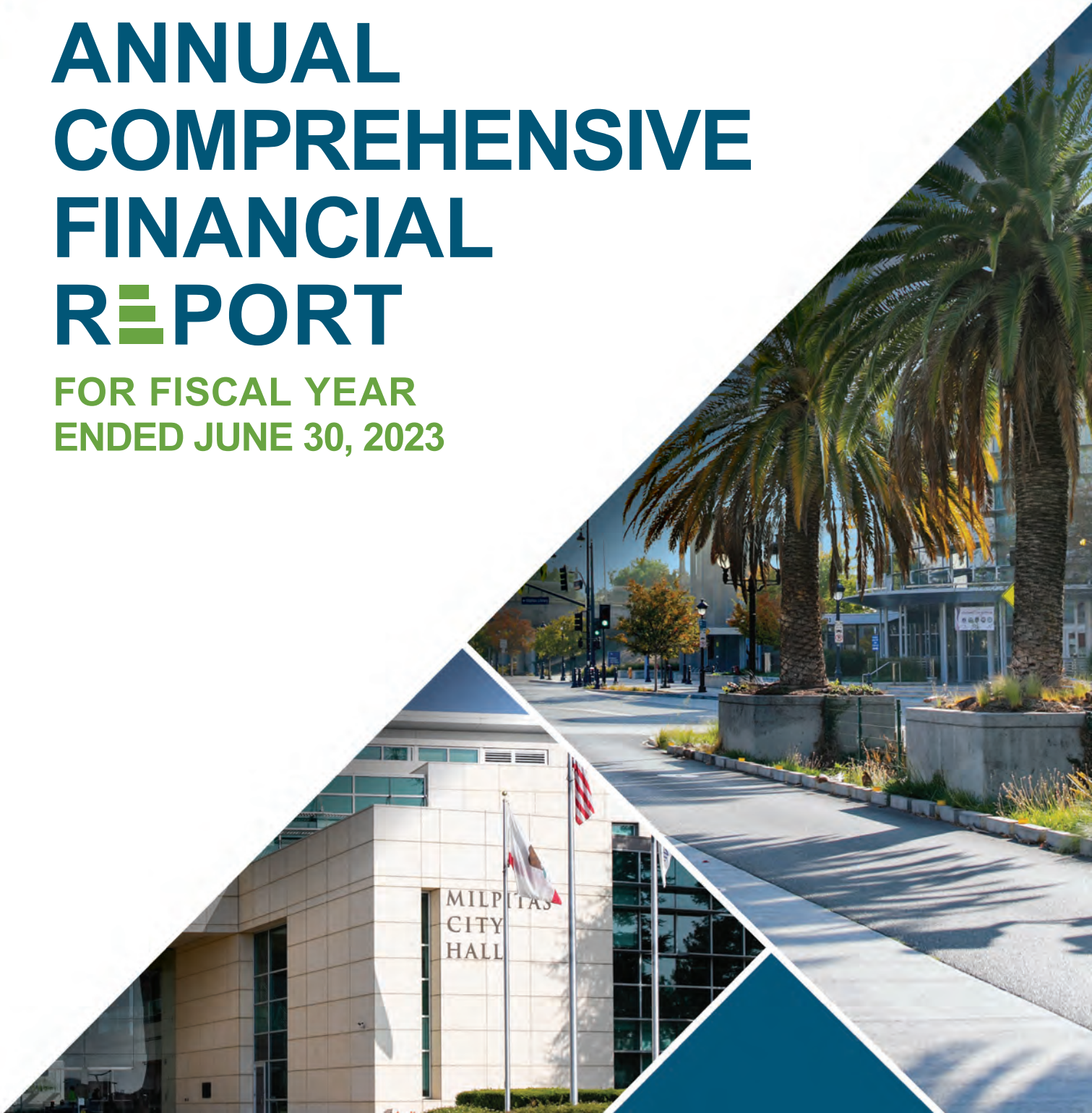




2022-2023

ANNUAL COMPREHENSIVE FINANCIAL R_{EP}ORT

**FOR FISCAL YEAR
ENDED JUNE 30, 2023**





CITY OF MILPITAS, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2023

Prepared by
THE FINANCE DEPARTMENT



INTRODUCTORY SECTION



CITY OF MILPITAS
Annual Comprehensive Financial Report
For the Year Ended June 30, 2023

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CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479

PHONE: 408-586-3000, www.ci.milpitas.ca.gov

November 15, 2023

Honorable Mayor and Members of the City Council:

Submitted herewith is the Annual Comprehensive Financial Report (ACFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2023 as prepared by the City's Finance Department with support from other City departments. This report is consistent with generally accepted accounting principles. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

The Reporting Entity and its Services

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

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

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

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

Economic Condition, Outlook and Activity

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas is considered the “Crossroads of Silicon Valley,” with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880. Milpitas has experienced tremendous growth since its incorporation in 1954. Over the past 69 years, the population growth has increased from 26,561 in 1970 to nearly 81,067 based on the latest Department of Finance data. The economy was largely unchanged at the state and federal levels with State of California’s unemployment at 4.6% and national unemployment rate at 3.8% compared to 4.1% and 3.5% in prior fiscal year, respectively. At the City level, unemployment rate increased by 2% compared to prior year’s 2.3% to 4.3%. The increase was primarily due to technology sector and related layoffs in the Silicon Valley, which totaled more than 11,979 in FY22-23. During this period seven businesses issued 10 WARN notices resulting in permanent separations of 967 employees due to reduction in customer volume, facility closures or other changes in business needs. In comparison the California Employment Development Department (EDD) reported that manufacturing employment reductions in Santa Clara County totaled 2,000 jobs between August 2022 and August 2023 despite overall employment increasing by 22,000 jobs during this same period.

As the economy remains uncertain in the fourth year after the COVID-19 pandemic, we are optimistic about the future but remain tempered by possible near-term economic impacts that may stem from the continued war in Ukraine, recently intensified Israel-Hamas war in the Middle East, high interest rates, fluctuating inflation rates, continued supply chain challenges, and the banking concerns following the recent collapse of Silicon Valley Bank. While the inflation rate peaked and declined, it remains at about 3.7% nationally and the Federal Reserve maintains its plans to continue interest rate hikes to engineer inflation reductions. The technology sector layoffs are relevant especially in the Silicon Valley and the collapse of the Silicon Valley Bank has put more strain on the Federal government and our economy. While the City funds are collateralized by our respective banks, the impact on the local economy and City revenues remains a concern. Another critical variable is how the pandemic may permanently impact society, such as cutting back in in-person commerce or services through online shopping, virtual work, a decrease in conferences and/or leisure services to name only a few. Recoveries in sales tax and hotel tax (transient occupancy tax) are encouraging; however, we are cognizant that full recovery of hotel tax revenue may be challenging and require multiple years.

