

**COMPREHENSIVE
ANNUAL FINANCIAL
REPORT**



**FISCAL YEAR ENDED
JUNE 30, 2012**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012



**The
Mission City**

**CITY OF SANTA CLARA, CALIFORNIA
1500 WARBURTON AVENUE
SANTA CLARA, CA 95050-3796**

PREPARED BY DEPARTMENT OF FINANCE

Introductory Section

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December 3, 2012

Citizens of the City of Santa Clara
The Honorable Mayor and City Council
City of Santa Clara
Santa Clara, CA 95050

Dear Citizens, Mayor and Members of the City Council:

The Comprehensive Annual Financial Report (CAFR) of the City of Santa Clara (City) for the fiscal year ended June 30, 2012 is hereby submitted to you. The City compiles and prepares the annual financial report to provide interested parties with reliable information concerning the financial condition and results of operations for the City.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of the City's knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the various funds of the City. All significant disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included in this report.

This CAFR includes all funds of the City, as well as all activities of entities considered to be a part of, controlled by, and dependent on the City. These entities include the Santa Clara Housing Authority (SCHA), the Santa Clara Stadium Authority (SCSA), the Bayshore North Project Enhancement Authority (BNPEA), the Redevelopment Agency of the City of Santa Clara (Agency), the Public Facilities Financing Corporation (PFFC), and the City of Santa Clara Sports and Open Space Authority (SOSA). In addition, separate financial statements have been issued for the Electric Utility Enterprise Fund. The separate financial reports are available at the Santa Clara City Hall in the City Clerk's Office.

The independent audit was part of a broader, federally mandated audit of state and local governments ("Single Audit") designed to meet the special needs of federal granting agencies. The standards governing Single Audit require the auditor to report on the fair presentation of the financial statements and the City's internal controls and compliance with legal granting requirements. This separate report is also available at the Santa Clara City Hall in the City Clerk's Office.

Maze & Associates, Certified Public Accountants, have issued an unqualified ("clean") opinion with special emphasis due to RDA dissolution on the City's financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

THIS CAFR IS DIVIDED INTO THE FOLLOWING SECTIONS:

The Introductory Section includes information about the organizational structure of the City, the City's economic environment and City overview for 2011-12, major City initiatives, the City reporting entity and its services, and financial information.

The Financial Section contains the City's audited financial statements, including the management discussion and analysis, (MD&A), government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for the City's major funds, non-major funds, as well as proprietary funds, internal service funds and fiduciary funds. Also included in this section are the accompanying notes to the basic financial statements.

The Statistical Section includes tables containing historical financial trends, revenue capacity, debt capacity, and demographic and economic information of the City and operating information that are of interest to potential investors in our bonds and to other readers.

CITY OVERVIEW

The City enjoys a diversified industrial and commercial base. Santa Clara is headquarters to some of the nation's leading electronics, telecommunications, computer, and semiconductor firms. In terms of total assessed valuation, approximately 46% of the City's property is commercial/industrial and 54% is residential. The City is also home to a university, a community college, an adult learning center, and a general hospital.

The City's population continues to grow, indicating the City remains an attractive place both to live and to work. The City remains one of the most highly desirable areas to live in because of the high quality services it provides to residents and its business friendly environment. According to the California Department of Finance's Demographic Research Unit, the City's population increased from 118,169 on January 1, 2011 to 118,813 on January 1, 2012. This is a 0.5% increase from the prior year.

THE REPORTING ENTITY AND ITS SERVICES

The City is located in the County of Santa Clara, California, and is approximately 45 miles southeast of San Francisco and three miles west of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.3 square miles.

The City of Santa Clara, also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. The City's powers are exercised through a Council/Manager form of government. The City Council is made up of seven Council members serving as the legislative authority including a directly elected Mayor, all of whom serve "at large". The City Council appoints a City Manager who is responsible for the overall management and administration of the City. Within the administration, the Police Chief and the City Clerk are also publicly elected officials.

The City provides a full range of services. These services include police, fire protection and emergency dispatch; electric, water and sanitation services; the construction and maintenance of streets and infrastructure; parks and recreational activities and cultural events; planning and zoning; library; cemetery; and general administrative and support services.

CITY MISSION, VISION, AND GOALS

Mission Statement

The mission of the City of Santa Clara is to promote a living and working environment that allows for the best quality of life by serving the community with resourceful, efficient, progressive and professional leadership. (Adopted by City Council on July 25, 1989.)

Vision

SANTA CLARA: Superb, affordable services in a caring community that values our rich history and nurtures technologies that build the future.

On August 18, 2009, the City Council adopted principles and priorities for fiscal years 2009-11. These were left unchanged as part of the City Council's Goal Setting for fiscal years 2011-13.

Council Priority:

The City Council priority is to focus on successful completion of existing City projects, postpone new City projects and proposals, and operate within Council adopted budget principles and priorities, with the goal of guiding the City successfully to economic recovery.

Supporting Principles:

- Demonstrate Environmental Leadership
- Exceptional Services & Fiscal Responsibility
- Connect with Community
- Pro-active Economic Development & Entertainment

The City Manager, with the assistance of City department heads, has developed implementation plans for achieving these goals and the related objectives. Quarterly status reports of accomplishments are prepared and presented to the City Council as action plans related to each goal are completed. Reports to Council are available on the City's website, www.ci.santa-clara.ca.us

ECONOMIC ENVIRONMENT

The City is now in the third year of recovery after being severely impacted by the Great Recession, which began in fiscal year 2007-08. Revenue declines accelerated in fiscal year 2008-09 and continued on a downward trend in fiscal year 2009-10. According to the National Bureau of Economic Research, the recession ended in June 2009; however, the recovery has been slow for the Bay Area economy. Despite the technical end to the recession and strong revenue growth in certain revenue categories, revenue collections continue to be below pre-recession levels and it is expected that it will take several more years for the lingering effects of the housing bubble collapse to work their way through the economy.

Santa Clara County unemployment rates decreased from 10.3% in June 2011 to 8.7% in June 2012. Although the economy has improved compared to the historic low in 2009, full recovery to our property, sales, and transient occupancy tax revenues is expected to take several more years.

The State of California's long-term budget crisis continues to negatively affect our overall budget. In June 2011, the Governor approved the State budget for fiscal year 2011-12, and signed a number of trailer bills, including the ABx1 26 (the "Dissolution Act") and ABx1 27 (the "Voluntary Program Act"), which were amended by AB 1484 on June 27, 2012. AB 1484 suspended all new redevelopment activities except for limited specified activities as of June 28, 2011. These trailer bills which were designed to eliminate redevelopment agencies statewide and redirect tax revenues to mitigate the State's budget deficit, had a significant impact on the City of Santa Clara.

In order to protect our Redevelopment Agency's projects, the Agency and City entered into Cooperation Agreements in February 2011. Additionally, to protect against the possible loss of Agency assets, the Agency and City took actions on March 8, 2011 to convey Agency-owned property to the City, to assign the Agency's interest in certain leases, subleases and Cooperation Agreements to the City, transfer stadium-related Agency CIP projects and appropriations to the Stadium Authority, and transfer non-stadium-related Agency CIP projects and appropriations to the City (housing-related projects were subsequently transferred to the Housing Authority).

On January 31, 2012, the Redevelopment Agency (Agency) of the City of Santa Clara was dissolved. The City has elected to serve as the Successor Agency tasked with winding down the activities of the former Agency.

On June 27, 2012, the Governor approved the State budget for 2012-13, which relies on monies from the Redevelopment dissolution, proposed tax increases, and other measures to balance a \$15.7 billion deficit. On November 6, 2012, voters passed Proposition 30 providing the State with the additional tax revenues included in the budget to help reduce the State's school funding obligation.

FINANCIAL DATA

To balance the budget in light of the lingering affects of the Great Recession, the City has implemented cost reduction measures. Measures taken include eliminating, holding vacant, or freezing more than 100 positions; implementing unpaid employee furloughs; reducing non-personnel expenditures to the bare minimum; and the re-emphasis of the "Volunteer Santa Clara" program. For fiscal year 2011-12, these and other actions enabled the City to generate an operating surplus for the second consecutive year. The City was able to use the surplus to replenish the depleted Working Capital (Emergency) Reserve and the Capital Projects Reserve that the City had to draw on to balance the budget during the Great Recession. As of June 30, 2012, these reserve balances are \$6.4 million and \$16 million, respectively. Additionally, the Building Inspection Reserve increased to \$9.2 million for the year ended June 30, 2012.

The City Council's adopted budget principles for fiscal year 2011-12 reflect the economic challenges that the City faces including recognition that sufficient reserves do not exist to balance projected future budget shortfalls, and that a multi-pronged strategy is needed to bring ongoing expenditures into alignment with ongoing revenues. This strategy will continue for the next several years. The adopted principles include but are not limited to the following:

- Team-based approach to identify and implement cost savings measures including input and participation from all major stakeholders.
- Proactively seek opportunities for economic development to benefit the City.
- Any necessary reduction in permanent positions will be accomplished first through attrition and retirements, with layoffs used only as a last resort.

- Implement a three-year strategy to bring ongoing revenues and expenditures into balance, recognizing that the City's General Fund has a structural deficit and that the use of one-time monies is only a temporary solution.
- The City recognizes that the implementation of strategies to resolve the structural deficit may take time requiring short-term solutions until ongoing savings associated with structural changes are realized.
- Reduce hours of operations where possible while maintaining essential service levels.
- Review options for consolidation of functions that reduce operational costs and improve efficiency.
- Establish fees based on full cost recovery where individuals/business rather than the community at-large are benefiting from City services. This preserves limited unrestricted resources for providing services that benefit the community as a whole.

The following table summarizes certain June 30, 2012 reserves established and used internally by Council:

| General Fund Contingency Reserves | Balance at 6-30-12 (millions) | Remarks |
|-------------------------------------|-------------------------------|---|
| Working Capital (Emergency) Reserve | \$6.4 | The June 30, 2012 balance represents 4.39% of the fiscal year 2012-13 adopted General Fund appropriations of \$145.4 million. The policy level is 25% of the General Fund adopted budget, or \$36.4 million. The July 1, 2012 balance is \$6.3 million, after the transfer out of \$113 thousand for the fiscal year 2012-13 appropriation. |
| Capital Projects Reserve | \$16.0 | The June 30, 2012 reserve balance is \$16.0 million. As part of fiscal year 2012-13 budget approval by Council, several CIP projects were closed/reduced. As a result, approximately \$1.2 million was transferred back to the Capital Projects Reserve. The July 1, 2012 balance is \$13.9 million after the \$3.3 million transfer out for the fiscal year 2012-13 appropriation. |
| Land Sale Reserve | \$90.1 | Land Sale Reserve includes \$3.3 million of interest earned on non-spendable land sale proceeds. Under current policy, interest earnings are contributed to the General Fund during deficit periods, and to the Working Capital (Emergency) Reserve during surplus periods; corpus to remain intact. |
| Building Inspection Reserve | \$9.2 | The Building Inspection Reserve is used by the Building Inspection Division of Planning and Inspection Department for capital and operating purposes. The July 1, 2012 balance is \$8.6 million after the \$0.6 million transfer out for the fiscal year 2012-13 appropriation. |

The other major funds for the City are also discussed later in this letter, as well as further analyzed in Management's Discussion & Analysis in the Financial Section of this CAFR.

The City faces two key challenges over the next several years: first, continuing to balance the General Fund and Enterprise Fund budgets given the slow economic recovery and second,

developing alternatives for financing \$147.3 million in needed capital improvements over the next five years. The City has no identified sources of financing for \$125 million of these projects.

Replenishing reserves and budgeting for necessary capital projects in the City's General Fund will take a sustained effort over several years, especially as staff and the City Council have already reduced expenditures and modified services as the organization has responded to financial challenges over the past six years. Staff is recommending continuance of the six-step approach developed in 2007-08.

In June 2007, City Council adopted the following plan regarding replenishment of General Fund Reserves. The City will need several years to recover from the Great Recession. The objectives are stated here to enable the City to return to the replenishment strategy as the City's financial position improves:

- 1) Continue to maintain a structurally balanced budget; that is, a balanced budget without the use of reserves.
- 2) If excess revenues are available, set aside \$3.0 million per year for the next five years in the General Fund Working Capital (Emergency) Reserve.
- 3) If excess revenues are available above the level of \$3.0 million, deposit the remaining excess funds in the Capital Projects Reserve.
- 4) Provide for annual Council review of this policy as part of the yearly budget process.
- 5) Reallocate interest earnings from the Land Sale Reserve to the Working Capital (Emergency) Reserve when not needed to balance the General Fund.
- 6) Refer to the City Manager to develop financing options for future Capital Improvement Projects.

GENERAL FUND OVERVIEW

The fiscal 2011-12 total revenues to the General Fund, as reported in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, were \$25 million higher than the prior year. While sales tax revenues increased \$5 million and transient occupancy tax revenues increased \$2 million, they still remain well below pre-recession levels. The General Fund's other major direct revenue source, Ad Valorem property tax, which had decreased for the previous two years, had leveled off and remained unchanged at \$28 million. Property tax collections typically lag other economically sensitive revenues due to the time it takes for the change in property values to roll onto or off of the property tax rolls. Revenues from charges for services were up \$4 million primarily due to greater development activity, and the remaining revenue sources had a net increase of \$14 million. The City's direct and indirect expenditures were down \$1.3 million, due primarily to lower salaries and benefits costs resulting from reductions in the number of funded positions and the implementation of unfunded employee furloughs.

MAJOR CITY INITIATIVES

Because of the slow economic recovery, several projects are currently under review and/or on hold in the City. However, in fiscal year 2011-12 the City was able to make progress on several projects.

Land Use/Neighborhood Issues

The annual budget includes substantial appropriations in this theme category whose primary thrust is to protect the integrity of the City's neighborhoods, provide affordable housing and preserve the character of Santa Clara historical neighborhoods. The highlights for those City of Santa Clara neighborhoods are as follows:

Affordable Housing Projects and Programs

The City is currently in the second year of its 2010-2015 Consolidated Plan for using federal Community Development Block Grant (CDBG) and Home Investment Partnership Act (HOME) funds. In addition, the Santa Clara Housing Authority (Housing Authority) used Affordable Housing Set-Aside funds from the Redevelopment Agency of the City of Santa Clara (Agency). All of these funds were used for new construction, acquisition and rehabilitation of existing housing, and first-time homebuyer loans. These funds also supported housing-related programs such as fair housing, mortgage counseling, and support services for special needs persons. For the 2010-15 Consolidated Plan, the City plans to develop 575 new affordable housing units, to rehabilitate 450 housing units occupied by low income persons, and assist an average of 8,800 low-income persons per year with various services. These services are administered either directly by the City and the Housing Authority, or through non-profit service agencies.

Projects underway at the end of fiscal year 2011-12 include:

- The Bill Wilson Center Commons Project to purchase and rehabilitate a 28-unit apartment complex for affordable, permanent housing for both very low income youth aging out of foster care, and 6-8 staff counselors to mentor the youth residents.
- The Neighborhood Conservation and Improvement Program (NCIP) to support housing repairs for low-income homeowners. The Bright Home Program was offered for exterior house painting of single-family, owner-occupied homes and assisted low-income homeowners.
- The Removal of Barriers to the Physically Challenged project improve access to and use of the public right-of-way for physically challenged low-income people in compliance with the ADA.
- The CORE Affordable Housing Presidio El Camino project to develop a 40-unit apartment complex affordable to extremely-low, very-low and low-income households.
- The First Time Homebuyer Financing Program has been totally redesigned and when used with the City's Below Market Priced Program, offers an affordable entry-level price for first-time homebuyers, with a market-based approach for owner-equity appreciation.

Economic Development

The City of Santa Clara has a team approach to economic development, anchored by emphasis on high quality services, including reliable energy, water and other utility services at the lowest combined utility rates in the nine-county region.

General Plan Update

The City commenced a \$2.6 million update of the City's General Plan, required by State Law, for the time period 2010-2035. The effort has taken significant time on the part of the community, both residents and businesses, as well as a concerted team effort by all departments. The Planning Division is responsible for the update; meetings with the community and internally have been on-

going. The housing element was updated in mid-2009 and the balance of the General Plan was completed in November 2010.

Redevelopment Agency

In the Redevelopment Agency, activity for the year was impacted by Assembly Bills x1 26 and 27, enacted as part of the State's budget package. ABx1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the Agency. ABx1 27 provided for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, cities that chose to "opt in" would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annually thereafter. The League of California Cities and the California Redevelopment Association filed a lawsuit to overturn both Assembly Bills.

On December 29, 2011 the California Supreme Court ruled on California Redevelopment Association (CRA) v. Ana Matosantos by upholding ABx1 26, the redevelopment elimination bill, and striking down ABx1 27, the bill which would have allowed redevelopment agencies to remain in operation as long as they made payments to the State.

The City's Redevelopment Agency (Agency) can be categorized in two major areas: housing and other projects. Affordable housing was discussed in a previous section of this letter.

- The Bayshore North Project Area is one of the key elements of the City's economic development program. Major projects include a 68,500 seat professional football stadium to serve as the future home of the San Francisco 49ers. See the separate Stadium Authority section in this letter for more information.
- The University Project Area is a Downtown revitalization effort which includes the site of a proposed mixed-use concept of retail, office and housing on a parcel of 7.3 acres in the City's old quad area, the original downtown for the City of Santa Clara. The concept is for 350-400 housing units, 125,000 square feet of retail, and refurbishment of an existing office building. Due to a lack of demand for new housing and commercial buildings, the City Council approved putting a hold on the discussions. The City Council created a Downtown Revitalization subcommittee and they have commenced meetings to review and possibly modify the existing plan.

In February and March 2011, under the terms of various agreements, the Agency transferred all capital improvement projects and appropriations to the City of Santa Clara, the newly formed Santa Clara Housing Authority, or the Stadium Authority and all Agency-owned land and leases were conveyed to the City or Housing Authority. See Note 1D and 1E.

The City's Agency was dissolved on February 1, 2012. See Note 22 in the Basic Financial Statement section of this CAFR for more detailed information.

Santa Clara Stadium Authority

In June 2010, residents of Santa Clara passed Measure J, the Stadium Project Measure resulting in the approval of a City stadium for use by the San Francisco 49ers. This measure permitted the City to lease land to the Agency for the construction of the stadium. Since this measure, the City of Santa Clara has taken certain actions to implement Measure J.

In support of the Stadium Project Measure, in February 2011, the City and Agency entered into a joint exercise of powers agreement establishing the Santa Clara Stadium Authority. In March 2011, the City, Agency and Stadium Authority approved the transfer of all Stadium-related Agency projects and remaining appropriations to the Stadium Authority. The Agency will contribute up to \$40 million toward the estimated \$1 billion stadium construction cost. In addition, the Agency is contributing \$1.6 million for its share of development fees. As of June 30, 2012, the Stadium Authority has approximately \$165.7 million in construction in progress.

Santa Clara Utilities

Santa Clara Electric Utility d.b.a. Silicon Valley Power (SVP)

The City continues to proactively address the electricity needs of the community to better serve the City's businesses and residents. SVP's Five-Year Plan includes funds for operations and capital refurbishments and/or new construction of substations and power plants, as well as renewable power and smart grid initiatives.

The Utility has recovered from several dry years of reduced hydroelectric power that increased operating costs and caused some drawdown of cash reserves. A 7% rate increase for the electric utility was approved in December 2009 for January 2011. The overall result is that operating revenues currently cover operating costs, capital refurbishments, and replenishment of cash reserves. The Electric Utility is in continuous conversation with many of its key customers, as well as regularly holding discussions with community groups to monitor their needs.

SVP continues to expand its energy efficiency and Green programs funded in part by the Electric Utility Public Benefits Charge (PBC) Programs. The State of California mandates the collection of a public benefit charge equal to 2.85% of customer electric bills that is dedicated and used for public benefit programs specifically in the areas of energy efficiency, energy renewable resources, research and development, and low income assistance programs.

Water and Sewer Utilities

In addition to providing efficient and affordable water and sewer utility services to Santa Clara residents and businesses, the City continues to undertake programs to improve water quality and water supply reliability for its residents and to minimize treated sewage effluent discharge into the South Bay. The cost of wholesale water the City purchases from other entities for resale to the residents and of wastewater conveyance and treatment are increasing. Council approved a fiscal year 2011-12 water rate increase of 9% that became effective on July 1, 2011. Council also approved sewer rate increases in fiscal year 2011-12. Effective July 1, 2011, sewer rates were increased by 15% for all customer types. The sewer rates for all customer types were further increased by 10% on January 1, 2012 and by 19% on July 1, 2012. Various Water and Recycled Water rates were also increased on July 1, 2012 between 6% and 10%.

The sewer rate study conducted in 2009 indicated the need for funding for significant capital infrastructure replacement within the City and at the San Jose-Santa Clara Water Pollution Control Plan within the next 10-15 years. In order to finance these improvements, rate increases and limited debt financing of improvements will be necessary over the next several years. The net sewer rate increase approved by City Council for fiscal year 2011-12 was \$5.14 per month per single-family residential unit. The net sewer rate increase approved by City Council for fiscal year 2012-13 was \$4.66 per month per single family residential unit.

The City continues to expand its recycled water program. In September 2011, the City completed the construction of one of the largest single expansions of the City's recycled water system. Approximately seven miles of new recycled water main were completed with funding from the South Bay Water Recycling Program and grant funding from the federal American Recovery and Reinvestment Act of 2009 (ARRA). This brings the total length of recycled water main in the City to 35 miles. Currently 14 City parks, the Santa Clara Youth Soccer Park, City Cemetery, Santa Clara Golf and Tennis Club, and the Donald Von Raesfeld Power Plant are using recycled water. The City now saves approximately 3,000 acre-feet of potable water per year due to the implementation of the recycled water program.

Despite these rate increases, the City continues to maintain the lowest combined rates for Electric, Water, and Sewer Utility service in the nine county Bay Area.

FINANCIAL INFORMATION

Internal Controls

The management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (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 stated framework. City management believes the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Single Audit

As a recipient of federal financial assistance, the City is responsible for establishing and maintaining adequate internal controls to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management and the City's independent certified public accountants.

As part of the City's single audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial assistance programs, and that the City has complied with applicable laws and regulations. The results of the City's single audit reports are part of the separately issued Single Audit Report that is provided to the appropriate federal agencies.

Budgetary Controls

As part of the City's internal controls, it maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the City Council. Activities of the majority of the City funds are included in the annual budget. In addition, each year a Capital Improvement Project Budget is adopted and a Five-Year Financial Plan is updated and accepted by the City Council. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The City Manager may transfer appropriations from one program to another within the same fund and the object category of a department without approval from the City Council. All other transfers must be approved by the City Council. The City

also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbrances outstanding at year-end are included within the specific fund balance category of the underlying resource.

As demonstrated by the statements and schedules included in the Required Supplementary Information of this report, the City continues to meet its responsibility for sound financial management.

Measurement Focus and Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when received in cash, except for revenues susceptible to accrual and revenues of a material amount that have not been received at the normal time. Revenues considered susceptible to accrual are those that are measurable and available to finance the government operation during the year. Expenditures, other than accrued interest on general long-term debt, are recorded at the time liabilities are incurred. The measurement focus of governmental funds is available financial resources. Therefore, long-term assets and liabilities are not reported in governmental funds but instead are reported in the government-wide financial statements.

All proprietary and agency funds are accounted for using the full accrual basis of accounting. Under the full accrual basis, revenues are recorded when they are earned and expenses are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of revenues or payment of expenses may take place, in whole or in part, in another accounting period. The measurement focus of these funds is on economic resources and therefore, all fund assets and liabilities are reported in the respective fund.

OTHER INFORMATION

Independent Audit

The City Charter and State of California statutes require the City to have an annual audit by an independent certified public accountant. The City goes to the market with a formal Request For Proposal for audit services every five years. The accounting firm of Maze & Associates, Certified Public Accountants, was selected by the City Council in 2012, and is in the first year as the City's independent auditor. In addition to meeting the requirements set forth in City Charter and State statutes, the audit is designed to meet the requirements of the federal Single Audit Act of 1984, as amended in 1996, and related OMB Circular A-133. The auditors' report on the basic financial statements and the supplementary combining statements and schedules are included in the financial section of this report. The auditors' reports related specifically to the single audit are included in a separately issued single audit document on file with the City Clerk's Office.

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 of Santa Clara for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. The City has received this prestigious award for the past twenty consecutive years.

To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Staff believes that our current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

Staff would like to thank the Mayor and City Council for their support in establishing the policies for guiding the financial operations of the City in a responsible and progressive manner. Department Heads are also thanked for their strong leadership in adhering to financial goals and practices. Management wishes to acknowledge the excellent participation and professional contribution by the City Staff in the preparation of this document. Their dedication in preparing the City's Comprehensive Annual Financial Report and their efforts in preparing a document that is understandable and useful to the residents of the City and other readers is greatly appreciated. Finally, we'd like to acknowledge the professionalism of Maze & Associates in working with City Staff to complete the audit.

Respectfully submitted,



Gary Ameling
Director of Finance



Ronald E. Garratt
Interim City Manager

CITY OF SANTA CLARA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2012

ROSTER OF COUNCIL AND COMMISSION MEMBERS

CITY COUNCIL

| | |
|---------------|-------------------|
| Mayor | Jamie L. Matthews |
| Councilmember | Lisa M. Gillmor |
| Councilmember | Will Kennedy |
| Councilmember | Patrick Kolstad |
| Councilmember | Patrica M. Mahan |
| Councilmember | Jamie McLeod |
| Councilmember | Kevin Moore |

BOARD OF LIBRARY TRUSTEES

Barbara E. Vance, Ashish Mangla,
Elizabeth A. "Betsy" Megas,
Kathleen "Kathy" Watanabe, Peter Yoon

CIVIL SERVICE COMMISSION

Steven Chan, Andrew Kristalyn,
Beverly Lynne Silva, Fran A. Palacio,

CULTURAL ADVISORY COMMISSION

David Leon, Debi Davis
Fatima Fagundes, Kent Neal
Estella Ross Lockwood, Debra Pavao
(One Vacancy)

HISTORICAL & LANDMARKS COMMISSION

Brian Johns, Regina "Jeannie" Mahan, Gerald
"Jerry" McKee, Kris Motyka, Rosalie Wilson
Shawn Hartung, Robert W. Luckinbill

HOUSING REHABILITATION LOAN COMMITTEE

Anne Kepner, Bianca Placencia
Councilmember Jamie McLeod
(One Vacancy)

INTERNATIONAL EXCHANGE COMMISSION

Loretta Beavers, Yuki Ikezi, James Mathre,
Eugene Mirabella, Barbara Stahl
Raj Chahal, Virginia B. Suarez

PARKS AND RECREATION COMMISSION

Raymond G. Gamma, Charles "Chuck" Blair,
Michael E. O'Halloran, Cynthia Owens, Tina Silva
(Two Vacancies)

PLANNING COMMISSION

Ian Champeny, Deborah Costa, Todd Fitch,
Teresa O'Neill, Keith Stattenfield
(Two Vacancies)

SENIOR ADVISORY COMMISSION

Dwight Collins, Frank E. Kadlecek,
ArLyne Diamond Ph.D., Donna Marencia,
Alice Pivacek, Charles A. "Chuck" Roberts
Barbara A "Bobbie" Estrada

YOUTH COMMISSION

Sufyan Abbasi, Ajaipal Chahal, Samia Abbasi,
Devleena Das, Jeffrey Hara, Vyvy Nguyen
Rafal Saeed, Michelle Vo, Kristin Oswald,
Sheryl Ratnam, Andrew Raushhuber, Deepika Suresh,
Hannah Villalpando, Ashley Wong,
Shana Vu

**CITY OF SANTA CLARA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2012**

EXECUTIVE MANAGEMENT TEAM

INTERIM CITY MANAGER

Ronald E. Garratt

CITY CLERK/CITY AUDITOR

Rod Diridon, Jr.

CITY ATTORNEY

Richard E. Nosky

CHIEF OF POLICE

Kevin R. Kyle

FIRE CHIEF

William Kelly

DIRECTOR OF ELECTRIC UTILITY

John Roukema

**DIRECTOR OF WATER &
SEWER UTILITIES**

Christopher de Groot

**ACTING ASSISTANT DIRECTORS OF STREETS &
AUTOMOTIVE SERVICES**

Mark Gervacio

Dave Staub (Rotating)

DIRECTOR OF INFORMATION TECHNOLOGY/CIO

Gaurav Garg

ASSISTANT CITY MANAGERS

Carol L. McCarthy

Alan Kurotori

ECONOMIC DEVELOPMENT OFFICER

Ruth Shikada

**DIRECTOR OF PUBLIC WORKS /
CITY ENGINEER**

Rajeev Batra

DIRECTOR OF PLANNING & INSPECTION

Kevin Riley

DIRECTOR OF FINANCE

Gary Ameling

DIRECTOR OF HUMAN RESOURCES

Elizabeth Brown

CITY LIBRARIAN

Julie Passalaqua

DIRECTOR OF PARKS & RECREATION

James F. Teixeira

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Santa Clara
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



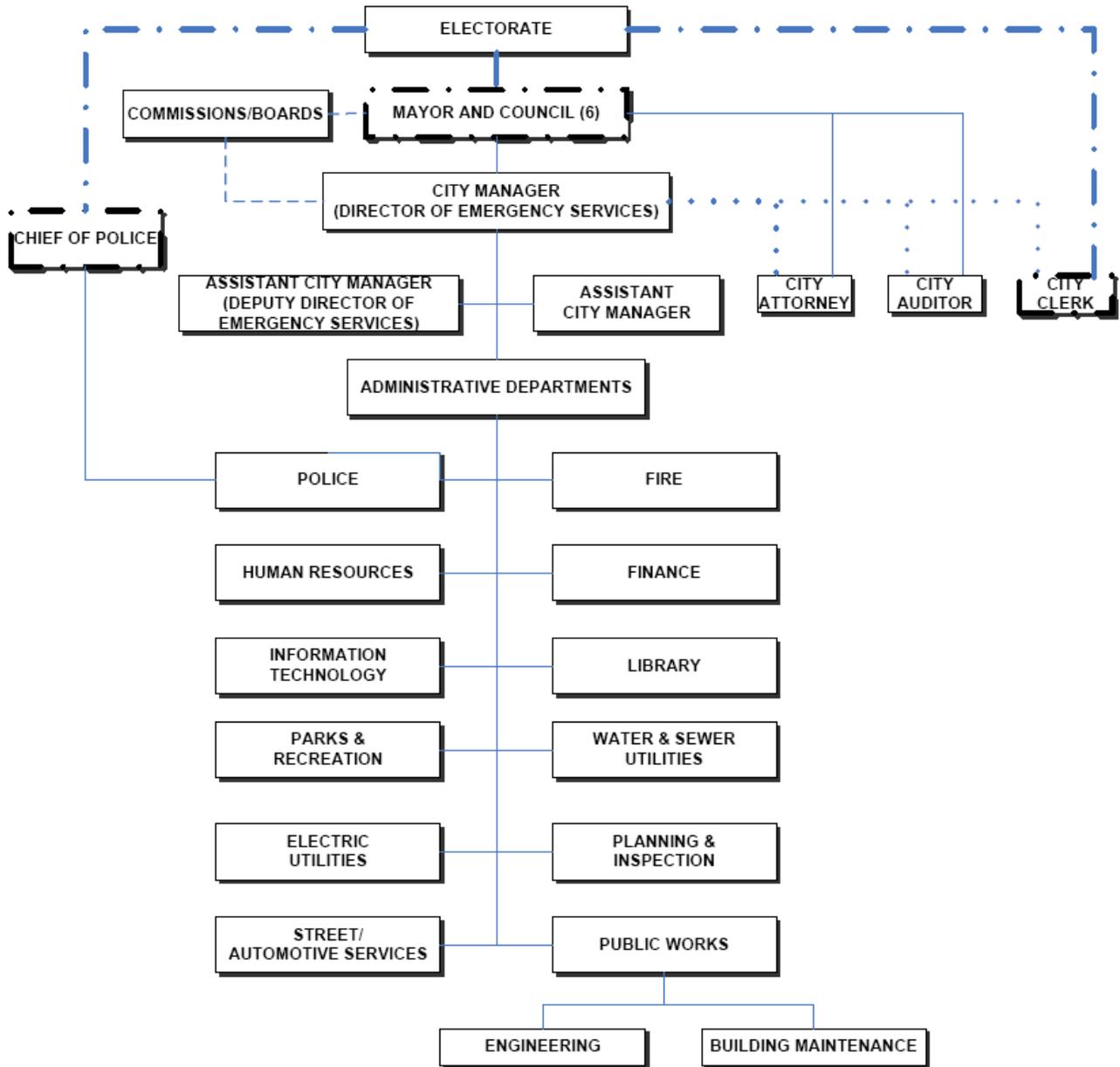
Christopher P. Moynell

President

Jeffrey R. Enos

Executive Director

CITY OF SANTA CLARA ORGANIZATION CHART



(Reference: City Code, Chapter 2 Administration)
 Elected position indicated by the - - - - - line.
 City Manager serves as ex officio member of and liaison to all boards and commissions as indicated by the - - - - - line.
 Mayor and Council appoint City Manager, City Attorney and City Auditor. City Attorney and City Auditor report into the City Manager as indicated by the line. City Manager is the appointing authority for all other employees, except elected positions.

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Financial Section

***Independent Auditor's Report
on Basic Financial Statements***

Management's Discussion and Analysis



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the
City Council of the City of Santa Clara, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara, California as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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, and the aggregate remaining fund information of the City of Santa Clara, California as of June 30, 2012 and the respective changes in the financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22, pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court on December 28, 2011, the Redevelopment Agency of the City of Santa Clara has been dissolved and its assets turned over to and liabilities assumed by Successor Agencies effective January 31, 2012. In fiscal 2011, pursuant to various cooperation agreements and assignment and assumption agreements, the former Redevelopment Agency transferred approximately \$370,000,000 of assets to the City of Santa Clara, Santa Clara Housing Authority and Santa Clara Stadium Authority. ABx1 26 and AB 1484 contain provisions that such transfers are subject to a review by the State Controller's Office. According to Health and Safety Code 34167.5, if such an asset transfer did occur during that period and the government agency that received the assets is not contractually committed to a third party for the expenditure or encumbrance of those assets, to the extent not prohibited by state and federal law, the Controller shall order the available assets to be returned to the former Redevelopment Agency or, on or after October 1, 2011, to the successor agency. The City has not received the results of the State Controller asset transfer review and the amount of assets to be returned is not determinable at this time.

In addition, on February 22, 2011, the City established the Santa Clara Housing Authority and housing assets were transferred from the former Redevelopment Agency's Low and Moderate Income Housing fund to the Authority. The State Department of Finance has completed its review of housing asset transfers and disputes certain items. The City and Department of Finance are scheduled to meet and confer to settle the disputed items, and as a result the amount of the disputed housing assets to be returned to the Successor Agency is not determinable at this time.

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Pleasant Hill, CA 94523

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Prior to the Redevelopment Agency dissolution, the Agency board approved various agreements which obligated it to repay certain advances to the City and its component units. In addition, the City made a cash flow advance to the Successor Agency subsequent to February 1, 2012. These advances have been recorded as liabilities by the Successor Agency as management believes these amounts are valid obligations. Repayment of these agreements is subject to certain administrative procedures and review and approval by the California Department of Finance and/ or the Oversight Board, and as a result the amount disallowed is not determinable at this time.

Obligations under a settlement agreement between the Forty Niners and Successor Agency have been rejected by the Department of Finance. The Successor Agency and Department of Finance are scheduled to meet and confer to settle the matter.

The City's position on these matters is not a position of settled law and there is considerable legal uncertainty regarding these matters. It is possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue favorably or unfavorably to the City. No provision for liabilities resulting from the outcome of these uncertain matters has been recorded in the accompanying financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information 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 this information in accordance with generally accepted auditing standards 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the City's financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards 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.

Maze & Associates

December 3, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the City of Santa Clara's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year 2011-12. Please read this document in conjunction with the accompanying Letter of Transmittal and Basic Financial Statements.

FISCAL YEAR 2011-12 FINANCIAL HIGHLIGHTS

The City continues to navigate its way through the impacts of the Great Recession. A slight surplus was generated for the second straight year. Two of the General Fund's major revenue sources, sales tax and transient occupancy tax, increased approximately \$7 million in total compared to the prior fiscal year. Charges for services, investment gains, interest and rents, license and permit fees, and other miscellaneous revenues accounted for the remaining \$18 million increase in the General Fund. Business-type activities also saw an increase of \$98 million in revenues due to an increase in service charges and investment gain, and a gain on sale of assets for fiscal year ending June 30, 2012. Further analysis of the City's financial activities are discussed in the following pages.

Financial highlights of fiscal year June 30, 2012 include:

Citywide:

- The City's total net assets (assets exceeding liabilities) were \$1,791 million in fiscal year 2011-12, a \$252 million increase from the prior year. Governmental Activities and Business-Type Activities increased by \$201 million and \$51 million, respectively, compared to the prior fiscal year. The increase is due to a combination of higher revenues and lower expenses.
- Governmental Activities net assets increased by \$201 million, from \$705 million to \$906 million. This is due primarily to an increase in Program revenues, an internal transfer from the Sports and Open Space Authority (SOSA) to the General Fund Land Sale Reserve account for the gains on the sale of assets, and a one-time extraordinary item transfer of assets and liabilities to the Successor Agency as part of the Redevelopment Agency's dissolution plan.
- Total City revenues, including Program and General Revenues, were \$694 million, an increase of \$76 million from the prior year, and total expenses were \$546 million, a decrease of \$31 million.
- While Governmental Activities Program Revenues increased by \$2 million to \$35 million, General Revenues experienced a decrease of \$2 million, totaling \$139 million in fiscal year 2011-12.
- Governmental Activities expenses were \$153 million in fiscal year 2011-12, a \$16 million decrease from the prior year.
- Business-Type net assets were \$885 million, an increase of \$51 million, due primarily to increases in Program Revenues and decreases in expenses.
- Program and General Revenues from Business-Type Activities were \$520 million in fiscal year 2011-12, up \$76 million from the prior year, mostly due to increased charges for services in enterprise funds and recognizing a gain on the sale of assets from the SOSA.
- Expenses of Business-Type Activities were \$393 million in fiscal year 2011-12, a decrease of \$15 million from prior year, due primarily to decreased cost of wholesale power.

- Additional analyses on the “Financial Activities of the City as a Whole” can be found on the following pages.

Governmental Fund level:

- General Fund Direct Revenues of \$162 million represented an increase of \$25 million from prior year. The increase is due to higher tax revenues, license and permit fees, interest and rent revenues, and charges for services.
- General Fund Expenditures of \$137 million were \$1 million lower than the prior year primarily due to continued cost reductions within City departments.

The Basic Financial Statements

The Basic Financial Statements are comprised of the Citywide Financial Statements and the Governmental Fund Financial Statements. These two sets of financial statements provide two different views of the City’s financial activities and financial position—for the City as a whole, and fund by fund.

The Citywide Financial Statements provide a view of the City’s activities as a whole. They are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets is a Citywide “Balance Sheet” and provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities. This statement is prepared on the full accrual basis of accounting, similar to that used by private corporations. The Statement of Activities is a Citywide “Income Statement” and 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 and/or expenses of each City program. The Statement of Activities also explains in detail the changes in Net Assets for the year.

The Citywide Financial Statements group all the City’s activities into Government-Type Activities and Business-Type Activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-Type Activities to provide a summary of these two activities of the City as a whole.

The Fund Financial statements report the City’s operations in more detail than the Government-wide statements and focus primarily on each of the City’s funds. These financial statements are further grouped into Governmental, Enterprise and Internal Service fund types. They measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term accounts. The Proprietary Fund financial statements measure current revenues and expenses, as well as capital assets, long-term debt and other long-term accounts on a full accrual basis of accounting.

Major Funds account for the specific 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 other funds in the Supplementary Information section of this report. Major Funds are explained below.

The Fiduciary Fund Statements provide financial information about the activities of the funds for which the City acts solely as an agent and are not included as part of the Citywide or Governmental Fund Financials Statements.

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

The Citywide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental Activities**—All of the City’s basic services are considered to be governmental activities. These services are shown as Functions or Programs on the Statement of Activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.
- The City’s governmental activities also include the activities of three separate legal entities, the Redevelopment Agency of the City of Santa Clara (which dissolved on February 1, 2012 - see Note 22 for more information), the Santa Clara Housing Authority, and the City of Santa Clara Public Facilities Financing Corporation, because the City is financially accountable for these entities.
- **Business-Type Activities**—All of the City’s enterprise activities, including the Major funds (Electric, Water, Sewer, Water Recycling utilities, Sports and Open Space Authority, and Santa Clara Stadium Authority) and Non-Major funds (Solid Waste, Cemetery, Santa Clara Golf & Tennis Club, and Santa Clara Convention Center) are considered Business-Type Activities. Unlike governmental services, these services are supported by fees paid by users based on the amount of the service they use.

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.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include Governmental, Enterprise and Internal Service Funds as discussed below.

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. The Non-Major Fund Statements are presented in the Supplementary Information section of this report.

Major Funds present the primary activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City’s activities.

There are four Major Governmental Funds presented in the fund financial statements, the General Fund, the Redevelopment Agency, the Housing Authority, and the Project Area CIP Fund. Six of the City’s Enterprise Funds are considered Major Funds and are presented individually in the Major Proprietary Fund financial statements, providing additional information for the City’s Business-Type Activities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses Internal Service Funds to account for the acquisition and maintenance of its fleet of vehicles, for its management of technical equipment services, and for its management of its workers’ compensation and special liability self-insurance claims. The activities of the City’s Internal Service Funds are reported in the Proprietary Fund financial statements. Since the City’s Internal Service Funds provide goods and services only to the City’s governmental and business-type activities, Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the Citywide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds.

Because the focus of individual governmental funds is narrower than that of the governmental activities in the Citywide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Citywide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenses, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Required Supplementary Information contains comparisons of Budget and Actual financial information for the General Fund (pages 142 to 144), and other Non-Major Special Revenue Funds (page 160).

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 not presented in the Governmental Fund Financial Statements.

The Major Proprietary Fund financial statements, which include the Enterprise and Internal Service Funds, are prepared on the full accrual basis, as in the past, and include all their assets and liabilities (current and long-term).

Fiduciary Statements

Fiduciary funds are prepared on the full accrual basis, similar to the proprietary fund. The City has two types of Fiduciary Funds: the Agency Funds (which includes Employee Benefit and Liability Clearing, Special Assessments, and Deposits) and the Private Purpose Trust Funds (which includes the Charitable Trust and Successor Agency). The City's fiduciary activities are reported separately in the Statement of Fiduciary Net Assets and the Statement of Changes in Assets and Liabilities. These activities are excluded from the City's Financial Statements because the City cannot use these assets to finance its own operations.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

Citywide Financial Statements

The analyses in this section focus on the net assets of the City's Governmental Activities and Business-Type Activities (Table 1), changes in net assets for the City's Governmental Activities and Business-Type Activities (Table 2), and results of Governmental and Business-Type Activities (Table 3 and Table 4, respectively). Results are presented in the Statement of Net Assets (the Citywide Balance Sheet) and in the Statement of Activities (the Citywide Income Statement).

Table 1
Governmental And Business-Type Net Assets
(in millions)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------|--------------------------|---------------|-----------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Cash and investments | \$ 295 | \$ 285 | \$ 364 | \$ 310 | \$ 659 | \$ 595 |
| Other assets | 162 | 124 | 180 | 181 | 342 | 305 |
| Capital assets | 560 | 533 | 765 | 600 | 1,325 | 1,133 |
| Total Assets | 1,017 | 942 | 1,309 | 1,091 | 2,326 | 2,033 |
| Long-term liabilities outstanding | 40 | 182 | 358 | 226 | 398 | 408 |
| Other liabilities | 71 | 55 | 66 | 31 | 137 | 86 |
| Total Liabilities | 111 | 237 | 424 | 257 | 535 | 494 |
| Net assets: | | | | | | |
| Invested in capital assets, net of debt | 571 | 351 | 446 | 406 | 1,017 | 757 |
| Restricted | 213 | 331 | 8 | 8 | 221 | 339 |
| Unrestricted | 122 | 23 | 431 | 420 | 553 | 443 |
| Total Net Assets | \$ 906 | \$ 705 | \$ 885 | \$ 834 | \$ 1,791 | \$ 1,539 |

City Governmental Activities

The City's net assets from Governmental Activities in fiscal year 2011-12 increased by \$201 million compared to fiscal year 2010-11. The details of revenue and expenditure are illustrated on the Statement of Net Assets in Table 2.

- Cash and Investments increased \$10 million primarily due to decreased operating expenses. Other Assets increased from \$124 million in the prior fiscal year to \$162 million in the current fiscal year. The increase in Other Assets is mostly due to increased loan receivables and land held for development for the Housing Authority. Capital Assets (net of depreciation) increased \$27 million from the prior fiscal year due to increases in construction in progress, partially offset by accumulated depreciation. Capital Assets are discussed in more details in Note 10 of the Basic Financial Statements.
- Long-term liabilities outstanding decreased by \$142 million. This net decrease was primarily due to the retirement of various Certificates of Participation totaling about \$4 million and the transfer of \$138 million in Redevelopment Agency outstanding debt to the Successor Agency Trust Fund as part of the required Redevelopment Agency Dissolution (see Notes 11 and 22 for more information).
- Net assets invested in capital assets net of related debt were \$571 million in fiscal year 2011-12, an increase of \$220 million compared to the prior year. This was primarily due to an increase in capital asset additions and proceeds held in restricted net assets not yet appropriated to specific capital projects, partially offset by the related debt service amount.
- Restricted net assets are the portion of net assets which are legally restricted by grantors, debt covenants, contract, or law. As shown in Table 1, on June 30, 2012, restricted net assets totaled \$213 million, a decrease of \$118 million from prior fiscal year. The restricted net assets were comprised of \$39 million restricted to the acquisition of capital assets, \$7 million for

payment of debt service, \$146 million that may only be used for housing activities, and \$21 million for other purposes.

- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations or for other purposes without constraints established by debt covenants or other legal requirements. Unrestricted net assets amounted to \$122 million on June 30, 2012, an increase of \$99 million from \$23 million in the prior year.

City Business-Type Activities

Table 1 on the previous page shows net assets of the City's Business-Type Activities. In fiscal year 2011-12 net assets of the Business-Type Activities increased \$51 million as explained below:

- Cash and Investments of \$364 million increased \$54 million from the prior fiscal year. This was due to increased operating revenues and recognizing a gain on sale of assets for the SOSA fund. Capital assets of \$765 million increased \$165 million primarily from the Santa Clara Stadium construction project (future home of the NFL's San Francisco 49ers).
- Long-term liabilities increased by \$132 million from \$226 million in the prior fiscal year to \$358 million in the current fiscal year. This was primarily due to the issuance of the StadCo Subordinated Loan and StadCo Agency Advance for the Santa Clara Stadium Authority in the amount of \$102 million and \$31 million, respectively. Other liabilities were \$66 million, \$35 million more than the prior fiscal year due primarily to a \$34 million increase in accrued liabilities for the construction of the Santa Clara Stadium in the current year.
- Net assets invested in capital assets net of related debt were \$446 million in fiscal year 2011-12, an increase of \$40 million from the prior fiscal year. This increase is attributed to the rebuilding of substations and construction of the new Santa Clara Stadium.
- Unrestricted net assets of \$431 million were \$11 million higher than last year's balance of \$420 million primarily due to the higher cash and investment balances partially offset by liabilities, as explained above.

Fiscal Year 2011-12 Governmental Activities Statement of Activities presents Program Expenses, Program Revenues and General Revenues in detail. All elements in the Changes in Governmental Net Assets are summarized in Table 2 on the next page.

Table 2
Governmental and Business-Type Changes in Net Assets
(in millions)

| | Governmental | | Business-Type | | Total | |
|---|---------------|---------------|---------------|---------------|-----------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 26 | \$ 24 | \$ 446 | 425 | \$ 472 | \$ 449 |
| Operating grants and contributions | 4 | 4 | - | - | 4 | 4 |
| Capital grants and contributions | 5 | 5 | 2 | 14 | 7 | 19 |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Sales | 41 | 36 | - | - | 41 | 36 |
| Ad valorem property | 44 | 57 | - | - | 44 | 57 |
| Transient occupancy | 12 | 10 | - | - | 12 | 10 |
| Other | 3 | 4 | - | - | 3 | 4 |
| Contribution in lieu of taxes | 15 | 15 | - | - | 15 | 15 |
| Investment earnings | 8 | 14 | 6 | 8 | 14 | 22 |
| Net increase (decrease) in fair value of investments | (1) | (4) | - | (5) | (1) | (9) |
| Equity in income (losses) of joint ventures | - | - | (6) | - | (6) | - |
| Rents and royalties | 13 | - | - | 2 | 13 | 2 |
| Gain on sale of assets | - | 5 | 72 | - | 72 | 5 |
| Other | 4 | 4 | - | - | 4 | 4 |
| Total revenues | <u>174</u> | <u>174</u> | <u>520</u> | <u>444</u> | <u>694</u> | <u>618</u> |
| Expenses: | | | | | | |
| General Administration | 9 | 4 | - | - | 9 | 4 |
| City Clerk | - | 1 | - | - | - | 1 |
| City Attorney | - | 1 | - | - | - | 1 |
| Human Resources | - | 2 | - | - | - | 2 |
| Finance | 2 | 7 | - | - | 2 | 7 |
| Public Works | 29 | 29 | - | - | 29 | 29 |
| Parks and Recreation | 15 | 16 | - | - | 15 | 16 |
| Public Safety: | | | | | | |
| Police | 44 | 44 | - | - | 44 | 44 |
| Fire | 32 | 34 | - | - | 32 | 34 |
| Planning and Inspection | 6 | 6 | - | - | 6 | 6 |
| Library | 8 | 8 | - | - | 8 | 8 |
| Community Development | - | 5 | - | - | - | 5 |
| Interest on long-term debt | 7 | 10 | - | - | 7 | 10 |
| Supplemental Educational Revenue Augmentation Fund | - | 2 | - | - | - | 2 |
| Pass Through Payments | 1 | - | - | - | 1 | - |
| Utilities | | | | | | |
| Electric- | | | | | | |
| Retail | - | - | 283 | 282 | 283 | 282 |
| Wholesale | - | - | 32 | 51 | 32 | 51 |
| Water | - | - | 25 | 23 | 25 | 23 |
| Sewer | - | - | 15 | 16 | 15 | 16 |
| Water Recycling | - | - | 4 | 8 | 4 | 8 |
| Solid Waste | - | - | 17 | 16 | 17 | 16 |
| Cemetery | - | - | 1 | 1 | 1 | 1 |
| Santa Clara Golf and Tennis Club | - | - | 3 | 3 | 3 | 3 |
| Santa Clara Convention Center | - | - | 8 | 8 | 8 | 8 |
| Santa Clara Stadium Authority | - | - | 5 | - | 5 | - |
| Total expenses | <u>153</u> | <u>169</u> | <u>393</u> | <u>408</u> | <u>546</u> | <u>577</u> |
| Increase (decrease) in net assets before transfers | 21 | 5 | 127 | 36 | 148 | 41 |
| Co-op Agreements Activities | - | (8) | - | 8 | - | - |
| Transfers in (out) | 77 | 3 | (77) | (3) | - | - |
| Increase (decrease) in net assets before extraordinary item | 98 | - | 50 | 41 | 148 | 41 |
| Extraordinary item | 107 | - | - | - | 107 | - |
| Net assets - July 1, as restated (Note 19E) | <u>701</u> | <u>705</u> | <u>835</u> | <u>793</u> | <u>1,536</u> | <u>1,498</u> |
| Net assets - June 30 | <u>\$ 906</u> | <u>\$ 705</u> | <u>\$ 885</u> | <u>\$ 834</u> | <u>\$ 1,791</u> | <u>\$ 1,539</u> |

Summary points from Table 2 are as follows:

- In fiscal year 2011-12, Governmental Activities generated \$174 million in revenues, the same as the prior year. The increases in sales tax, transient occupancy tax, rents and royalties, and fair value of investments, were partially offset by decreases in ad valorem property taxes, investment earnings, and gains on sale of capital asset.
- Governmental Activities expenses were \$153 million, a \$16 million decrease from the prior year primarily due to decreases in interest expense, Supplemental Educational Revenue Augmentation Fund payments, and departmental costs of \$3 million, \$1 million, and \$12 million, respectively.
- Governmental Activities transfers were \$77 million, an increase of \$74 million compared to the prior year. This was primarily due to a \$76 million transfer from the SOSA fund to the General Fund Land Sale Reserve account for the gain on the sale of the Fairway Glen parcels owned by SOSA. In addition to transfers, there was a one time extraordinary item transfer to the Successor Agency in the amount of \$107 million for all of the Redevelopment Agency's assets and liabilities in fiscal year 2011-12.
- As a combined result of increased revenues and decreased expenses (including transfers), Governmental Activities' net assets of \$906 million were \$201 million higher than the prior year.
- In fiscal year 2011-12, Business-Type Activities generated \$520 million in revenue compared to the prior year's \$444 million, an increase of \$76 million. Charges for services increased \$21 million primarily due to rate increases in the utility services. Fair value of investments increased by \$5 million compared to the prior year. Additionally, SOSA recognized a one time gain on the sale of its asset in the amount of \$72 million. These increases were offset by decreases in capital grants and contributions, rents and royalties, income of joint ventures, and investment earnings of approximately \$12 million, \$2 million, \$6 million, and \$2 million, respectively.
- Business-Type Activities expenses decreased from \$408 million in 2010-11 to \$393 million in 2011-12. The wholesale power cost, sewer, and recycled water decreased by \$19 million, \$1 million and \$4 million, respectively. The savings were partially offset by a \$5 million and \$4 million increase in expense for the Santa Clara Stadium and other enterprise funds.
- As a result of increased revenues and decreased expenses the City's Business-Type Activities' net assets (including transfers and cooperation agreement funding for the Stadium Authority) increased by \$51 million.

Changes in Net Assets -- Governmental Activities

Table 2 on the previous page shows that total Governmental revenues excluding transfers remained the same in fiscal year 2011-12. Additional analyses of Governmental and Business-Type activities are presented in Tables 3 and 4 on pages 12 and 13.

As the Sources of Revenue Chart 1 on the following page shows, of the total revenues from Governmental Activities excluding transfers (\$174 million in fiscal year 2011-12), \$44 million, or 25% was from ad valorem property taxes; \$41 million, or 24% was from sales tax; \$35 million or 21% was from program revenues; \$15 million or 9% was from contribution in lieu of taxes; \$13 million or 8% was from rents and royalties; \$12 million or 6% was from transient occupancy taxes; \$7 million or 4% was from investments; \$4 million or 2% was from other revenues; and \$3 million or 1% was from other taxes.

