entered into a Disposition and Development Agreement with the South Main Senior Lifestyles, LLC (SMSL) to develop 180 units of “Continuum of Care Senior Housing” (Phase 1 Parcel), of which 63 units will be for very low and low income households, and 207 units of family housing (Phase 2 Parcel) which will be market rate units. In accordance with the terms of the Agreement, the Agency will acquire the properties and resell them in two phases to the developer prior to construction, subject to certain conditions in the Agreement. In November 2009, the Agency purchased the properties along South Main Street in the amount of \$12,443,137. The sales price for the Phase 1 Parcel will be \$5,022,129, and the sales price for the Phase 2 Parcel will equal the greater of the fair market value of the Phase 2 Parcel as defined in the Agreement or \$7,377,871. In addition, the former Agency’s Housing Reserve Special Revenue Fund was to provide a grant in the amount of \$7.7 million to support the development and operation of the Phase 1 Parcel project.

In March 2011, the Economic Development Corporation assumed the obligations of the Disposition and Development Agreement and on October 18, 2011, a two year extension to the Agreement was approved to include a more extensive high density residential development plan of sixty-three residential units available at affordable housing cost to income-qualified very low and low income households.

In November 2013, the Housing Authority amended the Disposition and Development Agreement. The amendment states the Authority will convey the properties with a carrying value of \$12,443,137 to the developer as a grant after certain requirements are fulfilled. In addition, the amendment also eliminates the \$7.7 million grant obligation included in the initial agreement. It further amended the number of affordable units from 63 to 48, all at the very low income level for seniors.

In June 2015, the Housing Authority amended the Disposition and Development Agreement to extend the deadline to convey the properties to the developer from November 19, 2015 to June 30, 2017. In April 2017, the Housing Authority amended the Disposition and Development Agreement to extend the deadline from June 30, 2017 to December 31, 2017. On April 5, 2018, the agreement was again amended to extend the deadline to the date on which the grant deed conveying the Phase 1 Parcel to the developer is recorded. In April 2018, the terms of the agreement were fulfilled and the properties were transferred to the developer.

In February 2018, the City entered into a reimbursement agreement with the developer to reimburse the developer for the full actual cost of the design and improvement to replace an existing 8-inch sanitary sewer pipe with a 12-inch pipe. No reimbursement was made to the developer during fiscal year 2018, 2019 or 2020.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 7 – DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

B. Sales Tax Sharing Agreement

In June 2009, the City entered into a Sales Tax Sharing Agreement with a corporation that provides process control for the semiconductor and related industries. Under the terms of the Agreement, the City agreed to pay the corporation 50% of the calendar year sales and use tax revenues paid by the corporation and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from the corporation for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. The City paid \$111,350 of sales tax to the corporation during fiscal year 2020.

C. Tax Rebate Agreement

In March 2015, the City entered into a Tax Rebate Agreement with a corporation that provides high performance computing. Under the terms of the agreement, in return for the corporation moving its headquarters into downtown Milpitas the City agreed to pay the corporation 50% of the real and personal property taxes paid by the corporation, excluding special assessments, 50% of the sales and use tax paid by the corporation, and 50% of the transient occupancy taxes received by the City arising from payment from hotel guests staying in a Milpitas hotel booked/reserved by the corporation. The City paid \$5,946 to the corporation during fiscal year 2017, which represented the second installment for fiscal year 2016 property taxes. The City has not made any additional payments to the corporation or recorded an associated liability for fiscal years 2016-2017, 2017-2018, 2018-2019 or 2019-2020, because the corporation has not provided the tax information to the City for the fiscal year 2017, 2018, 2019 and 2020 property tax or for any of the sales and use or transient occupancy taxes.

D. Piper Montague Infrastructure Payment Cost Sharing Agreement

In August 2009, the City entered into a four-party agreement with three developers in the Piper/Montague Subdistrict in which the developers agreed to share in the costs of infrastructure improvements, including street improvements, storm drain installation and a traffic signal, and certain storm water management facilities. Under the terms of the agreement, when one of the developers undertakes a project related to the shared infrastructure improvements or storm water facilities project, that developer receives TASP fee credits equal to the other two developers pro-rata share of the improvements. The other two developers are then to reimburse the City for those TASP fee credits through the payment of the Piper Montague Infrastructure Fee Payment (PMIP), when building permits are issued, as a surcharge to the TASP fee. In the event the developers do not pay the PMIP fees within seven years of the completion date of the improvements, then the City may levy assessments or collect Mello-Roos special taxes from the applicable properties for the applicable share of the improvements. The cost of the shared infrastructure improvements and storm water facilities project is estimated to total \$9.8 million. If a developer's TASP fee credits resulting from the installation of the shared infrastructure exceed its aggregate TASP Fee obligations, the developer is not entitled to a cash payment from the City, but they may be entitled to a credit against other development fees.

During fiscal year 2016 one of the developers began construction on one of the shared infrastructure projects and expended \$5,019,701 during fiscal year 2016 and \$489,829 during fiscal year 2017. That developer received TASP fee credits to date of \$3,085,337, which is payable from the other two developers as discussed above. One of those developers began pulling permits during fiscal year 2016, which resulted in repayment of \$1,785,122 to date. The balance due from the two developers was \$1,378,557 as of June 30, 2020.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 7 – DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

E. Milpitas Station (San Jose) Venture, LLLP

In June 2014, the City entered into a Fee Credit Agreement with Milpitas Station (San Jose) Venture, LLLP, which requires the developer to pay TASP fees of \$9,932,643 to defray all or a portion of the improvements and facilities costs associated with the Milpitas Station Project. Under the terms of the agreement, the developer will be entitled to reimbursements totaling \$1,500,000 for construction costs for roadway improvements, pole relocation improvements, and railroad crossing improvements and a park land fee credit totaling \$4,244,486 for the park land dedication to be applied against projected TASP fees. During the year ended June 30, 2020, the City issued park land fee credits in the amount of \$84,050 and improvement fee credits of \$850,000, and total fee credits of \$5,744,486 have been issued to date.

F. Anton Milpitas 730 LLC and 750 LLC

In April 2018, the City entered into a Fee Reimbursement Agreement with Anton Milpitas 750 LLC and Anton Milpitas 730 LLC, which requires the developer to pay TASP fees of \$19,358,035 to defray all or a portion of the improvements and facilities costs associated with the 730 E. Capitol and 750 E. Capitol apartment complexes. Under the terms of the agreement, the developer will be entitled to reimbursements totaling \$8,910,221 for construction costs for parking and a variety of site improvements, including a public park. During the year ended June 30, 2020, no reimbursements were issued, and total reimbursements of \$5,910,221 have been issued to date.

G. LMC Milpitas Holdings I, LLC and Lennar Homes of California

In July 2017, the City entered into a Fee Reimbursement Agreement with LMC Milpitas Holdings I LLC and Lennar Homes of California, which requires the developer to pay TASP fees of \$16,029,909 to defray all or a portion of the costs of public parks and public recycled water system. Under the terms of the agreement, the developer will be entitled to reimbursements totaling \$4,689,574 for construction and design costs for Montague Expressway and East Penitencia Creek. During the year ended June 30, 2020, no reimbursements were issued, and total reimbursements of \$3,136,544 have been issued to date.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 8 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

The City has recorded all its public domain (infrastructure) capital assets, which include landscape, storm, street, and traffic systems.

All capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years is reported on the statement of net position as a reduction in the book value of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The general capitalization threshold is \$5,000. The City has assigned the useful lives below to capital assets:

	Useful Lives Years
Buildings and improvements	30
Other improvements	20
Machinery and equipment	10
Landscape system	50
Storm system	15-25
Street system	25
Traffic system	20
Water system	30-61
Sewer system	50
Capacity rights	32

Terrace Gardens, Inc. has assigned the following useful lives to its capital assets: Buildings, 50 years; Building improvements, 10-50 years; and Equipment, 5-7 years.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 8 – CAPITAL ASSETS (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2019	Additions	Retirements	Transfers	Balance at June 30, 2020
Capital assets not being depreciated:					
Land	\$68,435,083	\$5,204,321		\$100,000	\$73,739,404
Construction in progress	62,885,415	18,416,160		(100,000)	81,201,575
Total capital assets not being depreciated	131,320,498	23,620,481			154,940,979
Capital assets being depreciated:					
Buildings and improvements	173,371,133				173,371,133
Other improvements	30,558,026				30,558,026
Machinery and equipment	45,236,876	2,680,784	(\$1,434,342)		46,483,318
Landscape system	29,937,853	114,994			30,052,847
Storm system	74,340,148				74,340,148
Street system	271,210,745	5,515,443			276,726,188
Traffic system	19,300,485	615,337			19,915,822
Total capital assets being depreciated	643,955,266	8,926,558	(1,434,342)		651,447,482
Less accumulated depreciation for:					
Buildings and improvements	(81,419,095)	(6,153,695)			(87,572,790)
Other improvements	(21,960,780)	(872,512)			(22,833,292)
Machinery and equipment	(35,818,666)	(1,575,571)	1,434,342		(35,959,895)
Landscape system	(15,277,885)	(598,548)			(15,876,433)
Storm system	(72,434,362)	(288,718)			(72,723,080)
Street system	(205,907,774)	(5,391,630)			(211,299,404)
Traffic system	(15,164,427)	(488,294)			(15,652,721)
Total accumulated depreciation	(447,982,989)	(15,368,968)	1,434,342		(461,917,615)
Net capital assets being depreciated	195,972,277	(6,442,410)			189,529,867
Governmental activities capital assets, net	\$327,292,775	\$17,178,071			\$344,470,846

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 8 – CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2020:

Project	Total Budget	Actual Costs	Unexpended Budget
S Milpitas Blvd Extension	\$17,000,000	\$17,000,000	
Alviso Adobe Renovation	8,159,272	6,693,654	\$1,465,618
Park Irrigation System	400,000	276,086	123,914
McCandless Park	12,154,820	2,834,212	9,320,608
Sports Fields Turf Rehabilitation Program	450,000	50,874	399,126
Creighton Park Renovation	3,300,000	1,690,300	1,609,700
Sandalwood Park Renovation	2,325,000	182,322	2,142,678
Sports Center Skate Park	6,325,000	4,866,549	1,458,451
Carlo Park	1,100,000	99,458	1,000,542
Minor Sports Courts Rehabilitation	450,000	227,222	222,778
McCarthy Blvd Landscape	947,256	473,370	473,886
Fire Station Improvements	1,820,000	739,332	1,080,668
City Building Improve	3,525,000	2,296,534	1,228,466
Sinclair LMD Improvements	117,000	84,650	32,350
City Building, Exterior Painting	900,000	78,858	821,142
Police Department Communications	4,455,000	2,865,999	1,589,001
Replacement Fire Station Alert System	393,000	233,215	159,785
City Building Roofing	900,000	148,053	751,947
Police Records Management	849,721	271,108	578,613
Citywide Park Playground	850,000	346,329	503,671
Annual Sidewalk, Curb & Gutter Repair	1,556,840	1,153,047	403,793
Technology Projects	1,100,000	936,166	163,834
Midtown Street Light	300,000	263,937	36,063
2017-19 Finance System Upgrade	1,150,000	626,743	523,257
Annual Tree Replacement Program	679,000	91,173	587,827
Fire Station #2 Replacement	5,520,000	1,442,648	4,077,352
LAN/WAN Network Upgrade	952,245	789,143	163,102
Storm Drain System Rehabilitation	1,190,000	853,037	336,963
Dempsey Road Storm Drain	3,090,000	230,962	2,859,038
BART Project-Storm Improvement	33,000		33,000
Minor Storm Drain Projects 2016	100,000	36,914	63,086
Trash Removal Devices	600,000	449,006	150,994
Flap Gate Replacement	175,000		175,000
Storm Drain Systems Rehab 17-19	1,400,000	514,818	885,182
Minor Storm Projects	100,000	100,000	
Storm Supervisory Control & Data Acquisition	200,000		200,000
Light Rail Median Landscaping	6,005,000	3,938,826	2,066,174
Second SCVWD Water Reservoir & Pump Station	200,000	825	199,175
Lower Penitencia Creek	1,825,000	335,188	1,489,812
Montague Pedestrian Overcrossing at Piper Drive	8,000,000	7,801,221	198,779
SCVWD Second Water Supply Turnout #2	100,000	643	99,357
Transit Area Police Substation	310,000		310,000
TASP Linear Trails	3,270,000		3,270,000
Trade Zone/Montague Park - North	3,100,000		3,100,000
S. Milpitas Imprv - Gibraltar to UPRR	850,000	850,000	
S. Milpitas Blvd. Vehicle Bridge at Penitencia	1,025,000	10,004	1,014,996
TASP On-Street Parking Program	330,000	137,683	192,317
Montague Ped. Overcrossing at Penitencia	1,010,000		1,010,000
TASP Recycled Water Distribution	800,000		800,000
SCVWD Zone 1 Pressure Red. Valve	100,000		100,000
TASP Citation-SCS	12,400,047	12,400,047	
TASP Pulte	4,244,485	4,244,485	
TASP Lennar	2,536,934	2,536,934	
Total construction in progress	<u>\$130,673,620</u>	<u>\$81,201,575</u>	<u>\$49,472,045</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 8 – CAPITAL ASSETS (Continued)

B. Business-Type Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2019	Additions	Transfers	Balance at June 30, 2020
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	12,813,915	\$2,269,771	(\$2,773,741)	12,309,945
Total capital assets not being depreciated	13,946,994	2,269,771	(2,773,741)	13,443,024
Capital assets being depreciated:				
Distribution facilities	80,461,211		735,830	81,197,041
Water Service lines	16,935,579		27,136	16,962,715
Sewer lines	84,046,733		2,010,775	86,057,508
Capacity rights	77,977,190	22,616,150		100,593,340
Total capital assets being depreciated	259,420,713	22,616,150	2,773,741	284,810,604
Less accumulated depreciation for:				
Distribution facilities	(52,344,911)	(1,442,112)		(53,787,023)
Water Service lines	(6,824,029)	(388,218)		(7,212,247)
Sewer lines	(49,571,066)	(1,371,493)		(50,942,559)
Capacity rights	(24,768,224)	(2,764,398)		(27,532,622)
Total accumulated depreciation	(133,508,230)	(5,966,221)		(139,474,451)
Net capital assets being depreciated	125,912,483	16,649,929		145,336,153
Business-type activities capital assets, net	\$139,859,477	\$18,919,700		\$158,779,177

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 8 – CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2020:

Project	Total Budget	Actual Costs	Unexpended Budget
TASP Sewer Line Replacement	\$2,500,000	\$129	\$2,499,871
CCTV Sanitary Sewer	407,472	20,578	386,894
BART Project-Sewer Improvements	243,323	229,730	13,593
Sanitary Sewer Overflow Improvement	205,745	204,335	1,410
Sewer Pump Station Rehabilitation	400,000	151,074	248,926
Sewer Pump Station Treatment Improvement	550,000	341,426	208,574
Minor Sewer Projects	150,000	42,079	107,921
Sanitary Supervisory Control	450,000		450,000
Main Lift Station Odor Emissions Control	2,250,000	121,467	2,128,533
Sanitary Sewer Cathodic Protection Improvement	1,525,000	102,979	1,422,021
Sewer System Replacement	500,000	194,495	305,505
Well Upgrade Project	12,475,000	4,005,277	8,469,723
Water System Seismic Improvement	4,887,951	966,774	3,921,177
Hydrant Replacement	386,360	167,487	218,873
Abel St Pipeline Extension	940,000	44,061	895,939
Dempsey Road Water Line	7,857,772	1,240,321	6,617,451
Automated Water Meter Replacement	5,671,700	967,355	4,704,345
BART Project-Water Improvements	2,503,920	1,820,243	683,677
Water Conservation Program	1,400,000	1,096,891	303,109
Supervisory Control	1,050,000		1,050,000
Recycled Water Pipeline Infill	300,000	104,896	195,104
Minor Water Projects	300,000	295,759	4,241
Water O & M Database Management	150,000	137,725	12,275
Water Leak Detection	300,000	54,864	245,136
	<u>\$47,404,243</u>	<u>\$12,309,945</u>	<u>\$35,094,298</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 8 – CAPITAL ASSETS (Continued)

C. Terrace Gardens, Inc.'s Capital Assets

The following is a summary of Terrace Gardens Inc.'s changes in capital assets for the fiscal year ended December 31, 2019:

	Balance December 31, 2018	Additions	Deletions/ transfer	Balance December 31, 2019
Capital assets not being depreciated:				
Land	\$1,565,277			\$1,565,277
Construction in progress	7,000		(\$7,000)	
Total capital assets not being depreciated	1,572,277		(7,000)	1,565,277
Capital assets being depreciated:				
Buildings	11,967,991	\$139,944		12,107,935
Furniture	352,148	12,695		364,843
Office equipment	65,096			65,096
Improvements	2,527,390	73,860		2,601,250
Total capital assets being depreciated	14,912,625	226,499		15,139,124
Less accumulated depreciation	(8,791,023)	(442,550)		(9,233,573)
Net capital assets being depreciated	6,121,602	(216,051)		5,905,551
Total capital assets, net	\$7,693,879	(\$216,051)	(\$7,000)	\$7,470,828

D. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities:

General Government	\$2,311,783
Public Works	7,388,151
Engineering	2,527,795
Recreation and Community Services	1,219,743
Police	508,927
Fire	321,339
Internal Service Fund	1,091,230
Total Governmental Activities	\$15,368,968

Business-Type Activities:

Water Utility	\$1,830,330
Sewer Utility	4,135,891
Total Business-Type Activities	\$5,966,221

Discretely Presented Component Unit:

Terrace Gardens, Inc.	\$442,550
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CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 8 – CAPITAL ASSETS (Continued)

E. Sewer Treatment Capacity Rights

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Regional Wastewater Facility (RWF), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 14.25 million gallons per day or about 8.53% of the total plant capacity, 167 million gallons per day. The City has capitalized its share in the amount of \$100,593,341. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2020 the City's operation and maintenance share was approximately 6.196% of the total RWF operations.

NOTE 9 – LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

A. Current Year Transactions and Balances

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020	Current Portion
Governmental Activities Debt - Direct Borrowing:						
Capital Lease (Network Upgrade Project)						
4.25%, due January 21, 2023	\$952,245	\$728,307		\$728,307		
Business-type Activities Debt						
Wastewater Revenue Refunding Bonds, 2017 Series						
2.0% - 5.0%, due November 1, 2026	\$4,725,000	\$4,245,000		\$460,000	\$3,785,000	\$475,000
Plus: Unamortized bond premium		566,847		70,856	495,991	
Wastewater Revenue Bonds, 2019 Series						
4.0% - 5.0%, due November 1, 2049	29,840,000		\$29,840,000		29,840,000	445,000
Plus: Unamortized bond premium			5,495,463	183,182	5,312,281	
Water Revenue Bonds, 2019 Series						
4.0% - 5.0%, due June 1, 2049	17,210,000		17,210,000	155,000	17,055,000	290,000
Plus: Unamortized bond premium			3,062,132	102,071	2,960,061	
Total Business-Type Activities	\$51,775,000	\$4,811,847	\$55,607,595	\$971,109	\$59,448,333	\$1,210,000

B. Network Upgrade Project Capital Lease

In December 2018, the City entered into a lease purchase agreement in the amount of \$952,245 at 4.25% interest with Key Government Finance, Inc. to finance the purchase and installation of the City's Network Upgrade Project. The agreement includes a provision that in an event of default, all funds are to be disbursed to Key Government Finance, Inc. in accordance with the agreement, and the agreement terminates. Principal and interest payments of \$202,222 are due each January 21st through January 21, 2023. The lease was paid off as of June 30, 2020.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 9 – LONG-TERM DEBT (Continued)

C. *Wastewater Revenue Refunding Bonds, Series 2017*

On December 4, 2017, the City issued Wastewater Revenue Refunding Bonds, Series 2017, in the original principal amount of \$4,725,000 to provide funds to prepay an Installment Sale Agreement between the City and the Milpitas Public Financing Authority, thereby defeasing and prepaying all of the Certificates of Participation 2006 Series A and to pay the cost of issuing the 2017 Bonds. The 2006 COPs were called in January 2018. Principal on the 2017 Bonds is payable annually and interest is payable semi-annually through 2027. The 2017 Bonds contain a provision that in an event of default, the Trustee may declare the principal of the bonds, together with all accrued interest at the date of default, immediately due and payable, or exercise any and all rights and remedies available to it under applicable law, including the right to enforce from the City all payments due on the 2017 Bonds, and the City will pay all reasonable fees and expenses incurred by the Trustee and those of its attorneys.

The 2017 Bonds are pledged by net revenues from the City's Sewer System.

D. *Wastewater Revenue Bonds, Series 2019*

On October 22, 2019, the Milpitas Municipal Financing Authority issued Wastewater Revenue Bonds, Series 2019, in the original principal amount of \$29,840,000 to provide funds for certain improvements to the City's wastewater system. The Bonds bear interest rates of 4.0% to 5.0%. Interest is payable every May 1 and November 1 beginning on May 1, 2020. Principal on the bonds will be payable on November 1 beginning on November 1, 2020 through 2039, followed by a term bond which will be due on November 1, 2049. The Bonds were structured with a par optional redemption date of May 1, 2029. Bonds maturing on May 1, 2049 are subject to mandatory redemption. The Bonds contain a provision that in an event of default, the Trustee may declare the principal of the bonds, together with all accrued interest at the date of default, immediately due and payable, or exercise any and all rights and remedies available to it under applicable law, including the right to enforce from the City all payments due on the Bonds, and the City will pay all reasonable fees and expenses incurred by the Trustee and those of its attorneys.