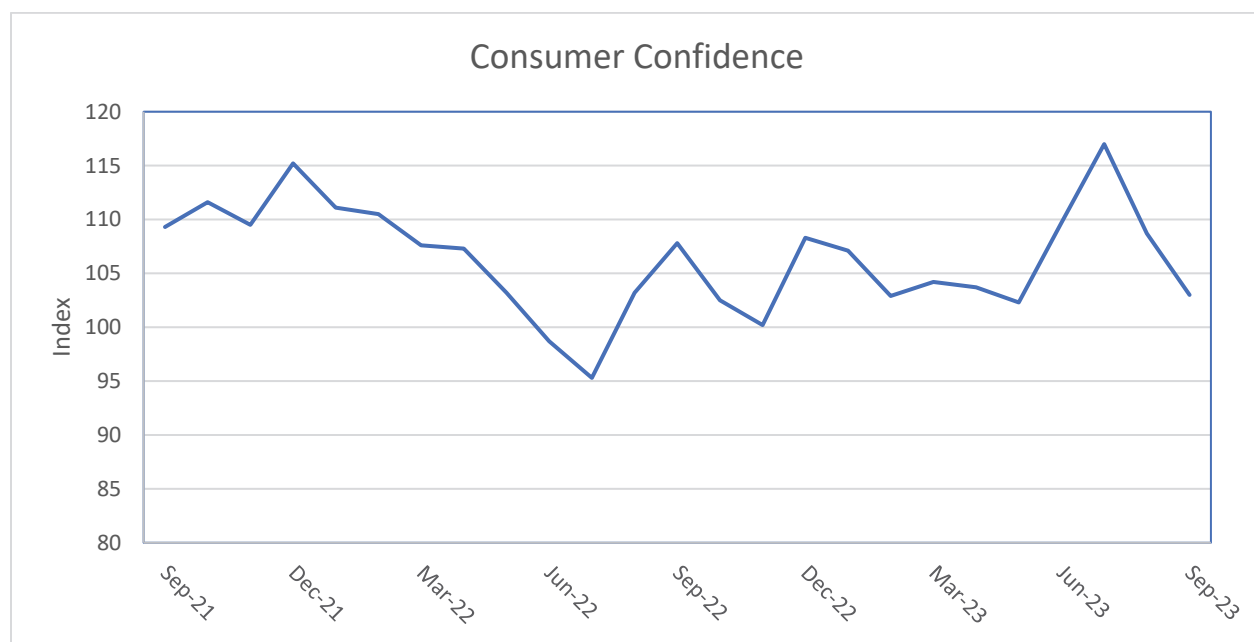
The national GDP (Gross Domestic Product, the value of goods and services less the value of the goods and services used up in production and is the most popular indicator of the nation’s overall economic health.) growth increased at an annual rate of 2.1 percent in the second quarter of 2023 from the previous quarter (according to the BEA, or Bureau of Economic Analysis’ Advanced estimate). With inflation decreasing to around 3.7% as of September 2023 compared to 8.2% in September 2022, the Federal Reserve is likely to maintain high interest rates to suppress inflation. Consequently, there is volatility in the stock market and slow-down in economic growth. As of September 2023, the Federal Reserve Board’s projected change in median GDP growth is positive 1.5 percent for 2024 and positive 1.8 percent for 2025.

The CPI (Consumer Price Index) is used by the U.S. Bureau of Labor Statistics to measure inflation. The September 2023 CPI-U (Consumer Price index for all Urban Consumers) increased 3.7 percent over the last 12 months. Core CPI (CPI less food and energy) is 4.1 percent compared to 6.6 percent in September 2022. Core CPI represents a more accurate picture of underlying inflation trends since volatile food and energy products are excluded. While the global economic activity remains uncertain, the U.S. Bureau of Labor Statistics’ Employment Projections for 2022-2023 shows a projected growth from 164.5 million to 169.1 million over the 2022-32 decade.

The housing market has remained strong in 2023. Single family residential construction starts increased 8.0% year-over-year while multi-family construction starts decreased 28% year-over-year. The median sale price of a single-family residential home in Milpitas was \$1.4 million as of August 2023, down approximately 4.7 percent from last year. Year-over-year price increases have ramped up in Santa Clara County. Santa Clara County had an 8.3 percent increase in median sale price compared to 2.1 percent increase last year. The California Association of Realtors reported an increase in value of 1.6 percent statewide. The section below entitled “Major Development Activities in the City” will discuss some of the development activities that are occurring in Milpitas.

Consumer Confidence Level

The Conference Board Consumer Confidence Index decreased to 103 in September 2023 from 108.7 in August 2023. Consumer confidence is an indicator designed to measure the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Since consumer spending accounts for more than two-thirds of the U.S. Gross Domestic Product, the index is a good indicator that when consumers’ confidence is high, consumers would likely make more purchases thus further boosting the economy. Employment drives consumer spending, which in turn impacts the economy greatly. Nonfarm payroll employment increased 336,000 in September 2023, and the unemployment rate was unchanged at 3.8 compared to August 2023.

