

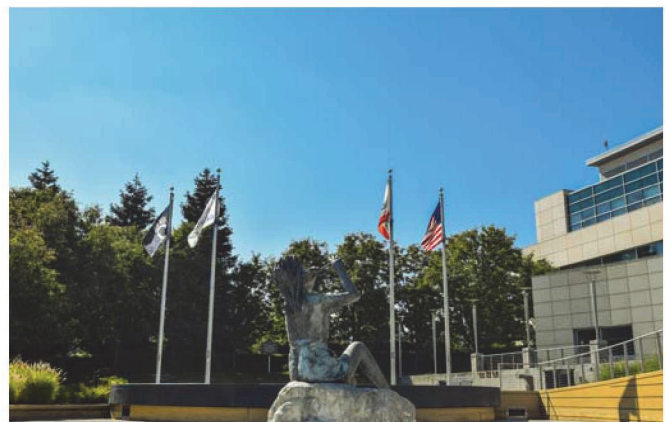


Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2019



Jose Higuera Adobe Park



City Hall



Milpitas Public Library



New Fire Engine

City of Milpitas

CALIFORNIA



CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

Prepared by
THE FINANCE DEPARTMENT



INTRODUCTORY SECTION



CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2019

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CITY OF MILPITAS

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

November 18, 2019

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, 2019 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 Inc.'s governing board. However, the Terrace Gardens Inc. issues its own component unit financial statements. The purpose and authority of the MPFA, Housing Authority, the 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 Police, Fire, Building Safety and Housing, Planning, Engineering, 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, Human Resources, Information Technology and Finance.

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: Planning Commission; Community Advisory Commission; Library and Education Advisory Commission; Parks, Recreation and Cultural Resources Commission; Science, Technology, and Innovation Commission; Arts Commission, Public Safety and Emergency Preparedness Commission; Senior Advisory Commission; Energy and Environmental Sustainability Commission; Youth Advisory Commission; Economic Development and Trade Commission, and Veterans 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 48 years, the population growth has increased from 26,561 in 1970 to nearly 80,000. Between 2000 and 2017, more than 13,000 residents were added. Milpitas was the 8th fastest growing city in the nation between July 2014 and July 2015 and the 6th fastest growing city (small city category) in 2019 according to WalletHub.com. Since 2016, the local labor market has improved such that employment has surpassed its pre-recession peak in the Silicon Valley. Currently, with over 47,000 jobs and 35,000 employed residents, Milpitas is a jobs rich community. As of July 2019, the preliminary unemployment rate in the local area is 2.2 percent, below the national rate of 3.4 percent and the preliminary California rate of 4.2 percent. We are cautiously managing this economic road to recovery while cognizant of the need to remain in a state of fiscal readiness. As discussed above, the City has set aside reserves to mitigate a mild economic downturn.

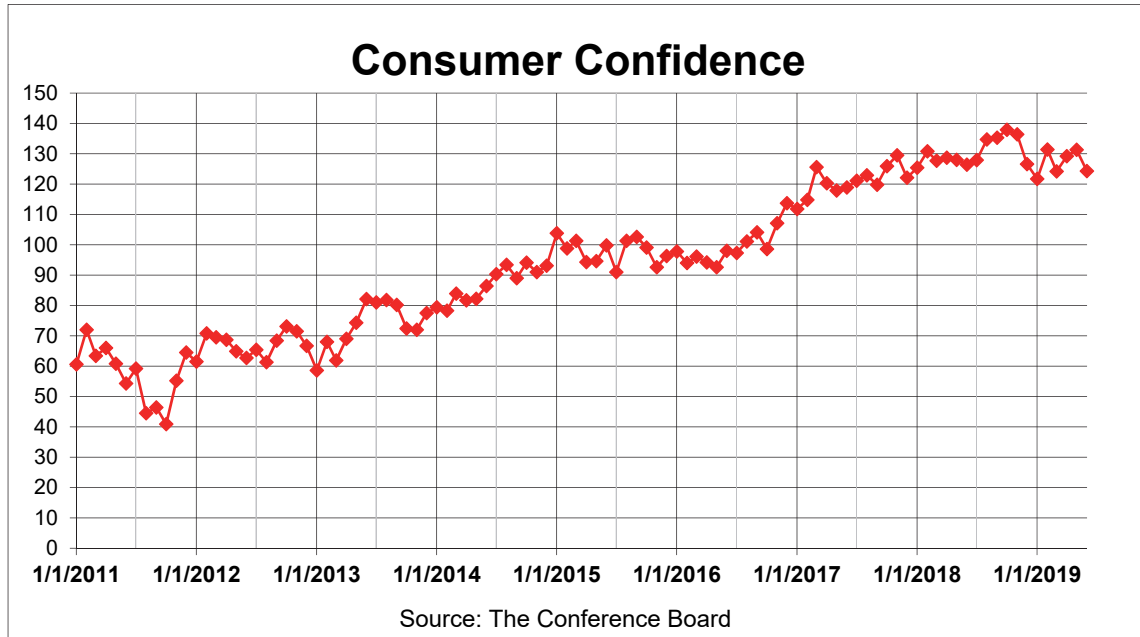
The national GDP (Gross Domestic Product) growth increased at an annual rate of 2.1 percent in the second quarter of 2019 from the previous quarter (according to the BEA, or Bureau of Economic Analysis’ Advanced estimate), and 2.9 percent in 2018 from the 2017 annual level. GDP is the value of goods 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. It should be noted that while this growth rate is the fastest in recent years, half of that expansion comes from highly transitional sources, including a large drop in imports and a build-up in business inventories. As of June 2019, the Federal Reserve Board’s advanced projection shows this growth to slow to 2.1% in 2019, 2.0% in 2020, 1.8% in 2021, with a longer run projection beyond 2021 of 1.9%.

The CPI (Consumer Price Index), is used by the U.S. Bureau of Labor Statistics to measure inflation. The June 2019 CPI-U (Consumer Price index for all Urban Consumers) increased 1.6% over the last 12 months. Core CPI (CPI less food and energy) was 2.1% year-over-year in June. Core CPI represents a more accurate picture of underlying inflation trends since volatile food and energy products are excluded. While economic activity has been rising at a moderate rate, the labor market continues to remain strong, and overall inflation for items others than food and energy is running below 2 percent, the FOMC (Federal Open Market Committee) decided to lower the target range for federal funds rate to 1.75-2.00% at its September 2019 meeting due to muted inflation pressures and recent implications from global developments on the economic outlook.

Growth in the South Bay housing market has also been an important contributor to the strength of the local economy. The median sale price of a single family residential home in Milpitas was \$1.0 million as of August 2019, down approximately 3.3% from last year. Sales fell 8.8 percent in the San Francisco Bay Area, with only Napa County recording a non-seasonally adjusted sales increase at 19.2 percent. The seven remaining counties experienced declines ranging from the low single-digits in Marin to a 21 percent dip in San Francisco. Median home prices also declined 8.1 percent in the San Francisco Bay Area, with only San Francisco County recording an 8.8 percent year-over-year price increase, following the statewide trend of cooling price growth. However, with mortgage rates expected to stay low in the upcoming months, the CAR (California Association of Realtors) has revised its 2019 housing market outlook upward for home sales. Between 2000 and 2010, the City’s housing stock increased roughly 14% to 19,806 units, with an additional 8.3% increase from 2010 to 2017 (total: 22,215 units). As of April 2019, there were approximately 6,100 new residential units under construction, entitled, or pending approval. Beyond the residential equation, much is happening in Milpitas from a perspective of private investment. The section below entitled “Major Development Activities in the City” will discuss some of the development activities that are occurring in Milpitas.

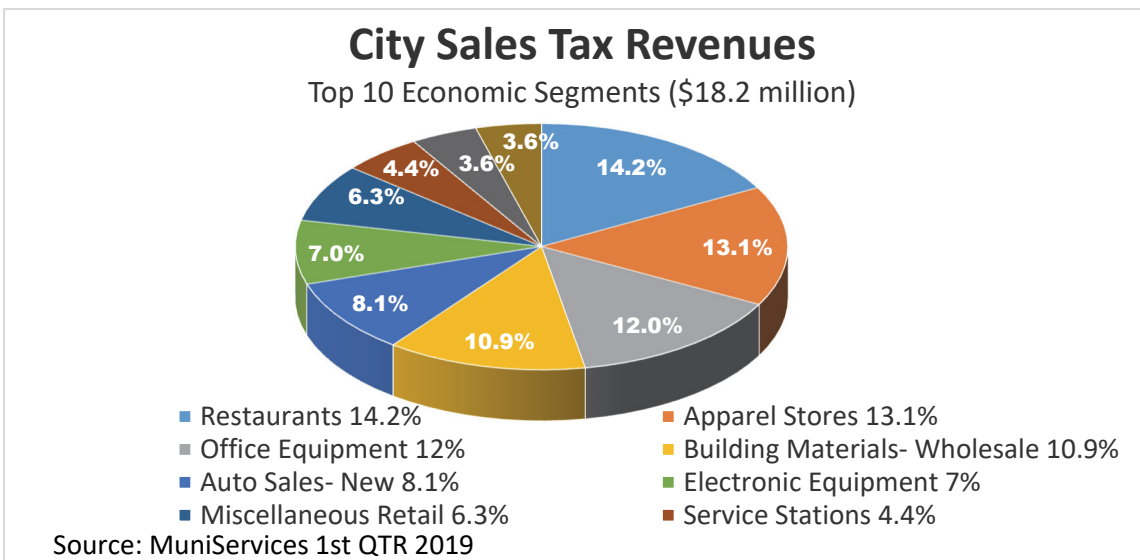
Consumer Confidence Level

The latest consumer confidence survey report showed that the U.S. consumer sentiment in June 2019 continues to stay high this past year. 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.



Top Ten Sales Tax Generators by Economic Segment

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 \$21.8 million, with the top ten economic segments generating about \$18.2 million. The sales tax revenue generated from economic segments such as restaurants, apparel stores, building materials -wholesale, miscellaneous retail, service stations, light industry increased over a year ago, while office equipment, auto sales, electronic equipment, and department store segments decreased.



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, public safety, and resource conservation. The General Plan update process kicked off in late 2016, approximately two decades after the current General Plan was adopted in 1994. Based on extensive input from residents and leaders in the community, the Plan update identifies 14 opportunity sites around the city where changes to land uses and development patterns may be appropriate over the next 20 years. With an anticipated adoption date in mid-2020, the City's new General Plan will provide policy guidance to achieve a collective vision for future development of the City.

Transit Area Specific Plan – The City adopted a Transit Area Specific Plan in June 2008, and updated it in 2011, to provide a long-term land use regulatory environment that supports medium to high density residential development around the new Milpitas Transit Center and BART station. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. As of June 2019, the TASP has come very close to the residential unit cap imposed and requires an update. Staff and consultants are updating the Plan to address additional housing units, as well as minor changes to park locations and housing densities. The Plan update is expected to be complete in late 2020.

Residential Development – An improving economy and high median home prices led to a continued interest in residential development. Outside of the Midtown and Transit Area, several residential developments are approved, under construction, or completed and occupied. These projects include a proposed single-family residential development for 46 homes, including ten accessory dwelling units (ADUs), at 1005 Park Victoria Drive, a new townhome development by KB Homes that is nearing completion at 1210 California Circle, and various small-scale infill projects throughout the City.

Non-residential Development – FY 2018-19 was a busy year for commercial development and expansion. Several projects were approved and are underway, including the Legoland Discovery Center at the Great Mall, a new employee amenity building at the KLA corporate campus (1 Technology Drive), redevelopment and new buildings at Public Storage (1600 Watson Ct), and the completion of five new industrial/manufacturing buildings with over 600,000 square feet in the McCarthy Creekside Industrial Center. Additionally, various businesses throughout the City placed significant financial investments in tenant improvements of their buildings. Big Al's opened for business this year, and various small businesses in Midtown expanded their spaces. 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. Micron, a local company, has expanded at the Tasman Tech Park. In addition, several hotel projects are either under consideration or in various stages of development: the Element Hotel is under construction and AC hotel was approved for construction at Alder Drive and Barber Lane near Tasman, Holiday Inn was completed and Home2Suites is approved and under construction on California Circle, La Quinta Hotel is proposed for 1000 Jacklin Road, and the proposed hotel at the District in the TASP will likely go before the Planning Commission in 2020.

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 in the General Fund to be at least 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 2018-19 Adopted Capital Improvement Project (CIP) Budget totaled \$43.8 million. The CIP included improvements to the City's infrastructure which includes parks, streets, water, sewer and storm drain utilities.

In addition, the City produces an annual five-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 five 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, 2018. 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-four 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.

Respectfully submitted,



Steven G. McHarris
Interim City Manager



Walter C. Rossmann
Director of Finance

Directory of Officials

June 30, 2019

City Council

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

Interim City Manager

Steven G. McHarris

City Attorney

Christopher Diaz

Assistant City Manager

Ashwini Kantak

Deputy City Manager

Vacant

Building & Housing Director

Sharon Goei

City Clerk

Mary Lavelle

Economic Development Director

Alex Andrade

Engineering Director

Steven Erickson

Finance Director

Walter C. Rossmann

Fire Chief

Brian Sherrard

Human Resources Director

Liz Brown

Information Technology Director

Mike Luu

Planning Director

Ned Thomas

Police Chief

Armando Corpuz

Public Information Officer

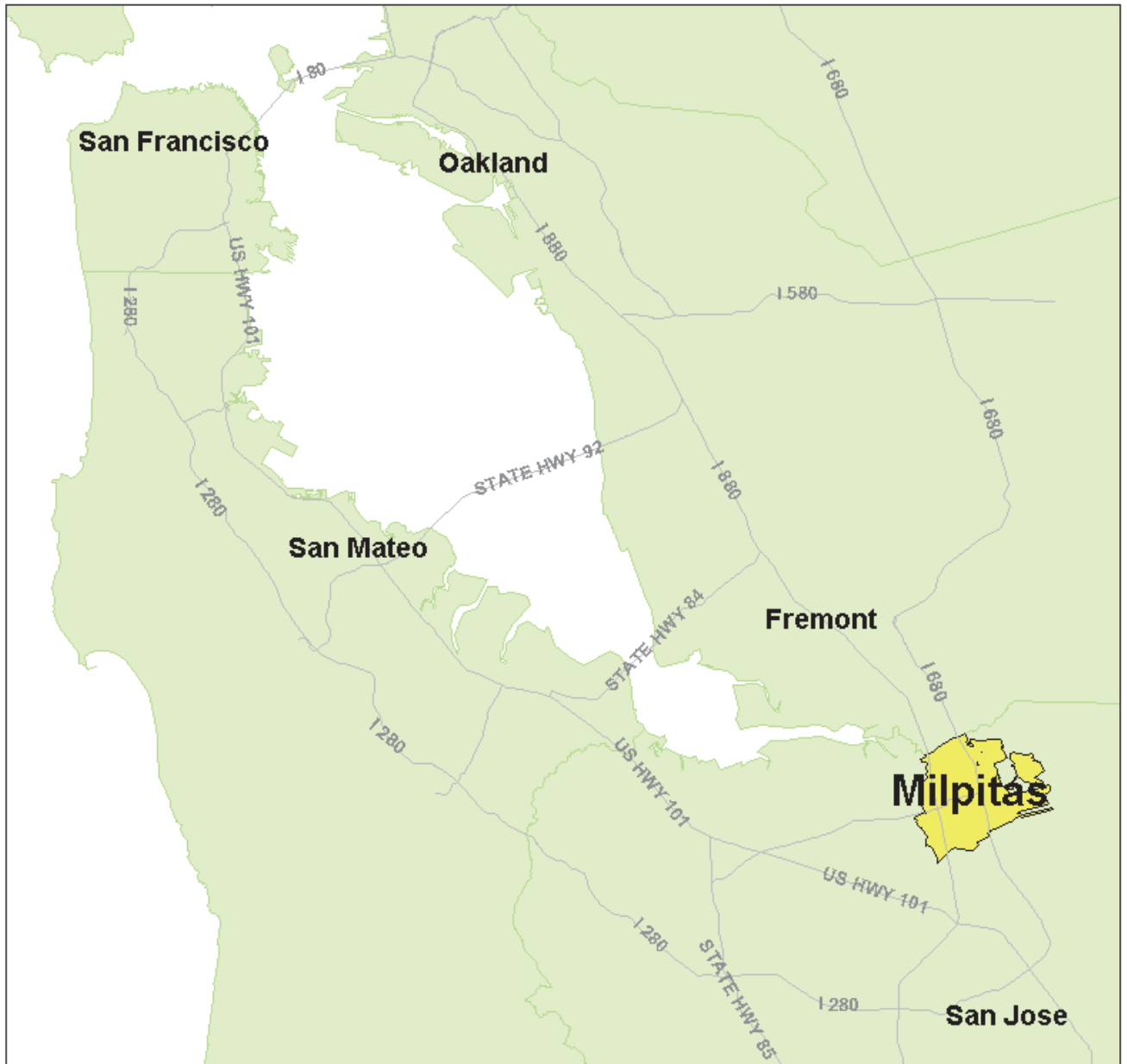
Jennifer Yamaguma

Public Works Director

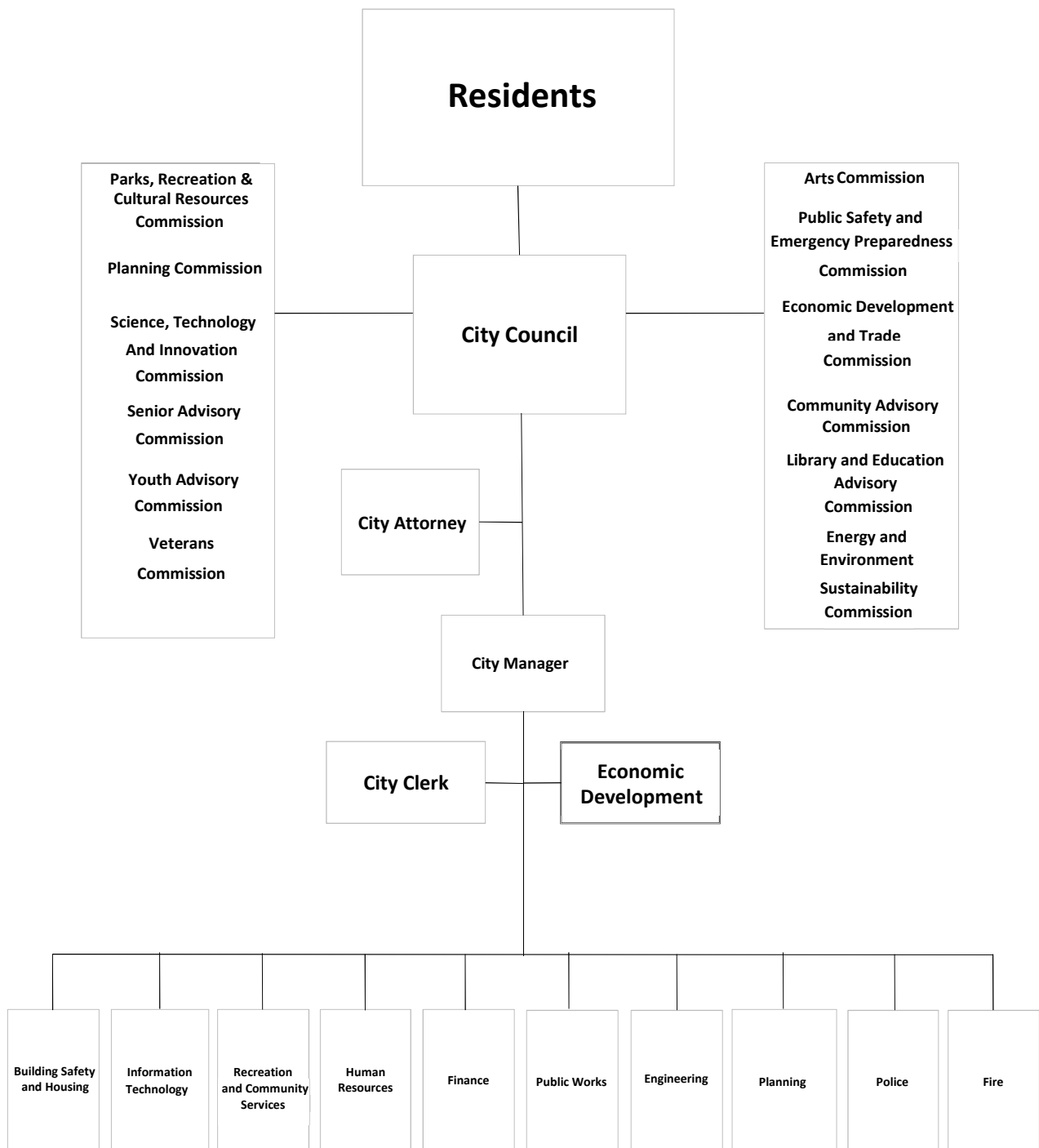
Tony Ndah

Recreation and Community Director

Renee Lorentzen



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 13.66 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 expected to open in the coming year.





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, 2018

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, 2019, 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, 2018, which represent 1.22%, 1.66%, and 1.02% 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, 2019, 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 18, 2019, 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.

Mane & Associates

Pleasant Hill, California
November 18, 2019



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, 2019. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL YEAR 2019 FINANCIAL HIGHLIGHTS

The City's revenues in Fiscal Year 2019 reflect continued economic growth in the South Bay region. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2019 was at 2.7%, a slight increase of .2% from last year's 2.5%. The property tax revenue has shown substantial growth due to double digit increases in median home prices. Transient Occupancy Tax revenues were better than last fiscal year, reflecting a steadily improving economy and a Council approved increase of the tax rate from 10% to 14% effective January 1, 2019.

Fiscal 2019 financial highlights include the following:

City-wide:

- The City's total net position was \$609.9 million at June 30, 2019. Of this total, \$406.7 million were Governmental and \$203.2 million were Business-type.
- City-wide revenues include program revenues of \$126.1 million, general revenues and transfers of \$89.8 million, totaling \$215.9 million, an increase of \$39.2 million from the prior year's total of \$176.7 million.
- Total City-wide expenses were \$166 million, an increase of \$17.2 million from the prior year's \$148.8 million.

Fund Level:

- Governmental Fund balances were \$272.5 million, an increase of \$42.8 million from fiscal 2018.
- Governmental Fund revenues were \$161.3 million in fiscal 2019, up \$23 million from the prior year's \$138.5 million.
- Governmental Fund expenditures were \$121.9 million in fiscal 2019, an increase of \$8.9 million from fiscal 2018's level of \$113 million.
- General Fund revenues of \$108.1 million represented an increase of \$9 million from fiscal 2018's revenues of \$99.1 million.
- Net other financing uses of the General Fund were (\$6.9) million in fiscal 2019 while fiscal 2018 had a total other financing uses of \$3.7 million.
- General Fund balance of \$100.7 million at the fiscal 2019 year-end was \$7.8 million more than the fund balance at fiscal 2018 year-end.