The 2019 Bonds are pledged by net revenues from the City's Wastewater System and are on parity with the 2017 Bonds. For the fiscal year 2020, net revenues amounted to \$10,429,488 which represented coverage of 8.22 over the \$1,268,477 debt service of both bond issues.

E. *Water Revenue Bonds, Series 2019*

On October 24, 2019, the Milpitas Municipal Financing Authority issued Water Revenue Bonds, Series 2019, in the original principal amount of \$17,210,000 to provide funds to the City for certain improvements to the City's water system. The Bonds bear interest of 4.0% to 5.0% and interest is payable every June 1 and December 1 beginning on June 1, 2020. Principal on the bonds will be payable on June 1 beginning on June 1, 2020 through 2039, followed by term bonds that are due June 1, 2044 and June 1, 2049 respectively. The Bonds were structured with a par optional redemption date of June 1, 2029. Bonds maturing on June 1, 2044 and June 1, 2049 are subject to mandatory redemption. The Bonds contain a provision that in an event of default, the Trustee may declare the principal of the bonds, together with all accrued interest at the date of default, immediately due and payable, or exercise any and all rights and remedies available to it under applicable law, including the right to enforce from the City all payments due on the Bonds, and the City will pay all reasonable fees and expenses incurred by the Trustee and those of its attorneys.

The Bonds are collateralized by net revenues from the City's Water System. For the fiscal year 2020, net revenues amounted to \$7,034,799 which represented coverage of 12.26 over the \$574,018 debt service.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 9 – LONG-TERM DEBT (Continued)

F. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Business-Type Activities	
	Revenue Bonds	
	Total Principal	Total Interest
2021	\$1,210,000	\$2,254,175
2022	1,280,000	2,199,925
2023	1,335,000	2,143,325
2024	1,395,000	2,081,400
2025	1,460,000	2,013,650
2026 - 2027	44,000,000	26,916,800
	50,680,000	\$37,609,275
Plus: Unamortized bond premium	8,768,333	
	<u>\$59,448,333</u>	

NOTE 10 – NET POSITION AND FUND BALANCES

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources. Portions of a fund's balance may be restricted, committed or assigned for future expenditure.

Net Position is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis, as explained in Note 1D.

A. Net Position

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

Net Investment in Capital Assets and Capacity Rights, describes the portion of Net Position which is represented by the current net book value of the City's capital assets and capacity rights, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and redevelopment funds restricted for community development activities.

Unrestricted describes the portion of Net Position which is not restricted as to use.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council and may be changed at the discretion of the City Council. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2020, are below:

Fund Balance Classifications	General Fund	Major Special Revenue Fund	Major Capital Projects			Other Governmental Funds	Total
		Housing Authority	Street Improvement Fund	Transit Area Impact Fee Fund	General Government Projects Fund		
Nonspendable:							
Loans receivable							
Prepays, materials, supplies and deposits	\$594,977	\$4,110				\$16,008	\$615,095
Property held for resale	4,200,000						4,200,000
Advance to other funds	5,394,208						5,394,208
Subtotal Nonspendable	10,189,185	4,110				16,008	10,209,303
Restricted for:							
Redevelopment Projects and Programs and Maintenance			\$9,100,654			2,112,602	11,213,256
Housing and community development		39,408,985				3,805,685	43,214,670
Law enforcement services						157,854	157,854
Solid waste reduction and services						1,868,940	1,868,940
Assessment district services						1,957,640	1,957,640
Hetch-Hetchy ground lease						1,604,147	1,604,147
Community planning						783,767	783,767
Community benefits						266,971	266,971
Affordable housing						3,289,971	3,289,971
Affordable housing unrestricted						2,165,406	2,165,406
Park improvement projects						19,444,935	19,444,935
Storm drain projects						7,202,420	7,202,420
Transit area capital projects				\$62,188,714			62,188,714
Subtotal Restricted		39,408,985	9,100,654	62,188,714		44,660,338	155,358,691
Committed to:							
PERS stabilization	33,871,915						33,871,915
Artificial turf replacement	1,210,000						1,210,000
Technology replacement	2,000,000						2,000,000
Facilities replacement	7,000,000						7,000,000
Subtotal Restricted	44,081,915						44,081,915
Assigned to:							
Change in investment market values	1,086,531						1,086,531
Uninsured claims payable	2,000,000						2,000,000
Public art projects						1,246,130	1,246,130
Other contracts	3,031,484						3,031,484
General government capital projects					\$28,521,859		28,521,859
Subtotal Assigned	6,118,015				28,521,859	1,246,130	35,886,004
Unassigned:							
General Fund							
Contingency reserve	17,300,000						17,300,000
Budget stabilization	17,087,309						17,087,309
Subtotal Unassigned	34,387,309						34,387,309
Total fund balances (deficit)	\$94,776,424	\$39,413,095	\$9,100,654	\$62,188,714	\$28,521,859	\$45,922,476	\$279,923,222

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. Fund Balance Policies

The City's Fiscal Policies, which are annually approved as part of the adoption of the budget, prescribes the City's fund balance requirements and targets.

- 1) The City will maintain a Contingency Reserve of at least 16.67% or two months of the annual operating expenditures in the General Fund to be used only in the case of dire need as a result of physical or financial emergencies and disasters as determined by the City Council. The City Council will set the reserve amount annually after the results of the prior fiscal year's Comprehensive Annual Financial Report (CAFR) are known. For the year ended June 30, 2020, the reserve is set at 17.3 million and classified in the unassigned fund balance.
- 2) The City will maintain a General Fund Budget Stabilization Reserve with a target of 16.67%, or two months, of annual operating expenditures. The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and or higher than projected expenditures that cannot be rebalanced within existing budget resources in any given fiscal year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. This reserve will be funded only after General Fund Contingency Reserve requirements have been met. The City Council will set the reserve amount annually after the results of the prior fiscal year's Comprehensive Annual Financial Report (CAFR) are known. For the year ended June 30, 2020, the reserve is set at \$17.1 million and classified in the unassigned fund balance.
- 3) The City will maintain in the General Fund and the Water and Sewer Utility Enterprise Funds or in a Section 115 Trust a Public Employees Retirement (PERS) Rate Stabilization Reserve to be funded by 20% of any General Fund or Enterprise Funds annual operating surpluses. The City's actuary has determined that the General Fund portion of the Unfunded Actuarial Liability for the Miscellaneous Retirement Plan is 84.9% and for the Water and Sewer Utility Enterprise Funds portion of the Unfunded Actuarial Liability for the Miscellaneous Retirement Plan is 8.5% and 6.6%, respectively. The General Fund portion of the contribution to the PERS Rate Stabilization Reserve shall only be funded after General Fund Contingency Reserve and the General Fund Budget Stabilization Reserve requirements have been met. The Utility Funds' portion of the contribution to the PERS Rate Stabilization Reserve shall be consistent with the General Fund contributions and only be funded after the Capital Reserve and Rate Stabilization Reserve (RSR) requirements in the Water and Sewer utility funds have been met. The City may use the PERS Rate Stabilization Reserve to fund either the annual actuarially determined contribution amount in lieu of a contribution amount derived from a percentage of salary, pay down unfunded pension liabilities with CalPERS, or reduce the length of pension cost amortization schedules with CalPERS. Any savings or additional costs resulting from the budgeting methodologies shall benefit or be adjusted from the PERS Rate Stabilization Reserve. This reserve may also be drawn on if the required employer contribution rates exceed previous year's contribution rates by more than 3% of payroll. In this instance, the City Council must approve utilization of this reserve at the time of the budget hearing.
- 4) The City will maintain a capital reserve for artificial turf replacement with a target of \$2 million and an annual set-aside amount of at least \$230,000 until the target is reached. This reserve shall be used to accrue funding for the normal depreciation expense of the City's artificial turf fields over their useful life. Eligible uses of this reserve may include the replacement of the City's artificial turf fields so as to eliminate large spikes in capital expenses and normalize annual costs.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

- 5) Annually, the City will endeavor to transfer \$300,000 from the General Fund to the Technology Replacement Fund set aside in a reserve with a target of \$5 million. This reserve shall be used to accrue funding for technology projects such as the major rehabilitation or replacement of the City's technology infrastructure or new technology initiatives.
- 6) The City will maintain a capital reserve for Facilities Replacement with a target of \$10 million. This reserve shall be used to accrue funding for major rehabilitation or replacement of City facilities (buildings/structures). Eligible uses of this reserve may include both the direct funding of public facility improvements and the servicing of related debt.
- 7) The City will maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to transfer \$500,000 annually from the General Fund to the Storm Drain Fund for this purpose.
- 8) The City will maintain a General Liability and Workers' Compensation Claims Reserve of \$2 million in the General Fund, which will be reviewed for adjustments annually.
- 9) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated adjusted annually at appropriate levels.
- 10) The City will maintain capital reserves in the Water and Sewer utility enterprise funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs, pump station repairs. The City will attempt to maintain a capital reserve of approximately 30% of the annual operating and maintenance expenses for the Water utility fund and 25% of the annual operating and maintenance expenses for the Sewer utility fund. The City Council will set the reserve amounts annually after the results of the prior fiscal year's Comprehensive Annual Financial Report (CAFR) are known. For the year ended June 30, 2020, the capital reserve for the Water Operating Fund is set at \$8.3 million and for the Sewer Operating Fund at \$3.1 million.
- 11) The City will maintain a Rate Stabilization Reserve (RSR) in the Water and Sewer utility enterprise funds with a goal of at least 16.67% or two months of the respective annual operating expenditures after the Capital Reserve requirements have been met. The RSR shall be used to mitigate the effects of occasional shortfalls in revenue or unanticipated expenditures that cannot be re-balanced within existing budgeted resources in any given fiscal year. Revenue shortfalls may result from a number of events such as weather factors (wet weather or drought events and natural disasters), increased water conservation, and poor regional economic conditions. The Rate Stabilization Reserves should be used to assist in smoothing out revenue variability resulting from these factors and ensure that adequate resources are available during such times that might otherwise require large rate increases to utility customers. The City Council will set the reserve amounts annually after the results of the prior fiscal year's Comprehensive Annual Financial Report (CAFR) are known. The RSR funding will be phased within five years, or sooner, as part of the fiscal year end closing process. Thereafter, the replenishment of these reserves may also be incorporated into the annual Adopted Operating Budget if resources are available to replenish the reserves.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

- 12) The City will maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 13) The City will maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.

NOTE 11 – PENSION PLANS

A. General Information

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 11 – PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to October 9, 2011	After October 9, 2011	On or after January 1, 2013
Hire date			
Benefit formula	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% - 2.7%	1.092% - 2.418%	1.0% - 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	10.040%	10.040%	10.040%
Required Unfunded Actuarial Liability Contribution	\$5,501,100		

	Safety		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to April 8, 2012	After April 8, 2012	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2.4% - 3%	2.0% - 2.7%
Required employee contribution rates	9%	9%	10%
Required employer contribution rates	19.318%	19.318%	19.318%
Required Unfunded Actuarial Liability Contribution	\$7,480,263		

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability (UAL). The dollar amounts are billed on a monthly basis or the City can elect a lump sum payment option. The City's required contributions for the unfunded liability in the Miscellaneous and Safety Plans for the year ended June 30, 2020 were \$5,501,100 and \$7,480,263, respectively, which were made under the lump sum payment option.

Employees Covered – The following employees were covered by the benefit terms for each Plan as of the most recent actuarial valuation date of June 30, 2018 and measurement date of June 30, 2019:

	Miscellaneous			Safety		
	Classic Tier I	Classic Tier II	PEPRA Tier	Classic Tier I	Classic Tier II	PEPRA Tier
Inactive employees or beneficiaries currently receiving benefits	383			238		
Inactive employees entitled to but not yet receiving benefits	320			30		
Active employees	116	11	75	106	6	28
Total	819	11	75	374	6	28

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 11 – PENSION PLANS (Continued)

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities as of the June 30, 2019 measurement date were determined using the following actuarial assumptions:

	Miscellaneous (1)	Safety (1)
Valuation Date	June 30, 2018	June 30, 2018
Measurement Date	June 30, 2019	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	2.75%	2.75%
Projected Salary Increase	.40% - 8.50% (2)	.97% - 17.00% (2)
Investment Rate of Return	7.15% (3)	7.15% (3)
Mortality	Derived using CalPERS Membership Data for all Funds (4)	Derived using CalPERS Membership Data for all Funds (4)
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

(1) Actuarial assumptions are the same for all benefit tiers (Classic Tier I, Classic Tier II, and PEPRA)

(2) Depending on age, service and type of employment

(3) Net of pension plan investment expenses, including inflation

(4) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website at www.calpers.ca.gov.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 11 – PENSION PLANS (Continued)

Discount Rate – The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class.

Asset Class (a)	Current Target Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities;
Liquidity is included in Short-term Investments; Inflation Assets are included
in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.00% used for this period.
- (c) An expected inflation of 2.92% used for this period.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 11 – PENSION PLANS (Continued)

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

	Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2018 (Measurement Date)	\$230,556,047	\$163,919,915	\$66,636,132
Changes in the year:			
Service cost	3,361,140		3,361,140
Interest on the total pension liability	16,517,342		16,517,342
Differences between actual and expected experience	4,569,776		4,569,776
Changes in assumptions			
Changes in benefit terms			
Contribution - employer		6,864,376	(6,864,376)
Contribution - employee		1,569,027	(1,569,027)
Net Plan to Plan Resource Movement			
Net investment income		10,774,536	(10,774,536)
Administrative expenses		(116,977)	116,977
Other Miscellaneous Income/(Expense)		381	(381)
Benefit payments, including refunds of employee contributions	(11,589,225)	(11,589,225)	
Net changes	12,859,033	7,502,118	5,356,915
Balance at June 30, 2019 (Measurement Date)	\$243,415,080	\$171,422,033	\$71,993,047

	Safety Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2018 (Measurement Date)	\$344,599,333	\$224,139,384	\$120,459,949
Changes in the year:			
Service cost	6,211,449		6,211,449
Interest on the total pension liability	24,560,414		24,560,414
Differences between actual and expected experience	4,563,968		4,563,968
Changes in assumptions			
Changes in benefit terms			
Contribution - employer		10,288,856	(10,288,856)
Contribution - employee		2,441,763	(2,441,763)
Net Plan to Plan Resource Movement			
Net investment income		14,733,700	(14,733,700)
Administrative expenses		(159,951)	159,951
Other Miscellaneous Income/(Expense)		521	(521)
Benefit payments, including refunds of employee contributions	(17,533,455)	(17,533,455)	
Net changes	17,802,376	9,771,434	8,030,942
Balance at June 30, 2019 (Measurement Date)	\$362,401,709	\$233,910,818	\$128,490,891
Grand Totals - Both Plans	\$605,816,789	\$405,332,851	\$200,483,938

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 11 – PENSION PLANS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$103,876,949	\$176,725,838
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$71,993,047	\$128,490,891
1% Increase	8.15%	8.15%
Net Pension Liability	\$45,596,001	\$88,701,151

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D. *Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

For the year ended June 30, 2020, the City recognized pension expense of \$11,235,713 for the Miscellaneous Plan and \$21,937,424 for the Safety Plan, for total pension expense of \$33,173,137. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Miscellaneous Plan</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions after the measurement date	\$8,337,504	
Differences between actual and expected experience	2,492,605	
Changes in assumptions		
Net differences between projected and actual earnings on plan investments		(\$1,048,762)
Total	<u>\$10,830,109</u>	<u>(\$1,048,762)</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 11 – PENSION PLANS (Continued)

	Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions after the measurement date	\$11,739,849	
Differences between actual and expected experience	4,681,328	(\$467,352)
Changes in assumptions	3,690,689	(172,672)
Net differences between projected and actual earnings on plan investments		(1,481,696)
Total	<u>\$20,111,866</u>	<u>(\$2,121,720)</u>
Grand Totals - Both Plans	<u>\$30,941,975</u>	<u>(\$3,170,482)</u>

\$20,077,353 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization	
	Miscellaneous	Safety
2021	\$2,633,436	\$6,322,974
2022	(1,073,388)	(\$960,500)
2023	(278,737)	\$669,781
2024	162,532	\$218,042

Subsequent Event - CalPERS Pension Contribution Rates – The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019. As a result of these changes, the City's contribution rates for the Miscellaneous and Safety Plans for the fiscal year ended June 30, 2021 are expected to increase 0.105% and 1.152% over the fiscal year 2020 contribution rates.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 11 – PENSION PLANS (Continued)

E. *Public Agency Retirement System*

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs.

The City's required contributions of \$32,350 and the employee's required contributions of \$129,395 were made during the fiscal year ending June 30, 2020.

NOTE 12 – EMPLOYEE BENEFITS

A. *Deferred Compensation Plan*

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

B. *Retiree Medical Benefits*

The liability for explicit subsidy benefits for the dependents of City retirees were previously included together with other City plan OPEB liabilities. However, the City was also contributing directly toward the cost of these dependent benefits by making negotiated contributions determined as a percentage of payroll for active employees in each bargaining group, effectively contributing twice. Beginning with fiscal year 2020, the total OPEB liability for these dependent fund benefits is now being determined and reported separately. Further discussion is included in Note 12C and 12D.

The City provides postretirement health care benefits through its defined benefit Retiree Medical Benefits Plan to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2020, there were 295 participants receiving these health care benefits.

The City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of City's eligible health plans. In addition, there are eligibility rules and contribution requirements defined in the Memorandum of Understanding (MOU) with each employee group. In the MOUs, the Benefit Cap is defined as not more than the single medical premium rate paid by the City for active employees, and the Retiree Cap is 15% above the single Kaiser medical premium rate. The eligibility rules for each MOU are summarized below, starting with benefits for retirees, followed by benefits for dependents.