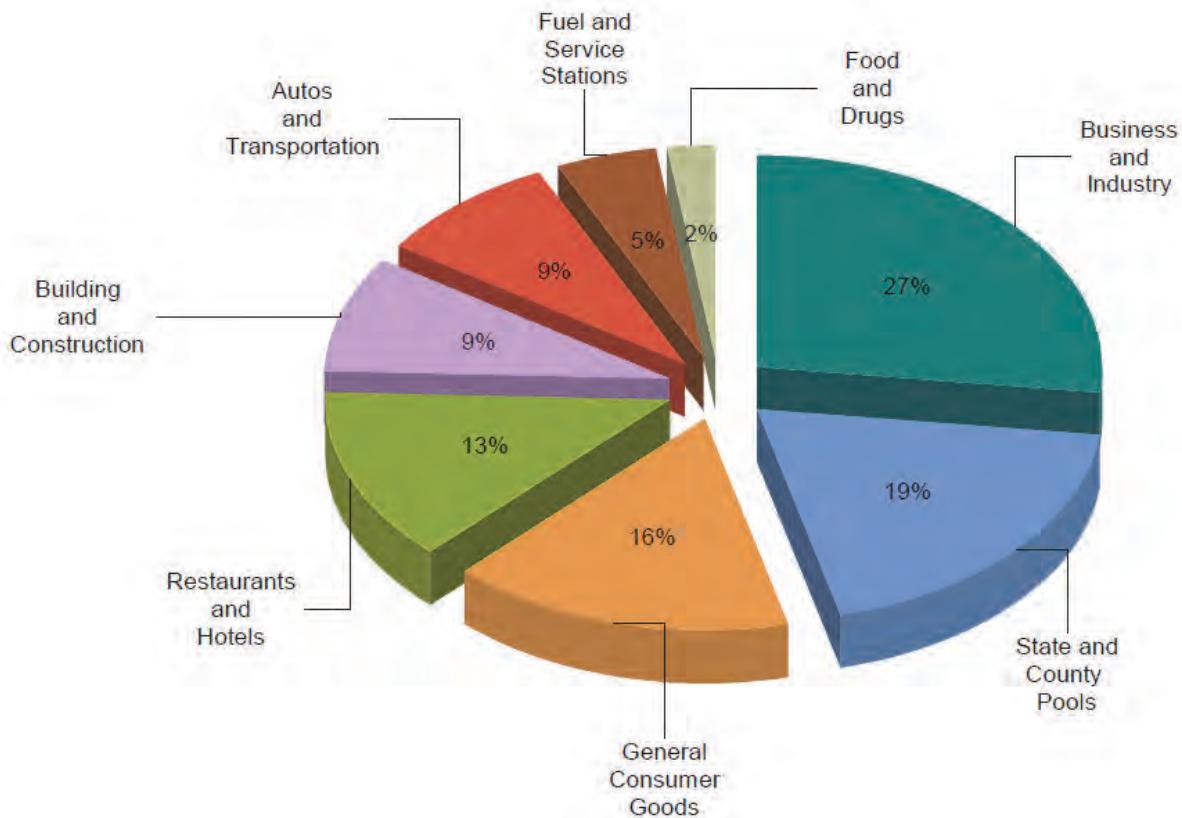


Source: The Conference Board

Top Ten Sales Tax Generators by Economic Segment

Financial markets continue to remain volatile and inflationary trends in the economy remain high. According to Urban-Brookings Tax Policy Center, total state tax revenue collections decreased 6.8 percent in nominal terms and 11.5 percent in real terms in the first quarter of 2023, compared to the year prior. The chart below provides a snapshot of the City’s sales tax revenue by major industry groups. Total amount of sales tax revenue for the major industry groups generated about \$29.7 million. Total sales tax receipts increased by 10.8 percent from 2022. By and large, the sales tax revenue generated from major industry groups such as Fuel and Service Stations, Restaurants and Hotels, General Consumer Goods, Business and Industry, Food and Drugs, and Autos and Transportation did not change significantly compared to the composition over a year ago.

City Sales Tax Revenue (\$29.7 Million)
Major Industry Groups



Source: HDL FY23 Major Business Categories

Major Development Activities in the City

General Plan Update – Considered the blueprint for future development, the General Plan defines a long-term vision for future growth, traffic circulation, economic development, health, housing and resource conservation. The Milpitas 2040 General Plan was unanimously adopted by the City Council on March 9, 2021, and this policy document will guide City decision-making and priorities over the next 20 years. The Plan identifies opportunity sites where changes to land use and development patterns are likely to occur and prioritizes housing and economic growth in areas served by high-quality transit. The Plan also includes policies aimed at preserving the character of existing neighborhoods and protecting the City’s hillsides and other natural resources.

Milpitas Metro Specific Plan – The City adopted a Transit Area Specific Plan (TASP) in June 2008 to encourage medium to high density development surrounding the new Milpitas Transit Center. The Plan was last updated in 2011. The Milpitas Transit Center, which opened in 2020, provides high-quality bus and light rail connections via the Santa Clara Valley Transportation Authority (VTA) system as well as regional rapid transit services via BART. The City adopted the Milpitas Metro Specific Plan (and the associated Environmental Impact Report) in February 2023 with updated policies and programs to further enhance existing neighborhoods and provide new opportunities for future housing, retail, office, and hotel uses in the planning area. The new Metro Plan envisions a network of landscaped open space, parks, and trails that connect housing and jobs to high-quality transit and provide opportunities for active and passive recreation as well as social interaction. The new Plan also envisions development of an employment-oriented Innovation District near the Milpitas Transit Center to foster economic development based on the City’s excellent access to regional bus, light rail, and BART connections. The Office of Economic Development is currently partnering with a local public relations firm on the Innovation District Branding Initiative. The City is currently updating the Transit Area Development Impact Fee to fund the new public improvements identified in the new Plan.

Residential Development – The City continues to leverage public and private resources to support planning and development of new affordable housing. The City is recognized for its award-winning online resources and interactive tools that help residents navigate the development review process and find ADU designs that fit their property and needs. For more information, visit www.milpitas.gov/adu/. The City also continues to host the popular “ADU Mondays” program, which brings staff from various departments together to provide direct assistance to residents who wish to pursue an ADU on their property. City staff has presented information about these programs in regional and statewide forums.

In FY 2022-23, the Planning Commission has approved permits for several new housing development, including a time extension to develop a 372-unit multifamily residential project at 600 Barber Lane, a 78-unit (15% affordable) multi-family townhome development with 12 attached ADU’s at 675 Tradezone Blvd., and an 57-unit (15% affordable) townhome project on 612 S. Main Street. The City is continuing to utilize \$300,000 in state grant funding to develop a Housing Opportunity Overlay Zone aimed at streamlining the review process for affordable housing and create new by-right housing regulations. In addition, the City received a \$500,000 Priority Development Area (PDA) grant from ABAG to help fund the preparation of the Gateway/Main Street Specific Plan. The City also received \$142,700 from ABAG’s Regional Early Action Planning (REAP) grant program to help fund the preparation of the 2023-2031 Housing Element.