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 2019 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 2018 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

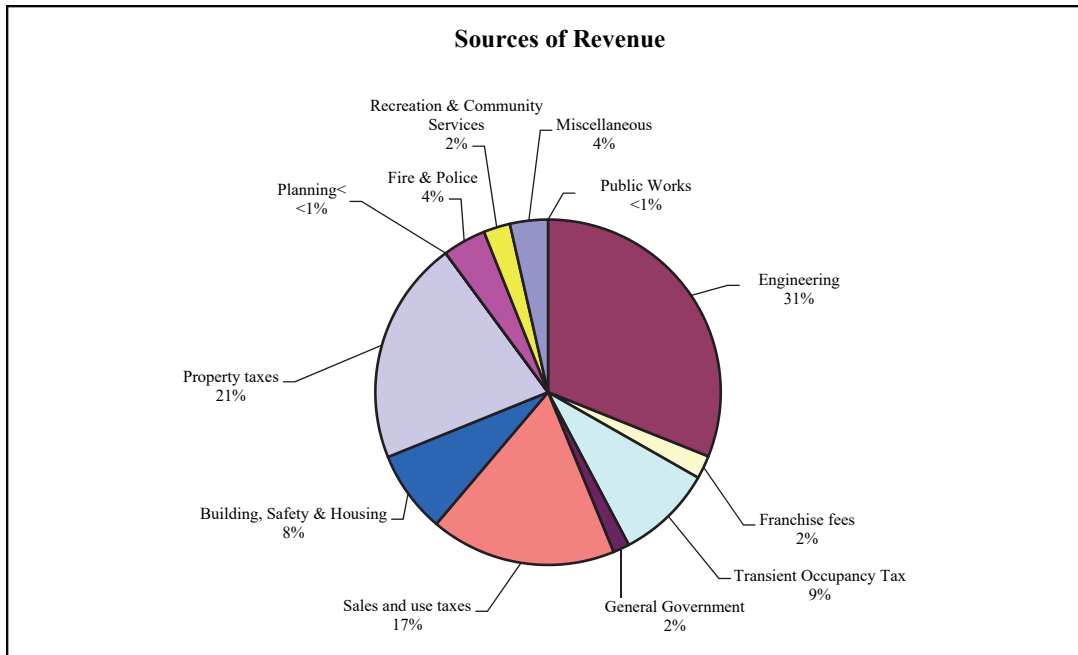
Table 1
Governmental Net Position at June 30
(in Millions)

	Governmental Activities	
	2019	2018
Cash and investments	\$252.7	\$211.6
Other assets	52.6	51.8
Capital assets	327.3	323.3
Total assets	632.6	586.7
Deferred Outflows of Resources –Related to pensions and OPEB	32.8	44.4
Net Pension liabilities	182.4	181.7
Net OPEB liability	40.0	40.4
Other liabilities	32.7	34.6
Total liabilities	255.1	256.7
Deferred Inflows of Resources –Related to pensions and OPEB	3.6	4.8
Net position:		
Net investment in capital assets	326.5	323.2
Restricted	146	109.7
Unrestricted	(65.8)	(63.3)
Total net position	\$406.7	\$369.6

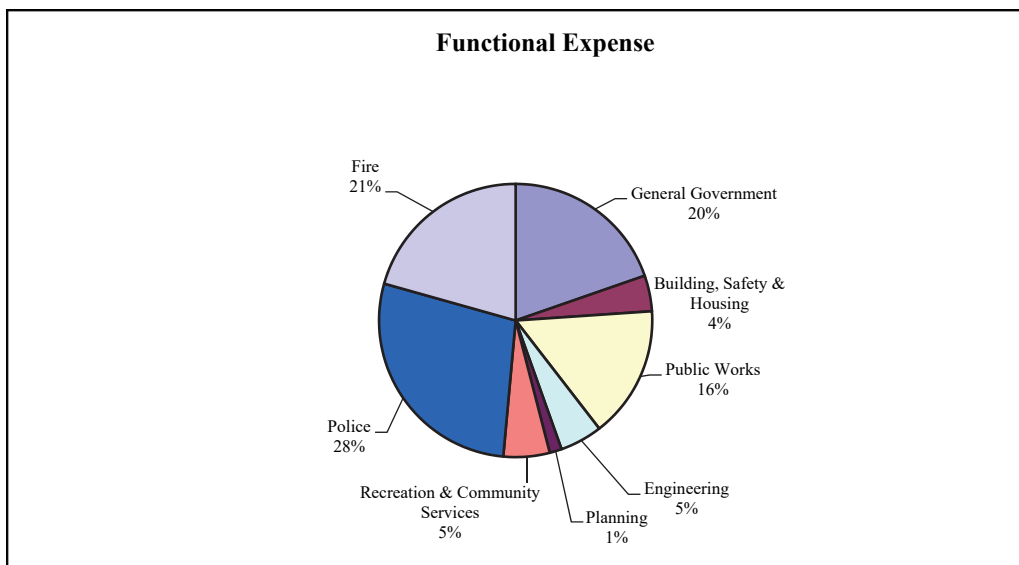
The City's governmental net position was \$406.7 million at June 30, 2019, an increase of \$37.2 million from 2018. This increase is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments increased \$41.1 million principally due to increased revenue from property tax, sales and use tax, hotel/motel taxes, franchise fees and developer fees.
- Other assets increased \$0.8 million from last year due to the net activity between receivables and property held for resale.
- Capital assets increased \$4 million from last year, resulting from \$16 million of depreciation, offset by \$20.1 million in asset additions, net of retirements in fiscal 2019.
- Deferred outflows of resources related to pension and OPEB decreased \$11.6 million from last year due to changes in actuarial results.

Fiscal Year 2019 Governmental Activities



As the Sources of Revenue Chart above shows, \$49.9 million or 31% of the City’s fiscal 2019 governmental activities revenue came from impact fees, \$33.8 million or 21% came from property taxes, while \$28 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 2019’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>2019</u>	<u>2018</u>
Expenses		
General Government	\$25.3	\$19.1
Building and Safety	0.0	4.1
Building, Safety and Housing	5.4	0.0
Recreation and Community Services	7.0	5.9
Public Works	20.1	15.9
Engineering	6.5	5.7
Planning & Neighborhood Svcs	0.0	3.6
Planning	1.9	0.0
Police	35.9	33.8
Fire	26.5	24.2
Total expenses	<u>128.6</u>	<u>112.3</u>
Revenues		
Program revenues:		
Charges for services	20.6	22.0
Operating contributions and grants	8.3	6.5
Capital Grants	47.2	34.0
Total program revenues	<u>76.1</u>	<u>62.5</u>
General revenues:		
Taxes:		
Property taxes	33.8	31.9
Sales and use taxes	28.0	27.0
Transient Occupancy taxes	14.5	12.1
Other taxes	0.8	0.8
Franchise fees	5.1	4.7
Investment earnings	4.5	0.3
Miscellaneous	0.4	0.2
Total general revenues	<u>87.1</u>	<u>77.0</u>
Total Revenues	<u>163.2</u>	<u>139.5</u>
Surplus (Deficit) before transfers	34.6	27.2
Transfers	2.5	2.5
Special Item	0	(12.4)
Changes in net position	<u>37.1</u>	<u>17.3</u>
Beginning net position	<u>369.6</u>	<u>352.3</u>
Ending net position	<u>\$406.7</u>	<u>\$369.6</u>

Table 2 compares fiscal 2019 expenses and revenues with those of fiscal 2018. Expenses increased by \$16.3 million in fiscal 2019, due to an increase in positions and increases in salaries and benefits costs.

Table 2 shows that total governmental revenues increased \$23.7 million in fiscal 2019. Program revenues increased \$13.6 million while general revenues increased \$10.1 million. The program revenues increased \$13.6 million from fiscal 2018, the net activity was due to decreases of \$1.4 million in charges for services, \$1.8 million increase in operating grants and \$13.2 million increase in capital grants. The increase in general revenues was mainly due to property tax, sales and use tax revenue, and Transient Occupancy taxes, Property tax revenue was \$1.9 million more than last year due to increase in housing and assessed valuation. Sales tax revenue in fiscal 2019 was \$1 million more than fiscal 2018, due to economic growth and the Wayfair decision. Transient Occupancy Tax (TOT) increased \$2.4 million in fiscal 2019 due to the increase in the TOT rate increase from 10% to 14% effective January 2019. The increase of investment earnings by \$4.2 million in fiscal 2019 was due to the net activity of investment earning and market value gain on investments.

Table 3 presents the net cost of each of the City’s largest programs—general government, building, safety and housing recreation, public works, engineering, planning & neighborhood services, 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 \$49.8 million.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2019	2018
General Government	\$(22.8)	\$(16.5)
Building and Safety	0.0	5.9
Building, Safety and Housing	6.9	0.0
Recreation and Community Services	(3.0)	(3.2)
Public Works	(20.1)	(15.9)
Engineering	43.5	32.0
Planning	(1.1)	(0.7)
Police	(32.4)	(30.6)
Fire	(23.4)	(20.8)
Totals	\$(52.4)	\$(49.8)

Business-type Activities

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

	Business-Type Activities	
	2019	2018
Cash and investments	\$74.6	\$67.0
Other assets	4.4	3.3
Capital assets	139.8	136.1
Total assets	218.8	206.4
Deferred Outflows of Resources – Related to Pensions and OPEB	1.1	1.4
Other liabilities	3.0	2.9
Net pension liabilities	4.7	5.1
Net OPEB liability	4.0	4.0
Long-term Debt	4.8	5.3
Total liabilities	16.5	17.3
Deferred Inflows of Resources – Related to Pensions and OPEB	0.2	0.2
Net position:		
Net investment in capital assets	135.0	130.7
Restricted	59.2	43.8
Unrestricted	8.9	15.8
Total net position	\$203.1	\$190.3

The net position of business-type activities were \$203.1 million in fiscal 2019, an increase of \$12.8 million from fiscal 2018. Total assets increased \$12.4 million, deferred outflows decreased \$0.3 million and inflows were flat in 2019. The increase in net position was due to the increased customer service charges and capital contributions for the Sewer Fund.

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

	Business-Type Activities	
	2019	2018
Expenses		
Water Utility	\$25.2	\$23.8
Sewer Utility	12.2	12.7
Total expenses	<u>37.4</u>	<u>36.5</u>
Revenues		
Program revenues:		
Charges for services	47.2	46.8
Operating grants	0.1	0.1
Capital grants	2.7	2.5
Total program revenues	<u>50.0</u>	<u>49.4</u>
General revenues:		
Investment earnings	2.7	0.2
Total general revenues	<u>2.7</u>	<u>0.2</u>
Total Revenues	<u>52.7</u>	<u>49.6</u>
Excess before transfers	15.3	13.1
Net Transfers	<u>(2.5)</u>	<u>(2.5)</u>
Changes in net position	12.8	10.6
Beginning net position	<u>190.3</u>	<u>179.7</u>
Ending net position	<u>\$203.1</u>	<u>\$190.3</u>

Table 5 compares fiscal 2019 expenses and revenues with those of fiscal year 2018. Total expenses increased by \$0.9 million in fiscal 2019 due to an increase in personnel services and an increase in water purchases and contractual services. Total program revenues increased by \$0.6 million primarily due to an increase in charges for services related to a rate increase and an increase in capital grants. Total general revenue increased \$2.5 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)

	2019	2018
Total assets	\$297.5	\$257.4
Total liabilities	23.5	25.8
Total deferred inflows of resources	1.5	1.8
Total fund balances	272.5	229.7
Total revenues	161.4	138.5
Total expenditures	121.9	113.0
Total other financing sources	3.3	(7.6)

At June 30, 2019, the City's governmental funds reported combined fund balances of \$272.5 million, an increase of \$42.81 million from last year. The fund balances of the Housing Authority and Street Improvement Capital Projects decreased \$1.2 million, \$4.5 million, respectively, while the fund balances of the General Fund, Transit Area Impact Fee, General Government and Other Funds increased \$7.8 million, \$22.0 million, \$1.6 million, and \$17.0 million, respectively.

Revenues at the fund level totaled \$161.4 million, an increase of \$22.9 million. Revenues for the General Fund, Street Improvement Fund, Transit Area Impact Fee Fund, General Government Capital Improvement and Other Governmental Funds increased \$8.9 million, \$0.3 million and \$10.6 million, \$0.2 million and \$2.7 million respectively while Housing Authority remained at the same level as last year's approximately \$1.0 million.

Expenditures increased \$8.9 million this year to \$121.9 million from last year's \$113 million. The expenditures of the General Fund, Housing Authority, Street Improvement, and General Government Fund increased \$10.6 million, \$1.8 million, \$1.8 million and \$3.0 million, respectively while the Transit Area Impact Fee Fund, and Other Governmental Funds decreased \$7.0 million and \$1.3 million respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to \$108.1 million this fiscal year, up \$8.9 million from the prior fiscal year. Increases came from property tax revenue, sales taxes, other taxes, use of money and property, intergovernmental revenue, charges for services and other revenue. Property tax revenue increased \$1.9 million due to the continued demand in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax increased by approximately \$1.0 million due to an increase in consumer spending. Other taxes increased by \$3.0 million primarily due to increased Transient Occupancy Tax revenue and franchise fees. Licenses and permits decreased \$1.0 million primarily from the building permit and inspection fees as a result of service delivery delay in the Building, Safety and Housing Department. Intergovernmental revenue increased by \$0.1 million due to the reimbursement for mutual aid fire overtime from the State Office of Emergency.

General Fund expenditures increased \$10.6 million to \$93.3 million in fiscal 2019 primarily due to an increase in salary and benefits costs.

Net Other Financing Sources decreased by \$10.6 million. Transfers out were approximately \$13.9 million, as compared to Transfers out of \$1.9 million in fiscal 2018 due to transfers to fund future capital projects, affordable housing and equipment fund. Transfers in consist of \$7 million from other funds for operating costs.

For the City's General Fund, actual revenues of \$108.1 million were \$3.3 million more than the final budgeted revenues of \$104.8 million. Property taxes, Sales taxes, Use of Money and property, Intergovernmental, Charges for services, and Other revenue exceeded budget by \$0.5 million, \$0.6 million, \$3.2 million, \$0.3 million, \$0.2 million and \$0.2 million, respectively.

At the end of the year, actual General Fund expenditures were \$96.0 million, \$9.8 million less than final budget of \$105.8 million. Savings were primarily in Non-departmental \$4 million for decreased payroll, benefits and utility expenditures, Recreation and Community Services \$0.4 million, Police \$2 million, Engineering \$1 million, City Manager \$0.5 million, Information Services \$0.2 million, Fire \$0.2 million, Building, Safety and Housing \$1.3 million due to delays in hiring personnel.

The difference in General Fund original expenditure budget and final expenditure budget was \$3.0 million. The additional appropriations consisted of \$1.5 million of expenditures funded by additional grants, donations, and developer fees.

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 \$1.0 million in fiscal 2019, comprised of \$1.0 million of interest, rental income and repayment of housing loans. Total expenditures were \$2.1 million for administration, interest forgiveness related to a restructure of an affordable housing loan, management of four 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 \$1.5 million in fiscal 2019, an increase of \$0.3 million from fiscal 2018. The increase in revenues was due to interest income, and one-time developer contributions. Fund expenditures were \$8.1 million in fiscal 2019, an increase of \$1.8 million from fiscal 2018, attributed to capital outlay increases. Net transfers were \$2.1 million in fiscal 2019, a decrease \$2.7 million from fiscal 2018 due returning unexpended capital improvement project funds back to the General Fund and Gas Tax Fund. Transfers in of \$4.3 million were from the General Fund, Gas Tax Special Revenue Fund, Transit Area Impact Fee Capital Projects Fund, Sewer Utilities Fund and Parks Improvement 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 2019, fund revenues were \$40.0 million, primarily from fees collected from developers. Expenditures were \$8.1 million, consisting of \$7.4 million capital improvement project, \$0.1 interest expense and fees and \$0.6 million general government. The transfers out of \$10.3 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 2019, expenditures of \$5.9 million consisted of \$5.7 million of capital improvement project expenditures and \$0.2 million debt service. The transfers in of \$11.6 million were primarily from the General 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 \$5.5 million were to the General Fund, Street Improvement Fund, Gas Tax, and the Park Improvement Fund, to return unexpended project funds.

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)

	2019	2018
General Fund		
Nonspendable	\$ 10.2	\$ 10.0
Committed	43.9	33.6
Assigned	5.9	8.7
Unassigned	40.7	40.5
Total	<u>\$100.7</u>	<u>\$92.8</u>
Housing Authority Fund		
Restricted	<u>\$39.3</u>	<u>\$40.5</u>
Street Improvement Fund		
Restricted	<u>\$7.4</u>	<u>\$11.9</u>
Transit Area Impact Fee Fund		
Restricted	<u>\$48.3</u>	<u>\$26.3</u>
General Government Project		
Fund		
Nonspendable	\$ 0.1	\$ 2.2
Assigned	27.8	24.0
Total	<u>\$27.9</u>	<u>\$26.2</u>

At June 30, 2019, the fund balance of the General Fund was \$100.7 million: \$10.2 million was classified as nonspendable, comprised of \$0.7 for prepaid materials and supplies, \$4.2 million of property held for resale, and \$5.3 million for advances to other funds; \$33.9 million for PERS Rate Stabilization \$1 million for Artificial turf replacement, \$2 million for Technology replacement and \$7 million for Facilities replacement were classified as committed; \$6 million of the fund balance comprised of \$2.8 million for uninsured claims and \$3.1 million for encumbrances, was classified as assigned; \$40.8 million of the fund balance comprised of \$9.4 million for budget stabilization and \$31.2 million was classified as unassigned.

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 \$27.9 million: \$0.1 million was classified as nonspendable and \$27.8 million classified as assigned due to Council's reserve policy.

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased \$0.4 million from last year, while operating expenses increased \$1.1 million. Total operating revenues and total operating expenses were \$47.2 million and \$37.3 million, respectively. Non-operating revenues were \$2.7 million in fiscal 2019, an increase of \$2.7 million from the prior year. Capital contributions increased by \$0.5 million while net transfers out decreased by \$0.2 million.

Water Utility

Water fund revenues were \$29.4 million in fiscal 2019, a decrease of \$0.3 million from prior year. The decrease in revenues was primarily due to rate decrease in the capital surcharge resulting in \$0.2 million less. Expenses were \$25.2 million in fiscal 2019, up \$1.5 million from prior year, primarily due to increased purchased water expense and an increase in personnel services of \$1.3 million. Net position of the Water Utility Fund increased \$6.2 million in the current year to a total of \$84.0 million. The increase comprised of \$4.1 million operating income for the current year, \$1.5 million in non-operating revenues, \$1.5 million capital contributions from developers, offset by net transfers out of -\$0.9 million. The transfer out of \$3.2 million reimbursed administration costs incurred by the General Fund and the transfer in of \$2.3 million funded a capital project.

This Fund's Net Position includes \$49.3 million invested in capital assets, \$30.4 million in restricted net position, and \$4.3 million in unrestricted net position.

Sewer Utility

Sewer fund revenues were \$17.8 million in fiscal 2019, up \$0.7 million from the prior year due to an increase in usage. Expenses were \$12.1 million in fiscal 2019, a decrease of \$0.3 million from the prior year due to a decrease in personnel services. Non-operating revenues and expenses in fiscal year 2019 consisted of \$1.3 million interest income, and \$0.1 million interest expense. Net position of the Sewer Utility Fund increased \$6.5 million in the current year to a total of \$119.2 million. This increase comprised of \$5.7 million in operating income, \$1.2 million in interest income and interest expense, \$1.2 million in capital contributions by developers offset by \$1.7 million net transfers out. The transfers out of \$1.7 million reimbursed administration costs incurred by the General Fund.

\$4.6 million of the Fund's Net Position in the amount of \$119.1 million was unrestricted at the fiscal year end. Of the remainder, \$85.7 million was invested in capital assets and \$28.8 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 2019, 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)

	2019	2018
<i>Governmental Activities:</i>		
Land	\$ 68.4	\$ 65.4
Construction in progress	62.9	64.1
Buildings and improvements	173.4	166.4
Other improvements	30.6	30.0
Machinery and equipment	45.2	42.5
Landscape system	30.0	29.8
Storm system	74.3	74.3
Street system	271.2	264.4
Traffic system	19.3	19.1
Less accumulated depreciation	(448.0)	(432.7)
Totals	\$327.3	\$323.3
 <i>Business-type Activities:</i>		
Land	\$ 1.1	\$ 1.1
Construction in progress	12.8	11.6
Distribution facilities	80.5	80.5
Water Service lines	16.9	15.2
Sewer lines	84.0	84.0
Capacity rights	78.0	71.8
Less accumulated depreciation	(133.5)	(128.1)
Totals	\$139.8	\$136.1

The principal additions in fiscal 2019 were to the construction-in-progress, machinery and equipment, street system, and capacity rights activities. Construction in progress included the Calaveras Road Repair, street resurfacing, McCandless Park, Fire Apparatus Replacement, South Milpitas Blvd Extension, and TASP infrastructure improvements.

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.

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. Each of the City's debt issues are discussed in detail in Note 9 to the financial statements. At June 30, 2019 the City's debt is comprised of:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2019	Balance June 30, 2018
Governmental Activity Debt:		
Capital Lease (Network Upgrade)	\$0.7	\$0.0
4.25%, due January 21, 2023		
Total Governmental-type Activity Debt	<u>\$ 0.7</u>	<u>\$ 0.0</u>
Business-type Activity Debt:		
Wastewater Revenue Refunding Bonds, 2017 Series		
2.0% - 5.0%, due November 1, 2026	<u>4.2</u>	<u>4.7</u>
Plus: Unamortized bond premium	<u>0.6</u>	<u>0.6</u>
Total Business-type Activity Debt	<u>\$ 4.8</u>	<u>\$ 5.3</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, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc. (As of December 31, 2018)
ASSETS				
Cash and investments available for operations (Note 3)	\$251,708,136	\$74,671,030	\$326,379,166	\$239,968
Restricted cash and investments (Note 3)	951,504		951,504	2,355,586
Receivables:				
Accounts	4,103,278	3,356,257	7,459,535	13,751
Due from other governments	6,696,652	85,549	6,782,201	
Interest	1,275,429	368,426	1,643,855	
Loans receivable (Note 5)	32,424,989		32,424,989	
Prepays, materials, supplies and deposits (Note 1E)	1,634,756	490,190	2,124,946	49,685
Property held for resale (Note 6)	6,533,018		6,533,018	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	131,320,498	13,946,994	145,267,492	1,572,277
Depreciable capital assets, net	195,972,277	125,912,483	321,884,760	6,121,602
Total assets	<u>632,620,537</u>	<u>218,830,929</u>	<u>851,451,466</u>	<u>10,352,869</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	28,591,249	662,917	29,254,166	
Related to OPEB (Note 12B)	4,232,799	418,944	4,651,743	
Total deferred outflows of resources	<u>32,824,048</u>	<u>1,081,861</u>	<u>33,905,909</u>	
LIABILITIES				
Accounts payable	3,451,751	2,305,531	5,757,282	115,317
Accrued payroll	3,038,982	102,926	3,141,908	5,301
Interest payable	14,019	31,250	45,269	
Uninsured claims payable (Note 13):				
Due within one year	1,117,952		1,117,952	
Due in more than one year	5,096,721		5,096,721	
Refundable deposits	2,874,757	105,670	2,980,427	74,300
Unearned revenue	8,521,688	6,922	8,528,610	14,438
Accrued vacation (Note 12C):				
Due within one year	2,254,455	175,324	2,429,779	15,027
Due in more than one year	2,622,451	149,042	2,771,493	
Sick leave payable (Note 12C):				
Due within one year	982,326	18,734	1,001,060	
Due in more than one year	2,053,799	136,630	2,190,429	
Net pension liabilities (Note 11C):				
Due in more than one year	182,378,243	4,717,838	187,096,081	
Net OPEB liability (Note 12B):				
Due in more than one year	39,958,154	3,946,730	43,904,884	
Long term debt (Note 9):				
Due within one year	170,659	460,000	630,659	
Due in more than one year	557,648	4,351,847	4,909,495	
Total liabilities	<u>255,093,605</u>	<u>16,508,444</u>	<u>271,602,049</u>	<u>224,383</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	1,725,029	49,732	1,774,761	
Related to OPEB (Note 12B)	1,877,097	185,585	2,062,682	
Total deferred inflows of resources	<u>3,602,126</u>	<u>235,317</u>	<u>3,837,443</u>	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	326,564,468	135,047,630	461,612,098	7,693,879
Restricted for:				
Capital projects	98,178,542	59,190,915	157,369,457	
Redevelopment and community development activities	46,059,632		46,059,632	
Other programs	1,744,920		1,744,920	
Total restricted net position	<u>145,983,094</u>	<u>59,190,915</u>	<u>205,174,009</u>	
Unrestricted	<u>(65,798,708)</u>	<u>8,930,484</u>	<u>(56,868,224)</u>	<u>2,434,607</u>
Total net position	<u>\$406,748,854</u>	<u>\$203,169,029</u>	<u>\$609,917,883</u>	<u>\$10,128,486</u>