Medical Benefit for Retirees:

Hire/Retirement Date		Date of Retirement	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Before July 1, 1995	Before June 30, 1989	n/a	PEMHCA Minimum Only
		After July 1, 1990 but before September 1, 2002	Less than 5	PEMHCA Minimum Only
			At least 5	Any employee only medical premium rate
		After August 31, 2002	Less than 5	PEMHCA Minimum Only
			At least 5	Benefit Cap
	After June 30, 1995	After August 31, 2002	Less than 5	PEMHCA Minimum Only
			5 but less than 9	Up to 25% of the Benefit cap
			9 but less than 14	Up to 50% of the Benefit Cap
			14 but less than 19	Up to 75% of the Benefit Cap
			At least 19	Up to 100% of the Benefit Cap
Mid-Management and Confidential (LIUNA) (Began 9/2003)	Before July 1, 1995	Any	Less than 5	PEMHCA Minimum Only
	After June 30, 1995	Any	At least 5	Benefit cap
			Less than 5	PEMHCA Minimum Only
			5 but less than 9	Up to 25% of the Benefit Cap
			9 but less than 14	Up to 50% of the Benefit Cap
			14 but less than 19	Up to 75% of the Benefit Cap
Unrepresented Miscellaneous and Fire*	Before July 1, 1995	Before January 1, 1989	n/a	PEMHCA Minimum Only
		After July 1, 1990 but before September 1, 2002	Less than 5	PEMHCA Minimum Only
			At least 5	Any employee only medical premium rate
		After August 31, 2002	Less than 5	PEMHCA Minimum Only
			At least 5	Benefit cap
	After June 30, 1995	Any	Less than 5	PEMHCA Minimum Only
			5 but less than 10	Up to 25% of the Benefit Cap
			10 but less than 15	Up to 50% of the Benefit Cap
			15 but less than 20	Up to 75% of the Benefit Cap
			At least 20	Up to 100% of the Benefit Cap

- In the grid above and on the following pages, “Benefit Cap” refers to the single medical premium rate paid by the City for active employees, currently Kaiser. “Retiree Cap” refers to 115% of the Benefit Cap.
- Upon reaching Medicare, the City contributes up to 100% of the employee only Medicare rates. “Vesting” percentages still apply.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

Hire/Retirement Date		Date of Retirement		Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Unrepresented Police ONLY*	Before July 1, 1995	Before January 1, 1989		n/a	PEMHCA Minimum Only
		After December 31, 1988 but before July 1, 2003		Less than 5	PEMHCA Minimum Only
				At least 5	Any employee only medical premium rate
		After June 30, 2003		Less than 5	PEMHCA Minimum Only
	After June 30, 1995			At least 5	Retiree Cap
				Less than 5	PEMHCA Minimum Only
				5 but less than 10	Up to 25% of the Retiree Cap
				10 but less than 15	Up to 50% of the Retiree Cap
				15 but less than 20	Up to 75% of the Retiree Cap
				At least 20	Up to 100% of the Retiree Cap
Fire Safety (IAFF)	Before January 1, 1995	Before January 1, 1990		n/a	PEMHCA Minimum Only
		After December 31, 1989 but before January 1, 1995		Less than 1	PEMHCA Minimum Only
				At least 1	Any employee only premium
		After December 31, 1994 but before February 21, 2007		Less than 1	PEMHCA Minimum Only
				1 but less than 10	50% of any employee only premium
				At least 10	100% of any employee only premium
		After February 20, 2007		Less than 1	PEMHCA Minimum Only
				1 but less than 10	Up to 50% of the lesser of the Retiree Cap and the premium rate
				At least 10	Up to 100% of the lesser of the Retiree Cap and the premium rate
	After December 31, 1994	Before February 21, 2007		Less than 1	PEMHCA Minimum Only
				1 but less than 10	Up to 25% of the Benefit Cap
				10 but less than 15	Up to 50% of the Benefit Cap
				15 but less than 20	Up to 75% of the Benefit Cap
				At least 20	Up to 100% of the Benefit Cap
		After February 20, 2007		Less than 1	PEMHCA Minimum Only
				1 but less than 10	25% of the lesser of the Retiree Cap and the premium rate
				10 but less than 15	50% of the lesser of the Retiree Cap and the premium
				15 but less than 20	75% of the lesser of the Retiree Cap and the premium
				At least 20	100% of the lesser of the Retiree Cap and the premium

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

		Eligibility Rule (Continuous Years of Service)		City Contribution Requirement
Hire/Retirement Date	Date of Retirement			
Police (MPOA)	Before January 1, 1996	Before January 1, 1989	n/a	PEMHCA Minimum Only
		After December 31, 1988 but before July 1, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Any employee only medical premium rate
		After June 30, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Up to the Retiree Cap
	After December 31, 1995	Before July 1, 2003	Less than 1	PEMHCA Minimum Only
			1 but less than 9	25% of any employee only premium
			9 but less than 14	50% of any employee only premium
			14 but less than 19	75% of any employee only premium
			At least 19	100% of any employee only premium
		After June 30, 2003	Less than 1	PEMHCA Minimum Only
			1 but less than 9	Up to 25% of the Retiree Cap
			9 but less than 14	Up to 50% of the Retiree Cap
			14 but less than 19	Up to 75% of the Retiree Cap
			At least 19	Up to 100% of the Retiree Cap
Employee Association (MEA)	Before July 1, 1996	Before July 16, 1989	n/a	PEMHCA Minimum Only
		After July 17, 1989 but before March 19, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Any employee only medical premium rate
		After March 18, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Benefit Cap
	After June 30, 1996	Any	Less than 1	PEMHCA Minimum Only
			1 but less than 10	Up to 25% of the Benefit Cap
			10 but less than 15	Up to 50% of the Benefit Cap
			15 but less than 20	Up to 75% of the Benefit Cap
			At least 20	Up to 100% of the Benefit Cap

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

Hire/Retirement Date		Date of Retirement		Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Supervisors (MSA) (Ended June, 30, 2012)	Before June 30, 1995	Before July 1, 1996		n/a	PEMHCA Minimum Only
		After June 30, 1996 and before November 27, 2007	Less than 5		PEMHCA Minimum Only
			At least 5		Any employee only medical premium rate
		After November 26, 2007	Less than 5		PEMHCA Minimum Only
			At least 5		Benefit Cap
	After June 29, 1995	After November 27, 2007	Less than 5		PEMHCA Minimum Only
			5 but less than 9		Up to 25% of the Benefit Cap
			9 but less than 14		Up to 50% of the Benefit Cap
			14 but less than 19		Up to 75% of the Benefit Cap
			At least 19		Up to 100% of the Benefit Cap

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Medical benefits for dependents:

Group	Date of Hire	Date of Retirement	Minimum Years of Continuous Service	City Contribution for Dependent Medical Premiums ¹
Professional / Technical (PROTECH)	Before July 1, 1995	After December 4, 2006	At least 5	Up to 100% of family/dependent premium
	After June 30, 1995	After December 4, 2006	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium
Mid-Management and Confidential (LIUNA)	Before July 1, 1995	After January 1, 2007	At least 5	Up to 100% of family/dependent premium
	After June 30, 1995	After January 1, 2007	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium
Unrepresented (UNREP-Police) ²	Before January 1, 1996	After June 30, 2003	At least 5	100% of family/dependent premiums
	After December 31, 1995	After June 30, 2003	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium
Unrepresented (UNREP-Fire) ³	Before January 1, 1996	After September 4, 2007	At least 5	100% of family/dependent premiums
	After December 31, 1995	After September 4, 2007	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium
Unrepresented (UNREP-Misc) ⁴	Before January 1, 1996	After June 30, 2018	At least 5	100% of family/dependent premiums
	After December 31, 1995	After June 30, 2018	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium

¹ Family/Dependent Medical Premium is active employee Single+1 OR Family medical premium rate less active employee Single medical premium rate.

² If the UNREP-Police fund is depleted, MPOA will provide funding for the dependent benefits.

³ The Fire Chief is ineligible for dependent fund benefits.

⁴ The Fire Chief is eligible for dependent fund benefits in UNREP Misc group.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Medical benefits for dependents (continued):

Group	Date of Hire	Date of Retirement	Minimum Years of Continuous Service	City Contribution for Dependent Medical Premiums ¹
Fire Safety (IAFF) ⁵	Before January 1, 1995	After February 19, 2007	5 but less than 9	50% of family/dependent medical premiums
			At least 10	100% of family/dependent medical premiums
	After December 31, 1994	After February 19, 2007	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
Police (MPOA)	Before January 1, 1996	After June 30, 2003	At least 19	Up to 100% of the family/dependent premium
			At least 5	100% of family/dependent premiums
	After December 31, 1995	After June 30, 2003	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium

¹ Family/Dependent Medical Premium is active employee Single+1 OR Family medical premium rate less active employee Single medical premium rate.

⁵ The amounts paid for dependents are adjusted to keep the fund viable. Currently, the IAFF dependent fund pays the following amounts:

- \$300 per month for 1 dependent
- \$500 per month for two or more dependents

C. Net OPEB Liability

Funding Policy and Contributions – The City’s policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the City’s annual budget approved by Council. For the year ended June 30, 2020, the City’s contributions to the Plan were \$4,528,174.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2019:

Active employees	372
Inactive employees or beneficiaries currently receiving benefit payments	295
Inactive employees entitled to but not yet receiving benefit payments	92
Total	759

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Actuarial Methods and Assumptions – The City’s net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2018, that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2019, based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	July 1, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Actuarial Assumptions:	
Discount Rate	6.95% (explicit subsidies) and 3.13% (implicit subsidies)
Inflation	2.50%
Salary Increase	3.00%
Investment Rate of Return	6.85%
Mortality Rate	MacLeod Watts Scale of 2020 applied generationally
Healthcare Trend Rate	5.40% grading down to 4.90% for years 2076 and thereafter

The underlying mortality assumptions were based on the mortality table published by CalPERS in their 2017 study, adjusted to back out 15 years of Scale MP 2016 to central year 2015 and all other actuarial assumptions used in the July 1, 2019 valuation are based on the result of a June 30, 2019 actuarial experience study for the period from 1997 to 2015, except for a different basis used to project future mortality improvements.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The City's accumulated assets are allocated using one of three diversified allocation strategies offered by CERBT. The target allocation for each major asset class using Strategy 2 are summarized in the following table:

Asset Class	Target Allocation
Global Equities	59.0%
Fixed Income	25.0%
Global Real Estate (REITs)	8.0%
Treasury Inflation Protected Securities	5.0%
Commodities	3.0%
Total	<u>100.0%</u>

Discount Rate

Explicit Subsidy Liability – The City expects the trust assets to yield 6.95 over the long term, based on information published by CalPERS as of the June 30, 2019 valuation date. Net contributions to the trust in recent years have been set at a level to prefund the explicit portion of benefits, with no advance funding of the implicit subsidy liability. Accordingly, the discount rate used for the City's explicit OPEB liability is 6.95%.

Implicit Subsidy Liability – The City expects to continue to fund the implicit subsidy liability on a pay-as-you-go basis. Therefore, the Fidelity 20 year AA General Obligation Municipal Bond Index was used in determining the discount rates used to calculate the implicit subsidy liability. As of the end of the Measurement Period, the discount rates for the Fidelity index were 3.13%.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Changes in Net OPEB Liability – The changes in the net OPEB liability follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
	(a)	(b)	(a) - (b)
Balance at June 30, 2019	\$87,921,496	\$44,016,612	\$43,904,884
Changes Recognized for the Measurement Period:			
Service Cost	2,423,566		2,423,566
Interest on the total OPEB liability	5,462,138		5,462,138
Changes in benefit terms	(17,098,878)		(17,098,878)
Differences between expected and actual experience			
Changes of assumptions	(1,624,371)		(1,624,371)
Contributions from the employer		4,651,743	(4,651,743)
Net investment income		2,834,217	(2,834,217)
Other Expenses			
Plan Experience	(11,594,216)		(11,594,216)
Administrative expenses		(9,742)	9,742
Benefit payments	(3,183,858)	(3,183,858)	
Net changes	(25,615,619)	4,292,360	(29,907,979)
Balance at June 30, 2020 (Measurement Date)	\$62,305,877	\$48,308,972	\$13,996,905

The benefit payments and refunds include implied subsidy benefit payments in the amount of \$1,158,935.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

– The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Net OPEB Liability/(Asset)		
	Discount Rate	
Discount Rate -1%	(6.95%-3.13%)	Discount Rate +1%
\$21,867,673	\$13,996,905	\$7,431,761

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Net OPEB Liability/(Asset)		
	Healthcare Cost Trend Rates	
1% Decrease	(5.40%-4.00%)	1% Increase
\$6,815,988	\$13,996,905	\$22,735,601

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

D. Dependent Fund Post Employment Benefit (OPEB) Plan (Total OPEB Liability)

Plan Description – The City provides continuation of medical coverage to its retiring employees and their eligible dependents. Pursuant to various bargaining agreements with different employee groups, the City contributes a percent of total payroll toward the cost of medical coverage for the eligible dependents of retirees. The City does not define the eligibility for or amount of any such benefits paid, nor is it legally obligated to make any payments to these dependents. The extent of the City's obligation is to make the negotiated contributions to the funds. However, the City has determined that a liability for the projected cost of these benefits must be reported in its financial statements in accordance with current accounting standards. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2019:

Active employees	372
Inactive dependents of retirees currently receiving benefit payments	149
Inactive employees entitled to but not yet receiving benefit payments	<u>28</u>
Total	<u><u>549</u></u>

Actuarial Methods and Assumptions – The Union Dependent Funds' total OPEB liability was measured as of June 30, 2019 and the total OPEB liability was determined by an actuarial valuation dated June 30, 2019, that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2019 based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Actuarial Assumptions:	
Discount Rate	3.13% as of June 30, 2019
Inflation	2.50%
Salary Increase	3.00%
Investment Rate of Return	6.85%
Mortality Rate	MacLeod Watts Scale of 2020 applied generationally
Healthcare Trend Rate	5.40% grading down to 4% for years 2076 and thereafter

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Changes in Total OPEB Liability – The changes in the total OPEB liability follows:

	<u>Increase (Decrease)</u>
	<u>Total OPEB</u>
	<u>Liability</u>
	<u>(a)</u>
Balance at June 30, 2019	\$ -
Changes Recognized for the Measurement Period:	
Service Cost	
Interest on the total OPEB liability	
Changes in benefit terms	28,504,872
Differences between expected and actual experience	
Changes of assumptions	
Contributions from the employer	
Net investment income	
Other Expenses	
Plan Experience	
Administrative expenses	
Benefit payments	
Net changes	<u>28,504,872</u>
Balance at June 30, 2020 (Measurement Date)	<u><u>\$28,504,872</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13%) or 1-percentage point higher (4.13%) than the current discount rate:

<u>Net OPEB Liability/(Asset)</u>		
<u>Discount Rate</u>		
<u>Discount Rate -1%</u>	<u>3.13%</u>	<u>Discount Rate +1%</u>
<u>\$33,069,057</u>	<u>\$28,504,872</u>	<u>\$24,807,977</u>

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<u>Net OPEB Liability/(Asset)</u>		
<u>Healthcare Cost</u>		
<u>Trend Rates</u>		
<u>1% Decrease</u>	<u>(5.40% - 4.00%)</u>	<u>1% Increase</u>
<u>\$24,682,743</u>	<u>\$28,504,872</u>	<u>\$33,322,489</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

E. OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the City recognized Retiree Medical Benefits OPEB Plan and Dependent Fund OPEB Plan recognized expense of \$15,009,463 and \$28,504,872, respectively. At June 30, 2020, the Retiree Medical Benefits OPEB plan and Union Dependent Funds reported deferred outflows and inflows of resources related to OPEB from the following sources:

Retiree Medical Benefits OPEB Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$4,528,174	
Differences between actual and expected experience		(\$9,686,107)
Changes of assumptions	177,063	(2,297,264)
Net differences between projected and actual earnings on plan investments		(503,147)
Total	<u>\$4,705,237</u>	<u>(\$12,486,518)</u>
Dependent Fund OPEB Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$1,437,201	
Differences between actual and expected experience		
Changes of assumptions		
Net differences between projected and actual earnings on plan investments		
Total	<u>\$1,437,201</u>	<u></u>
Grand Total, Both Plans	<u>\$6,142,438</u>	<u>(\$12,486,518)</u>

\$5,965,375 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as part of OPEB expense as follows:

Year Ended June 30	Annual Amortization	
	Retiree Medical Benefits Plan	Dependent Fund
2021	(\$2,673,833)	
2022	(2,673,834)	
2023	(2,416,397)	
2024	(2,299,834)	
2025	(1,784,170)	
Thereafter	(461,387)	

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 12 – EMPLOYEE BENEFITS (Continued)

F. Accrued Vacation and Sick Leave Liabilities

Employees accrue vacation up to certain maximums, based on employee classification. Employees may elect to be paid a portion of their vacation at various times according to the applicable memorandum of understanding. Sick leave may be accumulated without limit. Vested sick leave may be paid upon separation from service in good standing and is based on a vesting schedule determined by years of service.

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2020, sick leave benefits payable decreased by \$157,290 and vacation benefits payable increased by \$1,214,838. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Position.

The changes of the Accrued Vacation and Sick Leave Liabilities and the allocation of each liability among the departments are as follows:

	Accrued Vacation		Sick Leave	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Balance as of June 30, 2019	\$4,876,906	\$324,366	\$3,036,125	\$155,364
Additions	3,681,683	147,647	1,154,131	94,032
Payments and adjustments	(2,440,564)	(173,928)	(1,345,051)	(60,402)
Balance as of June 30, 2020	<u>\$6,118,025</u>	<u>\$298,085</u>	<u>\$2,845,205</u>	<u>\$188,994</u>
General Government	\$593,017		\$108,892	
Building	226,321		38,351	
Public Works	416,296		272,166	
Engineering	250,727		62,359	
Planning	134,139		0	
Recreation	162,652		30,090	
Police	2,955,925		1,008,618	
Fire	1,294,047		1,305,060	
Water Utility		\$166,211		\$96,107
Sewer Utility		131,874		92,887
Internal Service	84,901		19,669	
Total	<u>\$6,118,025</u>	<u>\$298,085</u>	<u>\$2,845,205</u>	<u>\$188,994</u>
Long-Term Portion:				
Governmental activities	\$3,327,531		\$1,908,264	
Business-type activities		\$136,475		\$134,732
Total long term portions	<u>\$3,327,531</u>	<u>\$136,475</u>	<u>\$1,908,264</u>	<u>\$134,732</u>
Current Portion:				
Governmental activities	\$2,790,494		\$936,941	
Business-type activities		\$161,610		\$54,262
Total current portions	<u>\$2,790,494</u>	<u>\$161,610</u>	<u>\$936,941</u>	<u>\$54,262</u>

Accrued Vacation and Sick Leave are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 13 – RISK MANAGEMENT

A. Risk Pool

The City participates in the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA), a joint powers authority established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. PLAN JPA provides \$5,000,000 of self-funded general liability and auto coverage and \$30,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. PLAN JPA also provides \$2,000,000 employee theft coverage in excess of the City's \$10,000 deductible, and \$2,000,000 of government crime coverage (with various sub-limits depending on the type of crime) in excess of the City's \$10,000 deductible. PLAN JPA provides coverage for property damage up to \$1 billion. The City retains a self-insured amount of \$5,000 for each property and \$5,000 for each vehicle per occurrence.

During the fiscal year, ended June 30, 2020, the City contributed \$897,225 for the 2019/20 program year.

PLAN JPA is governed by a Board of Directors consisting of representatives from member municipalities. The Board controls the operations of PLAN JPA, consisting of funding policies and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's annual contributions to PLAN JPA are calculated based on the ratio of the City's payroll to the total payrolls of all entities participating in the program and the City's loss experience. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

Financial statements may be obtained from PLAN JPA, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

B. Workers Compensation

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of \$20,000,000. The City has a deductible or uninsured liability of up to \$750,000 per claim for miscellaneous employees and \$1,000,000 for public safety employees.

C. Dental

The City is self-insured for dental care for miscellaneous employees up to a maximum of \$14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2020 the City paid \$821,964 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 13 – RISK MANAGEMENT (Continued)

D. Liability for Uninsured Claims

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City's liability for uninsured claims is limited to worker's compensation and general liability claims, as discussed above, and was computed as follows based on claims experience:

	2020			2019
	Worker's Compensation	General Liability	Total	
Beginning balance	\$5,856,080	\$358,593	\$6,214,673	\$6,417,534
Liability for current fiscal year claims	1,090,109	161,236	1,251,345	1,115,722
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	765,148	161,625	926,773	29,732
Claims paid	(895,255)	(322,861)	(1,218,116)	(1,348,315)
Ending balance	<u>\$6,816,082</u>	<u>\$358,593</u>	<u>\$7,174,675</u>	<u>\$6,214,673</u>
Due in one year	<u>\$970,556</u>	<u>\$201,930</u>	<u>\$1,172,486</u>	<u>\$1,117,952</u>

Settlements have not exceeded insurance coverage in the past three fiscal years.

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES

A. Litigation

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

B. Federal and State Grant Programs

The City participates in several Federal and State grant programs. These programs are subject to audit by the City's independent accountants in accordance with the provisions of the federal Single Audit Act as amended and applicable State requirements. No cost disallowances have been proposed as a result of audits completed to date; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. Encumbrances

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2020 were as follows:

Major Governmental Funds:	
General Fund	\$3,031,484
Housing Authority Fund	6,500,000
Transit Area Impact Fee Fund	1,272,464
Non-Major Governmental Funds	<u>168,688</u>
Total Encumbrances	<u><u>\$10,972,636</u></u>

D. Silicon Valley Rapid Transit Program Berryessa Extension Project

In September 2010, as amended, the City entered into a Master Agreement with the Santa Clara Valley Transportation Authority (VTA) to define the respective rights and obligations of each party and to ensure future cooperation between the City and VTA in connection with the Silicon Valley Rapid Transit Program Berryessa Extension Project. The Project is funded in part with funds made available to VTA by the Federal Transit Administration, and VTA will perform all acquisition, design and construction activities related to the Project.

Under the terms of the Master Agreement, VTA is entitled to reimbursement from the City's Transit Area Specific Plan (TASP) developer fees for a portion of the costs related to the eastern segment of the Milpitas Boulevard extension. The City's reimbursement commitment for this phase of the Project is not to exceed \$17.0 million and is repayable as the TASP developer fees become available. Although the VTA has first priority to the available TASP funds, the payment is subordinated to the City's existing interfund advances to the Transit Area Impact Fee Capital Projects Fund.

The Milpitas Boulevard extension project began in fiscal year 2014 and the VTA has billed the City for project costs in the amount of \$17 million through June 30, 2020, and as of June 30, 2020, all project costs have been paid.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

E. South Bay Water Recycling System Facility Replacement

As required by the Water Pollution Control Plant's National Pollutant Discharge Elimination System (NPDES) permit, the regional partner agencies are responsible for maintenance and operation of the South Bay Water Recycling System. The regional partner agencies, which includes the City of Milpitas, are also responsible for the planned \$2 billion rehabilitation/replacement of the facility over the next thirty years. The City's share of the project is approximately 6.196% as discussed in Note 8E.

F. Bay Area Water Supply and Conservation Agency Revenue Bonds Surcharge

The City contracts with the City and County of San Francisco for the purchase of water from the Hetch Hetchy System operated by the San Francisco Public Utilities Commission (SFPUC). The City is also a member of the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interests of all the 24 cities and water districts, as well as two private utilities, that purchase wholesale water from the SFPUC.

In 2009 the City entered into a new 25 year agreement with the SFPUC that includes a minimum water delivery level of 5.341MGD. One of the ways that the new agreement differs from the old is in how facilities constructed by the SFPUC that benefit the regional customers are treated from a rate and financial perspective. Under the old agreement, facilities were built, capitalized, and added to the rate base with a rate of return (interest), and then paid for over their useful lives through wholesale rates. Under the new agreement, the SFPUC issues revenue bonds and the debt service (which also includes an interest component) is paid for through rates over the life of the bonds.