Chart 1

Governmental Activities

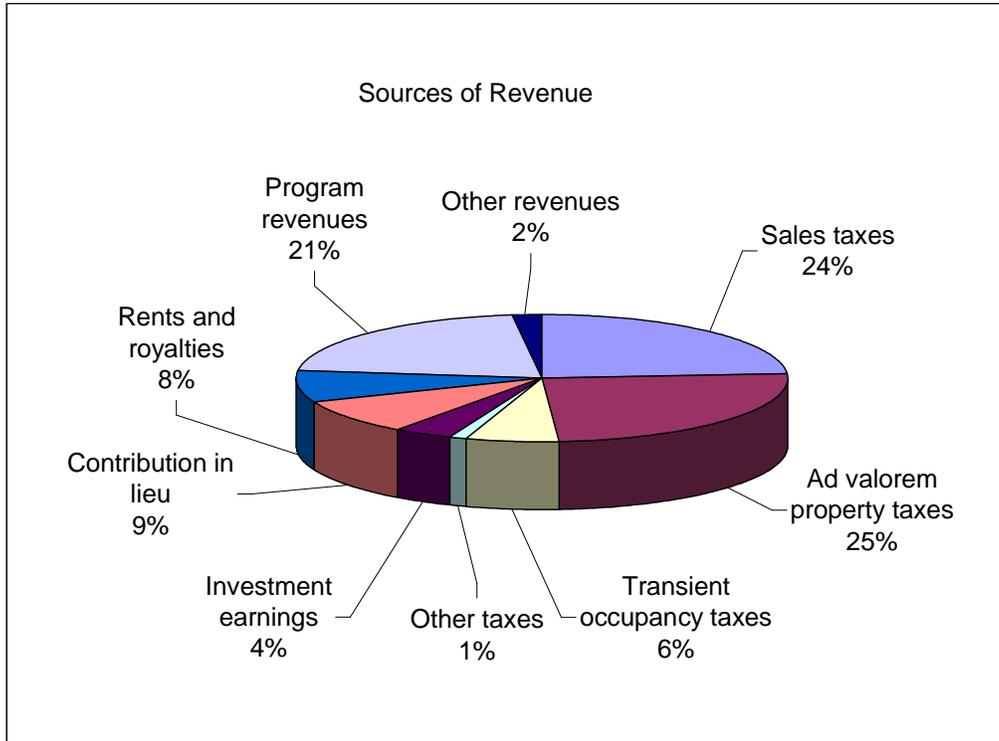


Table 3, on the next page, presents the total cost and net cost of each of the City's largest programs. Net cost is defined as total program cost less the revenues generated by those specific activities. It is common to see Governmental Activities as net cost generators, wherein costs of governmental activities are greater than the revenues they generate.

**Table 3
Governmental Activities
(in millions)**

| | Cost Of Services (Net of Allocation) | | Net Cost Of Services | |
|----------------------------|---|---------------|-------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| General Administration | \$ 9 | \$ 4 | \$ 9 | \$ (3) |
| City Clerk | - | 1 | - | 1 |
| City Attorney | - | 1 | - | 1 |
| Human Resources | - | 2 | - | 2 |
| Finance | 2 | 7 | 1 | 6 |
| Public Works | 29 | 29 | 19 | 21 |
| Parks and Recreation | 15 | 16 | 13 | 12 |
| Public Safety: | | | | |
| Police | 44 | 44 | 41 | 42 |
| Fire | 32 | 34 | 28 | 31 |
| Planning & Inspection | 6 | 6 | (8) | (2) |
| Library | 8 | 8 | 7 | 8 |
| Community Development | - | 5 | - | 5 |
| Interest on long-term debt | 7 | 10 | 7 | 10 |
| Revenue | | | | |
| Augmentation Fund | - | 2 | - | 2 |
| Pass Through Payments | 1 | - | 1 | - |
| Totals | \$ 153 | \$ 169 | \$ 118 | \$ 136 |

In fiscal year 2011-12, total costs of services decreased \$16 million and net costs decreased \$18 million. The decreased net cost for Governmental Activities was primarily due to lower interest expense and departmental costs. The City continued unpaid employee furloughs, held vacant positions open, and reduced non-personnel expenditures.

Changes in Net Assets -- Business-Type Activities

Table 2 listed on page 9 presents Changes in Net Assets of Business-Type Activities. Total revenues increased \$76 million in fiscal year 2011-12. In fiscal year 2011-12, charges for services were \$446 million, a increase of \$21 million compared to the prior year mainly due to the rate increases in the utility services. The fair value of investments increased \$5 million due to increases in the bond market fair value compared to the prior year. Additionally, SOSA recognized a \$72 million gain on the sale of asset for the two parcels of property of the Fairway Glen Parcels. The increases were offset by decreases in capital grants and contributions, rents and royalties, income of joint ventures, and investment earnings of approximately \$22 million.

Total expenses of Business-Type Activities decreased \$15 million mainly due to:

- Wholesale power expenses decreased by \$19 million due to lower cost and volume.
- Water Recycling expenses decreased by \$4 million due to a decrease in the Recycled Water project for City of San Jose.
- Stadium Authority expenses increased by \$5 million due to an increase in the construction expenses for the 49ers stadium.

- Electric retail, water, sewer, and solid waste expenses had a net decrease of \$3 million due to lower expenses incurred for the fiscal year.

Table 4 below, provides the total costs and net costs of each of the City's enterprise funds. Net cost is defined as total program cost less the revenues generated by each enterprise fund.

- In fiscal year 2011-12, retail net costs of services for the Electric Utility were negative \$46 million, a decrease of \$23 million over the prior year. This cost decrease can be attributed to increased retail sales and decreased expenses.
- Electric Utility wholesale net cost of services increased by \$2 million compared to the prior year due to higher wholesale power purchases.
- Net costs of services for the Sewer Utility were negative \$12 million, a decrease of \$6 million over the prior year. The net cost decrease can be attributed to the increase in service charge and connection fees partially offset by a decrease in the City share's joint venture equity.
- Sports and Open Space Authority net cost of services were negative \$2 million, a decrease of \$1 million from the prior year. This cost decrease can be attributed to higher rents and royalties in fiscal year 2011-12.
- Stadium Authority net cost of services were \$5 million higher than the prior year primarily due to the general and administrative expenses incurred in connection with the stadium construction work that started in fiscal year 2011-12.

Table 4
Business-Type Activities
(in millions)

| | Total Cost Of Services | | Net Cost Of Services | |
|----------------------------------|---------------------------|---------------|-------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Utilities: | | | | |
| Electric - | | | | |
| Retail | \$ 283 | \$ 282 | \$ (46) | \$ (23) |
| Wholesale | 32 | 51 | 3 | 1 |
| Water | 25 | 23 | (3) | (3) |
| Sewer | 15 | 16 | (12) | (6) |
| Water Recycling | 4 | 8 | (1) | (1) |
| Solid Waste | 17 | 16 | (1) | (1) |
| Cemetery | 1 | 1 | - | - |
| Sports and Open Space Authority | - | - | (2) | (1) |
| Santa Clara Golf and Tennis Club | 3 | 3 | - | - |
| Santa Clara Convention Center | 8 | 8 | 2 | 2 |
| Santa Clara Stadium Authority | 5 | - | 5 | - |
| Totals | <u>\$ 393</u> | <u>\$ 408</u> | <u>\$ (55)</u> | <u>\$ (32)</u> |

Governmental Fund Financial Statements

Turning attention from the Citywide statements to the fund-specific statements, the analysis can be subdivided into the Governmental Funds (pages 32 to 39) and Enterprise Funds (pages 42 to 47).

Governmental Funds

As of June 30, 2012, the City's governmental funds reported combined fund balances of \$305 million, which is an increase of \$18 million compared to last year. The increase of \$74 million in the General Fund balance resulted mostly from a transfer in from the SOSA fund for the gain in the retirement of its assets, and increased revenues and decreased expenditures. The \$9 million increase in the Redevelopment Agency fund is primarily due to its dissolution in fiscal year 2011-12. The \$23 million and \$38 million decrease in fund balance for the Housing Authority and Project Area CIP Fund, respectively, is primarily due to increased expenditures and decreased revenues coupled with no asset transfers from the Redevelopment Agency fund compared to the prior year. Fund balance for other Non-Major Governmental funds decreased by \$4 million in fiscal year 2011-12.

Governmental fund revenues were \$191 million, an increase of \$3 million compared to the prior year. The General Fund increased \$25 million due to higher tax revenues, charges for services, interest and rents, license and permit fees, and gain in the fair market value of investments. Non-major Governmental funds and the Housing Authority fund also experience a slight increase of \$2 million each. The increases were offset by a \$25 million decrease in the Redevelopment Agency fund as a result of its dissolution.

Governmental fund expenditures were \$213 million in fiscal year 2011-12, a decrease of \$6 million. The Redevelopment Agency fund decreased by \$33 million due to its dissolution. The General Fund and Non-major Governmental funds both experienced a decrease in the amount of \$1 million and \$17 million, respectively, due to less expenditures and debt payments made for the Public Facilities Financing Corporation compared to the prior year. The decreases were offset by the \$7 million and \$38 million increases in expenditures for the Housing Authority and Project Area CIP Fund. The City started the planning and construction of two government projects, the Tasman Drive Parking Structure and Northside Branch Library, that amounts to approximately \$40 million in fiscal year 2011-12 compared to \$2 million in the prior year.

Enterprise Funds

Enterprise Fund net assets totaled \$885 million at the end of fiscal year 2011-12, an increase of \$51 million over the \$834 million reported in the prior fiscal year. Enterprise operating revenues were \$383 million, up \$31 million from last year's revenues of \$352 million, due mostly to increased utility rates in electric, water and sewer enterprise funds. Enterprise Fund operating expenses were \$344 million, up \$11 million from the prior year's \$333 million, due mainly to increased in materials, supplies and service purchases, and expenses incurred for the stadium.

Non-operating revenues were \$142 million, up \$47 million from the prior year due mostly to a gain on sale of assets and a new renewable energy credits received in the current fiscal, partially offset by a decrease in wholesale power sales and income in joint ventures. Non-operating expenses were \$56 million, down \$24 million from the prior year due mostly to a decline in wholesale power purchases.

Analysis of Major Governmental Funds

General Fund

Revenues

General Fund direct revenues of \$162 million represents a \$25 million increase from the prior fiscal year, principally due to the reasons set forth below.

Sales Tax

Sales tax is the largest revenue source for the City's General Fund and accounts for approximately 25% of direct General Fund revenues. Sales tax revenue for fiscal year 2011-12 was \$41 million, an increase of \$5 million, or 14% more than the \$36 million in fiscal year 2010-11.

Property Tax

Property tax revenues for fiscal year 2011-12 were \$28 million, the same as the prior year. Assessed values bottomed out in fiscal year 2011-12 from the lingering effects of the Great Recession. A slow recovery is expected.

Transient Occupancy Taxes

Revenue from transient occupancy taxes were \$12 million in fiscal year 2011-12 compared with \$10 million in fiscal year 2010-11, an increase of 20%. This was due to a combination of higher occupancy levels during the year and an increase in the average daily rate for hotel rooms.

Licenses, Permits, Fines and Penalties

Revenues for licenses, permits, fines and penalties were \$9 million in fiscal year 2011-12 compared with \$6 million in fiscal year 2010-11. The was due to increased construction activities that resulted in more building and related permits.

Charges for Services

Charges for Services in fiscal year 2011-12 were \$31 million compared to \$27 million in fiscal year 2010-11. This increase can be attributed to increases in plan checking fees as a result of more development activities compared to the prior year.

Contribution In-lieu of Taxes

Contribution In-lieu of Taxes was approximately \$15 million in fiscal year 2011-12, the same as the prior year. Contribution In-lieu of taxes remained steady for the current fiscal year and did not experience a significant change.

Interest and Rents

Interest and rent revenues were \$20 million in fiscal year 2011-12 compared to \$13 million in fiscal year 2010-11. This increase is primarily due to recognizing a full year of certain lease revenues now being receipted directly in the General Fund.

Expenditures

General Fund direct expenditures in fiscal year 2011-12 were \$137 million compared with \$138 million in fiscal year 2010-11, a decrease \$1 million, or 1%. The major reasons for changes in expenditures are:

Salary and Benefits

Salary and benefits expenditures were \$108 million in fiscal year 2011-12 compared with \$109 million in fiscal year 2010-11, a decrease of \$1 million. The decrease is primarily due to continued cost savings resulting from position eliminations, a hiring freeze for certain positions and savings from negotiated unpaid furloughs.

All Other Operating Expenditures

Other operating expenditures, including materials, services, and supplies, internal service fund charges and minor capital outlays, were \$29 million in fiscal year 2011-12, the same as fiscal year 2010-11.

Transfers

Transfers out of the General Fund decreased from \$11 million in fiscal year 2010-11 to \$9 million in fiscal year 2011-12, mainly because of lower transfers to Capital Project Funds for Streets and Highways Improvements and Public Facilities. Transfers in to the General Fund were \$80 million, up \$68 million from the prior year. This was primarily due to a transfer for the gain on sale of asset from the SOSA fund to the General Fund Land Sale Reserve.

Fund Balance

As of June 30, 2012, total fund balance in the General Fund was \$148 million, up \$75 million from fiscal year 2010-11. Table 5A shows the breakdown of various components from the prior fiscal year.

Table 5A
General Fund Balance for the Fiscal Year Ended June 30, 2012
(in millions)

| | <u>2012</u> | <u>2011</u> | <u>Net Change</u> |
|----------------------------|----------------------|---------------------|---------------------|
| Nonspendable | \$ 13 | \$ 46 | \$ (33) |
| Restricted | 11 | 4 | 7 |
| Committed | 87 | 2 | 85 |
| Assigned | 4 | 1 | 3 |
| Unassigned | <u>33</u> | <u>21</u> | <u>12</u> |
| Total General Fund Balance | <u><u>\$ 148</u></u> | <u><u>\$ 74</u></u> | <u><u>\$ 74</u></u> |

General Fund Budget Comparison

Included in the Required Supplementary Information is the General Fund Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Legal Basis) for the year ended June 30, 2012. During the year, the City Council took action to amend the adopted General Fund budget.

Original Budget Versus Final Budget

The following is a summary of the impact of these actions:

Table 5B
General Fund Budget for the Fiscal Year Ended June 30, 2012
(in millions)

| | Original Budgeted Amount | Final Budgeted Amount | Net Change |
|--------------------------------|--------------------------------|-----------------------------|---------------|
| Revenues | \$ 143 | \$ 144 | \$ 1 |
| Expenditures | \$ 140 | \$ 141 | \$ 1 |
| Other financing sources (uses) | \$ (12) | \$ 70 | \$ 82 |

The appropriation increases include budget amendments for salary and benefit adjustments. The augmentation in revenue budget is primarily to recognize sales tax increases. The increase in budgeted Other Financing Sources is due to the addition of the gain on sale of the SOSA asset and the transfer of the unspent Construction in Progress funds to the Capital Projects Reserve.

Final Budget Versus Actual

Table 5C
General Fund Final Budget Versus Actual for the Fiscal Year Ended June 30, 2012
(in millions)

| | Final Budgeted Amount | Actual Amount | Variance |
|--------------------------------|-----------------------------|------------------|----------|
| Revenues | \$ 144 | \$ 159 | \$ 15 |
| Expenditures | \$ 141 | \$ 137 | \$ (4) |
| Other financing sources (uses) | \$ 70 | \$ 71 | \$ 1 |

The final budgeted revenues resulted in a \$15 million positive variance mainly due to increases in sales and transient occupancy taxes, charges for services, interest and rents, license and permit fees, and gain in the fair market value of investments. Actual expenditures were \$4 million lower than the final budget as a result of lower departmental costs (see pages 142 to 144 for additional details). The increase of \$1 million in Other Financing Sources is primarily due to a higher transfer in to the General Fund from the gain in retirement of assets for the Sports and Open Space Authority fund.

Redevelopment Agency Fund

On June 28, 2011, the State of California adopted ABx1 26, suspending all new development activities and requiring the Agency to be dissolved effective January 31, 2012. The Agency was dissolved and the impact of the dissolution is further discussed in Note 22.

The purpose of the Redevelopment Agency (Agency) was to eliminate blight in its project areas, while ensuring an adequate stock of low and moderate-income housing. The Agency's power of eminent domain in Bayshore North and University project areas expired as of December 31, 1994. The Agency's power to issue debt payable out of the incremental property taxes expected to be realized as a result of its redevelopment activities expired as of January 1, 2004. A plan amendment for the Bayshore North Project Area eliminated this limitation allowing for the issuance of 2011 Tax Allocation Bonds. The agency was authorized to enter into development agreements with developers and others to further its purpose. The Agency's operations were funded primarily by property tax increments

generated by increased assessments in the redevelopment areas and by lease payments from current long-term land leases.

The Redevelopment Agency Fund accounted for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas, as well as debt service expenditures on the Agency's debt.

The Agency's revenues were \$15 million in fiscal year 2011-12, a decrease of \$25 million from the previous fiscal year. Property tax increment revenues were \$15 million in fiscal year 2011-12, a decrease of \$14 million compared to the prior year, due to the dissolution effective January 31, 2012. There were no revenues from the use of assets in fiscal year 2011-12 due to leases assigned to the City on March 8, 2011. The Agency's expenditures were \$9 million in fiscal year 2011-12, a decrease of \$33 million from the prior fiscal year. The Agency did not have an ending fund balance at June 30, 2012 as a result of transfers to the Successor Agency.

Project Area CIP

The Project Area CIP was created on March 8, 2011 to account for all capital assets that were transferred to the City per the Property Conveyance Agreement between the City and the Agency. The agreements conveyed the properties and assigned leasehold interest in the properties to the City. In fiscal year 2011-12, the Project Area CIP Fund received a \$3 million transfer from the Agency. The Project Area CIP Fund also incurred capital outlay expenditures of \$40 million during the fiscal year.

Non-Major Governmental Funds

These funds are not presented separately in the Basic Financial statements but are individually presented in the Supplemental Information section of this report.

Analysis of Enterprise Funds

Electric Utility

This fund accounts for the operation of the City's electric utility services. Retail operating revenues were \$298 million in fiscal year 2011-12 compared with \$278 million in fiscal year 2010-11, an increase of approximately 7%. The increase was due to higher power consumption by industrial sector, and realizing a full year of 7% electric rate increase that became effective in January 2011.

Retail operating expenses were \$268 million in fiscal year 2011-12 compared with \$265 million in fiscal year 2010-11, an increase of \$3 million or 1%. Operating expenses were higher primarily due to increases in salaries and benefits, materials, supplies and services, and depreciation expenses in the amount of \$1 million in each category compared to the prior fiscal year.

Revenues of wholesale power operations decreased to \$29 million in the current fiscal year, down from \$50 million in fiscal year 2010-11. The cost of wholesale power purchases decreased as well from \$51 million in fiscal year 2010-11 to \$32 million in current fiscal year. The reduced wholesale power purchase is due to the decreased market cost to purchase wholesale power. This also resulted in a lower sales price; therefore, excess electricity is not being produced and sold back to the general grid.

Interest revenues were \$5 million in fiscal year 2011-12, a \$2 million decrease from fiscal year 2010-11 due primarily to lower interest rates. Interest expense increased from \$9 million in fiscal year 2010-11 to \$11 million in fiscal year 2011-12. This was due to recognizing a full year of interest expense for the 2011A Series A Revenue Bond in the current fiscal year.

Other revenues decreased from \$21 million the prior year to \$15 million in fiscal year 2011-12. The decrease can be attributed to the Xeres Ventures LLC developer fees paid directly to the City for their

proposed data center facility which obligated SVP to build a 60kV station and modify the sub-transmission system in fiscal year 2010-11. There was no such transaction in fiscal year 2011-12.

The Electric Utility Fund had \$643 million in net assets at June 30, 2012, an increase of \$43 million from the prior fiscal year. Of this amount, \$319 million was invested in capital assets, net of related debt, \$324 million was unrestricted. The Electric Utility Fund is a participant in a number of joint ventures including Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR PPA), and M-S-R Energy Authority (MSR EA).

Water Utility

This fund accounts for the operation of the City's water utility services. Operating revenues were \$28 million in fiscal year 2011-12 and \$26 million in fiscal year 2010-11. The increase can be attributed to a water rate increase that became effective on July 1, 2011.

Operating expenses were \$25 million in fiscal year 2011-12 compared to \$23 million in fiscal year 2010-11. The increase is primarily due to \$2 million increase in materials, services and supplies purchased compared to the prior year. The Water Utility Fund's net assets at June 30, 2012 were \$55 million, an increase of \$4 million over net assets from the prior fiscal year.

Sewer Utility

This fund accounts for the maintenance of the City's sewer lines and related facilities. Operating revenues of the Sewer Utility increased to \$25 million in fiscal year 2011-12, up from \$20 million in fiscal year 2010-11, an increase of 25%. The increase was primarily due to a 15% sewer rate increase effective on July 1, 2011 and a 10% sewer rate increase effective on January 1, 2012.

Operating expenses were \$15 million in fiscal year 2011-12 compared with \$16 million in fiscal year 2010-11. The \$1 million decrease in operating expenses is due to lower resource expenses such as materials, services and supplies purchases compared to the prior year.

The Sewer Utility Fund had \$134 million in net assets at June 30, 2012, an increase of \$10 million from the prior fiscal year. Of this amount, \$12 million was invested in capital assets, net of related debt, \$122 million was unrestricted. The Sewer Fund, together with the City of San Jose, owns the San Jose/Santa Clara (SJSC) Water Pollution Control Plant (WPCP), which is administered by the City of San Jose. The Fund's ownership share is approximately 17.15% of the assets, capital and operating costs. In fiscal year 2010-11, the City of San Jose reported that the fund's equity in the Plant was \$1.5 million.

Water Recycling

This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. Operating revenues and expenses remained unchanged at \$2 million in fiscal year 2011-12. As a result, net assets as of June 30, 2012 remained at \$4 million, the same as the prior fiscal year.

Solid Waste

This fund accounts for the administration of the City's garbage and rubbish collection service. Operating revenues increased from \$17 million in fiscal year 2010-11 to \$18 million in the current year. The increased revenue can be attributed to recognizing a full year of 9.8% rate increase that became effective on July 1, 2011. Operating expenses were \$17 million in fiscal year 2011-12, an increase of \$1 million from fiscal year 2010-11, mainly due to increases in materials, services and supplies purchases. Net assets at June 30, 2012 were \$2 million.

Cemetery

This fund accounts for the Mission City Memorial Park's operations. Operating revenues were down 22% due to limited demand while operating expenses remained relatively unchanged from the prior year. As such, net assets (deficit) at June 30, 2012 were (\$1) million. This fund has frequently run a deficit in its operation and capital activities, which has been covered by an advance from General Fund reserves.

Sports and Open Space Authority

This fund accounts for the acquisition and preservation of open space within the City and the development of local sports activities. Operating revenues were \$2 million in fiscal year 2011-12, up slightly from the prior fiscal year of \$1 million. While operating expenses remained unchanged, non-operating revenues increased to \$72 million as a result of recognizing a gain on sale of asset. In fiscal year 2011-12, Interland Capital, Inc. exercised its lease option with SOSA to purchase two parcels of property of the Fairway Glen Parcels. The Bella Vista Apartments and the Carlyle Apartments parcels were sold for \$73 million on April 26, 2012, and SOSA recognized a gain on the sale of the asset. Subsequently, the SOSA fund transferred the land proceeds received from the sale transaction to the General Fund Land Sale Reserve account to preserve the capital balance of the land proceeds. As a result, net assets at June 30, 2012 were \$3 million.

Santa Clara Golf and Tennis Club

This fund accounts for the operations of the City's public golf course. Operating revenues were \$3 million in fiscal year 2011-12 unchanged from the prior fiscal year. Operating expenses remained at \$3 million the same as the previous fiscal year. Net assets at June 30, 2012 were \$2 million.

Santa Clara Convention Center

This fund accounts for the operations of the Santa Clara Convention Center. Operating revenues were \$6 million in fiscal year 2011-12, a \$1 million increase from the prior fiscal year revenues of \$5 million. Operating expenses remained at \$8 million in fiscal year 2011-12, the same as the previous fiscal year. Net assets at June 30, 2012 were \$40 million.

Santa Clara Stadium Authority

This fund accounts for the development and operation of the Santa Clara Stadium. In fiscal year 2011-12, the City started the construction work for the stadium. As of June 30, 2012, the Stadium Authority incurred approximately \$5 million in operating expenses. Net assets at June 30, 2012 were \$3 million.

CAPITAL ASSETS

At June 30, 2012 the City's capital assets, totaled \$560 million in Governmental Activities, and \$765 million, in Business-Type Activities, net of depreciation. They were invested in a broad range of categories, as shown in Table 6.

Table 6
Capital Assets at June 30, 2012
(in millions)

| | <u>2012</u> | <u>2011</u> | <u>Net Change</u> |
|----------------------------------|---------------|---------------|-------------------|
| Governmental Activities: | | | |
| Land | \$ 112 | \$ 112 | \$ - |
| Construction in progress | 45 | 5 | 40 |
| Land improvements | 20 | 19 | 1 |
| Buildings | 164 | 163 | 1 |
| Infrastructure | 449 | 444 | 5 |
| Machinery and equipment | 73 | 72 | 1 |
| Less accumulated depreciation | <u>(303)</u> | <u>(282)</u> | <u>(21)</u> |
| Totals | <u>\$ 560</u> | <u>\$ 533</u> | <u>\$ 27</u> |
| Business-Type Activities: | | | |
| Land | \$ 19 | \$ 21 | \$ (2) |
| Construction in progress | 186 | 21 | 165 |
| Land improvements | 24 | 24 | - |
| Buildings | 91 | 90 | 1 |
| Infrastructure | 862 | 838 | 24 |
| Machinery and equipment | 20 | 19 | 1 |
| Less accumulated depreciation | <u>(437)</u> | <u>(413)</u> | <u>(24)</u> |
| Totals | <u>\$ 765</u> | <u>\$ 600</u> | <u>\$ 165</u> |

The increase of \$27 million in the Governmental Funds asset base was due primarily to an increase in construction in progress, partially offset by an increase in accumulated depreciation expense. The \$40 million construction in progress increase was mainly due to the construction of two projects: the Tasman Drive Parking Structure of \$19 million and the Northside Branch Library of \$19 million. Infrastructure and other street and highways improvements were responsible for the remaining \$8 million increase. Of the infrastructure work performed in fiscal year 2011-12, the South of Forest Neighborhood Street Improvements and the Walsh Avenue Sanitary Sewer Improvements were the two largest projects.

The \$165 million increase in Enterprise Funds total assets was primarily due to the planning and construction of the 49ers football stadium, and the increase in infrastructure work. The \$165 million increase in construction in progress was due to the construction of the Santa Clara Stadium that started in fiscal year 2011-12. Infrastructure increased by \$24 million due to various electric projects, which includes the rebuilding of the Walsh and Uranium Substation and major engine overhaul and repair at generation facilities. These increases were offset by current year's depreciation expense in accumulated depreciation.

The Capital Improvement Project Budget for fiscal year 2011-12 and Five-Year Financial Plan for fiscal year 2011-12 through fiscal year 2016-17 contain more detailed discussions of Capital Projects planned for the City of Santa Clara. See Note 10 to the financial statements for additional details on fiscal year 2011-12 capital assets.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 11 to the financial statements. At June 30, 2012 the City's debt was comprised of the following:

Table 7
Outstanding Debt at June 30, 2012
(in millions)

| | Balance June 30, 2012 | Balance June 30, 2011 | Net Change |
|---|--------------------------|--------------------------|----------------|
| Governmental Activity Debt: | | | |
| Redevelopment Tax Allocation Bonds | \$ - | \$ 139 | (139) |
| Certificates of Participation 2002A | 20 | 21 | (1) |
| Refunding Certificates of Participation, Series 2002B | 10 | 13 | (3) |
| Lease Agreement Between City of Santa Clara and City Santa Clara Public Facilities Financing Corporation | 9 | 10 | (1) |
| Business-Type Debt: | | | |
| Electric Utility Revenue Bonds, net of unamortized discount | 211 | 216 | (5) |
| StadCo Subordinated Loan | 102 | - | 102 |
| StadCo Agency Advance | 31 | - | 31 |
| Total Debt | <u>\$ 383</u> | <u>\$ 399</u> | <u>\$ (16)</u> |

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. Additional Comprehensive Annual Financial Report for Silicon Valley Power component unit is available upon request. Questions about this Report should be directed to the City of Santa Clara Finance Department, at 1500 Warburton Avenue, Santa Clara, California, 95050, telephone (408) 615-2340.

Basic Financial Statements

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CITY OF SANTA CLARA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all 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 entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Debt Service, Capital Projects and Permanent Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating interfund 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 assets. It is also 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, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by 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) revenue of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-Type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City and the Redevelopment Agency of the City of Santa Clara, the Santa Clara Housing Authority, the Santa Clara Stadium Authority, the City of Santa Clara Sports and Open Space Authority, and the City of Santa Clara Public Facilities Financing Corporation, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for these Agency activities.

On February 22, 2011, the City established the Santa Clara Housing Authority and the Santa Clara Stadium Authority. On March 8, 2011 the City, Redevelopment Agency, and Santa Clara Housing Authority executed an assignment and assumption agreement whereby the Santa Clara Housing Authority assumed responsibility for housing projects. On the same date, the City, Redevelopment Agency and Stadium Authority approved the transfer of all Stadium-related Agency projects and remaining appropriations to the Stadium Authority.

CITY OF SANTA CLARA
STATEMENTS OF NET ASSETS
June 30, 2012

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments (Note 8): | | | |
| Pooled cash and investments | \$ 236,082,868 | \$ 325,144,191 | \$ 561,227,059 |
| Investments with fiscal agent | - | 8,522,655 | 8,522,655 |
| Receivables (net of allowance for uncollectible): | | | |
| Accounts | 3,879,100 | 41,371,720 | 45,250,820 |
| Interest | 733,271 | 1,075,702 | 1,808,973 |
| Intergovernmental | 14,152,565 | - | 14,152,565 |
| Internal balances (Note 9D) | 221,778 | (221,778) | - |
| Materials, supplies and prepaid | 390,428 | 8,630,681 | 9,021,109 |
| Derivative financial instruments (Note 11D) | - | 233,762 | 233,762 |
| Land held for development (Note 2H) | 24,718,866 | - | 24,718,866 |
| Total Current Assets | <u>280,178,876</u> | <u>384,756,933</u> | <u>664,935,809</u> |
| Noncurrent Assets | | | |
| Cash for construction (Note 8) | 53,684,788 | 2,522,228 | 56,207,016 |
| Investment with fiscal agent (Note 8) | 5,011,576 | 14,938,450 | 19,950,026 |
| Deposits (Note 8) | - | 12,688,517 | 12,688,517 |
| Internal balances (Note 9D) | 8,013,186 | (8,013,186) | - |
| Long Term Loans, net (Note 2AA) | 104,948,479 | - | 104,948,479 |
| Capital assets (Note 10): | | | |
| Land and construction in progress | 156,964,622 | 205,613,589 | 362,578,211 |
| Capital assets being depreciated, net | 403,462,314 | 559,755,287 | 963,217,601 |
| Investment in joint ventures (Note 13) | 5,182,116 | 120,165,929 | 125,348,045 |
| Deferred outflow of resources (Note 11D) | - | 14,943,458 | 14,943,458 |
| Other | 149,743 | 2,091,512 | 2,241,255 |
| Total Noncurrent Assets | <u>737,416,824</u> | <u>924,705,784</u> | <u>1,662,122,608</u> |
| Total Assets | <u>\$ 1,017,595,700</u> | <u>\$ 1,309,462,717</u> | <u>\$ 2,327,058,417</u> |

See accompanying notes to basic financial statements

CITY OF SANTA CLARA
STATEMENTS OF NET ASSETS
June 30, 2012

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-------------------------|
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accrued liabilities | \$ 12,310,604 | \$ 55,143,358 | \$ 67,453,962 |
| Interest payable | 740,831 | 3,667,851 | 4,408,682 |
| Accrued compensated absences (Note 2K) | 1,612,292 | 463,493 | 2,075,785 |
| Payable to Successor Agency (Note 22) | 15,900,000 | - | 15,900,000 |
| Unearned revenue | 14,212,171 | 1,033,594 | 15,245,765 |
| Landfill closure liability (Note 12) | - | 241,000 | 241,000 |
| Deferred inflow (Note 11D) | - | 233,762 | 233,762 |
| Long-term debt-due within one year (Note 11) | 4,462,000 | 7,593,504 | 12,055,504 |
| Total Current Liabilities | <u>49,237,898</u> | <u>68,376,562</u> | <u>117,614,460</u> |
| Noncurrent Liabilities | | | |
| Long-term Portion Estimated Claims (Note 20) | 15,607,619 | - | 15,607,619 |
| Accrued compensated absences (Note 2K) | 11,276,974 | 3,538,945 | 14,815,919 |
| Landfill closure liabilities (Note 12) | - | 2,380,124 | 2,380,124 |
| Derivative financial instruments (Note 11D) | - | 14,943,458 | 14,943,458 |
| Long-term debt-due after one year (Note 11) | 35,066,000 | 335,682,117 | 370,748,117 |
| Total Noncurrent Liabilities | <u>61,950,593</u> | <u>356,544,644</u> | <u>418,495,237</u> |
| Total Liabilities | <u>111,188,491</u> | <u>424,921,206</u> | <u>536,109,697</u> |
| NET ASSETS (Note 19) | | | |
| Invested in capital assets, net of related debt | <u>570,884,061</u> | <u>445,554,360</u> | <u>1,016,438,421</u> |
| Restricted for: | | | |
| Capital projects | 39,364,355 | 8,213,726 | 47,578,081 |
| Debt service | 6,721,806 | - | 6,721,806 |
| Housing activities | 145,885,132 | - | 145,885,132 |
| Special revenue funds and other | 21,186,319 | - | 21,186,319 |
| Total Restricted Net Assets | <u>213,157,612</u> | <u>8,213,726</u> | <u>221,371,338</u> |
| Unrestricted Net Assets | <u>122,365,536</u> | <u>430,773,425</u> | <u>553,138,961</u> |
| Total Net Assets | <u>\$ 906,407,209</u> | <u>\$ 884,541,511</u> | <u>\$ 1,790,948,720</u> |

See accompanying notes to basic financial statements

CITY OF SANTA CLARA
STATEMENTS OF ACTIVITIES
For the year ended June 30, 2012

| Functions/Programs | Expenses | Indirect Expenses Allocation | Program Revenues | | |
|---|-----------------------|------------------------------------|-------------------------|--|--|
| | | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | | |
| General Administration | \$ 11,023,661 | \$ (2,320,878) | \$ 680,412 | \$ 264,098 | \$ 257,578 |
| City Clerk | 715,979 | (537,057) | - | 76 | - |
| City Attorney | 1,372,799 | (1,070,022) | - | - | - |
| Human Resources | 2,027,337 | (1,540,959) | - | - | - |
| Finance | 7,804,601 | (6,124,646) | 956,597 | - | - |
| Public Works | 28,802,041 | - | 3,709,619 | 1,483,719 | 4,478,950 |
| Parks and Recreation | 15,566,968 | - | 2,868,082 | 139,290 | - |
| Public Safety: | | | | | |
| Police | 43,515,552 | - | 1,753,111 | 694,189 | - |
| Fire | 31,702,155 | - | 3,767,004 | 185,221 | - |
| Planning & Inspection | 5,837,720 | - | 12,509,309 | 1,506,141 | - |
| Library | 7,728,183 | - | 204,278 | 171,626 | - |
| Community Development | - | - | 5,500 | - | - |
| Interest on long term debt | 6,991,190 | - | - | - | - |
| Supplemental Education Revenue Augmentation Fund | - | - | - | - | - |
| Pass Through Payments | 1,085,286 | - | - | - | - |
| Total Governmental Activities | 164,173,472 | (11,593,562) | 26,453,912 | 4,444,360 | 4,736,528 |
| Business-type Activities: | | | | | |
| Utilities: | | | | | |
| Electric - | | | | | |
| Retail | 275,842,353 | 7,299,531 | 329,518,355 | - | - |
| Wholesale | 32,115,082 | - | 29,149,231 | - | - |
| Water | 23,077,652 | 1,998,206 | 28,231,848 | - | - |
| Sewer | 14,580,833 | 767,071 | 27,036,474 | - | - |
| Water Recycling | 3,196,142 | 130,005 | 2,284,484 | - | 2,035,378 |
| Solid Waste | 16,291,576 | 1,030,776 | 18,459,975 | - | - |
| Cemetery | 869,508 | 88,373 | 518,761 | - | - |
| Sports and Open Space Authority | 14,117 | 33,511 | 2,056,074 | - | - |
| Santa Clara Golf and Tennis Club | 2,758,886 | - | 2,972,635 | - | - |
| Santa Clara Convention Center | 8,073,447 | - | 5,838,085 | - | 280,568 |
| Santa Clara Stadium Authority | 5,147,268 | 246,089 | 4,616 | - | - |
| Total Business-type Activities | 381,966,864 | 11,593,562 | 446,070,538 | - | 2,315,946 |
| Total | \$ 546,140,336 | \$ - | \$ 472,524,450 | \$ 4,444,360 | \$ 7,052,474 |

General Revenues:

| | |
|--|--|
| Taxes: | |
| Sales | |
| Ad valorem property | |
| Transient occupancy | |
| Other | |
| Intergovernmental, unrestricted: | |
| Motor vehicle in-lieu | |
| Contribution in lieu of taxes | |
| Investment earnings | |
| Net (decrease) in the fair value of investments | |
| Equity in (losses) of joint ventures | |
| Rents and royalties | |
| Gain (loss) on retirement of assets | |
| Other | |
| Co-op Agreements Activities (Note 6C) | |
| Extraordinary Item - assets transferred to/liabilities assumed by Successor Agency (Note 22) | |
| Transfers (Note 9A) | |
| Total General Revenues, Extraordinary Items and Transfers | |

Change in net assets

Net Assets - Beginning, as restated (Note 19E)

Net Assets - Ending

See accompanying notes to basic financial statements

CITY OF SANTA CLARA
STATEMENTS OF ACTIVITIES
For the year ended June 30, 2012

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------|-------------------------|
| Governmental | Business-Type | |
| Activities | Activities | Total |
| \$ (7,500,695) | \$ - | \$ (7,500,695) |
| (178,846) | - | (178,846) |
| (302,777) | - | (302,777) |
| (486,378) | - | (486,378) |
| (723,358) | - | (723,358) |
| (19,129,753) | - | (19,129,753) |
| (12,559,596) | - | (12,559,596) |
| | | |
| (41,068,252) | - | (41,068,252) |
| (27,749,930) | - | (27,749,930) |
| 8,177,730 | - | 8,177,730 |
| (7,352,279) | - | (7,352,279) |
| 5,500 | - | 5,500 |
| (6,991,190) | - | (6,991,190) |
| | | |
| - | - | - |
| (1,085,286) | - | (1,085,286) |
| (116,945,110) | - | (116,945,110) |
| | | |
| - | 46,376,471 | 46,376,471 |
| - | (2,965,851) | (2,965,851) |
| - | 3,155,990 | 3,155,990 |
| - | 11,688,570 | 11,688,570 |
| - | 993,715 | 993,715 |
| - | 1,137,623 | 1,137,623 |
| - | (439,120) | (439,120) |
| - | 2,008,446 | 2,008,446 |
| - | 213,749 | 213,749 |
| - | (1,954,794) | (1,954,794) |
| - | (5,388,741) | (5,388,741) |
| | | |
| - | 54,826,058 | 54,826,058 |
| (116,945,110) | 54,826,058 | (62,119,052) |
| | | |
| 41,279,940 | - | 41,279,940 |
| 43,879,520 | - | 43,879,520 |
| 11,755,416 | - | 11,755,416 |
| 3,034,096 | - | 3,034,096 |
| | | |
| 119,703 | - | 119,703 |
| 15,342,885 | - | 15,342,885 |
| 7,900,504 | 5,921,529 | 13,822,033 |
| (707,348) | (874,063) | (1,581,411) |
| (285,303) | (5,814,319) | (6,099,622) |
| 13,115,066 | - | 13,115,066 |
| - | 71,661,553 | 71,661,553 |
| 4,104,361 | - | 4,104,361 |
| (4,616) | - | (4,616) |
| 106,601,621 | - | 106,601,621 |
| 76,557,372 | (76,557,372) | - |
| 322,693,217 | (5,662,672) | 317,030,545 |
| | | |
| 205,748,107 | 49,163,386 | 254,911,493 |
| | | |
| 700,659,102 | 835,378,125 | 1,536,037,227 |
| | | |
| \$ 906,407,209 | \$ 884,541,511 | \$ 1,790,948,720 |

See accompanying notes to basic financial statements

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**CITY OF SANTA CLARA
FUND FINANCIAL STATEMENTS
GOVERNMENTAL FUNDS**

The funds described below were determined to be Major Funds by the City in fiscal year 2011-12. Individual non-major funds may be found in the Supplementary section.

MAJOR GOVERNMENTAL FUNDS

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.

REDEVELOPMENT AGENCY FUND

Prior to March 8, 2011, the Redevelopment Agency (Agency) Fund accounted for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues. On March 8, 2011, the City, Agency, and the Santa Clara Housing Authority through execution of an assignment and assumption agreement, assumed responsibility for housing loans to qualifying individuals and groups for the purpose of eliminating blight. On March 8, 2011, capital assets were transferred to the City per the Property Conveyance Agreement and Cooperation Agreements executed between the City and Agency. On January 31, 2012, the Redevelopment Agency of the City of Santa Clara was dissolved

SANTA CLARA HOUSING AUTHORITY FUND

On February 22, 2011, the Santa Clara Housing Authority (SCHA), a special revenue fund, was established to account for housing loans to assist in eliminating blight. On March 8, 2011, the City, Agency, and the SCHA executed an assignment and assumption agreement whereby the SCHA assumed responsibility for housing loans for qualifying individuals and groups. Loans assigned were made under various programs; substantially all are long-term in nature.

PROJECT AREA CIP FUND

The Project Area CIP Fund accounts for capital assets transferred by the Agency to the City per the Property Conveyance Agreement and Cooperation Agreements executed between the City and Agency on March 8, 2011. These assets include land and improvements discussed in detail in Notes 4 and 5.

**CITY OF SANTA CLARA
GOVERNMENTAL FUNDS
BALANCE SHEETS
June 30, 2012**

| | <u>General Fund</u> | <u>Redevelopment Agency</u> | <u>Santa Clara Housing Authority</u> |
|---|-------------------------|---------------------------------|--|
| ASSETS | | | |
| Cash and investments (Note 8): | | | |
| Pooled cash and investments | \$ 131,700,571 | \$ - | \$ 35,504,759 |
| Cash restricted for construction | - | - | - |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 3,422,387 | - | - |
| Interest | 553,315 | - | 179,956 |
| Loans | - | - | 87,162,400 |
| Intergovernmental | 9,937,048 | - | - |
| Due from other funds (Note 9B) | 2,969,610 | - | 2,515,578 |
| Materials, supplies and prepaids | 16,564 | - | - |
| Land held for redevelopment (Note 2H) | - | - | 24,718,866 |
| Investments with fiscal agent - noncurrent (Note 8) | - | - | - |
| Advances to other funds (Note 9C) | 8,073,424 | - | - |
| Other | 25,800 | - | - |
| Total Assets | <u>\$ 156,698,719</u> | <u>\$ -</u> | <u>\$ 150,081,559</u> |
| LIABILITIES | | | |
| Accrued liabilities | \$ 5,240,015 | \$ - | \$ 83,091 |
| Accrued compensated absences (Note 2K) | 145,869 | - | - |
| Due to other funds (Note 9B) | 2,575,788 | - | - |
| Payable to Successor Agency (Note 22) | - | - | 15,900,000 |
| Deferred revenue | 920,403 | - | 87,162,399 |
| Advances from other funds (Note 9C) | 60,238 | - | - |
| Total Liabilities | <u>8,942,313</u> | <u>-</u> | <u>103,145,490</u> |
| FUND BALANCES | | | |
| Nonspendable | 12,466,147 | - | - |
| Restricted | 10,921,831 | - | 29,290,973 |
| Committed | 86,941,773 | - | 17,645,096 |
| Assigned | 4,033,602 | - | - |
| Unassigned | 33,393,053 | - | - |
| Total Fund Balances | <u>147,756,406</u> | <u>-</u> | <u>46,936,069</u> |
| Total Liabilities and Fund Balances | <u>\$ 156,698,719</u> | <u>\$ -</u> | <u>\$ 150,081,559</u> |

**CITY OF SANTA CLARA
GOVERNMENTAL FUNDS
BALANCE SHEETS
June 30, 2012**

| <u>Project Area CIP</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------|---|-------------------------------------|
| \$ 7,307,734 | \$ 45,398,735 | \$ 219,911,799 |
| 49,985,125 | 3,699,663 | 53,684,788 |
| 78,548 | 69,816 | 3,570,751 |
| - | - | 733,271 |
| - | 21,972,857 | 109,135,257 |
| - | 4,215,517 | 14,152,565 |
| - | 22,473 | 5,507,661 |
| - | - | 16,564 |
| - | - | 24,718,866 |
| - | 5,011,576 | 5,011,576 |
| - | - | 8,073,424 |
| - | 200 | 26,000 |
| <u>\$ 57,371,407</u> | <u>\$ 80,390,837</u> | <u>\$ 444,542,522</u> |
| | | |
| \$ 1,878,743 | \$ 519,805 | \$ 7,721,654 |
| - | - | 145,869 |
| - | 114,242 | 2,690,030 |
| - | - | 15,900,000 |
| - | 25,078,432 | 113,161,234 |
| - | - | 60,238 |
| <u>1,878,743</u> | <u>25,712,479</u> | <u>139,679,025</u> |
| | | |
| - | - | 12,466,147 |
| 54,492,212 | 41,317,089 | 136,022,105 |
| 1,000,452 | 13,361,269 | 118,948,590 |
| - | - | 4,033,602 |
| - | - | 33,393,053 |
| <u>55,492,664</u> | <u>54,678,358</u> | <u>304,863,497</u> |
| <u>\$ 57,371,407</u> | <u>\$ 80,390,837</u> | <u>\$ 444,542,522</u> |

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CITY OF SANTA CLARA
RECONCILIATION OF FUND BALANCES TO GOVERNMENTAL ACTIVITIES NET ASSETS
June 30, 2012

Total Governmental Fund Balance (from prior page) **\$ 304,863,497**

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

CURRENT LIABILITIES

The assets and liabilities below are due and payable in less than one year and more than 90 days and therefore are not reported in the Funds:

Current portion of accrued compensated absences
excluding Internal Service Funds (1,448,122)

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and, therefore, are not reported in the Governmental Funds. 560,426,936

INVESTMENT IN NON-BUSINESS TYPE JOINT VENTURE 5,182,116

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

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 following line items in the Statement of Net Assets:

Cash and investments 16,171,069
Accounts receivable 308,349
Materials, supplies and prepaid 373,864
Accrued liabilities (4,588,950)
Long-term portion of estimated claims (15,607,619)
Compensated absences - current (18,301)
Compensated absences - long-term (192,445)
Internal balances (2,595,853)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. 98,949,063

LONG TERM LIABILITIES

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

Reserve against conditional grant balances (4,186,778)
Long-term debt (39,528,000)
Interest payable (740,831)
Bond issuance cost 123,743
Non-current portion of accrued compensated absences
excluding Internal Service Funds (11,084,529)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 906,407,209**

**CITY OF SANTA CLARA
GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the year ended June 30, 2012**

| | <u>General Fund</u> | <u>Redevelopment Agency</u> | <u>Santa Clara Housing Authority</u> |
|--|-------------------------|---------------------------------|--|
| REVENUES | | | |
| Taxes: | | | |
| Sales | \$ 41,279,940 | \$ - | \$ - |
| Ad valorem | 28,451,028 | 15,428,492 | - |
| Transient occupancy | 11,755,416 | - | - |
| Other | 4,139,096 | - | - |
| Licenses, permits, fines, and penalties | 9,221,762 | - | - |
| Intergovernmental | 742,184 | - | - |
| Charges for services | 31,490,235 | - | 18,000 |
| Contributions in-lieu of taxes | 15,342,885 | - | - |
| Interest and rents | 19,715,570 | - | 939,789 |
| Net increase (decrease) in the fair value of investments | (143,719) | (294,638) | (268,991) |
| Other | 436,779 | 67,507 | 556,879 |
| Total Revenues | <u>162,431,176</u> | <u>15,201,361</u> | <u>1,245,677</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General Administration | 12,303,862 | 2,660,470 | 8,166,564 |
| City Clerk | 703,221 | - | - |
| City Attorney | 1,328,426 | - | - |
| Human Resources | 1,978,761 | - | - |
| Finance | 7,587,722 | - | - |
| Public Works | 14,260,451 | - | - |
| Parks and Recreation | 13,848,428 | - | - |
| Public Safety: | | | |
| Police | 41,632,540 | - | - |
| Fire | 31,245,212 | - | - |
| Planning & Inspection | 5,724,735 | - | - |
| Library | 6,451,576 | - | - |
| Capital outlay | 35,898 | - | - |
| Debt service (Note 11) | | | |
| Principal payments | - | - | - |
| Interest and Fiscal Fees | - | 5,094,899 | - |
| Bond Cost | - | - | - |
| Pass Through Payments | - | 1,085,286 | - |
| Total Expenditures | <u>137,100,832</u> | <u>8,840,655</u> | <u>8,166,564</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>25,330,344</u> | <u>6,360,706</u> | <u>(6,920,887)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Co-op Agreement Activities (Note 6D) | - | (4,616) | - |
| Transfers In (Note 9A) | 79,756,521 | - | 3,085,698 |
| Transfers (Out) (Note 9A) | (9,206,707) | (6,239,256) | - |
| Total Other Financing Sources (Uses) | <u>70,549,814</u> | <u>(6,243,872)</u> | <u>3,085,698</u> |
| CHANGE IN NET ASSETS BEFORE EXTRAORDINARY ITEM | 95,880,158 | 116,834 | (3,835,189) |
| Extraordinary item - assets transferred to/ liabilities assumed by Successor Agency (Note 22) | (21,779,099) | 8,913,904 | (18,982,024) |
| NET CHANGE IN FUND BALANCE | 74,101,059 | 9,030,738 | (22,817,213) |
| Fund balances - beginning, as restated (Note 19E) | 73,655,347 | (9,030,738) | 69,753,282 |
| Fund balances - ending | <u>\$ 147,756,406</u> | <u>\$ -</u> | <u>\$ 46,936,069</u> |

See accompanying notes to basic financial statements

**CITY OF SANTA CLARA
GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the year ended June 30, 2012**

| <u>Project Area CIP</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------|---|-------------------------------------|
| \$ - | \$ - | \$ 41,279,940 |
| - | - | 43,879,520 |
| - | - | 11,755,416 |
| - | - | 4,139,096 |
| - | - | 9,221,762 |
| - | 7,348,612 | 8,090,796 |
| - | 1,259,234 | 32,767,469 |
| - | - | 15,342,885 |
| 249,383 | 424,061 | 21,328,803 |
| - | - | (707,348) |
| - | 2,584,026 | 3,645,191 |
| <u>249,383</u> | <u>11,615,933</u> | <u>190,743,530</u> |
| 167 | 3,298,499 | 26,429,562 |
| - | - | 703,221 |
| - | - | 1,328,426 |
| - | - | 1,978,761 |
| - | - | 7,587,722 |
| - | 1,971,018 | 16,231,469 |
| - | 275,915 | 14,124,343 |
| - | 278,980 | 41,911,520 |
| - | 276,762 | 31,521,974 |
| - | - | 5,724,735 |
| - | 142,136 | 6,593,712 |
| 40,419,819 | 6,034,057 | 46,489,774 |
| - | 4,294,000 | 4,294,000 |
| - | 1,943,313 | 7,038,212 |
| - | 5,232 | 5,232 |
| - | - | 1,085,286 |
| <u>40,419,986</u> | <u>18,519,912</u> | <u>213,047,949</u> |
| <u>(40,170,603)</u> | <u>(6,903,979)</u> | <u>(22,304,419)</u> |
| - | - | (4,616) |
| 3,153,558 | 10,637,915 | 96,633,692 |
| - | (4,733,808) | (20,179,771) |
| <u>3,153,558</u> | <u>5,904,107</u> | <u>76,449,305</u> |
| (37,017,045) | (999,872) | 54,144,886 |
| - | - | (31,847,219) |
| <u>(37,017,045)</u> | <u>(999,872)</u> | <u>22,297,667</u> |
| 92,509,709 | 55,678,230 | 282,565,830 |
| <u>\$ 55,492,664</u> | <u>\$ 54,678,358</u> | <u>\$ 304,863,497</u> |

See accompanying notes to basic financial statements

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CITY OF SANTA CLARA
RECONCILIATION OF THE NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

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 Assets 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 **\$ 22,297,667**

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

ACCRUAL OF CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of financial resources over 90 days and therefore are not reported as revenue or expenditures in governmental funds (net change):

Current portion of accrued compensated absences (512,846)

CAPITAL ASSET 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 46,339,057

Depreciation expense is deducted from the fund balance

(Depreciation expense is net of internal service fund depreciation of

\$1,622,348 which has already been allocated to serviced funds.) (19,416,618)

Retirements and transfers of capital assets (net of internal service fund retirements of \$25,545) (28,383)

Contributions of infrastructure improvements by developers and equipment are capitalized in the Statement of Activities, but are not recorded in the Fund Statements because no cash changed hands. 1,162,490

JOINT VENTURES (285,303)

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Bond costs (24,749)

Repayment of debt principal is added back to fund balance 4,294,000

EXTRAORDINARY ITEM - ASSETS TRANSFERRED TO/LIABILITIES ASSUMED BY SUCCESSOR AGENCY 138,448,840

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):

Provision for reserve of conditional grants 551,540

Non-current portion of accrued compensated absences 1,353,277

Interest payable 52,254

Deferred revenue 12,157,507

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 Assets - All Internal Service Funds, net (227,314)

Change in Net Assets of Internal Service Funds reported with Business-Type Activities (413,312)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 205,748,107**

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| |
|---|
| <p style="text-align: center;">CITY OF SANTA CLARA MAJOR PROPRIETARY FUNDS</p> |
|---|

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. Individual non-major Proprietary funds may be found in the Supplementary section.

The City has identified the funds below as major proprietary funds in fiscal year 2011-12.

GASB No. 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

ELECTRIC UTILITY FUND

This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

WATER UTILITY FUND

This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

SEWER UTILITY FUND

The sewer utility fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

WATER RECYCLING UTILITY FUND

This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

SANTA CLARA STADIUM AUTHORITY FUND

The Santa Clara Stadium Authority Fund was established in 2011 to provide for development and operation of the Santa Clara Stadium (future home of the NFL's San Francisco 49ers).