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

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	\$25,281,543	\$2,346,724	\$114,067	\$25,000	(\$22,795,752)	
Building, Safety and Housing	5,448,555	9,717,686	2,047,783	\$607,307	6,924,221	
Recreation and Community Services	7,019,543	2,654,676	576,525	777,709	(3,010,633)	
Public Works	20,052,608				(20,052,608)	
Engineering	6,459,278	2,379,612	1,822,224	45,776,752	43,519,310	
Planning	1,851,164	225,625	494,782	7,343	(1,123,414)	
Police	35,868,561	1,129,868	2,310,316		(32,428,377)	
Fire	26,535,301	2,171,814	911,696		(23,451,791)	
Interest on long term debt	17,303				(17,303)	
Total Governmental Activities	128,533,856	20,626,005	8,277,393	47,194,111	(52,436,347)	
Business-type Activities:						
Water Utility	25,232,231	29,355,459	113,897	1,528,120		\$5,765,245
Sewer Utility	12,230,981	17,829,929		1,227,189		6,826,137
Total Business-type Activities	37,463,212	47,185,388	113,897	2,755,309		12,591,382
Total Primary Government	\$165,997,068	\$67,811,393	\$8,391,290	\$49,949,420	(52,436,347)	12,591,382
Component Unit:						
Terrace Gardens Inc.	\$2,116,203	\$2,171,858	\$31,307			
General revenues:						
Taxes:						
Property taxes					33,811,010	
Sales and use taxes					27,983,152	
Hotel/Motel taxes					14,502,736	
Other taxes					807,670	
Franchise fees, unrestricted					5,127,312	
Motor vehicle in lieu, unrestricted					35,936	
Investment earnings					4,474,446	2,711,477
Gain from sale of property					3,571	
Miscellaneous					390,303	
Transfers (Note 4)					2,488,913	(2,488,913)
Total general revenues and transfers					89,625,049	222,564
Change in Net Position					37,188,702	12,813,946
Net position-Beginning					369,560,152	190,355,083
Net position-Ending					\$406,748,854	\$203,169,029

See accompanying notes to financial statements

Net (Expense) Revenue and
Changes in Net Position

<u>Primary Government</u>	<u>Component Unit</u>
	Terrace Gardens Inc. (year ended December 31, 2018)
<u>Total</u>	<u>December 31, 2018)</u>
(\$22,795,752)	
6,924,221	
(3,010,633)	
(20,052,608)	
43,519,310	
(1,123,414)	
(32,428,377)	
(23,451,791)	
(17,303)	
<u>(52,436,347)</u>	
5,765,245	
<u>6,826,137</u>	
<u>12,591,382</u>	
<u>(39,844,965)</u>	
	<u>\$86,962</u>
33,811,010	
27,983,152	
14,502,736	
807,670	
5,127,312	
35,936	
7,185,923	24,242
3,571	
390,303	
<u>89,847,613</u>	<u>24,242</u>
50,002,648	111,204
<u>559,915,235</u>	<u>10,017,282</u>
<u>\$609,917,883</u>	<u>\$10,128,486</u>



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, 2019

	<u>General</u>	<u>Housing Authority</u>	<u>Street Improvement</u>	<u>Transit Area Impact Fee</u>
ASSETS				
Cash and investments available for operations (Note 3)	\$96,896,785	\$8,298,621	\$8,021,293	\$53,890,347
Restricted cash and investments (Note 3)				
Receivables:				
Accounts	2,724,722			1,378,556
Due from other governments	6,272,633		155	
Interest	509,759	41,478	43,104	278,069
Loans receivable, net (Note 5)		28,684,909		
Prepays, materials, supplies and deposits (Note 1E)	743,932	3,594		
Property held for resale (Note 6)	4,200,000	2,333,018		
Advances to other funds (Note 4B)	5,290,250			
	<u>\$116,638,081</u>	<u>\$39,361,620</u>	<u>\$8,064,552</u>	<u>\$55,546,972</u>
LIABILITIES				
Accounts payable	\$1,741,813	\$42,701	\$646,585	\$156,662
Accrued payroll	2,982,178	5,948	8,361	870
Refundable deposits	2,842,948	12,100		438,806
Unearned revenue	8,244,314			
Advances from other funds (Note 4B)				5,290,250
	<u>15,811,253</u>	<u>60,749</u>	<u>654,946</u>	<u>5,886,588</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - accounts receivable (Note 7E)				1,378,556
Unavailable revenue - interest on advances to other funds	170,500			
	<u>170,500</u>			<u>1,378,556</u>
FUND BALANCES				
Fund balances (Note 10):				
Nonspendable	10,234,182	3,594		
Restricted		39,297,277	7,409,606	48,281,828
Committed	43,851,915			
Assigned	5,915,559			
Unassigned	40,654,672			
	<u>100,656,328</u>	<u>39,300,871</u>	<u>7,409,606</u>	<u>48,281,828</u>
TOTAL FUND BALANCES	<u>100,656,328</u>	<u>39,300,871</u>	<u>7,409,606</u>	<u>48,281,828</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$116,638,081</u>	<u>\$39,361,620</u>	<u>\$8,064,552</u>	<u>\$55,546,972</u>

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
- Long-term debt
- Net pension liability and pension-related deferred outflows/inflows of resources
- Net OPEB liability and OPEB-related deferred outflows/inflows of resources
- 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
\$26,947,008	\$45,429,761	\$239,483,815
951,504		951,504
		4,103,278
	423,864	6,696,652
125,647	216,307	1,214,364
	3,740,080	32,424,989
70,279	11,264	829,069
		6,533,018
		5,290,250
<u>\$28,094,438</u>	<u>\$49,821,276</u>	<u>\$297,526,939</u>
\$236,479	\$503,119	\$3,327,359
3,724	18,207	3,019,288
	18,843	3,312,697
	277,374	8,521,688
		5,290,250
<u>240,203</u>	<u>817,543</u>	<u>23,471,282</u>
		1,378,556
		170,500
		1,549,056
70,279	11,264	10,319,319
	48,244,175	143,232,886
		43,851,915
27,783,956	748,294	34,447,809
		40,654,672
<u>27,854,235</u>	<u>49,003,733</u>	272,506,601
<u>\$28,094,438</u>	<u>\$49,821,276</u>	
		327,292,775
		12,851,024
		438,000
		1,549,056
		(742,326)
		(155,512,023)
		(37,602,452)
		(7,817,128)
		(6,214,673)
		<u>\$406,748,854</u>

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Housing Authority</u>	<u>Street Improvement</u>	<u>Transit Area Impact Fee</u>
REVENUES				
Property taxes	\$33,811,009			
Sales taxes	28,889,785			
Other taxes	20,872,163			
Licenses and fines	11,757,117			
Use of money and property	4,446,580	\$1,019,066	\$373,061	\$1,003,507
Intergovernmental	1,501,243		479,814	
Charges for services	6,510,806			
Developer contributions			550,578	38,984,248
Other	315,330		136,854	
	<u>108,104,033</u>	<u>1,019,066</u>	<u>1,540,307</u>	<u>39,987,755</u>
Total Revenues				
EXPENDITURES				
Current:				
General Government	18,206,286	2,103,092		662,346
Building, Safety and Housing	5,038,327			
Recreation and Community Services	5,143,600			
Public Works	7,048,172			
Engineering	2,858,064			
Planning	1,648,282			
Police	30,180,922			
Fire	23,225,089			
Capital outlay			8,083,867	7,381,431
Debt service:				
Principal				
Interest and fees				101,208
	<u>93,348,742</u>	<u>2,103,092</u>	<u>8,083,867</u>	<u>8,144,985</u>
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>14,755,291</u>	<u>(1,084,026)</u>	<u>(6,543,560)</u>	<u>31,842,770</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	1,315			
Loss from sale of property		(151,800)		
Issuance of capital lease				
Transfers in (Note 4A)	6,996,682		4,318,464	480,643
Transfers (out) (Note 4A)	(13,908,102)		(2,256,789)	(10,305,000)
	<u>(6,910,105)</u>	<u>(151,800)</u>	<u>2,061,675</u>	<u>(9,824,357)</u>
Total Other Financing Sources (Uses)				
NET CHANGE IN FUND BALANCES	7,845,186	(1,235,826)	(4,481,885)	22,018,413
Fund balances (deficits) at beginning of year	<u>92,811,142</u>	<u>40,536,697</u>	<u>11,891,491</u>	<u>26,263,415</u>
FUND BALANCES AT END OF YEAR	<u>\$100,656,328</u>	<u>\$39,300,871</u>	<u>\$7,409,606</u>	<u>\$48,281,828</u>

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
		\$33,811,009
		28,889,785
	\$2,513,468	23,385,631
		11,757,117
\$461,744	1,148,255	8,452,213
	4,038,255	6,019,312
	458,577	6,969,383
	1,617,935	41,152,761
	473,961	926,145
<u>461,744</u>	<u>10,250,451</u>	<u>161,363,356</u>
	380,477	21,352,201
		5,038,327
		5,143,600
	1,102,676	8,150,848
	342,951	3,201,015
		1,648,282
	207,848	30,388,770
		23,225,089
5,680,939	2,288,890	23,435,127
198,938		198,938
3,284		104,492
<u>5,883,161</u>	<u>4,322,842</u>	<u>121,886,689</u>
<u>(5,421,417)</u>	<u>5,927,609</u>	<u>39,476,667</u>
		1,315
		(151,800)
952,245		952,245
11,554,579	14,585,740	37,936,108
(5,469,151)	(3,510,153)	(35,449,195)
<u>7,037,673</u>	<u>11,075,587</u>	<u>3,288,673</u>
1,616,256	17,003,196	42,765,340
<u>26,237,979</u>	<u>32,000,537</u>	<u>229,741,261</u>
<u>\$27,854,235</u>	<u>\$49,003,733</u>	<u>\$272,506,601</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, 2019

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 \$42,765,340

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 outlay expenditures are therefore added back to fund balance (Internal service fund additions of \$3,073,834 have already been added to capital assets)	17,012,226
Retirements of capital assets are deducted from fund balance (Internal service fund retirements of \$11,015 have already been deducted from capital assets)	(200)
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$1,003,587 which has already been allocated to serviced funds.)	(15,017,570)

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.

Proceeds from issuance of capital lease	(952,245)
Capital contributions and repayment of debt principal are added back to fund balance	223,938

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	(623,451)
Non-current portion of uninsured claims payable	202,861
Net pension liabilities and pension-related deferred outflows/inflows of resources	(11,314,768)
Net OPEB liability and OPEB-related deferred outflows/inflows of resources	693,660
Unavailable revenue	137,550

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	4,075,380
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$37,188,702

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, 2019

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		(Negative)
Revenues				
Property taxes	\$31,385,000	\$33,281,136	\$33,811,009	\$529,873
Sales taxes	28,393,445	28,307,591	28,889,785	582,194
Other taxes	18,843,851	21,473,400	20,872,163	(601,237)
Licenses and fines	10,253,214	12,897,019	11,757,117	(1,139,902)
Use of money and property	1,271,500	1,271,500	4,446,580	3,175,080
Intergovernmental	440,500	1,221,198	1,501,243	280,045
Charges for services	6,952,454	6,271,911	6,510,806	238,895
Other	26,000	31,000	315,330	284,330
	<u>97,565,964</u>	<u>104,754,755</u>	<u>108,104,033</u>	<u>3,349,278</u>
Total Revenues				
Expenditures				
Current:				
General Government:				
City Manager	4,710,508	4,904,399	4,393,913	510,486
City Attorney	748,932	1,281,657	1,260,893	20,764
Finance	3,724,578	3,874,578	3,771,087	103,491
Human Resources	1,460,751	1,582,314	1,485,762	96,552
Information Services	3,182,507	3,182,507	2,974,761	207,746
Non-departmental	9,446,248	8,216,726	4,260,233	3,956,493
Building, Safety and Housing	5,112,953	6,601,441	5,350,290	1,251,151
Recreation and Community Services	5,752,060	5,752,060	5,353,200	398,860
Public Works	7,273,035	7,598,035	7,581,384	16,651
Engineering	4,133,636	4,133,636	3,140,477	993,159
Planning	2,935,681	1,818,664	1,788,518	30,146
Police	32,771,018	33,018,359	30,977,865	2,040,494
Fire	21,510,880	23,837,107	23,678,811	158,296
	<u>102,762,787</u>	<u>105,801,483</u>	<u>96,017,194</u>	<u>9,784,289</u>
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(5,196,823)</u>	<u>(1,046,728)</u>	<u>12,086,839</u>	<u>13,133,567</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			1,315	1,315
Transfers in	6,502,208	6,996,682	6,996,682	
Transfers (out)	<u>(2,950,000)</u>	<u>(15,508,102)</u>	<u>(13,908,102)</u>	<u>1,600,000</u>
Total Other Financing Sources (Uses)	<u>3,552,208</u>	<u>(8,511,420)</u>	<u>(6,910,105)</u>	<u>1,601,315</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$1,644,615)</u></u>	<u><u>(\$9,558,148)</u></u>	<u>5,176,734</u>	<u><u>\$14,734,882</u></u>
Adjustment to budgetary basis:				
Encumbrance expenditures			2,668,452	
Fund balance at beginning of year			<u>92,811,142</u>	
FUND BALANCE AT END OF YEAR			<u><u>\$100,656,328</u></u>	

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, 2019

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Use of money and property	\$741,000	\$741,000	\$1,019,066	\$278,066
Total Revenues	<u>741,000</u>	<u>741,000</u>	<u>1,019,066</u>	<u>278,066</u>
Expenditures				
Current:				
General Government:				
Finance	311,912	85,164	52,843	32,321
Non-departmental	260,632	7,216,160	2,050,249	5,165,911
Planning	<u>228,780</u>			
Total Expenditures	<u>801,324</u>	<u>7,301,324</u>	<u>2,103,092</u>	<u>5,198,232</u>
OTHER FINANCING SOURCES (USES)				
Loss from sale of property	<u>(151,800)</u>	<u>(151,800)</u>	<u>(151,800)</u>	
NET CHANGE IN FUND BALANCE	<u>(\$212,124)</u>	<u>(\$6,712,124)</u>	<u>(1,235,826)</u>	<u>\$5,476,298</u>
Fund balances at beginning of year			<u>40,536,697</u>	
FUND BALANCE AT END OF YEAR			<u><u>\$39,300,871</u></u>	

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, 2019

	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)	\$38,652,925	\$36,018,105	\$74,671,030	\$12,224,321
Receivables:				
Accounts	1,975,381	1,380,876	3,356,257	
Due from other governments	50,323	35,226	85,549	
Interest	190,439	177,987	368,426	61,065
Prepays, materials, supplies and deposits (Note 1E)	468,522	21,668	490,190	805,687
Total current assets	41,337,590	37,633,862	78,971,452	13,091,073
Noncurrent assets:				
Capital assets and capacity rights (Note 8):				
Land and construction in progress	11,095,132	2,851,862	13,946,994	
Depreciable capital assets, net	38,227,850	87,684,633	125,912,483	6,802,840
Total noncurrent assets	49,322,982	90,536,495	139,859,477	6,802,840
Total assets	90,660,572	128,170,357	218,830,929	19,893,913
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	353,930	308,987	662,917	
Related to OPEB (Note 12B)	217,678	201,266	418,944	
Total deferred outflows of resources	571,608	510,253	1,081,861	
LIABILITIES				
Current liabilities:				
Accounts payable	2,089,380	216,151	2,305,531	124,392
Accrued payroll	63,331	39,595	102,926	19,694
Interest payable		31,250	31,250	
Refundable deposits	105,670		105,670	60
Unearned revenue	3,461	3,461	6,922	
Accrued vacation (Note 12C)	87,662	87,662	175,324	46,006
Sick leave payable (Note 12C)	9,367	9,367	18,734	11,225
Certificates of Participation (Note 9)		460,000	460,000	
Total current liabilities	2,358,871	847,486	3,206,357	201,377
Non-current liabilities:				
Accrued vacation (Note 12C)	100,811	48,231	149,042	34,010
Sick leave payable (Note 12C)	68,314	68,316	136,630	4,662
Net pension liabilities (Note 11C):	2,518,846	2,198,992	4,717,838	
Net OPEB liability (Note 12B)	2,051,834	1,894,896	3,946,730	
Certificates of Participation (Note 9)		4,351,847	4,351,847	
Total non-current liabilities	4,739,805	8,562,282	13,302,087	38,672
Total liabilities	7,098,676	9,409,768	16,508,444	240,049
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	26,552	23,180	49,732	
Related to OPEB (Note 12B)	96,456	89,129	185,585	
Total deferred inflows of resources	123,008	112,309	235,317	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	49,322,982	85,724,648	135,047,630	6,802,840
Restricted for capital projects	30,368,119	28,822,796	59,190,915	
Unrestricted	4,319,395	4,611,089	8,930,484	12,851,024
Total net position	\$84,010,496	\$119,158,533	\$203,169,029	\$19,653,864

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, 2019

	<u>Business-type Activities-Enterprise Funds</u>			Governmental Activities- Equipment Management Internal Service Fund
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Totals</u>	
OPERATING REVENUES				
Charges for services	\$29,307,618	\$17,521,841	\$46,829,459	\$4,193,177
Developer contributions		225,724	225,724	
Other operating revenue	47,841	82,364	130,205	50
Total Operating Revenues	<u>29,355,459</u>	<u>17,829,929</u>	<u>47,185,388</u>	<u>4,193,227</u>
OPERATING EXPENSES				
Purchased water	17,850,061		17,850,061	
Sewer treatment services		4,680,887	4,680,887	
Personnel services	3,430,431	2,519,102	5,949,533	1,112,941
Services and supplies	1,910,470	1,140,211	3,050,681	800,741
Depreciation	1,767,813	3,664,679	5,432,492	1,003,587
Repairs and maintenance	273,456	87,688	361,144	453,001
Total Operating Expenses	<u>25,232,231</u>	<u>12,092,567</u>	<u>37,324,798</u>	<u>3,370,270</u>
Operating Income (Loss)	<u>4,123,228</u>	<u>5,737,362</u>	<u>9,860,590</u>	<u>822,957</u>
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets				2,256
Interest income	1,377,911	1,333,566	2,711,477	451,701
Interest expense		(138,414)	(138,414)	
Subventions and grants	113,897	4,998	118,895	
Total Nonoperating Revenues (Expenses)	<u>1,491,808</u>	<u>1,200,150</u>	<u>2,691,958</u>	<u>453,957</u>
Income (Loss) Before Contributions and Transfers	5,615,036	6,937,512	12,552,548	1,276,914
Capital contributions	599,610		599,610	2,796,466
Capital contributions - connection fees	928,510	1,222,191	2,150,701	
Transfers in (Note 4A)	2,343,444	13,444	2,356,888	300,000
Transfers (out) (Note 4A)	<u>(3,186,527)</u>	<u>(1,659,274)</u>	<u>(4,845,801)</u>	<u>(298,000)</u>
Change in net position	6,300,073	6,513,873	12,813,946	4,075,380
Net position-beginning	<u>77,710,423</u>	<u>112,644,660</u>	<u>190,355,083</u>	<u>15,578,484</u>
Net position-ending	<u>\$84,010,496</u>	<u>\$119,158,533</u>	<u>\$203,169,029</u>	<u>\$19,653,864</u>

See accompanying notes to financial statements

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2019

	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	\$29,058,048	\$17,511,853	\$46,569,901	\$4,248,465
Payments to suppliers	(20,152,744)	(5,996,099)	(26,148,843)	(2,028,080)
Payments to employees for salaries and benefits	(3,285,722)	(2,549,257)	(5,834,979)	(1,144,814)
Net cash provided by operating activities	<u>5,619,582</u>	<u>8,966,497</u>	<u>14,586,079</u>	<u>1,075,571</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	113,897	4,998	118,895	
Transfers in	2,343,444	13,444	2,356,888	300,000
Transfers (out)	(3,186,527)	(1,659,274)	(4,845,801)	(298,000)
Cash Flows from Noncapital Financing Activities	<u>(729,186)</u>	<u>(1,640,832)</u>	<u>(2,370,018)</u>	<u>2,000</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on long-term debt		(480,000)	(480,000)	
Interest paid		(263,156)	(263,156)	
Proceeds from sale of capital assets				13,271
Acquisition of capital assets	(881,689)	(7,711,664)	(8,593,353)	(277,168)
Capital contributions - connection fees	928,510	1,222,191	2,150,701	
Cash Flows from Capital and Related Financing Activities	<u>46,821</u>	<u>(7,232,629)</u>	<u>(7,185,808)</u>	<u>(263,897)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	1,311,540	1,288,402	2,599,942	432,785
Cash Flows from Investing Activities	<u>1,311,540</u>	<u>1,288,402</u>	<u>2,599,942</u>	<u>432,785</u>
Net increase (decrease) in cash and cash equivalents	6,248,757	1,381,438	7,630,195	1,246,459
Cash and investments at beginning of period	<u>32,404,168</u>	<u>34,636,667</u>	<u>67,040,835</u>	<u>10,977,862</u>
Cash and investments at end of period	<u>\$38,652,925</u>	<u>\$36,018,105</u>	<u>\$74,671,030</u>	<u>\$12,224,321</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$4,123,228	\$5,737,362	\$9,860,590	\$822,957
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,767,813	3,664,679	5,432,492	1,003,587
Change in assets and liabilities:				
Receivables, net	(295,113)	(313,078)	(608,191)	55,238
Materials, supplies and deposits	(254,411)	3,173	(251,238)	(689,921)
Accrued payroll	16,180	1,989	18,169	
Accounts and other payables	226,776	(54,642)	172,134	(116,290)
Unearned revenue	(4,998)	(4,998)	(9,996)	
Due to retirement system	74,368	(37,340)	37,028	
Due to OPEB	(34,261)	(30,648)	(64,909)	
Net cash provided by operating activities	<u>\$5,619,582</u>	<u>\$8,966,497</u>	<u>\$14,586,079</u>	<u>\$1,075,571</u>
NONCASH TRANSACTIONS:				
Contributions and transfers of capital assets	<u>\$599,610</u>		<u>\$599,610</u>	<u>\$2,796,466</u>
Retirement of capital assets				<u>(\$11,015)</u>

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, 2019

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	\$9,605,621	\$1,352,895
Restricted cash and investments (Note 3)	401	
Total Assets	9,606,022	\$1,352,895
LIABILITIES		
Refundable deposits		\$1,352,895
Accounts payable	21,421	
Interest payable	1,694,500	
Long-term obligations (Note 15C):		
Due in one year	9,621,103	
Due in more than one year	119,071,053	
Total Liabilities	130,408,077	\$1,352,895
NET POSITION (DEFICIT)		
Held in trust for other governments	(\$120,802,055)	

See accompanying notes to financial statements

CITY OF MILPITAS
 FIDUCIARY FUND
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2019

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund <hr style="border: 1px solid black;"/>
Additions:	
Property taxes	\$17,733,781
Use of money and property	151,235
	<hr style="border: 1px solid black;"/>
Total additions	17,885,016
	<hr style="border: 1px solid black;"/>
Deductions:	
General and administrative	55,079
Debt Service:	
Interest and fees	6,948,463
	<hr style="border: 1px solid black;"/>
Total deductions	7,003,542
	<hr style="border: 1px solid black;"/>
Net change in net position	10,881,474
Net position (deficit) - beginning	(131,683,529)
	<hr style="border: 1px solid black;"/>
Net position (deficit) - ending	(\$120,802,055)
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See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS



CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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; police; fire and building inspection; engineering; public works; water; sewer; sanitation; recreation services; building and safety; planning and zoning; general administration services, redevelopment 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, 2019

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, 2018 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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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. 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 \$20,000 or less. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceed \$20,000 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.