During the transition from the old to the new contracts, one of the issues addressed was how to deal with the \$370 million in assets that were still being paid for by the wholesale customers under the old agreement. The assets were transferred to the new agreement, assigned a life with an agreed upon rate of return of 5.13%. Also negotiated was a provision to allow the wholesale customers to prepay any remaining existing assets' unpaid principal balance without penalty or premium. This prepayment was executed through the issuance of bonds by BAWSCA which provide a better interest rate given the favorable rate environment.

BAWSCA issued Revenue Bonds in the principal amount of \$335,780,000 in January 2013 to prepay the capital cost recovery payment obligation and fund a stabilization fund. The Bonds mature in October 2034 and are secured by surcharges to the monthly water purchase charges imposed upon the participating members. The Bonds are not a debt obligation of any member, and BAWSCA's failure to pay its Bonds would not constitute a default by any participating member.

Should any participating member fail to pay its share, BAWSCA will rely on the stabilization fund and will pursue all legal remedies to collect the shortfall from the delinquent member. In the interim, other participating members may have their portion adjusted to insure the continued payment of the debt service surcharge.

The risk of bearing the debt service expense of a defaulting member is not significantly different than the risk each member assumes currently for fluctuations in water purchase charges. Under the Bond indenture, BAWSCA maintains a stabilization fund. If surcharge revenues collected are less than needed (due to a member's failure to pay timely), BAWSCA uses the stabilization fund to fund the debt service deficiency, and increases the surcharge in the subsequent year to make up for the prior year shortfall and reimburse the stabilization fund account. Also, given that each participating agency's governing body adopted a Resolution to participate in the Bond issue, Management believes that default is generally very unlikely.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The annual debt service surcharges are a fixed amount for each participant and are calculated by taking the subsequent fiscal year's debt service, multiplied by each participant's actual water purchase as a percent of total wholesale customer water purchases from the prior fiscal year. One-twelfth of the annual surcharge is included in the monthly bill from SFPUC. Because each participant's share of the debt service surcharge is proportional to the amount of water purchased during the prior fiscal year, the City's share of the debt service will fluctuate from year to year.

The City paid its surcharge of \$995,514 during fiscal year 2020, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2021 is estimated to be \$993,732.

G. *Sunnyhills Apartment Complex*

In October 2017, the City entered into an agreement with Sunnyhills Investors LLC to purchase affordability covenants for the Sunnyhills Apartment Complex, which has provided 149 affordable housing units to the City over the last 30 years. The City is required to pay \$250,000 per year, ending January 15, 2023, beginning in fiscal year 2019. The first payment under the agreement was made in April 2018, and was for fiscal year 2019.

H. *Housing Successor Excess Surplus*

Health and Safety Code (HSC) Section 34176.1(d) defines an excess surplus as an unencumbered balance held by the housing successor that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the housing successor fund during the housing successor's preceding four fiscal years, whichever is greater. If a housing successor has an excess surplus, the HSC Section requires that the housing successor encumber the excess surplus for eligible purposes described in the HSC Section 34176.1(a)(3) or transfer the funds to another local housing successor within three fiscal years. If the housing successor fails to comply with this provision, the housing successor, within 90 days of the end of the third fiscal year, is required to transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program.

I. *COVID-19 Impact*

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. However, the ultimate financial impact and duration cannot be reasonably estimated at this time.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 15 – SUCCESSOR AGENCY ACTIVITIES

A. *Redevelopment Dissolution*

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

The suspension provisions prohibited all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26.

Effective January 31, 2012, the Redevelopment Agency was dissolved. Certain assets of the Redevelopment Agency Housing Reserve Fund were distributed to a Housing Successor; and all remaining Redevelopment Agency assets and liabilities were distributed to a Successor Agency. The Successor Agency received a finding of completion on June 27, 2014.

Under the provisions of AB 1484, the City can elect to become the Housing Successor and retain the housing assets. The City's Housing Authority elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Housing Authority Special Revenue Fund.

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established on March 26, 2012. The activities of the Successor Agency were subject to review and approval of the Oversight Board, which was comprised of seven members, including one member of City Council and one former Redevelopment Agency employee appointed by the Mayor.

On July 1, 2018, the duties of the Milpitas Oversight Board transferred to a new Santa Clara Countywide Consolidated Oversight Board, which is now responsible for overseeing the winddown affairs of all Successor Agencies in Santa Clara County, including the Successor Agency to the Milpitas Redevelopment Agency.

The activities of the Housing Successor are reported in the Housing Authority Special Revenue Fund as the City has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the County Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

Cash and investments of the Successor Agency as of June 30, 2020 are discussed in Note 3. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2020.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 15 – SUCCESSOR AGENCY ACTIVITIES (Continued)

B. Development Agreements

The Successor Agency assumed the obligations of the former Redevelopment Agency's Disposition and Development Agreements as follows:

Installment Purchase Agreement

The Redevelopment Agency agreed to purchase two parcels of land comprising thirty-five acres surrounding the County Correctional Facility for \$57,750,000 in cash and \$135,000,000 payable over eighteen years at no interest.

The Agency also agreed to re-sell this land to developers for a total of \$57,750,000, of which \$40,000,000 was received in fiscal 2005 and the remainder was received on the close of escrow on the second parcel in fiscal 2006. The Agency's intent in purchasing this land was to simultaneously re-sell it for development.

In addition, starting in 2024 the Agency is required to pay the County the greater of \$2,000,000 or 50% of the sales tax revenue arising out of sales originating on certain properties that are in the Midtown Area, but not to exceed \$5,000,000 annually, until the earlier of either June 30, 2038, the date that tax increment revenue allocated to the Agency has reached its limit; or the termination of the Redevelopment Plan.

C. Long-Term Obligations

1. Current Year Transactions and Balances

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2019	Retirements	Balance June 30, 2020	Current Portion
Installment Purchase Agreement with the County of Santa Clara - Direct Borrowing				
due June 30, 2023	\$10,745,676	\$2,886,103	\$7,859,573	\$2,748,669
2015 Tax Allocation Bonds				
2%-5%, due September 1, 2032	101,670,000	6,735,000	94,935,000	7,070,000
Plus: Unamortized bond premium	16,276,480	1,190,962	15,085,518	
Total	\$128,692,156	\$10,812,065	\$117,880,091	\$9,818,669

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 15 – SUCCESSOR AGENCY ACTIVITIES (Continued)

2. *Installment Purchase Agreement with the County of Santa Clara*

The former Redevelopment Agency had a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of \$135,000,000, as mentioned in Note 15B. As discussed in Note 15B, under the Agreement, the former Redevelopment Agency purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Successor Agency has therefore recorded a liability of \$7,859,573 at June 30, 2020, representing the present value of future payments due under this Agreement.

3. *2015 Tax Allocation Refunding Bonds*

In March 2015, the Successor Agency issued Tax Allocation Refunding Bonds in the original principal amount of \$127,790,000. The proceeds of the Bonds were used to advance refund and defease the outstanding balance of the 2003 Tax Allocation Bonds, which were redeemed on March 23, 2015. The Bonds are secured by Redevelopment Property Tax Trust Fund (RPTTF) revenues. In lieu of a reserve fund, the 2015 Bonds are secured by a reserve insurance policy in the amount of \$11,822,000, issued by Assured Guaranty Municipal Corp. Principal is payable annually and the interest is payable semi-annually through 2032. The 2015 Bonds contain a provision that in an event of default, the Trustee may declare the principal of the bonds, together with all accrued interest at the date of default, immediately due and payable, or (b) exercise any and all rights and remedies available to it under applicable law, including right to enforce from the Successor Agency all payments due on the Bonds, and the Successor Agency will pay all reasonable fees and expenses incurred by the Trustee and those of its attorneys.

4. *Debt Service Requirements*

Debt service requirements are shown below for all long-term debt:

Year Ending June 30	Installment Purchase Agreement with the County of Santa Clara		2015 Tax Allocation Bonds	
	Total Principal	Total Interest	Total Principal	Total Interest
2021	\$2,748,669	\$3,251,331	\$7,070,000	\$4,570,000
2022	2,617,780	3,382,220	7,425,000	4,207,625
2023	2,493,124	3,506,876	7,800,000	3,827,000
2024			8,185,000	3,427,375
2025			8,595,000	3,007,875
2025-2029			41,270,000	8,399,250
2030-2033			14,590,000	946,500
	<u>\$7,859,573</u>	<u>\$10,140,427</u>	94,935,000	<u>\$28,385,625</u>
Plus: Unamortized bond premium			15,085,518	
			<u>\$110,020,518</u>	

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 15 – SUCCESSOR AGENCY ACTIVITIES (Continued)

5. *Defeased Bonds*

As of June 30, 2020, the outstanding balance of defeased debt was \$9,740,000 for the Redevelopment Agency 1997 Tax Allocation Bonds.

D. *Commitments and Contingencies*

1. *State Approval of Enforceable Obligations*

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the County Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 16 – SUBSEQUENT EVENT

2020 General Fund Lease Revenue Bonds

On November 10, 2020, the Milpitas Municipal Financing Authority will issue 2020 Lease Revenue Bonds (Capital Projects) in the original principal amount of \$18,445,000 to provide funds to finance a portion of the Fire Station No. 2 Replacement project and variety of energy improvement projects. The Bonds bear interest rates of 4.0 %. Interest is payable every June 1 and December 1 beginning on June 1, 2021. Principal on the bonds will be payable on June 1 beginning on June 1, 2022 through 2041. Interest on the 2020 Bonds was capitalized in full through June 1, 2021. Therefore, the City will start making debt service payments in Fiscal Year 2021-22.

REQUIRED SUPPLEMENTARY INFORMATION

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Retiree Medical Benefits (OPEB) Plan

Last 10 fiscal years*

Measurement Date	6/30/17	6/30/18	6/30/19
Total OPEB Liability			
Service Cost	\$2,386,392	\$2,356,491	\$2,423,566
Interest	4,794,071	5,155,080	5,462,138
Changes in benefit terms			(17,098,878)
Differences between expected and actual experience			(11,594,216)
Changes of assumptions	(1,263,847)	(113,934)	(1,624,371)
Benefit payments	(3,325,081)	(2,994,247)	(3,183,858)
Net change in total OPEB liability	2,591,535	4,403,390	(25,615,619)
Total OPEB liability - beginning	80,926,571	83,518,106	87,921,496
Total OPEB liability - ending (a)	\$83,518,106	\$87,921,496	\$62,305,877
Plan fiduciary net position			
Contributions - employer	\$4,959,756	\$4,803,893	\$4,651,743
Contributions - employee			
Net investment income	3,708,342	3,175,844	2,834,217
Administrative expense	(18,732)	(21,490)	(9,742)
Benefit payments	(3,325,081)	(2,994,247)	(3,183,858)
Other Expenses		(51,721)	
Net change in plan fiduciary net position	5,324,285	4,912,279	4,292,360
Plan fiduciary net position - beginning	33,780,048	39,104,333	44,016,612
Plan fiduciary net position - ending (b)	\$39,104,333	\$44,016,612	\$48,308,972
 Net OPEB liability - ending (a)-(b)	 \$44,413,773	 \$43,904,884	 \$13,996,905
 Plan fiduciary net position as a percentage of the total OPEB liability	 46.82%	 50.06%	 77.54%
 Covered-employee payroll	 \$42,017,236	 \$43,375,678	 \$48,788,854
 Net OPEB liability as a percentage of covered-employee payroll	 105.70%	 101.22%	 28.69%

* Fiscal year 2018 was the first year of implementation.

City of Milpitas Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

Retiree Medical Benefits (OPEB) Plan

Last 10 fiscal years*

Fiscal Year Ended June 30,	2018			2019		
	Explicit	Implicit	Total	Explicit	Implicit	Total
Actuarially determined contribution	\$3,387,020	\$1,652,641	\$5,039,661	\$3,492,808	\$1,703,307	\$5,196,115
Contributions in relation to the actuarially determined contribution	3,387,020	1,059,545	4,446,565	3,492,808	1,158,935	4,651,743
Contribution deficiency (excess)	\$ -	\$593,096	\$593,096	\$ -	\$544,372	\$544,372
Covered-employee payroll	\$43,375,678	\$43,375,678	\$43,375,678	\$48,788,854	\$48,788,854	\$48,788,854
Contributions as a percentage of covered-employee payroll	7.81%	2.44%	10.25%	7.16%	2.38%	9.53%

Fiscal Year Ended June 30,	2020		
	Explicit	Implicit	Total
Actuarially determined contribution	\$788,831	\$1,545,113	\$2,333,944
Contributions in relation to the actuarially determined contribution	3,478,018	1,050,156	4,528,174
Contribution deficiency (excess)	(\$2,689,187)	\$494,957	(\$2,194,230)
Covered-employee payroll	\$52,202,907	\$52,202,907	\$52,202,907
Contributions as a percentage of covered-employee payroll	6.66%	2.01%	8.67%

Notes to Schedule

Valuation date:

Methods and assumptions used to determine contribution rates:

Valuation Date	July 1, 2019
Actuarial Assumptions:	
Discount Rate	6.95% (explicit subsidies) and 3.13% (implicit subsidies)
Inflation	2.50%
Salary Increase	3.00%
Investment Rate of Return	6.9%
Mortality Rate	MacLeod Watts Scale of 2020 applied generationally
Healthcare Trend Rate	5.4% grading down to 4% for years 2076 and thereafter

* Fiscal year 2018 was the first year of implementation.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

Dependent Fund (OPEB) Plan
Last 10 fiscal years *

Measurement Date	6/30/19
Total OPEB Liability	
Service Cost	\$ -
Interest	
Changes in benefit terms	28,504,872
Differences between expected and actual experience	
Changes of assumptions	
Benefit payments	
Net change in total OPEB liability	28,504,872
Total OPEB liability - beginning	
Total OPEB liability - ending (a)	\$28,504,872
 Plan fiduciary net position	
Contributions - employer	
Contributions - employee	
Net investment income	
Administrative expense	
Benefit payments	
Other Expenses	
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	
Plan fiduciary net position - ending (b)	-
 Net OPEB liability - ending (a)-(b)	\$28,504,872
 Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
 Covered-employee payroll	\$48,788,854
 Net OPEB liability as a percentage of covered-employee payroll	58.42%

*The liability of this Plan had been previously included together with other City plan OPEB Liabilities.
Beginning with fiscal year 2020, the City began to report the liability of this plan separately.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

Dependent Fund (OPEB) Plan

Last 10 fiscal years*

Fiscal Year Ended June 30,	2020
	<u>Explicit</u>
Actuarially required contribution	N/A (a)
Contributions in relation to the actuarially required contributions	<u>\$1,437,201</u>
Contribution deficiency (excess)	<u>N/A (a)</u>
Covered-employee payroll	<u>\$48,788,854</u>
Contributions as a percentage of covered-employee payroll	N/A (a)

(a) Due to the nature of the Plan, actuarially required contribution is not available. See Note 12D for contribution requirements.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan

Last 10 Years*

Measurement Period	2013-14	2014-15	2015-16	2016-17
Total Pension Liability				
Service Cost	\$2,652,510	\$2,664,628	\$2,666,665	\$3,008,973
Interest	13,600,615	14,114,152	14,689,192	15,078,047
Differences between expected and actual experience	-	(982,598)	(18,301)	(1,238,427)
Changes in assumptions	-	(3,463,459)	-	12,475,424
Changes in benefits	-	-	-	-
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)	(9,558,779)	(10,236,837)
Net change in total pension liability	7,871,791	3,402,207	7,778,777	19,087,180
Total pension liability - beginning	184,205,937	192,077,728	195,479,935	203,258,712
Total pension liability - ending (a)	<u>\$192,077,728</u>	<u>\$195,479,935</u>	<u>\$203,258,712</u>	<u>\$222,345,892</u>
Plan fiduciary net position				
Contributions - employer	\$3,356,909	\$4,076,975	\$4,519,744	\$5,048,143
Contributions - employee	1,439,932	1,326,989	1,333,019	1,266,956
Net investment income	22,034,637	3,281,429	775,183	16,109,364
Administrative expense	-	(164,523)	(89,109)	(211,414)
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)	(9,558,779)	(10,236,837)
Other Miscellaneous Income/Expense	-	-	-	-
Net Plan to Plan Resource Movement	-	-	(370)	(370)
Net change in plan fiduciary net position	18,450,144	(409,646)	(3,020,312)	11,975,842
Plan fiduciary net position - beginning	128,172,005	146,622,149	146,212,503	143,192,191
Plan fiduciary net position - ending (b)	<u>\$146,622,149</u>	<u>\$146,212,503</u>	<u>\$143,192,191</u>	<u>\$155,168,033</u>
Net pension liability - ending (a)-(b)	<u>\$45,455,579</u>	<u>\$49,267,432</u>	<u>\$60,066,521</u>	<u>\$67,177,859</u>
Plan fiduciary net position as a percentage of the total pension liability	76.33%	74.80%	70.45%	69.79%
Covered payroll	<u>\$15,682,538</u>	<u>\$16,009,660</u>	<u>\$16,161,589</u>	<u>\$16,418,123</u>
Net pension liability as percentage of covered payroll	289.85%	307.74%	371.66%	409.17%

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions. In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016, 2018, and 2019, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.5% discount rate.

* Fiscal year 2015 was the first year of implementation.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan

Last 10 Years*

Measurement Period	2017-18	2018-19
Total Pension Liability		
Service Cost	\$3,042,853	\$3,361,140
Interest	15,647,110	16,517,342
Differences between expected and actual experience	1,831,444	4,569,776
Changes in assumptions	(1,404,854)	
Changes in benefits	-	
Benefit payments, including refunds of employee contributions	(10,906,398)	(11,589,225)
Net change in total pension liability	8,210,155	12,859,033
Total pension liability - beginning	222,345,892	230,556,047
Total pension liability - ending (a)	\$230,556,047	\$243,415,080
Plan fiduciary net position		
Contributions - employer	\$5,762,448	\$6,864,376
Contributions - employee	1,473,732	1,569,027
Net investment income	13,123,448	10,774,536
Administrative expense	(241,795)	(116,977)
Benefit payments, including refunds of employee contributions	(10,906,398)	(11,589,225)
Other Miscellaneous Income/Expense	(459,172)	381
Net Plan to Plan Resource Movement	(381)	
Net change in plan fiduciary net position	8,751,882	7,502,118
Plan fiduciary net position - beginning	155,168,033	163,919,915
Plan fiduciary net position - ending (b)	\$163,919,915	\$171,422,033
 Net pension liability - ending (a)-(b)	 \$66,636,132	 \$71,993,047
 Plan fiduciary net position as a percentage of the total pension liability	 71.10%	 71.10%
 Covered payroll	 \$18,846,066	 \$22,079,190
 Net pension liability as percentage of covered payroll	 382.47%	 382.47%

* Fiscal year 2015 was the first year of implementation.



City of Milpitas
Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan
Last 10 Years*

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	\$3,252,668	\$4,236,931	\$5,082,638	\$6,243,904
Contributions in relation to the actuarially determined contributions	3,252,668	4,236,931	5,082,638	6,243,904
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$16,009,660	\$16,161,589	\$16,418,123	\$18,846,066
Contributions as a percentage of covered payroll	20.32%	26.22%	30.96%	33.13%
Notes to Schedule				
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015
Methods and assumptions used to determine contribution rates:				
Actuarial cost method	Entry age			
Amortization method	Level percentage of payroll			
Remaining amortization period	15 Years as of the Valuation Date			
Asset valuation method	Market Value of Assets			
Inflation	2.75% for 2015 to 2019, and 2.875% for 2020			
Salary increases	Varies by Entry Age and Service			
Investment rate of return	7.50% for 2015 to 2018, 7.375% for 2019 and 7.25% for 2020, net of pension plan investment expense, including inflation.			
Retirement age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study.			
Mortality	The probabilities of mortality are based on the CalPERS Experience Study. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries for 2015 to 2018. For 2019 and 2020, pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of			

* Fiscal year 2015 was the 1st year of implementation.

2019	2020
\$6,863,508	\$8,337,504
6,863,508	8,337,504
<u>\$0</u>	<u>\$0</u>
\$22,079,190	\$19,463,309
31.09%	42.84%
6/30/2016	6/30/2017

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Safety Plan - Agent Multiple-Employer Defined Pension Plan
Last 10 Years*

Measurement Period	2013-14	2014-15	2015-16	2016-17
Total Pension Liability				
Service Cost	\$4,932,970	\$4,808,751	\$5,094,318	\$5,934,642
Interest	19,838,662	20,535,893	21,663,378	22,434,283
Differences between expected and actual experience	-	(2,363,470)	3,274,330	(690,685)
Changes in assumptions	-	(5,052,089)	-	18,725,315
Changes in benefits	-	-	-	-
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)	(14,390,575)	(14,864,837)
Net change in total pension liability	11,695,003	4,272,889	15,641,451	31,538,718
Total pension liability - beginning	268,587,329	280,282,332	284,555,221	300,196,672
Total pension liability - ending (a)	<u>\$280,282,332</u>	<u>\$284,555,221</u>	<u>\$300,196,672</u>	<u>\$331,735,390</u>
Plan fiduciary net position				
Contributions - employer	\$5,856,270	\$6,604,951	\$7,230,399	\$7,887,539
Contributions - employee	1,839,234	1,887,408	2,064,277	2,233,341
Net investment income	30,157,647	4,420,615	1,031,136	22,090,936
Administrative expense	-	(224,227)	(121,445)	(288,028)
Net Plan to Plan Resource Movement	-	-	-	-
Other Miscellaneous Income/Expense	-	-	-	-
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)	(14,390,575)	(14,864,837)
Net change in plan fiduciary net position	24,776,522	(967,449)	(4,186,208)	17,058,951
Plan fiduciary net position - beginning	175,461,012	200,237,534	199,270,085	195,083,877
Plan fiduciary net position - ending (b)	<u>\$200,237,534</u>	<u>\$199,270,085</u>	<u>\$195,083,877</u>	<u>\$212,142,828</u>
 Net pension liability - ending (a)-(b)	 <u>\$80,044,798</u>	 <u>\$85,285,136</u>	 <u>\$105,112,795</u>	 <u>\$119,592,562</u>
 Plan fiduciary net position as a percentage of the total pension liability	 71.44%	 70.03%	 64.99%	 63.95%
 Covered payroll	 <u>\$18,310,535</u>	 <u>\$18,810,920</u>	 <u>\$20,170,400</u>	 <u>\$21,078,669</u>
 Net pension liability as percentage of covered payroll	 437.15%	 453.38%	 521.12%	 567.36%

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions. In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016, 2018, and 2019, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.5% discount rate.