SPORTS AND OPEN SPACE AUTHORITY FUND (SOSA)

SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City and the development of local sports activities.

**CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS
June 30, 2012**

| | Business-type Activities-Enterprise Funds | | |
|---|--|--------------------------|--------------------------|
| | Electric Utility | Water Utility | Sewer Utility |
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments (Note 8): | | | |
| Pooled cash and investments | \$ 260,234,866 | \$ 20,223,248 | \$ 27,204,685 |
| Investments with fiscal agent | 8,522,655 | - | - |
| Receivables (net of allowance for uncollectible): | | | |
| Accounts | 33,343,364 | 3,116,936 | 2,391,361 |
| Interest | 915,152 | 68,728 | 79,398 |
| Due from other funds (Note 9B) | 2,047,343 | 127,654 | 192,654 |
| Materials, supplies and prepaids | 7,902,546 | 665,630 | - |
| Derivative financial instrument (Note 11D) | 233,762 | - | - |
| Total current assets | 313,199,688 | 24,202,196 | 29,868,098 |
| Noncurrent assets: | | | |
| Cash for construction (Note 8) | - | 303,090 | 1,507,553 |
| Investment with fiscal agent (Note 8) | 14,938,450 | - | - |
| Deposits (Note 8) | 12,688,517 | - | - |
| Capital assets (Note 10): | | | |
| Land and land improvements | 14,379,593 | 661,268 | 725,328 |
| Buildings and infrastructure | 780,167,591 | 66,052,111 | 27,310,745 |
| Equipment | 11,577,506 | 3,741,967 | 2,027,412 |
| Construction in progress | 20,530,562 | 8,817 | 63,547 |
| | 826,655,252 | 70,464,163 | 30,127,032 |
| Less Accumulated depreciation | 320,961,126 | 38,146,958 | 18,525,371 |
| | 505,694,126 | 32,317,205 | 11,601,661 |
| Investment in joint ventures (Note 13) | 28,975,156 | - | 91,190,773 |
| Advances to other funds (Note 9C) | 60,238 | - | - |
| Deferred outflow of resources (Note 11D) | 14,943,458 | - | - |
| Other assets | 1,991,095 | 42,992 | 28,338 |
| Total noncurrent assets | 579,291,040 | 32,663,287 | 104,328,325 |
| Total assets | 892,490,728 | 56,865,483 | 134,196,423 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accrued liabilities | 16,867,393 | 1,596,779 | 24,100 |
| Interest payable | 3,667,851 | - | - |
| Accrued compensated absences (Note 2K) | 371,185 | 40,786 | 31,079 |
| Due to other funds (Note 9B) | - | - | - |
| Deferred revenue | 252,029 | - | - |
| Current portion of landfill closure liability (Note 12) | - | - | - |
| Deferred inflow (Note 11D) | 233,762 | - | - |
| Current portion of long-term debt (Note 11) | 6,560,000 | - | - |
| Total current liabilities | 27,952,220 | 1,637,565 | 55,179 |
| Noncurrent liabilities: | | | |
| Advance from other funds (Note 9C) | - | - | - |
| Landfill closure liability (Note 12) | - | - | - |
| Long-term portion estimated claims | - | - | - |
| Long-term comp absences (Note 2K) | 2,698,558 | 386,410 | 258,434 |
| Long-term derivative financial instrument (Note 11D) | 14,943,458 | - | - |
| Long-term debt (Note 11) | 204,085,545 | - | - |
| Total noncurrent liabilities | 221,727,561 | 386,410 | 258,434 |
| Total liabilities | 249,679,781 | 2,023,975 | 313,613 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 318,509,686 | 32,317,205 | 11,601,661 |
| Restricted for capital projects | - | - | - |
| Unrestricted | 324,301,261 | 22,524,303 | 122,281,149 |
| Total net assets | \$ 642,810,947 | \$ 54,841,508 | \$ 133,882,810 |

Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time.

Net assets of business-type activities

See accompanying notes to basic financial statements

**CITY OF SANTA CLARA
 PROPRIETARY FUNDS
 STATEMENTS OF NET ASSETS
 June 30, 2012**

| Business-type Activities-Enterprise Funds | | | | | | Internal Service Funds (Note 2B) |
|---|---------------------------------------|-------------------------------------|----------------------------------|-----------------------|-----------------------|--|
| Water Recycling Utility | Sports and Open Space Authority | Santa Clara Stadium Authority | Non-Major Enterprise Funds | TOTAL | | |
| \$ 4,370,940 | \$ 223,206 | \$ 6,173,923 | \$ 6,565,328 | \$ 324,996,196 | \$ 16,319,064 | |
| - | - | - | - | 8,522,655 | - | |
| 210,851 | - | - | 2,309,208 | 41,371,720 | 308,349 | |
| 12,424 | - | - | - | 1,075,702 | - | |
| - | - | 60,210 | 205,729 | 2,633,590 | 228,797 | |
| - | - | - | 62,505 | 8,630,681 | 373,864 | |
| - | - | - | - | 233,762 | - | |
| <u>4,594,215</u> | <u>223,206</u> | <u>6,234,133</u> | <u>9,142,770</u> | <u>387,464,306</u> | <u>17,230,074</u> | |
| - | - | 34 | 711,551 | 2,522,228 | - | |
| - | - | - | - | 14,938,450 | - | |
| - | - | - | - | 12,688,517 | - | |
| - | 2,424,481 | - | 25,099,663 | 43,290,333 | - | |
| - | - | - | 79,253,621 | 952,784,068 | - | |
| - | - | - | 2,896,093 | 20,242,978 | 24,868,868 | |
| - | - | 165,655,347 | - | 186,258,273 | - | |
| - | 2,424,481 | 165,655,347 | 107,249,377 | 1,202,575,652 | 24,868,868 | |
| - | - | - | 59,573,321 | 437,206,776 | 20,162,071 | |
| - | 2,424,481 | 165,655,347 | 47,676,056 | 765,368,876 | 4,706,797 | |
| - | - | - | - | 120,165,929 | - | |
| - | - | - | - | 60,238 | - | |
| - | - | - | - | 14,943,458 | - | |
| - | - | - | 29,087 | 2,091,512 | - | |
| - | 2,424,481 | 165,655,381 | 48,416,694 | 932,779,208 | 4,706,797 | |
| <u>4,594,215</u> | <u>2,647,687</u> | <u>171,889,514</u> | <u>57,559,464</u> | <u>1,320,243,514</u> | <u>21,936,871</u> | |
| 301,625 | 16,404 | 34,887,940 | 1,449,117 | 55,143,358 | 4,588,950 | |
| - | - | - | - | 3,667,851 | - | |
| - | - | - | 20,443 | 463,493 | 18,301 | |
| - | - | 1,402,219 | 1,453,149 | 2,855,368 | 2,824,650 | |
| - | 21,962 | - | 759,603 | 1,033,594 | - | |
| - | - | - | 241,000 | 241,000 | - | |
| - | - | - | - | 233,762 | - | |
| - | - | 1,033,504 | - | 7,593,504 | - | |
| <u>301,625</u> | <u>38,366</u> | <u>37,323,663</u> | <u>3,923,312</u> | <u>71,231,930</u> | <u>7,431,901</u> | |
| - | - | - | 8,073,424 | 8,073,424 | - | |
| - | - | - | 2,380,124 | 2,380,124 | - | |
| - | - | - | - | - | 15,607,619 | |
| - | - | - | 195,543 | 3,538,945 | 192,445 | |
| - | - | - | - | 14,943,458 | - | |
| - | - | 131,596,572 | - | 335,682,117 | - | |
| - | - | 131,596,572 | 10,649,091 | 364,618,068 | 15,800,064 | |
| <u>301,625</u> | <u>38,366</u> | <u>168,920,235</u> | <u>14,572,403</u> | <u>435,849,998</u> | <u>23,231,965</u> | |
| - | 2,424,481 | 33,025,271 | 47,676,056 | 445,554,360 | 4,706,797 | |
| - | - | 3,010,123 | 1,087,549 | 4,097,672 | - | |
| 4,292,590 | 184,840 | (33,066,115) | (5,776,544) | 434,741,484 | (6,001,891) | |
| <u>\$ 4,292,590</u> | <u>\$ 2,609,321</u> | <u>\$ 2,969,279</u> | <u>\$ 42,987,061</u> | <u>884,393,516</u> | <u>\$ (1,295,094)</u> | |
| | | | | 147,995 | | |
| | | | | <u>\$ 884,541,511</u> | | |

See accompanying notes to basic financial statements

**CITY OF SANTA CLARA
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 For the year ended June 30, 2012**

Business-type Activities-Enterprise Funds

| | Electric Utility | Water Utility | Sewer Utility |
|--|-----------------------------|--------------------------|--------------------------|
| Operating revenues: | | | |
| Charges for services | \$ 297,644,252 | \$ 27,692,732 | \$ 25,471,169 |
| Rents and royalties | - | - | - |
| Insurance refunds and other | - | - | - |
| Other | - | - | - |
| Total operating revenues | <u>297,644,252</u> | <u>27,692,732</u> | <u>25,471,169</u> |
| Operating expenses: | | | |
| Salaries and benefits | 20,994,059 | 4,587,194 | 1,859,713 |
| Materials, services and supplies | 227,350,915 | 19,406,557 | 13,000,586 |
| General and administrative | - | - | - |
| Amortization | 466,825 | 26,392 | 17,403 |
| Depreciation | 18,746,924 | 1,055,498 | 470,562 |
| Total operating expenses | <u>267,558,723</u> | <u>25,075,641</u> | <u>15,348,264</u> |
| Operating income (loss) | <u>30,085,529</u> | <u>2,617,091</u> | <u>10,122,905</u> |
| Nonoperating revenues (expenses): | | | |
| Interest revenue | 4,823,594 | 365,808 | 414,783 |
| Net (increase) in the fair value of investments | (783,950) | (34,056) | (52,330) |
| Rents and royalties | 2,636,399 | 90,908 | - |
| Joint project contribution | - | - | - |
| Other revenue | 14,444,233 | 448,208 | 1,565,305 |
| Interest expense | (11,083,530) | - | - |
| Other expense | (5,071,954) | - | - |
| Equity in income (losses) of joint ventures | (3,575,299) | - | (2,239,020) |
| Gain (loss) on retirement of assets | (9,882) | - | - |
| Renewable energy credits | 14,793,471 | - | - |
| Wholesale power sales | 29,149,231 | - | - |
| Wholesale power purchases | (32,115,082) | - | - |
| Total nonoperating revenues | <u>13,207,231</u> | <u>870,868</u> | <u>(311,262)</u> |
| Income (loss) before contributions and transfers | 43,292,760 | 3,487,959 | 9,811,643 |
| Contributions | - | - | - |
| Transfers in (Note 9A) | - | 700,000 | - |
| Transfers (out) (Note 9A) | (345,561) | (30,442) | (16,179) |
| Change in net assets | <u>42,947,199</u> | <u>4,157,517</u> | <u>9,795,464</u> |
| Total net assets - beginning, as restated (see Note 19E) | <u>599,863,748</u> | <u>50,683,991</u> | <u>124,087,346</u> |
| Total net assets - ending | <u>\$ 642,810,947</u> | <u>\$ 54,841,508</u> | <u>\$ 133,882,810</u> |

Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds.

Change in net assets of business-type activities

**CITY OF SANTA CLARA
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 For the year ended June 30, 2012**

| Business-type Activities-Enterprise Funds | | | | | |
|--|--|--|---|----------------------|-----------------------------------|
| Water Recycling Utility | Sports and Open Space Authority | Santa Clara Stadium Authority | Non-Major Enterprise Funds | Total | Internal Service Funds |
| \$ 2,280,532 | \$ - | \$ - | \$ 27,446,370 | \$ 380,535,055 | \$ 10,916,133 |
| - | 2,056,074 | - | - | 2,056,074 | - |
| - | - | - | - | - | 559,352 |
| - | - | - | 321,043 | 321,043 | - |
| <u>2,280,532</u> | <u>2,056,074</u> | <u>-</u> | <u>27,767,413</u> | <u>382,912,172</u> | <u>11,475,485</u> |
| 603,476 | 9,317 | - | 1,559,023 | 29,612,782 | 2,358,658 |
| 1,340,790 | 38,311 | - | 23,919,138 | 285,056,297 | 2,353,977 |
| - | - | 5,392,826 | - | 5,392,826 | 5,388,387 |
| - | - | - | 17,845 | 528,465 | - |
| - | - | - | 3,604,825 | 23,877,809 | 1,622,348 |
| <u>1,944,266</u> | <u>47,628</u> | <u>5,392,826</u> | <u>29,100,831</u> | <u>344,468,179</u> | <u>11,723,370</u> |
| <u>336,266</u> | <u>2,008,446</u> | <u>(5,392,826)</u> | <u>(1,333,418)</u> | <u>38,443,993</u> | <u>(247,885)</u> |
| 67,591 | 139,311 | 45,561 | 64,881 | 5,921,529 | - |
| (3,727) | - | - | - | (874,063) | - |
| - | - | - | 21,994 | 2,749,301 | - |
| 2,035,378 | - | - | - | 2,035,378 | - |
| 3,952 | - | 4,616 | 49 | 16,466,363 | 90,660 |
| - | - | - | - | (11,083,530) | - |
| (1,382,988) | - | - | - | (6,454,942) | - |
| - | - | - | - | (5,814,319) | - |
| - | 71,671,435 | - | - | 71,661,553 | (25,545) |
| - | - | - | - | 14,793,471 | - |
| - | - | - | - | 29,149,231 | - |
| - | - | - | - | (32,115,082) | - |
| <u>720,206</u> | <u>71,810,746</u> | <u>50,177</u> | <u>86,924</u> | <u>86,434,890</u> | <u>65,115</u> |
| 1,056,472 | 73,819,192 | (5,342,649) | (1,246,494) | 124,878,883 | (182,770) |
| - | - | - | 280,568 | 280,568 | - |
| - | 948,002 | - | 538,349 | 2,186,351 | 160,000 |
| (700,169) | (76,134,076) | - | (1,517,296) | (78,743,723) | (56,549) |
| <u>356,303</u> | <u>(1,366,882)</u> | <u>(5,342,649)</u> | <u>(1,944,873)</u> | <u>48,602,079</u> | <u>(79,319)</u> |
| 3,936,287 | 3,976,203 | 8,311,928 | 44,931,934 | | (1,215,775) |
| <u>\$ 4,292,590</u> | <u>\$ 2,609,321</u> | <u>\$ 2,969,279</u> | <u>\$ 42,987,061</u> | | <u>\$ (1,295,094)</u> |
| | | | | <u>561,307</u> | |
| | | | | <u>\$ 49,163,386</u> | |

See accompanying notes to basic financial statements

**CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
For the year ended June 30, 2012**

| Business-type Activities-Enterprise Funds | | | |
|--|-----------------------------|--------------------------|--------------------------|
| | Electric Utility | Water Utility | Sewer Utility |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 295,780,206 | \$ 27,598,920 | \$ 25,264,318 |
| Payments to suppliers | (226,396,502) | (19,214,649) | (13,025,742) |
| Payments to employees | (20,735,020) | (4,525,638) | (1,889,765) |
| Internal activity - payments to other funds | - | - | - |
| Claims paid | - | - | - |
| Rents and royalties received | 2,426,031 | 83,475 | - |
| Other receipts | 7,265,624 | 448,208 | 1,565,305 |
| Net cash provided (used) by operating activities | <u>58,340,339</u> | <u>4,390,316</u> | <u>11,914,116</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Renewable energy credits | 14,793,471 | - | - |
| Wholesale resource sales | 29,149,231 | - | - |
| Wholesale resource purchases | (32,115,082) | - | - |
| Provision for disputed SCS charges | (1,338,947) | - | - |
| Charges for Joint project contribution | - | - | (2,701,150) |
| Expenses for joint project | - | - | - |
| Increase (decrease) in due from other funds | (306,222) | (57,922) | 53,941 |
| (Increase) decrease in due to other funds | - | (67,405) | - |
| Advances from other funds | - | - | - |
| Transfers in | - | 700,000 | - |
| Transfers (out) | (345,561) | (30,442) | (16,179) |
| Cash Flows from Noncapital Financing Activities | <u>9,836,890</u> | <u>544,231</u> | <u>(2,663,388)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition and construction of capital assets, net | (24,145,335) | (1,204,349) | (485,141) |
| Proceeds from sale of assets | - | - | - |
| Proceeds from debt | - | - | - |
| Landfill closure expenses | - | - | - |
| Principal payments on capital debt | (6,255,000) | - | - |
| Interest paid on capital debt | (9,948,995) | - | - |
| Cash Flows from Capital and Related Financing Activities | <u>(40,349,330)</u> | <u>(1,204,349)</u> | <u>(485,141)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net increase in the fair value of investments | (783,950) | (34,056) | (52,330) |
| Interest and dividends | 490,429 | 384,798 | 444,540 |
| Payments made by fiscal agent | 12,640,296 | - | - |
| Deposits made with fiscal agent | (13,698,411) | - | - |
| Cash Flows from Investing Activities | <u>(1,351,636)</u> | <u>350,742</u> | <u>392,210</u> |
| Net increase (decrease) in cash and cash equivalents | 26,476,263 | 4,080,940 | 9,157,797 |
| Cash and cash equivalents at beginning of period | 233,758,603 | 16,445,398 | 19,554,441 |
| Cash and cash equivalents at end of period | <u>\$ 260,234,866</u> | <u>\$ 20,526,338</u> | <u>\$ 28,712,238</u> |
| Cash and cash equivalents: | | | |
| Pooled cash and investments | \$ 260,234,866 | \$ 20,223,248 | \$ 27,204,685 |
| Cash designated for construction | - | 303,090 | 1,507,553 |
| Total cash and cash equivalents | <u>\$ 260,234,866</u> | <u>\$ 20,526,338</u> | <u>\$ 28,712,238</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | |
| Operating income (loss) | \$30,085,529 | \$ 2,617,091 | \$ 10,122,905 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Amortization | 466,825 | 26,392 | 17,403 |
| Depreciation | 18,746,924 | 1,055,498 | 470,562 |
| Change in assets and liabilities: | | | |
| Receivables, net | (3,866,144) | (108,321) | (206,851) |
| Inventory | (605,148) | (71,870) | - |
| Accrued liabilities | 1,455,004 | 278,287 | (25,156) |
| Long-term portion estimated claims | - | - | - |
| Compensated absences | 259,039 | 61,556 | (30,052) |
| Deferred revenue | - | - | - |
| Other receipts | 16,870,264 | 531,683 | 1,565,305 |
| Other expenses | (5,071,954) | - | - |
| Net cash provided (used) by operating activities | <u>\$ 58,340,339</u> | <u>\$ 4,390,316</u> | <u>\$ 11,914,116</u> |
| NONCASH TRANSACTIONS: | | | |
| Joint Ventures | | | |
| Nonoperating income (loss) | \$ (3,575,299) | \$ - | \$ (2,239,020) |
| Capital Contribution | \$ - | \$ - | \$ - |

See accompanying notes to basic financial statements

**CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
For the year ended June 30, 2012**

| Business-type Activities-Enterprise Funds | | | | | |
|---|---------------------------------------|-------------------------------------|----------------------------------|-----------------------|---------------------------|
| Water Recycling Utility | Sports and Open Space Authority | Santa Clara Stadium Authority | Non-Major Enterprise Funds | Totals | Internal Service Funds |
| \$ 4,350,975 | \$ 1,992,914 | \$ - | \$ 27,518,294 | \$ 382,505,627 | \$ 10,967,188 |
| (1,240,662) | (47,628) | (5,392,826) | (24,372,691) | (289,690,700) | (2,123,263) |
| (603,476) | - | - | (1,521,948) | (29,275,847) | (2,372,470) |
| - | - | - | - | - | (139,363) |
| - | - | - | - | - | (4,560,742) |
| - | - | - | 21,994 | 2,531,500 | - |
| 3,952 | 3,160 | 4,616 | 326,977 | 9,617,842 | 90,660 |
| <u>2,510,789</u> | <u>1,948,446</u> | <u>(5,388,210)</u> | <u>1,972,626</u> | <u>75,688,422</u> | <u>1,862,010</u> |
| - | - | - | - | 14,793,471 | - |
| - | - | - | - | 29,149,231 | - |
| - | - | - | - | (32,115,082) | - |
| - | - | - | - | (1,338,947) | - |
| 2,035,378 | - | - | - | (665,772) | - |
| (1,678,113) | - | - | - | (1,678,113) | - |
| - | - | (60,210) | (14,212) | (384,625) | 55,870 |
| - | - | 1,402,219 | (205,668) | 1,129,146 | 277,903 |
| - | - | - | 584,600 | 584,600 | - |
| - | 948,002 | - | 538,349 | 2,186,351 | 160,000 |
| (700,169) | (76,134,076) | - | (1,517,296) | (78,743,723) | (56,549) |
| <u>(342,904)</u> | <u>(75,186,074)</u> | <u>1,342,009</u> | <u>(614,227)</u> | <u>(67,083,463)</u> | <u>437,224</u> |
| - | - | (126,767,407) | (19,707) | (152,621,939) | (756,875) |
| - | 73,130,000 | - | - | 73,130,000 | - |
| - | - | 132,630,076 | - | 132,630,076 | - |
| - | - | - | (464,291) | (464,291) | - |
| - | - | - | - | (6,255,000) | - |
| - | - | - | - | (9,948,995) | - |
| - | 73,130,000 | 5,862,669 | (483,998) | 36,469,851 | (756,875) |
| (3,727) | - | - | - | (874,063) | - |
| 69,561 | 139,311 | 45,561 | 64,881 | 1,639,081 | - |
| - | - | - | - | 12,640,296 | - |
| - | - | - | - | (13,698,411) | - |
| <u>65,834</u> | <u>139,311</u> | <u>45,561</u> | <u>64,881</u> | <u>(293,097)</u> | <u>-</u> |
| 2,233,719 | 31,683 | 1,862,029 | 939,282 | 44,781,713 | 1,542,359 |
| 2,137,221 | 191,523 | 4,311,928 | 6,337,597 | 282,736,711 | 14,776,705 |
| <u>\$ 4,370,940</u> | <u>\$ 223,206</u> | <u>\$ 6,173,957</u> | <u>\$ 7,276,879</u> | <u>\$ 327,518,424</u> | <u>\$ 16,319,064</u> |
| \$ 4,370,940 | \$ 223,206 | \$ 6,173,923 | \$ 6,565,328 | \$ 324,996,196 | \$ 16,319,064 |
| - | - | 34 | 711,551 | 2,522,228 | - |
| <u>\$ 4,370,940</u> | <u>\$ 223,206</u> | <u>\$ 6,173,957</u> | <u>\$ 7,276,879</u> | <u>\$ 327,518,424</u> | <u>\$ 16,319,064</u> |
| \$ 336,266 | \$2,008,446 | (\$5,392,826) | \$ (1,333,418) | \$ 38,443,993 | \$ (247,885) |
| - | - | - | 17,845 | 528,465 | - |
| - | - | - | 3,604,825 | 23,877,809 | 1,622,348 |
| 2,070,442 | - | - | (9,767) | (2,120,641) | 13,317 |
| - | - | - | 5,934 | (671,084) | 10,879 |
| 100,129 | - | - | (452,322) | 1,355,942 | (279,333) |
| - | - | - | - | - | 665,836 |
| - | - | - | 37,075 | 327,618 | (13,812) |
| - | (63,160) | - | 81,660 | 18,500 | - |
| 3,952 | 3,160 | 4,616 | 20,794 | 18,999,774 | 90,660 |
| - | - | - | - | (5,071,954) | - |
| <u>\$ 2,510,789</u> | <u>\$ 1,948,446</u> | <u>\$ (5,388,210)</u> | <u>\$ 1,972,626</u> | <u>\$ 75,688,422</u> | <u>\$ 1,862,010</u> |
| \$ - | \$ - | \$ - | \$ - | \$ (5,814,319) | \$ - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 280,568</u> | <u>\$ 280,568</u> | <u>\$ -</u> |

See accompanying notes to basic financial statements

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| CITY OF SANTA CLARA FIDUCIARY FUNDS |
|--|

TRUST FUNDS

PRIVATE PURPOSE TRUST FUNDS

These funds are used to report resources of all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

AGENCY FUNDS

Agency funds are used to account for assets held by the City in trust for community or private organizations, or as an agent for its employees or for assessment districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements. Individual non-major Agency funds may be found in the Supplementary section.

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**CITY OF SANTA CLARA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012**

| | <u>Private Purpose Trust Funds</u> | <u>Agency Funds</u> |
|---|--|-------------------------|
| ASSETS | | |
| Pooled cash and investments (Note 8) | \$ 358,484 | \$ 13,308,309 |
| Investments with fiscal agent - current (Note 8) | 2,767,860 | - |
| Receivables (net of allowance for uncollectibles): | | |
| Interest | 15,252 | - |
| Due from Housing Successor (Note 22) | 15,900,000 | - |
| Investments with fiscal agent - noncurrent (Note 8) | 12,454,616 | - |
| Other | 393,182 | - |
| Total Assets | <u>31,889,394</u> | <u>13,308,309</u> |
| LIABILITIES | | |
| Accrued liabilities | 5,400 | 5,859,246 |
| Interest payable | 492,044 | - |
| Due to bondholders | - | 2,856,874 |
| Due to City | 6,836,305 | - |
| Long-term debt - due within one year (Note 11I) | 7,073,819 | - |
| Long-term debt - due after one year (Note 11I) | 124,356,879 | - |
| Refundable deposits | - | 4,592,189 |
| Total Liabilities | <u>138,764,447</u> | <u>\$ 13,308,309</u> |
| NET ASSETS | | |
| Held in trust for private purpose | <u>(106,875,053)</u> | |
| Total Net Assets | <u>\$ (106,875,053)</u> | |

**CITY OF SANTA CLARA
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended June 30, 2012**

| | Private Purpose Trust Funds |
|--|--|
| Additions | |
| Investment income: | |
| Interest | \$ 68,243 |
| Net change in fair value of plan investments | 35,340 |
| Transfer in | - |
| Other | 38 |
| Total additions | 103,621 |
| Deductions | |
| General and administrative | 570,922 |
| Interest and Fees | 2,931,064 |
| Total deductions | 3,501,986 |
| Change in net assets before extraordinary item | (3,398,365) |
| Extraordinary item - assets transferred to/ liabilities assumed by Successor Agency | (106,601,621) |
| Change in net assets | (109,999,986) |
| Net assets held in trust for private purpose: | |
| Beginning of year | 3,124,933 |
| End of year | \$ (106,875,053) |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF THE REPORTING ENTITY

The City of Santa Clara (City), also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. The City Charter establishes the Council/Manager form of government. The City's citizens elect a City Council of seven citizens, six councilpersons and a Mayor elected at-large, who serve a term of four years each, and who, in turn, appoint a City Manager.

The City is located in the County of Santa Clara, California, approximately 45 miles southeast of San Francisco and three miles north of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.3 square miles. The City's population of 118,813 accounts for 6.6% of the total Santa Clara County estimated population of 1.8 million.

The City provides a full range of municipal services, including police and fire, library, recreation, community services, public works, parks, sanitation, planning and community development, public improvements, electric, water and sewer services.

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. The City's component units which are described below are all blended.

A. The Redevelopment Agency of the City of Santa Clara

The Redevelopment Agency of the City of Santa Clara (Agency) was established by the City Council in 1957 with the authority and responsibility for developing and upgrading blighted areas of the City. The members of the City Council are also members of the Agency's Board of Directors and, as such, are authorized to transact business and exercise power to plan, engineer, and implement projects of the Redevelopment Plan. The City performs all accounting and administrative functions of the Agency. The financial activities of the Agency through the dissolution on January 31, 2012 have been reported in the accompanying basic financial statements in the Redevelopment Agency Fund. See Note 22 for information regarding the dissolution of the Agency.

B. The Successor Agency to the Redevelopment Agency of the City of Santa Clara

The Successor Agency to the Redevelopment Agency of the City of Santa Clara (Successor Agency) was created to serve as a custodian for the assets and to wind down the affairs of the former Agency. The Successor Agency is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: two County of Santa Clara (County) representatives; the Mayor of the City of Santa Clara; the County Superintendent of Education; the Chancellor of California Community Colleges; one Santa Clara Valley Water District representative; and one former RDA employee appointed by the Mayor. The City performs all accounting and administrative functions of Successor Agency. The financial activities of Successor Agency have been reported in the accompanying basic financial statements in the Private Purpose Trust Fund. See Note 22 for information regarding the Successor Agency.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF THE REPORTING ENTITY (continued)

C. City of Santa Clara Sports and Open Space Authority

The City of Santa Clara Sports and Open Space Authority (SOSA) was created by the City Council in 1974 for the acquisition and development of open space within the City. The members of the City Council are also members of SOSA's Board of Directors and, as such, are authorized to transact business and exercise power to purchase, lease or otherwise obtain and dispose of real and personal property, to acquire, construct, maintain, repair, manage and operate real and personal property, including leasing to private operators for commercial purposes, surplus space which is not economical to use for open space planning. The City performs all accounting and administrative functions of SOSA. The operations of SOSA have been included in the accompanying basic financial statements in the Sports and Open Space Authority Fund.

D. City of Santa Clara Public Facilities Financing Corporation

The City of Santa Clara Public Facilities Financing Corporation (PFFC) was formed in 1997 for the purpose of issuing Certificates of Participation (COPs) to provide financing for the construction of the major City facilities. Members of the City Council are also members of the PFFC Board. Debt service on the COPs is secured by lease payments made by the City's General Fund to the PFFC for the use of the constructed facilities for public purposes. In accordance with lease agreements, the PFFC assigns lease payments received from the City to the trustee for payment to the certificate holders. The operations of PFFC have been included in the accompanying basic financial statements in the Non-Major Debt Service Fund. The individual COPs and the related facilities are described in Note 11B.

E. Santa Clara Housing Authority

The Santa Clara Housing Authority (SCHA) was established by the City Council in 2011 to assume the responsibility of housing projects for the Agency. SCHA also assumes the responsibility for housing loans, which are long-term and were made under various programs, for qualifying individuals and groups. The members of the City Council are also members of SCHA's Board of Directors and, as such, are authorized to transact business and exercise power to plan, engineer, and implement development projects. The City performs all accounting and administrative functions of SCHA. The financial activities of SCHA have been reported in the accompanying basic financial statements in the Santa Clara Housing Authority Fund.

F. Santa Clara Stadium Authority

The Santa Clara Stadium Authority (SCSA) was established by the City Council in 2011 to provide for development and operation of the proposed stadium while ensuring that the stadium serves the City's goals, which are to reduce physical and economic blight in the Bayshore North Project Area. The members of the City Council are also members of SCSA's Board of Directors and, as such, are authorized to manage the stadium, transact business and exercise power to plan, engineer, and construct the stadium. The City performs all accounting and administrative functions of SCSA. The financial activities of SCSA have been reported in the accompanying basic financial statements in the Santa Clara Stadium Authority Fund.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF THE REPORTING ENTITY (continued)

G. Bayshore North Project Enhancement Authority

The Bayshore North Project Enhancement Authority (BNPEA) was established by the City Council in 2011 to act on and expand opportunities for economic development within the City's Bayshore North Area. The members of the City Council are also members of BNPEA's Board of Directors and, as such, are authorized to transact business and exercise power to plan, engineer, and implement development projects. The City performs all accounting and administrative functions of BNPEA. As of June 30, 2012, there were no financial activities.

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Basic Financial Statements

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

The significant accounting policies are described below:

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Interfund Services provided and used are allocated to governmental and business-type activities, as appropriate. 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 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 non-major funds, except for fiduciary funds.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for the City's enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of corresponding totals for all governmental or enterprise funds and at least five percent of the aggregate amount to all governmental and enterprise fund for the same item. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

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

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Redevelopment Agency Fund – This fund accounts for financial activities of the Agency associated with eliminating blight in its project areas, all of which are in the City, while ensuring an adequate stock of low and moderate income housing. The Agency's operations are funded primarily by property tax increments generated by assessed valuation increases in its redevelopment project areas. Effective January 31, 2012, all Redevelopment Agencies were dissolved. See Note 22 for information regarding the dissolution of the Agency.

Santa Clara Housing Authority (SCHA) Fund – This special revenue fund was created on February 22, 2011 in accordance with Housing Authorities Law. On March 8, 2011 the City, Redevelopment Agency, and SCHA executed an assignment and assumption agreement whereby the SCHA assumed responsibility for housing projects. The funding for housing projects is primarily from the Redevelopment Agency.

Project Area CIP Fund – This capital projects fund was created on March 8, 2011 to account for all capital assets that were transferred to the City per the Property Conveyance Agreement and Cooperation Agreements between the City and the Redevelopment Agency. The agreements conveyed the properties and assigned leasehold interest in the properties to the City.

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

Electric Utility Fund - This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Water Utility Fund - This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

Sewer Utility Fund - This fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

Water Recycling Utility Fund - This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

Sports and Open Space Authority Fund – This fund was created to account for the acquisition and development of open space within the City and the development of local sports activities.

Santa Clara Stadium Authority Fund – The Stadium Authority was established to provide for development and operation of the stadium.

The City also reports the following fund types:

Internal Service Funds - These funds account for maintenance of vehicles and communication equipment, general liability and workers' compensation claims, all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds - These funds account for assets held by the City in trust for community or private organizations, or as an agent for its employees or for assessment districts without city commitment. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

C. Basis of Accounting

The government-wide financial statements and the fund category, proprietary, and fiduciary fund category 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 have no measurement focus.

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 compensated absences, 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*.

The City allocates certain indirect expenses incurred by the General Government activity to those activities that benefit from services received.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Governments have the option of following Statements and interpretations of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 for their business-type activities and enterprise funds. However the City has elected not to implement any FASB statements or interpretations issued after November 30, 1989.

The GASB issued Statement No. 64 *“Derivative Instruments: Application of Hedge Accounting Termination Provisions-An Amendment of GASB Statement No. 53”*. This statement clarifies when the effective hedging relationship continues when either a swap counterparty, or swap counterparty’s credit support providers change. Implementation of this pronouncement did not result in a material impact on the financial statements.

The City is analyzing the effects of the following pronouncements and plans to adopt them by the effective dates:

The GASB issued Statement No. 60 *“Accounting and Financial Reporting for Service Concession Arrangements”* which relates to the disclosure about the general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. This statement becomes effective for periods beginning after December 15, 2011. The City does not anticipate a material financial impact with the adoption of this standard.

The GASB issued Statement No. 61 *“The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34”* which modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units as if they were part of the primary government in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations. This statement becomes effective for periods beginning after June 15, 2012. The City does not anticipate a material financial impact with the adoption of this standard.

The GASB issued Statement No. 62 *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”*. The objective of the statement is to incorporate certain FASB and AICPA pronouncements into the GASB authoritative literature on or before November 30, 1989. This statement becomes effective for periods beginning after December 15, 2011. The City does not anticipate a material financial impact with the adoption of this standard.

The GASB issued Statement No. 63 *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”*. The objective of the statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. This statement becomes effective for periods beginning after December 15, 2011. The City does not anticipate a material financial impact with the adoption of this standard.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The GASB issued Statement No. 65 *“Items Previously Reported as Assets and Liabilities”*. The objective of the statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement becomes effective for periods beginning after December 15, 2012. The City is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 66 *“Technical Corrections-2012-An Amendment of GASB Statements No. 10 and No. 62.”* which resolves conflicts from Statement No. 54 *“Fund Balance Reporting and Governmental Fund Type Definitions”* and Statement No. 62 *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”*. This statement becomes effective for periods beginning after December 15, 2012. The City does not anticipate a material financial impact with the adoption of this standard.

The GASB issued Statement No. 67 *“Financial Reporting For Pension Plans-An Amendment of GASB Statement No. 25.”* which will revise existing guidelines for the financial reports of most pension plans. This statement becomes effective for periods beginning after June 15, 2013. The City is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 68 *“Accounting and Financial Reporting For Pension Plans-An Amendment of GASB Statement No. 27.”* which will revise and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. This statement becomes effective for periods beginning after June 15, 2014. The City is currently evaluating the impact on the financial statements.

D. Cash and Investments

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 8).

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash and investments with fiscal agent, a bond reserve investment pool, and amounts classified as deposits are not considered cash and cash equivalents.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Interfund Transactions and Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The related receivables and payables are classified as "due from other funds," and "due to other funds" in the fund financial statements. Long-term interfund receivables and payables are recorded as Advances to/from other funds in the fund financial statements.

Transactions constituting reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are generally recorded as expenditures/expenses in the reimbursing fund and as revenue in the fund that is reimbursed.

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities, and are reported only in the government-wide financial statements.

F. Inventory of Materials and Supplies

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use. The General Fund inventory amount is equally offset by a fund balance reserve, which indicates that it does not constitute available expendable resources.

G. Restricted Assets

Restricted assets are monies or other resources, the use of which is restricted by legal or contractual requirements.

H. Land Held for Redevelopment

The Santa Clara Housing Authority, through execution of an assignment and assumption agreement with the City and the Redevelopment Agency has assumed responsibility for housing projects and parcels of land purchased to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for as investments on the balance sheet at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

Individual parcels which have experienced an other than temporary market value decline are written down to estimated current market value. No appreciation is recorded if the current market value of an individual parcel exceeds cost.

I. 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 fair market value on the date

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

contributed. The City’s policy is to capitalize equipment with costs exceeding \$1,000 and buildings, improvements and infrastructure with costs exceeding \$20,000.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Public domain (infrastructure) assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and traffic signals, have been capitalized and reported in the government-wide financial statements. Depreciation has been calculated on all capital assets, including infrastructure, on a straight-line basis over the estimated useful lives of the assets.

| | Useful Lives Years | Capitalization Threshold |
|----------------|-----------------------|-----------------------------|
| Buildings | 20-50 | \$ 20,000 |
| Improvements | 20-50 | \$ 20,000 |
| Equipment | 3-25 | \$ 1,000 |
| Infrastructure | 10-50 | \$ 20,000 |

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets and the related obligations acquired under lease/purchase agreements are capitalized and accounted for in accordance with current accounting standards.

J. Joint Ventures

The City participates in several joint ventures. In accordance with GASB Statement No. 14 investments in these joint ventures are accounted for on the equity method (see Note 13). If the City's equity in net losses of joint ventures exceeds its investment, use of the equity method is suspended except to the extent that the City is obligated to provide further financial support or has guaranteed obligations of the joint ventures.

The City advances funds to certain of its joint ventures in the form of refundable advances, project advances and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

K. Compensated Absences

Amounts of vested or accumulated vacation leave and certain benefits that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. Vested or accumulated vacation leave and benefits of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Vacation time is earned based on length of service in

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

amounts ranging between 10 and 24 days per year. City employees are allowed to carry over unused vacation earned. The maximum amount of time that can be carried over varies, depending on the employee's rate of accrual, with an upper limit of 400 hours for most all employees. Employees are paid for unused vacation and certain benefits upon termination of employment.

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimates its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Amounts of sick leave payments that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts in the governmental fund financial statements.

That portion of compensated absences that is unused reimbursable leave still outstanding following an employee's resignation or retirement at year end, is an expense and current liability of the General Fund. Estimated sick leave payments of proprietary funds are recorded as an expense and liability of those funds.

In January 2011, The City of Santa Clara implemented furloughs for most bargaining units. The financial impact of the furloughs is included in the table below. The accrual for compensated absences comprised the following at June 30, 2012. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

| | Governmental Activities | Business-Type Activities | Total |
|-------------------|----------------------------|-----------------------------|----------------------|
| Beginning Balance | \$ 13,657,334 | \$ 3,674,820 | \$ 17,332,154 |
| Additions | 1,491,052 | 590,695 | 2,081,747 |
| Payments | 2,259,120 | 263,077 | 2,522,197 |
| Ending Balance | <u>\$ 12,889,266</u> | <u>\$ 4,002,438</u> | <u>\$ 16,891,704</u> |
| Current Portions | <u>\$ 1,612,292</u> | <u>\$ 463,493</u> | <u>\$ 2,075,785</u> |

L. Risk Management

The City is self-insured up to \$5 million to provide general liability protection. In addition to the City's self-insurance, the City has additional \$20 million combined coverage with Starr Indemnity & Liability Company.

The City is also self-insured up to \$500,000 per claim for Workers' Compensation Claims. These self-insurance programs are administered by outside agencies. The City also maintains excess workers' compensation insurance for workers' compensation claims over \$500,000 per claim with coverage up to \$5 million with CSAC Excess Insurance Authority.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The City maintains property damage coverage through the Public Entity Property Insurance Program (PEPIP), which has a plan limit of \$1 billion. The City maintains boiler and machinery property coverage with Lexington Insurance Co. of \$100 million per occurrence in excess of self-insured amounts varying from \$2,500 to \$500,000 per occurrence. No claims settlement amount exceeded the City's insurance coverage in the past three fiscal years.

The City also maintains a Faithful Performance, Crime Coverage Bond with a plan limit of \$10 million through CSAC Excess Insurance Authority and Lexington Insurance.

M. Long-Term Obligations

Long-term obligations are reported in the Governmental Activities portion of the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

N. Accounting for Encumbrances

The City utilizes an encumbrance system of accounting wherein encumbrances outstanding at year end, for which the goods or services have not been received, are not reported as expenditures, but are reported as a component of the fund balance category available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The City Charter requires recording encumbrances as a charge against appropriations in the accounting period in which a purchase order is issued, rather than in the accounting period when goods or services are received.

Under the modified accrual basis of accounting, in accordance with GAAP, expenditures are recorded when the goods or services are received. Adjustments to convert expenditures from the modified accrual basis to the budgetary basis are reflected in the schedule of revenues, expenditures, and changes in fund balances - budget and actual (non-GAAP legal basis) (see Note 3 and Required Supplementary Information).

O. Contributed Assets

Some capital assets may be acquired using Federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

P. Net Assets and Fund Balance Equity

The City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions in June 2011. Fund balances and net assets are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. For governmental fund reporting, the City considers restricted fund balance to have been spent first when an expenditure is incurred, followed by committed, assigned and unassigned fund balances (in order of spending). For government-wide reporting, the City considers restricted net assets to have been spent first when an expenditure is incurred, followed by unrestricted net assets.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Bond Discounts/Issuance Costs

In governmental funds, bond discounts and issuance costs and governmental activities in the entity wide financial statement are recognized in the current period. Bond discounts and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using the straight-line method of accounting. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

R. Property Taxes

The State of California Constitution Article XIII A provides that the combined maximum tax rate on any given property may not exceed 1% of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A.

Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless there is a new construction on the property or the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts and other districts.

Santa Clara County (County) assesses properties and bills and collects property taxes on behalf of the City as follows:

| | Secured | Unsecured |
|------------------|---|-------------------------|
| Valuation dates | January 1 | January 1 |
| Lien/levy dates | January 1 | January 1 |
| Due dates | 50% on November 1, 50% on February 1 | Upon receipt of billing |
| Delinquent as of | December 10 (for November), April 10 (for February) | August 31 |

The term "unsecured" refers to taxes on property not secured by liens on real property and generally includes business use personal property.

The City participates in the Teeter Plan offered by the County whereby cities receive 100% of secured property tax levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

Property taxes levied are recorded as revenue when received from the County. Property taxes expected to be collected within 60 days of the end of the fiscal year are recorded as revenue.

The City's net assessed valuation for the year ended June 30, 2012, was \$23.7 billion, an increase of 0.54% compared to the previous year. The average tax rate was 1.14% per \$100 of assessed valuation.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Contribution In-Lieu of Taxes

Contribution in lieu of taxes is a general revenue of the governmental funds. It is levied on receipts of the City-owned and operated electric utilities in accordance with the City Charter. Non-City owned and operated electric utilities pay a franchise fee, which is also a governmental activities general revenue source.

T. Special Assessment Districts with City Commitment

Recognition of revenue related to noncurrent receivables of special assessment district funds is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes the City will ultimately receive value equal to the delinquent receivables. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

U. Income Taxes

The City falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

V. Lease Agreements

Any operating leases with scheduled rent increases are accounted for in accordance with current accounting standards.

W. Arbitrage Rebate Liability

Arbitrage rebate liabilities, if any, are included in accrued liabilities.

X. Revenue Recognition

Electric, Water, Sewer and Solid Waste Fund revenues are recognized based on cycle billings periodically rendered to customers. Revenues for services provided, but not billed at the end of a fiscal year, are recognized and accrued based on estimated consumption.

Governmental Activities revenues subject to accrual include taxes, intergovernmental revenues, interest and charges for services.

Y. Non-exchange Transactions

The City gives or receives value without directly receiving or giving equal value in exchange, including 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.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Z. Financial Instruments

Financial instruments included in the City's basic financial statements, excluding cash and investments, consisted of accounts receivable, accrued liabilities and bonds payable. The carrying amounts are a reasonable estimate of fair value.

AA. Conditional Grants

The City has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the City's housing stock and/or its supply of low-and moderate-income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The City accounts for these loans as conditional grants in the City-wide financial statements, and provides a reserve against their eventual forgiveness using the straight-line method over the life of the respective loan.

AB. Use of Estimates

The preparation of basic financial statements in conformity with 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 basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

The budget of the City is a detailed operating plan that identifies estimated costs and activities in relation to estimated revenues. The budget includes: (1) the projects, services and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and (3) the estimated spending requirements of the operating plan.

The budget process is the mechanism through which policy decisions are made, implemented and controlled. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation. The City is required to adopt a budget on or before June 30 for the ensuing fiscal year that begins July 1. Activities of the General Fund and the Maintenance Special Revenue Fund are included in the annual appropriated operating budget. The procedures followed to establish the budgetary data reflected in the accompanying required supplementary information to the basic financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. This includes a Five Year Financial Plan to aid in the planning and funding of operations and capital projects over the next five years.
2. Public hearings are conducted to obtain public comments.
3. The operating and capital budgets are legally enacted through the passage of a minute order and Five Year Plan is approved.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the applicable governmental funds. The City Council may amend the

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (continued)

budget by motion during the fiscal year. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The operating budget is presented at the object category level within programs of departments. The City Manager may transfer appropriations within the same object category of a department within the same fund without approval from the City Council. All other transfers require City Council approval, including a transfer from one object category to another object category of the same department.

Budget information is presented on a non-GAAP budgetary basis. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations and transfers during the year. Budget amounts in the schedules of revenues, expenditures and changes in fund balances-budget and actual, include supplemental appropriations approved by the City Council during the year. Total expenditures of the General and the Maintenance Special Revenue Funds may not legally exceed fund appropriations.

All annual appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered. For the actual GAAP basis financial statements, encumbered appropriations are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures, based on the encumbered appropriation authority carried over to the next fiscal year.

In addition to the annual Operating Budget, each year the City Council adopts a project length Capital Improvement Project budget.

**NOTE 4 – THEME PARK, TECHMART, HYATT REGENCY, AND HILTON HOTEL
GROUND LEASES**

On March 8, 2011, the City and the Agency adopted resolutions authorizing the execution of property conveyance agreements for the conveyance of certain real property owned by the RDA. The agreements conveyed the properties subject to existing leases to the City. Properties included California's Great America Theme Park, TECHMART, Hyatt Regency, and Hilton Hotel. As a result of the assignments, lease revenue is reflected in the City for fiscal year 2011-12.

The actions taken by the Agency related to the asset transfers were validly authorized and conformed with the requirements of the Community redevelopment Law as it existed at the time of the actions. Pursuant to ABx1 26, the Redevelopment Dissolution Law, the State Controller's Office is to review any asset transfers that occurred between a redevelopment agency and any other public agency after January 1, 2011 and if the assets have not been contractually committed to a third party and to the extent allowed by state and federal law, the Controller, after completing its review is to order the return of the assets to the Successor Agency. The Successor Agency has not received a Controller's order with regards to any assets transferred. Whether such an order will be issued depends upon a variety of factors including whether the assets have been committed to a third party. The scope of the Controller's authority and the type of assets of that can be ordered returned is an unsettled area of law. At this time it is not possible to determine which, if any, of the assets might be ordered returned and whether such an order would withstand a court challenge.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

**NOTE 4 – THEME PARK, TECHMART, HYATT REGENCY, AND HILTON HOTEL
GROUND LEASES (continued)**

A. California's Great America Theme Park Ground Lease

In June 1985, the Agency acquired the Great America Theme Park (Theme Park) and entered into a management agreement with Kings Entertainment Company (Kings) to manage the Theme Park operations. The Agency also entered into a Ground Lease and Assets Option Agreement (Option Agreement) with Kings Great America, Inc. (KGA), a wholly owned subsidiary of Kings.

In June 1989, the Agency sold the Theme Park operations to Kings pursuant to the Option Agreement, as amended. The sale was effective retroactive to January 1, 1989. In addition to the Theme Park buildings, rides and equipment, Kings purchased all other operating assets and assumed all operating liabilities of the Theme Park as of January 1, 1989. Concurrent with the sale of the Theme Park, the Agency as lessor, entered into a Ground Lease with First Refusal Purchase Rights (Ground Lease) with Kings pursuant to the Option Agreement, as amended, to lease the real property used in the operations of the Theme Park.

In August 1992, the Agency assigned the Ground Lease to Paramount Parks, Inc. (Paramount) concurrent with Paramount's purchase of the operating assets of Kings. Paramount assumed the Ground Lease with no amendments or modifications. For the duration of the Ground Lease, and for 3 years after its expiration or termination, Paramount has the right to match any bona fide offer to buy or lease all or a portion of the leased property if the leased property is sold or leased for use as a theme park.

On May 22, 2006, Paramount's parent companies entered into a Purchase Agreement with Cedar Fair, L.P. (Cedar Fair), pursuant to which Cedar Fair agreed to purchase all of the outstanding capital stock of Paramount. Cedar Fair assumed the Ground Lease with no amendments or modifications.

The initial term of the Ground Lease expired on December 31, 2009. The Ground Lease has an option to extend for 3 additional terms of (10) years each. Cedar Fair exercised the first ten (10) year renewal option by letter notification to the Agency received in December 2007. The City and Cedar Fair entered into the Fourth Amendment to Ground Lease with First Refusal Purchase Rights on January 1, 2012. Pursuant to the Fourth Amendment, Cedar Fair has additional options to extend the lease term until 2074. In the event of a termination or expiration of the Ground Lease, the City has an option to repurchase the assets of the Theme Park.

The base rent under the Ground Lease is \$5.3 million annually, payable in quarterly installments of \$1.325 million, plus additional rent equal to the sum of 5% of the annual gross revenues of the Theme Park in excess of \$56 million up to \$100 million plus 7.5% of the annual gross revenues in excess of \$100 million. If Cedar Fair exercises the first option to renew pursuant to the Fourth Amendment, annual base rent will increase to \$5,697,500. If Cedar Fair exercises the second option to renew pursuant to the Fourth Amendment in 2054 for an additional term of 10 years, annual base rent will increase to \$5,982,375. If Cedar Fair exercises the third option to renew pursuant to the Fourth Amendment in 2065 for an additional ten years, basic rent will increase to \$6,281,494. For fiscal year ended June 30, 2012, Cedar Fair had no additional rent to pay.

Due to the 2011 property conveyance agreements, all future lease revenues received from the lease of the Theme Park are paid to the City's General Fund.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

**NOTE 4 – THEME PARK, TECHMART, HYATT REGENCY, AND HILTON HOTEL
GROUND LEASES (continued)**

The following schedule summarizes the approximate future minimum lease revenues to be received by the City from the Theme Park ground lease prior to 2019 when the current option expires:

| Fiscal Year | Amount |
|-------------|---------------|
| 2013 | \$ 5,300,000 |
| 2014 | 5,300,000 |
| 2015 | 5,300,000 |
| 2016 | 5,300,000 |
| 2017 | 5,300,000 |
| Thereafter | 13,250,000 |
| Total | \$ 39,750,000 |

Parking Lot Revenue

Pursuant to the Fourth Amendment, the City allows Cedar Fair to use certain City property adjacent to the Theme Park property for parking. Under the terms of the Ground Lease as amended by the Fourth Amendment, Cedar Fair pays to the City \$134,694 each year for use of such property for parking. Under the Cooperation Agreement and related lease agreement, the Agency is required to remit parking lease payments to the City's General Fund and Electric Utility (Silicon Valley Power). Lease payments remitted to the City for the year ended June 30, 2012, totaled \$134,694.

Future lease payments for parking lots (terms are February 1 to January 31) to be made to the City by Cedar Fair are as follows:

| Fiscal Year | Amount |
|-------------|--------------|
| 2013 | \$ 134,694 |
| 2014 | 134,694 |
| 2015 | 134,694 |
| 2016 | 134,694 |
| 2017 | 134,694 |
| Thereafter | 2,009,102 |
| Total | \$ 2,682,572 |

B. TECHMART Office Building Ground Lease

First Amended Cooperation Agreement

The First Amended Cooperation Agreement, between the City and the Agency conveyed approximately 30 acres of land in the Bayshore North Project Area to the Agency. The Agency agreed to purchase a portion of this property (Conference Center Area) for \$4.7 million payable at 10% interest in 35 annual installments and to construct a convention center on this portion of the

**CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 4 – THEME PARK, TECHMART, HYATT REGENCY, AND HILTON HOTEL
GROUND LEASES (continued)**

land. In addition, the Agency agreed to make certain public improvements and provide for the development of the remaining portion of the property (Development Area) in accordance with the Bayshore North Redevelopment Plan by entering into long-term leases with private developers for the development of a trade center (see TECHMART Ground Lease), hotel (see Hyatt Regency Hotel Ground Lease Note 4C), and common parking. In exchange for the conveyance of the land by the City, the Agency agreed to pay to the City all funds actually received from the aforementioned leases. Lease payments remitted to the City for the fiscal year ended June 30, 2012 totaled \$2.7 million.

TECHMART Ground Lease

In May 1998, the Agency entered into a long-term ground lease of the TECHMART parcel with CarrAmerica. The lease has a 55 year term with options for two additional ten-year terms. The Agency received \$1 million annual rent for each of the first ten years of the lease. Rent increases are scheduled as follows: 10% in the eleventh year and every five years thereafter during the initial term and 15% in the first and sixth year of each option term. Under the terms of the lease, CarrAmerica assumed responsibility for all taxes and assessments levied against the TECHMART parcel and the Lessor's interest in the ground lease is unsubordinated to any other financing. For the fiscal year ended June 30, 2012, Lessee paid rent of \$1.1 million.

On July 13, 2006, CarrAmerica merged with Nantucket Acquisition, Inc., a wholly owned subsidiary of The Blackstone Group; the terms and conditions of the lease agreement remain in effect.

Due to the 2011 property conveyance agreements, all future lease revenues received from the lease of the TECHMART parcel are paid to the City's General Fund.