Non-residential Development – FY2022-23 was another busy year for commercial redevelopment and expansion. The Planning Commission approved the redevelopment of a 12,800 square foot industrial building into a new recreational vehicle rental center at 893 Ames Avenue. In addition, conditional use permits have been granted for two new restaurants at 500 Barber Lane and 1471 N Milpitas Blvd. Lastly, the City of Milpitas Zoning Administrator has approved over 7,600 square feet of site improvements for BD Biosciences at 155 N. McCarthy Blvd. and over 290,000 square feet of new industrial office/building space at 475-525 Sycamore Drive. BD Biosciences is a significant business attraction effort for Milpitas as they will occupy a total of 240,000 square feet and add approximately 800 new employees to the city. Global electronics company TDK Corporation officially opened its new manufacturing facility. The new facility is operated by TDK’s Headway Technologies and occupies an existing 125,000 square foot building. Approximately 200 employees work at the new facility to manufacture wafers for hard disk drive heads used for large data storage by medical, military, government, and business customers, as well as the consumer cloud.

Accounting System and Budgetary Control

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

All internal control evaluations occur within the above framework. The Finance Department staff remains committed to improving the City's accounting system; to maintain the City's internal accounting controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. Budgetary control is directed by the City Council by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the department level by fund. The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures. The City Manager has limited budget appropriation authority to transfer appropriations among departments and projects within any one fund, provided that the amount of the amended appropriation is \$100,000 or less. Quarterly reports of revenue and expense are prepared and distributed to the City Council and City departments to monitor spending in relation to the budget. At fiscal year-end, open encumbrances are reported under the "Assigned" fund balance classification. The City's accounting records are organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. Each fund is classified by category and fund type:

Category and Fund Type

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

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

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

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as a Private-Purpose Trust Fund and Custodial Funds. The full accrual basis of accounting is used as explained in the Notes to the Financial Statements.

Financial Analysis

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

Long Term Financial Planning

Each year the City adopts a balanced budget by June 30. The City has fiscal policies that include the use of one-time revenues for one-time expenditures only, including capital outlay and reserves. The City also adopted reserve policies that requires unassigned fund balance which is made up of the Contingency Reserve to be at least 16.67% of the annual operating expenditures and the Budget Stabilization Reserve with a reserve target of 16.67% of the annual operating expenditures in the General Fund. Additional reserves are included in Note 12.

The City developed a five-year Capital Improvement Plan detailing specific budgeted capital projects. Each of the projects is consistent with the budget priorities of the City. The fiscal year 22-23 Adopted Capital Improvement Project (CIP) Budget totaled \$24 million. The CIP included improvements to the City's infrastructure which includes community improvements, parks, streets, water, sewer and storm drain utilities.

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

Independent Audit

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

Awards

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. The City has received this award for the last twenty-seven years.

Acknowledgments

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

Respectfully submitted,



Ned Thomas
City Manager



Lauren Lai
Director of Finance/Risk Manager

DIRECTORY OF OFFICIALS

June 30, 2023

City Council

Mayor	Carmen Montano
Vice-Mayor	Evelyn Chua
Councilmember	Hon Lien
Councilmember	Anthony Phan
Councilmember	Garry Barbadillo

City Manager

Ned Thomas

Assistant City Manager

Vacant

Deputy City Manager

Matt Cano

Building Safety & Housing

Bill Tott (Interim Building Safety)
Alex Andrade (Interim Housing)

City Attorney

Michael Mutalipassi

City Clerk

Suzanne Guzzetta

Director of Recreation & Community Services

Renee Lorentzen

Economic Development Director

Alex Andrade

Engineering Director/City Engineering

Matt Cano

Finance Director

Lauren Lai

Fire Chief

Jason Schoonover

Human Resources Director

Vicky Lien (Interim)