* Fiscal year 2015 was the 1st year of implementation.

<u>2017-18</u>	<u>2018-19</u>
\$5,975,378	\$6,211,449
23,331,989	24,560,414
626,935	4,563,968
(986,630)	
-	
(16,083,729)	(17,533,455)
<u>12,863,943</u>	<u>17,802,376</u>
<u>331,735,390</u>	<u>344,599,333</u>
<u>\$344,599,333</u>	<u>\$362,401,709</u>
\$8,866,550	\$10,288,856
2,240,962	2,441,763
17,931,642	14,733,700
(330,577)	(159,951)
(521)	
(627,771)	521
(16,083,729)	(17,533,455)
<u>11,996,556</u>	<u>9,771,434</u>
<u>212,142,828</u>	<u>224,139,384</u>
<u>\$224,139,384</u>	<u>\$233,910,818</u>
<u>\$120,459,949</u>	<u>\$128,490,891</u>
65.04%	64.54%
<u>\$21,698,152</u>	<u>\$23,314,576</u>
555.16%	551.12%

City of Milpitas

Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

Safety Plan - Agent Multiple-Employer Defined Pension Plan
Last 10 Years*

Fiscal Year Ended June 30	2015	2016	2017	2018	2019	2020
Actuarially determined contribution	\$5,904,019	\$7,346,983	\$8,741,506	\$9,247,165	\$10,289,680	\$11,739,849
Contributions in relation to the actuarially determined contributions	5,904,019	7,346,983	8,741,506	9,247,165	10,289,680	11,739,849
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$18,810,920	\$20,170,400	\$21,078,669	\$21,698,152	\$23,314,576	\$21,136,130
Contributions as a percentage of covered payroll	31.39%	36.42%	41.47%	42.62%	44.13%	55.54%
Notes to Schedule						
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Methods and assumptions used to determine contribution rates:						
Actuarial cost method	Entry age					
Amortization method	Level percentage of payroll					
Remaining amortization period	15 Years as of the Valuation Date					
Asset valuation method	Market Value of Assets					
Inflation	2.75%					
Salary increases	3.0% depending on Age, Service, and type of employment.					
Investment rate of return	7.375%, net of pension plan investment expense, including inflation.					
Retirement age	The probabilities of Retirement are based on the CalPERS Experience Study					
Mortality	The probabilities of mortality are based on the CalPERS Experience Study. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries for 2015 to 2018. For 2019 and 2020, pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.					

* Fiscal year 2015 was the 1st year of implementation.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

GAS TAX FUND

Established to account for the City's share of state gasoline taxes which are restricted for use on construction and maintenance of the street system in Milpitas.

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and expenditures.

LAW ENFORCEMENT SERVICES FUND

Established to account for the proceeds from Federal and State asset seizures. This fund also accounts for the Supplemental Law Enforcement Services grant, Local Law Enforcement Block grant, Justice Assistance grant and expenditures. These funds must be used only for specified law enforcement purposes.

SOLID WASTE REDUCTION AND SERVICES FUND

Established to account for landfill tipping fees allocated by Santa Clara County. The County allocates a fee of \$1 per ton to each City to be used in relation to the State of California Waste Reduction Act. Revenue is used for the implementation of waste reduction programs to meet the State required landfill deposits percentage reduction. The fund also accounts for special charges built into garbage rates specifically for community promotions and household hazardous waste activities.

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for servicing and maintaining the public landscaping and additional lighting for the district.

COMMUNITY FACILITIES DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for providing City services for the district.

HETCH-HETCHY GROUND LEASE FUND

Established to account for the lease payment to the City and County of San Francisco for the permitted use of the Hetch-Hetchy land.

COMMUNITY PLANNING FUND

Established to account for fees collected to fund the General Plan update, zoning ordinance update and other long range planning documents.

COMMUNITY BENEFITS FUND

Established to account for fees collected from developers to fund Public Benefits for the Community.

AFFORDABLE HOUSING FUND

Established to account for fees collected from developers to fund Affordable Housing activities.

AFFORDABLE HOUSING UNRESTRICTED FUND

Established to account for Affordable Housing unrestricted activities funded by General Fund Surplus.

CAPITAL PROJECTS FUNDS:

PUBLIC ART FUND

Established to account for the acquisition and installation of public art. Financing provided by a percentage of eligible project expenditures within the City's Annual Capital Improvement Program.

PARK IMPROVEMENT FUND

Established to account for the construction and maintenance of City parks. A special park improvement fee is imposed on developments to provide financing.

STORM DRAIN DEVELOPMENT FUND

Established to account for the construction and maintenance of storm drain projects. A special storm drain fee is imposed on developments to provide financing.



CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2020

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Community Facilities District
ASSETS						
Cash and investments available for operations	\$1,902,947	\$129,000	\$1,138,056	\$1,848,382	\$33,412	\$1,929,388
Receivables:						
Due from other governments	201,619	68,202		72,761		14,265
Interest	8,036		1,243	7,781	140	8,110
Loans receivable		3,659,710				
Prepays, materials, supplies and deposits		2,196		1,603	2,386	7,479
Total Assets	<u>\$2,112,602</u>	<u>\$3,859,108</u>	<u>\$1,139,299</u>	<u>\$1,930,527</u>	<u>\$35,938</u>	<u>\$1,959,242</u>
LIABILITIES						
Accounts payable		\$51,227	\$23,162	\$119	\$58	\$9,912
Accrued payroll				8,976	3,752	13,953
Unearned revenue			958,283	32,046		
Refundable deposits				18,843		
Total Liabilities		<u>51,227</u>	<u>981,445</u>	<u>59,984</u>	<u>3,810</u>	<u>23,865</u>
FUND BALANCE						
Fund Balances:						
Nonspendable		2,196		1,603	2,386	7,479
Restricted	\$2,112,602	3,805,685	157,854	1,868,940	29,742	1,927,898
Assigned						
Total Fund Balances	<u>2,112,602</u>	<u>3,807,881</u>	<u>157,854</u>	<u>1,870,543</u>	<u>32,128</u>	<u>1,935,377</u>
Total Liabilities and Fund Balances	<u>\$2,112,602</u>	<u>\$3,859,108</u>	<u>\$1,139,299</u>	<u>\$1,930,527</u>	<u>\$35,938</u>	<u>\$1,959,242</u>

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Affordable Housing	Affordable Housing Unrestricted	Public Art	Park Improvement	Storm Drain Development	
\$1,604,147	\$786,053	\$266,971	\$3,279,778	\$ 2,156,297	\$1,240,948	\$20,367,534	\$7,233,771	\$43,916,684
	4,428		14,069	9,109	5,182	84,990	30,202	356,847
	2,344							173,290
								3,659,710
								16,008
<u>\$1,604,147</u>	<u>\$792,825</u>	<u>\$266,971</u>	<u>\$3,293,847</u>	<u>\$2,165,406</u>	<u>\$1,246,130</u>	<u>\$20,452,524</u>	<u>\$7,263,973</u>	<u>\$48,122,539</u>
			\$3,876			\$996,546	\$60,822	\$1,145,722
	\$6,714					11,043	731	45,169
								990,329
								18,843
	6,714		3,876			1,007,589	61,553	2,200,063
	2,344							16,008
\$1,604,147	783,767	\$266,971	\$3,289,971	\$2,165,406		19,444,935	7,202,420	44,660,338
					\$1,246,130			1,246,130
<u>1,604,147</u>	<u>786,111</u>	<u>266,971</u>	<u>3,289,971</u>	<u>2,165,406</u>	<u>1,246,130</u>	<u>19,444,935</u>	<u>7,202,420</u>	<u>45,922,476</u>
<u>\$1,604,147</u>	<u>\$792,825</u>	<u>\$266,971</u>	<u>\$3,293,847</u>	<u>\$2,165,406</u>	<u>\$1,246,130</u>	<u>\$20,452,524</u>	<u>\$7,263,973</u>	<u>\$48,122,539</u>

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Community Facilities District
REVENUES:						
Other taxes				\$66,122	\$400,187	\$3,116,797
Use of money and property	\$38,849	\$9,508	\$20,060	37,019	1,345	34,180
Intergovernmental	3,060,004	397,259	272,354	139,629		
Charges for services						
Developer contributions						
Other		37				
Total Revenues	<u>3,098,853</u>	<u>406,804</u>	<u>292,414</u>	<u>242,770</u>	<u>401,532</u>	<u>3,150,977</u>
EXPENDITURES:						
Current:						
General Government		397,265				4,201
Building, Safety and Housing						
Public Works				143,746	286,033	955,920
Engineering					146,819	
Planning						
Police			272,138			
Capital outlay						
Total Expenditures	<u></u>	<u>397,265</u>	<u>272,138</u>	<u>143,746</u>	<u>432,852</u>	<u>960,121</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,098,853</u>	<u>9,539</u>	<u>20,276</u>	<u>99,024</u>	<u>(31,320)</u>	<u>2,190,856</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	521,418					
Transfers (out)	<u>(5,244,458)</u>	<u></u>	<u></u>	<u>(99,456)</u>	<u>(108,000)</u>	<u>(1,600,000)</u>
Total Other Financing Sources (Uses)	<u>(4,723,040)</u>	<u></u>	<u></u>	<u>(99,456)</u>	<u>(108,000)</u>	<u>(1,600,000)</u>
NET CHANGE IN FUND BALANCES	(1,624,187)	9,539	20,276	(432)	(139,320)	590,856
Fund balances at beginning of year	<u>3,736,789</u>	<u>3,798,342</u>	<u>137,578</u>	<u>1,870,975</u>	<u>171,448</u>	<u>1,344,521</u>
FUND BALANCES AT END OF YEAR	<u>\$2,112,602</u>	<u>\$3,807,881</u>	<u>\$157,854</u>	<u>\$1,870,543</u>	<u>\$32,128</u>	<u>\$1,935,377</u>

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Affordable Housing	Affordable Housing Unrestricted	Public Art	Park Improvement	Storm Drain Development	
\$32,063	\$16,292	\$5,209	\$63,989	\$50,516	\$32,012	\$469,391	\$215,480	\$3,583,106
	336,920							1,025,913
			1,801,632			607,401	105,739	3,869,246
				114,890	475,411			336,920
								2,514,772
								590,338
32,063	353,212	5,209	1,865,621	165,406	507,423	1,076,792	321,219	11,920,295
35,258			26,420		9,587			472,731
			150,000					150,000
								1,385,699
	164,988							146,819
								164,988
								272,138
						7,731,573	872,108	8,603,681
35,258	164,988		176,420		9,587	7,731,573	872,108	11,196,056
(3,195)	188,224	5,209	1,689,201	165,406	497,836	(6,654,781)	(550,889)	724,239
				2,000,000		1,550,000	750,000	4,821,418
	(500,000)					(75,000)	(1,000,000)	(8,626,914)
	(500,000)			2,000,000		1,475,000	(250,000)	(3,805,496)
(3,195)	(311,776)	5,209	1,689,201	2,165,406	497,836	(5,179,781)	(800,889)	(3,081,257)
1,607,342	1,097,887	261,762	1,600,770		748,294	24,624,716	8,003,309	49,003,733
\$1,604,147	\$786,111	\$266,971	\$3,289,971	\$2,165,406	\$1,246,130	\$19,444,935	\$7,202,420	\$45,922,476

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2020

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property	\$42,000	\$38,849	(\$3,151)	\$1,000	\$9,508	\$8,508
Intergovernmental	3,202,629	3,060,004	(142,625)	450,000	397,259	(52,741)
Charges for services						
Developer contributions						
Other					37	37
Total Revenues	<u>3,244,629</u>	<u>3,098,853</u>	<u>(145,776)</u>	<u>451,000</u>	<u>406,804</u>	<u>(44,196)</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
City Attorney						
Finance				15,000	15,000	
Non-departmental				700,734	382,265	318,469
Building, Safety and Housing						
Public Works						
Engineering						
Planning						
Police						
Total Expenditures				<u>715,734</u>	<u>397,265</u>	<u>318,469</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,244,629</u>	<u>3,098,853</u>	<u>(145,776)</u>	<u>(264,734)</u>	<u>9,539</u>	<u>274,273</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	521,418	521,418				
Transfers (out)	<u>(5,244,458)</u>	<u>(5,244,458)</u>				
Total Other Financing Sources (Uses)	<u>(4,723,040)</u>	<u>(4,723,040)</u>				
NET CHANGE IN FUND BALANCES	<u>(\$1,478,411)</u>	<u>(1,624,187)</u>	<u>(\$145,776)</u>	<u>(\$264,734)</u>	<u>9,539</u>	<u>\$274,273</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>3,736,789</u>			<u>3,798,342</u>	
Fund balances at end of year		<u>\$2,112,602</u>			<u>\$3,807,881</u>	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
\$2,000	\$20,060	\$18,060	\$29,000	\$66,122	\$66,122	\$404,000	\$400,187	(\$3,813)
276,116	272,354	(3,762)	200,327	37,019	8,019	1,000	1,345	345
				139,629	(60,698)			
278,116	292,414	14,298	229,327	242,770	13,443	405,000	401,532	(3,468)
			811,115	290,726	520,389	306,410	286,033	20,377
						168,066	150,888	17,178
389,074	329,777	59,297						
389,074	329,777	59,297	811,115	290,726	520,389	474,476	436,921	37,555
(110,958)	(37,363)	73,595	(581,788)	(47,956)	533,832	(69,476)	(35,389)	34,087
			(99,456)	(99,456)		(108,000)	(108,000)	
			(99,456)	(99,456)		(108,000)	(108,000)	
<u>(\$110,958)</u>	<u>(37,363)</u>	<u>\$73,595</u>	<u>(\$681,244)</u>	<u>(147,412)</u>	<u>\$533,832</u>	<u>(\$177,476)</u>	<u>(143,389)</u>	<u>\$34,087</u>
	57,639			146,980			4,069	
	<u>137,578</u>			<u>1,870,975</u>			<u>171,448</u>	
	<u>\$157,854</u>			<u>\$1,870,543</u>			<u>\$32,128</u>	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2020

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	\$2,900,000	\$3,116,797	\$216,797			
Use of money and property	12,000	34,180	22,180	\$1,000	\$32,063	\$31,063
Intergovernmental						
Charges for services						
Developer contributions						
Other						
Total Revenues	<u>2,912,000</u>	<u>3,150,977</u>	<u>238,977</u>	<u>1,000</u>	<u>32,063</u>	<u>31,063</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
City Attorney						
Finance						
Non-departmental	6,500	4,201	2,299	\$35,258	35,258	
Building, Safety and Housing						
Public Works	1,212,608	955,920	256,688			
Engineering						
Planning						
Police						
Total Expenditures	<u>1,219,108</u>	<u>960,121</u>	<u>258,987</u>	<u>35,258</u>	<u>35,258</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,692,892</u>	<u>2,190,856</u>	<u>497,964</u>	<u>(34,258)</u>	<u>(3,195)</u>	<u>31,063</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	<u>(1,600,000)</u>	<u>(1,600,000)</u>				
Total Other Financing Sources (Uses)	<u>(1,600,000)</u>	<u>(1,600,000)</u>				
NET CHANGE IN FUND BALANCES	<u>\$92,892</u>	590,856	<u>\$497,964</u>	<u>(\$34,258)</u>	(3,195)	<u>\$31,063</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>1,344,521</u>			<u>1,607,342</u>	
Fund balances at end of year		<u>\$1,935,377</u>			<u>\$1,604,147</u>	

COMMUNITY PLANNING			COMMUNITY BENEFITS			AFFORDABLE HOUSING		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
\$15,000	\$16,292	\$1,292		\$5,209	\$5,209		\$63,989	\$63,989
298,000	336,920	38,920				\$2,000,000	1,801,632	(198,368)
313,000	353,212	40,212		5,209	5,209	2,000,000	1,865,621	(134,379)
						26,420	26,420	
			\$200,000		200,000	255,000	150,000	105,000
258,250	164,988	93,262						
258,250	164,988	93,262	200,000		200,000	281,420	176,420	105,000
54,750	188,224	133,474	(200,000)	5,209	205,209	1,718,580	1,689,201	(29,379)
(500,000)	(500,000)							
(500,000)	(500,000)							
(\$445,250)	(311,776)	\$133,474	(\$200,000)	5,209	\$205,209	\$1,718,580	1,689,201	(\$29,379)
	1,097,887			261,762			1,600,770	
	\$786,111			\$266,971			\$3,289,971	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2020

	AFFORDABLE HOUSING UNRESTRICTED			PUBLIC ART		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property		\$50,516	\$50,516	\$5,000	\$32,012	\$27,012
Intergovernmental						
Charges for services						
Developer contributions					475,411	475,411
Other		114,890	114,890			
Total Revenues		165,406	165,406	5,000	507,423	502,423
EXPENDITURES						
Current:						
General Government:						
City Manager						
City Attorney						
Finance						
Non-departmental				132,500	30,587	101,913
Building, Safety and Housing						
Public Works						
Engineering						
Planning						
Police						
Total Expenditures				132,500	30,587	101,913
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		165,406	165,406	(127,500)	476,836	604,336
OTHER FINANCING SOURCES (USES)						
Transfers in	\$2,000,000	2,000,000				
Transfers (out)						
Total Other Financing Sources (Uses)	2,000,000	2,000,000				
NET CHANGE IN FUND BALANCES	\$2,000,000	2,165,406	\$165,406	(\$127,500)	476,836	\$604,336
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments					21,000	
Fund balances at beginning of year					748,294	
Fund balances at end of year		\$2,165,406			\$1,246,130	

TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
\$3,304,000	\$3,583,106	\$279,106
108,000	341,042	233,042
4,129,072	3,869,246	(259,826)
298,000	336,920	38,920
2,000,000	2,277,043	277,043
	114,927	114,927
9,839,072	10,522,284	683,212

26,420	26,420	
15,000	15,000	
1,074,992	452,311	622,681
255,000	150,000	105,000
2,330,133	1,532,679	797,454
168,066	150,888	17,178
258,250	164,988	93,262
389,074	329,777	59,297
4,516,935	2,822,063	1,694,872

5,322,137	7,700,221	2,378,084
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2,521,418	2,521,418	
(7,551,914)	(7,551,914)	
(5,030,496)	(5,030,496)	
\$291,641	2,669,725	\$2,378,084

229,688
16,375,708
\$19,275,121



AGENCY FUNDS

Financial reporting standards require that Agency Funds be presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as agent for individuals, government entities, and non-public organizations. These funds include the following:

EMPLOYEE BENEFITS FUND

Established to account for specific negotiated employee benefits.

SENIOR ADVISORY COMMISSION FUND

Established to account for the fund raising activities of the Commission.