The following schedule summarizes the future lease payments to be received by the City from the TECHMART lease agreement:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|----------------------|
| 2013 | \$ 1,109,167 |
| 2014 | 1,210,000 |
| 2015 | 1,210,000 |
| 2016 | 1,210,000 |
| 2017 | 1,210,000 |
| Thereafter | 64,246,287 |
| Total | <u>\$ 70,195,454</u> |

C. Hyatt Regency Hotel Ground Lease and Ballroom Lease

In April, 1985, the Agency entered into a long-term ground lease with SCCC Associates (Lessee) for the development of a certain portion of that piece of land – the Bayshore North Redevelopment Project Area, and eventual operation of a high quality hotel and related facilities, amenities and improvements including one of the Ballrooms in the Convention Center. The lease is for an initial term of 50 years. The Lessee has options to renew the lease for four additional periods of ten years each and one additional period of nine years. In 2005, SHC New Santa Clara, L.L.C., the

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

**NOTE 4 – THEME PARK, TECHMART, HYATT REGENCY, AND HILTON HOTEL
GROUND LEASES (continued)**

successor-in-interest to SCCC Associates at that time, sold the interest to Hyatt Equities, L.L.C. Under the terms of the lease, the Agency is entitled to receive a specified amount of minimum rent subject to adjustment at times specified in the lease. Lessee may also have an obligation for additional rent calculated as a predetermined percentage of the hotel gross revenues which exceed the amount specified in the lease. For fiscal year ended June 30, 2012, Lessee paid \$1.6 million in minimum and percentage rents for the Ground lease.

The minimum rent of the Ballroom lease is adjusted every three years according to the agreement. The minimum rent for fiscal year 2011-12 was adjusted to \$301 thousand from \$339 thousand effective July 1, 2011. For fiscal year ended June 30, 2012, Lessee paid \$304 thousand in minimum and percentage rents for the Ballroom lease.

Lessee has agreed to pay any impositions, including, but not limited to, taxes and assessments levied against the parcel.

Due to the 2011 property conveyance agreements, all future lease revenues received from the lease of the Hyatt Regency parcel are paid to the City's General Fund.

The following schedule summarizes the approximate minimum future revenues to be received by the City from this lease:

| Fiscal Year | Ground Lease Amount | Ballroom Lease Amount | Total |
|-------------|------------------------|--------------------------|----------------------|
| 2013 | \$ 400,000 | \$ 300,780 | \$ 700,780 |
| 2014 | 400,000 | 300,780 | 700,780 |
| 2015 | 400,000 | 300,780 | 700,780 |
| 2016 | 400,000 | 300,780 | 700,780 |
| 2017 | 400,000 | 300,780 | 700,780 |
| Thereafter | 7,133,333 | 5,363,910 | 12,497,243 |
| Total | <u>\$ 9,133,333</u> | <u>\$ 6,867,810</u> | <u>\$ 16,001,143</u> |

D. Hilton Hotel Ground Lease

In July 1999, the Agency entered into a long-term ground lease with Santa Clara Hotel, LLC (Lessee) for the development of a certain portion of that piece of land – the North Parcel, and eventual operation of a high quality hotel and related facilities, amenities and improvements (Hilton Hotel). The lease is for an initial term of 55 years. The Lessee has options to renew the lease for three additional periods of ten years. Under the terms of the lease, the Agency is entitled to receive a specified amount of minimum rent subject to adjustment at times specified in the lease. Beginning with the third lease year, the Agency is also entitled to receive additional rent at an amount equal to a specified percentage of the gross revenues if the hotel exceeds the total amount of minimum rent for the applicable lease year. For fiscal year ended June 30, 2012, Lessee paid to

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

**NOTE 4 – THEME PARK, TECHMART, HYATT REGENCY, AND HILTON HOTEL
GROUND LEASES (continued)**

the Agency \$627 thousand in minimum and percentage rents. Lessee has agreed to pay any impositions, including but not limited to taxes and assessments levied against the parcel.

Previously, the Agency paid all lease revenues received from this lease to the City's Electric Utility Fund. This arrangement terminated on July 11, 2006, when the City Council approved the sale of the City's Electric Utility interest in the ground lease revenues to the Agency.

Due to the 2011 property conveyance agreements, future lease revenues are paid to the City.

The following schedule summarizes the approximate minimum future revenues to be received by the City from this lease:

| Fiscal Year | Amount |
|-------------|---------------|
| 2013 | \$ 400,000 |
| 2014 | 400,000 |
| 2015 | 400,000 |
| 2016 | 400,000 |
| 2017 | 400,000 |
| Thereafter | 14,833,333 |
| Total | \$ 16,833,333 |

NOTE 5 – THE IRVINE COMPANY GROUND LEASE

On March 8, 2011, the City and the Agency adopted resolutions authorizing the execution of property conveyance agreements for the conveyance of certain real property owned by the Agency. The agreements conveyed the properties and assigned leasehold interest in the properties to the City. One of the properties conveyed included a portion of this Santa Clara Gateway site (Parcel 2). For fiscal year ended June 30, 2012, lease revenue is reflected in the City. The value of the properties conveyed to the City reduced the outstanding balance on the Santa Clara Gateway Cooperation Agreement to \$16.2 million.

The actions taken by the Agency related to the asset transfers were validly authorized and conformed with the requirements of the Community redevelopment Law as it existed at the time of the actions. Pursuant to ABx1 26, the Redevelopment Dissolution Law, the State Controller's Office is to review any asset transfers that occurred between a redevelopment agency and any other public agency after January 1, 2011 and if the assets have not been contractually committed to a third party and to the extent allowed by state and federal law, the Controller, after completing its review is to order the return of the assets to the Successor Agency. The Successor Agency has not received a Controller's order with regards to any assets transferred. Whether such an order will be issued depends upon a variety of factors including whether the assets have been committed to a third party. The scope of the Controller's authority and the type of assets of that can be ordered returned is an unsettled area of law. At this time it is not possible to determine which, if any, of the assets might be ordered returned and whether such an order would withstand a court challenge.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – THE IRVINE COMPANY GROUND LEASE (continued)

A. Irvine Company Disposition and Development Agreement With Ground Lease (DDA) for Office Park Development

In April 2000, the Agency entered into a Disposition and Development Agreement (DDA) with Ground Lease with The Irvine Company (Developer) for development of the site as an office/R&D complex. The DDA contemplated the Agency obtaining title to the entire property from the City prior to entering into ground leases with the Developer. Only Parcel 2 was conveyed to the Agency. The site is subdivided into three parcels to accommodate the phased development of the project. The Agency and Developer identified certain improvements (conditions precedent) to be completed to prepare the site for development. The Agency and Developer also identified responsibilities for certain costs of the conditions precedent. As of June 30, 2012, the Agency has appropriated \$16.1 million and expended \$14.8 million (for its share of these costs) for the following projects: Golf Course Fairways Relocation and Perimeter Drainage, Wetland Mitigation – Yerba Buena Parcels, Yerba Buena Owl Mitigation, Landfill Cut-off Wall, Yerba Buena Way Site Remediation, and Yerba Buena Site Development Fees. All conditions precedent have been completed. There is a minor amount of ongoing review and maintenance required for certain of the conditions precedent and that work continues.

As provided under the DDA, the Agency leased Parcel 2 to the Developer, effective February 16, 2001. Pursuant to the Property Conveyance Agreement the City assumed the lease when Parcel 2 was conveyed to the City. Rent on Parcel 2 began on June 19, 2003. The term of the Lease is 80 years from the effective date and therefore shall expire on February 16, 2081. The City will receive a specified amount of minimum rent subject to inflationary adjustments at times specified in the Lease. For the fiscal year ended June 30, 2012, Lessee paid rent of \$4.0 million.

In March 2006, the DDA and the Ground Lease were amended to update the status of conditions precedent; amend the schedule of performance; clarify terms and conditions relating to Parcel 1 and Parcel 3; amend the Parcel 2 lease to reflect a new schedule of performance.

The following schedule summarizes the minimum future lease revenues to be received by the City from the lease of Parcel 2:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-----------------------|
| 2013 | \$ 4,031,481 |
| 2014 | 4,031,481 |
| 2015 | 4,031,481 |
| 2016 | 4,031,481 |
| 2017 | 4,031,481 |
| Thereafter | 236,345,567 |
| | <u>\$ 256,502,972</u> |

On October 16, 2012 the City Council authorized the City Manager to execute leases for Parcels 1 and 3 with the Irvine Company. It is anticipated that the City will execute and convey the two ground leases by November 2012. Payment of rents will commence one month after the ground leases are executed. Monthly rent for Parcel 1 will be \$18,825.18 and monthly rent for Parcel 3 will be \$9,076.45.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – THE IRVINE COMPANY GROUND LEASE (continued)

B. Santa Clara Gateway Cooperation Agreement

In April 2000, the Agency entered into a Cooperation Agreement (Agreement) with the City, whereby the Agency agreed to acquire from the City a 42-acre site (site) bounded by Great America Parkway, Highway 237, Lafayette Street and the City's Golf Course. The Agency agreed to pay consideration to the City for the site in an amount equal to all rent that the Agency will receive from the eventual lease of the site. The Agreement provided that the City would convey land to the Agency prior to the time the properties were needed for conveyance to the Developer. The Cooperation Agreement was amended in June 2005 to expand the sources of funds from which the Agency makes payments on the site to the City. The Agency agreed to make payments from any source of funds when and as available and not reasonably needed for other redevelopment purposes. The Agency identified the lease payments on the ground leases of the Theme Park and the Santa Clara Hilton Hotel as additional sources for payment of the site. The amended Agreement also provided for payment of interest by the Agency at the highest rate allowable by law on the \$101 million agreed upon valuation of the site. Upon execution of the 2011 Property Conveyance Agreement whereby the Agency conveyed certain properties to the City in consideration for such conveyances and based on a market analysis of the value of the properties, the amount owed on the Santa Clara Gateway Cooperation Agreement was reduced to \$16.2 million.

NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS

A. Santa Clara Convention and Visitors Bureau and Convention Center

In March 1984, the City entered into two separate management agreements with the Santa Clara Chamber of Commerce and Convention/Visitors Bureau, Inc. (Chamber). The first agreement with the Chamber is for the management of the operations of the Santa Clara Convention/Visitors Bureau. In fiscal year ended June 30, 2012, the City paid the Chamber \$1.52 million under this contract. The second management agreement between the City and the Chamber is for the management of the operations of the Santa Clara Conference and Convention Center (Convention Center). Under the terms of this agreement, the Chamber will receive for its services an annual management fee identified in the Convention Center budget and approved by the City Council. In fiscal year ended June 30, 2012, the Convention Center paid the Chamber \$45 thousand. Each agreement is extendible for an additional year at the end of each year. Either party may terminate the agreements by providing 180 days written notice.

B. American Golf Corporation

In May 1987, SOSA entered into a management agreement with American Golf Corporation (AGC) to manage the operations of the Santa Clara Golf and Tennis Club (SCG&TC). Subsequent five-year extensions of the agreement with minor changes in language were made on June 4, 2002 through June 30, 2007; on March 20, 2007 through June 30, 2012; and on May 8, 2012 effective through June 30, 2017. Under the current agreement, AGC develops an annual business plan reviewed and approved by SOSA, and is entitled to receive an annual management fee equal to a fixed amount (\$155 thousand per year) plus 3% of the gross revenues derived from the operation of SCG&TC. The fixed portion of the management fee is adjusted annually for changes in the consumer price index. In addition, AGC receives an annual administration fee of an amount not to

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS (continued)

exceed \$55 thousand. In fiscal year 2012, the City paid a total of \$301 thousand under this contract.

C. Santa Clara Stadium Authority

On June 8, 2010, the voters of the City approved Measure J, which endorses the construction, operation and maintenance of a Stadium suitable for the exhibition of professional football games and other events.

On February 22, 2011, the Redevelopment Agency of the City of Santa Clara entered into a Joint Powers Agreement (JPA) with the City of Santa Clara to create the Santa Clara Stadium Authority (SCSA). The SCSA was formed exclusively for the purpose of financing, constructing, owning and operating the approximately 1.8 million square foot and approximately 68,500 seat stadium and all related facilities and other improvements.

The Disposition and Development Agreement (DDA) dated as of December 13, 2011 was entered into by and between the SCSA and Forty Niners SC Stadium, LLC (StadCo). Pursuant to the terms of the DDA, the SCSA and Stadco entered into the Stadium Lease whereby StadCo leases the Stadium from SCSA.

The Design-Build Agreement (DBA) dated as of February 8, 2012 was entered into by and among SCSA, StadCo as Construction Agent and Turner/Devcon, a Joint Venture as the Design-Builder. The DBA establishes Guaranteed Maximum Price (GMP) for construction of the Stadium and allows for the design and construction work required to construct the Stadium Project.

The StadCo Obligations Agreement dated as of March 28, 2012 was entered into by and among StadCo, SCSA, and Stadium Funding Trust (FinanceCo) pursuant to the DDA dated as of December 13, 2011. As of March 28, 2012, FinanceCo entered into a credit agreement (the "FinanceCo Credit Agreement") with several lenders to provide a senior secured multi-draw construction term loan facility in the maximum drawable amount of \$850 million (the "FinanceCo Construction Loan"). Additionally, FinanceCo, the SCSA and Goldman Sachs Bank entered into a Credit Agreement dated as of March 28, 2012 providing a loan to the SCSA, out of FinanceCo Construction Loan proceeds, in the maximum drawable amount of \$450 million to finance costs of the development and construction of the Stadium Project. Furthermore, FinanceCo provided a loan to StadCo, out of the FinanceCo Construction Loan proceeds, in the maximum drawable amount of \$400 million (the "StadCo Loan") to finance certain StadCo costs and expenses of the Stadium Improvements and for making a subordinated loan to the SCSA. Lastly, the Stadco Obligations Agreement dated as of March 28, 2012 among StadCo, the Stadium Funding Trust, and the SCSA provides subordinated borrowing from StadCo to the SCSA in an amount not to exceed \$500 million.

The Stadium Management Agreement dated as of March 28, 2012 was entered into by and among the SCSA, Forty Niners Stadium Management Company LLC (Stadium Manager), and StadCo. The SCSA and StadCo selected the Stadium Manager to provide management services for the Stadium on each entity's behalf on a continual, year-round basis, including overseeing the day-to-day operations and maintenance of the Stadium.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS (continued)

D. Santa Clara Housing Authority

On February 8, 2011, the Redevelopment Agency and City entered into a Cooperation Agreement for implementation and costs associated with housing Projects funded by the Agency's low and moderate income housing fund. On February 22, 2011, the City established the Santa Clara Housing Authority (SCHA) in accordance with Housing Authorities Law. On March 8, 2011 the City, Agency, and SCHA executed an assignment and assumption agreement whereby the SCHA assumed responsibility for housing projects, including those identified in the Cooperation Agreement, with funding coming from the Agency.

NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS

On March 8, 2011, the City, Agency, and SOSA adopted resolutions authorizing the execution of an Assignment and Assumption Agreement (Assignment) assigning the Agency's interest in certain leases, subleases and cooperation agreements to the City of Santa Clara. The Agency assigned to the City and the City assumed all rights, title, and interests under Master Lease and Subleases from the Agency. For fiscal year ended June 30, 2012, lease revenues are in SOSA.

A. Disposition and Development Agreement (Original DDA)

A Disposition and Development Agreement dated November 1, 1988, and First Implementation Agreement dated January 17, 1990, (collectively, the Original DDA) were entered into by the City's Sports and Open Space Authority (SOSA) and a private developer for the lease of land owned by SOSA and phased development of the Fairway Glen Development Project consisting of seven parcels (74.29 acres) of multifamily residential rental housing and two parcels (9.3 acres) for a commercial center.

In April 1994, subsequent to the lease of the first two residential parcels and the completion of construction of Bella Vista Apartments (Phase R-1) on those parcels, the developer exercised the option to terminate the Original DDA as to all remaining phases of development. SOSA and the developer entered into discussions relative to limited development of the remaining parcels. The discussions resulted in the Agreement to Amend Ground Lease (See Note 7B) and a new Disposition and Development Agreement (New DDA) for the development of Parcels R-3 and R-4 (See Note 7C).

B. Agreement to Amend Ground Lease

The Agreement to Amend Ground Lease (Agreement to Amend) was entered into by SOSA and the developer in February 1996. Concurrent with the Agreement to Amend, SOSA and the Agency entered into a Cooperation Agreement. Under the Cooperation Agreement, a Master Lease was executed for Parcel R-1. The execution of a Master Lease resulted in the conversion of the Ground Lease into a Sublease and the assignment of SOSA's interest as lessor under the Ground Lease to the Agency at the time of the recordation of the Amended Sublease.

As provided in the Agreement to Amend, the Agency as Sublessor and the developer as Sublessee have entered into an Amended Sublease (Sublease) for Parcel R-1. The Sublease

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 –FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS (continued)

transforms the existing unsubordinated Ground Lease from SOSA to developer into a rent-subordinated sublease from the Agency to the developer. The terms of the Sublease are intended to permit the developer to obtain financing secured by its subleasehold interest in the Sublease and the Agency's interest in the Master Lease.

Under the Sublease, the Agency is entitled to a minimum rent of \$1,200 per net acre monthly, or \$27,054 per month. The minimum rent is subject to adjustment at amounts calculated at times specified in the Amended Sublease. The minimum rent was adjusted to \$41,805 per month starting July 2003, following the refinancing of the sublessee's interest in June 2003. The Agency is also entitled to additional rent calculated at a specified percentage of net operating income, operating cash flow, and as applicable, refinancing or sales proceeds. In fiscal year 2011-12, the City received \$418 thousand, \$338 thousand and \$418 thousand in minimum, percentage and participation rents, respectively. In accordance with the Master Lease, all amounts received by the City under the agreement are paid to SOSA. The Sublease provides for a maximum term of 75 years from August 15, 1996, including two ten-year option terms.

C. New Disposition and Development Agreement (New DDA)

In January 1996, the Agency and the developer entered into a New Disposition and Development Agreement (New DDA). The New DDA provided for the execution and recordation of Master Leases for Parcels R-3 and R-4 between SOSA and the Agency and for the subleasing of Parcels R-3 and R-4 from the Agency by the developer. Under the New DDA, the Agency has ground subleased Parcels R-3 and R-4 and the Developer has constructed thereon 252 and 276 housing units, respectively.

Under the terms of subleases, the Agency is entitled to a minimum rent payment of \$1,200 per net acre per month or \$11,945 per month for Nantucket Apartments (Parcel R-3) and \$12,970 per month for The Carlyle (Parcel R-4). In addition, the Agency receives percentage and participation rents calculated in accordance with formulas specified in the subleases. Commencing with the rent payment of September 2005, the minimum rent for Parcel R-3 was adjusted to \$17,462 per month as a result of the refinancing of the Sublessee's interest in Nantucket Apartments in August 2005. Likewise, effective with the rent payment of May 2006, the minimum rent for Parcel R-4 was adjusted to \$21,355 per month as a result of the refinancing of the sublessee's interest in The Carlyle in April 2006. In fiscal year 2011-12, the City received from Parcel R-3 sublease \$210 thousand, \$103 thousand and \$19 thousand in minimum, percentage and participation rents, respectively, and from Parcel R-4 sublease, \$214 thousand, \$187 thousand and \$93 thousand in minimum, percentage and participation rents, respectively. All amounts received by the City under the foregoing agreements are paid to SOSA.

D. SOSA Future Lease Revenues

On February 13, 2012, the Sublessee exercised its option to purchase the underlying fee interest in the Bella Vista and the Carlyle apartment projects as provided for in the Ground Lease. On April 26, 2012, the Bella Vista project was purchased by Bella Vista at Santa Clara LLC for \$48,950,000 and the Carlyle project was purchased by Carlyle at Santa Clara LLC for \$24,180,000.

The following schedule summarizes the future minimum lease payments to be received by SOSA from the Fairway Glen development project (Note 7B & 7C) and from a separate lease agreement

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 –FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS (continued)

with a restaurant operator for a restaurant facility (David's) at the Santa Clara Golf & Tennis Club (SCG&TC):

| Fiscal Year | Fairway Glen Development Project | | | David's Restaurant | Total |
|-------------|----------------------------------|------------------|----------------|-----------------------|--------------|
| | R-1 Bella Vista | R-3 Nantucket | R-4 Carlyle | | |
| 2013 | \$ - | \$ 209,544 | \$ - | \$ 18,000 | \$ 227,544 |
| 2014 | - | 209,544 | - | - | 209,544 |
| 2015 | - | 209,544 | - | - | 209,544 |
| 2016 | - | 209,544 | - | - | 209,544 |
| 2017 | - | 209,544 | - | - | 209,544 |
| Thereafter | - | 7,229,268 | - | - | 7,229,268 |
| Total | \$ - | \$ 8,276,988 | \$ - | \$ 18,000 | \$ 8,294,988 |

NOTE 8 – CASH AND INVESTMENTS

A. Pooled Cash and Investment

The City pools cash from all sources and all funds except restricted cash and investments with fiscal agent. Allocable portions of the pooled portfolio for each fund type are reported under the captions "Pooled cash and investments" and "Cash restricted for construction." Interest income earned on pooled cash and investments is allocated to various funds based on average cash balances of each fund unless there are specific legal or contractual requirements to do otherwise.

Total cash and investments of the City was \$687.5 million as of June 30, 2012. This amount includes the City's cash and cash equivalents of \$643.8 million, and cash and investments with fiscal agents of \$43.7 million.

Of the City's total cash and investments, the following shows the allocation as presented on the accompanying statement of net assets:

| | |
|--|-----------------------|
| Pooled cash and investments | \$ 574,893,852 |
| Cash restricted for construction | 56,207,016 |
| Deposits | 12,688,517 |
| Total cash and investments | <u>643,789,385</u> |
| Investments with fiscal agent - current | 11,290,515 |
| Investments with fiscal agent - noncurrent | 32,404,642 |
| Total cash with fiscal agent | <u>43,695,157</u> |
| Total Cash | <u>\$ 687,484,542</u> |

The City's cash and investments balances in Governmental, Proprietary, Internal Service Funds, Private Purpose Trust, and Agency Funds were as follows:

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – CASH AND INVESTMENTS (continued)

| | Governmental Funds | Proprietary Funds | Internal Service Funds | Private Purpose Trust | Agency Funds | Total |
|--|-----------------------|-----------------------|---------------------------|--------------------------|----------------------|-----------------------|
| Pooled cash and investments | \$ 219,911,799 | \$ 324,996,196 | \$ 16,319,064 | \$ 358,484 | \$ 13,308,309 | \$ 574,893,852 |
| Investments with fiscal agent - current | - | 8,522,655 | - | 2,767,860 | - | 11,290,515 |
| Cash designated for construction | 53,684,788 | 2,522,228 | - | - | - | 56,207,016 |
| Investments with fiscal agent - noncurrent | 5,011,576 | 14,938,450 | - | 12,454,616 | - | 32,404,642 |
| Deposits | - | 12,688,517 | - | - | - | 12,688,517 |
| Total cash and investments | \$ 278,608,163 | \$ 363,668,046 | \$ 16,319,064 | \$ 15,580,960 | \$ 13,308,309 | \$ 687,484,542 |

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

The City's investment strategy is to invest cash not required for current obligations in U. S. government securities, federal government agency securities, highly rated money market instruments and other investments in accordance with the City's investment policy for a maximum term of five years for the General Fund portfolio. The City Council has authorized the purchase of securities with maturities greater than five years, specifically for the Electric Cost Reduction Account. This strategy allows the City to minimize its exposure to credit, market, and liquidity risk while maintaining a reasonable return on its portfolio.

The City's investment policy, in compliance with the City of Santa Clara Charter, Article IX, Section 904 (d) and (h), and the California Government Code authorizes the City to invest in securities that are consistent with the City's cash management strategy and long-term goals and objectives. The City is authorized to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – CASH AND INVESTMENTS (continued)

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|--|------------------|------------------------------|---------------------------------|----------------------------------|
| U.S. Treasury Obligations | 5 years | Top three ratings categories | None | None |
| U.S. Agency Securities (A) | 5 years | Top three ratings categories | None | None |
| Negotiable Certificates of Deposit | 5 years | N/A | 30% | None |
| Bankers Acceptances | 180 days | N/A | 40% | 30% |
| Commercial Paper | 270 days | A1 / P1 | 25% | 10% |
| California Local Agency Investment Fund | N/A | N/A | None | \$50M Per A/C |
| Repurchase Agreements | 1 year | N/A | None | None |
| Reverse Repurchase Agreements (requires City Council approval) | 92 days | N/A | None | None |
| Tax Exempt Municipal Bonds (for yield restriction purposes) | 5 years | N/A | None | None |
| Medium Term Corporate Notes | 5 years | Top three ratings categories | 15% | None |
| Mutual Funds | N/A | Top rating category | 20% | 10% |
| Investment Pools | N/A | Top rating category | 20% | 10% |

(A) Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

C. Investments with Fiscal Agents

The City invests bond proceeds restricted for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceeds investments are reported monthly to the City Council.

The City also maintains 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

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – CASH AND INVESTMENTS (continued)

California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance. For disclosure purposes, debt proceeds that comply with this provision are listed as follows:

| Description | Invested Amount | Nature of Funds | Invested with | Maturity | Credit Rating |
|--|--------------------|-----------------|-----------------------|----------|------------------|
| Agency Tax Allocation Bonds Series 1999 | \$ 24,984,587 | Bond Proceeds | Fidelity Money Market | 1 day | Aaam |

Note: Credit rating is based on Moody's.

RDA and Electric Reserve Fund bond proceeds restricted for construction projects are invested and held by the trustee as fiscal agent investments. All funds have been invested as permitted under the Code. These investments are usually scheduled to mature when cash is needed to fulfill the requirements of the underlying bond and trust agreements. All investment transactions received prior approval from the City's Director of Finance before they are executed.

D. Interest Rate and Credit Risks

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To reduce interest rate risk, the City diversifies the portfolio into a wide range of investments with different maturities, and maintains a reasonable average maturity of less than three years. This approach significantly mitigates adverse market volatility and maximizes returns.

The average maturity of the City's pooled investment portfolio at June 30, 2012 was approximately 2.15 years and the City has the ability to and generally intends to hold all 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 call date, whichever is earlier.

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 on the next page is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2012 for each investment type:

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – CASH AND INVESTMENTS (continued)

| Type of Investment | Credit Rating | Maturity | | | | | Fair Value |
|--|---------------|-----------------------|----------------------|-----------------------|-----------------------|-------------------|-----------------------|
| | | Under 180 Days | 181 - 365 Days | 1 - 3 Years | 3 - 5 Years | Over 5 Years | |
| Pooled cash and investments: | | | | | | | |
| Cash | N/A | \$ 60,312,697 | \$ - | \$ - | \$ - | \$ - | \$ 60,312,697 |
| Federal Farm Credit Banks | Aaa | 9,081,582 | 15,326,079 | 38,715,555 | 103,315,119 | - | 166,438,335 |
| Federal Home Loan Banks | Aaa | 24,240,015 | 29,475,581 | 18,678,975 | 25,016,085 | - | 97,410,656 |
| Federal National Mortgage Association | Aaa | 3,012,117 | 3,084,765 | 38,171,202 | 55,059,635 | - | 99,327,719 |
| Federal Home Loan Mortgage Corporation | Aaa | 3,054,864 | 3,105,639 | 10,015,820 | 27,964,101 | - | 44,140,424 |
| Corporate notes | Aa3 | 3,041,997 | - | - | - | - | 3,041,997 |
| Corporate notes | A1/A3 | 5,034,795 | 18,686,982 | - | - | - | 23,721,777 |
| Mutual fund - Fidelity | Aaam | 44,221,269 | - | - | - | - | 44,221,269 |
| Mutual fund - Dreyfus | Aaam | 2,173,453 | - | - | - | - | 2,173,453 |
| State Investment Pool (LAIF) | Not Rated | 49,343,344 | - | - | - | - | 49,343,344 |
| Total pooled cash and investments in the City Treasury | | <u>203,516,133</u> | <u>69,679,046</u> | <u>105,581,552</u> | <u>211,354,940</u> | <u>-</u> | <u>590,131,671</u> |
| Debt & Other investments: | | | | | | | |
| Federal Farm Credit Banks | Aaa | - | - | - | - | 268,422 | 268,422 |
| Federal Home Loan Banks | Aaa | - | 4,293,229 | - | - | 43,883 | 4,337,112 |
| Corporate notes (Bentzien Trust) | Aa | - | - | 68,268 | 56,962 | - | 125,230 |
| Corporate notes (Bentzien Trust) | A | 176,100 | - | 239,631 | 26,142 | - | 441,873 |
| Corporate notes (Bentzien Trust) | B | 50,823 | - | 73,950 | 131,411 | 69,939 | 326,123 |
| Corporate stock (Bentzien Trust) | A&B | 1,043,422 | - | - | - | - | 1,043,422 |
| Corporate stock (Bentzien Trust) | Not Rated | 75,398 | - | - | - | - | 75,398 |
| Mutual fund - Dreyfus (Bond Proceeds) | Aaam | 3,509,565 | - | - | - | - | 3,509,565 |
| Mutual fund - Fidelity (Bond Proceeds) | Aaam | 24,984,586 | - | - | - | - | 24,984,586 |
| Mutual fund - Bank of New York (Debt Fund) | Aaam | 61,621,234 | - | - | - | - | 61,621,234 |
| Mutual fund - Federated Prime (Bentzien Trust) | Aaam | 619,174 | - | - | - | - | 619,174 |
| State Investment Pool (LAIF) | Not Rated | 732 | - | - | - | - | 732 |
| Total non-city pooled investments | | <u>92,081,034</u> | <u>4,293,229</u> | <u>381,849</u> | <u>214,515</u> | <u>382,244</u> | <u>97,352,871</u> |
| Total cash and investments | | <u>\$ 295,597,167</u> | <u>\$ 73,972,275</u> | <u>\$ 105,963,401</u> | <u>\$ 211,569,455</u> | <u>\$ 382,244</u> | <u>\$ 687,484,542</u> |

Note: Maturity is based on call dates for callable notes.

Corporate stocks were purchased by external manager for the Bentzien Trust with the approval of the City Council.

Credit rating is based on Moody's.

The City accounts for investments in accordance with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, which requires governmental entities to report certain investments at fair value based on quoted market information obtained from recognized sources. The City has reported its investments at fair value with the exception of its share of external investment pools and mutual funds, the carrying value of which approximates fair value. In determining the change in fair value of its investments, the City used an aggregate method of calculation.

E. Concentration of Credit Risk

Investments in the securities of any individual issuers that represent 5% or more of total Citywide investments are shown in the table below:

| Issuer | Bond-rating | Fair Value | Expiration | % of Holding |
|--|-------------|----------------|------------|--------------|
| Federal Farm Credit Banks | Aaa | \$ 166,706,757 | N/A | 24.2% |
| Federal Home Loan Banks | Aaa | \$ 101,747,768 | N/A | 14.8% |
| Federal Home Loan Mortgage Corporation | Aaa | \$ 44,140,424 | N/A | 6.4% |
| Federal National Mortgage Association | Aaa | \$ 99,327,719 | N/A | 14.4% |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

G. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments that are highly sensitive to interest rate fluctuations to a greater degree than already in the Interest Rate Risk Section above.

H. Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF's investment portfolio mainly consist of Treasuries, loans, Federal Agency securities, and collateralized mortgage obligations. The carrying value of LAIF approximates fair value.

**CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES

A. Interfund Transfers

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 that has made 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, 2012 were as follows:

| Fund Receiving Transfers | Fund Making Transfers | Amount Transferred | |
|--|----------------------------------|----------------------|---|
| General Fund | Non-Major Governmental | \$ 3,054,237 | A |
| | Sports and Open Space Authority | 76,134,076 | B |
| | Santa Clara Convention Center | 568,208 | C |
| Redevelopment Project Area CIP | Redevelopment Agency | 3,153,558 | D |
| Non-Major Governmental | General Fund | 8,581,952 | E |
| | Non-Major Governmental | 1,679,571 | F |
| | Electric Utility | 40,000 | G |
| | Electric Utility | 290,288 | H |
| | Water Utility | 26,574 | H |
| | Sewer Utility | 14,830 | H |
| | Automotive Services | 4,700 | H |
| Worker's Comp Insurance Claims | General Fund | 86,406 | I |
| | Electric Utility | 15,273 | I |
| | Water Utility | 3,868 | I |
| | Sewer | 1,349 | I |
| | Water Recycling Utility | 169 | I |
| | Solid Waste | 675 | I |
| | Cemetery | 411 | I |
| | Communication Technical Services | 378 | I |
| | Automotive Services | 1,471 | I |
| | Special Liability Insurance | 50,000 | I |
| Water Utility | Water Recycling Utility | 700,000 | J |
| Solid Waste | General Fund | 538,349 | K |
| Sports and Open Space Authority | Santa Clara Golf and Tennis Club | 948,002 | L |
| Santa Clara Housing Authority | Redevelopment Agency | 3,085,698 | M |
| Total Interfund Transfers | | <u>\$ 98,980,043</u> | |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (continued)

The reasons for material transfers are set forth below:

The reasons for material transfers are set forth below:

- (A) Transfer to general fund from capital project funds to return unspent project funds.
- (B) Transfer per the cooperation agreement between general fund and SOSA to preserve the capital balance of the land proceeds.
- (C) Transfer per the cooperation agreement between general fund and Santa Clara Convention Center.
- (D) Transfer from RDA fund to the redevelopment project areas.
- (E) Transfer to fund various projects in the capital funds and pay governmental debt service.
- (F) Transfer to fund the various projects in Street and Highways per City grant agreement.
- (G) Transfer to fund street tree planting and community activities.
- (H) Transfer to fund their respective share of financial, human resources software, utility billing and other projects.
- (I) Transfer to fund workers' compensation claims and computer dispatch upgrades and technology improvements.
- (J) Transfer to fund Water Recycling Activities.
- (K) Transfer to Solid Waste to subsidize operations.
- (L) Transfer lease payments from American Golf, Interland, and others in accordance with the lease agreement.
- (M) Transfer from RDA fund to Santa Clara Housing Authority

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of interfund balances as of June 30, 2012.

| Receivable Fund | Payable Fund | Amount |
|---|--------------------------------------|---------------------|
| General Fund | Non-Major Governmental | \$ 114,242 |
| | Santa Clara Convention Center | 1,453,149 |
| | Santa Clara Stadium Authority | 1,402,219 |
| Santa Clara Housing Authority | General Fund | 2,515,578 |
| Non-Major Governmental | Internal Service Funds | <u>22,473</u> |
| | Receivable by Governmental Funds | <u>\$ 5,507,661</u> |
| Electric Utility | Internal Service Funds | \$ 2,047,343 |
| Water Utility | Internal Service Funds | 127,654 |
| Sewer | Internal Service Funds | 192,654 |
| Cemetery | Internal Service Funds | 205,729 |
| Santa Clara Stadium Authority | General Fund | <u>60,210</u> |
| | Receivable by Enterprise Funds | <u>\$ 2,633,590</u> |
| Internal Service Funds (Various) | Internal Service Funds (Various) | <u>\$ 228,797</u> |
| | Receivable by Internal Service Funds | <u>\$ 228,797</u> |

Note: The City uses due to/due from as a balancing mechanism in funds with negative cash balances.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (continued)

C. Long-Term Interfund Advances

At June 30, 2012, the funds below had made advances which were not expected to be repaid within the next year.

| Fund Receiving Advance | Fund Making Advance | Amount of Advance |
|--------------------------------|---------------------|-------------------|
| Cemetery | General Fund | \$ 3,974,290 |
| Santa Clara Golf & Tennis Club | General Fund | 4,099,134 |
| General Fund | Electric | 60,238 |
| Total Advances | | \$ 8,133,662 |

Cemetery Fund has a \$3,974,290 advance that bears no interest and will be repaid when funds become available. The advance is a long term subsidy of operations pending mausoleum project funding in future years, which is expected to generate additional revenues.

Santa Clara Golf and Tennis Club Fund has a \$4,099,134 advance which does not bear interest, and will be repaid in annual installments after completion of capital improvements from income generated by these capital improvements.

General Fund has a \$60,238 advance that bears no interest, and will be repaid in annual installment through the energy efficiency program.

D. Internal Balances

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental, RDA successor agency, and business-type activities.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 - CAPITAL ASSETS

A. Capital Assets Summary

Capital Assets at June 30, 2012 are comprised of:

| | Balance June 30, 2011 | Additions | Retirements | Transfers | Balance June 30, 2012 |
|--|--------------------------|-----------------------|-----------------------|---------------------|--------------------------|
| Governmental Activities | | | | | |
| Non Depreciable Assets: | | | | | |
| Land | \$ 111,908,806 | \$ 94,803 | \$ - | \$ (100,600) | \$ 111,903,009 |
| Construction in progress | 4,760,009 | 45,707,512 | - | (5,405,908) | 45,061,613 |
| Total Non Depreciable Assets | <u>116,668,815</u> | <u>45,802,315</u> | <u>-</u> | <u>(5,506,508)</u> | <u>156,964,622</u> |
| Capital assets being depreciated: | | | | | |
| Land improvements | 19,357,922 | - | - | 412,841 | 19,770,763 |
| Buildings | 163,555,950 | - | - | 488,790 | 164,044,740 |
| Infrastructure | 444,147,554 | 1,162,490 | - | 3,577,200 | 448,887,244 |
| Machinery & equipment | 71,786,191 | 1,444,334 | (967,447) | 876,960 | 73,140,038 |
| Total Capital assets being depreciated | <u>698,847,617</u> | <u>2,606,824</u> | <u>(967,447)</u> | <u>5,355,791</u> | <u>705,842,785</u> |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (7,716,792) | (868,438) | - | - | (8,585,230) |
| Buildings | (34,139,573) | (3,400,737) | - | - | (37,540,310) |
| Infrastructure | (187,095,372) | (11,808,729) | - | - | (198,904,101) |
| Machinery & equipment | (53,303,287) | (4,961,062) | 913,519 | - | (57,350,830) |
| Total accumulated depreciation | <u>(282,255,024)</u> | <u>(21,038,966)</u> | <u>913,519</u> | <u>-</u> | <u>(302,380,471)</u> |
| Net Depreciable Assets | <u>416,592,593</u> | <u>(18,432,142)</u> | <u>(53,928)</u> | <u>5,355,791</u> | <u>403,462,314</u> |
| Governmental Activity Net Capital Assets | <u>\$ 533,261,408</u> | <u>\$ 27,370,173</u> | <u>\$ (53,928)</u> | <u>\$ (150,717)</u> | <u>\$ 560,426,936</u> |
| Business-Type Activities | | | | | |
| Non Depreciable Assets: | | | | | |
| Land | \$ 20,811,473 | \$ - | \$ (1,458,565) | \$ 2,408 | \$ 19,355,316 |
| Construction in progress | 21,131,998 | 190,299,948 | - | (25,173,673) | 186,258,273 |
| Total Non Depreciable Assets | <u>41,943,471</u> | <u>190,299,948</u> | <u>(1,458,565)</u> | <u>(25,171,265)</u> | <u>205,613,589</u> |
| Capital Assets being depreciated: | | | | | |
| Land Improvements | 23,917,718 | - | - | 17,299 | 23,935,017 |
| Buildings | 90,384,016 | 129,851 | - | 98,783 | 90,612,650 |
| Infrastructure | 837,652,189 | - | - | 24,519,229 | 862,171,418 |
| Machinery & equipment | 19,484,673 | 281,252 | (209,618) | 686,671 | 20,242,978 |
| Total Capital Assets being depreciated | <u>971,438,596</u> | <u>411,103</u> | <u>(209,618)</u> | <u>25,321,982</u> | <u>996,962,063</u> |
| Less accumulated depreciation for: | | | | | |
| Land Improvements | (16,846,684) | (796,559) | - | - | (17,643,243) |
| Buildings & improvements | (42,696,180) | (2,857,496) | - | - | (45,553,676) |
| Infrastructure | (340,104,347) | (18,929,777) | - | - | (359,034,124) |
| Machinery & equipment | (13,881,492) | (1,293,977) | 199,736 | - | (14,975,733) |
| Total accumulated depreciation | <u>(413,528,703)</u> | <u>(23,877,809)</u> | <u>199,736</u> | <u>-</u> | <u>(437,206,776)</u> |
| Net Depreciable Assets | <u>557,909,893</u> | <u>(23,466,706)</u> | <u>(9,882)</u> | <u>25,321,982</u> | <u>559,755,287</u> |
| Enterprise Activity Net Capital Assets | <u>\$ 599,853,364</u> | <u>\$ 166,833,242</u> | <u>\$ (1,468,447)</u> | <u>\$ 150,717</u> | <u>\$ 765,368,876</u> |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – CAPITAL ASSETS (continued)

B. Construction in Progress Summary

Construction in Progress for governmental activities as of June 30, 2012 consisted of the following projects:

| <u>Governmental Projects</u> | <u>Authorized</u> | <u>Expended</u> | <u>Future Commitments</u> |
|--|----------------------|----------------------|---------------------------|
| Transportation Improvements | \$ 8,247,157 | \$ 1,952,718 | \$ 6,294,439 |
| Technology Application & Implementation Projects | 1,853,535 | 302,085 | 1,551,450 |
| City Building Improvements | <u>67,542,706</u> | <u>42,806,810</u> | <u>24,735,896</u> |
| | <u>\$ 77,643,398</u> | <u>\$ 45,061,613</u> | <u>\$ 32,581,785</u> |

Construction in Progress for business-type activities as of June 30, 2012 consisted of the following:

| <u>Enterprise Fund Projects</u> | <u>Authorized</u> | <u>Expended</u> | <u>Future Commitments</u> |
|---------------------------------|-------------------------|-----------------------|---------------------------|
| Electric Projects | \$ 54,077,101 | \$ 20,530,562 | \$ 33,546,539 |
| Water and Sewer Projects | 8,500,000 | 72,364 | 8,427,636 |
| Stadium Authority Projects | <u>1,171,937,615</u> | <u>165,655,347</u> | <u>1,006,282,268</u> |
| | <u>\$ 1,234,514,716</u> | <u>\$ 186,258,273</u> | <u>\$ 1,048,256,443</u> |

Details of these projects are available from the City on request.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – CAPITAL ASSETS (continued)

C. 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 Administration | \$ 2,309,305 |
| City Clerk | 948 |
| City Attorney | 423 |
| Human Resources | 1,890 |
| Finance | 111,658 |
| Public Works | 12,418,661 |
| Parks and Recreation | 1,537,374 |
| Public Safety | |
| Police | 1,373,238 |
| Fire | 575,702 |
| Planning & Inspection | 16,345 |
| Library | <u>1,071,074</u> |
| | 19,416,618 |

Capital assets held by the City's Internal Service

| | |
|---|------------------|
| Funds are charged to the various functions based on their usage of the assets | <u>1,622,348</u> |
|---|------------------|

| | |
|-------------------------------|-----------------------------|
| Total Governmental Activities | <u><u>\$ 21,038,966</u></u> |
|-------------------------------|-----------------------------|

Business-Type Activities:

Utility Funds:

| | |
|----------------------------------|------------------|
| Electric Utility | \$ 18,746,924 |
| Water Utility | 1,055,498 |
| Sewer Utility | 470,562 |
| Solid Waste | 2,547 |
| Cemetery | 36,337 |
| Santa Clara Golf and Tennis Club | 805,794 |
| Santa Clara Convention Center | <u>2,760,147</u> |

| | |
|--------------------------------|-----------------------------|
| Total Business-Type Activities | <u><u>\$ 23,877,809</u></u> |
|--------------------------------|-----------------------------|

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS

A. Summary of Long-Term Obligations

| Type of Indebtedness | Issue Date | Final Maturity | Interest Rates | Authorized and Issued | Outstanding as of June 30, 2011 | Debt Retired | Additions, Transfers, and Amortization of Discounts | Outstanding as of June 30, 2012 | Current Portion |
|--|------------|----------------|----------------|-----------------------|---------------------------------|----------------------|---|---------------------------------|----------------------|
| Governmental Activity Debt: | | | | | | | | | |
| General Long Term Debt: | | | | | | | | | |
| 2002A Certificates of Participation | 11/14/2002 | 2/1/2032 | 3.00-5.00 | \$ 25,025,000 | \$ 21,095,000 | \$ 615,000 | \$ - | \$ 20,480,000 | \$ 640,000 |
| 2002B Certificates of Participation | 11/14/2002 | 2/1/2014 | 3.00-4.50 | 33,505,000 | 12,870,000 | 2,935,000 | - | 9,935,000 | 3,050,000 |
| Lease Agreement between the City and the PFFC | 7/13/2010 | 8/1/2022 | 3.65 | 10,207,000 | 9,857,000 | 744,000 | - | 9,113,000 | 772,000 |
| Redevelopment Agency Obligations: | | | | | | | | | |
| Bayshore North Project-1999 TA Bonds Series A | 8/1/1999 | 6/1/2023 | 5.25-5.50 | 31,550,000 | 31,550,000 | - | (31,550,000) | - | - |
| Bayshore North Project-1999 TA Bonds Series B | 8/1/1999 | 6/1/2017 | 5.25-5.50 | 16,905,000 | 15,375,000 | - | (15,375,000) | - | - |
| Bayshore North Project-2002 TA Refunding Bonds | 6/6/2002 | 6/1/2014 | 4.00-5.50 | 33,910,000 | 16,215,000 | - | (16,215,000) | - | - |
| Bayshore North Project-2003 TA Bonds | 5/14/2003 | 6/1/2023 | 5.00 | 43,960,000 | 43,960,000 | - | (43,960,000) | - | - |
| Bayshore North Project-2011 TA Bonds | 5/18/2011 | 6/1/2026 | 2.00-7.86 | 31,411,295 | 31,411,295 | - | (31,411,295) | - | - |
| Unamortized Premium/Discount | | | | - | (167,709) | 4,892 | 162,817 | - | - |
| Subtotal Government Activity Debt | | | | <u>226,473,295</u> | <u>182,165,586</u> | <u>4,298,892</u> | <u>(138,348,478)</u> | <u>39,528,000</u> | <u>4,462,000</u> |
| Business Type Activity Debt: | | | | | | | | | |
| Enterprise Long Term Debt: | | | | | | | | | |
| Electric Utility: | | | | | | | | | |
| 2003 Series A Revenue Bonds | 10/9/2003 | 7/1/2028 | 2.50-5.25 | 100,000,000 | 83,390,000 | 3,095,000 | - | 80,295,000 | 3,210,000 |
| 2008 Series B Revenue Bonds | 5/29/2008 | 7/1/2027 | Variable | 86,600,000 | 85,700,000 | 3,160,000 | - | 82,540,000 | 3,350,000 |
| 2011 Series A Revenue Bonds | 3/22/2011 | 7/1/2032 | 5.00-6.00 | 54,830,000 | 54,830,000 | - | - | 54,830,000 | - |
| Unamortized Premium/Discount | | | | - | (7,469,754) | - | (450,299) | (7,019,455) | - |
| Santa Clara Stadium Authority | | | | | | | | | |
| StadCo Subordinated Loan | 3/28/2012 | 9/1/2015 | LIBOR+3.25 | 101,989,406 | - | - | 101,989,406 | 101,989,406 | 642,454 |
| StadCo Agency Advance | 3/28/2012 | 12/28/2027 | 5.73 | 30,640,670 | - | - | 30,640,670 | 30,640,670 | 391,050 |
| Subtotal Enterprise Activity Debt | | | | <u>374,060,076</u> | <u>216,450,246</u> | <u>6,255,000</u> | <u>132,179,777</u> | <u>343,275,621</u> | <u>7,593,504</u> |
| Total Long-Term Debt Obligations | | | | <u>\$ 600,533,371</u> | <u>\$ 398,615,832</u> | <u>\$ 10,553,892</u> | <u>\$ (6,168,701)</u> | <u>\$ 382,803,621</u> | <u>\$ 12,055,504</u> |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

B. City's Long-term Obligations

2002 Certificates of Participation, Series A Bonds

On November 14, 2002, the City's PFFC issued \$25.03 million of the 2002 Certificates of Participation, Series A Bonds (2002A COP). Proceeds of the 2002A COP were used to construct the City's Central Park Library. The 2002A COP matures serially in years 2004 through 2032, and bear interest at 3.0% to 5.0%. Debt service on the 2002A COP is secured by lease payments to be made by the City to the PFFC for the use of the library. The PFFC assigns the lease payments to the certificate owners.

2002 Certificates of Participation, Series B Bonds

On November 14, 2002, the City's Sports and Open Space Authority (SOSA) issued \$33.51 million of the 2002 Certificates of Participation, Series B Bonds (2002B COP). Proceeds of the 2002B COP were used to redeem outstanding balances of the LGFA Bonds and the 1993 COP. The 2002B COP matures serially in years 2003 through 2014. Debt service on the 2002B COP is secured by lease payments between the City and SOSA for the use of the golf course property and related facilities. SOSA assigns the lease payments to the certificate owners.

2010 City of Santa Clara Lease Agreement

On July 13, 2010, the City entered into a new agreement with the Public Facilities Financing Corporation in order to provide funds for the refunding of the City's 1997 Certificates of Participation for the Police Administration building. The PFFC entered into a separate agreement with the assignee, Bank of America, N.A. Debt Service on the new Lease Agreement is secured by lease payments made by the City to the assignee for use of the Police Administration site.

Compliance

Various debt agreements governing the City's bonds contain a number of covenants, including continuing disclosure requirements. The City is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event or default as defined in the bond indentures has occurred or is occurring.

C. Enterprise Funds

Electric Utility

Subordinated Electric Revenue Refunding Bonds, 2003 Series A

On October 9, 2003, Silicon Valley Power issued \$100 million of the Subordinated Electric Revenue Bonds, Series 2003A (Electric 2003A Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003A Bonds mature annually in serial amounts from July 1, 2005 to July 1, 2025 with the final Term Bond maturity of July 1, 2028. Debt service on the 2003A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Electric Revenue Refunding Bonds, 2008 Series B

On May 29, 2008, Silicon Valley Power issued \$86.6 million of the Subordinated Electric Revenue Bonds, Series 2008B (Electric 2008B Bonds) to refinance \$80.53 million of the Electric 1998A Bonds on July 1, 2008. The Electric 2008B Bonds mature annually in serial amounts from July 1, 2009 to July 1, 2027. The Electric 2008B Bonds are multi-modal bonds that are authorized to be issued in variable mode. Initially, the Electric 2008B Bonds were issued in the Weekly Mode. Payment of the principal of and interest on, and purchase price of, the Electric 2008B Bonds are made from proceeds of draws on the Letter of Credit provided by Dexia Credit Local. On May 11, 2011, the Letter of Credit provided by Dexia was replaced by a Letter of Credit provided by Bank of America, N.A., which has a stated expiration date of May 12, 2014. In connection therewith, the name of the bonds was redesignated from “Subordinated Electric Revenue Refunding Bonds” to “Electric Revenue Refunding Bonds” to reflect that all senior electric revenue bonds of Silicon Valley Power have been retired. Debt service on the 2008B Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Electric Revenue Refunding Bonds, 2011 A Series

On March 22, 2011, Silicon Valley Power issued \$54.83 million of Electric Revenue Refunding Bonds, 2011 Series A (Electric 2011A Bonds) to refinance the \$49.66 million outstanding principal amount of the Electric 2008A Bonds. The Electric 2011A Bonds mature annually in serial amounts from July 1, 2028 to July 1, 2032 and bear coupon rates ranging from 5.00% to 6.00%. Debt service on the Electric 2011A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Pledges of Future Electric Revenues

The pledge of future Electric Fund revenues ends upon repayment of the \$211 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2032-2033. For fiscal year 2011-12, Electric Fund revenues including operating revenues and non-operating interest earnings amounted to \$285 million and operating costs including operating expenses, but not interest, depreciation or amortizations amounted to \$238 million. Net revenues available for debt service amounted to \$47 million which represented coverage ratio of 2.80 over the \$17 million in debt service.

Santa Clara Stadium Authority

StadCo Agency Advance

The Santa Clara Stadium Authority (SCSA) and the Redevelopment Agency of the City of Santa Clara (Agency) entered into the Cooperation Agreement dated as of February 28, 2011 to which the Agency agreed to contribute a total of \$40 million toward Development Costs of the Stadium Project. In addition, pursuant to Section 3.1 of the Cooperation Agreement, the Agency agreed to pay one-half of Development Fees in the amount of \$1.6 million for a total of \$41.6 million maximum collectible from the Agency plus financing costs and interest. The Agency, SCSA, and Forty Niners SC Stadium Company LLC (StadCo) entered into the Predevelopment Funding Agreement dated as of March 21, 2011 in accordance with which \$4 million in Agency funds were advanced to StadCo to fund preliminary design and construction for the Make-Ready Work. The Agency also transferred \$2.7 million of proceeds from the Agency’s 2011 North Bayshore

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Redevelopment Project Area Tax Allocation Bonds pursuant to the Cooperation Agreement and Predevelopment Funding Agreement. As of January 31, 2012 the Agency contributed \$11.35 million to the Stadium Project; \$1.6 million for City Development fees, \$4 million for Make-Ready Work, \$2.7 in bond proceeds and \$3 million for project-related consultant work.

California legislation, ABIX 26 dissolved all redevelopment agencies in California as of February 1, 2012 (see Note 22). The Agency was dissolved and the City of Santa Clara elected to form the Successor Agency to the former Redevelopment Agency of the City of Santa Clara (Successor Agency), and act as the Successor Agency including with respect to the Cooperation Agreement and the Predevelopment Funding Agreement.

In accordance with the Stadium Lease and the Final Financing Plan (as defined in the Stadium Lease), StadCo advanced \$30.25 million to cover Stadium related development costs to be funded by the Successor Agency pursuant to the Predevelopment Funding Agreement and the Cooperation Agreement. On March 28, 2012, the Santa Clara Stadium Authority executed the Authority Promissory Note in respect of the StadCo Agency Advance with an interest rate of 5.73%, and a final maturity of December 28, 2027. As of June 30, 2012, \$30.6 million is outstanding which includes \$391 thousand of interest added to principal (see Note 22).

The StadCo Obligations Agreement dated as of March 28, 2012 was entered into by and among StadCo, SCSA, and FinanceCo pursuant to the Stadium Lease dated as of December 13, 2011. The StadCo Obligations Agreement provides subordinated borrowing to the SCSA in an amount not to exceed \$500 million with an interest rate comprising of the applicable margin plus the 90 day Libor rate. The interest rate for March 28, 2012 through June 30, 2012 was 3.71%. As of June 30, 2012, \$102 million is outstanding which includes \$642 thousand of interest payable accrued.

StadCo Advances

The StadCo Obligations Agreement dated as of March 28, 2012 was entered into by and among StadCo, SCSA, and FinanceCo pursuant to the Stadium Lease dated as of December 13, 2011. The StadCo Obligations Agreement provides subordinated borrowing to the SCSA in an amount not to exceed \$500 million with an interest rate comprising of the applicable margin plus the 90 day Libor rate. The interest rate for March 28, 2012 through June 30, 2012 was 3.71%. As of June 30, 2012, \$102 million is outstanding which includes \$642 thousand of interest payable accrued.