C. *Expenditures in the Excess of Budget*

The Housing and Community Development Special Revenue Fund had planning and neighborhood services expenditures in excess of budget in the amount of \$15,980. Sufficient resources were available within the fund to finance the expenditures.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 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 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	\$326,379,166
Restricted Cash	951,504
Total Primary Government cash and investments	<u>327,330,670</u>
Cash and investments available for operations	239,968
Restricted investments	2,355,586
Total Component Unit cash and investments	<u>2,595,554</u>
Cash and investments in Fiduciary Funds (separate statement)	10,958,917
Total cash and investments	<u><u>\$340,885,141</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, 2019

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%	\$65,000,000 per account
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 the outstanding paper of an issuing corporation.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2019

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 24 Months	25 to 60 Months	Total	Percentage of Portfolio
City and Successor Agency:					
Federal Agency Obligations	\$45,887,780	\$49,178,150	\$88,343,829	\$183,409,759	53.79%
Medium Term Corporate Notes	3,996,230	7,040,570	7,081,880	18,118,680	5.32%
U.S. Treasury Notes	13,945,800	7,001,530	10,191,714	31,139,044	9.13%
California Local Agency Investment Fund	89,853,548			89,853,548	26.36%
Mutual Funds (U.S. Securities)	9,428,039			9,428,039	2.77%
Negotiable Certificates of Deposit	998,821	1,255,122		2,253,943	0.66%
Terrace Gardens, Inc.:					
Nonnegotiable Certificates of Deposit	1,961,879			1,961,879	0.58%
Total Investments	<u>\$166,072,097</u>	<u>\$64,475,372</u>	<u>\$105,617,423</u>	336,164,892	
Demand Deposits - City of Milpitas				4,086,574	1.20%
Demand Deposits - Terrace Gardens				633,675	0.19%
Total Cash and Investments				<u>\$340,885,141</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 \$65 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, 2019 these investments matured in an average of 173 days.

Mutual funds are available for withdrawal on demand and at June 30, 2019 matured in an average of 13 days.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2019 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-	BBB+/BBB	Total
Federal Agency Obligations		\$183,409,759			\$183,409,759
Medium Term Corporate Notes	\$2,006,390	14,107,910	\$2,004,380		18,118,680
Mutual Funds (U.S. Securities)	9,428,039				9,428,039
Negotiable Certificates of Deposit		249,621	1,004,236	\$500,314	1,754,171
Totals	<u>\$11,434,429</u>	<u>\$197,767,290</u>	<u>\$3,008,616</u>	<u>\$500,314</u>	<u>212,710,649</u>
<i>Not rated:</i>					
California Local Agency Investment Fund					89,853,548
Negotiable Certificates of Deposit					499,772
<i>Exempt from credit rate disclosure:</i>					
U.S. Treasury Notes					31,139,044
Total Investments					<u>\$334,203,013</u>

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2019.

Terrace Gardens, Inc. invests only in Nonnegotiable Certificates of Deposit. At December 31, 2018, all of Terrace Gardens' Nonnegotiable Certificates of Deposit totaling \$1,961,879 were fully insured by Federal Deposit Insurance.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2019:

	Level 1	Level 2	Total
<i>Investments by Fair Value Level:</i>			
Federal Agency Obligations		\$183,409,759	\$183,409,759
Medium Term Corporate Notes		18,118,680	18,118,680
U.S. Treasury Notes	\$31,139,044		31,139,044
Negotiable Certificates of Deposit		2,253,943	2,253,943
	\$31,139,044	\$203,782,382	234,921,426
<i>Investments Measured at Amortized Cost:</i>			
Mutual Funds (U.S. Securities)			9,428,039
<i>Investments Measured at Cost:</i>			
<i>Terrace Gardens, Inc.</i>			
Nonnegotiable Certificates of Deposit			1,961,879
<i>Investments Exempt from Fair Value Hierarchy:</i>			
California Local Agency Investment Fund			89,853,548
Total Investments			\$336,164,892

U.S. Treasury Notes totaling \$31.1 million classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. Federal Agency Obligations totaling \$183.4 million, Medium Term Corporate Notes of \$18.1 million and Negotiable Certificates of Deposit of \$2.2 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, 2019:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	\$57,753,848
Federal Home Loan Bank	Federal Agency Obligations	51,284,402
Federal Home Loan Mortgage Corporation	Federal Agency Obligations	28,852,969

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2019 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Major Funds:		
General Fund	Street Improvement Capital Projects Fund	\$146,776 (A)
General Fund	Street Improvement Capital Projects Fund	1,600,000 (B)
General Fund	Water Utility Enterprise Fund	2,705,884 (C)
General Fund	Sewer Utility Enterprise Fund	1,544,274 (C)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	99,748 (C)
General Fund	Community Facilities District Special Revenue Fund	900,000 (A)
Street Improvement Capital Projects Fund	General Fund	993,464 (C)
Street Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	1,400,000 (B)
Street Improvement Capital Projects Fund	Sewer Utility Enterprise Fund	100,000 (B)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	1,775,000 (B)
Street Improvement Capital Projects Fund	Park Improvement Capital Projects Fund	50,000 (B)
Transit Area Impact Fee Capital Projects Fund	Water Utility Enterprise Fund	480,643 (A)
General Government Capital Projects Fund	General Fund	10,821,174 (B)
General Government Capital Projects Fund	Lighting and Landscape Maintenance District Special Revenue Fund	95,000 (B)
General Government Capital Projects Fund	Community Planning Special Revenue Fund	250,000 (B)
General Government Capital Projects Fund	Park Improvement Capital Projects Fund	90,405 (A), (B)
General Government Capital Projects Fund	Equipment Management Internal Service Fund	298,000 (B)
Water Utility Enterprise Fund	Street Improvement Capital Projects Fund	13,444 (A)
Water Utility Enterprise Fund	Transit Area Impact Fee Capital Projects Fund	2,330,000 (B)
Sewer Utility Enterprise Fund	Street Improvement Capital Projects Fund	13,444 (A)
Non-Major Funds:		
Gas Tax Special Revenue Fund	Street Improvement Capital Projects Fund	483,125 (A)
Solid Waste Reduction and Services Special Revenue Fund	General Government Capital Projects Fund	134,151 (B)
Affordable Housing Special Revenue Fund	General Fund	993,464 (C)
Affordable Housing Special Revenue Fund	Community Planning Special Revenue Fund	250,000 (C)
Park Improvement Capital Projects Fund	General Fund	800,000 (B)
Park Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	6,575,000 (A), (B)
Park Improvement Capital Projects Fund	General Government Capital Projects Fund	5,085,000 (B)
Storm Drain Development Capital Projects Fund	General Government Capital Projects Fund	250,000 (B)
Storm Drain Development Capital Projects Fund	Sewer Utility Enterprise Fund	15,000 (B)
Equipment Management Internal Service Fund	General Fund	300,000 (C)
	Total Interfund Transfers	<u><u>\$40,592,996</u></u>

- (A) To return unexpended project funds
- (B) To fund capital projects
- (C) Transfer for operating costs

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, 2019, the balance of the advance was \$5,290,250.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2019:

Housing and Community Development Loans:

Rehabilitation Loans	\$3,740,080
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Housing Authority Loans:

Milpitas Housing Associates	3,183,000
Parc Metropolitan Housing Development	58,153
Parc North Associates LLC	663,786
Mid-Peninsula Milpitas Affordable Housing Associates	17,418,121
KB Home South Bay Inc.	1,372,900
Western Pacific Housing Inc.	1,821,364
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	3,208,660
Resources for Community Development	158,925
Total Housing Authority Loans Receivable	28,684,909
Total Loans Receivable	\$32,424,989

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, 2019, the City had outstanding rehabilitation loans of \$3,740,080 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2019, the City received principal payment of \$8,177 from all participants, accrued interest of \$3,737 and made new loans totaling \$315,077.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 2019, 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 2019, interest of \$91,500 was accrued, and as of June 30, 2019, principal and accrued interest outstanding totaled \$3,183,000.

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, 2019, the Housing Authority received principal payments of \$33,667 and as of June 30, 2019, there were \$58,153 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 2019, principal of \$96,315 was paid and as of June 30, 2019, there were \$663,786 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 2019, interest of \$288,000 was accrued, and as of June 30, 2019, principal and accrued interest outstanding totaled \$17,418,121.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2019, there were \$1,372,900 of loans to Parcel C households outstanding. As of June 30, 2019 subsidies totaling \$4,707,542 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 \$1,129 was repaid in fiscal year 2019 and as of June 30, 2019, there were \$624,364 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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 5 - LOANS RECEIVABLE (Continued)

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, 2019, there were \$1,197,000 of silent second loans outstanding.

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, 2019, 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, 2019, total payments of \$93,654 were received, interest of \$157,134 accrued, and as of June 30, 2019, principal and accrued interest totaled \$3,208,660.

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 November 29, 2019. During the year ended June 30, 2019, a principal payment of \$2,231 was received, \$8,063 of interest was accrued, and as of June 30, 2019, principal and accrued interest totaled \$158,925.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 5 - LOANS RECEIVABLE (Continued)

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, 2019, the developer had not finalized project funding and therefore had not drawn down on the loan.

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, 2019, 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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

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.

In March 2018, the Housing Authority purchased an additional property on South Main Street in the amount of \$456,826. The property was sold in fiscal year 2019 for \$353,184.

As of June 30, 2019, 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.

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

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 or 2019.

B. *D.R. Horton Bay, Inc.*

In November 2012, the City entered into an Acquisition and Reimbursement Agreement with D.R. Horton Bay, Inc., which requires the developer to pay Transit Area Specific Plan (TASP) and park in lieu developer impact fees of \$8,007,312 to defray all or a portion of the costs of sewer facilities and to mitigate other impacts of the Harmony Project. Under the terms of the Agreement, D.R. Horton will receive estimated fee credits totaling \$4,355,645 for impact fees for constructing trail improvements, road improvements to the east side of McCandless Road and sewer line 11A and 11B installation. No fee credits were issued during the year ended June 30, 2019 and to date, the City has issued fee credits of \$4,355,645.

C. *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 \$151,932 of sales tax to the corporation during fiscal year 2019.

D. *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 or 2018-2019, because the corporation has not provided the tax information to the City for the fiscal year 2017, 2018 and 2019 property tax or for any of the sales and use or transient occupancy taxes.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

E. 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 \$1,378,556 as of June 30, 2019.

F. 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 an improvement fee credit 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, 2019, the City issued fee credits in the amount of \$504,295 and fee credits of \$4,160,436 have been issued to date.

G. 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 an improvement fee credit totaling \$5,910,221 for construction costs for parking and a variety of site improvements, including a public park. No fee credits have been issued under the agreement through the year ended June 30, 2019.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

H. 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 an improvement fee credit totaling \$3,689,574 for construction and design costs for bridge improvements for Montague Expressway and East Penitencia Creek. During the year ended June 30, 2019, no fee credits were issued, and fee credits of \$2,536,935 have been issued to date.

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, 2019

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, 2018	Additions	Retirements	Transfers	Balance at June 30, 2019
Capital assets not being depreciated:					
Land	\$65,352,778			\$3,082,305	\$68,435,083
Construction in progress	64,125,363	\$9,881,945	(\$200)	(11,121,693)	62,885,415
Total capital assets not being depreciated	129,478,141	9,881,945	(200)	(8,039,388)	131,320,498
Capital assets being depreciated:					
Buildings and improvements	166,365,304			7,005,829	173,371,133
Other improvements	29,976,059			581,967	30,558,026
Machinery and equipment	42,534,909	3,073,634	(823,259)	451,592	45,236,876
Landscape system	29,744,298	193,555			29,937,853
Storm system	74,340,148				74,340,148
Street system	264,447,128	6,763,617			271,210,745
Traffic system	19,127,376	173,109			19,300,485
Total capital assets being depreciated	626,535,222	10,203,915	(823,259)	8,039,388	643,955,266
Less accumulated depreciation for:					
Buildings and improvements	(75,338,712)	(6,080,383)			(81,419,095)
Other improvements	(21,073,805)	(886,975)			(21,960,780)
Machinery and equipment	(34,432,973)	(2,197,937)	812,244		(35,818,666)
Landscape system	(14,683,273)	(594,612)			(15,277,885)
Storm system	(72,120,096)	(314,266)			(72,434,362)
Street system	(200,494,965)	(5,412,809)			(205,907,774)
Traffic system	(14,630,252)	(534,175)			(15,164,427)
Total accumulated depreciation	(432,774,076)	(16,021,157)	812,244		(447,982,989)
Net capital assets being depreciated	193,761,146	(5,817,242)	(11,015)	8,039,388	195,972,277
Governmental activities capital assets, net	\$323,239,287	\$4,064,703	(\$11,215)		\$327,292,775

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2019:

Project	Total Budget	Actual Costs	Unexpended Budget
S Milpitas Blvd Extension	\$17,000,000	\$16,920,749	\$79,251
Alviso Adobe Renovation	8,159,272	5,939,842	2,219,430
Park Irrigation System	400,000	248,304	151,696
McCandless Park	12,154,820	2,170,638	9,984,182
Sports Fields Turf Rehabilitation Program	450,000	50,874	399,126
Creighton Park Renovation	3,300,000	274,206	3,025,794
Sandalwood Park Renovation	2,175,000	88,995	2,086,005
Sports Center Skate Park	6,325,000	516,278	5,808,722
Carlo Park	225,000	92,445	132,555
Minor Sports Courts Rehabilitation	225,000	3,451	221,549
McCarthy Blvd Landscape	862,256	473,370	388,886
Fire Station Improvements	1,095,000	675,087	419,913
City Building Improve	2,475,000	1,873,810	601,190
Sinclair LMD Improvements	94,000	84,650	9,350
City Building, Exterior Painting	900,000	1,103	898,897
Police Department Communications	4,455,000	1,367,005	3,087,995
Replacement Fire Station Alert System	363,000	464	362,536
City Building Roofing	700,000	93,965	606,035
Police Records Management	700,000	259,954	440,046
Citywide Park Playground	775,000	107,768	667,232
Annual Sidewalk, Curb & Gutter Repair	1,206,840	574,052	632,788
Technology Projects	700,000	455,822	244,178
Midtown Street Light	2,650,000	262,428	2,387,572
2017-19 Finance System Upgrade	1,150,000	152,988	997,012
Annual Tree Replacement Program	350,000	78,750	271,250
Fire Station #2 Replacement	1,220,000	264,750	955,250
LAN/WAN Network Upgrade	952,245	9,643	942,602
Storm Drain System Rehabilitation	1,145,000	827,537	317,463
Dempsey Road Storm Drain	2,830,000	225,222	2,604,778
Bart Project-Storm Improvement	33,000		33,000
Minor Storm Drain Projects 2016	100,000		100,000
Trash Removal Devices	600,000	294,054	305,946
Flap Gate Replacement	175,000		175,000
Storm Drain System Rehabilitation 17-19	1,400,000	259	1,399,741
Minor Storm Projects	100,000	71,463	28,537
Light Rail Median Landscaping	6,005,000	3,938,150	2,066,850
Second SCVWD Water Reservoir & Pump Station	200,000	825	199,175
Lower Penitencia Creek	1,665,000	305,641	1,359,359
Montague Pedestrian Overcrossing at Piper Drive	10,700,000	4,984,178	5,715,822
SCVWD Second Water Supply Turnout #2	100,000	643	99,357
TASP Citation-SCS	11,214,995	11,214,995	
TASP Pulte	4,160,436	4,160,436	
TASP Lennar	2,536,935	2,536,935	
TASP Sango Court	100,000	100,000	
TASP Falcon	1,183,686	1,183,686	
Total construction in progress	<u>\$115,311,485</u>	<u>\$62,885,415</u>	<u>\$52,426,070</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 8 - CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2018	Additions	Transfers	Balance at June 30, 2019
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	11,605,634	\$2,391,465	(\$1,183,184)	12,813,915
Total capital assets not being depreciated	<u>12,738,713</u>	<u>2,391,465</u>	<u>(1,183,184)</u>	<u>13,946,994</u>
Capital assets being depreciated:				
Distribution facilities	80,461,211			80,461,211
Water Service lines	15,193,903	599,610	1,142,066	16,935,579
Sewer lines	84,005,615		41,118	84,046,733
Capacity rights	71,775,302	6,201,888		77,977,190
Total capital assets being depreciated	<u>251,436,031</u>	<u>6,801,498</u>	<u>1,183,184</u>	<u>259,420,713</u>
Less accumulated depreciation for:				
Distribution facilities	(50,910,157)	(1,434,754)		(52,344,911)
Water Service lines	(6,490,970)	(333,059)		(6,824,029)
Sewer lines	(48,220,503)	(1,350,563)		(49,571,066)
Capacity rights	(22,454,108)	(2,314,116)		(24,768,224)
Total accumulated depreciation	<u>(128,075,738)</u>	<u>(5,432,492)</u>		<u>(133,508,230)</u>
Net capital assets being depreciated	<u>123,360,293</u>	<u>1,369,006</u>	<u>1,183,184</u>	<u>125,912,483</u>
Business-type activities capital assets, net	<u>\$136,099,006</u>	<u>\$3,760,471</u>		<u>\$139,859,477</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 8 - CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2019:

Project	Total Budget	Actual Costs	Unexpended Budget
Sewer System Replacement 1	\$1,450,000	\$1,195,714	\$254,286
Sewer System Replacement	1,250,000	815,062	434,938
TASP Sewer Line Replacement	2,500,000	129	2,499,871
CCTV Sanitary Sewer	357,472	20,578	336,894
BART Project-Sewer Improvements	243,323	229,730	13,593
Sanitary Sewer Overflow Improvement	205,745	198,469	7,276
Sewer Pump Station Rehabilitation	300,000	151,074	148,926
Sewer Pump Station Treatment Improvement	550,000	115,176	434,824
Minor Sewer Projects	100,000	32,237	67,763
Sanitary Supervisory Control	450,000		450,000
Main Lift Station Odor Emmissions Control	300,000	53,509	246,491
Sanitary Sewer Cathodic Protection Improvement	625,000	37,571	587,429
Sewer System Replacement	500,000	1,113	498,887
Well Upgrade Project	8,975,000	3,131,500	5,843,500
Water System Seismic Improvement	4,887,951	935,103	3,952,848
Hydrant Replacement	312,100	167,487	144,613
Cathodic Protection Improvements	850,000	735,830	114,170
Abel St Pipeline Extension	440,000	43,138	396,862
Dempsey Road Water Line	4,607,772	1,225,605	3,382,167
Automated Water Meter Replacement	2,771,700	831,026	1,940,674
BART Project-Water Improvements	2,503,920	1,820,243	683,677
Water Conservation Program	1,400,000	872,528	527,472
Supervisory Control	50,000		50,000
Recycled Water Pipeline Infill	300,000	71,214	228,786
Recycled Water Pipeline Segment 1	3,750,000		3,750,000
Annual Water Distribution	1,200,000	27,136	1,172,864
Minor Water Projects	200,000	20,318	179,682
Water O & M Database Management	150,000	82,425	67,575
Water Leak Detection	150,000		150,000
	<u>\$41,379,983</u>	<u>\$12,813,915</u>	<u>\$28,566,068</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2018:

	Balance December 31, 2017	Additions	Balance December 31, 2018
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	<u>1,565,277</u>	<u>7,000</u>	<u>1,572,277</u>
Capital assets being depreciated:			
Buildings	11,956,729	11,262	11,967,991
Furniture	336,393	\$15,755	352,148
Office equipment	65,096		65,096
Improvements	2,476,919	50,471	2,527,390
Total capital assets being depreciated	<u>14,835,137</u>	<u>77,488</u>	<u>14,912,625</u>
Less accumulated depreciation	<u>(8,345,615)</u>	<u>(445,408)</u>	<u>(8,791,023)</u>
Net capital assets being depreciated	<u>6,489,522</u>	<u>(367,920)</u>	<u>6,121,602</u>
Total capital assets, net	<u><u>\$8,054,799</u></u>	<u><u>(\$360,920)</u></u>	<u><u>\$7,693,879</u></u>

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	\$2,782,244
Public Works	7,473,965
Engineering	2,605,822
Parks and Recreation	1,160,403
Police	672,076
Fire	323,060
Internal Service Fund	1,003,587
Total Governmental Activities	<u><u>\$16,021,157</u></u>

Business-Type Activities:

Water Utility	\$1,767,813
Sewer Utility	3,664,679
Total Business-Type Activities	<u><u>\$5,432,492</u></u>

Discretely Presented Component Unit:

Terrace Gardens, Inc.	<u><u>\$445,408</u></u>
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CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 \$77,977,190. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2019 the City's operation and maintenance share was approximately 5.659% 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, 2018	Additions	Retirements	Balance June 30, 2019	Current Portion
Governmental Activities Debt - Direct Borrowing:						
Capital Lease (Network Upgrade Project)						
4.25%, due January 21, 2023	\$952,245		\$952,245	\$223,938	\$728,307	\$170,659
Business-type Activities Debt						
Wastewater Revenue Refunding Bonds, 2017 Series						
2.0% - 5.0%, due November 1, 2026	\$4,725,000	\$4,725,000		\$480,000	\$4,245,000	\$460,000
Plus: Unamortized bond premium		637,703		70,856	566,847	
Total Business-Type Activities	<u>\$4,725,000</u>	<u>\$5,362,703</u>		<u>\$550,856</u>	<u>\$4,811,847</u>	<u>\$460,000</u>

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 collateralized by net revenues from the City's Sewer System. For the fiscal year 2019, net revenues amounted to \$10,735,607 which represented coverage of 16.51 over the \$650,273 debt service.

D. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Capital Lease		2017 Wastewater Refunding Bonds	
	Total Principal	Total Interest	Total Principal	Total Interest
2020	\$170,659	\$31,564	\$460,000	\$187,500
2021	178,055	24,167	475,000	173,700
2022	185,771	16,451	495,000	154,700
2023	193,822	8,400	515,000	134,900
2024			535,000	115,000
2025 - 2027			1,765,000	179,250
	<u>\$728,307</u>	<u>\$80,582</u>	4,245,000	<u>\$945,050</u>
Plus: Unamortized bond premium			566,847	
			<u>\$4,811,847</u>	

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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.