Information Technology Director

Daniel Nam

Planning Director

Jay Lee

Police Chief

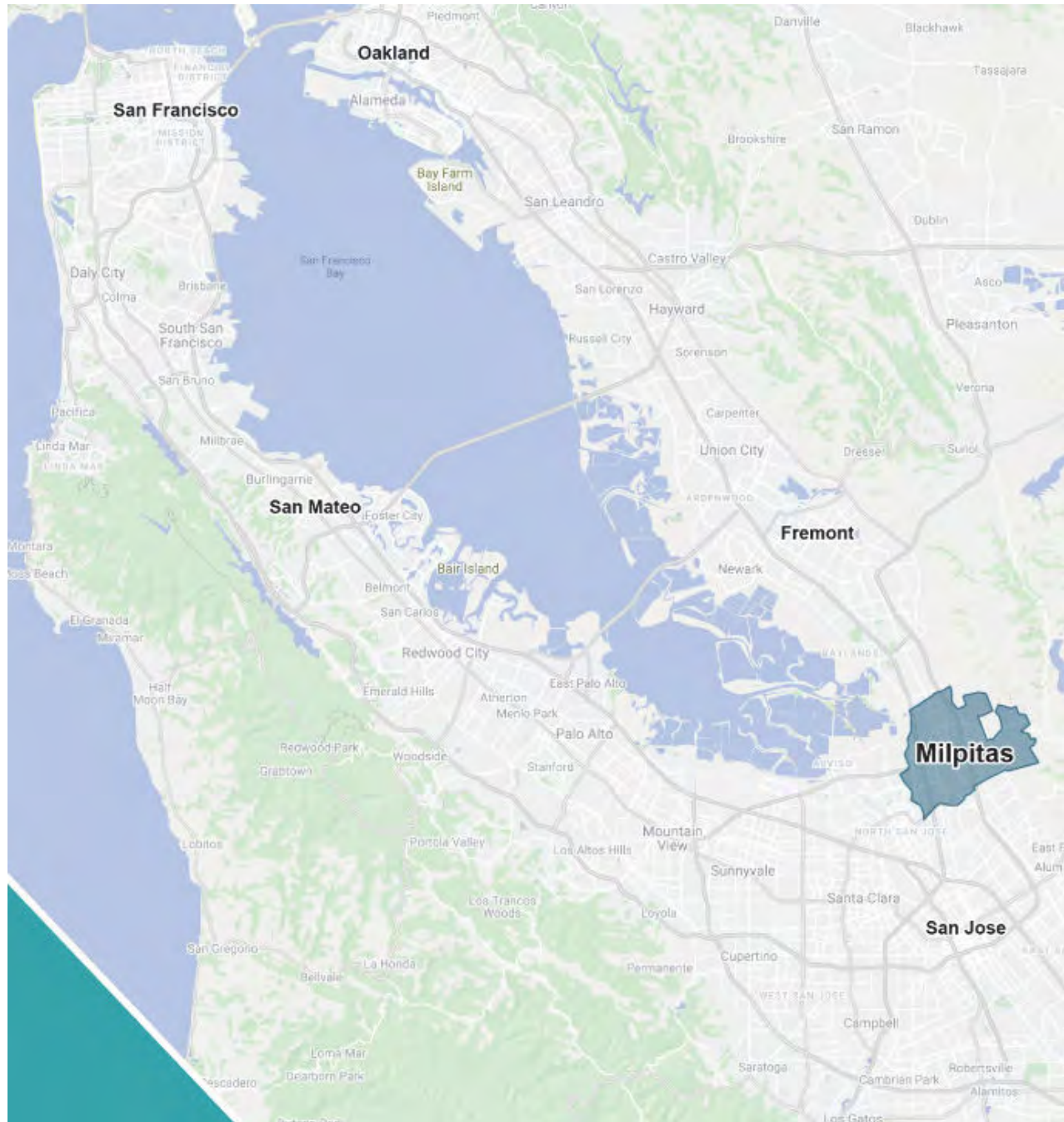
Jared Hernandez

Public Information Officer

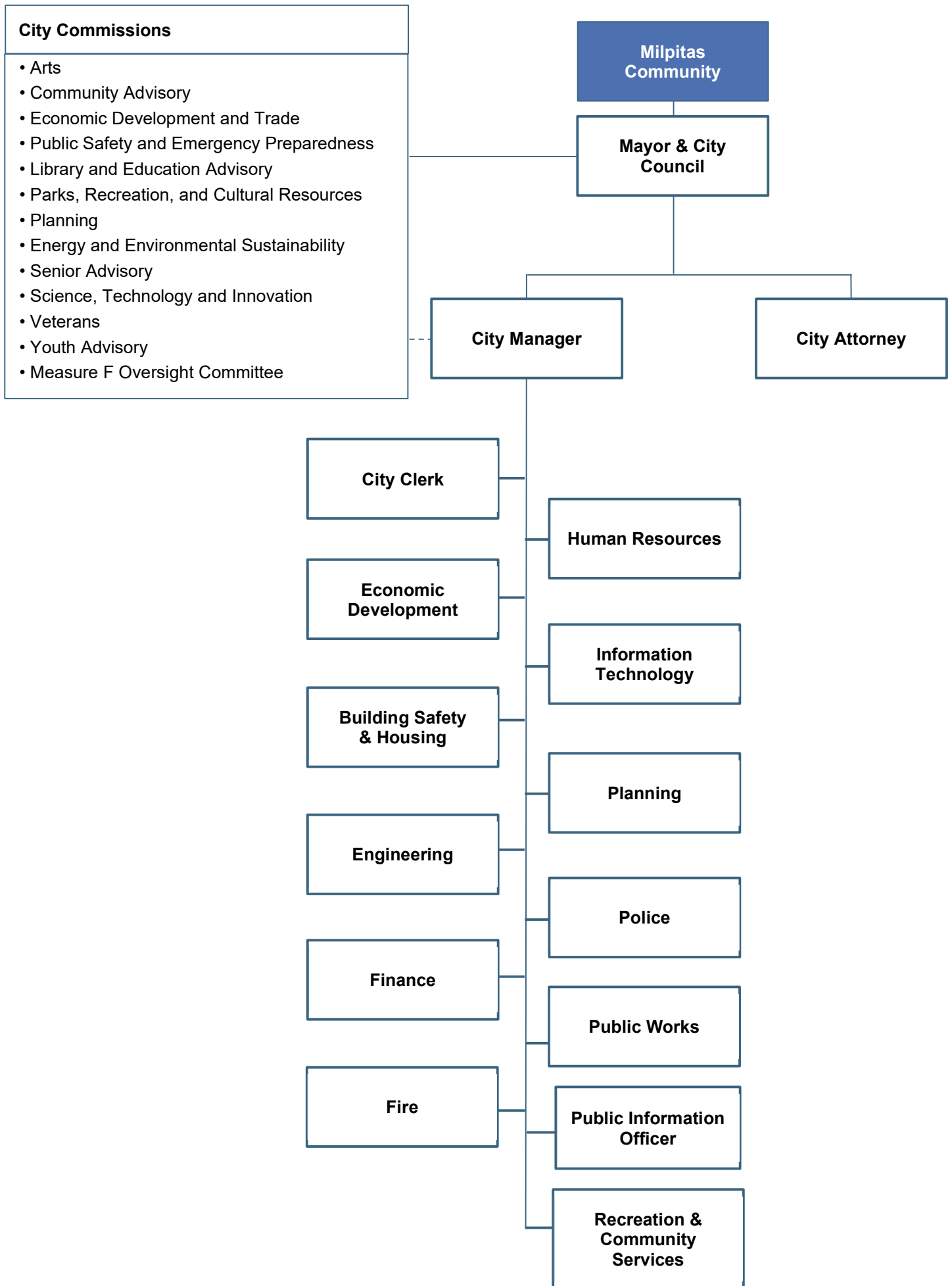
Charmaine Angelo

Public Works Director

Christian Di Renzo



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





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Milpitas
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas (City), California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2022, which represent 1.02%, 1.51%, and 1.12% of the assets, net position, and revenues, respectively, of the primary government. The financial statements of the Terrace Gardens, Inc. were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirement relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Change in Accounting Principles

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, which became effective during the year ended June 30, 2023 and required the City to record certain subscription-related balances and activity as discussed in Note 8 and Note 11 to the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Supplementary Information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section and Statistical Section listed in the Table of Contents, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2023 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Maze & Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California
September 25, 2023



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2023. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL YEAR 2023 FINANCIAL HIGHLIGHTS

The City's revenues in Fiscal Year 2023 have been slowly recovering since the start of the Pandemic over three years ago. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area was 3.7%, an increase of 1.5% from 2.2 % when compared to Fiscal Year 2022. General Fund revenues were higher compared to Fiscal Year 2022, especially in property tax, sales tax, and hotel/motel tax. These increases were primarily due to one-time revenues such as sales tax payments in arrears, sales tax collected through audit and property tax ERAF (Educational Revenue Augmentation Funds) subject to audit and litigation. However, license, permits and fines revenues were significantly lower in fiscal year 2023 compared to fiscal year 2022.