D. Derivative Instruments

In fiscal year 2009-10, Silicon Valley Power (SVP) implemented GASB Statement No. 53, which addresses recognition, measurement and disclosures related to derivative instruments to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with the interest rate and energy exposures. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred cash flow hedge on the statement of net assets. For the reporting period, all of SVP's derivatives meet the hedge effectiveness tests under GASB Statement No. 53.

Interest Rate Swap Agreements – Electric 2008 Series B Bonds

Pursuant to the Interest Rate Hedging Policy adopted by the City Council in 2006, as a means to lower borrowing costs, the City has a variable-to-fixed interest rate Swap Agreement with

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

JPMorgan Chase related to the 2008 Series B Bonds. Under the Swap Agreement, Santa Clara is obligated to make payments to the Swap Provider calculated on the basis of a fixed rate of 3.470% and receives from the Swap Provider payments equal to 65% of the one month London InterBank Offering Rate. Santa Clara’s obligation to make any net regularly scheduled payments due to the Swap Provider under the Swap Agreement is payable from subordinated net revenues of the electric system on a parity with its other outstanding subordinated electric bonds. The effective date of the swap was May 29, 2008 and the scheduled termination date is July 1, 2027.

| | Notional Amount (000's) | City Pays Fixed Rate to Counterparty | City Receives Floating Rate From Counterparty 06/30/12 | City Pays Variable Rate on Bond 06/30/12 |
|---------------|----------------------------|--|--|---|
| 2008 Series B | \$ 79,440 | 3.47% | Weekly Mode - 65% of LIBOR=0.15941% | Weekly Mode - SIFMA=0.18% |

The swap is classified as a debt instrument and had a negative fair market value of \$14,943,458 as of June 30, 2012, a deferred outflow change of \$5,878,238 from June 30, 2011. The swap is classified as a deferred outflow of resources and derivative financial instrument on the statement of net assets. The fair market value was based on MID-MARKET LEVELS as of the close of business date on June 30, 2012. The value was estimated from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

Rollover Risk

SVP is exposed to rollover risk on hedging derivative instruments that are hedges of debt because SVP can terminate the interest rate swap prior to the maturity of the bond. The risk if the swap is terminated will be to re-expose SVP to the risks being hedged by the interest rate swap. SVP currently has no plans to terminate the swap prior to maturity in 2027.

Interest Rate Risk/Basis Risk

SVP is exposed to interest rate risk on its swap agreement. The SVP's net payment on the SWAP increased as the LIBOR swap index decreases. With respect to basis risk, under the swap, the City receives 65% of LIBOR and pays the Securities Industry and Financial Markets Association (SIFMA) rate to bondholders of the City's Electric 2008B bonds. The basis risk is the difference between the two rates. As of June 30, 2012, 65% of LIBOR was 0.15941% and the SIFMA rate was 0.18%.

Using rates as of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

| Year ending <u>June 30</u> | <u>Variable-Rate Bond</u> | | <u>Interest Rate</u> | <u>Total</u> |
|-------------------------------|---------------------------|---------------------|----------------------|-----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Swaps, Net</u> | |
| 2013 | \$ 3,350,000 | \$ 148,572 | \$ 2,732,559 | \$ 6,231,131 |
| 2014 | 3,550,000 | 142,542 | 2,621,654 | 6,314,196 |
| 2015 | 3,760,000 | 136,152 | 2,504,128 | 6,400,280 |
| 2016 | 3,975,000 | 129,384 | 2,379,650 | 6,484,034 |
| 2017 | 4,200,000 | 122,229 | 2,248,054 | 6,570,283 |
| 2018-2022 | 24,780,000 | 488,889 | 8,991,721 | 34,260,610 |
| 2023-2027 | 31,775,000 | 240,678 | 4,426,587 | 36,442,265 |
| 2028-2032 | 7,150,000 | 12,870 | 236,707 | 7,399,577 |
| | <u>\$ 82,540,000</u> | <u>\$ 1,421,316</u> | <u>\$ 26,141,060</u> | <u>\$ 110,102,376</u> |

Compliance

Various debt agreements governing the Enterprise Funds' revenue bonds contain a number of covenants, including those that require the City to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance and to fix and collect rates, fees and charges so as to maintain certain debt coverage ratios. The City is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

Notional Amounts and Fair Values

SVP maintains a Market Risk Management Policy, which among other things, sets forth the guidelines for the purchase and sale of certain financial instruments defined as hedge instruments in support of market power purchase transactions. The primary goal of these guidelines is to provide a framework for the operation of an energy price hedging program to better manage SVP's risk exposure in order to stabilize pricing and costs for the benefit of SVP and its customers.

Consistent with hedge accounting treatment meeting effectiveness tests, changes in fair value are reported as deferred flows of resources on the statement of net assets until the contract expiration that occurs in conjunction with the hedged expected energy purchase transaction. When hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as a component of Purchased Power. For energy derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by third party market participants.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

SVP had the following future derivative instruments outstanding at June 30, 2012 with Bache Commodities to hedge cash flows on CAISO NP15 power purchases:

| Objective | Notional Amount (MWh) | | Effective Date | Maturity Date | Average Price | Classification | Fair Value | | Change in Fair Value | |
|--|-----------------------|--------|----------------|---------------|---------------|-----------------------|-------------------|-----------------|----------------------|--|
| | Long | Short | | | | | Amount | Classification | Amount | |
| Hedge cash flows on NP15 power purchases | 20,000 | - | Various | Jul-12 | \$ 35.25 | Derivative Instrument | \$ 2,000 | Deferred inflow | \$ 2,000 | |
| Hedge cash flows on NP15 power purchases | 54,000 | - | Various | Aug-12 | 33.35 | Derivative Instrument | 156,600 | Deferred inflow | 156,600 | |
| Hedge cash flows on NP15 power purchases | - | 32,400 | Various | Aug-12 | 35.00 | Derivative Instrument | (40,500) | Deferred inflow | (40,500) | |
| Hedge cash flows on NP15 power purchases | 48,000 | - | Various | Sep-12 | 33.35 | Derivative Instrument | 50,400 | Deferred inflow | 50,400 | |
| Hedge cash flows on NP15 power purchases | - | 19,200 | Various | Sep-12 | 32.80 | Derivative Instrument | (30,720) | Deferred inflow | (30,720) | |
| Hedge cash flows on NP15 power purchases | - | 8,600 | Various | Jul-12 | 21.00 | Derivative Instrument | (7,998) | Deferred inflow | (7,998) | |
| Hedge cash flows on NP15 power purchases | 31,200 | - | Various | Aug-12 | 21.43 | Derivative Instrument | 46,020 | Deferred inflow | 46,020 | |
| Hedge cash flows on NP15 power purchases | 33,600 | - | Various | Sep-12 | 21.43 | Derivative Instrument | 57,960 | Deferred inflow | 57,960 | |
| | | | | | | | <u>\$ 233,762</u> | | <u>\$ 233,762</u> | |

Credit risk

Credit risk is the risk of loss due to a counterparty defaulting on its obligations. SVP is exposed to credit risk if hedging instruments are in asset positions. As of June 30, 2012, SVP was exposed to credit risk because certain open derivative contracts were in asset positions. However, should interest rates change and the fair market value of the swap become negative, the City would not be exposed to credit risk in the amount of the fair market values. The swap and open contract counterparties were rated A and BBB, respectively, by S&P at June 30, 2012.

SVP's policy for requiring collateral on hedging instruments varies based on individual contracts and counterparty credit ratings. Under the interest rate swap agreement, collateral is required based on the counterparty rating and dollar threshold on the mark-to-market value of swap. Under the trading agreements with Merrill Lynch, Pierce, Fenner & Smith, Inc. and Bache Commodities, the trading accounts are prefunded by SVP. If the account value falls below zero, margin calls are invoked. At June 30, 2012, SVP had posted collateral of \$9,758,014 on the interest rate swap and \$2,930,502 was deposited with Merrill Lynch, Pierce, Fenner & Smith, Inc. and Bache Commodities for wholesale trading. At June 30, 2012, no margin calls were paid to Bache Commodities on the outstanding future derivative instruments.

It is also SVP's policy to negotiate netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, the non-defaulting party

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

may accelerate and terminate all outstanding transactions and net their fair values so that a single amount will be owed by (or to) the non-defaulting party. At June 30, 2012, SVP had derivative instrument purchase contracts with Bache Commodities.

Termination Risk

The swap may be terminated by the City at any time. If the swap is terminated, the City may be required to make a termination payment to the Swap Provider if the swap had a negative fair market value. The cost to terminate would be the fair value of the swap at the time of termination. Any such termination payment owed by Santa Clara would be payable from net revenues of the electric system subordinate to Santa Clara's outstanding electric revenue bonds. If the swap had a positive fair market value, the Swap Provider would be required to make a termination payment to the City. Futures contracts are traded over the counter and have no termination risks.

Price Risk

With respect to price risk under these future contracts, SVP receives the CAISO NP15 average daily rate at settlement and pays the fixed contracted rate entered into on the trade date. SVP is exposed to risk because the commodity purchase price being hedged is different from the price on settlement.

E. Repayment Requirements

As of June 30, 2012, the debt service requirements to maturity for the City's long-term obligations, with determinable payment dates and the funds from which payment will be made are as follows:

| For the Year Ending June 30 | Government Activities | | Business-Type Activities | |
|--------------------------------|-----------------------|---------------------|--------------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2013 | \$ 4,462,000 | \$ 1,770,949 | \$ 6,560,000 | \$ 6,948,122 |
| 2014 | 8,350,000 | 1,579,666 | 6,885,000 | 6,819,217 |
| 2015 | 1,521,000 | 1,212,971 | 7,250,000 | 6,658,877 |
| 2016 | 1,580,000 | 1,152,975 | 7,620,000 | 6,494,237 |
| 2017 | 1,644,000 | 1,089,829 | 7,990,000 | 6,340,660 |
| 2018-2022 | 9,321,000 | (551,325) | 46,895,000 | 28,426,583 |
| 2023-2027 | 5,555,000 | 2,634,000 | 60,110,000 | 21,808,959 |
| 2028-2032 | 7,095,000 | 1,098,500 | 60,870,000 | 11,642,167 |
| 2033-2037 | - | - | 13,485,000 | 353,981 |
| | <u>\$ 39,528,000</u> | <u>\$ 9,987,565</u> | <u>\$ 217,665,000</u> | <u>\$ 95,492,803</u> |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Reconciliation of Long-term Obligations

| | |
|--|----------------|
| Principal outstanding as reported above - Government Activities | \$ 39,528,000 |
| Principal outstanding as reported above - Business Type Activities | 217,665,000 |
| Total Principal Outstanding as reported above | 257,193,000 |
| Principal outstanding - StadCo | 132,630,076 |
| Deduct Unamortized discount - Electric Revenue Bonds | (7,019,455) |
| Total Long-term Obligations | \$ 382,803,621 |

F. Defeasances

As of June 30, 2012, there is no remaining principal balance of defeased debt for the City.

G. Debt Limitations and Restrictions

The amounts of the City's legal debt limit and debt margin (as defined by Section 1309 of the City Charter) as of June 30, 2012, are \$3.65 billion and \$3.65 billion respectively. There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations, covenants and restrictions.

H. Arbitrage

According to the regulations set forth by the U. S. Treasury Department, for bond issues subject to arbitrage rebate, earnings in excess of the stated bond rate must be rebated to the federal government every five years. As of June 30, 2012, the City has thirteen outstanding bond issues that are subject to the arbitrage rebate regulations. The City monitors the earnings on each of these issues and records any accrued rebate liability at the end of each individual bond year.

I. Private Purpose Trust Debt

Effective January 31, 2012, all Redevelopment Agencies are to be dissolved and certain assets and liabilities are to be distributed to a Successor Agency Trust Fund per ABx1 26, which was adopted by the State of California on June 28, 2011. The table below shows \$131 million in outstanding debt assumed by the Successor Agency Trust Fund as of June 30, 2012. See Note 22 for Redevelopment Agency Dissolution and Successor Agency Activities.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

| Type of Indebtedness | Authorized and Issued | Transferred from Redevelopment Agency | Debt Retired | Outstanding as of June 30, 2012 | Current Portion |
|--|--------------------------|---|---------------------|---------------------------------------|---------------------|
| Private Purpose Trust Activity: | | | | | |
| Successor Agency Obligations: | | | | | |
| 1999-A Tax Allocation Bonds | | | | | |
| Bayshore North Project | | | | | |
| 5.25%-5.5%, maturing through 2023 | \$ 31,550,000 | \$ 31,550,000 | \$ - | \$ 31,550,000 | \$ - |
| 1999-B Tax Allocation Bonds | | | | | |
| Bayshore North Project | | | | | |
| 5.25%-5.5%, maturing through 2017 | 16,905,000 | 15,375,000 | 1,630,000 | 13,745,000 | 1,710,000 |
| 2002 Tax Allocation and Refunding Bonds | | | | | |
| Bayshore North Project | | | | | |
| 4.0%-5.5%, maturing through 2014 | 33,910,000 | 16,215,000 | 5,170,000 | 11,045,000 | 5,375,000 |
| 2003 Tax Allocation Bonds | | | | | |
| Bayshore North Project | | | | | |
| 5.0%, maturing through 2023 | 43,960,000 | 43,960,000 | - | 43,960,000 | - |
| 2011 Tax Allocation Bonds | | | | | |
| Bayshore North Project | | | | | |
| 4.35%-7.86%, maturing through 2026 | 31,411,295 | 31,411,295 | 125,000 | 31,286,295 | - |
| Less Unamortized Discount | - | (160,489) | (4,892) | (155,597) | (11,181) |
| Total Governmental Activity Debt: | <u>\$ 157,736,295</u> | <u>\$ 138,350,806</u> | <u>\$ 6,920,108</u> | <u>\$ 131,430,698</u> | <u>\$ 7,073,819</u> |

Bayshore North Project 1999 Tax Allocation Bonds, Series A

On August 1, 1999, the Agency issued \$31.55 million of Bayshore North Project 1999 Tax Allocations Bonds, Series A (RDA 1999A Bonds) to partially fund the construction of a multi-story parking garage and a soccer park. The garage is located in the vicinity of the Great America Theme Park and the Santa Clara Convention Center Complex and the soccer park is located near Tasman Drive. The RDA 1999A Bonds mature serially in years 2017 through 2019, with final maturity in year 2023. The bonds are subject to mandatory sinking fund redemption between 2020 and 2023 and optional redemption was available beginning June 1, 2009.

Bayshore North Project 1999 Tax Allocation Bonds, Series B

On August 1, 1999, the Agency issued \$16.91 million of Bayshore North Project 1999 Tax Allocation Bonds, Series B, (RDA 1999B Bonds) to partially fund the construction of the multi-story parking garage that was also funded by the RDA 1999A Bonds. The RDA 1999B Bonds mature serially in years 2011 through 2017. Optional redemption by the Agency is available beginning June 1, 2009.

Bayshore North Project 2002 Tax Allocation Bonds

On June 6, 2002, the Agency issued \$33.91 million of Bayshore North Project 2002 Tax Allocation Bonds (2002 Bonds), with an effective interest rate ranging from 2.0% to 5.5% for a term of 12 years. The proceeds of the 2002 Bonds were used to retire a portion of 1992 Bonds.

Bayshore North Project 2003 Tax Allocation Bonds

On May 14, 2003, the Agency issued \$43.96 million of Bayshore North Project 2003 Tax Allocation Bonds (RDA 2003 Bonds) to fund various Agency projects. The RDA 2003 Bonds mature serially

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

in years 2015 through 2023, and bear interest at 5.0%. The Bonds are insured by the MBIA Insurance Corporation.

Bayshore North Project 2011 Tax Allocation Bonds

On May 11, 2011, the Agency issued \$31.41 million of Bayshore North Project 2011 Tax Allocation Bonds (RDA 2011 Bonds) with an interest rate ranging from 2.0% to 7.86%, and a final maturity of 2026, to finance various redevelopment activities associated with the Agency’s Bayshore North Project Area. The 2011 Bonds are limited obligations of the Agency secured by a pledge of, lien on and security interest in all of the “Tax Revenues”.

Secured Debt Payment from the Redevelopment Property Tax Trust Fund

The Tax Allocation Bonds were originally secured by Tax Increment Revenue that would be received by the Redevelopment Agency. With the dissolution of the Redevelopment Agency, Tax Increment is no longer distributed, and instead the debt is secured by payments from the County’s Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds held by the Successor Agency, a Private Purpose Trust fund.

Future debt service requirements

| <u>For the Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|-----------------------|----------------------|
| 2013 | \$ 7,085,000 | \$ 5,904,506 |
| 2014 | 8,487,311 | 5,661,795 |
| 2015 | 8,919,716 | 5,361,060 |
| 2016 | 9,229,651 | 5,030,442 |
| 2017 | 10,186,845 | 4,927,230 |
| 2018-2022 | 54,764,356 | 22,937,369 |
| 2023-2026 | 32,913,416 | 20,825,934 |
| Less: Unamortized Bond Discount | (155,597) | - |
| Total | <u>\$ 131,430,698</u> | <u>\$ 70,648,336</u> |

Compliance

Various debt agreements governing the Agency’s bonds contain a number of covenants, including continuing disclosure requirements. The Agency is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

J. Special Assessment Debt Without City Commitment

Special assessment districts have been established in various parts of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. With the exception of the Santa Clara Convention Center Improvement Project No. 186, the City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts. Nor is it

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

obligated to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 2012, the balance of these districts' outstanding debt was as follows:

| Issue | Fiscal Year Issued | Interest Rate | Principal Maturities | | Outstanding 6/30/12 |
|---|--------------------|---------------|----------------------|--------------------|---------------------|
| | | | Annual Amount | Fiscal Years Ended | |
| Mill Creek - District No. 1 | 1995 | 7.01%-7.12% | \$265,000-365,000 | 1998-2012 | \$ - |
| Traffic Mitigation District 1988-1 Division No. 2 | 1996 | 5.90% | \$285,000-380,000 | 1998-2012 | 380,000 |
| Mission College/Mercado No. 187 | 1998 | 7.00% | \$490,000-600,000 | 1999-2012 | - |
| | | | | | \$ 380,000 |

NOTE 12 - SOLID WASTE LANDFILL CLOSURE

At June 30, 2012, the balance of the Solid Waste Landfill Postclosure Obligation was as follows:

| Type of Indebtedness | Outstanding as of June 30, 2011 | Reduction | Outstanding as of June 30, 2012 | Current Portion |
|---|---------------------------------|------------|---------------------------------|-----------------|
| Solid Waste Landfill Postclosure Obligation | \$ 3,085,415 | \$ 464,291 | \$ 2,621,124 | \$ 241,000 |

The City of Santa Clara All Purpose Landfill (Landfill) was closed in September 1993. Federal and state laws and regulations require closure activities such as removal of landfill structures, decommissioning of environmental control systems, site security, and final cover construction and postclosure care such as ongoing monitoring of environmental impact. The City's postclosure plan (Plan) accepted by the California Integrated Waste Management Board (CIWMB) addresses all the attendant issues. Based on the Plan and pertaining laws and regulations, an estimated Landfill Postclosure Care Cost Obligation is recorded and updated annually. The postclosure care liability is accrued in the Solid Waste Enterprise Fund in accordance with GASB Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs. This obligation is payable from solid waste user fees.

The City also has a Pledge of Revenue Agreement establishing financial assurance for postclosure maintenance of the Landfill with the CIWMB. As of June 30, 2012, the total pledge amount is \$726 thousand. This amount is reviewed annually and updated for the increase in the San Francisco Bay Region Consumer Price Index.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 – PARTICIPATION IN JOINT VENTURES

A. Investments in Joint Venture

The City participates in significant joint ventures: Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC), M-S-R Energy Authority (MSR EA),

M-S-R Public Power Agency (MSR PPA) and Silicon Valley Animal Control Authority (SVACA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

| | <u>NCPA</u> | <u>TANC</u> | <u>SJSC</u> | <u>MSR EA</u> | <u>MSR PPA</u> | <u>SVACA</u> |
|--|--------------------------------------|-------------------------------------|---|---------------------------------|---------------------------------|--|
| Date of latest audited financial statement | 6/30/2011 | 6/30/2011 | 6/30/2011 | 12/31/2011 | 12/31/2011 | 6/30/2011 |
| Participant's address | 651 Commerce Dr. Roseville, CA 95678 | P.O. Box 15129 Sacramento, CA 95851 | 200 E. Santa Clara St. San Jose, CA 95113 | P.O. Box 4060 Modesto, CA 95352 | P.O. Box 4060 Modesto, CA 95352 | 3370 Thomas Road Santa Clara, CA 95051 |

The City's basic financial statements reflect the following investments in joint ventures as of June 30, 2011 (latest information available):

| | <u>NCPA</u> | | | | <u>TANC</u> | <u>SJSC*</u> | <u>MSR EA</u> | <u>MSR PPA</u> | <u>SVACA</u> |
|--------------------------|-------------|---------------|--------------------|--------------------|----------------|--------------|---------------|----------------|--------------|
| | Geothermal | Hydroelectric | Combustion Turbine | Lodi Energy Center | | | | | |
| Participating percentage | 44.39% | 37.02% | 41.67% | 25.75% | 20.47% | 17.15% | 33.40% | 35.00% | 73.55% |
| Investment | | \$26,735,011 | | | \$2,240,145.00 | \$91,190,773 | \$ - | \$ - | \$5,182,116 |
| Method of accounting | | Equity | | | Equity | Equity | Suspended | Suspended | Equity |

* The investment in San Jose-Santa Clara Water Pollution Control Plant includes the current year contribution.

B. Contingent Liability

Under the terms of the various joint venture agreements, the City is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements. Based on the most recent audited financial statements of the individual joint ventures, the City was contingently liable for long-term debt as follows (in thousands):

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 13 – PARTICIPATION IN JOINT VENTURES (continued)

| | Total Debt | Participating Share | Contingent Liability |
|---------|---------------------|------------------------|-------------------------|
| NCPA | \$ 868,818 | 31.62% | \$ 274,711 |
| TANC | 396,675 | 20.87% | 82,802 |
| SJSC | 84,296 | 17.15% | 14,457 |
| MSR PPA | 337,335 | 35.00% | 118,067 |
| MSR EA | 901,620 | 55.48% | 500,200 |
| Total | <u>\$ 2,588,744</u> | | <u>\$ 990,237</u> |

In addition, the City would, under certain conditions, be liable to pay a portion of the costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

Take-or-Pay commitments expire upon final maturity of outstanding debt for each project. Final fiscal year debt expirations as of June 30, 2011 are as follows:

| Project | Debt Expiration | Entitlement Share % | Debt Service Share % |
|---|-----------------|------------------------|-------------------------|
| NCPA - Geothermal Project (NGP) | July-2024 | 44.3905% | 44.3905% |
| NCPA - Hydroelectric Project (NHP) | July-2032 | 37.0200% | 37.0200% |
| NCPA - Combustion Turbine Project #1 (NCT1) | July-2011 | 41.6667% | 0.0000% |
| NCPA - Lodi Energy Center (NLEC) | June-2040 | 25.7500% | 46.1588% |
| TANC - CA-OR Transmission Project (COTP) | May-2024 | 20.4745% | 20.7030% |
| MSR PPA - San Juan Plant | July-2022 | 35.0000% | 35.0000% |

* The SVP's debt service share in NLEC on issue one is 46.1588%, on issue two is 0%.

A summary of the City's "Take-or-Pay" contracts and related projects and its contingent liability for the debt service including principal and interest payments at June 30, 2011 is as follows (latest information available):

| Fiscal Year | NGP | NHP | NCT1 | NLEC | COTP | MSR PPA | Total |
|-------------|---------------------|----------------------|------------------|-----------------------|----------------------|-----------------------|-----------------------|
| 2012 | \$ 1,602,325 | \$ 11,981,053 | \$ 88,813 | \$ 7,212,576 | \$ 8,887,831 | \$ 13,912,150 | \$ 43,684,748 |
| 2013 | 1,603,302 | 14,314,629 | - | 8,521,532 | 8,887,919 | 13,914,250 | 47,241,632 |
| 2014 | 1,607,386 | 15,154,589 | - | 9,800,392 | 8,888,500 | 13,804,000 | 49,254,867 |
| 2015 | 1,607,829 | 14,695,895 | - | 9,800,000 | 8,888,585 | 14,306,600 | 49,298,909 |
| 2016 | 1,610,493 | 14,702,422 | - | 9,801,336 | 8,960,672 | 13,450,850 | 48,525,773 |
| 2017-2021 | 8,072,995 | 71,953,504 | - | 49,007,788 | 40,828,947 | 69,421,100 | 239,284,334 |
| 2022-2026 | 6,492,000 | 67,615,493 | - | 49,004,460 | 22,715,358 | 16,026,150 | 161,853,461 |
| 2027-2031 | - | 41,455,480 | - | 47,968,702 | - | - | 89,424,182 |
| 2032-2036 | - | 16,538,659 | - | 44,985,209 | - | - | 61,523,868 |
| 2037-2041 | - | - | - | 40,565,945 | - | - | 40,565,945 |
| Total | <u>\$22,596,330</u> | <u>\$268,411,724</u> | <u>\$ 88,813</u> | <u>\$ 276,667,940</u> | <u>\$108,057,812</u> | <u>\$ 154,835,100</u> | <u>\$ 830,657,719</u> |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 – PARTICIPATION IN JOINT VENTURES (continued)

C. Northern California Power Agency (NCPA)

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of fourteen public agencies. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative for each member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Some of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA is contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW), by 1988 NCPA changed its steam field production from baseload to load-following and reduced average annual steam production. Along with other steam field operators in the area, the Agency began implementing various operating strategies to further reduce the rate of decline in steam production. The Agency has modified both steam turbine units and the associated steam collection system to enable generation with lower pressure steam at higher mass-flow rates to optimize the utilization of the available steam resource.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 72 MW by the year 2031.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 13 – PARTICIPATION IN JOINT VENTURES (continued)

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying an entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

Lodi Energy Center

On May 24, 2010, Santa Clara entered into an agreement with NCPA for a 25.75% interest in the 280 MW combined cycle natural gas fired power plant, to be located in Lodi, California. The project received approval from the California Energy Commission in April 2010 and was placed into operation in fall of 2012.

D. Transmission Agency of Northern California (TANC)

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed the major environmental requirements. As of June 30, 2011, the most recent data available, TANC's investment in the Project was \$511.8 million, less accumulated depreciation and amortization of \$193.5 million.

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,362 megawatts and is obligated to pay an average of approximately 80% of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project's

CITY OF SANTA CLARA
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NOTE 13 – PARTICIPATION IN JOINT VENTURES (continued)

transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

E. San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC)

The City and the City of San Jose jointly own the San Jose/Santa Clara Water Pollution Control Plant (Plant). The Plant provides wastewater treatment services to the City, to the City of San Jose, and to seven other tributary agencies. The City of San Jose is the administering agency for the Plant. The San Jose/Santa Clara Clean Water Financing Authority (Authority) was created in 1981 to provide financing for capital improvements to the Plant.

In 1959, the City and the City of San Jose entered into an agreement to construct and operate the Plant. Under the terms of the agreement, the cities own an undivided interest in the Plant and share in the capital and operating costs on a pro rata basis, determined by the ratio of each city's assessed valuation to the sum of both cities assessed valuations. Such percentages are determined annually and applied to the capital and operating costs of the Plant, determined on an accrual basis. For the fiscal year ended June 30, 2011, the City's portion was approximately 17.15%, which is also its interest in the net assets of the Plant.

Zero Waste Energy Development Company Ground Lease

On June 21, 2011, the San Jose City Council approved a ground lease with Zero Waste Energy Development Company (ZWED) to lease a portion of the former Nine Par landfill, which is a part of the San Jose/Santa Clara Water Pollution Control Plant lands. ZWED would lease the property in three phases. Under the terms of the proposed lease, ZWED will lease 40.7 acres from the City of San Jose for an initial term of seven years from the date of execution for all three leaseholds. The base rent for the initial phase (Phase 1) of the property would be payable as a proportional credit against the expenditure of site development costs estimated at \$11.8 million or as a payment of \$850,000 per year. Rent for the subsequent phases will be based on the amount of organic waste processed at the facility. Over the 30-year life of the lease, the estimate payments is a minimum of \$16.5 million. The incoming revenue will be distributed between the City of Santa Clara, City of San Jose, and the tributary agencies to the Plant based on the master agreements with each agency.

South Bay Water Recycling Program

The South Bay Water Reclamation Program (SBWRP), a regional water reclamation program, is part of an action plan adopted by the Regional Water Quality Control Board (RWQCB) which limits the Plant on the amount of effluent discharged into San Francisco Bay in order to prevent conversion of salt marsh and destruction of endangered species habitat. Flow limits are not included in the current five year permit from the RQWCB.

According to the approved action plan, SBWRP was required to reclaim 21.10 million gallons per day (MGD) of plant effluent for nonpotable use by November 1, 1997, (Phase 1) and an additional 24.30 MGD by December 31, 2000 (Phase 2). The action plan also requires assessment of alternatives for potable reuse, including a potable pilot plant to be coordinated with the Santa Clara Valley Water District. In addition to a habitat preservation, the project reduces the mass trace

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 13 – PARTICIPATION IN JOINT VENTURES (continued)

contaminates discharged to the San Francisco Bay and provides a reliable source of water to offset potable water demands.

The SBWRP distribution system includes approximately 67 miles of pipe, a four million gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately \$140 million funded by the tributary agencies, grants and bond proceeds. The City's share of Phase 1 costs was approximately \$20.07 million. Seven miles of distribution mains were added to the system in 2010 and 2011.

Proceeds from the City of San Jose 1995 Series A and B Bonds and other funds were used to pay for the City of San Jose's share of Phase 1. The City contributed existing capital reserves, existing recycled water distribution system, and additional construction of system extensions. Other sources for funding of Phase 1 include U.S. Bureau of Reclamation grants, State of California Revolving Fund loans, \$6.45 million transferred in fiscal 1995 from the Clean Water Financing Authority to the City of San Jose Wastewater Treatment Plant Capital Fund, and cash contributions from other participating agencies. The 2010 and 2011 extensions of the distribution system were funded in part by a combination of grants from the American Recovery and Reinvestment Act of 2009 (ARRA) and the United State Bureau of Reclamation totaling \$10.4 million.

In June 1997, the RWQCB approved the Proposed Revision to the South Bay Action Plan (the Plan), which describes the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 MGD and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase 1 nonpotable water distribution system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated costs of \$127.5 million has been funded through a combination of State Revolving Fund loans, Equipment Replacement Reserves, Sewage Treatment Plant Connection Fees, federal grants, in-kind services and cash contributions.

F. MSR Public Power Agency

MSR PPA is a joint power agency formed in 1980 by the Modesto Irrigation District, the City and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform other administrative and management functions of MSR PPA. The member's income and expense sharing ratio is as follows: Modesto Irrigation District – 50%; City of Santa Clara – 35%; and City of Redding – 15%.

The City's equity in MSR PPA's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2011, the date of the latest available audited financial statements, the City's unrecognized share of member's deficit of MSR PPA was \$48.1 million. Under the joint exercise of power agreement, which formed MSR PPA, the City is responsible for funding up to 35% of MSR PPA's operating cost, to the extent such funding is necessary. During the year ended June 30, 2011, the City made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 13 – PARTICIPATION IN JOINT VENTURES (continued)

MSR PPA's principal activity is a 28.8% ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The acquisition of such ownership interest was funded through the issuance of revenue bonds, secured by a pledge and assignment of the net electric revenues of MSR PPA and supported by take-or-pay commitments of the equity participants. MSR PPA is also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission project between Central Arizona and Southern California that provides a firm transmission path for the electric power from the San Juan Plant to the MSR PPA members. The southwest Transmission Project was completed and placed in service in April 1996.

In accordance with an agreement with the Tucson Electric Power Company (TEP), MSR PPA has the right to certain levels of power transmission without charge and without transmission losses between the San Juan Plant in New Mexico and Palo Verde, Arizona through 2025. These rights are being utilized in connection with the delivery of power from the San Juan Plant to the members or to third party purchasers.

On June 1, 2005, MSR PPA entered into a series of agreements (as amended in October, 2005 and restated effective February 1, 2006) with PPM Energy (now known as Iberdrola Renewables, Inc.) to purchase wind power energy from Big Horn I with a nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firm, shaped, and delivered to the California-Oregon Border (COB) for a twenty-year period. Deliveries of energy under this project began October 1, 2006. The participation in this project is as follows: Modesto Irrigation District – 12.5%; City of Santa Clara – 52.5%; and City of Redding – 35%.

On December 9, 2009, MSR PPA entered into a series of agreements with Iberdrola Renewables Inc. to purchase additional wind power energy from the same site, called Big Horn II, with a nominal installed capacity of 50 MW and an expected capacity factor of about 35%, as firm, shaped, and delivered to the California-Oregon Border (COB) for a twenty-year period. Deliveries of energy under this project began on November 1, 2010. The participation in this project is as follows: Modesto Irrigation District – 65%; City of Santa Clara – 35%.

G. MSR Energy Authority

MSR EA is a joint power agency formed in 2008 by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform other administrative and management functions of MSR PPA. The member's income and expense sharing ratio is as follows: Modesto Irrigation District – 33.3%; City of Santa Clara – 33.4%; and City of Redding – 33.3%.

The City's equity in MSR EA's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2011, the date of the latest available audited financial statements, the City's unrecognized share of member's deficit of MSR EA was \$27.2 million. Under the joint exercise of power agreement, which formed MSR EA, the City is responsible for funding up to 33.4% of MSR EA's operating cost, to the extent such funding is necessary. During the year ended June 30, 2011, the City made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 13 – PARTICIPATION IN JOINT VENTURES (continued)

In 2009, the City of Santa Clara, along with the Cities of Modesto and Redding participated in the M-S-R Energy Authority Gas Prepay Project. The Gas Prepay Project provides the City of Santa Clara, through a Gas Supply Agreement with M-S-R EA dated September 10, 2009, a secure and long-term supply of natural gas of 7,500 MM Btu (Million British thermal unit) daily or 2,730,500 MM Btu annually through December 31, 2012, and 12,500 MM Btu daily, or 4,562,500 MM Btu annually thereafter until September 30, 2039. The agreement provides this supply at a discounted price below the spot market price (the Pacific Gas & Electric City gate index) over the next 30 years. As of June 30, 2010, bonds issued by MSR EA to finance the City's share of the Gas Prepay Project were outstanding in the principal amount of \$500,200,000. These bonds were initially sold on August 27, 2009. Under the Gas Supply Agreement, MSR EA will bill the City for actual quantities of natural gas delivered each month on a "take-and-pay" basis. MSR EA has contracted with Citigroup Energy, Inc. ("CEI") to use the proceeds of the Gas Prepay bond issue to prepay CEI for natural gas. CEI has guaranteed repayment of the bonds, and responsibility for bond repayment is non-recourse to the City of Santa Clara. Moreover, any default by the other Gas Prepay Project participants is also non-recourse to the City.

H. Silicon Valley Animal Control Authority

The City is a member of the Silicon Valley Animal Control Authority, (SVACA), established in 2000 to deliver animal control and sheltering services to three communities: the cities of Santa Clara, Campbell, and Monte Sereno. SVACA provides field and shelter services and staffing to support adoption and spay/neuter programs. SVACA purchased and retrofitted an existing cold-shell office building in Santa Clara that became a fully operating animal shelter. The shelter opened in the third quarter of 2006. SVACA is governed by a Board of Directors comprised of one appointed Councilmember from each of the three member cities.

During the fiscal year ended June 30, 2012, the City of Santa Clara contributed \$956,120 to SVACA. The City's equity interest in SVACA was \$5,182,116 at June 30, 2011 (the most recent audited information available). Audited financial statements are available from SVACA, located at 3370 Thomas Road, Santa Clara, CA 95051.

NOTE 14 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit plan, which is a public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS offers a menu of benefit provisions and other requirements that are established by State statutes within the Public Employee Retirement law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS website at www.calpers.ca.gov.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 14 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

The City's two defined benefit pension plans (Miscellaneous Plan and Safety Plan) with CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All permanent (full-time and part-time) and eligible "as-needed" hourly City employees are required to participate in CalPERS.

B. Pension Plan Benefits

Benefits for employees in the Miscellaneous Plan and Safety Plan vest after five years of CalPERS credited service. The retirement benefits under both plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2.7% at 55 for Miscellaneous Plan members and 3% at 50 for Safety Plan members.

Miscellaneous Plan

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (2.7% at 55), years of service, and final compensation (monthly average of member's highest 12 consecutive months' full-time equivalent monthly pay). The service retirement benefit for this group is not capped.

Safety Plan

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (3% at 50), years of service, and final compensation. For Fire Safety employees, the final compensation is the monthly average of member's highest 36 consecutive months' full-time equivalent monthly pay, and for Police Safety employees, it is the monthly average of the member's highest 12 consecutive months' full-time equivalent monthly pay.

The service retirement benefit for the Safety Plan group is capped at 90% of final compensation.

C. Funding Policy

Permanent employees are required to make contributions to their account. For employees who are covered by formulas modified to coordinate with Social Security, a rate of zero is charged for the first \$133.33 per month. The member employees' contribution rates are set by State statute and only change with significant contract amendments. The rates at the end of fiscal year 2011-12 were:

CITY OF SANTA CLARA
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NOTE 14 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

| <u>Category</u> | <u>Member Rates As A Percentage Of Wages</u> | <u>2011-12 Member Paid Contributions</u> |
|------------------------------|--|--|
| Miscellaneous Plan Members | 8.00% | \$ 4,315,192 |
| Safety Plan: | | |
| Fire Public Safety Members | 9.00% | \$ 1,613,817 |
| Police Public Safety Members | 11.25% | \$ 2,004,476 |

The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the Board of Administration (the employer rate). The City's payroll for employees covered by CalPERS for fiscal year ended June 30, 2012 was \$91 million (consisting of \$55 million for Miscellaneous Plan employees and \$36 million for Public Safety Plan employees), out of the total payroll for the City of \$110 million. The CalPERS employer rate and annual costs are described below.

D. Annual Pension Cost (APC) and Employer Rates

The required contribution for the year ended June 30, 2012 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The Entry Age Normal Actuarial Cost Method is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method in which the City's total normal cost is expressed as a level percent of payroll. CalPERS also uses the level percentage of projected payroll method to amortize any unfunded actuarial liabilities (or excess assets) on a closed basis over the remaining amortization period. All gains and losses are tracked and amortized over a rolling 30 year period for both Miscellaneous and Safety Plans.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement for the year ended June 30, 2012 include the following:

- A rate of return on the investment of present and future assets of 7.75% per year compounded annually.
- Projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for Miscellaneous Plan members, and 3.55% to 13.15% for Safety Plan members.
- Overall payroll growth of 3.25% compounded annually.
- Inflation factor of 3.00% compounded annually.
- The City's actuarial required contribution rates and incurred costs paid to CalPERS for the last three fiscal years is as follows:

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 14 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

APC FOR MISCELLANEOUS EMPLOYEES

| Fiscal Year Ending | Required Contribution Rates for Miscellaneous | Annual Pension Cost (APC) for Miscellaneous Employees | Percentage of APC Contributed | Net Pension Obligation |
|--------------------|---|---|-------------------------------|------------------------|
| 6/30/2010 | 17.015% | \$9,946,814 | 100% | \$ - |
| 6/30/2011 | 17.774% | \$10,189,631 | 100% | \$ - |
| 6/30/2012 | 22.676% | \$12,449,971 | 100% | \$ - |

APC FOR SAFETY EMPLOYEES

| Fiscal Year Ending | Required Contribution Rates for Safety | Annual Pension Cost (APC) for Safety Employees | Percentage of APC Contributed | Net Pension Obligation |
|--------------------|--|--|-------------------------------|------------------------|
| 6/30/2010 | 26.121% | \$10,310,940 | 100% | \$ - |
| 6/30/2011 | 27.223% | \$10,295,959 | 100% | \$ - |
| 6/30/2012 | 31.501% | \$11,261,248 | 100% | \$ - |

E. Funded Status

In order to dampen the effect of short term market value fluctuations on employer contribution rates, the following smoothing technique is used. First an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-fifteenth of the difference between Market Value of Assets and the Expected Value of Assets as of the valuation date. However, in no case will the Actuarial Value of Assets be less than 60% or greater than 140% of the actual Market Value of Assets.

The Plan's actuarial value (which differs from market value) and funding progress over the most recently available three years are set forth below at their actuarial valuation date.

Funded Status of Miscellaneous Plan:

| Valuation Date | Entry Age Normal Accrued Liability (A) | Actuarial Value of Assets (B) | Unfunded / (Overfunded) Liability (A - B) | Funded Ratio (B / A) | Annual Covered Payroll (C) | Unfunded / (Overfunded) As a % Of Payroll [(A) - (B)] / (C) |
|----------------|--|-------------------------------|---|----------------------|----------------------------|---|
| 6/30/2009 | \$451,521,919 | \$342,041,141 | \$109,480,778 | 75.8% | \$56,413,334 | 194.1% |
| 6/30/2010 | \$481,425,499 | \$357,508,407 | \$123,917,092 | 74.3% | \$60,099,191 | 206.2% |
| 6/30/2011 | \$509,224,751 | \$375,214,707 | \$134,010,044 | 73.7% | \$57,005,178 | 235.1% |

CITY OF SANTA CLARA
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NOTE 14 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

Funded Status of Safety Plan:

| Valuation Date | Entry Age Normal Accrued Liability (A) | Actuarial Value of Assets (B) | Unfunded / (Overfunded) Liability (A - B) | Funded Ratio (B / A) | Annual Covered Payroll (C) | (Overfunded) As a % Of Payroll [(A) - (B)] / (C) |
|----------------|--|-------------------------------|---|----------------------|----------------------------|--|
| 6/30/2009 | \$501,232,341 | \$408,340,849 | \$92,891,492 | 81.5% | \$38,994,256 | 238.2% |
| 6/30/2010 | \$522,236,433 | \$422,485,578 | \$99,750,855 | 80.9% | \$39,493,694 | 252.6% |
| 6/30/2011 | \$551,474,687 | \$438,768,028 | \$112,706,659 | 79.6% | \$38,060,129 | 296.1% |

NOTE 15 – RETIREMENT PLAN - DEFINED CONTRIBUTION PLAN

The City's Public Agency Retirement System Plan (PARS Plan) is a compulsory retirement plan that qualifies under Section 401 of the Internal Revenue Code covering City employees who are not members of CalPERS. Under the provisions of the PARS Plan, the City makes no contributions; however, all administrative costs of the plan are funded by the City. The PARS Plan administrator is Phase II Systems. The total assets of the PARS Plan are held in trust for the employees and are not included in the City's assets or equity.

NOTE 16 – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In applying the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City has determined that it is not required to record the assets and associated liabilities of the plan.

NOTE 17 – OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The City's single-employer defined benefit Other Post Employment Benefit (OPEB) Plan, which was established by City Council in fiscal year 2007-08 in accordance with GASB Statement No. 45, provides reimbursements to retirees for qualified expenses. Retirees who have at least ten years of service and meet certain criterion based upon retirement date, household income in the most recent calendar year and age are entitled to reimbursements for qualified expenses. Annual maximum reimbursement amounts differ depending on when an employee retired from City service. The majority of retirees may be eligible for a maximum of \$3,504 in annual reimbursements. Amendments to benefit provisions are negotiated by the various bargaining units at the City and must be approved by Council. In fiscal year 2007-08, the City established an irrevocable exclusive multi-employer benefit trust which is administered by Public Agency

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 17 – OTHER POST EMPLOYMENT BENEFITS (continued)

Retirement Services (PARS). The trust will be used to accumulate and invest assets necessary to reimburse retirees. Separate financial reports are issued by PARS for the OPEB plan. The report can be obtained by writing to PARS at 4350 VonKarman Avenue, Suite 100, Newport Beach, CA 92660, or by calling 1-800-540-6369.

B. Funding Policy

Annual required contributions (ARC) are based upon actuarial valuations. The contribution requirements of the ARC are established and may be amended by the City Council. Plan members do not make contributions to the plan; the plan is funded entirely by employer contributions.

The City's annual OPEB cost (expense) is calculated based upon the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 which the City implemented in fiscal year 2007-08 prospectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over thirty years.

Based upon the valuation dated June 30, 2010, the most recent valuation available, the actuarially required ARC for fiscal year 2011-12 was \$2.37 million.

The City's annual OPEB cost, equal to the ARC, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|---|------------------------|
| June 30, 2010 | \$ 2,081,000 | 100% | \$ - |
| June 30, 2011 | \$ 2,149,000 | 100% | \$ - |
| June 30, 2012 | \$ 2,369,000 | 100% | \$ - |

C. Plan Funded Status Information

As of June 30, 2010, the latest valuation date, the funded status of the plan, was as follows:

| | |
|---|----------------|
| Actuarial accrued liability (AAL) | \$ 30,886,000 |
| Actuarial value of plan assets | \$ 7,031,000 |
| Unfunded actuarial accrued liability(UAAL) | \$ 23,855,000 |
| Funded ratio (actuarial value of plan assets/AAL) | 22.8% |
| Covered payroll (active plan members) | \$ 101,739,000 |
| UAAL as a percentage of covered payroll | 23.4% |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 17 – OTHER POST EMPLOYMENT BENEFITS (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial value of assets and accrued liabilities appears in the supplemental section of the financial statements.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the entry age normal actuarial cost method was used with a thirty (30) year closed amortization period and level percentage of pay. The actuarial assumptions are as follows:

- A discount rate of 5.75% was used.
- The demographics for terminations, mortality, disability and retirements were based upon the CalPERS 1997-2007 Experience Study Rates.
- Healthcare costs trends utilized actual rates for 2011 and a 9.5% increase for HMO and PPO non-Medicare plans. Future years were reduced by decrements of approximately of .56% per year to an ultimate rate of 5.0% for HMO and PPO plans by year 2020. For Medicare plans, 10.0% increase for HMO and PPO plans trends were utilized. Future years were reduced by decrements of approximately .63% per year to an ultimate rate of 5.0% for both HMO and PPO plans by year 2020.
- The increase on caps were linked to healthcare premium trends and 3% for reimbursement plans.
- The inflation rate was assumed to be constant at 3% per year.
- Aggregate benefit increases assumed to be 3.25% per year.
- Age for females assumed to be three years younger than males.
- Safety and Miscellaneous employees were assumed to be 90% and 85 % married respectively.
- Participation in the plan was assumed to be 80%.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 17 – OTHER POST EMPLOYMENT BENEFITS (continued)

- Medical coverage at retirement was assumed to be at 75%.
- Valuation assets projected to June 30, 2012, using assumed 5.75%.
- Asset gains/losses recognized over 5 years.
- Shorter period but same method as CalPERS Pension.
- Corridor between 80% to 120% of market value.

These assumptions are reviewed on a biennial basis.

NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP)

The City's Electric Utility Department provides electricity to City residents and businesses under the name Silicon Valley Power (SVP).

A. Long-term Power Purchase Contracts

The City purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, MSR Public Power Agency (Note 13), Western Area Power Administration, and other sources to supply the power requirements of the City's electric utility customers. The City actively manages the financial risks inherent in these long-term contracts, including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes that may arise from time to time. The cost of power is included in enterprise fund materials, services and supplies expense.

B. Restructuring of the California Electric Industry

Deregulation Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. The essential feature of AB1890 was to allow individual consumers the opportunity to buy energy directly from power producers and marketers, rather than from their local investor owned utility. This was called direct access. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor owned utilities, independent generators and power marketers, who in turn would serve direct access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid. In addition, investor owned utilities were encouraged to sell a substantial portion of their generating facilities to third parties, which they did. AB1890 further provided for a four-year freeze of investor-owned utility rates and recovery by investor and publicly owned utilities during this four-year period of so-called "stranded costs" arising from what were thought at the time to be uncompetitive generation investments. AB1890 also encouraged, but did not require, municipal utilities to establish direct access programs.

In 1999, the City Council adopted a direct access program that provided for a stranded cost charge, or Competition Transition Charge, subject to legal validation of the City's right to collect

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP) (continued)

such a charge. That validation was secured in 2000, and the City's direct access program was to commence in April 2001.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. These conditions caused the passage of AB1X by the California legislature, pursuant to which investor owned utilities' energy procurement function was assigned to the California Department of Water Resources. AB1X also suspended direct access for investor-owned utilities, essentially until 2013. Based on this development, the City has deferred implementation of its direct access program.

Other Effects of Restructuring

The restructuring of the electric industry has created a substantially changed market for electricity. Compared to the prior market structure, this market has exhibited increased uncertainty and volatility. In anticipation of this restructured market, the City developed a strategic plan to guide its electric utility's transition efforts into the new environment. As part of the Strategic Plan, the Cost Reduction Account was established to protect ratepayers from rate volatility in future years due to revenue shortfalls or unexpected costs.

The strategic plan is a multi-pronged strategic initiative to address electric generation, transmission and distribution business issues given both the initially anticipated operating environment, and the operating environment that has actually evolved. The City's management believes that the strategic plan has been an effective tool for the electric utility as it has transitioned into the new environment.

Energy Wholesale Trading and Risk Management

SVP participates in the wholesale gas and power market and the California Independent System Operator's centralized market. By so doing, SVP engages in the trading of commodity forward contracts (gas and electric energy contracts). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling \$32.1 million and \$29.1 million, respectively, for the fiscal year ended June 30, 2012 have been separately reported on the statement of revenues, expenses and changes in net assets. Associated receivables representing delivered but unbilled energy, and corresponding payable amounts totaling \$8,560 and \$288,262, respectively, have been reported in the proprietary funds statement of net assets.

The restructured electric wholesale market exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee, separate from the units that create the risk exposures, overseen by a Risk Oversight Committee that reports ultimately to the City Council, administers and monitors compliance with the risk policies and procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and controlling the market and credit risks to which it is exposed.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP) (continued)

Credit Arrangements

The City of Santa Clara electric utility maintains credit policies, procedures, and systems that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, and evaluation of potential counterparties' financial condition and an assignment of credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. Additionally, SVP is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

C. Electric Utility Rate Increase

In December 2009, the City Council adopted a 7% rate increase on January 1, 2010 and 7% increase on January 1, 2011. The primary reasons for the increase were the increased cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration. City staff continues to monitor costs and revenues to assess future rate increase recommendations.

NOTE 19 – NET ASSETS/FUND EQUITY

Net Assets is measured on the full accrual basis and presented in the Government-Wide Financial Statements, while Fund Balance is measured on the modified accrual basis and presented in the Governmental Funds Financial Statements.

A. Government-Wide Financial Statements - Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets 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, debt service requirements, and redevelopment funds restricted to low and moderate-income purposes.

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

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 19 – NET ASSETS/FUND EQUITY (continued)

B. Governmental Fund Financial Statements - Fund Balances

The City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions in fiscal year 2010-11. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The statement identifies five new components of fund balance and more clearly defines the Special Revenue fund definition.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance

Amounts that cannot be spent either because they are in a nonspendable form or are required to be maintained intact.

Restricted Fund Balance

Amounts that are constrained to specific purposes by federal, state, county, local laws, or externally imposed conditions by grantors or creditors.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council, the City's highest level of decision-making authority, through resolutions. These committed amounts cannot be used for any other purpose unless the Council removes or changes the specific uses through the same type of formal action taken to establish the commitment. These Council actions must occur prior to June 30th of the applicable fiscal year.

Assigned Fund Balance

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council delegated the authority to assign amounts to be used for specific purposes to the City Manager per Ordinance 1784, September 16, 2003.

Unassigned Fund Balance

These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories in the General Fund, or negative balances in all other funds. The Unassigned Fund Balance includes the Working Capital (Emergency) and Capital Projects Reserves, and the interest earned on the non-spendable Land Sale fund balance. The balances in these accounts are \$6.4 million, \$16.0 million, and \$3.3 million, respectively. Additional information is described in the Stabilization Arrangement section of this note.

Under the City's encumbrance system of accounting, a portion of fund balance that has been encumbered for a specific future use is classified in the appropriate fund balance component based on the nature of the encumbrance.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 19 – NET ASSETS/FUND EQUITY (continued)

Fund Balance Classification

| | Major Funds | | | Non-Major Governmental Funds | Fund Balance June 30, 2012 |
|----------------------------------|-----------------------|----------------------|----------------------|------------------------------------|-------------------------------|
| | General Fund | Housing Authority | Project Area CIP | | |
| Nonspendable: | | | | | |
| Receivables, inventory & prepaid | \$ 42,364 | \$ - | \$ - | \$ - | \$ 42,364 |
| Receivable | 29,631 | - | - | - | 29,631 |
| Advances to other Funds | 12,394,152 | - | - | - | 12,394,152 |
| Total Nonspendable | 12,466,147 | - | - | - | 12,466,147 |
| Restricted For: | | | | | |
| Gas tax programs | - | - | - | 11,268,103 | 11,268,103 |
| Housing & Community Development | - | 29,290,973 | - | 774,466 | 30,065,439 |
| Maintenance districts | - | - | - | 418,620 | 418,620 |
| Operating grants | - | - | - | 445,506 | 445,506 |
| Debt service | - | - | - | 7,338,894 | 7,338,894 |
| Environmental enforcements | 160,799 | - | - | - | 160,799 |
| Streets and highway | - | - | - | 19,377,302 | 19,377,302 |
| Storm Drain | - | - | - | 651,620 | 651,620 |
| Public safety | 707,369 | - | - | - | 707,369 |
| Library | 568,190 | - | - | - | 568,190 |
| Special assessments | - | - | - | 1,042,578 | 1,042,578 |
| Donations | 272,986 | - | - | - | 272,986 |
| Building inspection | 9,212,487 | - | - | - | 9,212,487 |
| Construction | - | - | 54,492,212 | - | 54,492,212 |
| Total Restricted | 10,921,831 | 29,290,973 | 54,492,212 | 41,317,089 | 136,022,105 |
| Committed to: | | | | | |
| Housing programs | - | 17,645,096 | - | 575,953 | 18,221,049 |
| Parks & recreation | - | - | - | 1,098,613 | 1,098,613 |
| Streets and highway | - | - | - | 200,000 | 200,000 |
| Storm drain | - | - | - | 1,567,424 | 1,567,424 |
| Public safety | - | - | - | 202,709 | 202,709 |
| Library | - | - | - | 232,956 | 232,956 |
| Public facilities | - | - | - | 9,332,268 | 9,332,268 |
| Streets beautification | - | - | - | 151,346 | 151,346 |
| Land Investment | 86,792,503 | - | - | - | 86,792,503 |
| Employee computer loan | 70,369 | - | - | - | 70,369 |
| Historical preservation | 78,901 | - | - | - | 78,901 |
| Project area CIP | - | - | 1,000,452 | - | 1,000,452 |
| Total committed | 86,941,773 | 17,645,096 | 1,000,452 | 13,361,269 | 118,948,590 |
| Assigned to: | | | | | |
| General Government | 3,195,647 | - | - | - | 3,195,647 |
| Community activities | 789,717 | - | - | - | 789,717 |
| Other purposes | 48,238 | - | - | - | 48,238 |
| Total Assigned | 4,033,602 | - | - | - | 4,033,602 |
| Unassigned: | | | | | |
| | 33,393,053 | - | - | - | 33,393,053 |
| Total unassigned | 33,393,053 | - | - | - | 33,393,053 |
| Total Fund Balances | \$ 147,756,406 | \$ 46,936,069 | \$ 55,492,664 | \$ 54,678,358 | \$ 304,863,497 |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 19 – NET ASSETS/FUND EQUITY (continued)

C. Fund Balance Policy

When both restricted and unrestricted funds are available for expenditure, the City's Fund Balance Policy reduces all Governmental Funds Balances in the following order: Restricted, Committed, Assigned, and Unassigned fund balances unless disallowed by City Council or legal requirements.