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

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, 2019

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City’s Fund Balances, as of June 30, 2019, are below:

Fund Balance Classifications	General Fund	Major Special Revenue Fund Housing Authority	Major Capital Projects			Other Governmental Funds	Total
			Street Improvement Fund	Transit Area Impact Fee Fund	General Government Project Fund		
Nonspendable:							
Loans receivable							
Prepays, materials, supplies and deposits	\$743,932	\$3,594			\$70,279	\$11,264	\$829,069
Property held for resale	4,200,000						4,200,000
Advance to other funds	5,290,250						5,290,250
Subtotal Nonspendable	10,234,182	3,594			70,279	11,264	10,319,319
Restricted for:							
Redevelopment Projects and Programs and Maintenance			\$7,409,606			3,736,789	11,146,395
Housing and community development		39,297,277				3,797,312	43,094,589
Law enforcement services						137,578	137,578
Solid waste reduction and services						1,869,841	1,869,841
Assessment district services						1,509,786	1,509,786
Hetch-Hetchy ground lease						1,604,425	1,604,425
Community planning						1,097,887	1,097,887
Community benefits						261,762	261,762
Affordable housing						1,600,770	1,600,770
Park improvement projects						24,624,716	24,624,716
Storm drain projects						8,003,309	8,003,309
Transit area capital projects				\$48,281,828			48,281,828
Subtotal Restricted		39,297,277	7,409,606	48,281,828		48,244,175	143,232,886
Committed to:							
PERS stabilization	33,871,915						33,871,915
Artificial turf replacement	980,000						980,000
Technology replacement	2,000,000						2,000,000
Facilities replacement	7,000,000						7,000,000
Subtotal Restricted	43,851,915						43,851,915
Assigned to:							
Uninsured claims payable	2,816,694						2,816,694
Public art projects						748,294	748,294
Other contracts	3,098,865						3,098,865
General government capital projects					27,783,956		27,783,956
Subtotal Assigned	5,915,559				27,783,956	748,294	34,447,809
Unassigned:							
General Fund							
Budget stabilization	9,450,000						9,450,000
Unassigned	31,204,672						31,204,672
Subtotal Unassigned	40,654,672						40,654,672
Total fund balances (deficit)	\$100,656,328	\$39,300,871	\$7,409,606	\$48,281,828	\$27,854,235	\$49,003,733	\$272,506,601

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. Minimum Fund Balance Policies

The City's Budget Guidelines and Fiscal Policies document the City effort to maintain the following fund balances:

- 1) 16.67% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.
- 2) The City will maintain a Budget Stabilization Reserve in the General Fund with a target of \$8.3 million. 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 re-balanced 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. Any use of the General Fund Budget Stabilization Reserve shall require majority vote by the City Council through the adoption of the Operating Budget or by appropriation action during the fiscal year. 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. The replenishment of this reserve may also be incorporated into the annual Adopted Operating Budget, as resources are available to replenish the reserve.
- 3) Maintain a \$5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished from unassigned fund balance after the 16.67% requirement of the operating expenditures has been met.
- 4) Maintain an artificial turf replacement reserve to provide funding for the cost of replacing artificial turf fields, such as the field installed at the Milpitas Sports Center. The initial reserve is \$750,000, with an annual set-aside amount of at least \$230,000 in the General Fund and a long-term target of \$2 million. The City Council must approve utilization of this reserve at the time of the budget hearing or by appropriation action during the fiscal year.
- 5) Maintain a technology replacement reserve to provide funding for major rehabilitation or replacement of the City's technology infrastructure or new technology initiatives. The initial reserve is \$1 million, with a long-term target for this reserve of \$5 million, and will endeavor to set-aside an annual amount of \$300,000 in the Equipment Management Internal Service Fund. The City Council must approve utilization of this reserve at the time of the budget hearing or by appropriation action during the fiscal year.
- 6) Maintain a facilities replacement reserve to provide funding for major rehabilitation or replacement of City facilities (buildings/structures). The initial reserve is \$2 million, with a long-term target for this reserve of \$10 million. The City Council must approve utilization of this reserve at the time of the budget hearing or by appropriation action during the fiscal year.
- 7) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside \$500,000 annually from the General Fund reserve for this purpose.
- 8) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated and adjusted annually at appropriate levels.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

- 9) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs and pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.
- 10) 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.
- 11) 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, 2019

NOTE 11 - PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2019, 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%	5.75%
Required employer contribution rates	9.800%	9.800%	9.800%
Required Unfunded Actuarial Liability Contribution		\$4,727,847	
	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	18.361%	18.361%	18.361%
Required Unfunded Actuarial Liability Contribution		\$6,321,144	

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 were \$4,727,847 and \$6,321,144, 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, 2017 and measurement date of June 30, 2018:

	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	369			226	
Inactive employees entitled to but not yet receiving benefits	315			31		
Active employees	132	2	49	111	5	21
Total	816	2	49	368	5	21

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 of the Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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, 2018 measurement date were determined using the following actuarial assumptions:

	Miscellaneous (1)	Safety (1)
Valuation Date	June 30, 2017	June 30, 2017
Measurement Date	June 30, 2018	June 30, 2018
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	3.0%	3.0%
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	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter	Contract COLA up to 2.00% 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 table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the CalPERS December 2017 experience study report available on CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2017 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.

Change of Assumptions – For the measurement date of June 30, 2018, the inflation rate reduced from 2.75% to 2.50%.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 best-estimate ranges of 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 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 equivalent 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. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

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%	- %	-0.92%
Total	<u>100.0%</u>		

- (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, 2019

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, 2017 (Measurement Date)	\$222,345,892	\$155,168,033	\$67,177,859
Changes in the year:			
Service cost	3,042,853		3,042,853
Interest on the total pension liability	15,647,110		15,647,110
Differences between actual and expected experience	1,831,444		1,831,444
Changes in assumptions	(1,404,854)		(1,404,854)
Changes in benefit terms			
Contribution - employer		5,762,448	(5,762,448)
Contribution - employee		1,473,732	(1,473,732)
Net Plan to Plan Resource Movement		(381)	381
Net investment income		13,123,448	(13,123,448)
Administrative expenses		(241,795)	241,795
Other Miscellaneous Income/(Expense)		(459,172)	459,172
Benefit payments, including refunds of employee contributions	(10,906,398)	(10,906,398)	
Net changes	<u>8,210,155</u>	<u>8,751,882</u>	<u>(541,727)</u>
Balance at June 30, 2018 (Measurement Date)	<u>\$230,556,047</u>	<u>\$163,919,915</u>	<u>\$66,636,132</u>
	Safety Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2017 (Measurement Date)	\$331,735,390	\$212,142,828	\$119,592,562
Changes in the year:			
Service cost	5,975,378		5,975,378
Interest on the total pension liability	23,331,989		23,331,989
Differences between actual and expected experience	626,935		626,935
Changes in assumptions	(986,630)		(986,630)
Changes in benefit terms			
Contribution - employer		8,866,550	(8,866,550)
Contribution - employee		2,240,962	(2,240,962)
Net Plan to Plan Resource Movement		(521)	521
Net investment income		17,931,642	(17,931,642)
Administrative expenses		(330,577)	330,577
Other Miscellaneous Income/(Expense)		(627,771)	627,771
Benefit payments, including refunds of employee contributions	(16,083,729)	(16,083,729)	
Net changes	<u>12,863,943</u>	<u>11,996,556</u>	<u>867,387</u>
Balance at June 30, 2018 (Measurement Date)	<u>\$344,599,333</u>	<u>\$224,139,384</u>	<u>\$120,459,949</u>
Grand Totals - Both Plans	<u>\$575,155,380</u>	<u>\$388,059,299</u>	<u>\$187,096,081</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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:

	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	\$97,065,689	\$166,810,801
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$66,636,132	\$120,459,949
1% Increase	8.15%	8.15%
Net Pension Liability	\$41,462,940	\$82,271,486

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, 2019, the City recognized pension expense of \$28,504,984. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions after the measurement date	\$6,863,508	
Differences between actual and expected experience	915,722	
Changes in assumptions		(\$702,427)
Net differences between projected and actual earnings on plan investments	245,823	
Total	\$8,025,053	(\$702,427)

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 11 - PENSION PLANS (Continued)

	Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions after the measurement date	\$10,289,680	
Differences between actual and expected experience	1,280,536	(\$345,343)
Changes in assumptions	9,362,657	(726,991)
Net differences between projected and actual earnings on plan investments	296,240	
Total	\$21,229,113	(\$1,072,334)
 Grand Totals - Both Plans	 \$29,254,166	 (\$1,774,761)

\$19,145,673 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Miscellaneous Plan:

Year Ended June 30	Annual Amortization
2020	\$2,158,002
2021	393,735
2022	(1,651,352)
2023	(441,267)

Safety Plan:

Year Ended June 30	Annual Amortization
2020	\$7,882,687
2021	4,934,685
2022	(2,348,789)
2023	(601,484)

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 11 - PENSION PLANS (Continued)

The City's required contributions of \$31,435 and the employee's required contributions of \$125,740 were made during the fiscal year ending June 30, 2019.

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 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, 2019 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.

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Medical Benefit for Retirees:

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired before July 1, 1995	N/A or Less than 5 At least 5 Less than 5	If retirement occurred before June 30, 1989: - PEMHCA Minimum Only If retirements occurs after July 1, 1990 but before September 1, 2002: -Any employee only medical premium rate If retirement occurs after August 31, 2002: -Benefit cap If retirements occurs after July 1, 1990 but before September 1, 2002: - PEMHCA Minimum Only
	Hired after June 30, 1995 and retired after August 31, 2002	Less than 5 5 but less than 9 9 but less than 14 14 but less than 19 At least 19	PEMHCA Minimum Only Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Mid-Management and Confidential (LIUNA) (Began 9/2003)	Hired before July 1, 1995	Less than 5 At least 5	PEMHCA Minimum Only Benefit cap
	Hired after June 30, 1995	Less than 5 5 but less than 9 9 but less than 14 14 but less than 19 At least 19	PEMHCA Minimum Only Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Unrepresented Miscellaneous and Fire	Hired before July 1, 1995	N/A or Less than 5 At Least 5	If retirement occurred January 1, 1989: - PEMHCA Minimum Only If retirements occurs after July 1, 1990 but before September 1, 2002: -PEMHCA Minimum Only If retirement occurs after August 31, 2002: -PEMHCA Minimum Only If retirements occurs after July 1, 1990 but before September 1, 2002: -Any employee only medical premium rate If retirement occurs after August 31, 2002: -benefit cap
	Hired after June 30, 1995	Less than 5 5 but less than 10 10 but less than 15 15 but less than 20 At least 20	PEMHCA Minimum Only Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap 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, 2019

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Unrepresented Police	Hired before July 1, 1995	N/A or Less than 5 At Least 5	If retirement occurred January 1, 1989: - PEMHCA Minimum Only If retirements occurs after December 31, 1988 but before July 1, 2003: -PEMHCA Minimum Only If retirement occurs after June 30, 2003: -PEMHCA Minimum Only If retirements occurs after December 31, 1988 but before July 1, 2003: -Any employee only medical premium rate If retirement occurs after June 30, 2003: -retiree cap
	Hired after June 30, 1995	Less than 5 5 but less than 10 10 but less than 15 15 but less than 20 At least 20	PEMHCA Minimum Only Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Fire Safety (IAFF)	Hired before January 1, 1995 and retired before January 1, 1990	N/A	PEMHCA Minimum Only
	Hired before January 1, 1995 and retired after December 31, 1989 but before January 1, 1995	Less than 1 At least 11	PEMHCA Minimum Only Any employee only premium
	Hired before January 1, 1995 and retired after December 31, 1994 but before February 21, 2007	Less than 1 1 but less than 10 At least 10	PEMHCA Minimum Only 50% of the benefit cap 100% of the benefit cap
	Hired before January 1, 1995 and retired after February 20, 2007	Less than 1 1 but less than 10 At least 10	PEMHCA Minimum Only Up to 50% of the lesser of the retiree cap and the premium rate Up to 100% of the lesser of the retiree cap and the premium rate
	Hired after December 31, 1994 and retired before February 21, 2007	Less than 1 1 but less than 10 10 but less than 15 15 but less than 20 At least 20	PEMHCA Minimum Only Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
	Hired after December 31, 1994 and retired after February 21, 2007	Less than 1 1 but less than 10 10 but less than 15 15 but less than 20 At least 20	PEMHCA Minimum Only 25% of the lesser of the retiree cap and premium rate 50% of the lesser of the retiree cap and premium rate 75% of the lesser of the retiree cap and premium rate 100% of the lesser of the retiree cap and premium rate

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Hired before January 1, 1996 and retired before January 1, 1989	N/A	PEMHCA Minimum Only
	Hired before January 1, 1996 and retired after December 31, 1988 but before July 1, 2003	Less than 5 At least 5	PEMHCA Minimum Only Any employee only medical premium rate
	Hired before January 1, 1996 and retired after July 1, 2003	Less than 5 At least 5	PEMHCA Minimum Only Up to the Retiree Cap
	Hired after December 31, 1995 and retired before June 30, 2003	Less than 1 1 but less than 9 9 but less than 14 14 but less than 19 At least 19	PEMHCA Minimum Only Up to 25% of any employee only premium Up to 50% of any employee only premium Up to 75% of any employee only premium Up to 100% of any employee only premium
	Hired after December 31, 1995 and retired after June 30, 2003	Less than 1 1 but less than 9 9 but less than 14 14 but less than 19 At least 19	PEMHCA Minimum Only Up to 25% of the retiree cap Up to 50% of the retiree cap Up to 75% of the retiree cap Up to 100% of the retiree cap
Employee Association (MEA)	Hired before July 1, 1996	N/A or Less than 5 At Least 5	If retirement occurred before July 16, 1989: - PEMHCA Minimum Only If retirements occurs after July 17, 1989 but before March 19, 2003: -PEMHCA Minimum Only If retirement occurs after March 18, 2003: -PEMHCA Minimum Only If retirements occurs after July 17, 1989 but before March 19, 2003: -Any employee only medical premium rate If retirement occurs after March 18, 2003: -benefit cap
	Hired after June 30, 1996	Less than 1 1 but less than 10 10 but less than 15 15 but less than 20 At least 20	PEMHCA Minimum Only Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 12 – EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Supervisors (MSA) (Ended June 30, 2012)	Hired before June 30, 1995	N/A or Less than 5 At Least 5	If retirement occurred before July 1, 1996: - PEMHCA Minimum Only If retirements occurs after June 30, 1996 but before November 27, 2007: -PEMHCA Minimum Only If retirement occurs after November 26, 2007: -PEMHCA Minimum Only If retirements occurs after June 30, 1996 but before November 27, 2007: -Any employee only medical premium rate If retirement occurs after November 26, 2007: -benefit cap
	Hired after June 29, 1995 and retired after November 27, 2007	Less than 5 5 but less than 10 10 but less than 15 15 but less than 20 At least 20	PEMHCA Minimum Only Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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
			5 but less than 9	Up to 25% of the family/dependent premium
	After June 30, 1995	After December 4, 2006	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
			5 but less than 9	Up to 25% of the family/dependent premium
	After June 30, 1995	After January 1, 2007	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
			5 but less than 9	Up to 25% of the family/dependent premium
	After December 31, 1995	After June 30, 2003	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
			5 but less than 9	Up to 25% of the family/dependent premium
	After December 31, 1995	After September 4, 2007	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
			5 but less than 9	Up to 25% of the family/dependent premium
	After December 31, 1995	After June 30, 2018	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, 2019

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
			At least 19	Up to 100% of the family/dependent premium
Police (MPOA)	Before January 1, 1996	After June 30, 2003	At least 5	100% of family/dependent premiums
			5 but less than 9	Up to 25% of the family/dependent premium
	After December 31, 1995	After June 30, 2003	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

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, 2019, the City’s contributions to the Plan were \$4,651,743.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2018:

Active employees	310
Inactive employees or beneficiaries currently receiving benefit payments	277
Inactive employees entitled to but not yet receiving benefit payments	6
Total	593

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Actuarial Methods and Assumptions – The City’s net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017, that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2018, based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Actuarial Assumptions:	
Discount Rate	7.0% (explicit subsidies) and 3.62% (implicit subsidies)
Inflation	2.75%
Salary Increase	3.25%
Assumed Wage Inflation	3.0%
Investment Rate of Return	7.0%
Mortality Rate	MacLeod Watts Scale of 2017 applied generationally
Healthcare Trend Rate	7.5% grading down to 5% for years 2024 and thereafter

The underlying mortality assumptions were based on the mortality table published by CalPERS in their 2014 study, adjusted to back out 20 years of Scale BB to central year 2008 and all other actuarial assumptions used in the July 1, 2017 valuation were based on the results of a June 30, 2016 actuarial experience study for the period 1997 to 2011, 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, 2019

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	57.0%
Fixed Income	27.0%
Global Real Estate (REITs)	8.0%
Treasury Inflation Protected Securities	5.0%
Commodities	3.0%
Total	100.0%

Discount Rate

Explicit Subsidy Liability – The City expects the trust assets to yield 7.0% over the long term, based on information published by CalPERS as of the June 30, 2017 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 7.0%.

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 3.62%.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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, 2017	\$83,518,106	\$39,104,333	\$44,413,773
Changes Recognized for the Measurement Period:			
Service Cost	2,356,491		2,356,491
Interest on the total OPEB liability	5,155,080		5,155,080
Changes in benefit terms			0
Differences between expected and actual experience			0
Changes of assumptions	(113,934)		(113,934)
Contributions from the employer		4,803,893	(4,803,893)
Net investment income		3,175,844	(3,175,844)
Other Expenses		(51,721)	51,721
Administrative expenses		(21,490)	21,490
Benefit payments	(2,994,247)	(2,994,247)	0
Net changes	4,403,390	4,912,279	(508,889)
Balance at June 30, 2018 (Measurement Date)	\$87,921,496	\$44,016,612	\$43,904,884

The benefit payments and refunds include implied subsidy benefit payments in the amount of \$1,059,545.

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 -1%	Discount Rate	Discount Rate +1%
(6.0%-2.62%)	(7.0%-3.62%)	(8.0%-4.62%)
\$54,406,479	\$43,904,884	\$35,108,475

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		
1% Decrease	Trend Rates	1% Increase
(6.5%-4.0%)	(7.5%-5.0%)	(8.5%-6.0%)
\$32,810,544	\$43,904,884	\$58,277,043

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 12 - EMPLOYEE BENEFITS (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - For the year ended June 30, 2019, the City recognized OPEB expense of \$3,893,174. At June 30, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$4,651,743	
Differences between actual and expected experience		
Changes of assumptions		\$988,161
Net differences between projected and actual earnings on plan investments		1,074,521
Total	\$4,651,743	\$2,062,682

\$4,651,743 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, 2020. 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
2020	\$536,201
2021	536,201
2022	536,202
2023	278,765
2024	162,203
Thereafter	13,110

C. *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, 2019, sick leave benefits payable increased by \$291,525 and vacation benefits payable increased by \$425,579. 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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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, 2018	\$4,533,723	\$241,970	\$2,786,470	\$113,494
Additions	5,159,649	410,149	1,026,060	77,245
Payments and adjustments	(4,816,466)	(327,753)	(776,405)	(35,375)
Balance as of June 30, 2019	<u>\$4,876,906</u>	<u>\$324,366</u>	<u>\$3,036,125</u>	<u>\$155,364</u>
General Government	\$412,547		\$143,933	
Building	161,840		35,282	
Public Works	271,920		145,308	
Engineering	140,314		49,300	
Planning	88,508			
Recreation	139,243		79,697	
Police	2,504,557		992,238	
Fire	1,077,961		1,574,480	
Water Utility		\$188,473		\$77,681
Sewer Utility		135,893		77,683
Internal Service	80,016		15,887	
Total	<u>\$4,876,906</u>	<u>\$324,366</u>	<u>\$3,036,125</u>	<u>\$155,364</u>
Long-Term Portion:				
Governmental activities	\$2,622,451		\$2,053,799	
Business-type activities		\$149,042		\$136,630
Total long term portions	<u>\$2,622,451</u>	<u>\$149,042</u>	<u>\$2,053,799</u>	<u>\$136,630</u>
Current Portion:				
Governmental activities	\$2,254,455		\$982,326	
Business-type activities		\$175,324		\$18,734
Total current portions	<u>\$2,254,455</u>	<u>\$175,324</u>	<u>\$982,326</u>	<u>\$18,734</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, 2019

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, 2019, the City contributed \$696,868 for the 2018/19 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 polices 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, 2019 the City paid \$997,993 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, 2019

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:

	2019			2018
	Worker's Compensation	General Liability	Total	
Beginning balance	\$5,919,722	\$497,812	\$6,417,534	\$6,278,372
Liability for current fiscal year claims	993,628	122,094	1,115,722	774,846
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(50,978)	80,710	29,732	677,948
Claims paid	(1,006,292)	(342,023)	(1,348,315)	(1,313,632)
Ending balance	<u>\$5,856,080</u>	<u>\$358,593</u>	<u>\$6,214,673</u>	<u>\$6,417,534</u>
Due in one year	<u>\$928,097</u>	<u>\$189,855</u>	<u>\$1,117,952</u>	<u>\$1,070,347</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, 2019

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, 2019 were as follows:

Major Governmental Funds:	
General Fund	\$3,098,865
Housing Authority Fund	6,500,000
Street Improvement Fund	1,347,491
Transit Area Impact Fee Fund	8,061,476
Non-Major Governmental Funds	9,576,565
Total Encumbrances	\$28,584,397

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 \$16.9 million through June 30, 2019. During fiscal year 2017, the City paid \$5.1 million to VTA, but the Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment of the remaining balance due, therefore the City has recorded a liability in the amount of \$9.7 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2017. During fiscal year 2018, the City paid \$4 million to VTA and again the Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment of the remaining balance due, therefore the City has recorded a liability in the amount of \$4.4 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2018. During fiscal year 2019, the City paid \$7.8 million.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 5.817% 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, 2019

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 \$1,052,392 during fiscal year 2019, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2020 is estimated to be \$995,676.

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.

The Housing Authority Special Revenue Fund serves as the housing successor and as of July 1, 2018 had an excess surplus balance of \$3,711,791. As discussed in Note 5K, the Housing Authority approved a loan agreement in the amount of \$6.5 million that encumbered the excess surplus as of June 30, 2019. The loan is expected to be disbursed to the developer in fiscal year 2020.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 15 –SUCCESSOR AGENCY ACTIVITIES

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, 2019 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2019.

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 15 –SUCCESSOR AGENCY ACTIVITIES

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, 2018	Retirements	Balance June 30, 2019	Current Portion
Installment Purchase Agreement with the County of Santa Clara - Direct Borrowing				
due June 30, 2023	\$13,776,084	\$3,030,408	\$10,745,676	\$2,886,103
2015 Tax Allocation Bonds				
2%-5%, due September 1, 2032	108,145,000	6,475,000	101,670,000	6,735,000
Plus: Unamortized bond premium	17,467,442	1,190,962	16,276,480	
Total	<u>\$139,388,526</u>	<u>\$10,696,370</u>	<u>\$128,692,156</u>	<u>\$9,621,103</u>

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(1) above. As discussed in Note 15B (1), 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 \$10,745,676 at June 30, 2019, 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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 15 –SUCCESSOR AGENCY ACTIVITIES

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
2020	\$2,886,103	\$3,113,897	\$6,735,000	\$4,915,125
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
2025-2029			43,300,000	10,513,500
2030-2033			21,155,000	1,840,125
	<u>\$10,745,676</u>	<u>\$13,254,324</u>	101,670,000	<u>\$33,300,750</u>
Plus: Unamortized bond premium			16,276,480	
			<u>\$117,946,480</u>	

5. Defeased Bonds

As of June 30, 2019, the outstanding balance of defeased debt was \$11,865,000 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 EVENTS

2019 Wastewater Revenue Bonds

On November 13, 2019, the Milpitas Municipal Financing Authority issued Wastewater Revenue Bonds, Series 2019, in the original principal amount of \$29,840,000, generating proceeds in the amount of \$35,335,463, to provide funds for certain improvements to the City’s wastewater system and to pay the cost of issuing the 2019 Bonds. 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 2049. The Bonds were structured with a par optional redemption date of June 1, 2029. The Bonds are collateralized by net revenues from the City’s Sewer System, on parity with the 2017 Bonds.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 16 –SUBSEQUENT EVENTS (Continued)

2019 Water Revenue Bonds

On November 13, 2019, the Milpitas Municipal Financing Authority issued Water Revenue Bonds, Series 2019, in the original principal amount of \$17,210,000, generating proceeds in the amount of \$20,272,132, to provide funds for certain improvements to the City's water system and to pay the cost of issuing the 2019 Bonds. 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 2049. The Bonds were structured with a par optional redemption date of June 1, 2029. The Bonds are collateralized by net revenues from the City's Water System.