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Balance June 30, 2019	Additions	Deductions	Balance June 30, 2020
<hr/> Employee Benefit <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,344,806	\$19,031	\$599,981	\$763,856
Total Assets	<u>\$1,344,806</u>	<u>\$19,031</u>	<u>\$599,981</u>	<u>\$763,856</u>
<u>Liabilities</u>				
Accounts Payable		\$492		\$492
Refundable deposits	\$1,344,806	18,539	\$599,981	763,364
Total Liabilities	<u>\$1,344,806</u>	<u>\$19,031</u>	<u>\$599,981</u>	<u>\$763,856</u>
<hr/> Senior Advisory Commission <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$8,089	\$975	\$1,163	\$7,901
Total Assets	<u>\$8,089</u>	<u>\$975</u>	<u>\$1,163</u>	<u>\$7,901</u>
<u>Liabilities</u>				
Refundable deposits	\$8,089	\$975	\$1,163	\$7,901
Total Liabilities	<u>\$8,089</u>	<u>\$975</u>	<u>\$1,163</u>	<u>\$7,901</u>
<hr/> TOTAL AGENCY FUNDS <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,352,895	\$20,006	\$601,144	\$771,757
Total Assets	<u>\$1,352,895</u>	<u>\$20,006</u>	<u>\$601,144</u>	<u>\$771,757</u>
<u>Liabilities</u>				
Accounts payable		\$492		\$492
Refundable deposits	\$1,352,895	19,514	\$601,144	771,265
Total Liabilities	<u>\$1,352,895</u>	<u>\$20,006</u>	<u>\$601,144</u>	<u>\$771,757</u>



STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and wellbeing have changed over time:

- Net Position – Schedule 1
- Changes in Net Position – Schedule 2
- Fund Balances, Governmental Funds – Schedule 3
- Changes in Fund Balance, Governmental Funds – Schedule 4

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

- Assessed Value and Actual Value of Taxable Property – Schedule 5
- Direct and Overlapping Property Taxes Rates – Schedule 6
- Principal Property Taxpayers – Schedule 7
- Property Tax Levies and Collections – Schedule 8
- Taxable Sales by Category – Schedule 9
- Direct and Overlapping Sales Tax Rates – Schedule 10
- Principal Sales Tax Payers – Schedule 11

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

- Ratios of Outstanding Debt by Type – Schedule 12
- Bonded Debt Pledged Revenue Coverage, Redevelopment Agency Tax Allocation Bonds – Schedule 13
- Computation of Direct and Overlapping Debt – Schedule 14
- Legal Debt Margin Information – Schedule 15
- Installment Payment Coverage, Sewer Certificates of Participation and Waste Water Revenue Refunding Bonds – Schedule 16
- Installment Payment Coverage, Water Revenue Bonds – Schedule 17

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

- Bimonthly Sewer Rates by Customer Class – Schedule 18
- Bimonthly Water Rates by Customer Class – Schedule 19
- Demographic and Economic Statistics – Schedule 20
- Principal Employers – Schedule 21

Operating Information

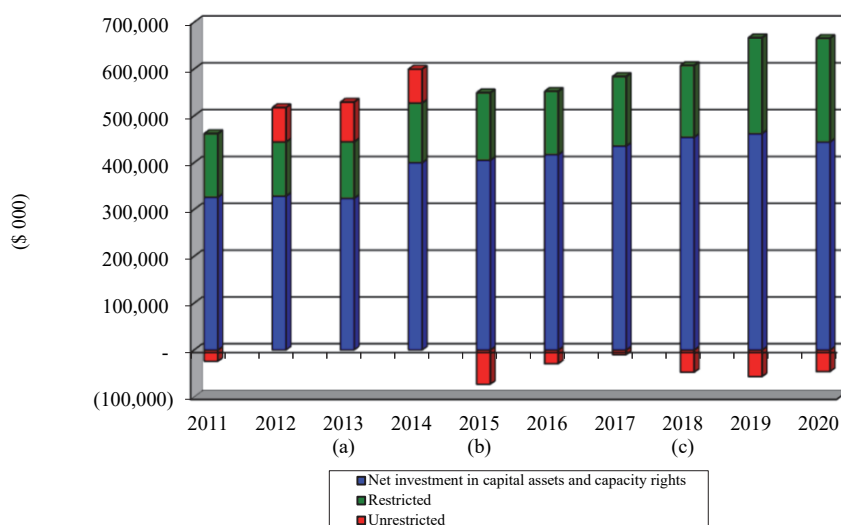
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- Authorized Full-Time Equivalent Employees by Function/Program – Schedule 22
- Operating Indicators by Function/Program – Schedule 23
- Capital Asset Statistics by Function/Program – Schedule 24

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

CITY OF MILPITAS
NET POSITION
LAST TEN FISCAL YEARS
 (Accrual basis of accounting)
 (Dollars in Thousands)



	Fiscal Year Ended June 30				
	2011	2012	2013 (a)	2014	2015 (b)
Governmental activities					
Net investment in capital assets and capacity rights	\$218,116	\$219,034	\$217,002	\$291,704	\$291,500
Restricted	115,474	90,878	88,147	90,758	103,829
Unrestricted	(44,592)	53,417	64,876	51,315	(84,598)
Total governmental activities net position	<u>\$288,998</u>	<u>\$363,329</u>	<u>\$370,025</u>	<u>\$433,777</u>	<u>\$310,731</u>
Business-type activities					
Net investment in capital assets and capacity rights	\$107,707	\$109,146	\$106,489	\$107,816	\$113,232
Restricted	20,743	25,239	32,889	37,254	40,867
Unrestricted	20,577	19,838	19,799	20,880	11,586
Total business-type activities net position	<u>\$149,027</u>	<u>\$154,223</u>	<u>\$159,177</u>	<u>\$165,950</u>	<u>\$165,685</u>
Primary government					
Net investment in capital assets and capacity rights	\$325,823	\$328,180	\$323,491	\$399,520	\$404,732
Restricted	136,217	116,117	121,036	128,012	144,696
Unrestricted	(24,015)	73,255	84,675	72,195	(73,012)
Total primary government net position	<u>\$438,025</u>	<u>\$517,552</u>	<u>\$529,202</u>	<u>\$599,727</u>	<u>\$476,416</u>
	Fiscal Year Ended June 30				
	2016	2017	2018 (c)	2019	2020
Governmental activities					
Net investment in capital assets and capacity rights	\$298,321	\$312,138	\$323,239	\$326,564	\$344,471
Restricted	100,327	108,630	109,726	145,983	158,716
Unrestricted	(44,368)	(30,091)	(63,405)	(65,799)	(93,911)
Total governmental activities net position	<u>\$354,280</u>	<u>\$390,677</u>	<u>\$369,560</u>	<u>\$406,748</u>	<u>\$409,276</u>
Business-type activities					
Net investment in capital assets and capacity rights	\$118,588	\$122,937	\$130,736	\$135,048	\$99,331
Restricted	35,130	40,311	43,834	59,191	63,084
Unrestricted	15,261	20,254	15,784	8,930	47,967
Total business-type activities net position	<u>\$168,979</u>	<u>\$183,502</u>	<u>\$190,354</u>	<u>\$203,169</u>	<u>\$210,382</u>
Primary government					
Net investment in capital assets and capacity rights	\$416,909	\$435,075	\$453,975	\$461,612	\$443,802
Restricted	135,457	148,941	153,560	205,174	221,800
Unrestricted	(29,107)	(9,837)	(47,621)	(56,869)	(45,944)
Total primary government net position	<u>\$523,259</u>	<u>\$574,179</u>	<u>\$559,914</u>	<u>\$609,917</u>	<u>\$619,658</u>

(a) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term “net assets” with the term “net position”

(b) The City implemented the provisions of GASB Statement 68 in fiscal year 2015 that required the restatement of net position.

Amounts prior to 2015 have not been restated.

(c) The City implemented the provisions of GASB Statement 75 in fiscal year 2018 that required the restatement of net position. Amounts prior to 2018 have not been restated.

CITY OF MILPITAS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30,			
	2011	2012	2013 (c)	2014
Expenses				
Governmental activities				
General Government	\$21,474 (a)	\$17,418 (b)	\$15,329	\$21,074
Building and Safety	1,984	2,029	2,293	2,684
Building, Housing and Safety				
Recreation and Community Services				
Public Works	16,777	21,787	17,700 (d)	18,664
Engineering				
Planning and Neighborhood Services	2,155	2,144	2,553	2,119
Planning				
Parks and Recreation	6,529	5,823	3,107 (d)	3,012
Police	22,661	22,620	21,702	23,373
Fire	15,085	14,904	15,810	15,159
Interest on Long Term Debt	9,536	2,050	227	240
Total governmental activities expenses	96,201	88,775	78,721	86,325
Business-type activities				
Water Utility	12,766	15,229	17,195	17,369
Recycled Water Utility	470	599	(e)	(e)
Sewer Utility	9,240	8,399	9,418	11,008
Total business-type activities expenses	22,476	24,227	26,613	28,377
Total primary government expenses	\$118,677	\$113,002	\$105,334	\$114,702
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	\$1,071	\$1,349	\$1,700	\$1,819
Building and Safety	2,823	3,436	4,554	6,445
Building, Housing and Safety				
Recreation and Community Services				
Public Works	1,826	2,440	2,668	2,472
Engineering				
Planning and Neighborhood Services	139	237	301	432
Planning				
Parks and Recreation	1,662	1,833	1,987	1,958
Police	1,263	1,134	1,051	1,091
Fire	1,210	1,292	1,508	2,120
Operating grants and contributions	4,869	6,146	7,487	6,195
Capital grants and contributions	5,704	8,294	8,286	15,483
Total government activities program revenues	20,567	26,161	29,542	38,015
Business-type activities				
Charges for services:				
Water Utility	15,201	16,773	19,801	21,354
Recycled Water Utility	1,300	1,447	(e)	(e)
Sewer Utility	11,406	12,445	12,632	12,753
Operating grants and contributions	70	43	111	57
Capital grants and contributions	163	1,629	1,975	1,402
Total business-type activities program revenue	28,140	32,337	34,519	35,566
Total primary government program revenues	\$48,707	\$58,498	\$64,061	\$73,581
Net (Expense)/Revenue				
Governmental activities	(\$75,634)	(\$62,614)	(\$49,179)	(\$48,310)
Business-type activities	5,664	8,110	7,906	7,189
Total primary government net expense	(\$69,970)	(\$54,504)	(\$41,273)	(\$41,121)

- (a) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012.
- (c) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (d) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (e) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.
- (g) Public Works and Engineering are separate departments beginning in fiscal year 2016.
- (h) Neighborhood Services is a component of Building, Housing and Safety, and Planning is a separate department beginning in fiscal year 2019.

2015	2016	2017	2018	2019	2020
\$18,118	\$18,614	\$21,174	\$19,111	\$25,281	\$24,050
2,617	2,513	3,389	4,148	(h) 5,449	(h) 7,418
			(h) 5,890	7,020	7,095
17,509	12,761	16,266	15,903	20,053	20,342
	5,790 (g)	6,249 (g)	5,712 (g)	6,459 (g)	7,314 (g)
2,372	2,649 (g)	3,103 (g)	3,586 (g)	(h) 1,851	(h) 2,741
3,098	4,090	4,949			
24,699	24,556	30,270	33,840	35,868	43,505
16,301	16,400	20,499	24,194	26,535	31,472
67	56	48		17	37
84,781	87,429	105,947	112,384	128,533	143,974
18,344	19,743	20,666	23,742	25,232	28,750
(e) 10,426	(e) 10,872	(e) 9,969	(e) 12,715	(e) 12,231	(e) 15,240
28,770	30,615	30,635	36,457	37,463	43,990
\$113,551	\$118,044	\$136,582	\$148,841	\$165,996	\$187,964
\$1,063	\$2,065	\$1,970	\$2,088	\$2,347	\$1,809
5,128	5,963	7,814	10,093	(h) 9,718	(h) 6,621
			2,559	2,655	1,145
2,644	(g) 2,863 (g)	(g) 2,720 (g)	(g) 2,465 (g)	(g) 2,379 (g)	(g) 2,132 (g)
700	747	292	418	(h) 226	(h) 452
2,060	1,981	2,301			
1,151	1,138	1,184	1,089	1,130	1,087
1,885	2,440	3,224	3,326	2,172	2,402
6,201	7,320	7,880	6,521	8,277	10,643
14,711	35,195	32,256	34,003	47,194	33,423
35,543	59,712	59,641	62,562	76,098	59,714
21,136	18,709	26,318	29,667	29,355	32,792
(e) 14,453	(e) 15,964	(e) 16,803	(e) 17,139	(e) 17,830	(e) 19,566
127	63	89	124	114	171
710	1,103	4,937	2,507	2,755	601
36,426	35,839	48,147	49,437	50,054	53,130
\$71,969	\$95,551	\$107,788	\$111,999	\$126,152	\$112,844
(\$49,238)	(\$27,717)	(\$46,306)	(\$49,822)	(\$52,435)	(\$84,260)
7,656	5,224	17,512	12,980	12,591	9,140
(\$41,582)	(\$22,493)	(\$28,794)	(\$36,842)	(\$39,844)	(\$75,120)

(Continued)

CITY OF MILPITAS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

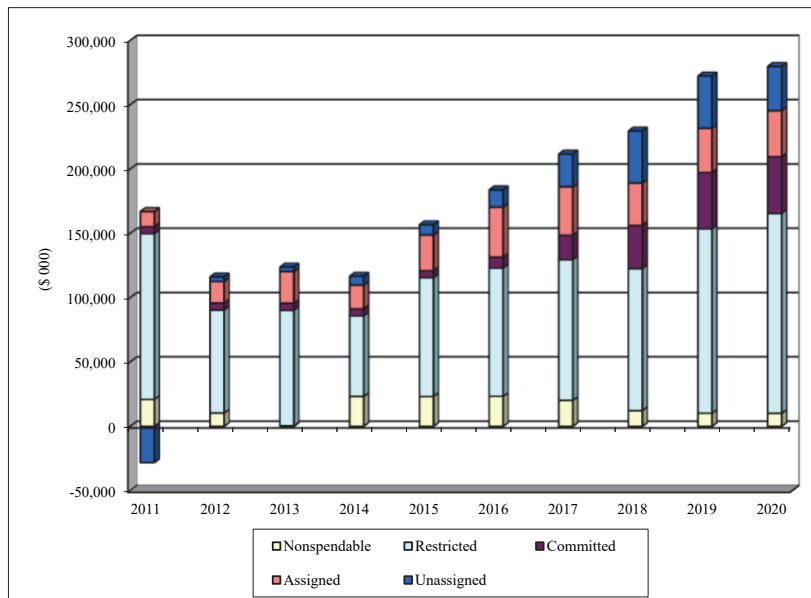
	Fiscal Year Ended June 30,			
	2011	2012	2013 (c)	2014
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	\$55,655 (a)	\$34,029	\$20,469	\$27,607
Sales and use taxes	16,429	18,758	20,196	19,014
Hotel/Motel taxes	6,124	7,068	7,933	9,336
Other taxes	380	491	516	672
Franchise fees	3,083	3,218	3,270	3,453
Motor vehicle in lieu	323	35	37	31
Investment earnings	399	1,093	260	844
Gain on sale of capital assets/property			46	
Miscellaneous	62	67	103	200
Redevelopment expense				
Transfers	3,374	3,304	3,045	3,402
Extraordinary item		68,882 (b)		
Special Item				49,799
Total governmental activities	<u>85,829</u>	<u>136,945</u>	<u>55,875</u>	<u>114,358</u>
Business-type activities				
Investment earnings	455	390	94	690
Transfers	(3,374)	(3,304)	(3,045)	(3,402)
Total business-type activities	<u>(2,919)</u>	<u>(2,914)</u>	<u>(2,951)</u>	<u>(2,712)</u>
Total primary government	<u><u>\$82,910</u></u>	<u><u>\$134,031</u></u>	<u><u>\$52,924</u></u>	<u><u>\$111,646</u></u>
Change in net position				
Governmental activities	\$10,195	\$74,331	\$6,696	\$66,048
Business-type activities	<u>2,745</u>	<u>5,196</u>	<u>4,955</u>	<u>4,477</u>
Total primary government	<u><u>\$12,940</u></u>	<u><u>\$79,527</u></u>	<u><u>\$11,651</u></u>	<u><u>\$70,525</u></u>

- (a) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012.
- (c) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (d) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (e) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.
- (g) Public Works and Engineering are separate departments beginning in fiscal year 2016.
- (h) Neighborhood Services is a component of Building, Housing and Safety, and Planning is a separate department beginning in fiscal year 2019.

2015	2016	2017	2018	2019	2020
\$24,927	\$27,068	\$30,262	\$31,893	\$33,811	\$37,684
18,779	23,924	25,392	26,991	27,983	24,173
10,917	11,757	11,858	12,122	14,503	11,377
664	822	803	814	808	836
3,659	3,841	3,871	4,678	5,127	5,173
29	29	34	39	36	60
379	913	118	301	4,474	2,808
		7,324		4	43
333	287	118	186	390	446
1,627	2,625	2,923	2,511	2,489	4,187
			(12,432) (f)		
61,314	71,266	82,703	67,103	89,625	86,787
383	695	(65)	171	2,712	2,261
(1,627)	(2,625)	(2,923)	(2,511)	(2,489)	(4,187)
(1,244)	(1,930)	(2,988)	(2,340)	223	(1,926)
\$60,070	\$69,336	\$79,715	\$64,763	\$89,848	\$84,861
\$12,076	\$43,549	\$36,397	\$17,281	\$37,190	\$2,527
6,412	3,294	14,524	10,640	12,814	7,214
\$18,488	\$46,843	\$50,921	\$27,921	\$50,004	\$9,741



CITY OF MILPITAS
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Fund										
Nonspendable	\$20,970	\$577	\$468	\$23,279	\$23,265	\$23,387	\$20,209	\$10,043	\$10,234	\$10,189
Restricted	24,555									
Committed	5,433	5,433	5,433	5,433	5,433	8,440	19,026	33,643	43,852	44,082
Assigned	9,698	13,904	10,434	6,658	7,013	9,052	8,067	8,629	5,916	6,118
Unassigned	15,448	15,800	16,444	13,521	13,864	13,410	25,440	40,496	40,655	34,387
Total General Fund	\$76,104	\$35,714	\$32,779	\$48,891	\$49,575	\$54,289	\$72,742	\$92,811	\$100,657	\$94,776 (a)
All Other Governmental Funds										
Nonspendable	\$23	\$9,788	\$11	\$32	\$11	\$13	\$15	\$2,229	\$85	\$20
Restricted	104,290	80,112	89,821	62,661	92,347	99,701	109,416	110,418	143,232	155,359
Assigned	2,127	2,892	14,244	11,808	20,806	29,956	29,635	24,284	28,532	29,768
Unassigned	(43,624)	(12,234)	(12,955)	(6,610)	(5,932)					
Total all other governmental funds	\$62,816	\$80,558	\$91,121	\$67,891	\$107,232	\$129,670	\$139,066	\$136,931	\$171,849	\$185,147 (a)

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2011	2012	2013	2014	2015
Revenues					
Property taxes	\$55,655 (a)	\$34,029 (b)	\$20,466	\$27,608	\$24,927
Sales taxes	16,994	19,403	20,908	19,766	19,572
Hotel/Motel taxes					
Franchise fees					
Other taxes	10,917	12,230	13,343	14,992	17,505
Licenses and fines	4,309	4,956	5,875	8,193	6,971
Use of money and property	3,948	5,303	1,538	2,964	2,032
Intergovernmental	5,082	4,834	5,842	5,216	5,482
Charges for services	4,020	4,725	5,550	5,735	6,449
Developer contributions	3,360	7,549	7,987	13,975	11,614
Other	1,039	578	715	1,144	205
Total Revenues	105,324	93,607	82,224	99,593	94,757
Expenditures					
Current:					
General Government	19,003 (a)	12,753 (b)	11,871	13,204	12,814
Building and Safety	1,975	2,060	2,278	2,658	2,706
Building, Housing and Safety					
Recreation and Community Services			3,087	3,124	3,329
Human Resources and Recreation			(c)	(c)	(c)
Parks and Recreation	5,688	5,261			
Public Works	7,960	8,772	9,124	8,535	9,199
Engineering					
Planning and Neighborhood Services	2,267	2,196	2,030	2,202	2,570
Planning					
Police	21,682	21,733	20,978	22,165	24,193
Fire	14,994	14,562	15,420	14,587	15,605
Supplemental educational revenue augmentation fund payment	2,424				
Capital outlay	12,940	28,876	7,510	10,035	14,376
Debt service:					
Principal	8,225	13,153	4,209	3,828	6,000
Interest and fees	12,386	6,823	668	223	61
Total Expenditures	109,544	116,189	77,175	80,561	90,853
Excess (deficiency) of revenues over (under) expenditures	(4,220)	(22,582)	5,049	19,032	3,904
Other Financing Sources (Uses)					
Proceeds from debt issuance		21,780			
Payments to refunded debt escrow agent			46		
Proceeds/gain from sale of properties	5	8		6	4
Loss from sale/conveyance of property			(512)		
Transfers in	119,213	34,994	13,780	7,499	25,558
Transfers (out)	(115,839)	(31,690)	(10,735)	(4,098)	(19,305)
Total other financing sources (uses)	3,379	25,092	2,579	3,407	6,257
Extraordinary Items					
Assets transferred to Housing Successor		17,274 (b)			
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor		(42,431) (b)			
Special Item					
Assets transferred to/from Successor Agency and County				(27,261) (d)	
Net Change in fund balances	(\$841)	(\$22,647)	\$7,628	\$22,439	\$10,161
Debt service as a percentage of noncapital expenditures	22.2%	18.5%	10.1%	5.5%	7.4%

(a) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.

(b) Years prior to 2010 have not been restated to reflect this change in presentation.

b(b) The Redevelopment Agency was dissolved as of January 31, 2012.

(c) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department.