Stabilization Arrangement

Maintaining financial stabilization is a necessity for sound financial management and fiscal accountability. Its purpose is to ensure funds are available to cover occasional budgetary shortfalls (i.e., when general unrestricted revenues decline) or other unexpected urgent events. The City's Working Capital (Emergency) and Capital Projects Reserves are maintained for these purposes. As of June 30, 2012, the Working Capital and Capital Projects Reserves were \$6.4 million and \$16.0 million, respectively.

In 1986, the City Council established a policy regarding the Working Capital (Emergency) Reserve. The reserve target is equal to the cost of the City's General Operating Fund operations for three months (90 day working capital reserve). Further details are included in the Letter of Transmittal.

In 2008, the City Council established goals to rebuild the General Contingency Reserves. The steps are:

1. Continue to maintain a structurally balanced budget, that is a balanced budget without the use of reserves;
2. If excess revenues are available, set aside \$3.0 million per year for the next five years in the Working Capital (Emergency) Reserve;
3. If excess revenues are available above the level of \$3.0 million, deposit the remaining excess funds in the Capital Projects Reserve;
4. Provide for annual Council review of this policy as part of the yearly budget process;
5. Reallocate interest earnings from the Land Sale Reserve to the Emergency Reserve when not needed to balance the General Fund; and
6. Refer to the City Manager to develop financing options for future Capital Improvement Projects.

D. Net Asset/Fund Balance Deficits

The funds listed below had an accumulated deficit as of June 30, 2012:

| Fund Name | Accumulated Deficit |
|--|------------------------|
| Enterprise Funds: | |
| Cemetery | \$ 1,174,433 |
| Internal Service Funds: | |
| Workers' Compensation Insurance Claims | \$ 15,611,571 |

The City's long term plans include construction of additional facilities that will help bring the Cemetery Enterprise Fund closer towards recovery. The Workers Compensation Insurance Claims' Internal Service Fund accumulated deficit is expected to be offset by future charges to the General Fund and the proprietary funds.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 19 – NET ASSETS/FUND EQUITY (continued)

E. Changes to beginning fund balance

Beginning in 2012, the Perpetual Care and Endowment Care funds are no longer being considered as Permanent Funds for CAFR reporting and are being combined with the Cemetery Fund. This results in a change to the beginning Fund Balance of the Cemetery Fund as shown below:

| | Non-Major Enterprise Funds | Non-Major Governmental Funds |
|--|-------------------------------|---------------------------------|
| Beginning Fund Balance | \$ 43,883,679 | \$ 59,851,418 |
| Adjust for: | | |
| Charitable Trust Fund Beginning Fund Balance | - | (3,124,933) |
| Perpetual Care Fund Beginning Fund Balance | 38,244 | (38,244) |
| Endowment Fund Beginning Fund Balance | 1,010,011 | (1,010,011) |
| Restated Beginning Fund Balance | <u>\$ 44,931,934</u> | <u>\$ 55,678,230</u> |

NOTE 20 – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in its Internal Service Funds. Claims, expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported.

This liability is the City's best estimate based upon available information which is included in accrued liabilities.

Changes in the reported liability since June 30, 2012 resulted from the following:

| | Special Liability | Workers' Compensation | Total |
|--|----------------------|--------------------------|----------------------|
| Liability as of June 30, 2010 | \$ 1,380,366 | \$ 17,629,212 | \$ 19,009,578 |
| Claims and changes in estimates during fiscal 2011 | 2,632,867 | 2,676,934 | 5,309,801 |
| Claim payments | (1,685,368) | (2,888,231) | (4,573,599) |
| Liability as of June 30, 2011 | <u>\$ 2,327,865</u> | <u>\$ 17,417,915</u> | <u>\$ 19,745,780</u> |
| Claims and changes in estimates during fiscal 2012 | 1,058,638 | 3,825,890 | 4,884,528 |
| Claim payments | (1,705,584) | (2,888,231) | (4,593,815) |
| Liability as of June 30, 2012 | <u>\$ 1,680,919</u> | <u>\$ 18,355,574</u> | <u>\$ 20,036,493</u> |
| Current Claims Payable | \$ 941,315 | \$ 3,487,559 | \$ 4,428,874 |
| Long Term Claims Payable | 739,604 | 14,868,015 | 15,607,619 |
| Liability as of June 30, 2012 | <u>\$ 1,680,919</u> | <u>\$ 18,355,574</u> | <u>\$ 20,036,493</u> |

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 20 – RISK MANAGEMENT (continued)

With respect to the Special Liability accrual of \$1.7 million, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2012. The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or ranges of potential loss to the City. As a result of such review, the City has categorized the various claims and lawsuits as “probable,” “reasonably possible,” and “remote” loss contingencies, as currently defined by current accounting standards.

The City has determined that the City’s probable loss contingencies, which are accrued for as the estimated liability for claims and lawsuits as of June 30, 2012, are approximately \$1.7 million. The final outcome of claims and lawsuits, which have been categorized as reasonably possible loss contingencies, is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. However, the ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

A. Supplemental Educational Revenue Augmentation Funds (SERAF)

In July 2009, the California State Legislature passed a series of bills affecting counties, cities, redevelopment agencies and special districts. This legislation authorized the State of California to take revenues from local governments for fiscal years 2009-10 and 2010-11. The affected revenues of the Agency include property taxes. The Agency paid \$9.8 million and \$2 million to the State under this legislation in fiscal years 2009-10 and 2010-11, respectively. As of June 30, 2012, the SERAF takeaway litigation is still pending.

B. Electricity Purchase Contracts

The City has future commitments under electricity purchase contracts as discussed in Note 18A, and is contingently liable under joint venture agreements discussed in Note 13B.

C. Grant Programs

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

D. Encumbrances

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to contracts not yet performed and purchase orders not yet filled (executory contracts; and open purchase orders). Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities but,

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 21 – COMMITMENTS AND CONTINGENCIES (continued)

rather, as restricted or committed governmental fund balance. As of June 30, 2012, total governmental fund encumbrance balances for the City are as follows:

| | |
|-------------------------------|----------------------|
| General Fund | \$ 2,694,261 |
| Santa Clara Housing Authority | 103,771 |
| Project Area CIP | 9,857,846 |
| Nonmajor Governmental Funds | 2,898,193 |
| Total Governmental Funds | <u>\$ 15,554,071</u> |

E. RDA Dissolution

On June 28, 2011, the State of California adopted ABx1 26 and suspended all new redevelopment activities for the City. In addition, the Redevelopment Agency (Agency) was dissolved effective January 31, 2012. The impact of the dissolution is further discussed in Note 22.

F. Construction Commitments

The City has future commitments under construction projects as detailed in Note 10B.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. Redevelopment Suspension

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB 1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of June 28, 2011 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.

In addition, ABx1 26 directed the State Controller to review the activities of all redevelopment agencies and successor agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency. The State Controller's Office completed its asset transfer review on July 27, 2012, but has not yet provided a final report of its findings, if any.

Effective January 31, 2012, the Redevelopment Agency of the City of Santa Clara (Agency) was dissolved. Prior to dissolution, assets of the Redevelopment Agency Housing Reserve Fund were assigned to the City's Housing Authority and non-housing assets and properties including the third party contractual arrangements that encumber the assets and properties were conveyed to the City. Effective February 1, 2012 all remaining non-housing assets were distributed to the Successor Agency Redevelopment Obligation Retirement Fund.

B. Redevelopment Dissolution and Successor Agency

Prior to the adoption of ABx1 26 on June 28, 2011, the Agency had the power pursuant to the Community Redevelopment Law (CRL) to dispose of its assets and amend existing agreements.

On March 8, 2011, pursuant to City and Agency adopted resolutions authorizing the execution of property conveyance agreements, the Agency transferred to the City several properties, most of which were originally acquired from the City. The book value of the properties and construction in progress transferred was listed in the Agency's accounts as \$115.1 million as follows:

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

| | |
|----------------------------|------------------------------|
| Conference Center Property | \$ 4,730,000 |
| North South Parcels | 3,185,000 |
| Theme Park Land | 73,532,992 |
| Southern Pacific | 1,479,897 |
| 4949 Great America | 8,860,000 |
| Martinson Day Care | 1,444,598 |
| Construction in Progress | <u>21,826,960</u> |
| Total Book Value | <u><u>\$ 115,059,447</u></u> |

Furthermore, on March 8, 2011, the City, the Agency, and the Sports and Open Space Authority of the City of Santa Clara (SOSA) adopted resolutions authorizing the execution of Assignment and Assumption Agreements assigning the Agency’s interest in certain leases, subleases and cooperation agreements to the City of Santa Clara.

The actions taken by the Agency related to the asset transfers were validly authorized and conformed with the requirements of the Community Redevelopment Law as it existed at the time of the actions. Pursuant to ABx1 26, the Redevelopment Dissolution Law, the State Controller’s Office is to review any asset transfers that occurred between a redevelopment agency and any other public agency after January 1, 2011 and if the assets have not been contractually committed to a third party and to the extent allowed by State and Federal law, the Controller, after completing its review, is to order the return of the assets to the Successor Agency. The Successor Agency has not received a Controller’s order with regards to any assets transferred. Whether such an order will be issued depends upon a variety of factors including whether the assets have been committed to a third party. The scope of the Controller’s authority and the type of assets that can be ordered returned is an unsettled area of law. At this time it is not possible to determine what if any of the assets might be ordered returned and whether such an order would withstand a court challenge.

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency’s remaining net assets were distributed to the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency. On February 14, 2012, Successor Agency adopted resolution 12-7908 authorizing the City Manger to establish the Oversight Board as soon as practicable after the appointment of the Oversight Board members. The Oversight Board held its first meeting on March 23, 2012.

The activities of the Successor Agency are reported in the Successor Agency Redevelopment Obligation Retirement Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

A summary of assets distributed and liabilities assumed by the Successor Agency is presented below:

| | RDA Assets and Liabilities as of January 31, 2012 | Assets and Liabilities of the Successor Agency as of February 1, 2012 | RDA Ending Balances as of June 30, 2012 |
|--|---|---|---|
| ASSETS | | | |
| Cash and investments | \$ 5,277,184 | \$ 5,277,184 | \$ - |
| Cash with fiscal agents | 12,439,211 | 12,439,211 | - |
| Total Assets | <u>17,716,395</u> | <u>17,716,395</u> | <u>-</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 3,733,056 | 3,733,056 | - |
| Advance from other fund | 22,834,789 | 22,834,789 | - |
| Due in one year | 6,925,000 | 6,925,000 | - |
| Due in more than one year | 131,586,295 | 131,586,295 | - |
| Total Liabilities | <u>165,079,140</u> | <u>165,079,140</u> | <u>-</u> |
| NET ASSETS (DEFICIT) | <u>\$ (147,362,745)</u> | <u>\$ (147,362,745)</u> | <u>\$ -</u> |

The above net asset (deficit) transfer is reported as an extraordinary item. Additional transactions after February 1, 2012 resulted in the extraordinary items are reported as follows:

| | Successor Agency | Governmental Funds | Total |
|--|----------------------|-----------------------|----------------------|
| Net asset (deficit) transfer at February 1, 2012 | (147,362,745) | 8,913,905 | (138,448,840) |
| Subsequent transactions: | | | |
| Loans payable adjustments | 21,779,099 | (21,779,099) | - |
| Return of 20% set-aside | 3,082,025 | (3,082,025) | - |
| Additional liabilities | 15,900,000 | (15,900,000) | - |
| Total extraordinary items at June 30, 2012 | <u>(106,601,621)</u> | <u>(31,847,219)</u> | <u>(138,448,840)</u> |

The Successor Agency pools cash from all sources and all funds with the City so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. The details of the City's investment pool can be found in Note 8.

Restricted cash and investments may be used only for enforceable obligations on a Recognized Obligation Payment Schedule (ROPS) that has been approved by the California Department of Finance.

A description of the long term obligations of the Successor Agency are described in Note 11.

C. Housing Assets and Housing Successor

Prior to the adoption of ABx1 26 on June 28, 2011, the Agency had the power pursuant to the Community Redevelopment Law (CRL) to dispose of its assets and amend existing agreements.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

On February 22, 2011, the City established the Santa Clara Housing Authority (Housing Authority) in accordance with Housing Authority Law. On March 8, 2011, the City, Agency, and the Housing Authority executed an assignment and assumption agreement where by the Housing Authority assumed responsibility for the housing projects with funding from the Agency.

Under the provisions of ABx1 26, the City can elect to become the Housing Successor and retain the housing assets. Prior to the passage of ABx1 26, housing assets were assigned to the City's Housing Authority that were committed under various third party contracts. The City elected to become the Housing Successor on January 24, 2012 to retain the housing assets, rights, powers, duties, obligations and functions previously performed by the Agency in administering its Low and Moderate Income Housing Fund.

The activities of the Housing Successor are reported in the Housing Authority acting on behalf of the City as Housing Successor. The housing assets transferred to the Housing Authority are to be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

The assets transferred by the Agency to the Housing Authority constitute Housing Assets as that term is defined in Health and Safety Code Section 34176(e), which was amended pursuant to AB 1484 adopted on June 27, 2012. In accordance with AB 1484, the entity assuming the housing functions of the former Redevelopment Agency is entitled to retain the Housing Assets. The City as the entity that elected to retain the former Redevelopment Agency's housing functions, in accordance with Health and Safety Code Section 34176(a)(2) submitted on August 1, 2012 a list to the Department of Finance (DOF) of all of the Housing Assets transferred to the Housing Authority on February 1, 2012. The DOF accepted a substantial majority of the items listed as Housing Assets. The City filed a meet and confer request with the DOF objecting to some of the items that DOF rejected as Housing Assets, however the City did not challenge some of the items rejected. These items include assets that were transferred to the Housing Authority pursuant to the Cooperation Agreement and then committed by the Housing Authority to third parties. These assets are not subject to Health and Safety Code Section 34167.5 which allows the Controller to order the return of the assets since they were committed to third parties. The other items that were objected to by the DOF that the City did not request a meet and confer on consisted of cash assets for which there was no enforceable obligation. The Housing Authority is retaining the cash assets for which there is no enforceable obligations and expects to return those cash assets upon completion of the Due Diligence Review and receipt by the Successor Agency of a final determination by the Department of Finance of the amount of unencumbered housing funds that are to be distributed to the taxing agencies in accordance with Health and Safety Code Section 34179.5 and 34179.6. As of June 30, 2012, an estimate of \$15.9 million has been recorded as a liability in the Housing Authority to be returned to the Successor Agency in anticipation of completion of the Due Diligence Review. This estimate does not include the return of funds to the Successor Agency on May 22, 2012 of \$3.1 million representing the deposits to the Low and Moderate Income Housing Funds for fiscal year 2011-12 in order to pay enforceable obligations after the County failed to distribute funds from the Redevelopment Property Tax Trust Fund (RPTTF).

Under AB 1484, the uncommitted cash assets of the Low and Moderate Income Housing Fund (Housing Successor) are to be transferred to the Successor Agency upon completion of the Due

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

Diligence Review and Meet and Confer with DOF. The transferred amount will then be available to be distributed to the taxing jurisdictions.

The Housing Assets listed on the Department of Finance Housing Assets List Exhibits A, B, C and D are reported as follows:

| | Reported in General Fixed Assets | Reported in Housing Authority (Housing Successor) | Total Reported in the June 30, 2012 Financial Statements | Reported on DOF Housing Assets List February 1, 2012 | |
|--|--|---|---|--|--------------|
| ASSETS | | | | | |
| Cash and investments | \$ - | \$ 15,093,220 | \$ 15,093,220 | \$ - | ¹ |
| Committed Cash and Investments | - | 20,411,539 | 20,411,539 | 20,411,539 | |
| Interest receivable | - | 179,956 | 179,956 | - | |
| Notes receivable | - | 87,162,399 | 87,162,399 | 82,815,236 | ² |
| Due from other fund | - | 2,515,578 | 2,515,578 | - | |
| Land Held for Redevelopment | - | 24,718,866 | 24,718,866 | 24,715,096 | |
| Capital assets: | | | | | |
| Land and land improvements | 2,008,000 | - | 2,008,000 | 2,008,000 | |
| Depreciable capital assets, net | 41,623 | - | 41,623 | 41,623 | |
| Total Assets | <u>2,049,623</u> | <u>150,081,558</u> | <u>152,131,181</u> | <u>129,991,494</u> | |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | - | 83,091 | 83,091 | - | |
| Payable to Successor Agency | - | 15,900,000 | 15,900,000 | - | |
| Deferred revenue | - | 87,162,399 | 87,162,399 | 82,815,236 | |
| Total Liabilities | <u>-</u> | <u>103,145,490</u> | <u>103,145,490</u> | <u>82,815,236</u> | |
| NET ASSETS (DEFICIT) | <u>\$ 2,049,623</u> | <u>\$ 46,936,068</u> | <u>\$ 48,985,691</u> | <u>\$ 47,176,258</u> | |

NOTES:

Major difference between Financial Statement and DOF Housing Assets Transfer List:

¹ Uncommitted cash not included on HAT

² Additions and changes in loan balances after 2/1/12

D. Long-Term Debt

The Successor Agency assumed the long-term debt of the Redevelopment Agency as of February 1, 2012. See Note 11 section I for description of long-term debt of the Successor Agency.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

The debt services transactions from February 1 through June 30, 2012 for the Successor agency are shown in the table below:

| | Debt Transferred from Redevelopment Agency as of | Debt Service Payments | Amount Funded by RPTTF | Amount Funded by Cash on Hand | Amount Funded by Cash Flow Loans |
|---|---|--------------------------|------------------------------|--|---|
| Governmental Activity Debt: | | | | | |
| 1999-A Tax Allocation Bonds Bayshore North Project 5.25% - 5.5% maturing through 2023 | \$ 31,550,000 | \$ 854,431 | \$ - | \$ - | \$ 854,431 |
| 1999-B Tax Allocation Bonds Bayshore North Project 5.25%-5.5%, maturing through 2017 | 15,375,000 | 2,042,566 | - | 2,042,566 | - |
| 2002 Tax Allocation and Refunding Bonds Bayshore North Project 4.0%-5.5%, maturing through 2014 | 16,215,000 | 5,577,138 | - | 5,466,546 | 110,592 |
| 2003 Tax Allocation Bonds Bayshore North Project 5.0%, maturing through 2023 | 43,960,000 | 1,099,000 | - | - | 1,099,000 |
| 2011 Tax Allocation Bonds Bayshore North Project 4.35%-7.86%, maturing through 2026 | 31,411,295 | 451,556 | - | - | 451,556 |
| Total Governmental Activity Debt: | <u>\$ 138,511,295</u> | <u>\$ 10,024,691</u> | <u>\$ -</u> | <u>\$7,509,112</u> | <u>\$2,515,579</u> |

Redevelopment Property Tax Trust Fund (RPTTF) for the City of Santa Clara held by the County of Santa Clara

The County of Santa Clara has not released any distribution of RPTTF monies to the Successor Agency to fund enforceable obligations listed on the ROPS for January through June 2012, or the ROPS for July through December 2012. The County of Santa Clara refused to release any funds from the Redevelopment Property Tax Trust Fund for the Recognized Obligation Payment Schedule for the period of July through December 2012 because the County determined that the former Redevelopment Agency had received sufficient tax increment funds in December 2011 to pay all of the enforceable obligations due during the first ROPS period (February 1, 2012 through June 30, 2012) and the second ROPS period (July 1, 2012 through December 31, 2012) without recognizing the enforceable obligations that the former Redevelopment Agency listed and approved on the Enforceable Obligations Payment Schedules approved after adoption of the Dissolution Legislation but prior to the dissolution of the former Redevelopment Agency.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

The County is scheduled to release funds for the ROPS for January through June 2013 on January 2, 2013.

E. Enforceable Obligations

Management believes, in consultation with legal counsel, that the following obligations of the former Redevelopment Agency assigned to the City, the Santa Clara Stadium Authority, and the Housing Authority are valid enforceable obligations payable by the Successor Agency Trust Fund under the requirement of the Dissolution Legislation. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue favorable or unfavorable to the City.

Reimbursement Agreement between City of Santa Clara and former Redevelopment Agency for Certificates of Participation 2002 Series B

The Reimbursement Agreement is an agreement between the City and the former Redevelopment Agency entered into at the time the 2002 Certificates Of Participation (COPs) were issued. These COPs were issued by SOSA to refinance prior debt issuances of SOSA, the City and the former Redevelopment Agency. At the time the debt was issued, each of the three entities assumed responsibility for a portion of the debt based on their relative share of the refunding. The former Redevelopment Agency's share of the debt service was set at 9.849 percent of the total amount of costs based on the portion of Redevelopment Agency projects funded with the proceeds of the debt issuance. The refunding was done in order to reduce interest rates and save each of the three participating entities debt service costs. The reimbursement agreement obligates the former Redevelopment Agency to reimburse the City for lease payments associated with Redevelopment projects. Pursuant to Health and Safety Code Section 34178(a) the Successor Agency and the City of Santa Clara reentered into the Reimbursement Agreement, with Oversight Board approval and placed the Reimbursement Agreement on the ROPS for the January through June 2012 period as well as the ROPS for the July through December 2012 period. On both ROPS, the DOF did not object to the reimbursement agreement and payments were made in accordance with the ROPS.

The Department of Finance initially rejected this item on the ROPS for January through June 2013. The Successor Agency has initiated the meet and confer process for this enforceable obligation. The Successor Agency percentage share included on the ROPS for January through June 2012 was \$344 thousand. The actual share was \$345 thousand and that amount is included in the Debt Service Deduction on the Successor Agency financial statements for the year ended June 30, 2012.

Health and Safety Code Section 34171(d)(2) expressly recognizes as "enforceable obligations" written agreements between a former Redevelopment Agency and the City that formed the Redevelopment Agency if the agreement was entered into at the time of issuance of indebtedness obligations, but in no event later than December 31, 2010 and solely for the purpose of securing or repaying those indebtedness obligations. Health and Safety Code Section 34171(e) defines "indebtedness obligation" to mean bonds, notes, certificates of participation or other evidence of indebtedness issued or delivered by the redevelopment agency, or by a joint exercise of powers

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

authority created by the Redevelopment Agency, to third party investors or bondholders to finance or refinance redevelopment projects in compliance with the CRL.

The Reimbursement Agreement meets the requirements of Health and Safety Code Section 34171(d)(2) and is an enforceable obligation. The Reimbursement Agreement is a written agreement between the City and the former Redevelopment Agency entered into at the time that the COPs were issued (and significantly before December 31, 2010). The COPs meet the definition of an indebtedness obligation in Section 34171(e) as they are certificates of participation, issued by SOSA, which is a special district controlled by the City. The COPs were issued to third party investors or bondholders. The Reimbursement Agreement obligates the former Redevelopment Agency only to reimburse the City for lease payments associated with redevelopment projects. The use of tax increment funds for the redevelopment projects was authorized by Health and Safety Code Section 33445, and was undertaken in full compliance with the Community Redevelopment Law as it existed at that time. The Reimbursement Agreement was entered into for the sole purpose of securing and repaying the indebtedness obligation (the COPs). This is achieved through a conduit structure common to most certificates of participation transactions, whereby the Redevelopment Agency agrees in the Reimbursement Agreement to pay the City the amount of the rent payments under the Lease, and the City in turn uses those same dollars as rent under the Lease which is the source of repayment for the COPs. For these reasons, the City believes the Reimbursement Agreement is an enforceable obligation under Health and Safety Code Section 34171(d)(2) for which RPTTF payments should be made now.

Franklin Mall Cooperation and Reimbursement Reentry Agreement

The City of Santa Clara has made long-term advances to the former Redevelopment Agency. On May 18, 2012 the Oversight Board authorized the Successor Agency to reenter into the Loan Agreement with the City. On May 22, 2012 the Agreement Reentering into Loan Agreement was approved by the City of Santa Clara and the City as Successor Agency. The outstanding interfund commitment from the Successor Agency totaled \$2.3 million on June 30, 2012. AB 1484 allows these notes to be reentered into with the approval of the Oversight Board and after Department of Finance issuance of finding of completion.

This Reentry Agreement has been modified pursuant to Health and Safety Code Section 34191.4(b)(2). The accumulated interest on the remaining loan balance has been recalculated from the origination of the loan at the Local Agency Investment Fund (LAIF) rate and 20% of the repayment amount is to be deposited into the low mod housing fund (Housing Authority). Annual principal payments of \$500 thousand begin July 1, 2013 with the final payment due on July 1, 2017, including interest at the LAIF rate.

Agreement Reentering into Promissory Note to facilitate implementation of the Affordable Housing Program

The City of Santa Clara has made long-term advances to the former Redevelopment Agency for implementation of the Agency's affordable housing program. On May 18, 2012 the Oversight Board authorized the Successor Agency to reenter into the Loan Agreement with the City. On May 22, 2012 the Agreement Reentering into Loan Agreement was approved by the City of Santa Clara and the City of Successor Agency. The outstanding interfund commitment from the Successor

CITY OF SANTA CLARA
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NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

Agency totaled \$1.9 million as of June 30, 2012. AB 1484 allows these notes to be reentered into with the approval of the Oversight Board and after Department of Finance issuance of finding of completion.

This Reentry Agreement has been modified pursuant to Health and Safety Code Section 34191.4(b)(2). The accumulated interest on the remaining loan balance has been recalculated from the origination of the loan at the LAIF rate and 20% of the repayment amount is to be deposited into the low and moderate income housing fund. A principal payment of \$1.0 million is due July 1, 2013 with the next and final payment due on July 1, 2014, including interest at the LAIF rate.

Due to City of Santa Clara Interfund Commitment

The Agency conveyed certain properties to the City in March 2011 in consideration for the City reducing the amount owed to the City on the Santa Clara Gateway Cooperation Agreement to \$16.2 million. The reduction in debt owed was based on a market analysis of the value of the properties conveyed. This residual amount was included on the Enforceable Obligation Payment Schedule and was reviewed by the County of Santa Clara as part of its certification of the first ROPS on April 5, 2012. The determination was made not to put the residual amount on the Recognizable Obligation Payment Schedule as no payment was due at that time. AB 1484 allows these notes to be reentered into with the approval of the Oversight Board and after Department of Finance issuance of finding of completion.

Cash Flow Loan for Enforceable Obligations on ROPS I and ROPS II

The City of Santa Clara has made a cash flow loan for up to \$5.9 million to the Successor Agency using funds borrowed from the Housing Authority. The Oversight Board approved the cash flow loan on May 22, 2012. The cash flow loan was necessary to make debt service payments in May 2012 and November 2012 on the Tax Allocation Bonds and COPs in order to avoid default as a result of the County's refusal to make distributions from the Redevelopment Property Tax Trust Fund to the Successor Agency. The amount advanced to the Successor Agency as of June 30, 2012 is \$2.5 million. The Department of Finance initially rejected the cash flow loan as an enforceable obligation on ROPS III. The Successor Agency has initiated the meet and confer process with the Department of Finance related to the cash flow loan along with other ROPS III.

The City believes the cash flow loan is an enforceable obligation based on the provisions of the Dissolution Legislation. Health and Safety Code Section 34173(h) provides that the City that authorized the creation of a Redevelopment Agency, may loan or grant funds to a successor agency for administrative costs, enforceable obligations or project related expenses at the City's discretion subject to approval by the Oversight Board. Section 34173(h) goes on to state that when a City makes such a loan "an enforceable obligation shall be deemed to be created for the repayment of those loans."

The Oversight Board on May 18, 2012 approved the City cash flow loan and also approved placing the City Loan on the Recognized Obligation Payment Schedule. In accordance with Health and Safety Code Section 34173(h) the City and the Successor Agency have determined that the loan is deemed an enforceable obligation.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

Stadium Settlement Agreement and Judgment Related to 2011 Cooperation Agreement

A Cooperation Agreement was entered into between the former Redevelopment Agency and the Santa Clara Stadium Authority on February 28, 2011 and a Predevelopment Funding Agreement between the Redevelopment Agency, the Santa Clara Stadium Authority and the Forty Niners was entered into on March 21, 2011. On June 22, 2012, the Oversight Board voted to terminate the Cooperation Agreement and portions of the Predevelopment Funding Agreement based on Health and Safety Code Section 34181(d).

The Forty Niners filed a writ of mandate in Sacramento Superior Court and requested a temporary restraining order, restraining the County Auditor-Controller from disbursing any funds being held in the Redevelopment Property Tax Trust Fund for the second ROPS period to the taxing entities. The temporary restraining order was issued by the Court after the Court found that there was a substantial likelihood that the Forty Niners would prevail on their request for a writ of mandate. A writ of mandate is a court action requesting that a court overturn a decision made by a public agency.

After the issuance of the temporary restraining order, the Forty Niners and the Oversight Board entered into settlement negotiation and came to a settlement agreement to repay advances by the Forty Niners in the amount of \$34.4 million. The Department of Finance reviewed the Oversight Board action approving the Settlement Agreement and returned it to the Oversight Board without approval. The Department of Finance also rejected the Settlement Agreement as an enforceable obligations on ROPS III. The Successor Agency has initiated the meet and confer process with the Department of Finance related to the Settlement Agreement on ROPS III. The outcome is unknown at this time.

If the Forty Niners ultimately prevail in the litigation, the Successor Agency will list the obligations under the Predevelopment Funding Agreement and the Cooperation Agreement Assisting a Publicly Owned Stadium on further ROPS for funding from the RPTTF. If the 49ers do not prevail, the Successor Agency will have no further obligations under the Predevelopment Funding Agreement or the Cooperation Agreement.

F. Commitments and Contingencies

State Department of Finance Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the 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 Successor Agency expects such amounts, if any, to be immaterial.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

Recognized Obligation Payment Schedule III

The Successor Agency submitted the Recognized Obligation Payment Schedule for period of January 1, 2013 to June 30, 2013 to DOF for review. The Department of Finance objected to certain items on the ROPS. On October 22, 2012, the Successor Agency initiated the meet and confer process within the five day requirement to DOF. The meet and confer session is scheduled for November 26, 2012 but DOF's timeline to complete the meet and confer process is unknown at this time.

Agreed Upon Procedures by County of Santa Clara Finance Agency

Pursuant to Health and Safety Code section 34182, by October 5, 2012 the County of Santa Clara Auditor-Controller is required to provide the State Controller's Office and Department of Finance, the Agreed Upon Procedures Report to establish assets, liabilities, and other indebtedness of each former Redevelopment Agency, as well as to document and determine any pass-through payment obligations to taxing entities. The Auditor-Controller contracted with Harvey Rose, LLC, to perform the AUP and informed the State Controller and the DOF on October 1, 2012, that due to complexity there would be a delay in the submission of the AUP for the former Santa Clara Redevelopment Agency. The Auditor-Controller projected that the AUP would be completed by mid-October. No updated timeline from the County for completion of the AUP process is known at this time.

Due Diligence Review: Housing Successor

Pursuant to Health and Safety code Section 34179.5, the Successor Agency is required to employ a licensed accountant, approved the County Auditor-Controller for the County of Santa Clara, to conduct a due diligence review (DDR) of Housing funds and to determine the unobligated balances for the dissolved Redevelopment Agency's low and moderate income housing fund held by the Housing Successor available for transfer to taxing entities. While the Housing Successor has made its best efforts to meet the October 1, 2012 deadline, the County has taken the position that the AUP is necessary in order to complete the DDR given their desire to have consistency between the two reports. This review is underway with an estimated completion date of December 2012. Once completed it will be presented to the Oversight Board for approval and submission to DOF which provides a meet and confer process with the Successor Agency before the available amount is determined for transfer to taxing entities.

Due Diligence Review: Agency Successor

Pursuant to Health and Safety code Section 34179.5, the Successor Agency is required to employ a licensed accountant, approved the County Auditor-Controller for the County of Santa Clara, to conduct a due diligence review of non-housing funds and to determine the unobligated balances for the dissolved Redevelopment Agency's non-housing funds held by the Successor Agency available for transfer to taxing entities. This review is underway and is estimated to be completed in December 2012. Once completed it will be presented to the Oversight Board for approval and submission to DOF which provides a meet and confer process with the Successor Agency before the available amount is determined for transfer to taxing entities.

CITY OF SANTA CLARA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (continued)

State Controller's Office Asset Transfer Review

The activities of the former Redevelopment Agency and the Successor Agency are subject to further examination by the State of California and the amount, if any, of expenditures which may be disallowed by the State cannot be determined at this time. In addition, the State Controller's Office will be conducting a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The amount, if any, of assets that may be required to be returned to the Successor Agency cannot be determined at this time.

NOTE 23 – SUBSEQUENT EVENTS

Pension Reform Legislation

Subsequent to year end, the State legislature passed AB340 which reforms public employee pensions by reducing benefits and requiring employees to contribute more towards pension benefits.

For future retirees, the measure extends the normal retirement ages for non-safety and safety employees to 62 and 57, respectively, places a cap on final year compensation at \$110,100 for those employees participating in social security and \$132,120 for those that do not and prohibits compensation spiking by excluding vacation and sick leave payouts, bonuses, overtime. For all participants, the measure requires participants to contribute 50 percent towards normal cost pension benefits and prohibits employers from paying employee contributions, prohibits the purchase of airtime, prohibits retroactive pension increases, and prohibits pension holidays. Finally the measure limits post-retirement public employment and felons would forfeit pension benefits. The reforms are expected to reduce future pension contributions, however it is expected that it may be some time before those savings are realized.

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***Required Supplementary
Information***

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CITY OF SANTA CLARA
SCHEDULE OF FUNDING PROGRESS – OTHER POST RETIREMENT BENEFIT PLAN
June 30, 2012

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) - Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | Percentage of Covered Payroll |
|-----------------------------|------------------------------|---|------------------------|-----------------|--------------------|-------------------------------------|
| | (a) | (b) | (b - a) | (a/b) | (c) | ([b - a] /c) |
| 06/30/2005 | \$ - | \$ 30,589,000 | \$30,589,000 | 0.0% | \$ 83,091,000 | 36.8% |
| 06/30/2008 | \$ 4,502,000 | \$ 27,902,000 | \$23,400,000 | 16.1% | \$ 87,943,000 | 26.6% |
| 06/30/2010 | \$ 7,031,000 | \$ 30,886,000 | \$23,855,000 | 22.8% | \$101,739,000 | 23.4% |

**CITY OF SANTA CLARA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
For the year ended June 30, 2012**

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|-----------------------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Sales | \$ 36,625,000 | \$ 36,625,000 | \$ 40,322,018 | \$ 3,697,018 |
| Ad valorem | 27,930,000 | 27,930,000 | 28,347,475 | 417,475 |
| Transient occupancy | 9,900,000 | 9,900,000 | 11,483,363 | 1,583,363 |
| Other | 3,785,900 | 3,785,900 | 4,088,727 | 302,827 |
| Licenses, permits, fines and penalties | 4,821,200 | 4,821,200 | 9,139,121 | 4,317,921 |
| Intergovernmental | 862,000 | 1,206,006 | 937,562 | (268,444) |
| Charges for services | 25,063,065 | 25,850,260 | 30,562,357 | 4,712,097 |
| Contributions in-lieu of taxes | 15,245,102 | 15,245,102 | 15,342,885 | 97,783 |
| Interest and rents | 18,199,485 | 18,210,802 | 18,467,778 | 256,976 |
| Other | 200,200 | 201,800 | 204,020 | 2,220 |
| Total Revenues | <u>142,631,952</u> | <u>143,776,070</u> | <u>158,895,306</u> | <u>15,119,236</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| General Administration: | | | | |
| Salary & benefits | 635,192 | 2,967,227 | 2,945,381 | 21,846 |
| Material, service & supplies | 9,731,134 | 9,770,730 | 9,702,449 | 68,281 |
| Internal service fund charges | 133,708 | 133,708 | 133,708 | - |
| Capital outlay | - | - | - | - |
| Total General Administration | <u>10,500,034</u> | <u>12,871,665</u> | <u>12,781,538</u> | <u>90,127</u> |
| City Clerk: | | | | |
| Salary & benefits | 595,091 | 624,191 | 624,184 | 7 |
| Material, service & supplies | 76,296 | 63,571 | 63,527 | 44 |
| Internal service fund charges | 14,418 | 14,418 | 14,418 | - |
| Total City Clerk | <u>685,805</u> | <u>702,180</u> | <u>702,129</u> | <u>51</u> |
| City Attorney: | | | | |
| Salary & benefits | 1,163,498 | 1,088,698 | 1,088,630 | 68 |
| Material, service & supplies | 66,560 | 241,360 | 241,270 | 90 |
| Internal service fund charges | 29,914 | 29,914 | 29,914 | - |
| Capital outlay | - | - | - | - |
| Total City Attorney | <u>1,259,972</u> | <u>1,359,972</u> | <u>1,359,814</u> | <u>158</u> |
| Human Resources: | | | | |
| Salary & benefits | 1,732,044 | 1,676,531 | 1,627,128 | 49,403 |
| Material, service & supplies | 249,731 | 284,329 | 284,322 | 7 |
| Internal service fund charges | 45,178 | 45,178 | 45,178 | - |
| Capital outlay | - | - | - | - |
| Total Human Resources | <u>2,026,953</u> | <u>2,006,038</u> | <u>1,956,628</u> | <u>49,410</u> |

**CITY OF SANTA CLARA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
For the year ended June 30, 2012
(continued)**

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|-------------------------------|------------------|------------|-----------------------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| Finance: | | | | |
| Salary & benefits | 6,820,075 | 6,692,269 | 6,584,023 | 108,246 |
| Material, service & supplies | 612,865 | 648,758 | 648,712 | 46 |
| Internal service fund charges | 263,273 | 263,273 | 263,273 | - |
| Capital outlay | - | - | - | - |
| Total Finance | 7,696,213 | 7,604,300 | 7,496,008 | 108,292 |
| Total General Government | 22,168,977 | 24,544,155 | 24,296,117 | 248,038 |
| Public Works: | | | | |
| Salary & benefits | 11,742,815 | 11,373,399 | 11,000,645 | 372,754 |
| Material, service & supplies | 2,033,834 | 2,070,529 | 1,928,784 | 141,745 |
| Internal service fund charges | 1,299,529 | 1,299,529 | 1,299,529 | - |
| Capital outlay | - | - | - | - |
| Total Public Works | 15,076,178 | 14,743,457 | 14,228,958 | 514,499 |
| Parks and Recreation: | | | | |
| Salary & benefits | 9,942,032 | 9,518,871 | 9,489,799 | 29,072 |
| Material, service & supplies | 2,102,209 | 2,665,403 | 2,665,403 | - |
| Internal service fund charges | 670,877 | 670,877 | 670,877 | - |
| Capital outlay | - | - | - | - |
| Total Parks and Recreation | 12,715,118 | 12,855,151 | 12,826,079 | 29,072 |
| Public Safety: | | | | |
| Police: | | | | |
| Salary & benefits | 38,791,790 | 37,832,140 | 36,649,417 | 1,182,723 |
| Material, service & supplies | 2,284,166 | 2,299,392 | 2,148,655 | 150,737 |
| Internal service fund charges | 2,983,128 | 2,983,128 | 2,983,128 | - |
| Capital outlay | - | 15,848 | 14,825 | 1,023 |
| Total Police | 44,059,084 | 43,130,508 | 41,796,025 | 1,334,483 |
| Fire: | | | | |
| Salary & benefits | 30,544,306 | 29,680,693 | 28,328,457 | 1,352,236 |
| Material, service & supplies | 646,153 | 678,439 | 678,439 | - |
| Internal service fund charges | 2,164,956 | 2,164,956 | 2,164,956 | - |
| Capital outlay | 11,200 | 29 | - | 29 |
| Total Fire | 33,366,615 | 32,524,117 | 31,171,852 | 1,352,265 |
| Total Public Safety | 77,425,699 | 75,654,625 | 72,967,877 | 2,686,748 |

**CITY OF SANTA CLARA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
For the year ended June 30, 2012
(continued)**

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|--|-----------------------|----------------------|-----------------------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| Planning & Inspection: | | | | |
| Salary & benefits | 5,273,017 | 5,109,419 | 4,909,703 | 199,716 |
| Material, service & supplies | 506,262 | 1,201,587 | 1,199,670 | 1,917 |
| Internal service fund charges | 184,311 | 184,311 | 184,311 | - |
| Total Planning & Inspection | <u>5,963,590</u> | <u>6,495,317</u> | <u>6,293,684</u> | <u>201,633</u> |
| Library: | | | | |
| Salary & benefits | 5,216,196 | 5,103,662 | 4,974,906 | 128,756 |
| Material, service & supplies | 1,284,299 | 1,344,087 | 1,340,699 | 3,388 |
| Internal service fund charges | 176,009 | 176,009 | 176,009 | - |
| Total Library | <u>6,676,504</u> | <u>6,623,758</u> | <u>6,491,614</u> | <u>132,144</u> |
| Total Expenditures | <u>140,026,066</u> | <u>140,916,463</u> | <u>137,104,329</u> | <u>3,812,134</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>2,605,886</u> | <u>2,859,607</u> | <u>21,790,977</u> | <u>18,931,370</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 3,334,212 | 78,599,873 | 79,756,521 | 1,156,648 |
| Transfers (out) | (16,043,964) | (9,262,042) | (9,197,207) | 64,835 |
| Sale of capital assets | 400,000 | 400,000 | - | (400,000) |
| Total Other Financing Sources (Uses) | <u>(12,309,752)</u> | <u>69,737,831</u> | <u>70,559,314</u> | <u>821,483</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS | <u>\$ (9,703,866)</u> | <u>\$ 72,597,438</u> | 92,350,291 | <u>\$ 19,752,853</u> |
| ADJUSTMENTS TO BUDGETARY BASIS: | | | | |
| Prior year encumbrances recognized on the GAAP basis | | | 2,107,740 | |
| Current year encumbrances recognized on the budgetary basis | | | (3,195,647) | |
| Net change in receivables recognized on the GAAP basis | | | 2,501,437 | |
| Net change in accrued liabilities recognized on the GAAP basis | | | 2,000,475 | |
| Extraordinary Item | | | (21,779,099) | |
| Net change in funds for GAAP Basis not included in annual budget | | | 115,862 | |
| Beginning Fund balance | | | <u>73,655,347</u> | |
| Ending Fund balance | | | <u>\$147,756,406</u> | |

CITY OF SANTA CLARA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

NOTE 1 – REQUIRED SUPPLEMENTARY INFORMATION

A. BUDGETS AND BUDGETARY ACCOUNTING

The results of operations are presented in the budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis actual are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the liability is incurred.
- Expenditures of prior year encumbrances are recognized on the GAAP basis in the current year, while on the budgetary basis prior year encumbrances were recognized in the prior year.
- Accrued liabilities and compensated absences are recognized on the GAAP basis, while the budgetary basis does not recognize accrued liabilities.
- Revenues considered susceptible to accrual on the GAAP basis are not recognized on the budgetary basis until received.
- Increases to certain GAAP basis advances to other funds are treated as expenditures for budgetary basis financial statements.
- Component units and proprietary funds included in the City's basic financial statements, for which no annual budgets are prepared, are excluded from the budgetary basis financial statements.

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Supplementary Information

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| |
|---|
| CITY OF SANTA CLARA NON-MAJOR GOVERNMENTAL FUNDS |
|---|

SPECIAL REVENUE FUNDS

GAS TAX

The fund accounts for revenues and expenditures received from the State under Street and Highways Codes Sections 2105 (Gas Tax 2105), 2106 (Collier-Unruh) and 2107 (Special Gas Tax). The allocations must be spent for street maintenance or construction and a limited amount for engineering.

HUD PROGRAMS

This fund accounts for grant funds received from other governmental agencies for the purpose of developing viable urban communities.

CITY AFFORDABLE HOUSING

This fund accounts for the City's Below Market Housing Program for low and moderate income residents.

MAINTENANCE

This fund accounts for the maintenance of two Parking Districts located near the City's Convention Center and the downtown area. Funds are received by means of a Special Benefit Assessment levied against the property owners in the respective districts.

OPERATING GRANTS FUND

This fund accounts for grant funds received from other governmental agencies for various operating activities.

DEBT SERVICE FUNDS

SPECIAL ASSESSMENTS

This fund accumulates monies for payment of Special Assessment bonds which are financed by assessments placed on the County tax roll.

PUBLIC FACILITIES FINANCING CORPORATION

This fund accumulates monies for the repayment of Certificates of Participation, which are financed by lease payments made by the City's General Fund to the PFFC for use of the Police Administration Building and Library sites.

GENERAL GOVERNMENT

This fund accumulates monies for the payment of General Government long-term obligations, which are financed by various General Fund revenues.

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**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS (continued)**

CAPITAL PROJECTS FUNDS

PARKS AND RECREATION FACILITIES

This fund was established to account for revenues, contributions and reimbursements received and costs incurred in connection with the acquisition and construction of the City Parks.

STREETS AND HIGHWAYS IMPROVEMENT

This fund is used to account for revenues and expenditures related to road construction and traffic improvements.

STORM DRAIN IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of the City's storm drainage system.

FIRE DEPARTMENT IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of City fire stations.

LIBRARY DEPARTMENT IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of the City library facilities.

PUBLIC FACILITIES

This fund is used to account for revenues and expenditures related to the construction, acquisition or modification of public improvements not accounted for in another Capital Projects Fund.

STREET BEAUTIFICATION

This fund is used to account for revenues and expenditures related to the landscaping of City streets.

SPECIAL ASSESSMENTS

Special Assessment District funds are used to finance public improvements deemed to benefit the properties against which special assessments are made.

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
June 30, 2012**

SPECIAL REVENUE FUNDS

| | <u>Gas Tax</u> | <u>HUD Programs</u> | <u>City Affordable Housing</u> | <u>Maintenance</u> |
|--|-----------------------------|-----------------------------|------------------------------------|--------------------------|
| ASSETS | | | | |
| Cash and investments: | | | | |
| Pooled cash and investments | \$ 10,940,120 | \$ 551,525 | \$ 575,953 | \$ 207,521 |
| Investments with fiscal agent - current | - | - | - | - |
| Cash restricted for construction | - | - | - | 190,098 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts | - | - | - | - |
| Interest | - | - | - | - |
| Loans | - | 12,127,845 | 9,845,012 | - |
| Intergovernmental | 331,435 | 3,471,031 | - | - |
| Due from other funds | - | - | - | 22,473 |
| Investments with fiscal agent - noncurrent | - | - | - | - |
| Other | - | - | - | - |
| Total Assets | <u>\$ 11,271,555</u> | <u>\$ 16,150,401</u> | <u>\$ 10,420,965</u> | <u>\$ 420,092</u> |
| LIABILITIES | | | | |
| Accrued liabilities | \$ 3,452 | \$ 78,134 | \$ - | \$ 1,472 |
| Due to other funds | - | 114,242 | - | - |
| Interfund Commitment | - | - | - | - |
| Deferred revenue | - | 15,183,559 | 9,845,012 | - |
| Total Liabilities | <u>3,452</u> | <u>15,375,935</u> | <u>9,845,012</u> | <u>1,472</u> |
| FUND EQUITY | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 11,268,103 | 774,466 | - | 418,620 |
| Committed | - | - | 575,953 | - |
| Assigned | - | - | - | - |
| Unassigned | - | - | - | - |
| Total Fund Balances | <u>11,268,103</u> | <u>774,466</u> | <u>575,953</u> | <u>418,620</u> |
| Total Liabilities and Fund Balances | <u>\$ 11,271,555</u> | <u>\$ 16,150,401</u> | <u>\$ 10,420,965</u> | <u>\$ 420,092</u> |

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
June 30, 2012**

| Operating Grants Fund | DEBT SERVICE FUNDS | | | CAPITAL PROJECTS FUNDS | |
|-----------------------------|------------------------|-------------------------------------|-----------------------|--|---|
| | Special Assessments | Public Facilities Financing Corp | General Government | Parks and Recreation Facilities | Streets and Highways Improvement |
| \$ 440,211 | \$ - | \$ 728,902 | \$ 1,598,416 | \$ 1,103,174 | \$ 15,935,244 |
| - | - | - | - | - | - |
| - | - | - | - | - | 3,509,565 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 53,759 | - | - | - | - | 359,292 |
| - | - | - | - | - | - |
| - | - | 1,641,422 | 3,370,154 | - | - |
| 200 | - | - | - | - | - |
| <u>\$ 494,170</u> | <u>\$ -</u> | <u>\$ 2,370,324</u> | <u>\$ 4,968,570</u> | <u>\$ 1,103,174</u> | <u>\$ 19,804,101</u> |
| | | | | | |
| \$ 48,664 | \$ - | \$ - | \$ - | \$ 4,561 | \$ 176,938 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | 49,861 |
| <u>48,664</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,561</u> | <u>226,799</u> |
| | | | | | |
| - | - | - | - | - | - |
| 445,506 | - | 2,370,324 | 4,968,570 | - | 19,377,302 |
| - | - | - | - | 1,098,613 | 200,000 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>445,506</u> | <u>-</u> | <u>2,370,324</u> | <u>4,968,570</u> | <u>1,098,613</u> | <u>19,577,302</u> |
| <u>\$ 494,170</u> | <u>\$ -</u> | <u>\$ 2,370,324</u> | <u>\$ 4,968,570</u> | <u>\$ 1,103,174</u> | <u>\$ 19,804,101</u> |

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
June 30, 2012**

CAPITAL PROJECTS FUNDS

| | Storm Drain Improvement | Fire Department Improvement | Library Department Improvement | Public Facilities |
|--|--|--|---|------------------------------|
| ASSETS | | | | |
| Cash and investments: | | | | |
| Pooled cash and investments | \$ 2,267,892 | \$ 203,328 | \$ 252,461 | \$ 9,401,272 |
| Investments with fiscal agent - current | - | - | - | - |
| Cash restricted for construction | - | - | - | - |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts | 2,787 | - | - | 65,821 |
| Interest | - | - | - | - |
| Loans | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Due from other funds | - | - | - | - |
| Investments with fiscal agent - noncurrent | - | - | - | - |
| Other | - | - | - | - |
| Total Assets | \$ 2,270,679 | \$ 203,328 | \$ 252,461 | \$ 9,467,093 |
| LIABILITIES | | | | |
| Accrued liabilities | \$ 51,635 | \$ 619 | \$ 19,505 | \$ 134,825 |
| Due to other funds | - | - | - | - |
| Interfund Commitment | - | - | - | - |
| Deferred revenue | - | - | - | - |
| Total Liabilities | 51,635 | 619 | 19,505 | 134,825 |
| FUND EQUITY | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 651,620 | - | - | - |
| Committed | 1,567,424 | 202,709 | 232,956 | 9,332,268 |
| Assigned | - | - | - | - |
| Unassigned | - | - | - | - |
| Total Fund Balances | 2,219,044 | 202,709 | 232,956 | 9,332,268 |
| Total Liabilities and Fund Balances | \$ 2,270,679 | \$ 203,328 | \$ 252,461 | \$ 9,467,093 |

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
June 30, 2012**

| <u>Street Beautification</u> | <u>Special Assessments</u> | <u>Total Non-Major Governmental Funds</u> |
|----------------------------------|--------------------------------|---|
| \$ 150,138 | \$ 1,042,578 | \$ 45,398,735 |
| - | - | - |
| - | - | 3,699,663 |
| 1,208 | - | 69,816 |
| - | - | - |
| - | - | 21,972,857 |
| - | - | 4,215,517 |
| - | - | 22,473 |
| - | - | 5,011,576 |
| - | - | 200 |
| <u>\$ 151,346</u> | <u>\$ 1,042,578</u> | <u>\$ 80,390,837</u> |
| \$ - | \$ - | \$ 519,805 |
| - | - | 114,242 |
| - | - | - |
| - | - | 25,078,432 |
| - | - | 25,712,479 |
| - | - | - |
| - | 1,042,578 | 41,317,089 |
| 151,346 | - | 13,361,269 |
| - | - | - |
| - | - | - |
| <u>151,346</u> | <u>1,042,578</u> | <u>54,678,358</u> |
| <u>\$ 151,346</u> | <u>\$ 1,042,578</u> | <u>\$ 80,390,837</u> |

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the year ended June 30, 2012**

SPECIAL REVENUE FUNDS

| | <u>Gas Tax</u> | <u>HUD Programs</u> | <u>City Affordable Housing</u> | <u>Maintenance</u> |
|--|----------------------|-------------------------|------------------------------------|--------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Other | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | 3,316,460 | 1,506,141 | - | - |
| Charges for services | - | - | - | 647,953 |
| Interest and rents | 194,731 | - | 8,623 | 10,110 |
| Net increase (decrease) in the fair value of investments | - | - | - | - |
| Other | - | 436,183 | 188,146 | 3,471 |
| Total Revenues | <u>3,511,191</u> | <u>1,942,324</u> | <u>196,769</u> | <u>661,534</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General Administration | - | 1,251,649 | - | - |
| Public Works | 343,407 | - | - | 1,326,562 |
| Parks and Recreation | - | - | - | - |
| Public Safety: | | | | |
| Police | - | - | - | - |
| Fire | - | - | - | - |
| Library | - | - | - | - |
| Capital outlay | 580,535 | 588,730 | - | - |
| Debt service | | | | |
| Principal payments | - | - | - | - |
| Interest and fiscal fees | - | - | - | - |
| Bond cost expense | - | - | - | - |
| Total Expenditures | <u>923,942</u> | <u>1,840,379</u> | <u>-</u> | <u>1,326,562</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>2,587,249</u> | <u>101,945</u> | <u>196,769</u> | <u>(665,028)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from Bond Issuance | - | - | - | - |
| Transfers in | - | 4,675 | - | 737,755 |
| Transfers (out) | (1,425,000) | (436,841) | (56,735) | - |
| Total Other Financing Sources (Uses) | <u>(1,425,000)</u> | <u>(432,166)</u> | <u>(56,735)</u> | <u>737,755</u> |
| NET CHANGE IN FUND BALANCE | 1,162,249 | (330,221) | 140,034 | 72,727 |
| Fund balances - beginning, as restated | 10,105,854 | 1,104,687 | 435,919 | 345,893 |
| Fund balances - ending | <u>\$ 11,268,103</u> | <u>\$ 774,466</u> | <u>\$ 575,953</u> | <u>\$ 418,620</u> |

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the year ended June 30, 2012**

| Operating Grants Fund | DEBT SERVICE FUNDS | | | CAPITAL PROJECTS FUNDS | |
|-----------------------------|------------------------|--------------------------------------|-----------------------|--|---|
| | Special Assessments | Public Facilities Financing Corp. | General Government | Parks and Recreation Facilities | Streets and Highways Improvement |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 779,679 | - | - | - | - | 1,474,839 |
| 81,027 | - | - | - | - | 120,613 |
| 107 | - | 2 | 2 | - | 182,584 |
| - | - | - | - | - | - |
| - | - | - | 345,158 | 89,895 | 1,113,355 |
| 860,813 | - | 2 | 345,160 | 89,895 | 2,891,391 |
| - | - | - | - | - | - |
| 6,338 | - | - | - | - | 215,090 |
| 143,770 | - | - | - | 132,145 | - |
| 278,980 | - | - | - | - | - |
| 142,268 | - | - | - | - | - |
| 91,409 | - | - | - | - | - |
| 83,135 | - | - | - | 143,105 | 3,409,264 |
| - | - | 1,359,000 | 2,935,000 | - | - |
| - | - | 1,375,903 | 567,410 | - | - |
| - | - | 3,286 | 1,946 | - | - |
| 745,900 | - | 2,738,189 | 3,504,356 | 275,250 | 3,624,354 |
| 114,913 | - | (2,738,187) | (3,159,196) | (185,355) | (732,963) |
| - | - | - | - | - | - |
| 34,978 | - | 2,740,404 | 3,161,937 | - | 1,493,671 |
| (185,900) | - | - | - | (485,819) | (493,671) |
| (150,922) | - | 2,740,404 | 3,161,937 | (485,819) | 1,000,000 |
| (36,009) | - | 2,217 | 2,741 | (671,174) | 267,037 |
| 481,515 | - | 2,368,107 | 4,965,829 | 1,769,787 | 19,310,265 |
| <u>\$ 445,506</u> | <u>\$ -</u> | <u>\$ 2,370,324</u> | <u>\$ 4,968,570</u> | <u>\$ 1,098,613</u> | <u>\$ 19,577,302</u> |

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the year ended June 30, 2012 (continued)**

CAPITAL PROJECTS FUNDS

| | Storm Drain Improvement | Fire Department Improvement | Library Department Improvement | Public Facilities |
|--|--|--|---|------------------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Other | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | - | 7,393 | - | 264,100 |
| Charges for services | 408,432 | - | - | - |
| Interest and rents | 17,877 | - | - | - |
| Net increase (decrease) in the fair value of investments | - | - | - | - |
| Other | 145,500 | - | - | 258,650 |
| Total Revenues | 571,809 | 7,393 | - | 522,750 |
| EXPENDITURES | | | | |
| Current | | | | |
| General Administration | - | - | - | 2,046,850 |
| Public Works | 79,621 | - | - | - |
| Parks and Recreation | - | - | - | - |
| Public Safety: | | | | |
| Police | - | - | - | - |
| Fire | - | 134,494 | - | - |
| Library | - | - | 50,727 | - |
| Capital outlay | 244,695 | 8,011 | 92,033 | 824,280 |
| Debt service | | | | |
| Principal payments | - | - | - | - |
| Interest and fiscal fees | - | - | - | - |
| Bond cost expense | - | - | - | - |
| Total Expenditures | 324,316 | 142,505 | 142,760 | 2,871,130 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 247,493 | (135,112) | (142,760) | (2,348,380) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from Bond Issuance | - | - | - | - |
| Transfers in | 603,000 | 135,000 | 234,355 | 1,452,140 |
| Transfers (out) | - | (269) | (408,642) | (1,218,552) |
| Total Other Financing Sources (Uses) | 603,000 | 134,731 | (174,287) | 233,588 |
| NET CHANGE IN FUND BALANCE | 850,493 | (381) | (317,047) | (2,114,792) |
| Fund balances - beginning, as restated | 1,368,551 | 203,090 | 550,003 | 11,447,060 |
| Fund balances - ending | \$ 2,219,044 | \$ 202,709 | \$ 232,956 | \$ 9,332,268 |

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the year ended June 30, 2012 (continued)**

| <u>Street Beautification</u> | <u>Special Assessments</u> | <u>Total Non-Major Governmental Funds</u> |
|----------------------------------|--------------------------------|---|
| \$ - | \$ - | \$ - |
| - | - | 7,348,612 |
| 1,209 | - | 1,259,234 |
| - | 10,025 | 424,061 |
| - | - | - |
| <u>3,668</u> | <u>-</u> | <u>2,584,026</u> |
| <u>4,877</u> | <u>10,025</u> | <u>11,615,933</u> |
| - | - | 3,298,499 |
| - | - | 1,971,018 |
| - | - | 275,915 |
| - | - | 278,980 |
| - | - | 276,762 |
| - | - | 142,136 |
| 60,269 | - | 6,034,057 |
| - | - | 4,294,000 |
| - | - | 1,943,313 |
| - | - | 5,232 |
| <u>60,269</u> | <u>-</u> | <u>18,519,912</u> |
| <u>(55,392)</u> | <u>10,025</u> | <u>(6,903,979)</u> |
| - | - | - |
| 40,000 | - | 10,637,915 |
| <u>(22,379)</u> | <u>-</u> | <u>(4,733,808)</u> |
| <u>17,621</u> | <u>-</u> | <u>5,904,107</u> |
| <u>(37,771)</u> | <u>10,025</u> | <u>(999,872)</u> |
| 189,117 | 1,032,553 | 55,678,230 |
| <u>\$ 151,346</u> | <u>\$ 1,042,578</u> | <u>\$ 54,678,358</u> |

**CITY OF SANTA CLARA
SPECIAL REVENUE MAINTENANCE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
For the year ended June 30, 2012**

| | <u>Budget</u> | <u>Actual Amount Budgetary Basis</u> | <u>Variance Positive (Negative)</u> |
|---|-------------------|--|---|
| REVENUES | | | |
| Charges for services | \$ 672,777 | \$ 647,953 | \$ (24,824) |
| Interest and rents | - | 10,110 | 10,110 |
| | <u>672,777</u> | <u>661,534</u> | <u>(11,243)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public works | | | |
| Salary & benefits | 126,558 | 132,829 | (6,271) |
| Material, service & supplies | 1,281,997 | 1,144,929 | 137,068 |
| Internal service fund charges | 55,777 | 48,804 | 6,973 |
| | <u>1,464,332</u> | <u>1,326,562</u> | <u>137,770</u> |
| Total Public Works | <u>1,464,332</u> | <u>1,326,562</u> | <u>137,770</u> |
| Total Expenditures | <u>1,464,332</u> | <u>1,326,562</u> | <u>137,770</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(791,555)</u> | <u>(665,028)</u> | <u>126,527</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | <u>737,755</u> | <u>737,755</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>737,755</u> | <u>737,755</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | (53,800) | 72,727 | <u>\$ 126,527</u> |
| ADJUSTMENTS TO BUDGETARY BASIS: | | | |
| Expenditures of prior year encumbrances recognized on the GAAP basis | | - | |
| Current year encumbrances recognized on the budgetary basis | | - | |
| Net change in accrued liabilities recognized on the GAAP basis | | - | |
| Beginning Fund balance | <u>345,893</u> | <u>345,893</u> | |
| Ending Fund balance | <u>\$ 292,093</u> | <u>\$ 418,620</u> | |

| |
|--|
| <p style="text-align: center;">CITY OF SANTA CLARA NON-MAJOR ENTERPRISE FUNDS</p> |
|--|

Non-Major Enterprise Funds are used to finance and account for operations and activities performed by designated departments in the City or through third party agreements.