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
Total OPEB Liability		
Service Cost	\$2,386,392	\$2,356,491
Interest	4,794,071	5,155,080
Changes in benefit terms		
Differences between expected and actual experience		
Changes of assumptions	(1,263,847)	(113,934)
Benefit payments	(3,325,081)	(2,994,247)
Net change in total OPEB liability	<u>2,591,535</u>	<u>4,403,390</u>
Total OPEB liability - beginning	<u>80,926,571</u>	<u>83,518,106</u>
Total OPEB liability - ending (a)	<u><u>\$83,518,106</u></u>	<u><u>\$87,921,496</u></u>
 Plan fiduciary net position		
Contributions - employer	\$4,959,756	\$4,803,893
Contributions - employee		
Net investment income	3,708,342	3,175,844
Administrative expense	(18,732)	(21,490)
Benefit payments	(3,325,081)	(2,994,247)
Other Expenses		(51,721)
Net change in plan fiduciary net position	<u>5,324,285</u>	<u>4,912,279</u>
Plan fiduciary net position - beginning	<u>33,780,048</u>	<u>39,104,333</u>
Plan fiduciary net position - ending (b)	<u><u>\$39,104,333</u></u>	<u><u>\$44,016,612</u></u>
 Net OPEB liability - ending (a)-(b)	<u><u>\$44,413,773</u></u>	<u><u>\$43,904,884</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	46.82%	50.06%
 Covered-employee payroll	<u><u>\$42,017,236</u></u>	<u><u>\$43,375,678</u></u>
 Net OPEB liability as a percentage of covered-employee payroll	<u><u>105.70%</u></u>	<u><u>101.22%</u></u>

* 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)	\$0	\$593,096	\$593,096	\$0	\$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%

Notes to Schedule

Valuation date:

Methods and assumptions used to determine contribution rates:

Valuation Date	July 1, 2017
Actuarial Assumptions:	
Discount Rate	7.0% (explicit subsidies) and 3.62% (implicit subsidies)
Inflation	2.75%
Salary Increase	3.25%
Assumed Wage Inflation	3.0%
Investment Rate of Return	7.0%
Mortality Rate	MacLeod Watts Scale of 2017 applied generationally
Healthcare Trend Rate	7.5% grading down to 5% for years 2024 and thereafter

* Fiscal year 2018 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	2013-14	2014-15	2015-16	2016-17	2017-18
Total Pension Liability					
Service Cost	\$2,652,510	\$2,664,628	\$2,666,665	\$3,008,973	\$3,042,853
Interest	13,600,615	14,114,152	14,689,192	15,078,047	15,647,110
Differences between expected and actual experience	-	(982,598)	(18,301)	(1,238,427)	1,831,444
Changes in assumptions	-	(3,463,459)	-	12,475,424	(1,404,854)
Changes in benefits	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)	(9,558,779)	(10,236,837)	(10,906,398)
Net change in total pension liability	7,871,791	3,402,207	7,778,777	19,087,180	8,210,155
Total pension liability - beginning	184,205,937	192,077,728	195,479,935	203,258,712	222,345,892
Total pension liability - ending (a)	\$192,077,728	\$195,479,935	\$203,258,712	\$222,345,892	\$230,556,047
Plan fiduciary net position					
Contributions - employer	\$3,356,909	\$4,076,975	\$4,519,744	\$5,048,143	\$5,762,448
Contributions - employee	1,439,932	1,326,989	1,333,019	1,266,956	1,473,732
Net investment income	22,034,637	3,281,429	775,183	16,109,364	13,123,448
Administrative expense	-	(164,523)	(89,109)	(211,414)	(241,795)
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)	(9,558,779)	(10,236,837)	(10,906,398)
Other Miscellaneous Income/Expense	-	-	-	-	(459,172)
Net Plan to Plan Resource Movement	-	-	(370)	(370)	(381)
Net change in plan fiduciary net position	18,450,144	(409,646)	(3,020,312)	11,975,842	8,751,882
Plan fiduciary net position - beginning	128,172,005	146,622,149	146,212,503	143,192,191	155,168,033
Plan fiduciary net position - ending (b)	\$146,622,149	\$146,212,503	\$143,192,191	\$155,168,033	\$163,919,915
Net pension liability - ending (a)-(b)	\$45,455,579	\$49,267,432	\$60,066,521	\$67,177,859	\$66,636,132
Plan fiduciary net position as a percentage of the total pension liability	76.33%	74.80%	70.45%	69.79%	71.10%
Covered payroll	\$15,682,538	\$16,009,660	\$16,161,589	\$16,418,123	\$18,846,066
Net pension liability as percentage of covered payroll	289.85%	307.74%	371.66%	409.17%	382.47%

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017. 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. GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In 2018, there were no changes. In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016 and 2018, 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. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 and 2016 measurement dates.

* 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	2019
Actuarially determined contribution	\$3,252,668	\$4,236,931	\$5,082,638	\$6,243,904	\$6,863,508
Contributions in relation to the actuarially determined contributions	3,252,668	4,236,931	5,082,638	6,243,904	6,863,508
Contribution deficiency (excess)	<u>\$0</u>	<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	\$22,079,190
Contributions as a percentage of covered payroll	20.32%	26.22%	30.96%	33.13%	31.09%
Notes to Schedule					
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016
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	3.30% to 14.20% depending on Age, Service, and type of employment.				
Investment rate of return	7.50% for 2015 to 2018 and 7.375% for 2019, net of pension plan investment expense, including inflation.				
Retirement age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.				
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Society of Actuaries.				

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

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	2017-18
Total Pension Liability					
Service Cost	\$4,932,970	\$4,808,751	\$5,094,318	\$5,934,642	\$5,975,378
Interest	19,838,662	20,535,893	21,663,378	22,434,283	23,331,989
Differences between expected and actual experience	-	(2,363,470)	3,274,330	(690,685)	626,935
Changes in assumptions	-	(5,052,089)	-	18,725,315	(986,630)
Changes in benefits	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)	(14,390,575)	(14,864,837)	(16,083,729)
Net change in total pension liability	11,695,003	4,272,889	15,641,451	31,538,718	12,863,943
Total pension liability - beginning	268,587,329	280,282,332	284,555,221	300,196,672	331,735,390
Total pension liability - ending (a)	\$280,282,332	\$284,555,221	\$300,196,672	\$331,735,390	\$344,599,333
Plan fiduciary net position					
Contributions - employer	\$5,856,270	\$6,604,951	\$7,230,399	\$7,887,539	\$8,866,550
Contributions - employee	1,839,234	1,887,408	2,064,277	2,233,341	2,240,962
Net investment income	30,157,647	4,420,615	1,031,136	22,090,936	17,931,642
Administrative expense	-	(224,227)	(121,445)	(288,028)	(330,577)
Net Plan to Plan Resource Movement	-	-	-	-	(521)
Other Miscellaneous Income/Expense	-	-	-	-	(627,771)
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)	(14,390,575)	(14,864,837)	(16,083,729)
Net change in plan fiduciary net position	24,776,522	(967,449)	(4,186,208)	17,058,951	11,996,556
Plan fiduciary net position - beginning	175,461,012	200,237,534	199,270,085	195,083,877	212,142,828
Plan fiduciary net position - ending (b)	\$200,237,534	\$199,270,085	\$195,083,877	\$212,142,828	\$224,139,384
Net pension liability - ending (a)-(b)	\$80,044,798	\$85,285,136	\$105,112,795	\$119,592,562	\$120,459,949
Plan fiduciary net position as a percentage of the total pension liability	71.44%	70.03%	64.99%	63.95%	65.04%
Covered payroll	\$18,310,535	\$18,810,920	\$20,170,400	\$21,078,669	\$21,698,152
Net pension liability as percentage of covered payroll	437.15%	453.38%	521.12%	567.36%	555.16%

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, 2017. 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. GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In 2018, there were no changes. In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016 and 2018, 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 reported were based on the 7.5% discount rate. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 and 2016 measurement dates.

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

**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
Actuarially determined contribution	\$5,904,019	\$7,346,983	\$8,741,506	\$9,247,165	\$10,289,680
Contributions in relation to the actuarially determined contributions	5,904,019	7,346,983	8,741,506	9,247,165	10,289,680
Contribution deficiency (excess)	<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
Contributions as a percentage of covered payroll	31.39%	36.42%	41.47%	42.62%	44.13%
Notes to Schedule					
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	27 Years as of the Valuation Date
Asset valuation method	Market Value of Assets
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on Age, Service, and type of employment.
Investment rate of return	7.50% for 2015 to 2018 and 7.375% for 2019, net of pension plan investment expense, including inflation.
Retirement age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA 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.

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, 2019

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
ASSETS					
Cash and investments available for operations	\$3,474,277	\$17,991	\$387,694	\$1,890,735	\$172,280
Receivables:					
Due from other governments	245,020	138,361	8,371	23,602	
Interest	17,492		1,542	8,428	850
Loans receivable		3,740,080			
Prepays, materials, supplies and deposits		1,030		1,134	2,677
Total Assets	<u>\$3,736,789</u>	<u>\$3,897,462</u>	<u>\$397,607</u>	<u>\$1,923,899</u>	<u>\$175,807</u>
LIABILITIES					
Accounts payable		\$98,868	\$1,322	\$13,515	\$494
Accrued payroll		252		1,899	3,865
Unearned revenue			258,707	18,667	
Refundable deposits				18,843	
Total Liabilities		<u>99,120</u>	<u>260,029</u>	<u>52,924</u>	<u>4,359</u>
FUND BALANCE					
Fund Balances:					
Nonspendable		1,030		1,134	2,677
Restricted	\$3,736,789	3,797,312	137,578	1,869,841	168,771
Assigned					
Total Fund Balances	<u>3,736,789</u>	<u>3,798,342</u>	<u>137,578</u>	<u>1,870,975</u>	<u>171,448</u>
Total Liabilities and Fund Balances	<u>\$3,736,789</u>	<u>\$3,897,462</u>	<u>\$397,607</u>	<u>\$1,923,899</u>	<u>\$175,807</u>

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Affordable Housing	Public Art	Park Improvement	Storm Drain Development	
\$1,342,363	\$1,604,425	\$1,091,416	\$261,762	\$1,597,728	\$744,571	\$24,791,183	\$8,053,336	\$45,429,761
8,510								423,864
7,185		6,811		3,042	3,723	126,689	40,545	216,307
								3,740,080
3,506	2,917							11,264
<u>\$1,361,564</u>	<u>\$1,607,342</u>	<u>\$1,098,227</u>	<u>\$261,762</u>	<u>\$1,600,770</u>	<u>\$748,294</u>	<u>\$24,917,872</u>	<u>\$8,093,881</u>	<u>\$49,821,276</u>
\$9,325		\$17				\$289,230	\$90,348	\$503,119
7,718		323				3,926	224	18,207
								277,374
								18,843
17,043		340				293,156	90,572	817,543
3,506	\$2,917							11,264
1,341,015	1,604,425	\$1,097,887	\$261,762	\$1,600,770		24,624,716	8,003,309	48,244,175
					\$748,294			748,294
1,344,521	1,607,342	1,097,887	261,762	1,600,770	748,294	24,624,716	8,003,309	49,003,733
<u>\$1,361,564</u>	<u>\$1,607,342</u>	<u>\$1,098,227</u>	<u>\$261,762</u>	<u>\$1,600,770</u>	<u>\$748,294</u>	<u>\$24,917,872</u>	<u>\$8,093,881</u>	<u>\$49,821,276</u>

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Other taxes					\$380,161
Use of money and property	\$58,920	\$4,520	\$6,795	32,806	2,140
Intergovernmental	2,909,600	657,731	246,355	224,569	
Charges for services					
Developer contributions					
Other				576	
Total Revenues	2,968,520	662,251	253,150	257,951	382,301
EXPENDITURES:					
Current:					
General Government		339,146			
Public Works					290,612
Engineering				332,165	10,786
Police			207,848		
Capital outlay					
Total Expenditures		339,146	207,848	332,165	301,398
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,968,520	323,105	45,302	(74,214)	80,903
OTHER FINANCING SOURCES (USES)					
Transfers in	483,125			134,151	
Transfers (out)	(1,775,000)			(99,748)	(95,000)
Total Other Financing Sources (Uses)	(1,291,875)			34,403	(95,000)
NET CHANGE IN FUND BALANCES	1,676,645	323,105	45,302	(39,811)	(14,097)
Fund balances at beginning of year	2,060,144	3,475,237	92,276	1,910,786	185,545
FUND BALANCES AT END OF YEAR	\$3,736,789	\$3,798,342	\$137,578	\$1,870,975	\$171,448

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS				Total
Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Affordable Housing	Public Art	Park Improvement	Storm Drain Development	Nonmajor Governmental Funds	
\$2,133,307								\$2,513,468	
22,530	\$41,094	\$21,205	\$7,343	\$6,398	\$19,951	\$777,708	\$146,845	1,148,255	
		458,577						4,038,255	
				600,908			1,017,027	458,577	
					473,385			1,617,935	
								473,961	
<u>2,155,837</u>	<u>41,094</u>	<u>479,782</u>	<u>7,343</u>	<u>607,306</u>	<u>493,336</u>	<u>777,708</u>	<u>1,163,872</u>	<u>10,250,451</u>	
5,598	34,110				1,623			380,477	
812,064								1,102,676	
								342,951	
								207,848	
						1,985,759	303,131	2,288,890	
<u>817,662</u>	<u>34,110</u>				<u>1,623</u>	<u>1,985,759</u>	<u>303,131</u>	<u>4,322,842</u>	
<u>1,338,175</u>	<u>6,984</u>	<u>479,782</u>	<u>7,343</u>	<u>607,306</u>	<u>491,713</u>	<u>(1,208,051)</u>	<u>860,741</u>	<u>5,927,609</u>	
(900,000)		(250,000)	(250,000)	1,243,464		12,460,000	265,000	14,585,740	
						(140,405)		(3,510,153)	
<u>(900,000)</u>		<u>(250,000)</u>	<u>(250,000)</u>	<u>1,243,464</u>		<u>12,319,595</u>	<u>265,000</u>	<u>11,075,587</u>	
438,175	6,984	229,782	(242,657)	1,850,770	491,713	11,111,544	1,125,741	17,003,196	
906,346	1,600,358	868,105	504,419	(250,000)	256,581	13,513,172	6,877,568	32,000,537	
<u>\$1,344,521</u>	<u>\$1,607,342</u>	<u>\$1,097,887</u>	<u>\$261,762</u>	<u>\$1,600,770</u>	<u>\$748,294</u>	<u>\$24,624,716</u>	<u>\$8,003,309</u>	<u>\$49,003,733</u>	

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, 2019

	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	\$23,000	\$58,920	\$35,920	\$1,000	\$4,520	\$3,520
Intergovernmental	3,172,310	2,909,600	(262,710)	427,800	657,731	229,931
Charges for services						
Developer contributions						
Other						
Total Revenues	<u>3,195,310</u>	<u>2,968,520</u>	<u>(226,790)</u>	<u>428,800</u>	<u>662,251</u>	<u>233,451</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
Finance				17,800	17,775	25
Non-departmental				726,000	620,464	105,536
Building, Safety and Housing					15,980	(15,980)
Public Works						
Engineering						
Police						
Total Expenditures				<u>743,800</u>	<u>654,219</u>	<u>89,581</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,195,310</u>	<u>2,968,520</u>	<u>(226,790)</u>	<u>(315,000)</u>	<u>8,032</u>	<u>323,032</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	483,125	483,125				
Transfers (out)	(1,775,000)	(1,775,000)				
Total Other Financing Sources (Uses)	<u>(1,291,875)</u>	<u>(1,291,875)</u>				
NET CHANGE IN FUND BALANCES	<u>\$1,903,435</u>	1,676,645	<u>(\$226,790)</u>	<u>(\$315,000)</u>	8,032	<u>\$323,032</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					315,073	
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>2,060,144</u>			<u>3,475,237</u>	
Fund balances at end of year		<u>\$3,736,789</u>			<u>\$3,798,342</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)
						\$383,178	\$380,161	(\$3,017)
\$2,000	\$6,795	\$4,795	\$19,000	\$32,806	\$13,806	2,000	2,140	140
212,104	246,355	34,251	228,112	224,569	(3,543)			
				576	576			
214,104	253,150	39,046	247,112	257,951	10,839	385,178	382,301	(2,877)
						356,685	290,612	66,073
279,989	207,848	72,141	400,279	400,170	109	81,065	12,995	68,070
279,989	207,848	72,141	400,279	400,170	109	437,750	303,607	134,143
(65,885)	45,302	111,187	(153,167)	(142,219)	10,948	(52,572)	78,694	131,266
			134,151	134,151		(95,000)	(95,000)	
			(99,748)	(99,748)				
			34,403	34,403		(95,000)	(95,000)	
(\$65,885)	45,302	\$111,187	(\$118,764)	(107,816)	\$10,948	(\$147,572)	(16,306)	\$131,266
				68,005			2,209	
	92,276			1,910,786			185,545	
	\$137,578			\$1,870,975			\$171,448	

(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, 2019

	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	\$1,979,896	\$2,133,307	\$153,411			
Use of money and property	7,000	22,530	15,530	\$1,000	\$41,094	\$40,094
Intergovernmental						
Charges for services						
Developer contributions						
Other						
Total Revenues	<u>1,986,896</u>	<u>2,155,837</u>	<u>168,941</u>	<u>1,000</u>	<u>41,094</u>	<u>40,094</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
Finance						
Non-departmental	8,000	5,598	2,402	\$35,000	34,110	890
Building, Safety and Housing						
Public Works	1,228,353	812,064	416,289			
Engineering						
Police						
Total Expenditures	<u>1,236,353</u>	<u>817,662</u>	<u>418,691</u>	<u>35,000</u>	<u>34,110</u>	<u>890</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>750,543</u>	<u>1,338,175</u>	<u>587,632</u>	<u>(34,000)</u>	<u>6,984</u>	<u>40,984</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(900,000)	(900,000)				
Total Other Financing Sources (Uses)	<u>(900,000)</u>	<u>(900,000)</u>				
NET CHANGE IN FUND BALANCES	<u>(\$149,457)</u>	<u>438,175</u>	<u>\$587,632</u>	<u>(\$34,000)</u>	<u>6,984</u>	<u>\$40,984</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>906,346</u>			<u>1,600,358</u>	
Fund balances at end of year		<u>\$1,344,521</u>			<u>\$1,607,342</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)
\$8,000	\$21,205	\$13,205		\$7,343	\$7,343		\$6,398	\$6,398
250,000	458,577	208,577					600,908	600,908
<u>258,000</u>	<u>479,782</u>	<u>221,782</u>		<u>7,343</u>	<u>7,343</u>		<u>607,306</u>	<u>607,306</u>
<u>258,000</u>	<u>479,782</u>	<u>221,782</u>		<u>7,343</u>	<u>7,343</u>		<u>607,306</u>	<u>607,306</u>
<u>(250,000)</u>	<u>(250,000)</u>			<u>(250,000)</u>	<u>(250,000)</u>	\$993,464	1,243,464	250,000
<u>(250,000)</u>	<u>(250,000)</u>			<u>(250,000)</u>	<u>(250,000)</u>	993,464	1,243,464	250,000
<u>\$8,000</u>	<u>229,782</u>	<u>\$221,782</u>		<u>(242,657)</u>	<u>(\$242,657)</u>	<u>\$993,464</u>	1,850,770	<u>\$857,306</u>
	<u>868,105</u>			<u>504,419</u>			<u>(250,000)</u>	
	<u>\$1,097,887</u>			<u>\$261,762</u>			<u>\$1,600,770</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, 2019

	PUBLIC ART			TOTALS		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes				\$2,363,074	\$2,513,468	\$150,394
Use of money and property	\$3,000	\$19,951	\$16,951	66,000	223,702	157,702
Intergovernmental				4,040,326	4,038,255	(2,071)
Charges for services				250,000	458,577	208,577
Developer contributions		473,385	473,385		1,074,293	1,074,293
Other					576	576
Total Revenues	3,000	493,336	490,336	6,719,400	8,308,871	1,589,471
EXPENDITURES						
Current:						
General Government:						
City Manager						
Finance				17,800	17,775	25
Non-departmental	127,500	31,623	95,877	896,500	691,795	204,705
Building, Safety and Housing					15,980	(15,980)
Public Works				1,585,038	1,102,676	482,362
Engineering				481,344	413,165	68,179
Police				279,989	207,848	72,141
Total Expenditures	127,500	31,623	95,877	3,260,671	2,449,239	811,432
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(124,500)	461,713	586,213	3,458,729	5,859,632	2,400,903
OTHER FINANCING SOURCES (USES)						
Transfers in				617,276	1,860,740	1,243,464
Transfers (out)				(3,119,748)	(3,369,748)	(250,000)
Total Other Financing Sources (Uses)				(2,502,472)	(1,509,008)	993,464
	(\$124,500)	461,713	\$586,213	\$956,257	4,350,624	\$3,394,367
Expenditures capitalized for GAAP purposes					315,073	
Capital Outlay						
Encumbrance adjustments		30,000			100,214	
Fund balances at beginning of year		256,581			11,609,797	
Fund balances at end of year		\$748,294			\$16,375,708	

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, 2019

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,284,679	\$62,212	\$2,085	\$1,344,806
Receivables:				
Interest	4,860		4,860	
Total Assets	<u>\$1,289,539</u>	<u>\$62,212</u>	<u>\$6,945</u>	<u>\$1,344,806</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$1,289,539</u>	<u>\$62,212</u>	<u>\$6,945</u>	<u>\$1,344,806</u>
Total Liabilities	<u>\$1,289,539</u>	<u>\$62,212</u>	<u>\$6,945</u>	<u>\$1,344,806</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$7,884	\$2,131	\$1,926	\$8,089
Receivables:				
Interest	30		30	
Total Assets	<u>\$7,914</u>	<u>\$2,131</u>	<u>\$1,956</u>	<u>\$8,089</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$7,914</u>	<u>\$2,131</u>	<u>\$1,956</u>	<u>\$8,089</u>
Total Liabilities	<u>\$7,914</u>	<u>\$2,131</u>	<u>\$1,956</u>	<u>\$8,089</u>
<u>TOTAL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,292,563	\$64,343	\$4,011	\$1,352,895
Receivables:				
Interest	4,890		4,890	
Total Assets	<u>\$1,297,453</u>	<u>\$64,343</u>	<u>\$8,901</u>	<u>\$1,352,895</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$1,297,453</u>	<u>\$64,343</u>	<u>\$8,901</u>	<u>\$1,352,895</u>
Total Liabilities	<u>\$1,297,453</u>	<u>\$64,343</u>	<u>\$8,901</u>	<u>\$1,352,895</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

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 17
- Demographic and Economic Statistics – Schedule 18
- Principal Employers – Schedule 19

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 20
- Operating Indicators by Function/Program – Schedule 21
- Capital Asset Statistics by Function/Program – Schedule 22

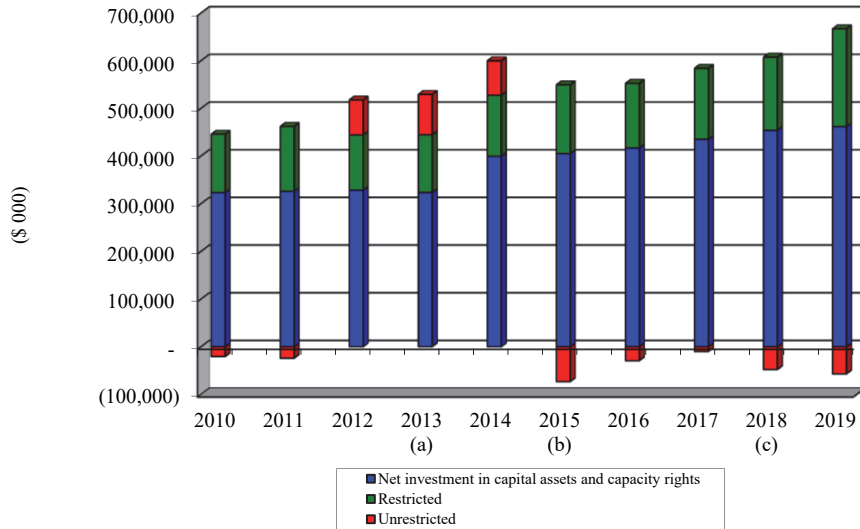
Sources

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)