The increase in Property taxes is due to ongoing increases in secured and supplemental property tax due to higher property valuation. Sales and use tax increased significantly due to higher consumption and historically high inflation. As people started to travel again post-pandemic, hotel/motel tax has recovered but not quite returning to pre-pandemic revenue level.

As the economy remains uncertain in the fourth year after the COVID-19 pandemic, we are optimistic about the future but remain tempered by possible near-term economic impacts that may stem from the continued war in Ukraine, recently intensified Israel-Hamas war in the Middle East, high interest rates, fluctuating inflation rates, high mortgage rates, local unemployment trend, continued supply chain challenges, and the banking concerns following the recent collapse of Silicon Valley Bank.

Fiscal 2023 financial highlights include the following:

City-wide:

- The City's total net position was \$663.3 million on June 30, 2023. Of this total, \$ 430.3 million were Governmental and \$232.9 million were Business-type, a net increase of total \$16.9 million from the prior year's total of \$646.4 million primarily due to a net increase in assets over liabilities. Net asset increases were primarily due to increases in cash and investments and capital assets and liability increases primarily due to a increase in pension liabilities.
- City-wide revenues include program revenues of \$ 106.0 million, general revenues and transfers of \$109.4 million, totaling \$ 215.4 million, an increase of \$ 15.4 million from the prior year's total of \$200 million primarily due to increase in charges for services, capital grants and contributions and general revenues.
- Total City-wide expenses were \$194.6 million, an increase of \$27.5 million from the prior year's \$167.1 million primarily due to increases in primary government expenditure related to net pension liability increases in public safety, recreation and building safety and housing functions and sewer utility expenses.

Fund Level:

- Governmental Fund balances were \$246.0 million, a net increase of \$8 million from fiscal 2022 primarily due to revenues exceeding expenditures by \$8 million in General Fund.
- Governmental Fund revenues were \$148.6 million in fiscal 2023, up \$15.6 million from the prior year's \$133 million, primarily due to increases in General Fund revenues such as Property Tax, Sales and Use tax, Hotel/Motel taxes and positive return in Use of Money and Property.

- Governmental Fund expenditures were \$144.3 million compared to \$151.4 million in fiscal year 2022 primarily due to decrease in General government capital projects, capital outlay in Other Governmental Funds.
- General Fund revenues of \$126.3 million represented an increase of \$14.2 million from fiscal 2022 revenues of \$112.1 million caused primarily by one-time increase in Hotel/Motel taxes, Sales and Use taxes, and Property taxes and positive return in Use of Money and Property.
- Net other financing uses of the General Fund were \$(2.1) million in fiscal 2023 while fiscal 2022 had a total of other financing uses in \$3.9 million. One-time variance was primarily due to transfer out to the General Government CIP fund. General Fund balance of \$73.5 million at the fiscal 2023 was \$6.7 million more than the fund balance at fiscal 2022.

OVERVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT

This Annual Comprehensive Financial Report consists of eight parts:

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

The Basic Financial Statements

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

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

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

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

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

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

The City-wide Financial Statements

All of the City's basic services are considered to be governmental activities, including general government, building safety and inspection, public safety, public works maintenance, recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The City-wide financial statements can be found on pages 25-26 of this report.

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

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

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

Fund Financial Statements

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

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

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

The City has four other Major Governmental Funds in fiscal 2023 in addition to the General Fund. These are the Housing Authority Fund, the Street Improvement Fund, the Transit Area Impact Fee Fund, and the General Government Capital Projects Fund, each of which is discussed in detail below.

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

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

Fiduciary Statements

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

CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal 2022 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

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

	Governmental Activities	
	2023	2022
Cash and investments	\$259.8	\$250.6
Restricted cash and investments	0.6	2.3
Other assets	74.8	74.2
Capital assets	386.3	384.2
Total assets	\$721.5	\$711.3
Deferred Outflows of Resources		
–Related to pensions and OPEB	80.3	38.3
Net Pension liabilities	241.5	148.1
Net OPEB liability	10.5	0.0
Total OPEB liability	26.0	31.8
Long-term debt outstanding	20.8	21.5
Other liabilities ¹	43.7	45.0
Total liabilities	342.5	246.4
Deferred Inflows of Resources		
–Related to leases	12.9	13.1
–Related to pensions and OPEB²	16.1	67.3
Net position:		
Net investment in capital assets	365.5	365.0
Restricted	179.0	176.5
Unrestricted	(114.2)	(118.6)
Total net position	\$ 430.3	\$422.9

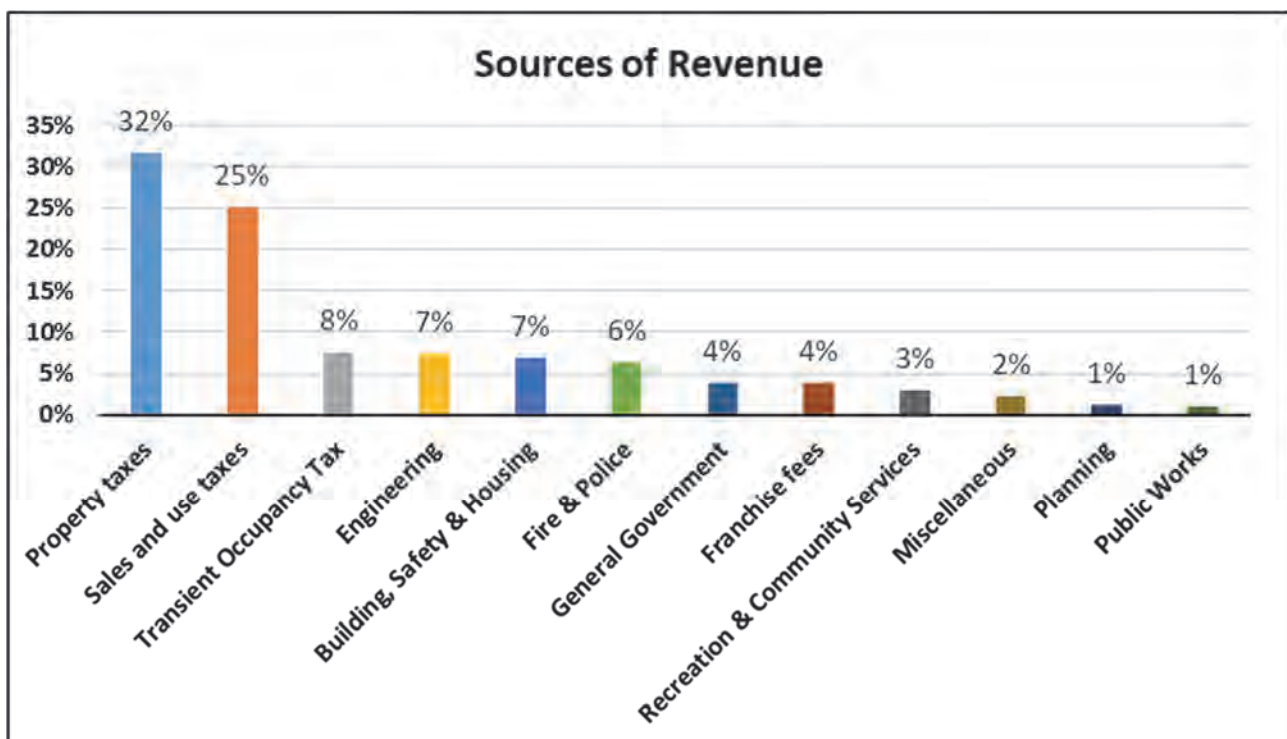
¹ Other liabilities include Accounts Payable, Unearned Revenues and Compensated Absences incurred as of June 30, 2023