SOLID WASTE FUND

This fund accounts for the administration of the City's garbage and rubbish collection service.

CEMETERY FUND

This fund accounts for the activities of the Mission City Memorial Park.

SANTA CLARA GOLF AND TENNIS CLUB FUND (SCG&TC)

The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course or through third party agreements.

SANTA CLARA CONVENTION CENTER FUND

The Santa Clara Convention Center Fund was established in 1984 to account for the operations of the City's Convention Center or through third party agreements.

**CITY OF SANTA CLARA
NON-MAJOR ENTERPRISE FUNDS
STATEMENTS OF NET ASSETS
June 30, 2012**

| | <u>Solid Waste</u> | <u>Cemetery</u> | <u>Santa Clara Golf and Tennis Club</u> |
|--|------------------------|-----------------------|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments: | | | |
| Pooled cash and investments | \$ 3,061,213 | \$ 1,301,267 | \$ 169,297 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 1,770,825 | - | - |
| Due from other funds | - | 205,729 | - |
| Materials, supplies and prepaids | - | - | 62,505 |
| Total current assets | <u>4,832,038</u> | <u>1,506,996</u> | <u>231,802</u> |
| Noncurrent assets: | | | |
| Cash designated for construction | 711,551 | - | - |
| Capital assets: | | | |
| Land and land improvements | - | 1,267,053 | 23,832,610 |
| Buildings and infrastructure | 127,362 | 1,096,627 | - |
| Equipment | 233,120 | 186,139 | 623,404 |
| | <u>360,482</u> | <u>2,549,819</u> | <u>24,456,014</u> |
| Accumulated depreciation | 257,318 | 1,144,180 | 18,173,833 |
| | <u>103,164</u> | <u>1,405,639</u> | <u>6,282,181</u> |
| Other assets | 29,087 | - | - |
| Total noncurrent assets | <u>843,802</u> | <u>1,405,639</u> | <u>6,282,181</u> |
| Total assets | <u>5,675,840</u> | <u>2,912,635</u> | <u>6,513,983</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accrued liabilities | 846,400 | 135 | 243,400 |
| Accrued compensated absences | 8,204 | 12,239 | - |
| Due to other funds | - | - | - |
| Deferred revenue | - | - | - |
| Current portion of landfill closure liability | 241,000 | - | - |
| Total current liabilities | <u>1,095,604</u> | <u>12,374</u> | <u>243,400</u> |
| Noncurrent liabilities: | | | |
| Advance from other funds | - | 3,974,290 | 4,099,134 |
| Landfill closure liability | 2,380,124 | - | - |
| Long-term Comp Absences | 95,139 | 100,404 | - |
| Total noncurrent liabilities | <u>2,475,263</u> | <u>4,074,694</u> | <u>4,099,134</u> |
| Total liabilities | <u>3,570,867</u> | <u>4,087,068</u> | <u>4,342,534</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 103,164 | 1,405,639 | 6,282,181 |
| Restricted for capital projects | - | 1,087,549 | - |
| Unrestricted | 2,001,809 | (3,667,621) | (4,110,732) |
| Total net assets | <u>\$ 2,104,973</u> | <u>\$ (1,174,433)</u> | <u>\$ 2,171,449</u> |

**CITY OF SANTA CLARA
NON-MAJOR ENTERPRISE FUNDS
STATEMENTS OF NET ASSETS
June 30, 2012**

| <u>Santa Clara Convention Center</u> | <u>TOTAL Non-Major Enterprise Funds</u> |
|--|---|
| \$ 2,033,551 | \$ 6,565,328 |
| 538,383 | 2,309,208 |
| - | 205,729 |
| - | 62,505 |
| <u>2,571,934</u> | <u>9,142,770</u> |
| - | 711,551 |
| - | 25,099,663 |
| 78,029,632 | 79,253,621 |
| <u>1,853,430</u> | <u>2,896,093</u> |
| <u>79,883,062</u> | <u>107,249,377</u> |
| <u>39,997,990</u> | <u>59,573,321</u> |
| <u>39,885,072</u> | <u>47,676,056</u> |
| - | 29,087 |
| <u>39,885,072</u> | <u>48,416,694</u> |
| <u>42,457,006</u> | <u>57,559,464</u> |
| 359,182 | 1,449,117 |
| - | 20,443 |
| 1,453,149 | 1,453,149 |
| 759,603 | 759,603 |
| - | 241,000 |
| <u>2,571,934</u> | <u>3,923,312</u> |
| - | 8,073,424 |
| - | 2,380,124 |
| - | 195,543 |
| <u>-</u> | <u>10,649,091</u> |
| <u>2,571,934</u> | <u>14,572,403</u> |
| 39,885,072 | 47,676,056 |
| - | 1,087,549 |
| - | (5,776,544) |
| <u>\$ 39,885,072</u> | <u>\$ 42,987,061</u> |

**CITY OF SANTA CLARA
NON-MAJOR ENTERPRISE FUNDS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
For the year ended June 30, 2012**

| | <u>Solid Waste</u> | <u>Cemetery</u> | <u>Santa Clara Golf and Tennis Club</u> |
|---|------------------------|-----------------------|---|
| Operating revenues: | | | |
| Charges for services | \$ 18,221,602 | \$ 518,712 | \$ 2,867,971 |
| Other | 216,379 | - | 104,664 |
| Total operating revenues | <u>18,437,981</u> | <u>518,712</u> | <u>2,972,635</u> |
| Operating expenses: | | | |
| Salaries and benefits | 949,698 | 609,325 | - |
| Materials, services and supplies | 16,342,122 | 310,624 | 1,953,092 |
| Amortization | 17,845 | - | - |
| Depreciation | 2,547 | 36,337 | 805,794 |
| Total operating expenses | <u>17,312,212</u> | <u>956,286</u> | <u>2,758,886</u> |
| Operating income (loss) | <u>1,125,769</u> | <u>(437,574)</u> | <u>213,749</u> |
| Nonoperating revenues (expenses): | | | |
| Interest revenue | - | 21,458 | - |
| Rents and royalties | 21,994 | - | - |
| Other revenue | - | 49 | - |
| Total nonoperating revenues | <u>21,994</u> | <u>21,507</u> | <u>-</u> |
| Income (loss) before contributions and transfers | 1,147,763 | (416,067) | 213,749 |
| Contributions | - | - | - |
| Transfers in | 538,349 | - | - |
| Transfers (out) | <u>(675)</u> | <u>(411)</u> | <u>(948,002)</u> |
| Change in net assets | 1,685,437 | (416,478) | (734,253) |
| Total net assets - beginning, as restated | 419,536 | (757,955) | 2,905,702 |
| Total net assets - ending | <u>\$ 2,104,973</u> | <u>\$ (1,174,433)</u> | <u>\$ 2,171,449</u> |

**CITY OF SANTA CLARA
NON-MAJOR ENTERPRISE FUNDS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
For the year ended June 30, 2012**

| Santa Clara Convention Center | TOTAL Non-Major Enterprise Funds |
|--|---|
| \$ 5,838,085 | \$ 27,446,370 |
| - | 321,043 |
| <u>5,838,085</u> | <u>27,767,413</u> |
| - | 1,559,023 |
| 5,313,300 | 23,919,138 |
| - | 17,845 |
| <u>2,760,147</u> | <u>3,604,825</u> |
| <u>8,073,447</u> | <u>29,100,831</u> |
| <u>(2,235,362)</u> | <u>(1,333,418)</u> |
| 43,423 | 64,881 |
| - | 21,994 |
| - | 49 |
| <u>43,423</u> | <u>86,924</u> |
| (2,191,939) | (1,246,494) |
| 280,568 | 280,568 |
| - | 538,349 |
| <u>(568,208)</u> | <u>(1,517,296)</u> |
| (2,479,579) | (1,944,873) |
| 42,364,651 | 44,931,934 |
| <u>\$ 39,885,072</u> | <u>\$ 42,987,061</u> |

**CITY OF SANTA CLARA
NON-MAJOR ENTERPRISE FUNDS
STATEMENTS OF CASH FLOWS
For the year ended June 30, 2012**

| | Solid Waste | Cemetery | Santa Clara Golf and Tennis Club |
|---|------------------------|---------------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 18,123,479 | \$ 518,712 | \$ 2,867,971 |
| Payments to suppliers | (16,830,631) | (333,454) | (1,961,765) |
| Payments to employees | (927,625) | (594,323) | - |
| Rents and royalties received | 21,994 | - | - |
| Other receipts (payments) | 216,379 | - | 110,598 |
| Net cash provided (used) by operating activities | <u>603,596</u> | <u>(409,065)</u> | <u>1,016,804</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Increase (decrease) in due from other funds | - | (14,212) | - |
| (Increase) decrease in due to other funds | - | - | - |
| Advances from other funds | - | 584,600 | - |
| Transfers in | 538,349 | - | - |
| Transfers (out) | (675) | (411) | (948,002) |
| Cash Flows from Noncapital Financing Activities | <u>537,674</u> | <u>569,977</u> | <u>(948,002)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition and construction of capital assets, net | - | (19,707) | - |
| Landfill closure expenses | (464,291) | - | - |
| Cash Flows from Capital and Related Financing Activities | <u>(464,291)</u> | <u>(19,707)</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends | - | 21,458 | - |
| Cash Flows from Investing Activities | <u>-</u> | <u>21,458</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | 676,979 | 162,663 | 68,802 |
| Cash and cash equivalents at beginning of period | 3,095,785 | 1,138,604 | 100,495 |
| Cash and cash equivalents at end of period | <u>\$ 3,772,764</u> | <u>\$ 1,301,267</u> | <u>\$ 169,297</u> |
| Cash and cash equivalents: | | | |
| Pooled cash and investments | \$ 3,061,213 | \$ 1,301,267 | \$ 169,297 |
| Cash designated for construction | 711,551 | - | - |
| Total cash and cash equivalents | <u>\$ 3,772,764</u> | <u>\$ 1,301,267</u> | <u>\$ 169,297</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ 1,125,769 | \$ (437,574) | \$ 213,749 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Amortization | 17,845 | - | - |
| Depreciation | 2,547 | 36,337 | 805,794 |
| Change in assets and liabilities: | | | |
| Receivables, net | (98,123) | - | - |
| Inventory | - | - | 5,934 |
| Accrued liabilities | (487,309) | (22,798) | (8,673) |
| Compensated absences | 22,073 | 15,002 | - |
| Deferred revenue | - | (32) | - |
| Other receipts | 20,794 | - | - |
| Net cash provided (used) by operating activities | <u>\$ 603,596</u> | <u>\$ (409,065)</u> | <u>\$ 1,016,804</u> |
| Capital Contributions | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**CITY OF SANTA CLARA
NON-MAJOR ENTERPRISE FUNDS
STATEMENTS OF CASH FLOWS
For the year ended June 30, 2012**

| <u>Santa Clara Convention Center</u> | <u>TOTAL Non-Major Enterprise Funds</u> |
|--|---|
| \$ 6,008,132 | \$ 27,518,294 |
| (5,246,841) | (24,372,691) |
| - | (1,521,948) |
| - | 21,994 |
| - | 326,977 |
| <u>761,291</u> | <u>1,972,626</u> |
| - | (14,212) |
| (205,668) | (205,668) |
| - | 584,600 |
| - | 538,349 |
| <u>(568,208)</u> | <u>(1,517,296)</u> |
| <u>(773,876)</u> | <u>(614,227)</u> |
| - | (19,707) |
| - | (464,291) |
| - | (483,998) |
| 43,423 | 64,881 |
| <u>43,423</u> | <u>64,881</u> |
| 30,838 | 939,282 |
| <u>2,002,713</u> | <u>6,337,597</u> |
| <u>\$ 2,033,551</u> | <u>\$ 7,276,879</u> |
| \$ 2,033,551 | \$ 6,565,328 |
| - | 711,551 |
| <u>\$ 2,033,551</u> | <u>\$ 7,276,879</u> |
| \$ (2,235,362) | \$ (1,333,418) |
| - | 17,845 |
| 2,760,147 | 3,604,825 |
| 88,356 | (9,767) |
| - | 5,934 |
| 66,458 | (452,322) |
| - | 37,075 |
| 81,692 | 81,660 |
| - | 20,794 |
| <u>\$ 761,291</u> | <u>\$ 1,972,626</u> |
| <u>\$ 280,568</u> | <u>\$ 280,568</u> |

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| <p style="text-align: center;">CITY OF SANTA CLARA INTERNAL SERVICE FUNDS</p> |
|--|

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund are eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

AUTOMOTIVE SERVICES

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue for this fund is rental fees charged to the various departments.

TECHNICAL EQUIPMENT SERVICES

This fund accounts for the maintenance and replacement of communication and computer equipment used by City departments. The source of revenue for this fund is rental fees charged to the various departments.

SPECIAL LIABILITY INSURANCE CLAIMS

This fund was established to account for the cost of claims and administrative costs for the City's self-insured general liability program.

WORKERS' COMPENSATION INSURANCE CLAIMS

This fund is used to account for the cost of claims for service connected with injuries and illnesses sustained by members of the City's work force.

**CITY OF SANTA CLARA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF NET ASSETS
June 30, 2012**

| | Automotive Services | Technical Equipment Services | Special Liability Insurance Claims | Workers' Compensation Insurance Claims | TOTAL |
|--|--------------------------------|---|---|---|-----------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and investments: | | | | | |
| Pooled cash and investments | \$ 7,640,207 | \$ 1,188,824 | \$ 4,983,303 | \$ 2,506,730 | \$ 16,319,064 |
| Receivables (net of allowance for uncollectibles): | | | | | |
| Accounts | 54,987 | - | - | 253,362 | 308,349 |
| Due from other funds | 138,936 | 89,861 | - | - | 228,797 |
| Materials, supplies and prepaids | 373,864 | - | - | - | 373,864 |
| Total current assets | 8,207,994 | 1,278,685 | 4,983,303 | 2,760,092 | 17,230,074 |
| Noncurrent assets: | | | | | |
| Equipment | 22,393,439 | 2,475,429 | - | - | 24,868,868 |
| Less Accumulated depreciation | 17,689,913 | 2,472,158 | - | - | 20,162,071 |
| Net Capital Assets | 4,703,526 | 3,271 | - | - | 4,706,797 |
| Total noncurrent assets | 4,703,526 | 3,271 | - | - | 4,706,797 |
| Total assets | 12,911,520 | 1,281,956 | 4,983,303 | 2,760,092 | 21,936,871 |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accrued liabilities | 116,102 | 1,021 | 968,179 | 3,503,648 | 4,588,950 |
| Accrued compensated absences | 11,720 | 6,581 | - | - | 18,301 |
| Due to other funds | 2,466,106 | 358,544 | - | - | 2,824,650 |
| Total current liabilities | 2,593,928 | 366,146 | 968,179 | 3,503,648 | 7,431,901 |
| Noncurrent liabilities: | | | | | |
| Long-term Portion Est. Claims | - | - | 739,604 | 14,868,015 | 15,607,619 |
| Long-term Comp Absences | 154,523 | 37,922 | - | - | 192,445 |
| Total noncurrent liabilities | 154,523 | 37,922 | 739,604 | 14,868,015 | 15,800,064 |
| Total liabilities | 2,748,451 | 404,068 | 1,707,783 | 18,371,663 | 23,231,965 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | | | | | |
| Unrestricted | 4,703,526 | 3,271 | - | - | 4,706,797 |
| | 5,459,543 | 874,617 | 3,275,520 | (15,611,571) | (6,001,891) |
| Total net assets | \$ 10,163,069 | \$ 877,888 | \$ 3,275,520 | \$ (15,611,571) | \$ (1,295,094) |

**CITY OF SANTA CLARA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
For the year ended June 30, 2012**

| | <u>Automotive Services</u> | <u>Technical Equipment Services</u> | <u>Special Liability Insurance Claims</u> | <u>Workers' Compensation Insurance Claims</u> | <u>TOTAL</u> |
|-------------------------------------|--------------------------------|---|---|---|-----------------------|
| Operating revenues: | | | | | |
| Charges for services | \$ 5,587,904 | \$ 877,735 | \$ 1,850,471 | \$ 2,600,023 | \$ 10,916,133 |
| Insurance refunds and other | 37,738 | - | 11,978 | 509,636 | 559,352 |
| Total operating revenues | <u>5,625,642</u> | <u>877,735</u> | <u>1,862,449</u> | <u>3,109,659</u> | <u>11,475,485</u> |
| Operating expenses: | | | | | |
| Salaries and benefits | 1,810,831 | 547,827 | - | - | 2,358,658 |
| Materials, services and supplies | 2,266,147 | 87,830 | - | - | 2,353,977 |
| General and administrative | - | - | 1,084,845 | 4,303,542 | 5,388,387 |
| Depreciation and amortization | 1,550,618 | 71,730 | - | - | 1,622,348 |
| Total operating expenses | <u>5,627,596</u> | <u>707,387</u> | <u>1,084,845</u> | <u>4,303,542</u> | <u>11,723,370</u> |
| Operating income (loss) | <u>(1,954)</u> | <u>170,348</u> | <u>777,604</u> | <u>(1,193,883)</u> | <u>(247,885)</u> |
| Nonoperating revenues (expenses): | | | | | |
| Other revenue | 90,660 | - | - | - | 90,660 |
| Gain (loss) on retirement of assets | (25,545) | - | - | - | (25,545) |
| Total nonoperating revenues | <u>65,115</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>65,115</u> |
| Income (loss) before transfers | 63,161 | 170,348 | 777,604 | (1,193,883) | (182,770) |
| Transfers in | - | - | - | 160,000 | 160,000 |
| Transfers (out) | <u>(6,171)</u> | <u>(378)</u> | <u>(50,000)</u> | <u>-</u> | <u>(56,549)</u> |
| Change in net assets | 56,990 | 169,970 | 727,604 | (1,033,883) | (79,319) |
| Total net assets - beginning | <u>10,106,079</u> | <u>707,918</u> | <u>2,547,916</u> | <u>(14,577,688)</u> | <u>(1,215,775)</u> |
| Total net assets - ending | <u>\$ 10,163,069</u> | <u>\$ 877,888</u> | <u>\$ 3,275,520</u> | <u>\$ (15,611,571)</u> | <u>\$ (1,295,094)</u> |

**CITY OF SANTA CLARA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
For the year ended June 30, 2012**

| | Automotive Services | Technical Equipment Services | Special Liability Insurance Claims | Workers' Compensation Insurance Claims | TOTAL |
|---|--------------------------------|---|---|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | \$ 5,570,655 | \$ 877,735 | \$ 1,850,471 | \$ 2,668,327 | \$10,967,188 |
| Payments to suppliers | (2,046,300) | (76,963) | - | - | (2,123,263) |
| Payments to employees | (1,814,930) | (557,540) | - | - | (2,372,470) |
| Internal activity - payments to other funds | (118,523) | (20,840) | - | - | (139,363) |
| Claims paid | - | - | (1,705,584) | (2,855,158) | (4,560,742) |
| Other receipts (payments) | 90,660 | - | - | - | 90,660 |
| Net cash provided (used) by operating activities | <u>1,681,562</u> | <u>222,392</u> | <u>144,887</u> | <u>(186,831)</u> | <u>1,862,010</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Increase (decrease) in due from other funds | 57,491 | (1,621) | - | - | 55,870 |
| (Increase) decrease in due to other funds | 259,978 | 17,925 | - | - | 277,903 |
| Transfers in | - | - | - | 160,000 | 160,000 |
| Transfers (out) | (6,171) | (378) | (50,000) | - | (56,549) |
| Cash Flows from Noncapital Financing Activities | <u>311,298</u> | <u>15,926</u> | <u>(50,000)</u> | <u>160,000</u> | <u>437,224</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition and construction of capital assets, net | (756,875) | - | - | - | (756,875) |
| Cash Flows from Capital and Related Financing Activities | <u>(756,875)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(756,875)</u> |
| Net increase (decrease) in cash and cash equivalents | 1,235,985 | 238,318 | 94,887 | (26,831) | 1,542,359 |
| Cash and investments at beginning of period | <u>6,404,222</u> | <u>950,506</u> | <u>4,888,416</u> | <u>2,533,561</u> | <u>14,776,705</u> |
| Cash and investments at end of period | <u>\$ 7,640,207</u> | <u>\$ 1,188,824</u> | <u>\$ 4,983,303</u> | <u>\$ 2,506,730</u> | <u>\$16,319,064</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | \$ (1,954) | \$ 170,348 | \$ 777,604 | \$ (1,193,883) | \$ (247,885) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation | 1,550,618 | 71,730 | - | - | 1,622,348 |
| Change in assets and liabilities: | | | | | |
| Receivables, net | (54,987) | - | - | 68,304 | 13,317 |
| Inventory | 10,879 | - | - | - | 10,879 |
| Accrued liabilities | 90,445 | (9,973) | (364,870) | 5,065 | (279,333) |
| Long-term portion estimated claims | - | - | (267,847) | 933,683 | 665,836 |
| Compensated absences | (4,099) | (9,713) | - | - | (13,812) |
| Other receipts | 90,660 | - | - | - | 90,660 |
| Net cash provided (used) by operating activities | <u>\$ 1,681,562</u> | <u>\$ 222,392</u> | <u>\$ 144,887</u> | <u>\$ (186,831)</u> | <u>\$ 1,862,010</u> |

**CITY OF SANTA CLARA
COMBINING FIDUCIARY FUNDS**

PRIVATE PURPOSE TRUST FUNDS

Private-Purpose Trust Funds are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The Private-Purpose Trust Funds are described below:

SUCCESSOR AGENCY

California State laws ABx1 26 and AB 1484 provided for the dissolution of California Redevelopment Agencies effective January 31, 2012 and the transfer of all non-housing Agency assets to the Successor Agency Redevelopment Obligation Retirement Fund.

CHARITABLE TRUSTS

This fund accounts for the various gifts, donations and bequests received by the City.

AGENCY FUNDS

Agency Funds are presented separately from the Government-wide and Fund financial statements.

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

EMPLOYEE BENEFIT AND LIABILITY CLEARING

This fund is used to account for monies collected and disbursed related to employee and retiree health, dental and other fringe benefits.

SPECIAL ASSESSMENTS

This fund accounts for monies collected and disbursed from special assessment districts where the City is not obligated for the outstanding debt payments.

DEPOSITS

This fund accounts for various deposits including leases and subpoenas.

**CITY OF SANTA CLARA
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2012**

| | <u>Charitable Trust</u> | <u>Successor Agency</u> | <u>Total Private Purpose Trust</u> |
|--|-----------------------------|-----------------------------|--|
| ASSETS | | | |
| Pooled cash and investments | \$ 358,484 | \$ - | \$ 358,484 |
| Investments with fiscal agent - current | - | 2,767,860 | 2,767,860 |
| Receivables (net of allowance for uncollectibles): | | | - |
| Interest | 15,252 | - | 15,252 |
| Due from Housing Successor | - | 15,900,000 | 15,900,000 |
| Investments with fiscal agent - noncurrent | 2,782,517 | 9,672,099 | 12,454,616 |
| Other | - | 393,182 | 393,182 |
| Total Assets | <u>3,156,253</u> | <u>28,733,141</u> | <u>31,889,394</u> |
| LIABILITIES | | | |
| Accrued liabilities | - | 5,400 | 5,400 |
| Interest payable | - | 492,044 | 492,044 |
| Due to City | - | 6,836,305 | 6,836,305 |
| Long-term debt - due within one year | - | 7,073,819 | 7,073,819 |
| Long-term debt - due after one year | - | 124,356,879 | 124,356,879 |
| Total Liabilities | <u>-</u> | <u>138,764,447</u> | <u>138,764,447</u> |
| NET ASSETS | | | |
| Held in trust for private purpose | <u>\$ 3,156,253</u> | <u>\$ (110,031,306)</u> | <u>\$ (106,875,053)</u> |

**CITY OF SANTA CLARA
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended June 30, 2012**

| | <u>Charitable Trust</u> | <u>Successor Agency</u> | <u>Total Private Purpose Trust</u> |
|--|-----------------------------|-----------------------------|--|
| Additions | | | |
| Investment income: | | | |
| Interest | \$ 48,416 | \$ 19,827 | \$ 68,243 |
| Net change in fair value of plan investments | 35,340 | - | 35,340 |
| Transfer in | - | - | - |
| Other | 38 | - | 38 |
| Total additions | <u>83,794</u> | <u>19,827</u> | <u>103,621</u> |
| Deductions | | | |
| General and administrative | 52,474 | 518,448 | 570,922 |
| Interest and Fees | - | 2,931,064 | 2,931,064 |
| Total deductions | <u>52,474</u> | <u>3,449,512</u> | <u>3,501,986</u> |
| Change in net assets before extraordinary item | 31,320 | (3,429,685) | (3,398,365) |
| Extraordinary item - assets transferred to/ liabilities assumed by Successor Agency | - | (106,601,621) | (106,601,621) |
| Change in net assets | 31,320 | (110,031,306) | (109,999,986) |
| Net assets held in trust for private purpose: | | | |
| Beginning of year | <u>3,124,933</u> | <u>-</u> | <u>3,124,933</u> |
| End of year | <u>\$ 3,156,253</u> | <u>\$ (110,031,306)</u> | <u>\$ (106,875,053)</u> |

**CITY OF SANTA CLARA
AGENCY FUNDS
COMBINING STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2012**

| | Employee Benefit & Liability Clearing | Special Assessments | Deposits | Total |
|---|--|--------------------------------|---------------------|----------------------|
| ASSETS | | | | |
| Pooled cash and investments | \$ 5,859,246 | \$ 2,856,874 | \$ 4,592,189 | \$ 13,308,309 |
| Cash and investments with fiscal agents | - | - | - | - |
| Total Assets | <u>5,859,246</u> | <u>2,856,874</u> | <u>4,592,189</u> | <u>13,308,309</u> |
| LIABILITIES | | | | |
| Due to bondholders | - | 2,856,874 | - | 2,856,874 |
| Accrued liabilities | 5,859,246 | - | - | 5,859,246 |
| Refundable deposits | - | - | 4,592,189 | 4,592,189 |
| Total Liabilities | <u>\$ 5,859,246</u> | <u>\$ 2,856,874</u> | <u>\$ 4,592,189</u> | <u>\$ 13,308,309</u> |

**CITY OF SANTA CLARA
AGENCY FUNDS
COMBINING STATEMENTS OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
For the year ended June 30, 2012**

| | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2012</u> |
|--|---------------------------------|----------------------|----------------------|----------------------------------|
| <u>Employee Benefit and Liability Clearing</u> | | | | |
| Pooled cash and investments | \$ 8,726,739 | \$ 75,236,253 | \$ 78,103,746 | \$ 5,859,246 |
| Accrued liabilities | \$ 8,726,739 | \$ 75,236,253 | \$ 78,103,746 | \$ 5,859,246 |
| <u>Special Assessments</u> | | | | |
| Pooled cash and investments | \$ 3,416,932 | \$ 855,824 | \$ 1,415,882 | \$ 2,856,874 |
| Cash and investments with fiscal agent | 211,984 | - | 211,984 | - |
| Total Assets | <u>3,628,916</u> | <u>855,824</u> | <u>1,627,866</u> | <u>2,856,874</u> |
| Due to bondholders | <u>\$ 3,628,916</u> | <u>\$ 855,824</u> | <u>\$ 1,627,866</u> | <u>\$ 2,856,874</u> |
| <u>Deposits</u> | | | | |
| Pooled cash and investments | \$ 4,606,715 | \$ - | \$ 14,526 | \$ 4,592,189 |
| Accrued liabilities | - | - | - | - |
| Refundable deposits | <u>4,606,715</u> | <u>-</u> | <u>14,526</u> | <u>4,592,189</u> |
| Total liabilities | <u>\$ 4,606,715</u> | <u>\$ -</u> | <u>\$ 14,526</u> | <u>\$ 4,592,189</u> |
| <u>Total Agency Funds</u> | | | | |
| Pooled cash and investments | \$ 16,750,386 | \$ 76,092,077 | \$ 79,534,154 | \$ 13,308,309 |
| Cash and investments with fiscal agent | 211,984 | - | 211,984 | - |
| Total Assets | <u>16,962,370</u> | <u>76,092,077</u> | <u>79,746,138</u> | <u>13,308,309</u> |
| Due to bondholders | 3,628,916 | 855,824 | 1,627,866 | 2,856,874 |
| Accrued liabilities | 8,726,739 | 75,236,253 | 78,103,746 | 5,859,246 |
| Refundable deposits | <u>4,606,715</u> | <u>-</u> | <u>14,526</u> | <u>4,592,189</u> |
| Total Liabilities | <u>\$ 16,962,370</u> | <u>\$ 76,092,077</u> | <u>\$ 79,746,138</u> | <u>\$ 13,308,309</u> |

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Statistical Section (Unaudited)

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**CITY OF SANTA CLARA
STATISTICAL SECTION**

This part of the City of Santa Clara's Comprehensive Annual Report provides detailed information to better understand the data presented within the financial statements, note disclosures, and required supplementary information.

TABLES

FINANCIAL TRENDS

1 - 4

Contains trend information to help the reader understand how the City's financial performance has changed over time.

REVENUE CAPACITY

5 - 8

Contains information to help the reader assess the City's most significant local revenue source, the property tax.

DEBT CAPACITY

9 - 13

Presents information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

14 - 15

Offers information to help the reader understand the environment within which the City's financial activities take place.

OPERATING INFORMATION

16 - 19

Contains service and infrastructure data to help the reader understand how the City's financial report relates to the services the City provides and the activities it performs.

CITY OF SANTA CLARA
NET ASSETS BY COMPONENT
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)

Table 1

| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Governmental Activities: | | | | | | | | | | |
| Investment in Capital Assets, Net of Related Debt | \$ 570,884 | \$ 351,410 | \$ 432,534 | \$ 438,198 | \$ 457,789 | \$ 458,933 | \$ 442,141 | \$ 407,174 | \$ 397,364 | \$ 339,694 |
| Restricted | 213,158 | 330,675 | 227,557 | 217,590 | 171,101 | 161,406 | 165,684 | 167,200 | 157,189 | 158,375 |
| Unrestricted | 122,365 | 22,747 | 45,357 | 62,748 | 96,257 | 84,269 | 79,583 | 116,132 | 137,384 | 185,082 |
| Total Governmental Activities Net Assets: | <u>\$ 906,407</u> | <u>\$ 704,832</u> | <u>\$ 705,448</u> | <u>\$ 718,536</u> | <u>\$ 725,147</u> | <u>\$ 704,608</u> | <u>\$ 687,408</u> | <u>\$ 690,506</u> | <u>\$ 691,937</u> | <u>\$ 683,151</u> |
| Business - Type Activities: | | | | | | | | | | |
| Investment in Capital, Net of Related Debt | \$ 445,554 | \$ 405,806 | \$ 388,822 | \$ 381,345 | \$ 334,006 | \$ 313,110 | \$ 309,902 | \$ 311,767 | \$ 328,025 | \$ 343,791 |
| Restricted | 8,214 | 8,214 | - | - | - | 1,119 | 1,413 | 3,741 | 42,204 | 4,133 |
| Unrestricted | 430,774 | 420,310 | 403,931 | 419,417 | 497,197 | 541,778 | 520,701 | 548,216 | 466,855 | 486,309 |
| Total Business - Type Activities Net Assets | <u>\$ 884,542</u> | <u>\$ 834,330</u> | <u>\$ 792,753</u> | <u>\$ 800,762</u> | <u>\$ 831,203</u> | <u>\$ 856,007</u> | <u>\$ 832,016</u> | <u>\$ 863,724</u> | <u>\$ 837,084</u> | <u>\$ 834,233</u> |
| Primary Government | | | | | | | | | | |
| Investment in Capital, Net of Related Debt | \$ 1,016,438 | \$ 757,216 | \$ 821,356 | \$ 819,543 | \$ 791,795 | \$ 772,043 | \$ 752,043 | \$ 718,941 | \$ 725,389 | \$ 683,485 |
| Restricted | 221,372 | 338,889 | 227,557 | 217,590 | 171,101 | 162,525 | 167,097 | 170,941 | 199,393 | 162,508 |
| Unrestricted | 553,139 | 443,057 | 449,288 | 482,165 | 593,454 | 626,047 | 600,284 | 664,348 | 604,239 | 671,391 |
| Total Primary Government Net Assets | <u>\$ 1,790,949</u> | <u>\$ 1,539,162</u> | <u>\$ 1,498,201</u> | <u>\$ 1,519,298</u> | <u>\$ 1,556,350</u> | <u>\$ 1,560,615</u> | <u>\$ 1,519,424</u> | <u>\$ 1,554,230</u> | <u>\$ 1,529,021</u> | <u>\$ 1,517,384</u> |

Source: Finance Office, City of Santa Clara.

**CITY OF SANTA CLARA
CHANGES IN NET ASSETS
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)**

Table 2

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Expenses: | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| General Administration | \$ 8,703 | \$ 3,936 | \$ 3,470 | \$ 18,166 | \$ 15,563 | \$ 9,869 | \$ 11,851 | \$ 17,332 | \$ 10,050 | \$ 8,866 |
| City Clerk | 179 | 790 | 674 | 776 | 698 | 720 | 566 | 691 | 553 | 558 |
| City Attorney | 303 | 1,187 | 1,310 | 1,142 | 1,065 | 1,079 | 1,159 | 1,079 | 1,250 | 1,252 |
| Human Resources | 486 | 1,978 | 1,815 | 1,962 | 1,711 | 1,745 | 1,722 | 1,730 | 1,657 | 1,737 |
| Finance | 1,680 | 6,713 | 7,685 | 7,565 | 7,943 | 6,211 | 6,284 | 6,172 | 6,109 | 7,271 |
| Public Works | 28,802 | 29,339 | 29,344 | 29,991 | 28,394 | 28,769 | 27,420 | 30,752 | 25,124 | 27,026 |
| Parks and Recreation | 15,567 | 15,410 | 15,572 | 14,910 | 14,269 | 12,828 | 11,925 | 10,806 | 10,735 | 11,043 |
| Public Safety: | | | | | | | | | | |
| Police | 43,516 | 44,138 | 45,143 | 44,861 | 42,870 | 41,105 | 39,218 | 32,007 | 31,182 | 30,154 |
| Fire | 31,702 | 33,594 | 34,457 | 35,344 | 33,855 | 32,183 | 31,668 | 29,063 | 28,385 | 28,162 |
| Communications | ** | ** | ** | ** | ** | ** | ** | 3,997 | 4,076 | 4,110 |
| Planning & Inspection | 5,838 | 5,779 | 5,918 | 5,616 | 5,353 | 5,083 | 5,699 | 5,471 | 5,197 | 4,960 |
| Library | 7,728 | 8,090 | 8,470 | 8,666 | 8,416 | 8,106 | 7,960 | 7,898 | 5,985 | 6,015 |
| Community Development (RDA) | - | 5,206 | 6,447 | 8,207 | - | - | - | - | - | - |
| Interest on long term debt | 6,991 | 10,437 | 9,856 | 10,287 | 11,679 | 12,338 | 12,727 | 13,277 | 14,529 | 13,861 |
| Supplemental Educational Revenue Augmentation Fund | - | 2,025 | 9,834 | - | - | - | - | - | - | - |
| Pass Through Payments | 1,085 | - | - | - | - | - | - | - | - | - |
| Total Governmental Activities Expenses (Net) | 152,580 | 168,622 | 179,995 | 187,493 | 171,816 | 160,036 | 158,199 | 160,275 | 144,832 | 145,015 |
| Business-Type Activities: | | | | | | | | | | |
| Utilities: | | | | | | | | | | |
| Electric - | | | | | | | | | | |
| Retail | 283,142 | 281,342 | 280,512 | 316,523 | 293,619 | 269,659 | 250,476 | 194,382 | 202,611 | 204,746 |
| Wholesale | 32,115 | 50,754 | 73,727 | 110,879 | 177,973 | 197,076 | 249,500 | 165,790 | 207,975 | 227,284 |
| Water | 25,076 | 23,078 | 23,067 | 22,927 | 21,689 | 21,397 | 19,582 | 18,756 | 18,556 | 16,864 |
| Sewer | 15,348 | 16,296 | 14,222 | 13,469 | 12,538 | 12,181 | 15,124 | 9,047 | 11,902 | 12,027 |
| Water Recycling | 3,326 | 8,304 | 3,256 | 1,157 | 1,169 | 2,322 | 947 | 853 | 743 | 725 |
| Solid Waste | 17,322 | 16,192 | 15,842 | 16,226 | 15,689 | 15,508 | 15,589 | 14,343 | 14,563 | 14,424 |
| Cemetery | 958 | 935 | 960 | 721 | 736 | 709 | 770 | 769 | 788 | 814 |
| Sports and Open Space Authority | 48 | 48 | 18 | 7 | 39 | 20 | 36 | 26 | 20 | 21 |
| Santa Clara Golf and Tennis Club | 2,759 | 2,706 | 2,724 | 2,735 | 2,603 | 2,591 | 2,697 | 2,528 | 2,591 | 2,567 |
| Santa Clara Convention Center | 8,073 | 7,786 | 7,121 | 6,360 | 6,259 | 6,003 | 6,163 | 5,981 | 5,752 | 5,702 |
| Santa Clara Stadium Authority | 5,393 | - | - | - | - | - | - | - | - | - |
| Total Business-Type Activities Expenses | 393,560 | 407,441 | 421,449 | 491,004 | 532,314 | 527,466 | 560,884 | 412,475 | 465,501 | 485,174 |
| Total Primary Expenses | \$ 546,140 | \$ 576,063 | \$ 601,444 | \$ 678,497 | \$ 704,130 | \$ 687,502 | \$ 719,083 | \$ 572,750 | \$ 610,333 | \$ 630,189 |

Note: ** Now included in Police;
Source: Finance Office, City of Santa Clara.

CITY OF SANTA CLARA
CHANGES IN NET ASSETS
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)
(continued)

Table 2

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Program Revenues: | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| General Administration | \$ 680 | \$ 6,611 | \$ 9,596 | \$ 9,625 | \$ 9,848 | \$ 9,340 | \$ 9,888 | \$ 9,129 | \$ 64 | \$ 44 |
| Parks and Recreation | 2,868 | 2,868 | 2,940 | 2,776 | 2,591 | 2,407 | 2,376 | 1,848 | 1,483 | 1,606 |
| Planning and Inspection | 12,509 | 5,307 | 3,549 | 3,576 | 5,340 | 4,114 | 4,778 | 4,353 | 3,023 | 3,513 |
| Other Programs | 10,397 | 9,508 | 6,956 | 7,792 | 6,833 | 5,943 | 5,699 | 6,396 | 4,815 | 4,741 |
| Operating Grants and Contributions | 4,444 | 4,028 | 4,105 | 5,650 | 6,485 | 4,732 | 5,418 | 5,465 | 4,601 | 3,849 |
| Capital Gains and Contributions | 4,737 | 4,467 | 5,775 | 5,412 | 13,285 | 5,095 | 3,762 | 4,530 | 7,613 | 5,800 |
| Total Governmental Activities Program Revenues | 35,635 | 32,789 | 32,921 | 34,831 | 44,382 | 31,631 | 31,921 | 31,721 | 21,599 | 19,553 |
| Business-Type Activities: | | | | | | | | | | |
| Utilities: | | | | | | | | | | |
| Electric - | | | | | | | | | | |
| Retail | 329,518 | 304,024 | 270,834 | 256,872 | 249,079 | 251,332 | 211,111 | 193,492 | 188,229 | 188,222 |
| Wholesale | 29,149 | 50,124 | 67,840 | 102,480 | 172,404 | 204,723 | 255,188 | 170,165 | 219,798 | 227,454 |
| Water | 28,232 | 25,682 | 23,744 | 24,251 | 23,001 | 21,701 | 19,645 | 18,885 | 18,569 | 16,661 |
| Sewer | 27,036 | 22,380 | 9,443 | 9,287 | 8,330 | 23,178 | 12,948 | 12,065 | 12,017 | 12,532 |
| Water Recycling | 4,319 | 8,919 | 4,363 | 1,911 | 3,178 | 1,504 | 966 | 852 | 897 | 598 |
| Solid Waste | 18,460 | 17,142 | 15,843 | 15,619 | 16,185 | 15,624 | 14,688 | 14,405 | 13,527 | 12,296 |
| Cemetery | 519 | 426 | 454 | 356 | 465 | 564 | 511 | 525 | 470 | 468 |
| Sports and Open Space Authority | 2,056 | 1,415 | 1,506 | 1,745 | 1,605 | 1,317 | 1,287 | 1,317 | 1,436 | 1,672 |
| Santa Clara Golf and Tennis Club | 2,973 | 2,795 | 2,917 | 2,993 | 3,108 | 3,200 | 3,020 | 2,913 | 2,842 | 3,083 |
| Santa Clara Convention Center | 6,119 | 6,086 | 6,845 | 21,947 | 12,059 | 6,654 | 4,033 | 3,478 | 3,424 | 2,813 |
| Santa Clara Stadium Authority | 5 | - | - | - | - | - | - | - | - | - |
| Total Business-Type Activities Program Revenues | 448,386 | 438,993 | 403,789 | 437,461 | 489,414 | 529,797 | 523,397 | 418,097 | 461,209 | 465,799 |
| Total Primary Government Program Revenues | 484,021 | 471,782 | 436,710 | 472,292 | 533,796 | 561,428 | 555,318 | 449,818 | 482,808 | 485,352 |
| Net (Expense) Revenue: | | | | | | | | | | |
| Governmental Activities | (116,945) | (135,833) | (147,074) | (152,662) | (127,434) | (128,405) | (126,278) | (128,554) | (123,233) | (125,462) |
| Business-Type Activities | 54,826 | 31,552 | (17,660) | (53,543) | (42,900) | 2,332 | (37,048) | 7,676 | (3,350) | (12,983) |
| Total Primary Government Net (Expense) Revenue | \$ (62,119) | \$ (104,281) | \$ (164,734) | \$ (206,205) | \$ (170,334) | \$ (126,073) | \$ (163,326) | \$ (120,878) | \$ (126,583) | \$ (138,445) |

Source: Finance Office, City of Santa Clara.

**CITY OF SANTA CLARA
CHANGES IN NET ASSETS
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)
(continued)**

Table 2

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Revenue and other changes in Net Assets | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Sales | \$ 41,280 | \$ 35,845 | \$ 31,876 | \$ 34,894 | \$ 40,516 | \$ 43,176 | \$ 38,066 | \$ 35,696 | \$ 35,976 | \$ 33,815 |
| Ad Valorem Property | 43,880 | 57,172 | 61,834 | 61,695 | 54,536 | 49,736 | 39,388 | 39,928 | 40,868 | 45,335 |
| Transient occupancy | 11,755 | 9,910 | 8,302 | 9,138 | 11,269 | 10,542 | 9,601 | 7,863 | 7,160 | 7,890 |
| Other | 3,034 | 3,731 | 3,049 | 3,931 | 4,504 | 4,731 | 4,856 | 6,173 | 5,853 | 4,953 |
| Internal Governmental, unrestricted: | | | | | | | | | | |
| Motor Vehicle in-lieu | 120 | 539 | 345 | 394 | 507 | 684 | 668 | 2,489 | 5,267 | 6,033 |
| Contribution in-lieu of taxes | 15,343 | 14,913 | 13,448 | 15,150 | 14,732 | 14,722 | 12,860 | 11,993 | 11,905 | 11,865 |
| Investment earnings | 13,822 | 21,770 | 18,179 | 20,665 | 31,462 | 33,838 | 31,544 | 33,786 | 38,568 | 53,861 |
| Net increase (decrease) in the fair value of investments | (1,581) | (8,905) | 413 | 16,985 | 1,415 | 4,674 | (16,596) | (1,290) | (25,380) | - |
| Equity in income (losses) of joint ventures | (6,100) | (225) | (1) | 69 | 1,225 | - | - | - | - | - |
| Rents and Royalties | 13,115 | 2,851 | 3,274 | 3,383 | 2,850 | 2,474 | 5,001 | 5,852 | 13,734 | 12,095 |
| Gain (loss) on retirement of assets | 71,662 | 4,651 | 2 | 4 | 4 | - | - | - | - | - |
| Other | 4,104 | 2,989 | 2,917 | 2,845 | 3,049 | 2,687 | 3,803 | 3,292 | 4,437 | 272 |
| Co-op Agreements Activities | (5) | - | - | - | - | - | - | - | - | - |
| Total Primary Government General Revenue and Transfers | 210,429 | 145,241 | 143,638 | 169,153 | 166,069 | 167,264 | 129,191 | 145,782 | 138,388 | 176,119 |
| Change in Net Assets - Total Primary Government | 148,310 | 40,960 | (21,096) | (37,052) | (4,265) | 41,191 | (34,135) | 24,904 | 11,805 | 37,674 |
| Extraordinary Item-Asset Transferred to Successor Agency | 106,602 | - |
| Net Assets - Beginning of Year (Restated) | 1,536,037 | 1,498,202 | 1,519,298 | 1,556,350 | 1,560,615 | 1,519,424 | 1,553,559 | 1,528,655 | 1,516,850 | 1,382,183 |
| GASB 34 Implementation Adjustment | - | 96,993 |
| Net Assets - End of Year - Total Primary Government | \$ 1,790,949 | \$ 1,539,162 | \$ 1,498,202 | \$ 1,519,298 | \$ 1,556,350 | \$ 1,560,615 | \$ 1,519,424 | \$ 1,553,559 | \$ 1,528,655 | \$ 1,516,850 |

Source: Finance Office, City of Santa Clara.

CITY OF SANTA CLARA
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(In Thousands)

Table 3

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| General Fund: | | | | | | | | | | |
| Nonspendable | \$ 12,466 | \$ 46,015 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Restricted | 10,922 | 3,670 | - | - | - | - | - | - | - | - |
| Committed | 86,942 | 1,675 | - | - | - | - | - | - | - | - |
| Assigned | 4,033 | 1,157 | - | - | - | - | - | - | - | - |
| Unassigned | 33,393 | 21,138 | - | - | - | - | - | - | - | - |
| Reserved | - | - | 24,778 | 22,278 | 20,858 | 22,394 | 19,656 | 16,266 | 15,844 | 15,805 |
| Unreserved: | | | | | | | | | | |
| Designated | - | - | 25,938 | 42,548 | 53,693 | 54,725 | 47,802 | 55,002 | 65,799 | 75,612 |
| Undesignated | - | - | - | - | 1,462 | - | - | 7,580 | 689 | 12,717 |
| Total General Fund | 147,756 | 73,655 | 50,716 | 64,826 | 76,013 | 77,119 | 67,458 | 78,848 | 82,332 | 104,134 |
| All other Governmental Funds: | | | | | | | | | | |
| Nonspendable | - | 11,122 | - | - | - | - | - | - | - | - |
| Restricted | 125,100 | 188,584 | - | - | - | - | - | - | - | - |
| Committed | 32,007 | 34,794 | - | - | - | - | - | - | - | - |
| Assigned | - | 1,418 | - | - | - | - | - | - | - | - |
| Unassigned | - | (22,834) | - | - | - | - | - | - | - | - |
| Reserved | - | - | 93,119 | 99,361 | 108,510 | 78,343 | 71,167 | 84,364 | 78,214 | 94,091 |
| Unreserved, reported in: | | | | | | | | | | |
| Capital projects funds | - | - | 113,632 | 115,740 | 115,401 | 136,414 | 153,503 | 154,759 | 170,963 | 179,398 |
| Special revenue funds | - | - | 602 | 426 | 409 | 7,033 | 7,771 | 11,483 | 11,119 | 9,235 |
| Other purposes | - | - | 19,305 | 16,770 | 13,195 | 10,712 | 8,299 | - | - | - |
| Total All Other Governmental Funds | 157,107 | 213,084 | 226,658 | 232,297 | 237,515 | 232,502 | 240,740 | 250,606 | 260,296 | 282,724 |
| Total Governmental Funds | \$ 304,863 | \$ 286,739 | \$ 277,374 | \$ 297,123 | \$ 313,528 | \$ 309,621 | \$ 308,198 | \$ 329,454 | \$ 342,628 | \$ 386,858 |

Source: Finance Office, City of Santa Clara.
The City implemented GASB 54 in Fiscal year 2010-2011.