However starting in fiscal year 2016, the recreation was separated out from Human Resources as an individual department

(d) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

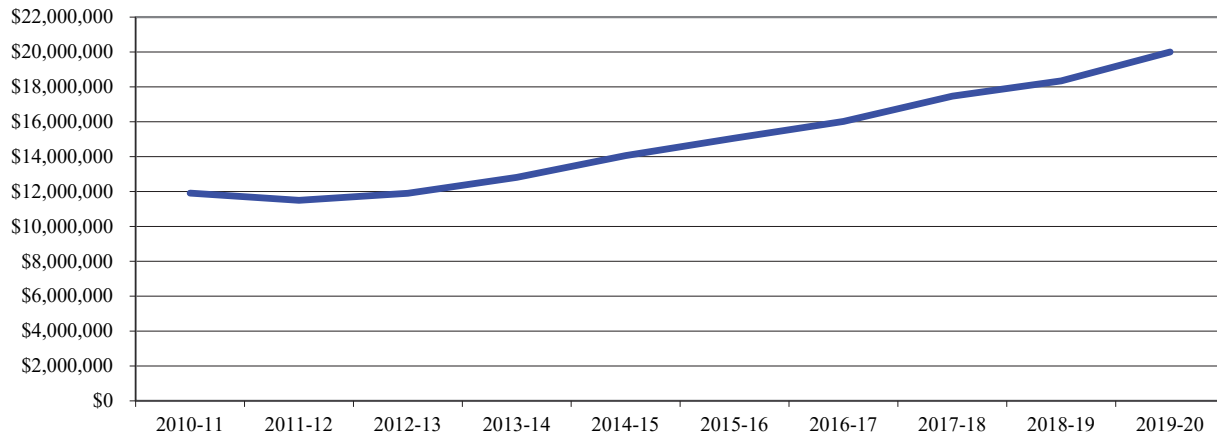
(e) Human Resources is a component of General Government and Recreation is a separate department beginning in fiscal year 2016.

(f) Neighborhood Services is a component of Building, Housing and Safety, and Planning is a separate department beginning in fiscal year 2019.

(g) Transient occupancy taxes and Franchise fees were reported separately from Other taxes beginning in fiscal year 2020.

Fiscal Year Ended June 30				
2016	2017	2018	2019	2020
\$27,068	\$30,261	\$31,893	\$33,811	\$37,799
24,719	26,214	27,854	28,890	25,058
				11,377 (g)
				5,173 (g)
18,737	19,349	20,429	23,386	4,632 (g)
8,051	10,497	12,758	11,757	9,039
3,037	2,180	2,719	8,452	8,092
6,104	4,696	6,228	6,019	9,089
7,196	7,238	6,981	6,969	5,228
29,410	25,637	29,065	41,153	24,684
113	310	568	926	983
124,435	126,382	138,495	161,363	141,154
13,771	17,089	15,397	21,352	19,146
2,885	3,148	3,633	(f)	(f)
			5,038	5,784
3,383	3,876	4,497	5,144	5,227
(e)	(e)	(e)	(e)	(e)
(c)	(c)	(c)	(c)	(c)
6,020	6,839	6,983	8,151	9,588
3,257	3,527	3,103	3,201	3,559
2,805	2,978	3,153	(f)	(f)
			1,648	2,116
26,124	27,247	27,880	30,389	34,301
17,470	18,456	21,034	23,225	26,416
24,811	26,151	27,243	23,435	32,106
			199	728
54	48	69	104	155
100,580	109,359	112,992	121,886	139,126
23,855	17,023	25,503	39,477	2,028
			952	
160	7,324		1	
		(12,437)	(152)	
23,001	18,405	19,505	37,936	27,164
(19,864)	(14,903)	(14,637)	(35,449)	(21,777)
3,297	10,826	(7,569)	3,288	5,387
\$27,152	\$27,849	\$17,934	\$42,765	\$7,415
0.1%	0.1%	0.1%	0.3%	0.7%

CITY OF MILPITAS
 ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (Dollars in Thousands)



Fiscal Year	Real Property				Unsecured	Less: Tax-Exempt Property (c)	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other (c)				
2010-11	\$6,169,631	\$1,347,861	\$2,772,798	\$346,493	\$1,557,639	(\$282,326)	\$11,912,096	1%
2011-12	6,237,714	1,325,735	2,474,543	327,933	1,415,065	(282,633)	11,498,357	1%
2012-13	6,291,949	1,348,591	2,507,227	355,453	1,706,657	(309,165)	11,900,712	1%
2013-14	6,793,845	1,388,236	2,622,328	540,230	1,764,760	(296,041)	12,813,358	1%
2014-15	7,728,283	1,427,474	2,628,858	654,879	1,887,428	(266,136)	14,060,786	1%
2015-16	8,629,667	1,445,665	2,788,984	649,712	1,844,591	(299,860)	15,058,759	1%
2016-17	9,386,926	1,493,922	3,248,012	675,017	1,529,223	(314,291)	16,018,809	1%
2017-18	10,143,815	1,581,140	3,563,327	782,718	1,710,357	(315,999)	17,465,358	1%
2018-19	10,997,080	1,619,668	3,504,633	790,143	1,761,094	(328,719)	18,343,899	1%
2019-20	12,311,913	1,684,889	3,752,681	665,325	1,917,745	(333,527)	19,999,026	1%

Source: Hdl Coren & Cone, Santa Clara County Assessor Combined Tax Rolls

Notes:

- (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.
- (b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.
- (c) Corrections were made for Fiscal Years 2013-14 through 2018-19 to correct the amounts for Other and Tax-Exempt Property. Total assessed value was unchanged.

CITY OF MILPITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Rate per \$100 of assessed value)

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara (c)	School Districts	Special Districts
2010-11	\$1.00	\$1.00	\$0.0507	\$0.1389	\$0.0072
2011-12	1.00	1.00	0.0459	0.1490	0.0064
2012-13	1.00	1.00	0.0463	0.1140	0.0069
2013-14	1.00	1.00	0.0437	0.0961	0.0070
2014-15	1.00	1.00	0.0503	0.0750	0.0065
2015-16	1.00	1.00	0.0503	0.0817	0.0057
2016-17	1.00	1.00	0.0498	0.0734	0.0086
2017-18	1.00	1.00	0.0621	0.0880	0.0062
2018-19	1.00	1.00	0.0589	0.0850	0.0042
2019-20	1.00	1.00	0.0581	0.1245	0.0041

Source: County of Santa Clara, Tax Rates & Information

Notes:

- (a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.
- (b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.
- (c) The overlapping rates for the County of Santa Clara were corrected in prior years to include amounts that were previously omitted by mistake.

CITY OF MILPITAS
PRINCIPAL PROPERTY TAX PAYERS
FISCAL YEARS 2019-20 and 2010-11

Taxpayer	2019-2020			2010-2011		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cisco Systems Inc.	\$886,371,787	1	4.43%	\$584,277,379		4.90%
KLA Tencor Corporation	422,312,113	2	2.11%	203,516,223		1.71%
Milpitas Mills LP	337,889,378	3	1.69%	318,591,678		2.67%
Sandbox Expansion LLC	237,179,988	4	1.19%			
Western Digital Technologies	223,729,541	5	1.12%			
Milpitas-District Owner LLC	203,447,281	6	1.02%			
McCarthy Center Holdings LLC	189,588,451	7	0.95%			
Amalfi Milpitas LLC	167,847,713	8	0.84%			
Essex Portfolio Lp	161,316,189	9	0.81%			
Diversifield Real Estate Investors				185,839,684		1.56%
Silicon Valley California, Inc.				175,255,293		1.47%
Headway Technologies	158,592,564	10	0.79%	123,824,481		1.04%
Bre Milpitas LLC				115,567,449		0.97%
Linear Technology Corporation				107,655,795		0.90%
Solyndra Inc				82,207,448		0.69%
Lifesan Inc				80,419,329		0.68%
Subtotal	<u>\$2,988,275,005</u>		<u>14.94%</u>	<u>\$1,977,154,759</u>		<u>16.60%</u>
Fiscal Year 2018-2019 Total Net Assessed Valuation			\$19,999,026,000			
Fiscal Year 2009-2010 Total Net Assessed Valuation			\$11,912,096,000			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2018/19 Combined Tax Rolls

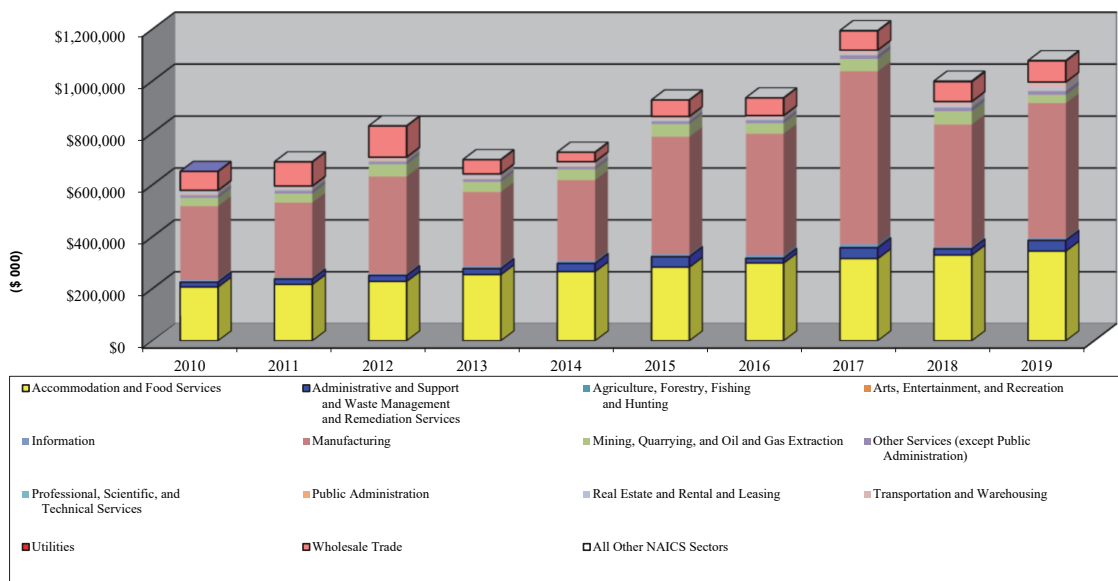
CITY OF MILPITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollars in thousands)

Fiscal Year		Taxes Levied (a)	Current Collections (a)	Percent of Levy Collected	Delinquent Tax Collections	Total Taxes Collected (a)	Percent of Levy
2010-11	(b)	\$55,655	\$55,655	100.00%	0	\$55,655	100.00%
2011-12	(c)	34,029	34,029	100.00%	0	34,029	100.00%
2012-13	(c)	20,469	20,469	100.00%	0	20,469	100.00%
2013-14		27,608	27,608	100.00%	0	27,608	100.00%
2014-15		24,927	24,927	100.00%	0	24,927	100.00%
2015-16		27,068	27,068	100.00%	0	27,068	100.00%
2016-17		30,262	30,262	100.00%	0	30,262	100.00%
2017-18		31,893	31,893	100.00%	0	31,893	100.00%
2018-19		33,811	33,811	100.00%	0	33,811	100.00%
2019-20		37,684	37,684	100.00%	0	37,684	100.00%

- (a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.
- (b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) The Redevelopment Agency was dissolved effective January 31, 2012 and collections of property tax increment ceased as of that date. Subsequent to that date, a Successor Agency collects property taxes of the former Redevelopment Agency.

Source: City of Milpitas Comprehensive Financial Annual Report

CITY OF MILPITAS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(Dollars in Thousands)



	CALENDAR YEARS									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Accommodation and Food Services	\$207,388	\$217,028	\$228,669	\$254,966	\$266,893	\$283,823	\$299,502	\$316,639	\$330,496	\$345,741
Administrative and Support and Waste Management and Remediation Services	18,785	21,090	22,923	22,930	31,270	40,434	18,183	41,625	23,808	41,319
Agriculture, Forestry, Fishing and Hunting	2,129	231	654	2,325	3,419	1,615	5,095	5,557	1,859	1,750
Arts, Entertainment, and Recreation	237	253	826	294	391	369	339	242	131	-
Information	6,622	6,783	6,361	6,680	6,953	7,444	8,034	7,896	6,649	7,055
Manufacturing	283,892	287,022	373,444	286,085	310,523	452,332	466,744	666,252	470,605	519,709
Mining, Quarrying, and Oil and Gas Extraction	31,304	34,733	46,844	38,479	40,494	48,890	39,887	47,834	50,470	31,657
Other Services (except Public Administration)	9,552	10,081	8,904	9,702	9,817	10,072	11,630	13,032	13,596	13,796
Professional, Scientific, and Technical Services	2,455	3,123	3,895	1,784	1,815	1,752	1,733	1,694	1,746	1,861
Public Administration	3,647	3,448	3,469	3,203	2,838	1,389	1,311	1,310	1,242	1,770
Real Estate and Rental and Leasing	7,088	3,883	2,899	6,901	4,023	3,592	3,504	4,507	6,288	8,355
Retail Trade	804,932	856,774	917,706	933,933	978,420	1,032,863	1,121,708	1,121,983	1,180,563	1,182,532
Transportation and Warehousing	6,551	8,532	8,479	9,607	11,752	12,736	11,818	13,411	15,032	23,952
Utilities	-	-	-	8	-	-	-	-	-	-
Wholesale Trade	73,175	93,560	120,653	55,034	36,458	63,621	68,188	74,425	76,539	81,577
All Other NAICS Sectors	9	29	61	159	97	56	169	752	2,167	976
Total	\$1,457,766	\$1,546,570	\$1,745,787	\$1,632,090	\$1,705,163	\$1,960,988	\$2,057,845	\$2,317,159	\$2,181,191	\$2,262,050
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Source: California Department of Tax and Fee Administration (CDTFA)
Muni Services Avenu Insights and Analytics Company

CITY OF MILPITAS
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rate	Santa Clara County (e)	State of California	
2010-11	1.00	1.25	7.00	
2011-12	1.00	1.25	6.00	(a)
2012-13	1.00	1.50	6.25	(b) (c)
2013-14	1.00	1.50	6.25	
2014-15	1.00	1.50	6.25	
2015-16	1.00	1.50	6.25	
2016-17	1.00	2.00	6.00	(d)
2017-18	1.00	2.00	6.00	
2018-19	1.00	2.00	6.00	
2019-20	1.00	2.00	6.00	

Source: California State Board of Equalization

(a) July 1, 2011 the State decreased the State Rate 1%

(b) April 1, 2013 the County increased the rate 0.25%

(c) On both July 1, 2012 and April 1, 2013 the State increased the State Rate 0.125%

(d) On April 1, 2017, the County increased the rate 0.50% and on January 1, 2017 the State decreased the rate 0.25%.

(e) Corrections were made to the County and State rates in all years. 0.25% that is part of the County Transportation Fund was being counted as State rate by mistake.

Note: The City's sales tax rate may be changed only with approval of the State Legislature.

CITY OF MILPITAS
 PRINCIPAL SALES TAX PAYERS
 CALENDAR YEARS 2019 and 2009
 IN ALPHABETICAL ORDER

2019	2009
7-Eleven Food Stores	Best Buy Stores
Acme Construction Supply	Burlington Coat Factory
Best Buy Stores	Chevron Service Stations
Burlington Coat Factory	Cisco Systems Inc.
Chevron Service Stations	Coach Stores
Cisco Systems Inc.	Dave & Busters
Coach Stores	H & M
Consolidated Electrical Distributors	Headway Technologies
Eplus Technology	Home Depot
Flextronics	KLA Tencor Corporation
Home Depot	Kohl's Department Stores
Hoya Corporation USA	LSI Logic
Independent Electric Supply	Marshall's Store
KLA Tencor	Milpitas Materials Company
Marshall's Stores	Nanometrics
McDonald's Restaurants	Neiman Marcus Department Store
Michael Kors Stores	One Workplace L Ferrari
Milpitas Materials Company	Piercey Toyota & Scion
Nike Factory Store	Ross Stores
Piercey Honda	Saks Fifth Avenue
Piercey Toyota & Scion	Shell Service Stations
Shell Service Stations	South Bay Honda
Teledyne Lecroy	Sportmart
Veeco Process Equipment	The GAP
Wal Mart Stores	Wal Mart Stores

Source: MBIA MuniServices Company

CITY OF MILPITAS
 RATIOS OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (Dollars in thousands, except per capita)

Fiscal Year	Governmental Activities				Business-type Activities		Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation	Revenue Bonds (d)			
2010-11	\$168,940	\$33,978	\$0	\$0	\$8,090	\$0	\$211,008	10.21%	\$2,949
2011-12	0 (b)	0 (b)	14,037	0	7,710	0	21,747	1.06%	325
2012-13	0	0	9,828	360	7,315	0	17,503	0.82%	258
2013-14	0	0	6,000	274	6,910	0	13,184	0.59%	188
2014-15	0	0	0	186	6,490	0	6,676	0.29%	96
2015-16	0	0	0	94	6,055	0	6,149	0.26%	81
2016-17	0	0	0	0	5,605	0	5,605	0.22%	74
2017-18	0	0	0	0	0	5,363	5,363	0.20%	71
2018-19	0	0	0	728	0	4,812	5,540	0.19% (c)	73
2019-20	0	0	0	0	0	59,448	59,448	1.76%	763

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

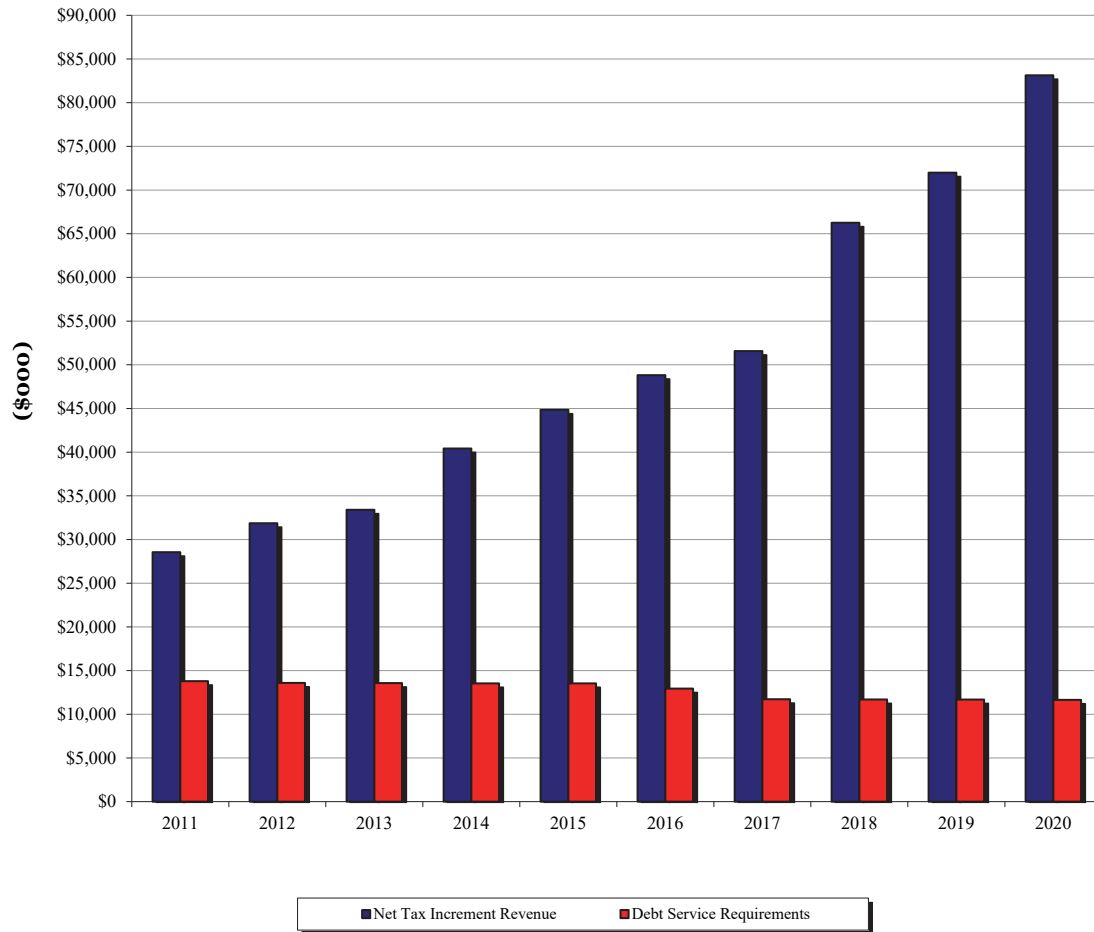
(a) See Schedule 18 for personal income and population data.

(b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency.

(c) Data for fiscal year 2018-19 not available until May of 2020.