Schedule 1



	Fiscal Year Ended June 30				
	2010	2011	2012	2013 (a)	2014
Governmental activities					
Net investment in capital assets and capacity rights	\$218,878	\$218,116	\$219,034	\$217,002	\$291,704
Restricted	98,426	115,474	90,878	88,147	90,758
Unrestricted	(38,500)	(44,592)	53,417	64,876	51,315
Total governmental activities net position	<u>\$278,804</u>	<u>\$288,998</u>	<u>\$363,329</u>	<u>\$370,025</u>	<u>\$433,777</u>
Business-type activities					
Net investment in capital assets and capacity rights	\$104,370	\$107,707	\$109,146	\$106,489	\$107,816
Restricted	24,059	20,743	25,239	32,889	37,254
Unrestricted	17,851	20,577	19,838	19,799	20,880
Total business-type activities net position	<u>\$146,280</u>	<u>\$149,027</u>	<u>\$154,223</u>	<u>\$159,177</u>	<u>\$165,950</u>
Primary government					
Net investment in capital assets and capacity rights	\$323,248	\$325,823	\$328,180	\$323,491	\$399,520
Restricted	122,485	136,217	116,117	121,036	128,012
Unrestricted	(20,649)	(24,015)	73,255	84,675	72,195
Total primary government net position	<u>\$425,084</u>	<u>\$438,025</u>	<u>\$517,552</u>	<u>\$529,202</u>	<u>\$599,727</u>
	Fiscal Year Ended June 30				
	2015 (b)	2016	2017	2018 (c)	2019
Governmental activities					
Net investment in capital assets and capacity rights	\$291,500	\$298,321	\$312,138	\$323,239	\$326,564
Restricted	103,829	100,327	108,630	109,726	145,983
Unrestricted	(84,598)	(44,368)	(30,091)	(63,405)	(65,799)
Total governmental activities net position	<u>\$310,731</u>	<u>\$354,280</u>	<u>\$390,677</u>	<u>\$369,560</u>	<u>\$406,748</u>
Business-type activities					
Net investment in capital assets and capacity rights	\$113,232	\$118,588	\$122,937	\$130,736	\$135,048
Restricted	40,867	35,130	40,311	43,834	59,191
Unrestricted	11,586	15,261	20,254	15,784	8,930
Total business-type activities net position	<u>\$165,685</u>	<u>\$168,979</u>	<u>\$183,502</u>	<u>\$190,354</u>	<u>\$203,169</u>
Primary government					
Net investment in capital assets and capacity rights	\$404,732	\$416,909	\$435,075	\$453,975	\$461,612
Restricted	144,696	135,457	148,941	153,560	205,174
Unrestricted	(73,012)	(29,107)	(9,837)	(47,621)	(56,869)
Total primary government net position	<u>\$476,416</u>	<u>\$523,259</u>	<u>\$574,179</u>	<u>\$559,914</u>	<u>\$609,917</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,			
	2010	2011	2012	2013
Expenses				
Governmental activities				
General Government	\$33,535 (a)	\$21,474 (a)	\$17,418 (b)	\$15,329
Building and Safety	1,972	1,984	2,029	2,293
Building, Housing and Safety				
Recreation and Community Services				
Public Works	22,843	16,777	21,787	17,700 (d)
Engineering				
Planning and Neighborhood Services	2,874	2,155	2,144	2,553
Planning				
Parks and Recreation	6,096	6,529	5,823	3,107 (d)
Police	22,771	22,661	22,620	21,702
Fire	14,748	15,085	14,904	15,810
Interest on Long Term Debt	9,570	9,536	2,050	227
Total governmental activities expenses	114,409	96,201	88,775	78,721
Business-type activities				
Water Utility	11,788	12,766	15,229	17,195
Recycled Water Utility	476	470	599	(e)
Sewer Utility	8,730	9,240	8,399	9,418
Total business-type activities expenses	20,994	22,476	24,227	26,613
Total primary government expenses	\$135,403	\$118,677	\$113,002	\$105,334
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	\$1,165	\$1,071	\$1,349	\$1,700
Building and Safety	2,031	2,823	3,436	4,554
Building, Housing and Safety				
Recreation and Community Services				
Public Works	2,571	1,826	2,440	2,668
Engineering				
Planning and Neighborhood Services	182	139	237	301
Planning				
Parks and Recreation	1,642	1,662	1,833	1,987
Police	1,091	1,263	1,134	1,051
Fire	1,137	1,210	1,292	1,508
Operating grants and contributions	3,892	4,869	6,146	7,487
Capital grants and contributions	8,840	5,704	8,294	8,286
Total government activities program revenues	22,551	20,567	26,161	29,542
Business-type activities				
Charges for services:				
Water Utility	14,051	15,201	16,773	19,801
Recycled Water Utility	1,260	1,300	1,447	(e)
Sewer Utility	10,393	11,406	12,445	12,632
Operating grants and contributions	79	70	43	111
Capital grants and contributions	6,406	163	1,629	1,975
Total business-type activities program revenue	32,189	28,140	32,337	34,519
Total primary government program revenues	\$54,740	\$48,707	\$58,498	\$64,061
Net (Expense)/Revenue				
Governmental activities	(\$91,858)	(\$75,634)	(\$62,614)	(\$49,179)
Business-type activities	11,195	5,664	8,110	7,906
Total primary government net expense	(\$80,663)	(\$69,970)	(\$54,504)	(\$41,273)

(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.

2014	2015	2016	2017	2018	2019
\$21,074	\$18,118	\$18,614	\$21,174	\$19,111	\$25,281
2,684	2,617	2,513	3,389	4,148	(h)
				(h)	5,449
				5,890	7,020
18,664	17,509	12,761	16,266	15,903	20,053
		5,790 (g)	6,249 (g)	5,712 (g)	6,459 (g)
2,119	2,372	2,649	3,103	3,586	(h)
					1,851
3,012	3,098	4,090	4,949		
23,373	24,699	24,556	30,270	33,840	35,868
15,159	16,301	16,400	20,499	24,194	26,535
240	67	56	48		17
<u>86,325</u>	<u>84,781</u>	<u>87,429</u>	<u>105,947</u>	<u>112,384</u>	<u>128,533</u>
17,369	18,344	19,743	20,666	23,742	25,232
(e)	(e)	(e)	(e)	(e)	(e)
11,008	10,426	10,872	9,969	12,715	12,231
28,377	28,770	30,615	30,635	36,457	37,463
<u>\$114,702</u>	<u>\$113,551</u>	<u>\$118,044</u>	<u>\$136,582</u>	<u>\$148,841</u>	<u>\$165,996</u>
\$1,819	\$1,063	\$2,065	\$1,970	\$2,088	\$2,347
6,445	5,128	5,963	7,814	10,093	(h)
					9,718
				2,559	2,655
2,472	2,644	(g)	(g)	(g)	(g)
		2,863 (g)	2,720 (g)	2,465 (g)	2,379 (g)
432	700	747	292	418	(h)
					226
1,958	2,060	1,981	2,301		
1,091	1,151	1,138	1,184	1,089	1,130
2,120	1,885	2,440	3,224	3,326	2,172
6,195	6,201	7,320	7,880	6,521	8,277
15,483	14,711	35,195	32,256	34,003	47,194
<u>38,015</u>	<u>35,543</u>	<u>59,712</u>	<u>59,641</u>	<u>62,562</u>	<u>76,098</u>
21,354	21,136	18,709	26,318	29,667	29,355
(e)	(e)	(e)	(e)	(e)	(e)
12,753	14,453	15,964	16,803	17,139	17,830
57	127	63	89	124	114
1,402	710	1,103	4,937	2,507	2,755
35,566	36,426	35,839	48,147	49,437	50,054
<u>\$73,581</u>	<u>\$71,969</u>	<u>\$95,551</u>	<u>\$107,788</u>	<u>\$111,999</u>	<u>\$126,152</u>
(\$48,310)	(\$49,238)	(\$27,717)	(\$46,306)	(\$49,822)	(\$52,435)
7,189	7,656	5,224	17,512	12,980	12,591
<u>(\$41,121)</u>	<u>(\$41,582)</u>	<u>(\$22,493)</u>	<u>(\$28,794)</u>	<u>(\$36,842)</u>	<u>(\$39,844)</u>

(Continued)

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

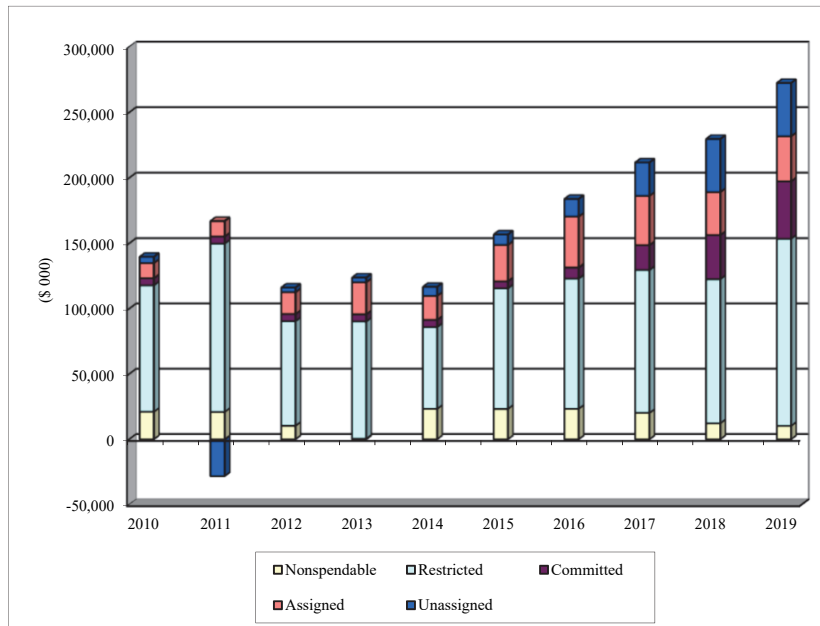
	Fiscal Year Ended June 30,			
	2010	2011	2012	2013
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	\$58,012 (a)	\$55,655 (a)	\$34,029	\$20,469
Sales and use taxes	14,725	16,429	18,758	20,196
Hotel/Motel taxes	5,297	6,124	7,068	7,933
Other taxes	407	380	491	516
Franchise fees	2,993	3,083	3,218	3,270
Motor vehicle in lieu	209	323	35	37
Investment earnings	700	399	1,093	260
Gain on sale of capital assets/property	171			46
Miscellaneous	85	62	67	103
Redevelopment expense				
Transfers	(2,570)	3,374	3,304	3,045
Extraordinary item			68,882 (b)	
Special Item				
Total governmental activities	<u>80,029</u>	<u>85,829</u>	<u>136,945</u>	<u>55,875</u>
Business-type activities				
Investment earnings	857	455	390	94
Transfers	2,570	(3,374)	(3,304)	(3,045)
Total business-type activities	<u>3,427</u>	<u>(2,919)</u>	<u>(2,914)</u>	<u>(2,951)</u>
Total primary government	<u>\$83,456</u>	<u>\$82,910</u>	<u>\$134,031</u>	<u>\$52,924</u>
Change in net position				
Governmental activities	(\$11,829)	\$10,195	\$74,331	\$6,696
Business-type activities	14,622	2,745	5,196	4,955
Total primary government	<u>\$2,793</u>	<u>\$12,940</u>	<u>\$79,527</u>	<u>\$11,651</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.

2014	2015	2016	2017	2018	2019
\$27,607	\$24,927	\$27,068	\$30,262	\$31,893	\$33,811
19,014	18,779	23,924	25,392	26,991	27,983
9,336	10,917	11,757	11,858	12,122	14,503
672	664	822	803	814	808
3,453	3,659	3,841	3,871	4,678	5,127
31	29	29	34	39	36
844	379	913	118	301	4,474
			7,324		4
200	333	287	118	186	390
3,402	1,627	2,625	2,923	2,511	2,489
49,799				(12,432) (f)	
<u>114,358</u>	<u>61,314</u>	<u>71,266</u>	<u>82,703</u>	<u>67,103</u>	<u>89,625</u>
690	383	695	(65)	171	2,712
(3,402)	(1,627)	(2,625)	(2,923)	(2,511)	(2,489)
<u>(2,712)</u>	<u>(1,244)</u>	<u>(1,930)</u>	<u>(2,988)</u>	<u>(2,340)</u>	<u>223</u>
<u>\$111,646</u>	<u>\$60,070</u>	<u>\$69,336</u>	<u>\$79,715</u>	<u>\$64,763</u>	<u>\$89,848</u>
\$66,048	\$12,076	\$43,549	\$36,397	\$17,281	\$37,190
4,477	6,412	3,294	14,524	10,640	12,814
<u>\$70,525</u>	<u>\$18,488</u>	<u>\$46,843</u>	<u>\$50,921</u>	<u>\$27,921</u>	<u>\$50,004</u>



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



	Fiscal Year Ended June 30,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Fund										
Nonspendable	\$20,977	\$20,970	\$577	\$468	\$23,279	\$23,265	\$23,387	\$20,209	\$10,043	\$10,234
Restricted		24,555								
Committed	5,433	5,433	5,433	5,433	5,433	5,433	8,440	19,026	33,643	43,852
Assigned	9,465	9,698	13,904	10,434	6,658	7,013	9,052	8,067	8,629	5,916
Unassigned	14,920	15,448	15,800	16,444	13,521	13,864	13,410	25,440	40,496	40,655
Total General Fund	\$50,795	\$76,104	\$35,714	\$32,779	\$48,891	\$49,575	\$54,289	\$72,742	\$92,811	\$100,657 (a)
All Other Governmental Funds										
Nonspendable	\$115	\$23	\$9,788	\$11	\$32	\$11	\$13	\$15	\$2,229	\$85
Restricted	96,873	104,290	80,112	89,821	62,661	92,347	99,701	109,416	110,418	143,232
Assigned	2,196	2,127	2,892	14,244	11,808	20,806	29,956	29,635	24,284	28,532
Unassigned	(10,219)	(43,624)	(12,234)	(12,955)	(6,610)	(5,932)				
Total all other governmental funds	\$88,965	\$62,816	\$80,558	\$91,121	\$67,891	\$107,232	\$129,670	\$139,066	\$136,931	\$171,849 (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,				
	2010	2011	2012	2013	2014
Revenues					
Property taxes	\$58,012 (a)	\$55,655 (a)	\$34,029 (b)	\$20,466	\$27,608
Sales taxes	15,268	16,994	19,403	20,908	19,766
Other taxes	9,495	10,917	12,230	13,343	14,992
Licenses and fines	3,481	4,309	4,956	5,875	8,193
Use of money and property	7,168	3,948	5,303	1,538	2,964
Intergovernmental	6,362	5,082	4,834	5,842	5,216
Charges for services	3,704	4,020	4,725	5,550	5,735
Developer contributions	4,739	3,360	7,549	7,987	13,975
Other	933	1,039	578	715	1,144
Total Revenues	109,162	105,324	93,607	82,224	99,593
Expenditures					
Current:					
General Government	20,602 (a)	19,003 (a)	12,753 (b)	11,871	13,204
Building and Safety	1,992	1,975	2,060	2,278	2,658
Building, Housing and Safety					
Recreation and Community Services					
Human Resources and Recreation				3,087	3,124
Parks and Recreation	6,052	5,688	5,261	(c)	(c)
Public Works	13,619	7,960	8,772	9,124	8,535
Engineering					
Planning and Neighborhood Services	2,180	2,267	2,196	2,030	2,202
Planning					
Police	22,071	21,682	21,733	20,978	22,165
Fire	14,249	14,994	14,562	15,420	14,587
Supplemental educational revenue augmentation fund payment	11,774	2,424			
Capital outlay	16,938	12,940	28,876	7,510	10,035
Debt service:					
Principal	8,169	8,225	13,153	4,209	3,828
Interest and fees	11,982	12,386	6,823	668	223
Total Expenditures	129,628	109,544	116,189	77,175	80,561
Excess (deficiency) of revenues over (under) expenditures	(20,466)	(4,220)	(22,582)	5,049	19,032
Other Financing Sources (Uses)					
Proceeds from debt issuance			21,780		
Payments to refunded debt escrow agent				46	
Proceeds/gain from sale of properties	4	5	8		6
Loss from sale/conveyance of property				(512)	
Transfers in	23,590	119,213	34,994	13,780	7,499
Transfers (out)	(23,259)	(115,839)	(31,690)	(10,735)	(4,098)
Total other financing sources (uses)	335	3,379	25,092	2,579	3,407
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	(\$20,131)	(\$841)	(\$22,647)	\$7,628	\$22,439
Debt service as a percentage of noncapital expenditures	17.9%	18.5%	22.9%	7.0%	5.7%

(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

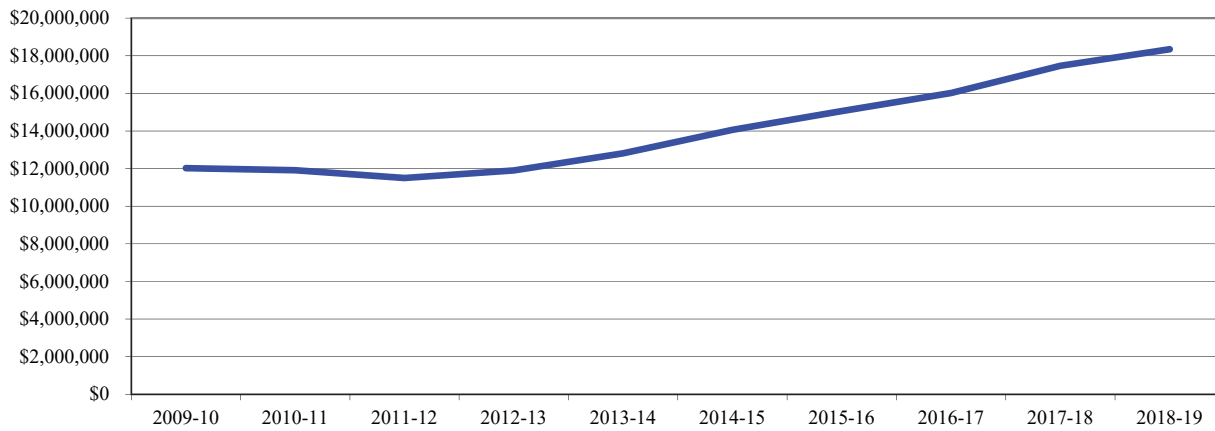
(d) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets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

Fiscal Year Ended June 30				
2015	2016	2017	2018	2019
\$24,927	\$27,068	\$30,261	\$31,893	\$33,811
19,572	24,719	26,214	27,854	28,890
17,505	18,737	19,349	20,429	23,386
6,971	8,051	10,497	12,758	11,757
2,032	3,037	2,180	2,719	8,452
5,482	6,104	4,696	6,228	6,019
6,449	7,196	7,238	6,981	6,969
11,614	29,410	25,637	29,065	41,153
205	113	310	568	926
<u>94,757</u>	<u>124,435</u>	<u>126,382</u>	<u>138,495</u>	<u>161,363</u>
12,814	13,771	17,089	15,397	21,352
2,706	2,885	3,148	3,633	(f)
	3,383	3,876	4,497	5,038
3,329	(e)	(e)	(e)	(e)
(c)	(c)	(c)	(c)	(c)
9,199	6,020	6,839	6,983	8,151
	3,257	3,527	3,103	3,201
2,570	2,805	2,978	3,153	(f)
				1,648
24,193	26,124	27,247	27,880	30,389
15,605	17,470	18,456	21,034	23,225
14,376	24,811	26,151	27,243	23,435
6,000				199
61	54	48	69	104
<u>90,853</u>	<u>100,580</u>	<u>109,359</u>	<u>112,992</u>	<u>121,886</u>
<u>3,904</u>	<u>23,855</u>	<u>17,023</u>	<u>25,503</u>	<u>39,477</u>
				952
4	160	7,324		1
			(12,437)	(152)
25,558	23,001	18,405	19,505	37,936
(19,305)	(19,864)	(14,903)	(14,637)	(35,449)
<u>6,257</u>	<u>3,297</u>	<u>10,826</u>	<u>(7,569)</u>	<u>3,288</u>
<u>\$10,161</u>	<u>\$27,152</u>	<u>\$27,849</u>	<u>\$17,934</u>	<u>\$42,765</u>
7.5%	0.1%	0.1%	0.1%	0.3%

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	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other				
2009-10	\$6,199,167	\$1,368,086	\$2,904,523	\$352,408	\$1,446,827	(\$245,778)	\$12,025,233	1%
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	405,531	1,764,760	(161,341)	12,813,359	1%
2014-15	7,728,283	1,427,474	2,628,858	464,106	1,887,428	(75,363)	14,060,786	1%
2015-16	8,629,667	1,445,665	2,788,984	583,379	1,844,591	(233,528)	15,058,758	1%
2016-17	9,386,926	1,493,922	3,248,012	606,042	1,529,223	(245,315)	16,018,810	1%
2017-18	10,143,815	1,581,140	3,563,327	710,746	1,710,357	(244,027)	17,465,358	1%
2018-19	10,997,080	1,619,668	3,504,633	719,876	1,761,094	(258,452)	18,343,899	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.

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	School Districts	Special Districts
2009-10	\$1.00	\$1.00	\$0.0412	\$0.1238	\$0.0074
2010-11	1.00	1.00	0.0412	0.1389	0.0072
2011-12	1.00	1.00	0.0412	0.1490	0.0064
2012-13	1.00	1.00	0.0412	0.1140	0.0069
2013-14	1.00	1.00	0.0412	0.0961	0.0070
2014-15	1.00	1.00	0.0412	0.0750	0.0065
2015-16	1.00	1.00	0.0412	0.0817	0.0057
2016-17	1.00	1.00	0.0412	0.0734	0.0086
2017-18	1.00	1.00	0.0412	0.0880	0.0062
2018-19	1.00	1.00	0.0412	0.0850	0.0042

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.