CITY OF SANTA CLARA
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(In Thousands)

Table 4

| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| REVENUES: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Sales | \$ 41,280 | \$ 35,845 | \$ 31,876 | \$ 34,894 | \$ 40,516 | \$ 43,176 | \$ 38,066 | \$ 35,696 | \$ 35,976 | \$ 33,815 |
| Ad valorem property | 43,880 | 57,172 | 61,834 | 61,695 | 54,536 | 49,736 | 39,388 | 39,928 | 40,868 | 45,335 |
| Transient occupancy | 11,755 | 9,910 | 8,302 | 9,138 | 11,269 | 10,542 | 9,601 | 7,863 | 7,160 | 7,890 |
| Other | 4,139 | 3,731 | 4,099 | 4,931 | 5,459 | 5,636 | 5,716 | 5,005 | 5,070 | 4,184 |
| Licenses, permits, fees and penalties | 9,222 | 5,690 | 4,286 | 5,000 | 5,232 | 5,199 | 4,946 | 5,229 | 4,736 | 4,608 |
| Internal governmental | 8,091 | 8,017 | 9,359 | 8,142 | 9,760 | 9,685 | 8,202 | 8,744 | 12,947 | 11,181 |
| Charges for Services | 32,767 | 28,395 | 24,647 | 22,396 | 22,907 | 20,417 | 19,881 | 15,329 | 14,862 | 12,283 |
| Contribution in-lieu of taxes | 15,343 | 14,912 | 13,448 | 15,150 | 14,732 | 14,722 | 12,861 | 11,993 | 11,905 | 11,865 |
| Interest and rents | 21,329 | 25,220 | 25,477 | 25,878 | 30,547 | 29,955 | 28,253 | 30,394 | 31,287 | 36,939 |
| Net (decrease) in the fair value of investments | (707) | (3,571) | 449 | 6,409 | 258 | 1,553 | (5,473) | (484) | (10,089) | * |
| Other | 3,645 | 2,515 | 2,829 | 2,914 | 3,201 | 2,557 | 1,990 | 4,209 | 5,429 | 2,984 |
| TOTAL REVENUES | <u>\$ 190,744</u> | <u>\$ 187,836</u> | <u>\$ 186,606</u> | <u>\$ 196,547</u> | <u>\$ 198,417</u> | <u>\$ 193,178</u> | <u>\$ 163,431</u> | <u>\$ 163,906</u> | <u>\$ 160,151</u> | <u>\$ 171,084</u> |

Note: * Included in Interest and Rents

Source: Finance Office, City of Santa Clara.

CITY OF SANTA CLARA
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(In Thousands)
(continued)

Table 4

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|------------------|-----------------|--------------------|--------------------|-----------------|-----------------|--------------------|--------------------|--------------------|------------------|
| EXPENDITURES | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General Administration | \$ 26,430 | \$ 26,623 | \$ 25,078 | \$ 24,826 | \$ 27,341 | \$ 29,253 | \$ 27,084 | \$ 29,631 | \$ 23,230 | \$ 23,277 |
| City Clerk | 703 | 777 | 662 | 768 | 691 | 755 | 554 | 676 | 541 | 532 |
| City Attorney | 1,328 | 1,172 | 1,314 | 1,136 | 1,049 | 1,230 | 1,137 | 1,071 | 1,280 | 1,234 |
| Human Resources | 1,979 | 1,947 | 1,804 | 1,960 | 1,682 | 1,752 | 1,724 | 1,722 | 1,664 | 1,722 |
| Finance | 7,588 | 7,170 | 7,535 | 7,458 | 7,726 | 6,224 | 6,206 | 6,034 | 6,023 | 7,064 |
| Public Works | 16,231 | 17,133 | 17,178 | 17,853 | 16,307 | 17,012 | 15,503 | 15,767 | 14,670 | 14,762 |
| Parks and Recreation | 14,124 | 13,844 | 13,906 | 13,389 | 12,732 | 11,486 | 10,686 | 10,249 | 10,657 | 10,809 |
| Public Safety: | | | | | | | | | | |
| Police | 41,912 | 42,520 | 43,959 | 43,317 | 40,089 | 37,450 | 34,837 | 30,776 | 30,197 | 28,833 |
| Fire | 31,522 | 32,214 | 33,768 | 34,292 | 31,636 | 30,157 | 29,112 | 27,947 | 27,711 | 26,995 |
| Communications | ** | ** | ** | ** | ** | ** | ** | 3,847 | 4,002 | 3,995 |
| Planning & Inspection | 5,725 | 5,680 | 5,726 | 5,402 | 5,112 | 4,814 | 5,410 | 5,344 | 5,200 | 4,860 |
| Library | 6,594 | 6,932 | 7,406 | 7,460 | 7,008 | 6,897 | 6,742 | 6,891 | 5,883 | 5,853 |
| Community Development | - | 5,206 | 6,446 | 8,207 | - | - | - | - | - | - |
| Capital Outlay | 46,490 | 15,361 | 13,022 | 27,169 | 24,991 | 26,912 | 29,354 | 19,242 | 50,435 | 48,559 |
| Debt Service: | | | | | | | | | | |
| Principal | 4,294 | 29,720 | 10,555 | 10,000 | 9,470 | 8,985 | 5,918 | 13,351 | 12,148 | 11,423 |
| Interest | 7,038 | 10,335 | 10,128 | 10,720 | 11,294 | 11,811 | 12,182 | 12,984 | 14,125 | 13,103 |
| Bond Cost Expense | 5 | 490 | 8 | - | - | - | - | - | - | - |
| Supplemental Educational Revenue Augmentation Fund | - | 2,025 | 9,834 | - | - | - | - | - | - | - |
| Pass Through Payments | 1,085 | - | - | - | - | - | - | - | - | - |
| TOTAL EXPENDITURES | 213,048 | 219,149 | 208,329 | 213,957 | 197,128 | 194,738 | 186,449 | 185,532 | 207,766 | 203,021 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (22,304) | (31,313) | (21,723) | (17,410) | 1,289 | (1,560) | (23,018) | (21,626) | (47,615) | (31,937) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | | | |
| Long-term Debt Issuance | - | - | - | - | - | - | - | - | - | 102,490 |
| Bond Premium | - | - | - | - | - | - | - | - | - | 784 |
| Payment to Bond Escrow Agent | - | - | - | - | - | - | - | - | - | (32,540) |
| Sale of Capital Assets | - | 5,480 | 2 | 4 | 4 | 596 | 1,701 | 408 | 51 | 19 |
| Co-op Agreements Activities | (5) | (8,297) | - | - | - | - | - | - | - | - |
| Proceeds from Bond Issuance | - | 41,451 | - | - | - | - | - | - | - | (32,540) |
| Transfers In | 96,634 | 25,705 | 31,493 | 31,477 | 32,196 | 25,698 | 37,055 | 28,728 | 25,819 | 37,061 |
| Transfers Out | (20,180) | (23,661) | (29,521) | (30,476) | (29,582) | (23,311) | (35,554) | (28,099) | (22,485) | (35,146) |
| TOTAL OTHER FINANCING SOURCES (USES) | 76,449 | 40,678 | 1,974 | 1,005 | 2,618 | 2,983 | 3,202 | 1,037 | 3,385 | 72,669 |
| NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM | \$ 54,145 | \$ 9,365 | \$ (19,749) | \$ (16,405) | \$ 3,907 | \$ 1,423 | \$ (19,816) | \$ (20,589) | \$ (44,230) | \$ 40,732 |
| EXTRAORDINARY ITEM-ASSET TRANSFERRED TO LIABILITIES ASSUMED BY SUCCESSOR AGENCY | (31,847) | - | - | - | - | - | - | - | - | - |
| NET CHANGE IN FUND BALANCES AFTER EXTRAORDINARY ITEM | \$ 22,298 | \$ 9,365 | \$ (19,749) | \$ (16,405) | \$ 3,907 | \$ 1,423 | \$ (19,816) | \$ (20,589) | \$ (44,230) | \$ 40,732 |
| DEBT SERVICE AS A PERCENTAGE OF NON-CAPITAL EXPENDITURES | 7% | 21% | 15% | 10% | 12% | 12% | 12% | 16% | 17% | 16% |

Note: **Included in Police starting in fiscal year 2005-06

Source: Finance Office, City of Santa Clara.

CITY OF SANTA CLARA
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years
(In Thousands)

Table 5

| Fiscal Year Ending June 30 | Net Local Secured Roll | State Board of Equalization (2) | Net Unsecured Roll | Net Assessed Valuation (1) | Estimated Actual Value | Ratio of Assessed Value To Estimated Value | % of Growth of Assessed Valuation | Total Direct Tax Rate |
|---|---------------------------------------|--|-----------------------------------|---|---------------------------------------|---|--|--------------------------------------|
| 2002 / 03 | 15,110,520 | 2,861 | 4,207,133 | 19,320,514 | 19,429,970 | 99.44% | 6.01% | 1.07% |
| 2003 / 04 | 15,283,368 | 2,803 | 3,639,274 | 18,925,445 | 19,033,631 | 99.43% | -2.04% | 1.07% |
| 2004 / 05 | 14,978,836 | 2,471 | 2,991,292 | 17,972,599 | 18,081,181 | 99.40% | -5.03% | 1.08% |
| 2005 / 06 | 15,663,135 | 1,756 | 3,037,319 | 18,702,210 | 18,813,195 | 99.41% | 4.06% | 1.15% |
| 2006 / 07 | 17,458,047 | 1,605 | 2,905,729 | 20,365,381 | 20,478,830 | 99.45% | 8.89% | 1.14% |
| 2007 / 08 | 19,148,464 | 909 | 2,976,265 | 22,125,638 | 22,241,709 | 99.48% | 8.64% | 1.08% |
| 2008 / 09 | 20,545,808 | 3,689 | 3,812,579 | 24,362,076 | 24,479,723 | 99.52% | 10.11% | 1.12% |
| 2009 / 10 | 20,707,612 | 3,689 | 3,844,940 | 24,556,241 | 24,674,410 | 99.52% | 0.80% | 1.13% |
| 2010 / 11 | 19,949,252 | 3,689 | 3,634,484 | 23,587,425 | 23,704,433 | 99.51% | -3.95% | 1.11% |
| 2011 / 12 | 19,818,648 | 4,641 | 3,892,148 | 23,715,437 | 23,830,461 | 99.52% | 0.54% | 1.14% |

Notes:

(1) Full cash value.

(2) Beginning in fiscal 1989, Chapter 921 of the Statutes of 1987 requires the establishment of a single County-wide tax rate area for the assignment of the assessed value of certain types of State-assessed utility property.

Source: County of Santa Clara, Department of Finance

**CITY OF SANTA CLARA
PROPERTY TAX RATES
(Per \$100 Assessed Valuation)
Direct and Overlapping Governments
Last Ten Fiscal Years**

Table 6

| Fiscal Year Ending June 30 | Santa Clara County | School Districts | Special Districts | Total |
|----------------------------------|--------------------------|---------------------|----------------------|---------|
| 2002 / 03 | 1.0388% | 0.0252% | 0.0072% | 1.0712% |
| 2003 / 04 | 1.0388% | 0.0263% | 0.0087% | 1.0738% |
| 2004 / 05 | 1.0388% | 0.0344% | 0.0092% | 1.0824% |
| 2005 / 06 | 1.0388% | 0.1001% | 0.0078% | 1.1467% |
| 2006 / 07 | 1.0388% | 0.0923% | 0.0072% | 1.1383% |
| 2007 / 08 | 1.0388% | 0.0389% | 0.0071% | 1.0848% |
| 2008 / 09 | 1.0388% | 0.0775% | 0.0061% | 1.1224% |
| 2009 / 10 | 1.0388% | 0.0841% | 0.0074% | 1.1303% |
| 2010 / 11 | 1.0388% | 0.0658% | 0.0072% | 1.1118% |
| 2011 / 12 | 1.0388% | 0.0973% | 0.0064% | 1.1425% |

Tax rate limit: A state constitutional amendment (Proposition 13) commencing with fiscal 1979 provided that the tax rate was limited to 1% of full cash value, levied only by the County and shared with all other jurisdictions. All jurisdictions may levy a tax rate for voter approved debt.

Due date for current taxes: First installment - November 1; second installment - February 1.

Penalties for delinquency: 10% and 1.5% of tax per month after date taxes become delinquent.

Collected by government unit: County of Santa Clara.

Basis upon which collections are distributed: Taxing jurisdictions assessed valuations and tax rates for voter approved debt to taxing jurisdictions, County rate (1% of full cash value) shared by all jurisdictions.

Compensation paid to collecting government unit: \$521,957

Note: Tax rates stated are the rates applicable to the tax rate area 7-000 as typical tax rate area within the City. Rates are based on \$100 assessed valuation.

Source: County of Santa Clara, Department of Finance

**CITY OF SANTA CLARA
PRINCIPAL PROPERTY TAX PAYERS
2011-12 AND 2002-03 COMPARISON FOR GENERAL FUND
(In Thousands)**

Table 7

| Taxpayers | 2011-12 | | 2002-03 | |
|---|----------------------|--|----------------------|--|
| | Assessed Value | Percentage of Total Assessed Valuation | Assessed Value | Percentage of Total Assessed Valuation |
| Intel Corporation | \$ 943,658 | 3.97% | \$ 1,663,179 | 8.56% |
| Sobrato Interest | 646,476 | 2.72% | 170,184 | 0.88% |
| Nvidia Land Development LLC. | 337,617 | 1.42% | | |
| Yahoo Inc. | 226,655 | 0.95% | | |
| Oracle America Inc. (formerly Sun Microsystems) | 226,306 | 0.95% | 344,910 | 1.78% |
| Applied Materials Inc. | 211,225 | 0.89% | 627,615 | 3.23% |
| Marvell Technology Inc. | 204,210 | 0.86% | | |
| Silicon Valley California LLC. | 183,680 | 0.77% | | |
| National Semiconductor Corporation | 170,287 | 0.72% | 231,920 | 1.19% |
| Agilent Technologies, Inc. | 168,939 | 0.71% | 255,624 | 1.32% |
| Exodus Communications Inc. | | | 327,369 | 1.68% |
| 3Com Corporation | | | 298,440 | 1.54% |
| Sobrato Interests III | | | 262,927 | 1.35% |
| Rivermark Partners LLC | | | 186,299 | 0.96% |
| Top Ten Total | \$ 3,319,053 | 13.96% | \$ 4,368,467 | 22.49% |
| City Total | <u>\$ 23,764,030</u> | | <u>\$ 19,429,988</u> | |

Source: Santa Clara County Assessor 2011-12 Combined Tax Rolls through HdL Coren & Cone.

**CITY OF SANTA CLARA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(In Thousands)**

Table 8

| Fiscal Year Ending June 30 | Gross Tax Levy | Current Tax Collections | Percentage of Current Levy Collected | Delinquent Tax Collected | Total Collections | Percentage of Total Levy Collected |
|---|---------------------------|------------------------------------|---|---|------------------------------|---|
| 2002 / 03 | \$ 16,884.00 | \$ 16,763.00 | 99.28% | 22 | \$ 16,785.00 | 99.41% |
| 2003 / 04 | 16,182 | 16,106 | 99.53% | (3) | 16,103 | 99.51% |
| 2004 / 05 | 15,892 | 15,841 | 99.68% | - | 15,841 | 99.68% |
| 2005 / 06 | 16,624 | 16,565 | 99.65% | - | 16,565 | 99.65% |
| 2006 / 07 | 18,197 | 18,128 | 99.62% | - | 18,128 | 99.62% |
| 2007 / 08 | 19,720 | 19,669 | 99.74% | - | 19,669 | 99.74% |
| 2008 / 09 | 21,123 | 21,061 | 99.71% | - | 21,061 | 99.71% |
| 2009 / 10 | 21,674 | 21,631 | 99.80% | - | 21,631 | 99.80% |
| 2010 / 11 | 20,894 | 20,867 | 99.87% | - | 20,867 | 99.87% |
| 2011 / 12 | 21,044 | 21,044 | 100.00% | - | 21,044 | 100.00% |

Sources: City of Santa Clara
County of Santa Clara, Department of Finance

CITY OF SANTA CLARA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(In Thousands)

Table 9

| Fiscal Year Ending June 30 | Governmental Activities | | | | Redevelopment Agency | Business Activities | Santa Clara Stadium Authority | Total Primary Government | Population | Debt per Capita | Total Personal Income (\$000) | Debt/Income Ratio |
|----------------------------|-------------------------------|-------------------------|------------------|-------------------------------|----------------------|---------------------|-------------------------------|--------------------------|------------|-----------------|-------------------------------|-------------------|
| | Public Financing Authority | | | | Tax Allocation Bonds | Revenue Bonds | Revenue Bonds | | | | | |
| | Certificates of Participation | Insurance Funding Bonds | Assessment Bonds | Total Governmental Activities | | | | | | | | |
| 2002 / 03 | \$ 72,895 | \$ 20,000 | \$ 8,240 | \$ 101,135 | \$ 159,727 | \$ 132,646 | \$ - | \$ 393,508 | 104,306 | \$ 3,773 | \$ 2,818,661 | 13.96% |
| 2003 / 04 | 70,010 | 20,000 | 7,490 | 97,500 | 151,214 | 280,609 | - | 529,323 | 105,831 | 5,002 | 2,677,383 | 19.77% |
| 2004 / 05 | 66,725 | 20,000 | 6,700 | 93,425 | 141,938 | 275,360 | - | 510,723 | 107,200 | 4,764 | 2,720,598 | 18.77% |
| 2005 / 06 | 63,345 | 20,000 | 5,875 | 89,220 | 140,225 | 269,883 | - | 499,328 | 109,106 | 4,577 | 2,765,258 | 18.06% |
| 2006 / 07 | 59,850 | 20,000 | 5,015 | 84,865 | 135,325 | 258,015 | - | 478,205 | 110,771 | 4,317 | 3,831,569 | 12.48% |
| 2007 / 08 | 56,240 | - | 4,110 | 60,350 | 130,640 | 230,970 | - | 421,960 | 115,503 | 3,653 | 4,121,147 | 10.24% |
| 2008 / 09 | 52,500 | - | 3,155 | 55,655 | 125,335 | 227,390 | - | 408,380 | 117,242 | 3,483 | 4,225,531 | 9.66% |
| 2009 / 10 | 48,620 | - | 2,155 | 50,775 | 119,660 | 223,170 | - | 393,605 | 118,830 | 3,312 | 4,291,695 | 9.17% |
| 2010 / 11 | 43,822 | - | - | 43,822 | 138,511 | 223,920 | - | 406,253 | 118,169 | 3,438 | 4,727,907 | 8.59% |
| 2011 / 12 | 39,528 | - | - | 39,528 | - | 217,665 | 132,630 | 389,823 | 118,813 | 3,281 | 4,399,786 | 8.86% |

Sources: Note 11, Note 2; Statement of Net Assets; MuniServices LLC

**CITY OF SANTA CLARA
POPULATION AND ASSESSED VALUATION
Last Ten Fiscal Years
(In Thousands)**

Table 10

| Fiscal Year Ending June 30 | Population | Assessed Value (1) |
|----------------------------------|------------|-----------------------|
| 2002 / 03 | 104.3 | \$ 19,429,970 |
| 2003 / 04 | 105.8 | 19,033,631 |
| 2004 / 05 | 107.2 | 18,081,181 |
| 2005 / 06 | 109.1 | 18,813,195 |
| 2006 / 07 | 110.8 | 20,478,830 |
| 2007 / 08 | 115.5 | 22,241,709 |
| 2008 / 09 | 117.2 | 24,479,723 |
| 2009 / 10 | 116.3 | (2) 24,674,410 |
| 2010 / 11 | 118.2 | 23,704,433 |
| 2011 / 12 | 118.8 | 23,830,461 |

Notes: (1) Assessed values are estimated actual value.

(2) Population was revised based on 2010 U.S. Census results

Sources: State of California, Department of Finance

County of Santa Clara, Department of Finance

CITY OF SANTA CLARA
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
 June 30, 2012

Table 11

| Description | % Applicable | Debt |
|--|-------------------|--|
| <u>Direct Debt:</u> | | |
| Certificates of Participation Series 2002 A | 100% | \$ 20,480,000 |
| Certificates of Participation Series 2002 B | 100% | 9,935,000 |
| 2010 Lease Financing | 100% | 9,113,000 |
| Total Gross Direct Debt | | 39,528,000 |
| <u>Overlapping Debt:</u> | | |
| Santa Clara County General Fund Obligations | 7.81% | 60,172,413 |
| Santa Clara County Pension Fund Obligations | 7.81% | 29,895,868 |
| Santa Clara Valley Water District Benefit Assessment District | 7.81% | 10,414,992 |
| Santa Clara County Board of Education Certificates of Participation | 7.81% | 900,697 |
| San Jose-Evergreen Community College District Pension Obligations | 0.08% | 39,858 |
| West Valley-Mission Community College District General Fund Obligations | 27.47% | 18,051,911 |
| Foothill-DeAnza Community College District | 1.29% | 8,112,958 |
| San Jose-Evergreen Community College District | 0.08% | 268,102 |
| West Valley Community College District | 27.47% | 57,951,242 |
| Fremont Union High School District | 2.79% | 7,281,307 |
| Campbell Union High School District General Fund Obligations | 1.57% | 195,489 |
| Campbell Union School District | 3.52% | 5,231,440 |
| Campbell Union High School District | 1.57% | 2,530,762 |
| El Camino Hospital District | 1.40% | 1,986,229 |
| San Jose Unified School District | 0.24% | 1,130,933 |
| Cupertino Union School District | 4.57% | 5,515,942 |
| Santa Clara Unified School District | 79.49% | 350,630,826 |
| San Jose Unified School District Certificates of Participation | 0.24% | 247,154 |
| Santa Clara County | 7.81% | 24,726,240 |
| Foothill-DeAnza Community College District Certificates of Participation | 1.29% | 243,870 |
| Santa Clara Unified School District Certificates of Participation | 79.49% | 10,317,932 |
| Santa Clara County Vector Control District Certificates of Participation | 7.81% | 283,322 |
| Total Overlapping Debt | | 596,129,487 |
| Total Gross Direct and Overlapping Bonded Debt | | 635,657,487 (1) |
| TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT | | \$ 635,657,487 |
| 2011 / 12 Assessed Value | \$ 20,945,324,185 | (after deducting \$2,885,136,568 redevelopment incremental value). |
| <u>Ratios to Assessed Valuation:</u> | | |
| Direct Debt | \$ (39,528,000) | 0.189% |
| Total Gross Debt | | 3.035% |
| Total Net Debt | | 3.035% |

Note: (1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds.

Source: California Municipal Statistics, Inc.

**CITY OF SANTA CLARA
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(In Thousands)**

Table 12

| Fiscal Year | Assessed Valuation | Debt Limit- 15% of Assessed Valuation* | Debt Applicable to Limit | Legal Debt Margin |
|-----------------------|---------------------------|---|---------------------------------|--------------------------|
| Ending June 30 | | | | |
| 2002 / 03 | \$ 19,320,514 | \$ 2,898,077 | \$ 20,000 | \$ 2,878,077 |
| 2003 / 04 | 18,925,445 | 2,838,817 | 20,000 | 2,818,817 |
| 2004 / 05 | 17,972,599 | 2,695,890 | 20,000 | 2,675,890 |
| 2005 / 06 | 18,702,210 | 2,805,332 | 20,000 | 2,785,332 |
| 2006 / 07 | 20,365,381 | 3,054,807 | 20,000 | 3,034,807 |
| 2007 / 08 | 22,125,638 | 3,318,846 | - | 3,318,846 |
| 2008 / 09 | 24,362,076 | 3,654,311 | - | 3,654,311 |
| 2009 / 10 | 24,556,241 | 3,683,436 | - | 3,683,436 |
| 2010 / 11 | 23,587,425 | 3,538,114 | - | 3,538,114 |
| 2011 / 12 | 23,715,437 | 3,557,316 | - | 3,557,316 |

Notes: * Section 1309 of the City Charter of the City states: "Bonded Debt Limit.
The bonded indebtedness of the City may not in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation of property within the City, exclusive of revenue bonds or any indebtedness that has been or may hereafter be incurred for the purposes of acquiring, constructing, extending, or maintaining municipally owned utilities for which purposes a further indebtedness may be incurred by the issuance of bonds, subject only to the provisions of the State Constitution and this Charter."

Sources: County of Santa Clara, Department of Finance
City of Santa Clara

**CITY OF SANTA CLARA
PLEGDED REVENUE COVERAGE
ELECTRIC REVENUE BOND
Last Ten Fiscal Years
(In Thousands)**

Table 13

| Fiscal Year Ending June 30 | | Gross Revenue (1) | Less Operating Expense (2) | Net Revenue Available For Debt Service | Principal | Interest | Letter Of Credit Fees | Total | Coverage (3) |
|-------------------------------|-----|-------------------------|-------------------------------------|--|-----------|----------|-----------------------------|-----------|-----------------|
| 2002 / 03 | (4) | \$ 247,856 | \$ 198,572 | \$ 49,284 | \$ 6,675 | \$ 4,972 | \$ 208 | \$ 11,855 | 4.16 |
| 2003 / 04 | | 208,042 | 178,600 | 29,442 | 5,160 | 8,432 | 262 | 13,854 | 2.13 |
| 2004 / 05 | | 253,561 | 217,981 | 35,580 | 5,840 | 10,389 | 262 | 16,491 | 2.16 |
| 2005 / 06 | (5) | 283,611 | 251,676 | 31,935 | 11,080 | 11,216 | 266 | 22,562 | 1.42 |
| 2006 / 07 | | 297,586 | 246,378 | 51,208 | 11,820 | 11,346 | 212 | 23,378 | 2.19 |
| 2007 / 08 | (6) | 318,895 | 283,206 | 35,689 | 12,370 | 11,295 | 2,423 | 26,088 | 1.37 |
| 2008 / 09 | | 346,533 | 323,670 | 22,863 | 3,580 | 8,602 | 2,460 | 14,642 | 1.56 |
| 2009 / 10 | | 296,833 | 276,402 | 20,431 | 4,220 | 7,235 | 838 | 12,293 | 1.66 |
| 2010 / 11 | | 269,610 | 233,939 | 35,671 | 4,425 | 8,022 | 1,793 | 14,240 | 2.50 |
| 2011 / 12 | | 285,423 | 238,074 | 47,349 | 6,255 | 9,616 | 1,017 | 16,888 | 2.80 |

Notes: (1) Gross revenue includes operating and nonoperating revenues including amounts on deposit in other unrestricted funds of the Electric Utility approved by resolution plus capitalized interest earnings less interest earnings on collateralized escrow securities.

(2) Direct expense includes operating expenses less depreciation and amortization and contribution-in-lieu to the General Fund, uncapitalized interest expense (other than revenue bonds) and letter of credit fees.

(3) The required coverage is 1.25.

(4) In fiscal year 2002 / 03 Principal includes the cost of advanced refunding of the 1991 B Revenue Bonds for \$10.32 million.

(5) In fiscal year 2005 / 06 Gross Revenue also includes \$21.5 million fund transfer from Cost Reduction Fund to pay for the Enron settlement cost. Direct expense includes Enron's net settlement cost of \$21.5 million.

(6) In fiscal year 2007 / 08 Letter of Credit include \$1.611 million refunding premium for 1998A, \$302 thousand issuance cost for 2008B and \$315 thousand issuance cost for 2008A.

Source: City of Santa Clara

**CITY OF SANTA CLARA
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years**

Table 14

| Year | Population | Personal Income (\$000) | Per Capita Buying Income | Median Age | Public School Enrollment | County Unemployment Rate | City Unemployment Rate |
|-------------|-------------------|--|---|-----------------------|---|---|---------------------------------------|
| 2002 / 03 | 104,306 | \$ 2,818,661 | \$ 27,023 | 34.2 | 13,321 | 8.4% | 7.9% |
| 2003 / 04 | 105,831 | 2,677,383 | 25,282 | 35.2 | 13,188 | 8.2% | 7.7% |
| 2004 / 05 | 107,200 | 2,720,598 | 26,465 | 35.7 | 13,839 | 6.2% | 5.9% |
| 2005 / 06 | 109,106 | 2,765,258 | 26,513 | 35.3 | 13,317 | 5.5% | 4.8% |
| 2006 / 07 | 110,771 | 3,831,569 | 34,590 | - | 13,366 | 5.0% | 4.3% |
| 2007 / 08 | 115,503 | 4,121,147 | 35,680 | 34.4 | 13,802 | 4.7% | 4.3% |
| 2008 / 09 | 117,242 | 4,225,531 | 36,738 | 34.4 | 14,729 | 11.8% | 10.9% |
| 2009 / 10 | 116,308 | 4,291,695 | 36,607 | 34.9 | 14,446 | 11.3% | 10.4% |
| 2010 / 11 | 118,169 | 4,727,907 | 40,010 | 34.3 | 14,731 | 10.3% | 9.4% |
| 2011 / 12 | 118,813 | 4,399,786 | 37,031 | 33.8 | 14,686 | 8.7% | 8.0% |

Note: (-) Data unavailable

Sources:

- Population and the Unemployment Rate are provided by California Department of Finance Projections.
- Starting in FY 2006-07 Personal Income Data is determined using 2005 American Community Survey Data and adjusted for inflation in accordance with rates provided by the Bureau of Labor Statistics as provided by MuniServices LLC.
- Prior Years Personal Income Data are from Sales and Marketing Power Management-Survey of Buying Power.
- 2009/10 Population was revised based on 2010 U.S. Census results.

CITY OF SANTA CLARA
PRINCIPAL PRIVATE EMPLOYERS
Current Year and Nine Years Ago

Table 15

| Company | 2012 | | 2003 | |
|------------------------------------|---------------------|-------------------------------------|---------------------|-------------------------------------|
| | Number of Employees | Percentage of Total City Employment | Number of Employees | Percentage of Total City Employment |
| Applied Materials, Inc. | 8,500 | 14.4% | | |
| Intel Corporation | 7,001 | 11.8% | 8,000 | 15.6% |
| AAA-Affordable Tutoring | 4,324 | 7.3% | | |
| Texas Instruments, Inc. | 3,500 | 5.9% | | |
| California's Great America | 2,500 | 4.2% | | |
| EMC Corporation | 1,338 | 2.3% | | |
| Santa Clara University | 1,200 | 2.0% | | |
| Macy's | 1,200 | 2.0% | | |
| ON Semiconductor Corporation | 1,100 | 1.9% | | |
| Agilent Technologies, Inc. | 1,000 | 1.7% | 3,000 | 5.8% |
| Oracle (formerly Sun Microsystems) | | | 3,500 | 6.8% |
| National Semiconductor Corporation | | | 2,000 | 3.9% |
| Coast Personnel | | | 1,895 | 3.7% |
| Sanmina-SCI Corporation | | | 1,500 | 2.9% |
| NEC Electronics | | | 1,200 | 2.3% |
| 3Com Corporation | | | 1,000 | 1.9% |
| Integrated Device Technology | | | 1,000 | 1.9% |
| Analog Devices | | | 900 | 1.8% |
| Total Top Ten | 31,663 | 53.5% | 23,995 | 46.6% |
| All Others | 27,437 | 46.5% | 27,305 | 53.4% |
| Total Employment | 59,100 | 100% | 51,300 | 100% |

Source: www.ReferenceUSA.com,

CITY OF SANTA CLARA
FULL-TIME EQUIVALENT BUDGETED CITY EMPLOYEES BY PROGRAM/FUNCTION
 Last Ten Fiscal Years

Table 16

| | Fiscal Year Ending June 30 | | | | | | | | | |
|------------------------|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| City Council | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 |
| City Clerk | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| City Attorney | 6.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 |
| City Manager | 8.00 | 8.00 | 9.00 | 9.00 | 9.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 |
| Information Technology | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| Human Resources | 14.50 | 14.50 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 16.00 | 16.00 |
| Finance | 58.00 | 58.00 | 62.00 | 62.00 | 63.00 | 54.00 | 54.00 | 55.00 | 55.00 | 55.00 |
| Parks & Recreation | 82.00 | 82.00 | 83.00 | 83.00 | 83.00 | 84.00 | 84.00 | 84.00 | 85.00 | 86.00 |
| Library | 42.00 | 42.75 | 42.75 | 42.75 | 42.75 | 42.75 | 42.75 | 42.75 | 43.75 | 38.75 |
| Planning & Inspection | 40.00 | 40.00 | 40.00 | 40.00 | 39.00 | 39.00 | 39.00 | 39.00 | 39.00 | 41.00 |
| Engineering | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 44.00 | 44.67 | 44.67 | 46.00 | 46.00 |
| Purchasing | ** | ** | ** | ** | ** | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |
| Building Maintenance | 11.50 | 12.50 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 |
| Street | 63.00 | 63.00 | 64.00 | 64.00 | 64.00 | 58.00 | 58.00 | 58.00 | 59.00 | 59.00 |
| Automotive Services | 18.00 | 18.00 | 19.00 | 19.00 | 19.00 | 19.00 | 19.00 | 19.00 | 20.00 | 20.00 |
| Police | 222.00 | 227.00 | 227.00 | 227.00 | 227.00 | 227.00 | 227.00 | 199.00 | 199.00 | 202.00 |
| Fire | 179.50 | 179.50 | 179.50 | 179.50 | 179.50 | 179.50 | 179.50 | 179.50 | 180.00 | 180.00 |
| Communications | * | * | * | * | * | * | * | 29.00 | 29.00 | 29.00 |
| Electric Utility | 135.00 | 144.00 | 144.00 | 144.00 | 144.00 | 144.00 | 144.00 | 144.00 | 138.00 | 133.00 |
| Water Utility | 45.80 | 46.15 | 45.45 | 45.45 | 45.50 | 45.50 | 45.50 | 44.50 | 44.50 | 44.50 |
| Sewer Utility | 14.20 | 13.85 | 14.55 | 14.55 | 14.50 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 |
| TOTAL | 994.00 | 1,010.75 | 1,020.25 | 1,020.25 | 1,020.25 | 1,019.25 | 1,019.92 | 1,020.92 | 1,021.75 | 1,017.75 |

Note: * Included in Police starting in 2005-06

** Included in Finance starting 2007-08

Source: City of Santa Clara Annual Budget 2011-12

**CITY OF SANTA CLARA
OPERATING INDICATORS BY FUNCTION/ACTIVITY
Last Ten Fiscal Years**

Table 17

| | Fiscal Year Ending June 30 | | | | | | | | | |
|--|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Culture and Recreation: | | | | | | | | | | |
| Number of library items circulated | 2,527,883 | 2,466,152 | 2,782,561 | 2,647,837 | 2,564,484 | 2,545,942 | 2,657,430 | 2,625,227 | 2,188,632 | 2,347,996 |
| Fire Protection: | | | | | | | | | | |
| Number of calls answered | 8,135 | 8,659 | 8,671 | 7,488 | 7,614 | 7,686 | 6,549 | 6,065 | 5,933 | 6,391 |
| Number of inspections conducted | 9,775 | 10,234 | 8,565 | 9,707 | 8,436 | 9,041 | 10,460 | 10,026 | 10,290 | 8,339 |
| Police Protection: | | | | | | | | | | |
| * Number of calls for service | 57,018 | 62,004 | 64,797 | 57,245 | 57,769 | 55,909 | 58,021 | 55,814 | 36,832 | 38,891 |
| Electric System: | | | | | | | | | | |
| Maximum annual demand | 463.01 MW | 471.37 MW | 459.8 MW | 489.9 MW | 479.6 MW | 486.5 MW | 461.2 MW | 399.7 MW | 405 MW | 419 MW |
| Total annual energy | 3,052,818 Mwh | 2,950,301 Mwh | 2,909,151 Mwh | 2,971,436 Mwh | 2,984,161 Mwh | 2,931,407 Mwh | 2,764,831 Mwh | 2,573,056 Mwh | 2,507,000 Mwh | 2,415,189 Mwh |
| Sewer System: | | | | | | | | | | |
| Number of service connections | 25,300 | 25,420 | 25,540 | 26,125 | 26,084 | 26,014 | 25,920 | 25,897 | 25,531 | 23,227 |
| Peak flow (5-day average,WPCP) | 121 MG | 120 MGD | 109 MGD | 109 MGD | 109 MGD | 125 MGD | 118 MGD | 109 MGD | 109 MGD | 119 MGD |
| Maximum daily capacity of treatment plant (WPCP) | 167 MGD | 167 MGD | 167 MGD | 167 MGD | 167 MGD | 167 MGD | 167 MGD | 167 MGD | 167 MGD | 167 MGD |
| Peak flow (5-day average,City) | 16 MGD | 16 MGD | 16 MGD | 16 MGD | 17 MGD | 17 MGD | 17 MGD | n/a | n/a | n/a |
| Water System: | | | | | | | | | | |
| Number of service accounts | 25,300 | 25,420 | 25,540 | 25,482 | 25,310 | 25,277 | 25,136 | 24,905 | 26,478 | 24,475 |
| Daily average consumption | 19 MG | 18.6 MG | 18.1 MG | 19.4 MG | 21 MG | 22 MG | 21 MG | 21 MG | 21 MG | 21 MG |
| Maximum daily capacity of plant: | | | | | | | | | | |
| Potable Water | 87 MGD | 87 MGD | 87 MGD | 87 MGD | 87 MGD | 89 MGD | 89 MGD | 87 MGD | 80 MGD | 80 MGD |
| Recycled Water | 15 MGD | 15 MGD | 15 MGD | 15 MGD | 15 MGD | 15 MGD | 15 MGD | 15 MGD | 15 MGD | 15 MGD |

Note * Data Based on Calendar Year

Source: City of Santa Clara

CITY OF SANTA CLARA
CAPITAL ASSETS STATISTICS BY FUNCTION
 Last Ten Fiscal Years

Table 18

| | Fiscal Year Ending June 30 | | | | | | | | | |
|---------------------------------------|----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Culture and Recreation: | | | | | | | | | | |
| Number of community centers | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Number of parks | 32 | 32 | 32 | 32 | 32 | 32 | 31 | 30 | 30 | 28 |
| Park acreage | 273 | 273 | 273 | 282 | 282 | 282 | 282 | 277 | 277 | 265 |
| Number of golf courses | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of swimming pools (1) | 5 | 5 | 5 | 5 | 5 | 4 | 4 | 4 | 4 | 4 |
| Number of tennis courts | 28 | 28 | 28 | 28 | 28 | 28 | 28 | 27 | 27 | 27 |
| Number of lawn bowling greens | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of lighted soccer fields | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 0 |
| Number of lighted softball fields | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Number of neighborhood park buildings | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Number of gymnastic centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of skate parks | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of community theaters | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 |
| Number of libraries | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Cemetery | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Fire Protection: | | | | | | | | | | |
| Number of stations | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Police Protection: | | | | | | | | | | |
| Number of stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Electric System: | | | | | | | | | | |
| Number of meters | 52,867 | 52,327 | 52,090 | 51,832 | 51,514 | 50,858 | 50,069 | 49,775 | 48,753 | 48,489 |
| Miles of high voltage lines | 582 | 579 | 573 | 573 | 548 | 479 | 479 | 477 | 475 | 471 |
| Number of substations (1) | 26 | 26 | 24 | 23 | 23 | 23 | 23 | 22 | 19 | 19 |
| Sewerage System: | | | | | | | | | | |
| Miles of sanitary sewers | 286 | 285 | 285 | 279 | 279 | 282 | 282 | 282 | 277 | 275 |
| Miles of storm sewers | 141 | 140 | 140 | 140 | 140 | 138 | 138 | 138 | 137 | 137 |
| Number of treatment plants | 1 Tertiary | 1 Tertiary | 1 Tertiary | 1 Tertiary | 1 Tertiary | 1 Tertiary | 1 Tertiary | 1 Tertiary | 1 Tertiary | 1 Tertiary |
| Water System: | | | | | | | | | | |
| Miles of water mains | 335 | 335 | 335 | 335 | 335 | 335 | 334 | 301 | 301 | 298 |
| Number of fire hydrants | 3,315 | 3,315 | 3,315 | 3,313 | 3,285 | 3,261 | 3,249 | 3,249 | 3,143 | 3,143 |
| Miles of recycled water mains | 33 | 23 | 21 | 20 | 20 | 20 | 19 | 19 | 19 | 19 |
| Streets: | | | | | | | | | | |
| Miles of Streets | 249 | 249 | 249 | 249 | 249 | 249 | 249 | 249 | 248 | 248 |
| Number of Street Lights | 8,046 | 7,993 | 7,990 | 7,976 | 8,481 | 8,181 | 8,179 | 8,170 | 8,163 | 8,171 |
| Number of Traffic Signals | 188 | 188 | 188 | 188 | 187 | 187 | 184 | 182 | 178 | 175 |

(1) Certain amounts in the prior years have been reclassified in order to be consistent with current years presentation.

Source: City of Santa Clara

**CITY OF SANTA CLARA
STATEMENT OF INSURANCE COVERAGE
June 30, 2012**

Table 19

| TYPE OF POLICY | INSURANCE COMPANY | LIMITS* | ANNUAL PREMIUM | TERM YEARS | EXPIRATION DATE ** |
|--|---|----------------|----------------|------------|--------------------|
| <u>Liability</u> | | | | | |
| Comprehensive General | Self-insured (Since 1987) | \$5 million | n/a | - | Ongoing |
| Excess Liability | Starr Indemnity & Liability Company | \$20 million | \$148,200 | 1 | 7/1/2012 |
| Workers' Compensation | Self-insured (since 1973) | \$500 thousand | n/a | - | Ongoing |
| Excess Workers' Compensation | CSAC Excess Ins. Authority | \$5 million | \$526,000 | 1 | 7/1/2012 |
| <u>Property Coverage</u> | | | | | |
| All Risks, including flood, excluding earthquake | Public Entity Property Insurance Program (PEPIP) Lexington Insurance and various excess carriers | \$1 billion | \$457,008 | 1 | 7/1/2012 |
| Boiler and Machinery | Lexington Insurance Co., CNA Insurance Co., and Foreign Excess Insurance Companies | \$100 million | \$18,806 | 1 | 7/1/2012 |
| <u>Financial Loss Bonds</u> | | | | | |
| Crime Coverage Bond | CSAC Excess Ins. Authority | \$10 million | \$6,620 | 2 | 7/1//2013 |

Notes: * Limits are per occurrence

** All policies have been renewed

Source: City of Santa Clara

**SUCCESSOR AGENCY CITY OF SANTA CLARA
STATISTICAL SECTION**

This part of the City of Santa Clara's Comprehensive Annual Report provides detailed information to better understand the data presented within the financial statements, note disclosures, and required supplementary information .

TABLES

REVENUE CAPACITY

Contains information to help the reader assess the City's most significant local revenue source, the property tax.

1-3

DEBT CAPACITY

Presents information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

4

**SUCCESSOR AGENCY OF THE CITY OF SANTA CLARA
BAYSHORE NORTH PROJECT AREA
Historical Tax Increment
Fiscal Years 2004-05 Through 2011-12
(In Thousands)**

Table 1

| | <u>2011-12</u> | <u>2010-11</u> | <u>2009-10</u> | <u>2008-09</u> | <u>2007-08</u> | <u>2006-07</u> | <u>2005-06</u> | <u>2004-05</u> |
|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Real Property Value | \$ 2,337,717 | \$ 2,302,910 | \$ 2,627,293 | \$ 2,441,511 | \$ 2,029,853 | \$ 1,851,088 | \$ 1,611,794 | \$ 1,837,145 |
| Other Property Value | 492,292 | 423,299 | 388,607 | 377,401 | 353,950 | 334,725 | 297,334 | 301,559 |
| Total Project Value | <u>2,830,009</u> | <u>2,726,209</u> | <u>3,015,900</u> | <u>2,818,912</u> | <u>2,383,803</u> | <u>2,185,813</u> | <u>1,909,128</u> | <u>2,138,704</u> |
| Less Base Value | (8,838) | (8,838) | (8,838) | (8,838) | (8,838) | (8,838) | (8,838) | (8,838) |
| Increment Over Base Value | 2,821,171 | 2,717,371 | 3,007,062 | 2,810,074 | 2,374,965 | 2,176,975 | 1,900,290 | 2,129,866 |
| Tax Increment Revenue | 15,035 | 28,629 | 31,656 | 29,597 | 25,036 | 22,945 | 20,052 | 22,475 |
| Supplemental Tax Revenue | - | (37) | 94 | 1,627 | 1,306 | 713 | (632) | 57 |
| Total Tax Revenue | <u>15,035</u> | <u>28,592</u> | <u>31,750</u> | <u>31,224</u> | <u>26,342</u> | <u>23,658</u> | <u>19,420</u> | <u>22,532</u> |
| <u>Less:</u> | | | | | | | | |
| Pass Through Payments | (1,085) | - | - | - | - | - | - | - |
| SERAF Payment | - | (1,975) | (9,592) | - | - | - | (2,360) | (2,871) |
| Housing Set-Aside | (3,007) | (8,578) | (9,525) | (9,367) | (7,903) | (7,098) | (5,826) | (6,760) |
| County Administrative Charge | - | (312) | (321) | (286) | (262) | (251) | (219) | (258) |
| Net Tax Revenue | <u>\$ 10,943</u> | <u>\$ 17,727</u> | <u>\$ 12,312</u> | <u>\$ 21,571</u> | <u>\$ 18,177</u> | <u>\$ 16,309</u> | <u>\$ 11,015</u> | <u>\$ 12,643</u> |

Source: City of Santa Clara / Santa Clara County Auditor

**SUCCESSOR AGENCY OF THE CITY OF SANTA CLARA
BAYSHORE NORTH PROJECT AREA
Ten Largest Assesseees - Taxable Value
June 30, 2012**

Table 2

| ASSESSEE | ASSESSED PROPERTY USE | ASSESSED PROPERTY VALUATION | PERCENT OF TOTAL |
|--|--------------------------------------|--|-----------------------------|
| 1 Prudential Insurance Company of America | Commercial Offices Building/Secured | \$ 166,164,321 | 5.87% |
| 2 Yahoo Inc | Commercial Offices Building | 155,726,064 | 5.50% |
| 3 Carr NP Properties LLC | Commercial Offices Building | 140,775,322 | 4.97% |
| 4 SI 34 LLC | Commercial Offices Building/Secured | 138,274,762 | 4.89% |
| 5 Santa Clara Towers LP | Commercial Offices Building/Secured | 117,276,492 | 4.14% |
| 6 Hyatt Regency Santa Clara | Commercial Offices Building | 100,367,362 | 3.55% |
| 7 Sobrato Interest III LP | Unsecured | 93,658,226 | 3.31% |
| 8 SI 41 LLC | Commercial Offices Building/Secured | 90,204,690 | 3.19% |
| 9 Silicon Valley California I LLC | Commercial Offices Building/Secured | 86,933,186 | 3.07% |
| 10 Quality Investment Properties SC | Unsecured | 81,191,910 | 2.87% |
| | TOTAL | <u>\$ 1,170,572,335</u> | <u>41.36%</u> |
| | TOTAL AGENCY ASSESSED VALUE | <u><u>\$ 2,830,008,627</u></u> | |

Source: HDL Coren & Cone

SUCCESSOR AGENCY OF THE CITY OF SANTA CLARA
BAYSHORE NORTH PROJECT AREA
Assessment Appeal Activity of Top 20 Assesseees
2011-12 Impacts

Table 3

| TAX ROLL NUMBER | ASSESSEE | ASSESSED VALUE/ORIGINAL | S/U (1) | APPEAL NUMBER | HEARING DATE DEADLINE | STATUS | APPLICANT'S OPINION VALUE | LAND USE |
|-----------------|-------------------------------|-------------------------|---------|---------------|-----------------------|---------|---------------------------|------------|
| 104-40-034 | Carr NP Properties LLC | \$ 110,458,882 | S | 11.0926 | | Pending | \$ 68,000,000 | Commercial |
| 104-55-005 | Hyatt Regency Santa Clara | 90,588,011 | S | 11.3761 | | Pending | 50,000,000 | Commercial |
| 104-55-005 | Hyatt Regency Santa Clara | 89,910,982 | S | 10.4378 | | Pending | 27,676,231 | Commercial |
| 104-40-019 | Silicon Valley California LLC | 86,933,186 | S | 11.0648 | | Pending | 52,160,000 | Commercial |
| 104-42-018 | Prudential Insurance Co. | 85,648,345 | S | 11.4006 | | Pending | 60,800,000 | Commercial |
| 104-42-018 | Prudential Insurance Co. | 85,008,234 | S | 10.5541 | | Pending | 48,100,000 | Commercial |
| 104-42-017 | Prudential Insurance Co. | 80,515,976 | S | 11.4005 | | Pending | 60,800,000 | Commercial |
| 104-42-017 | Prudential Insurance Co. | 79,914,222 | S | 10.5540 | | Pending | 45,300,000 | Commercial |
| 104-49-029 | Lake Marriot LLC | 78,666,534 | S | 11.8109 | | Pending | 30,000,000 | Commercial |
| 104-52-020 | Cognac Great America LLC | 72,044,528 | S | 11.7574 | | Pending | 40,000,000 | Commercial |
| 104-52-020 | Cognac Great America LLC | 71,675,961 | S | 09.B828 | 11/28/2012 | Pending | 40,000,000 | Commercial |
| 104-52-020 | Cognac Great America LLC | 71,506,088 | S | 10.6870 | | Pending | 40,000,000 | Commercial |
| 10-022917 | Paramount Parks Inc. | 65,985,619 | U | 10.6067 | | Pending | 36,000,000 | N/A |
| 11-023248 | Cedar Fair | 57,469,120 | U | 11.8188 | | Pending | 40,000,000 | N/A |
| 104-41-030 | Broadcom | 47,256,378 | S | 11.7302 | | Pending | 14,175,000 | Commercial |
| 10-037856 | Savvis Communications Corp | 45,935,890 | U | 10.5814 | | Pending | 40,000,000 | N/A |
| 10-028324 | Sobrato Development | 42,389,115 | U | 10.4982 | | Pending | 30,510,000 | N/A |
| 104-04-153 | SI 41 LLC | 40,000,000 | S | 12.0030 | | Pending | 34,000,000 | Commercial |
| 11-042252 | Quality Investment Properties | 36,593,756 | U | 11.2690 | | Pending | 18,296,879 | N/A |
| 104-42-020 | SI 34 LLC | 33,000,000 | S | 12.0029 | | Pending | 20,000,000 | Commercial |
| | | \$ 1,371,500,827 | | | | | \$ 795,818,110 | |

- (1) Applicant's opinion value was not provided by the applicant
- (2) S=secured roll, U=unsecured roll

Source: Santa Clara County Assessor's Office

**SUCCESSOR AGENCY OF THE CITY OF SANTA CLARA
BAYSHORE NORTH PROJECT AREA
Computation of Direct and Overlapping Bonded Debt
June 30, 2012**

Table 4

| | | | |
|--|-------------------|---------------------|--------------------------------|
| 2011-12 Assessed Valuation: | \$ 2,830,008,627 | | |
| Base Year Valuation: | 8,837,956 | | |
| Incremental Valuation: | \$ 2,821,170,671 | | |
| | | | |
| | <u>Total Debt</u> | | <u>Project Area's Share of</u> |
| | <u>6/30/2012</u> | <u>% Applicable</u> | <u>Debt 6/30/12</u> |
| <u>DIRECT DEBT:</u> | | | |
| 1999 Tax Allocation Bonds, Series A | \$ 31,550,000 | 100% | \$ 31,550,000 |
| 1999 Tax Allocation Bonds, Series B | 13,745,000 | 100% | 13,745,000 |
| 2002 Refunding Tax Allocation Bonds | 11,045,000 | 100% | 11,045,000 |
| 2003 Tax Allocation Bonds | 43,960,000 | 100% | 43,960,000 |
| 2011 Tax Allocation Bonds | 31,286,295 | 100% | 31,286,295 |
| TOTAL DIRECT DEBT | | | \$ 131,586,295 |
| Ratio to Incremental Valuation: 4.66% | | | |
| <u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | | | |
| Santa Clara Unified School District | \$ 441,095,000 | 8.328% | \$ 36,734,392 |
| West Valley-Mission Community College District | 210,961,930 | 3.369% | 7,107,307 |
| Santa Clara County | 316,800,000 | 0.947% | 3,000,096 |
| Santa Clara Valley Water District Benefit Assessment District | 133,440,000 | 0.947% | 1,263,677 |
| City of Santa Clara Traffic Mitigation Assessment District | 380,000 | 23.060% | 87,628 |
| El Camino Hospital District | 142,280,000 | 0.010% | 14,228 |
| TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT | | | \$ 48,207,328 |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | | |
| Santa Clara County General Fund Obligations | \$ 770,947,000 | 0.003% | \$ 23,128 |
| Santa Clara County Pension Obligations | 383,034,822 | 0.003% | 11,491 |
| Santa Clara County Board of Education Certificates of Participation | 11,540,000 | 0.003% | 346 |
| West Valley-Mission Community College District Certificates of Participation | 65,715,000 | 0.012% | 7,886 |
| Santa Clara Unified School District Certificates of Participation | 12,980,000 | 0.037% | 4,803 |
| City of Santa Clara General Fund Obligations | 39,528,000 | 0.042% | 16,602 |
| Santa Clara County Vector Control District Certificates of Participation | 3,630,000 | 0.003% | 109 |
| TOTAL OVERLAPPING GENERAL FUND DEBT | | | \$ 64,365 |
| COMBINED TOTAL DIRECT AND OVERLAPPING DEBT | | | \$ 179,857,988 (1) |
| TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT | | | \$ 131,650,660 (2) |
| | | | |
| (1) Percentage of overlapping agency's assessed valuation located within boundaries of the project area | | | |
| (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations | | | |
| | | | |
| <u>Ratios to 2011-12 Assessed Valuation:</u> | | | |
| Combined Total Direct and Overlapping Debt | 6.38% | | |
| Net Combined Total Direct and Overlapping Debt | 4.67% | | |

Source: California Municipal Statistics, Inc.