² Deferred Inflows of Resources – Related to pensions and OPEB refers to unrecognized liability changes due to plan experience which differs from what was assumed in the prior measurement period.

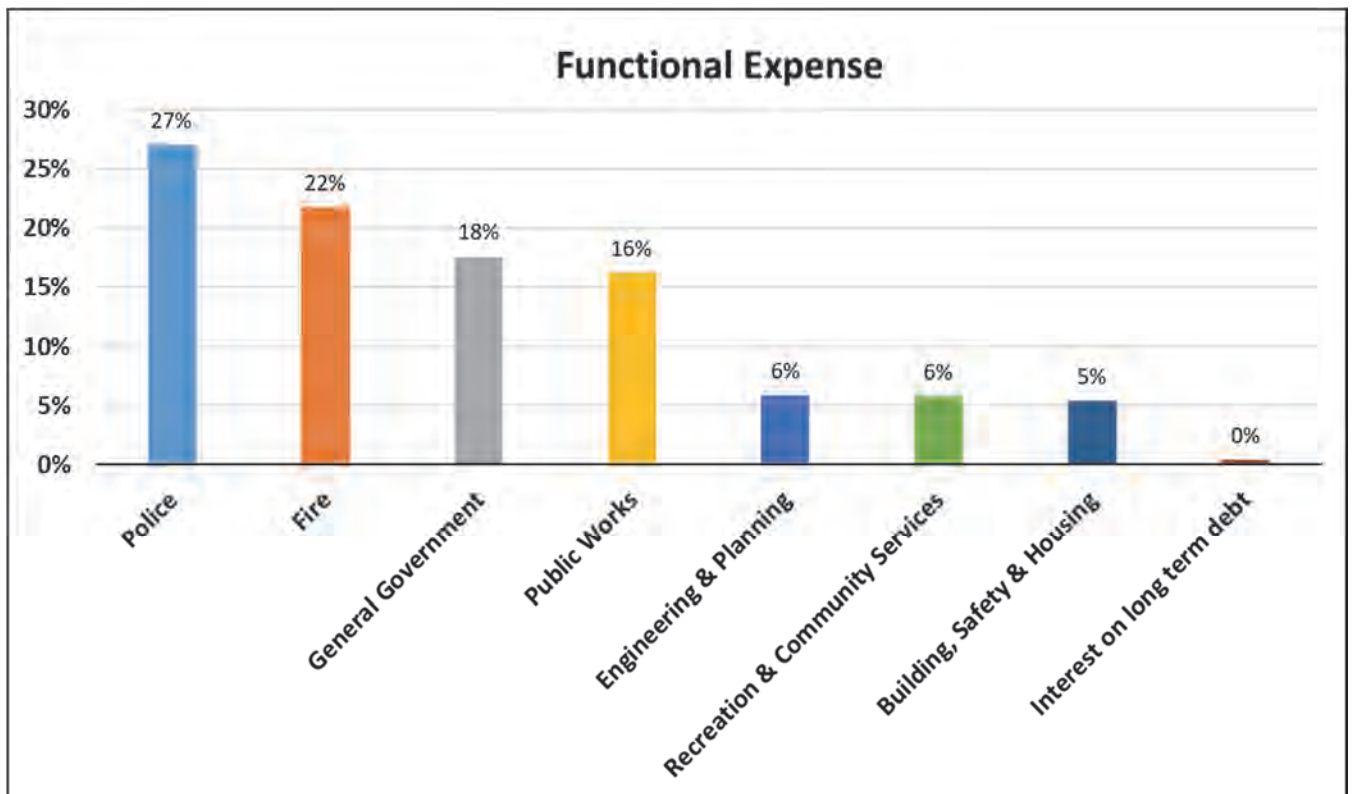
The City's governmental net position was \$ 430.3 million on June 30, 2023, an increase of \$ 7.4 million from 2022. This increase is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments increased \$9.2 million principally due to the positive net operating result and net market gains from the City's investment portfolio.
- Restricted cash and investment decreased by \$1.7 million is primarily due to capital project activities and disbursement in bond funds.
- Other assets increased \$0.6 million from last year due to the net activity between receivables and increase in prepaids, materials, supplies and deposits
- Capital assets increased \$2.1 million from last year, resulting from \$ 15.0 million of depreciation, offset by \$ 17.1 million in asset additions, net of retirements in fiscal 2023. The most significant increases were from street improvement projects.
- Deferred outflows of resources related to pension and OPEB increased \$42 million from last year due to changes in actuarial results.

Fiscal Year 2023 Governmental Activities



As the Sources of Revenue Chart above shows, \$47.1 million or 32% came from property taxes, while \$37.3 million or 25% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, transient occupancy taxes, and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. The composition of Fiscal 2023's capital assets is shown in detail at Table 8.