CITY OF MILPITAS
PRINCIPAL PROPERTY TAX PAYERS
FISCAL YEARS 2018-19 and 2009-10

Taxpayer	2018-2019			2009-2010		
	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.	\$885,075,098	1	4.82%	\$488,396,789	1	4.06%
KLA Tencor Corporation	396,159,591	2	2.16%	211,996,269	3	1.76%
Milpitas Mills LP	329,690,347	3	1.80%	304,656,097	2	2.53%
Sandbox Expansion LLC	232,529,400	4	1.27%			
Amalfi Milpitas LLC	182,011,948	5	0.99%			
McCarthy Center Holdings LLC	179,921,637	6	0.98%			
Essex Portfolio Lp	158,021,722	7	0.86%			
Western Digital Technologies	155,866,489	8	0.85%			
Hudson Campus Center LLC	147,905,707	9	0.81%			
Milpitas-District Owner LLC	146,898,636	10	0.80%			
Silicon Valley California, Inc.				205,662,096	4	1.71%
Diversifield Real Estate Investors				186,281,172	5	1.55%
Bre Milpitas LLC				115,842,000	6	0.96%
Headway Technologies				109,699,393	7	0.91%
Linear Technology Corporation				109,235,459	8	0.91%
Lifesan Inc				102,379,831	9	0.85%
A and P Children Investment LLC				87,330,399	10	0.73%
Subtotal	<u>\$2,814,080,575</u>		<u>15.34%</u>	<u>\$1,921,479,505</u>		<u>15.98%</u>
	Fiscal Year 2018-2019 Total Net Assessed Valuation		\$18,343,899,000			
	Fiscal Year 2009-2010 Total Net Assessed Valuation		\$12,025,233,000			

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)

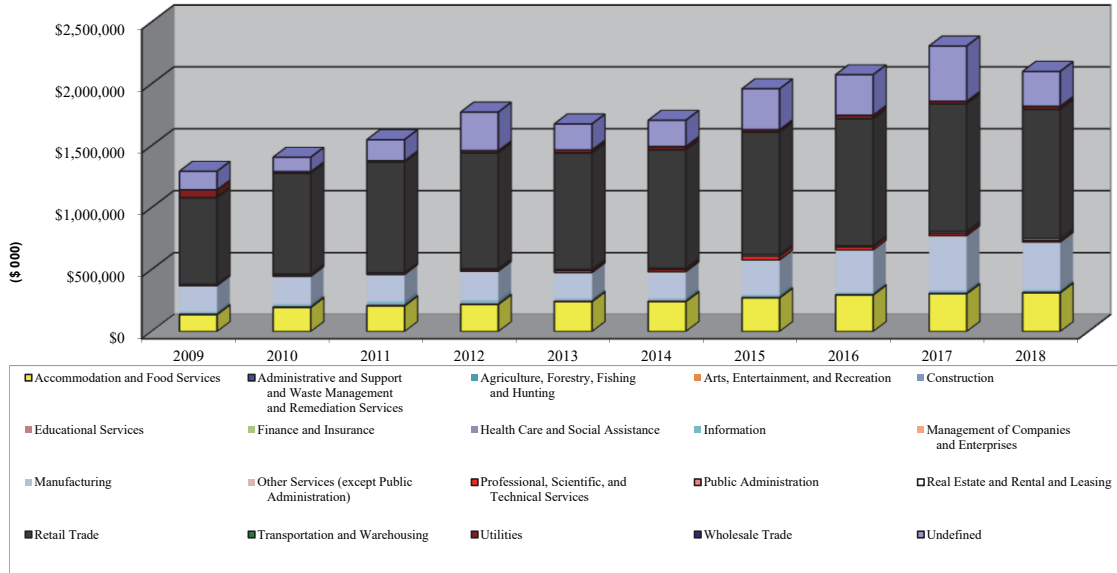
Schedule 8

<u>Fiscal Year</u>	<u>Taxes Levied (a)</u>	<u>Current Collections (a)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Taxes Collected (a)</u>	<u>Percent of Levy</u>
2009-10	(b) \$58,012	\$58,012	100.00%	0	\$58,012	100.00%
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%

- (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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Accommodation and Food Services	\$135,892	\$193,460	\$206,343	\$217,553	\$240,611	\$240,820	\$270,320	\$294,245	\$303,929	\$311,938
Administrative and Support and Waste Management and Remediation Services	2,956	4,413	3,532	3,902	3,532	3,694	3,627	3,308	4,165	4,312
Agriculture, Forestry, Fishing and Hunting	66	-	-	-	-	2	-	6	13	3
Arts, Entertainment, and Recreation	1,907	2,444	2,611	2,866	3,214	3,188	3,564	3,574	3,507	3,421
Construction	3,821	4,230	2,831	3,241	2,528	1,943	2,751	3,942	7,652	4,267
Educational Services	1,690	2,924	2,837	2,989	2,737	2,337	262	370	476	229
Finance and Insurance	73	94	-	-	-	-	(2)	-	(19)	(5)
Health Care and Social Assistance	1,798	1,601	1,829	2,666	1,162	1,195	1,283	1,332	1,350	1,422
Information	10,703	10,894	22,163	18,502	11,461	14,326	13,982	9,194	9,767	10,139
Management of Companies and Enterprises	-	-	2	-	7	23	8	8	209	1
Manufacturing	203,933	213,959	207,597	224,511	198,765	203,288	269,436	329,399	428,504	370,727
Other Services (except Public Administration)	7,805	11,484	11,259	10,595	11,915	12,403	12,897	14,041	15,197	16,473
Professional, Scientific, and Technical Services	4,848	10,263	10,839	14,742	17,319	17,837	30,003	23,584	20,111	13,824
Public Administration	-	-	-	-	-	-	-	360	362	346
Real Estate and Rental and Leasing	5,604	8,327	3,727	6,448	9,544	10,365	12,344	10,536	13,866	14,890
Retail Trade	698,345	812,884	891,853	933,926	937,633	955,223	989,402	1,024,136	1,028,892	1,041,114
Transportation and Warehousing	888	1,111	1,652	1,788	1,514	1,545	1,088	989	1,124	1,483
Utilities	64,812	12,927	11,022	17,142	25,292	26,037	20,012	28,357	20,768	25,675
Wholesale Trade	-	11	16	11	171	746	237	213	504	295
Undefined	149,029	116,881	169,819	311,485	209,833	211,042	329,216	326,789	446,093	280,790
Total	\$1,294,170	\$1,407,907	\$1,549,932	\$1,772,367	\$1,677,238	\$1,706,014	\$1,960,430	\$2,074,383	\$2,306,470	\$2,101,344
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	State of California
2009-10	1.00	1.00	7.25
2010-11	1.00	1.00	7.25
2011-12	1.00	1.00	6.25 (a)
2012-13	1.00	1.25 (b)	6.50 (c)
2013-14	1.00	1.25	6.50
2014-15	1.00	1.25	6.50
2015-16	1.00	1.25	6.50
2016-17	1.00	1.75	6.25 (d)
2017-18	1.00	1.75	6.25
2018-19	1.00	1.75	6.25

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%.

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 2018 and 2008
 IN ALPHABETICAL ORDER

2018	2008
7-Eleven Food Stores	Arco AM/PM Mini Mars
Acme Construction Supply	Best Buy Stores
Best Buy Stores	Burlington Coat Factory
Burlington Coat Factory	Chevron Service Stations
Chevron	Contract Office Group
Cisco Systems Inc.	Credence System Corp
Coach Stores	Dave & Busters
Consolidated Electrical Distributors	Headway Technologies
Eplus Technology	Home Depot
Flextronics	KLA Tencor Corporation
Home Depot	Kohl's Department Stores
Hoya Corporation USA	Life Scan
Independent Electric Supply	Marshall's Store
KLA Tencor	Mervyn's Department Store
Marshall's Store	Milpitas Materials Company
McDonald's Restaurant	Neiman Marcus Department Store
Michael Kors Stores	One Workplace L Ferrari
Milpitas Materials Company	Orchard Supply Hardware
Nike Factory Store	Piercey Toyota
Piercey Toyota	Saks Fifth Avenue
Shell Service Stations	Shell Service Stations
South Bay Honda	Solectron Corporation
Union 76 Service Stations	Sportmart
Veeco Process Equipment	Tesoro Service Stations
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)			
2009-10	\$174,180	\$36,963	\$0	\$0	\$8,460	\$0	\$219,603	0.01%	\$3,101
2010-11	168,940	33,978	0	0	8,090	0	211,008	0.01%	2,949
2011-12	0 (b)	0 (b)	14,037	0	7,710	0	21,747	0.00%	325
2012-13	0	0	9,828	360	7,315	0	17,503	0.00%	258
2013-14	0	0	6,000	274	6,910	0	13,184	0.00%	188
2014-15	0	0	0	186	6,490	0	6,676	0.00%	96
2015-16	0	0	0	94	6,055	0	6,149	0.00%	81
2016-17	0	0	0	0	5,605	0	5,605	0.00%	74
2017-18	0	0	0	0	0	5,363	5,363	0.00%	71
2018-19	0	0	0	728	0	4,812	5,540	(c)	73

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

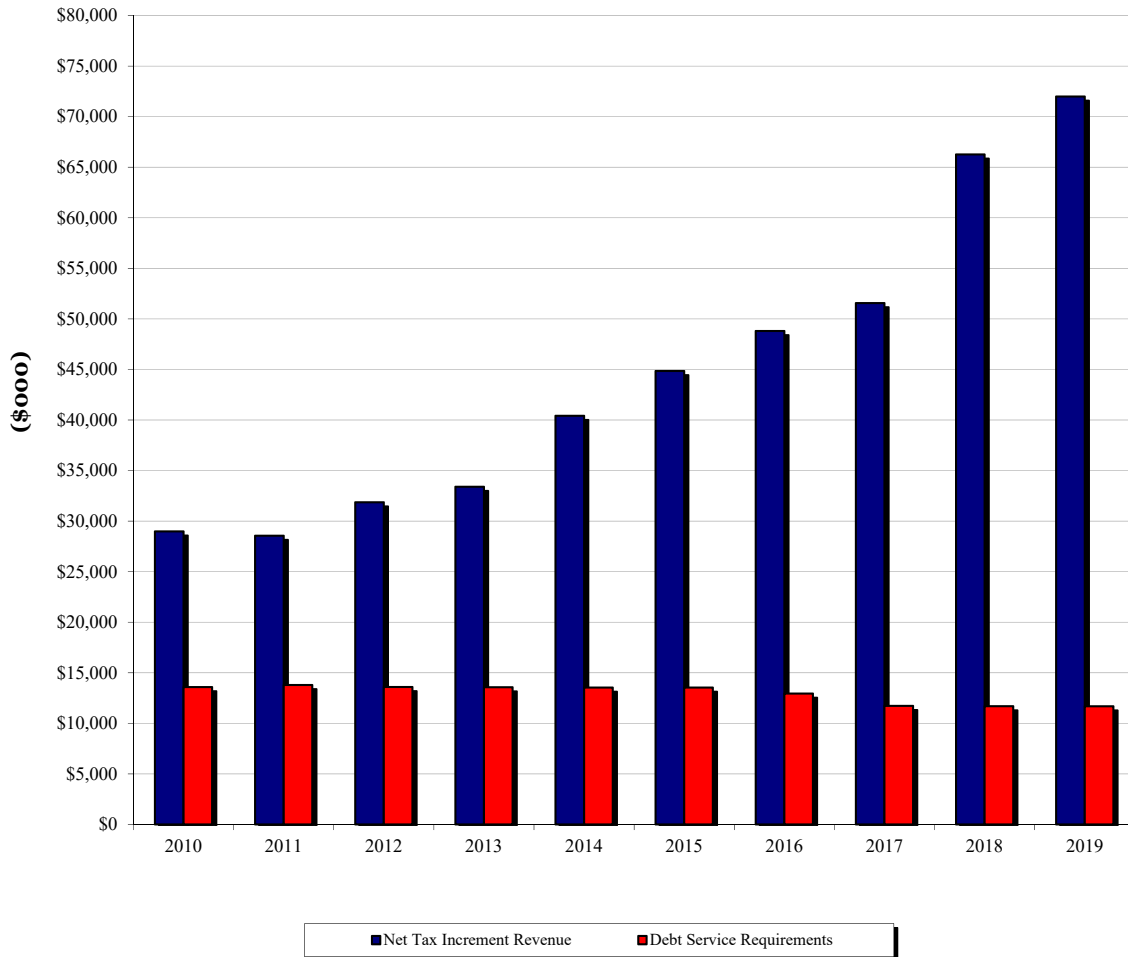
(a) See Schedule 18 for personal income and population data.

(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	
2010	\$37,162,281	\$8,175,650	\$28,986,631	\$5,035,000	\$8,548,558	\$13,583,558	2.13
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

- (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, 2019

Schedule 14

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2018-19 Assessed Valuation, Direct and Overlapping Debt		<u>\$18,343,899,235</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	3.799%	\$35,984,888
San Jose- Evergreen Community College District	12.154%	56,718,537
Milpitas Unified School District	99.108%	169,786,870
East Side Union High School District	0.456%	4,252,402
Berryessa Union School District	2.989%	2,443,598
Santa Clara Valley Water District Benefits Assessment District	3.799%	2,794,924
City of Milpitas 1915 Act Bonds	100%	0
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u><u>271,981,219</u></u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations	3.799%	26,993,381
Santa Clara County Pension Obligations	3.799%	13,386,874
Santa Clara County Board of Education Certificates of Participation	3.799%	161,647
San Jose- Evergreen Community College District OPEB Bonds	12.154%	5,767,073
Milpitas Unified School District Certificates of Participation	99.108%	12,664,745
East Side Union High School District OPEB Bonds	0.456%	128,615
Berryessa Union School District Certificates of Participation	2.989%	130,621
City of Milpitas	100%	0
Santa Clara County Vector District Certifications of Participations	3.799%	85,288
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>59,318,244</u>
Less: Santa Clara County supported obligations		<u>(12,227,783)</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u><u>\$47,090,461</u></u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	100%	<u><u>\$101,670,000</u></u>
TOTAL DIRECT DEBT		<u><u>\$0</u></u>
TOTAL GROSS OVERLAPPING DEBT		<u><u>\$432,969,463</u></u>
TOTAL NET OVERLAPPING DEBT		<u><u>\$420,741,680</u></u>
GROSS COMBINED TOTAL DEBT		<u><u>\$432,969,463</u></u> (2)
NET COMBINED TOTAL DEBT		<u><u>\$420,741,680</u></u>

- (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.

<u>Ratios to 2018-19 Assessed Valuation:</u>	
Total Overlapping Tax and Assessment Debt	1.48%
<u>Ratios to Assessed Valuation:</u>	
Direct Debt %	0.00%
Total Gross Debt %	2.36%

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 2018-19

Assessed value (net) - June 30, 2019		<u>\$18,343,899</u>
Debt limit: 3.75% of assessed value (a)		\$687,896
Debt applicable to limit		
Total Bonded Debt	\$0	
Less: Tax Allocation Bonds not subject to limit	0	
Amount of Debt subject to limit		<u>0</u>
Legal debt margin		<u>\$687,896</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
2009-10	\$450,946	\$0	\$450,946	0.0%
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%

(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

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	
2009-10	\$10,896,264	\$6,196,015	\$4,700,249	\$355,000	\$331,793	\$686,793	6.84
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

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

- (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
 BIMONTHLY SEWER RATES BY CUSTOMER CLASS
 LAST TEN FISCAL YEARS

Schedule 17

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)
2009-10	\$65.08	\$46.49	\$28.73	\$10.99	0.97 - 6.52
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

Source: City of Milpitas, Engineering Department

(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>
2009	70,812	5,184	\$2,606,712	\$36,812	9,802	11.30%	13.66
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

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

CITY OF MILPITAS
 PRINCIPAL EMPLOYERS
 FISCAL YEAR 2018-19 and 2009-2010

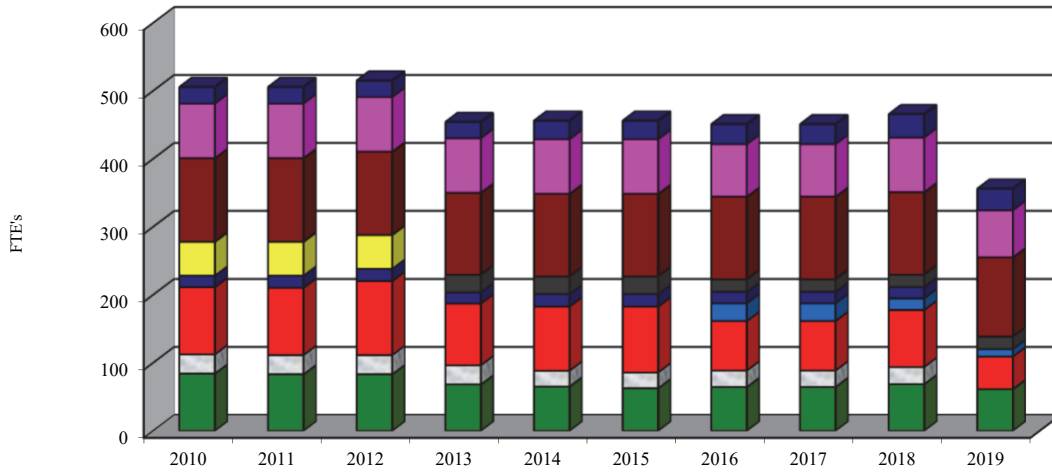
Schedule 19

Employer	2018-19			2009-10		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,647	1	8.70%	4,339	1	5.31%
KLA-Tencor Corporation	2,212	2	5.28%	2,000	2	2.45%
San Disk Corporation	1,888	3	4.51%	1,200	6	1.47%
Flextronics International	1,411	4	3.37%	1,850	4	2.27%
Linear Technology Corporation	1,288	5	3.07%	1,100	7	1.35%
Headway Technologies	722	6	1.72%			
Milpitas Unified School District	707	7	1.69%	808	8	0.99%
Wal-Mart	454	8	1.08%			
Hewlett Packard Enterprise	400	9	0.95%			
Nanometrics Inc	262	10	0.63%			
Great Mall				3,500	2	4.29%
LSI Logic Corporation				1,320	7	1.62%
Lifescan, Inc.				800	9	0.98%
JDS Uniphase Corporation				800	10	0.98%
Subtotal	<u>12,991</u>		<u>31.00%</u>	<u>17,717</u>		<u>21.70%</u>
Total Labor Force			41,900			81,646

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS

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



■ General Government	□ Building	■ Public Works	■ Engineering and Planning
■ Planning and Neighborhood Services	■ Recreation	■ Parks and Recreation	■ Police
■ Fire	■ Utilities		

Function	Fiscal Year Ended June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Government	84.5	83.5	83.5	68.5	65.5	63.0	64.8	64.8	69.0	61.50
Building and Safety	28.0	28.0	28.0	28.0	23.0	23.0	24.0	24.0	25.0	(c)
Building, Housing and Safety										18.0
Public Works	99.0	99.0	109.0	91.0	94.5	97.0	73.0	73.0	84.0	48.0
Engineering							26.0	(b)	26.0	11.0
Planning and Neighborhood Services	17.0	18.0	18.0	16.5	18.5	18.5	17.0	(b)	17.0	(c)
Planning										15.0
Recreation				25.5	(a)	25.5	25.5	18.0	18.0	17.5
Parks and Recreation	49.5	49.5	49.5	(a)						18.00
Police:										
Sworn Police	94.5	94.5	94.0	91.5	92.0	92.0	92.0	93.0	93.0	90.0
Civilians	29.0	29.0	29.0	29.5	30.0	30.0	30.0	29.0	29.0	27.0
Fire:										
Firefighters and Safety										
Officers	70.0	70.0	70.0	70.0	70.0	68.0	66.0	66.0	68.0	58.0
Civilians	10.0	10.0	10.0	10.0	10.0	12.0	11.0	11.0	12.0	11.0
Utilities	24.5	24.5	24.5	24.0	27.5	27.5	29.5	29.5	34.5	32.0
Total	506.0	506.0	515.5	454.5	456.5	456.5	451.3	451.3	466.0	389.5

- (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.

Source: City of Milpitas, final budget

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

Schedule 21

Function/Program	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
Building and Safety					
Building permits issued	2,700	2,800	2,800	3,400	4,300
Plan checked performed	800	800	800	1,100	1,500
Public Works					
Street miles maintained	139	139	139	139	139
Customer Service Requests	3,900	3,000	3,350	3,500	2,880
Development projects reviewed	118	225	200	200	205
Planning and Neighborhood Services					
Customer Service Requests/Violations abated	980	800	725	725	725
Applications to Planning Commission	84	45	96	106	159
Parks and Recreation					
Sports Center members	10,000	1,200	1,400	1,600	1,450
Senior nutrition meals served	24,056	23,076	23,304	22,090	20,656
Athletic Field maintenance (hours)	2,100	1,641	n/a	n/a	n/a
Police					
Avg response time to emergency calls (minutes)	2:47	2:49	2:42	2:32	2:33
Number of anti-terrorist patrol checks	1,469	1,469	1,693	1,996	2,550
Crime prevention presentations	266	281	235	201	200
Number of vehicle citations issued	11,391	8,544	6,901	4,120	3,516
DARE presentations: schools/students	12/850	11/845	12/770	0	0
Fire					
Emergency calls for service	4,400	4,400	4,075	4,356	4,356
Public education events	90	80	120	45	45
Permits Inspections	4,000	4,000	4,334	4,510	4,510
Plan Review	1,000	900	671	807	807
Utility					
Clean sewer lines (feet)	500,000	550,000	500,000	329,313	640,255
Repair, replace or set water meters	500	380	491	149	298
Average daily consumption (thousands of gallons)	9,200	8,100	8,200	9,340	9,300

Source: City of Milpitas, final budget

Fiscal Year Ended June 30				
2015	2016	2017	2018	2019
4,300	4,200	4,090	4,200	4,300
1,400	1,500	1,610	1,700	1,600
139	139	139	298	298
2,800	2,794	2,800	3,000	2,384
190	178	158	160	225
755	755	800	850	900
236	92	92	100	419
1,504	1,600	1,325	1,450	1,575
21,231	20,158	18,678	17,206	18,322
n/a	n/a	n/a		
2:32	2:40	2:44	2:50	2:54
2,300	2,400	2,200	2,200	1,949
200	125	70	70	70
3,600	5,900	5,720	5,900	5,895
0	0	0	0	0
4,950	5,000	5,000	5,200	5,640
80	100	112	200	223
4,666	7,600	7,322	7,400	7,606
983	1,200	1,550	1,600	1,750
500,000	500,000	500,000	491,244	528,051
279	189	152	115	147
9,300	7,800	5,800	6,590	8,394

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

Schedule 22

Function/Program	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
Public Works					
Miles of streets	139	139	287	287	287
Street lights	4,496	4,496	4,500	4,500	4,500
Square feet of buildings maintained (in thousands)	350	427	376	376	376
City vehicles	622	622	247	242	252
Signs	8,363	8,363	8,534	8,534	5,500
Signal lights	71	71	72	72	72
City Parks	29	31	31	33	34
Acres of Parkland	179	178	179	179	180
Playgrounds	33	33	33	24	25
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Satellite centers	0	0	0	0	0
Swimming pools	4	4	3	3	3
Tennis courts	20	17	20	20	20
Football field	1	1	1	1	1
Baseball/softball fields	15	15	12	8	8
Soccer fields	5	2	3	9	9
Basketball courts	5	5	4	8	8
Volleyball courts / Horse Shoe Pits / Bocce Ball / Cricket Field / Par Course	5	4	5	4	9
Handball courts	4	4	4	5	5
Joint use:					
Russell Bobbysocks Fields	0	0	0	0	0
Soccer fields	0	0	0	0	0
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	28	28	27	27	29
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	13	15	13	22	19
Fire hydrants	1,840	1,840	1,840	1,840	1,847
Utility					
Miles of water mains	213	213	213	213	214
Water Tank Storage capacity (million of gallons)	16	16	16	16	16
Miles of sanitary sewers	178	178	179	179	179
Miles of storm drain	110	110	110	110	110
Miles of recycled water main	3	3	4	4	4

Source: City of Milpitas, final budget

Fiscal Year Ended June 30				
2015	2016	2017	2018	2019
298	298	298	298	298
4,577	4,577	4,581	5,119	5,141
376	376	376	322	473
260	264	264	269	271
5,700	5,700	6,000	10,000	10,000
70	71	72	72	74
34	33	32	32	32
180	180	195	195	195
34	34	33	30	33
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
0	0	2	2	1
3	3	3	3	3
21	21	21	21	21
1	1	1	1	1
9	9	7	7	9
12	13	13	13	8
7	9	10	10	10
7	10	13	12	10
5	5	6	6	6
0	0	3	3	3
0	0	2	2	8
2	2	2	2	2
28	34	29	29	29
4	4	4	4	4
19	13	11	11	12
2,033	2,033	2,039	2,039	2,039
213	203	203	206	206
16	16	16	16	16
179	173	173	175	173
110	99	99	105	99
23	23	21	23	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, 2019, and have issued our report thereon dated November 18, 2019. 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. We did identify certain deficiencies in internal control we consider to be significant deficiencies listed as item 2015-02 on the Status of Prior Year Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated November 18, 2019, which is an integral part of our audit and should be read in conjunction with this report.

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*.

City's Response to Findings

The City's response to the findings identified in our audit is described in our separately issued Memorandum on Internal Control dated November 18, 2019, which is an integral part of our audit and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Pleasant Hill, California
November 18, 2019