(d) Balance of Revenue Bonds includes unamortized Bond Premium

CITY OF MILPITAS
BONDED DEBT PLEDGED REVENUE COVERAGE
REDEVELOPMENT AGENCY TAX ALLOCATION BONDS
LAST TEN FISCAL YEARS



Fiscal Year Ended June 30	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2011	\$36,353,737	\$7,800,736	\$28,553,001	\$5,240,000	\$8,548,559	\$13,788,559	2.07
2012	31,866,464 (b) (d)	0 (b)	31,866,464	5,410,000 (c)	8,182,883 (c)	13,592,883	2.34
2013	33,401,413 (d)	0 (b)	33,401,413	5,595,000 (d)	7,973,533 (d)	13,568,533	2.46
2014	40,418,284 (d)	0 (b)	40,418,284	5,825,000 (d)	7,713,234 (d)	13,538,234	2.99
2015	44,843,881 (d)	0 (b)	44,843,881	6,120,000 (d)	7,414,608 (d)	13,534,608	3.31
2016	48,810,216 (d)	0 (b)	48,810,216	7,375,000 (d)	5,567,028 (d)	12,942,028	3.77
2017	51,563,292 (d)	0 (b)	51,563,292	6,045,000 (d)	5,682,175 (d)	11,727,175	4.40
2018	66,266,187 (d)	0 (b)	66,266,187	6,225,000 (d)	5,467,000 (d)	11,692,000	5.67
2019	71,988,412 (d)	0 (b)	71,988,412	6,475,000 (d)	5,213,000 (d)	11,688,000	6.16
2020	83,139,471	0 (b)	83,139,471	6,735,000 (d)	4,915,125 (d)	11,650,125	7.14

- (a) Tax increments are net of pass-through payments and administrative fees withheld by the County prior to distribution to the Agency.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency. The Successor Agency collects Property Taxes, with no distinction between housing and non-housing revenues, which are used for the repayment of the former Redevelopment Agency's Bonds.
- (c) Includes debt service paid by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution.
- (d) Tax increment reported in this table after the dissolution date is the amount calculated by the County Auditor-Controller as available for payment of enforceable obligations. Under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations. Debt service reported was paid by the Successor Agency.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2020

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2019-20 Assessed Valuation, Direct and Overlapping Debt		\$19,999,026,235
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	3.799%	\$34,191,639
San Jose- Evergreen Community College District	12.154%	105,568,606
Milpitas Unified School District	99.108%	164,952,212
East Side Union High School District	0.456%	5,440,712
Berryessa Union School District	2.989%	3,238,617
Santa Clara Valley Water District Benefits Assessment District	3.799%	2,540,551
City of Milpitas 1915 Act Bonds	100%	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		315,932,337
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations	3.799%	37,499,267
Santa Clara County Pension Obligations	3.799%	13,460,000
Santa Clara County Board of Education Certificates of Participation	3.799%	134,989
San Jose- Evergreen Community College District OPEB Bonds	12.154%	5,843,468
Milpitas Unified School District Certificates of Participation	99.108%	11,903,497
East Side Union High School District OPEB Bonds	0.456%	171,169
Berryessa Union School District Certificates of Participation	2.989%	157,319
City of Milpitas	100%	0
Santa Clara County Vector District Certifications of Participations	3.799%	77,968
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		69,247,677
Less: Santa Clara County supported obligations		(2,845,481)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$66,402,196
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	100%	\$94,935,000
TOTAL DIRECT DEBT		\$0
TOTAL GROSS OVERLAPPING DEBT		\$480,115,014
TOTAL NET OVERLAPPING DEBT		\$477,269,533
GROSS COMBINED TOTAL DEBT		\$480,115,014 (2)
NET COMBINED TOTAL DEBT		\$477,269,533

- (1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2018-19 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 1.58%

Ratios to Assessed Valuation:
Direct Debt % 0.00%
Total Gross Debt % 2.40%

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2019-20

Assessed value (net) - June 30, 2020	<u><u>\$19,999,026</u></u>	
Debt limit: 3.75% of assessed value (a)		\$749,963
Debt applicable to limit		
Total Bonded Debt		
Less: Tax Allocation Bonds		
not subject to limit		
Amount of Debt subject to limit		<u>0</u>
Legal debt margin		<u><u>\$749,963</u></u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2010-11	\$446,703	\$0	\$446,703	0.0%
2011-12	431,188	0	431,188	0.0%
2012-13	446,277	0	446,277	0.0%
2013-14	480,501	0	480,501	0.0%
2014-15	527,280	0	527,280	0.0%
2015-16	564,703	0	564,703	0.0%
2016-17	600,705	0	600,705	0.0%
2017-18	654,951	0	654,951	0.0%
2018-19	687,896	0	687,896	0.0%
2019-20	749,963	0	749,963	0.0%

(a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in being assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

Source: City of Milpitas Finance Department
Santa Clara County Tax Assessor's Office

CITY OF MILPITAS
 INSTALLMENT PAYMENT COVERAGE
 SEWER CERTIFICATES OF PARTICIPATION AND
 WASTEWATER REVENUE REFUNDING BONDS
 LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2010-11	\$11,752,362	\$6,420,615	\$5,331,747	\$370,000	\$319,468	\$689,468	7.73
2011-12	12,757,123	5,405,936	7,351,187	380,000	304,267	684,267	10.74
2012-13	12,785,567	6,356,621	6,428,946	395,000	292,966	687,966	9.34
2013-14	13,235,908	7,834,220	5,401,688	405,000	278,965	683,965	7.90
2014-15	14,664,759	7,263,553	7,401,206	420,000	264,528	684,528	10.81
2015-16	16,408,718	7,687,848	8,720,870	435,000	249,348	684,348	12.74
2016-17	16,803,344	6,657,757	10,145,587	450,000	233,193	683,193	14.85
2017-18	17,245,001	9,031,729	8,213,272	470,000	216,055	686,055	11.97
2018-19	19,163,495	8,427,888	10,735,607	480,000	170,273	650,273	16.51
2019-20	20,664,951	10,235,463	10,429,488	460,000	808,477	1,268,477	8.22

NOTE: The Certificates of Participation were issued on November 28, 2006 and called on January 5, 2018.
 The 2017 Wastewater Revenue Refunding Bonds were issued on December 4, 2017.
 The 2019 Wastewater Revenue Bonds were issued on October 22, 2019.

- (1) Gross Revenues include sewer service charges, other operating revenues, and interest income.
 Gross Revenues exclude connection fees and capital contributions.
- (2) Operating Expenses include sewer treatment services, personnel services, services and supplies,
 and repairs and maintenance expenses.
 Operating Expenses exclude depreciation and amortization expenses.

CITY OF MILPITAS
 INSTALLMENT PAYMENT COVERAGE
 WATER REVENUE FUNDS
 LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2010-11							
2011-12							
2012-13							
2013-14							
2014-15							
2015-16							
2016-17							
2017-18							
2018-19							
2019-20	\$33,954,254	\$26,919,455	\$7,034,799	\$155,000	\$419,018	\$574,018	12.26

NOTE: The Water Revenue Bonds were issued on October 24, 2019.

- (1) Gross Revenues include water service charges, other operating revenues, and interest income.
Gross Revenues exclude connection fees and capital contributions.
- (2) Operating Expenses include wholesale water purchases, personnel services, services and supplies, and repairs and maintenance expenses.
Operating Expenses exclude depreciation and amortization expenses.

CITY OF MILPITAS
BIMONTHLY SEWER RATES BY CUSTOMER CLASS
LAST TEN FISCAL YEARS

Fiscal Year	Residential			Commercial	
	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges (a)
2010-11	\$70.94	\$50.68	\$31.18	\$11.98	\$0.72 - \$7.61
2011-12	72.95	51.06	33.36	12.82	2.38 - 6.99
2012-13	75.92	51.06	33.36	13.72	2.38 - 6.99
2013-14	75.92	51.06	33.36	13.72	2.38 - 6.99
2014-15	86.93	52.22	38.20	14.68	2.73 - 8.00
2015-16	90.27	69.32	56.97	14.97	3.94 - 8.34
2016-17	90.27	69.32	56.97	14.97	3.94 - 8.34
2017-18	90.27	69.32	56.97	14.97	3.94 - 8.34
2018-19	102.52	78.73	64.70	24.30	4.21 - 9.63
2019-20	111.07	85.30	70.08	25.78	4.54 - 10.65

Source: City of Milpitas, Ordinance 208.53

(a) For each one hundred cubic feet of water used. Charge varies depending on the business or type of business.

CITY OF MILPITAS
BIMONTHLY WATER RATES BY CUSTOMER CLASS
LAST TEN FISCAL YEARS

Fiscal Year	Single Family Residential			Commercial	
	Potable Residential	Capital Surcharge	5/8 inch Meter Charge	Potable Commercial Industrial Institutional Construction	5/8 to 10 inch Meter Charge
2010-11	\$1.77 - \$3.72*		\$22.41	\$4.04	\$23.65 - \$577.47
2011-12	1.77 - 4.17*		25.77	4.32	25.77 - 628.82
2012-13	2.02 - 4.50*		26.29	4.62	26.29 - 641.40
2013-14	2.30 - 4.86*		26.82	4.94	26.82 - 654.23
2014-15	2.62 - 5.29*		27.36	5.29	27.36 - 667.31
2015-16	4.75		18.00	4.75	18.00 - 900.00
2016-17	5.13	1.30	19.44	5.13	19.44 - 972.00
2017-18	5.13	1.30	19.44	5.13	19.44 - 972.00
2018-19**	5.13 - 5.31	1.30 - 1.08	19.44 - 27.01	5.13 - 5.31	19.44 - 1,350.33
2019-20	5.63	1.08	28.63	5.63	26.83 - 1,431.35

Source: City of Milpitas, Ordinance 120.48

*Residential rates were a range based on consumption amounts for the period. There were 4 levels with the lowest rate being for use under 10 hc, and the highest rate for use over 30 hcf in the period..

**Rate effective Service Period April 1, 2019 to June 30, 2019 implemented on bill dated June 17, 2019. July 2018 rate listed first, and April rate listed second.

(a) For each one hundred cubic feet of water used. Charge varies depending on the business or type of business.

CITY OF MILPITAS
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN CALENDAR YEARS
 (Personal Income in Thousands)

<u>Calendar Year</u>	<u>Population</u>	<u>Population Density (Sq. Mile)</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%)</u>	<u>Land Area (Sq. Mile)</u>
2010	71,552	5,238	\$2,067,137	\$28,890	9,887	11.50%	13.66
2011	66,966	4,902	2,052,307	30,647	9,949	10.00%	13.66
2012	67,894	4,970	2,143,889	31,577	10,033	6.70%	13.66
2013	70,092	5,131	2,234,603	31,881	10,156	5.50%	13.66
2014	69,903	5,117	2,287,366	32,722	10,281	4.90%	13.66
2015	75,521	5,529	2,374,221	31,437	10,291	3.90%	13.66
2016	75,410	5,520	2,528,663	33,532	10,260	3.50%	13.66
2017	75,410	5,520	2,721,275	36,086	10,318	3.60%	13.66
2018	76,231	5,581	2,966,362	38,912	10,172	2.80%	13.66
2019	77,961	5,707	3,373,340	43,269	10,308	2.70%	13.66

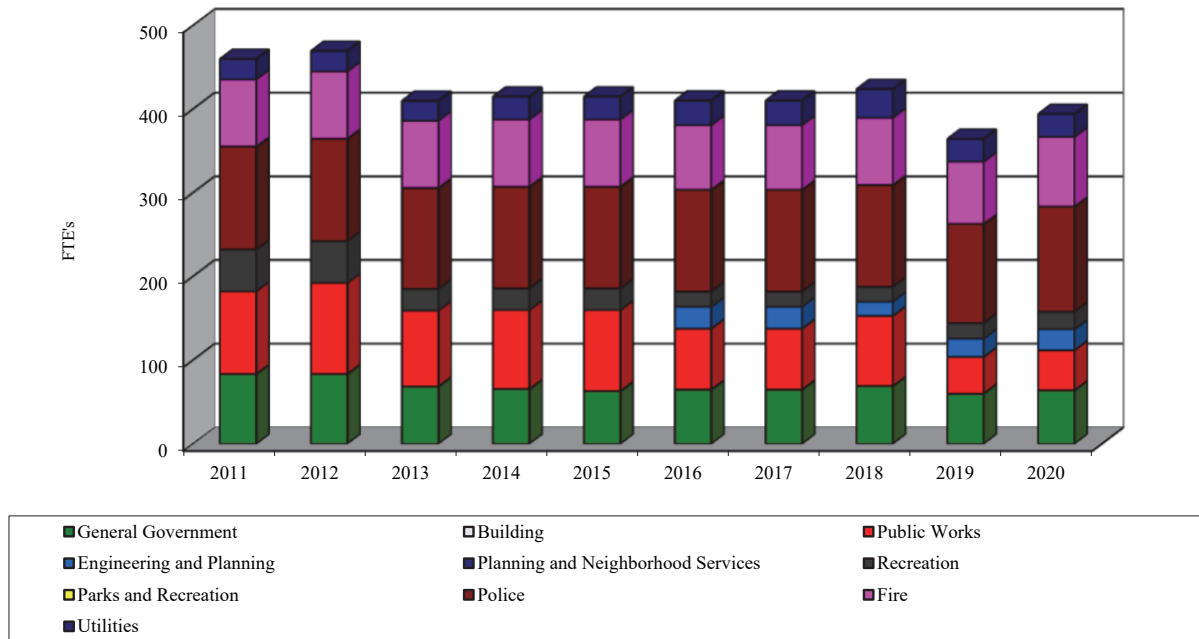
Sources: HdL, Coren & Cone
 City of Milpitas Annual Budget

CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2019-20 and 2010-2011

Employer	2019-20			2010-11		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,347	1	7.95%	2,947	1	3.61%
KLA-Tencor Corporation	2,223	2	5.28%	2,298	2	2.81%
Flextronics International	2,732	3	6.49%	915	5	1.12%
San Disk Corporation	1,913	4	4.54%	1,797	3	2.20%
Analog Devices (Linear Technology Corporation)	1,283	5	3.05%	1,348	4	1.65%
Milpitas Unified School District	811	6	1.93%	793	6	
Headway Technologies	735	7	1.75%	362	10	0.44%
Fire-Eye, Inc.	528	8	1.25%			
Wal-Mart	439	9	1.04%			
Kaiser Permanente Medical Offices	361	10	0.86%			
LSI Logic Corporation				726	7	0.89%
Lifescan, Inc.				640	8	0.78%
JDS Uniphase Corporation				619	9	0.76%
Subtotal	<u>14,372</u>		<u>34.14%</u>	<u>12,445</u>		<u>15.24%</u>
Total Labor Force			42,100			81,646

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS



	Fiscal Year Ended June 30									
Function	2011	2012	2013	2014	2015	2016	2017	2018	2019 (e)	2020
General Government	83.5	83.5	68.5	65.5	63.0	64.8	64.8	69.0	60.0	64.0
Building, Housing and Safe	28.0	28.0	28.0	23.0	23.0	24.0	24.0	25.0	33.0 (c)	33.0
Public Works	99.0	109.0	91.0	94.5	97.0	73.0 (b)	73.0	84.0	44.0	48.0
Engineering						26.0 (b)	26.0	17.0	22.0	25.0
Planning	18.0	18.0	16.5	18.5	18.5	17.0	17.0	17.0	9.0 (c)	10.0
Recreation	49.5	49.5	25.5 (a)	25.5	25.5	18.0	18.0	17.5	18.0	20.75
Parks and Recreation										
Police:										
Sworn Police	94.5	94.0	91.5	92.0	92.0	92.0	93.0	93.0	90.0	93.0
Civilians	29.0	29.0	29.5	30.0	30.0	30.0	29.0	29.0	29.0	33.0
Fire:										
Firefighters and Safety										
Officers	70.0	70.0	70.0	70.0	68.0	66.0	66.0	68.0	71.0	79.0
Civilians	10.0	10.0	10.0	10.0	12.0	11.0	11.0	12.0	3.0	4.0
Utilities (d)	24.5	24.5	24.0	27.5	27.5	29.5	29.5	34.5	27.5	27.5
Total	506.0	515.5	454.5	456.5	456.5	451.3	451.3	466.0	406.5	437.3

(a) Beginning in fiscal year 2013, parks maintenance division is now under public works department and recreation division is part of human resources department, but it is reported separately here.

(b) Beginning in fiscal year 2016, Public Works and Engineering are separate departments.

(c) Neighborhood Services is a component of Building, Housing and Safety, and Planning is a separate department beginning in fiscal year 2019.

(d) Utilities is comprised of employees from Public Works and Finance.

(e) In Fiscal Year 2019, the City removed unfunded authorized positions.

Source: City of Milpitas, final budget

CITY OF MILPITAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year Ended June 30				
	2011	2012	2013	2014	2015
Function/Program					
Building Safety & Housing					
Building permits issued	2,800	2,800	3,400	4,300	4,300
Plan review performed	800	800	1,100	1,500	1,400
Code Customer Service Requests / Violations abated	800	725	725	725	755
Public Works					
Street miles maintained	139	139	139	139	139
Customer Service Requests	3,000	3,350	3,500	2,880	2,800
Development projects reviewed	225	200	200	205	190
Planning					
Applications to Planning Commission	45	96	106	159	236
Recreation					
Sports Center members	1,200	1,400	1,600	1,450	1,504
Senior nutrition meals served	23,076	23,304	22,090	20,656	21,231
Police					
Avg response time to emergency calls (minutes)	2:49	2:42	2:32	2:33	2:32
Number of anti-terrorist patrol checks	1,469	1,693	1,996	2,550	2,300
Crime prevention presentations	281	235	201	200	200
Number of vehicle citations issued	8,544	6,901	4,120	3,516	3,600
DARE presentations: schools/students	11/845	12/770	0	0	0
Fire					
Emergency calls for service	4,400	4,075	4,356	4,356	4,950
Public education events	80	120	45	45	80
Permits Inspections	4,000	4,334	4,510	4,510	4,666
Plan Review	900	671	807	807	983
Utility					
Clean sewer lines (feet)	550,000	500,000	329,313	640,255	500,000
Repair, replace or set water meters	380	491	149	298	279
Average daily consumption (thousands of gallons)	8,100	8,200	9,340	9,300	9,300

Source: City of Milpitas, final budget

Fiscal Year Ended June 30				
2016	2017	2018	2019	2020
4,200	4,090	4,200	4,300	4,000
1,500	1,610	1,700	1,600	4,800
755	800	714	784	600
139	139	298	298	298
2,794	2,800	3,000	2,384	4,468
178	158	160	225	134
92	92	100	419	37
1,600	1,325	1,450	1,575	1,877
20,158	18,678	17,206	18,322	20,145
2:40	2:44	2:57	2:41	2:36
2,400	2,200	2,200	1,949	1,479
125	70	56	104	110
5,900	5,720	5,900	5,895	6,000
0	0	0	0	
5,000	5,000	5,200	5,640	5,600
100	112	200	223	134
7,600	7,322	7,577	7,824	7,772
1,200	1,550	1,700	1,600	1,575
500,000	500,000	491,244	528,051	432,022
189	152	115	147	219
7,800	5,800	6,590	8,394	8,410

CITY OF MILPITAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year Ended June 30			
	2011	2012	2013	2014
Public Works				
Miles of streets	139	287	287	287
Street lights	4,496	4,500	4,500	4,500
Square feet of buildings maintained (in thousands)	427	376	376	376
City vehicles	622	247	242	252
Signs	8,363	8,534	8,534	5,500
Signal lights	71	72	72	72
City Parks	31	31	33	34
Acres of Parkland	178	179	179	180
Playgrounds	33	33	24	25
Parks and recreation				
Community centers	1	1	1	1
Senior centers	1	1	1	1
Sports centers	1	1	1	1
Satellite centers	0	0	0	0
Swimming pools	4	3	3	3
Tennis courts	17	20	20	20
Football field	1	1	1	1
Baseball/softball fields	15	12	8	8
Soccer fields	2	3	9	9
Basketball courts	5	4	8	8
Volleyball courts / Horse Shoe Pits / Bocce Ball / Cricket Field / Par Course	4	5	4	9
Handball courts	4	4	5	5
Joint use:				
Russell Bobbysocks Fields	0	0	0	0
Soccer fields	0	0	0	0
Police				
Police stations	2	2	2	2
Police patrol vehicles	28	27	27	29
Fire				
Fire stations	4	4	4	4
Fire Apparatus	15	13	22	19
Fire hydrants	1,840	1,840	1,840	1,847
Utility				
Miles of water mains	213	213	213	214
Water Tank Storage capacity (million of gallons)	16	16	16	16
Miles of sanitary sewers	178	179	179	179
Miles of storm drain	110	110	110	110
Miles of recycled water main	3	4	4	4

Source: City of Milpitas, final budget

Fiscal Year Ended June 30					
2015	2016	2017	2018	2019	2020
298	298	298	298	298	298
4,577	4,577	4,581	5,119	5,141	4,418
376	376	376	322	473	473
260	264	264	269	271	258
5,700	5,700	6,000	10,000	10,000	6,000
70	71	72	72	74	78
34	33	32	32	32	36
180	180	195	195	195	154
34	34	33	30	33	33
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
0	0	2	2	1	2
3	3	3	3	3	3
21	21	21	21	21	21
1	1	1	1	1	1
9	9	7	7	9	9
12	13	13	13	8	8
7	9	10	10	10	10
7	10	13	12	10	10
5	5	6	6	6	6
0	0	3	3	3	3
0	0	2	2	8	2
2	2	2	2	2	2
28	34	29	29	29	29
4	4	4	4	4	4
19	13	11	11	12	13
2,033	2,033	2,039	2,039	2,039	2,308
213	203	203	206	206	206
16	16	16	16	16	16
179	173	173	175	173	173
110	99	99	105	99	99
23	23	21	23	26	26



OTHER AUDIT REPORT

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of the City Council
City of Milpitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Milpitas, California, as of and for the year ended June 30, 2020, and have issued our report thereon dated November 4, 2020. Our report includes a reference to other auditors who audited the financial statements of Terrace Gardens, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or on compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated November 4, 2020 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
November 4, 2020