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

Table 2
Changes in Governmental Net Position
(in Millions)

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Expenses		
General Government	\$25.7	\$25.2
Building, Safety and Housing	7.9	4.9
Recreation and Community Services	8.4	6.1
Public Works	23.7	22.1
Engineering	6.0	5.0
Planning	2.6	1.9
Police	39.6	29.5
Fire	31.8	29.0
Interest on long term debt	0.6	0.8
Total expenses	<u>146.3</u>	<u>124.5</u>
Revenues		
Program revenues:		
Charges for services	20.2	18.7
Operating contributions and grants	16.2	15.3
Capital Grants	7.9	19.9
Total Program Revenues	<u>44.3</u>	<u>53.9</u>
General revenues:		
Taxes:		
Property taxes	47.1	42.6
Sales and use taxes	37.3	33.2
Transient Occupancy taxes	11.2	8.0
Other taxes	0.7	1.1
Franchise fees	5.7	5.2
Investment earnings	1.9	(7.5)
Miscellaneous	0.9	1.8
Total General Revenues	<u>104.8</u>	<u>84.4</u>
Total Revenues	<u>149.1</u>	<u>138.3</u>
Surplus (Deficit) before transfers	<u>2.8</u>	<u>13.8</u>
Transfers in/(out), net	4.6	4.3
Changes in net position	<u>7.4</u>	<u>18.1</u>
Beginning net position	<u>422.9</u>	<u>404.8</u>
Ending net position	<u>\$430.3</u>	<u>\$422.9</u>

Table 2 compares fiscal 2023 expenses and revenues with those of fiscal 2022. Expenses increased by \$22 million in fiscal 2023 due primarily to significant increase in net pension liabilities, which was caused by increase in deferred outflows of resources from changes of assumptions and difference between projected and actual earnings on investments.

Table 2 shows that total governmental revenues increased \$10.8 million in fiscal 2023 primarily due to one-time sources. Program revenues decreased \$ 9.6 million, and general revenues increased \$20.4 million. The decrease in program revenues was primarily due to lower capital grants received and increased general revenues were primarily due to economic recovery from the pandemic and positive investment returns.

The general revenue increased \$20.4 million from fiscal 2022, the net activity was primarily due to one-time increase of \$3.2 million in hotel/motel taxes, \$0.5 million in Franchise Fee, \$4.5 million in Property taxes and \$4.1 million in sales and uses taxes. The investment earnings increased by \$9.4 million due primarily to \$1.9 million in unrealized market gain compared to prior year's net unrealized negative investment returns of \$(2.9) million.

Table 3 presents the net cost of each of the City's largest programs—general government, building safety and housing, recreation and community services, public works, engineering, planning, police, and fire. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing such programs in fiscal year was \$102 million.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2023	2022
General Government	\$(20.0)	\$(20.1)
Building, Safety and Housing	2.4	11.4
Recreation and Community Services	(3.9)	(1.9)
Public Works	(22.2)	(22.1)
Engineering	5.1	11.1
Planning	(0.8)	(0.6)
Police	(33.1)	(23.4)
Fire	(28.9)	(24.1)
Interest on long term debt	(0.6)	(0.8)
Totals	\$(102.0)	\$(70.5)

Business-type Activities

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

	Business-Type Activities	
	2023	2022
Cash and investments	\$111.5	\$108.4
Other assets	5.1	4.6
Capital assets	184.6	178.5
Total assets	301.2	291.5
Deferred Outflows of Resources – Related to Pensions and OPEB	2.3	1.5
Other liabilities	6.4	4.5
Net pension liabilities	4.5	2.7
Net OPEB liability	3.7	3.3
Long-term Debt	54.6	56.3
Total liabilities	69.2	66.8
Deferred Inflows of Resources – Related to Pensions and OPEB	1.3	2.7
Net position:		
Net investment in capital assets	131.0	127.2
Restricted	89.1	75.1
Unrestricted	12.8	21.2
Total net position	\$232.9	\$223.5

The net position of business-type activities was \$232.9 million in fiscal 2023, an increase of \$9.4 million from fiscal 2022. The increase in net position was due to increase in total assets of \$9.7 million. The increase in total assets is primarily comprised of an increase of \$6.1 million in capital assets and 3.1 million in cash & investment.

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

	Business-Type Activities	
	2023	2022
Expenses		
Water Utility	\$28.1	\$26.9
Sewer Utility	20.2	15.6
Total expenses	<u>48.3</u>	<u>42.5</u>
Revenues		
Program revenues:		
Charges for services	59.2	55.9
Operating grants	0.1	0.3
Capital grants	2.5	1.0
Total program revenues	<u>61.8</u>	<u>57.2</u>
General revenues:		
Investment earnings	0.6	(3.2)
Total general revenues	<u>0.6</u>	<u>(3.2)</u>
Total Revenues	<u>62.4</u>	<u>54.0</u>
Excess before transfers	14.1	11.6
Net Transfers	<u>(4.6)</u>	<u>(4.4)</u>
Changes in net position	9.4	7.2
Beginning net position	<u>223.5</u>	<u>216.3</u>
Ending net position	<u>\$232.9</u>	<u>\$223.5</u>

Table 5 compares fiscal 2023 expenses and revenues with those of fiscal year 2022. Total expenses increased by \$5.8 million in fiscal 2023 due to an increase in personnel services and an increase in water purchase and contractual services. Total program revenues increased by \$4.5 million primarily due to an increase in charges for services related to a rate increase, higher level of utility consumption by non-residential accounts post COVID-19 pandemic and an increase in capital grants and contributions. Total general revenue increased \$3.8 million from interest earnings primarily due to positive market returns on investment as of June 30, 2023. The net transfers represent reimbursements of administration costs to the General Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

	2023	2022
Total assets	\$287.7	\$281.7
Total liabilities	28.7	30.3
Total deferred inflow of resources	12.9	13.1
Total fund balances	246.1	238.3
Total revenues	148.6	133.0
Total expenditures	144.3	151.4
Total other financing sources	3.5	3.8

At June 30, 2023, the City's governmental funds reported combined fund balances of \$246.1 million, an increase of \$7.8 million from last year. The fund balances of Housing Authority, General Government, and Other Governmental Funds increased \$0.4 million, \$0.6 million, and \$3.5 million respectively while the Street improvement and Transit Area Impact Fee Funds decreased \$3.3 million and \$0.1 million respectively. The General Fund increased \$6.7 million due to net operating surplus.

Revenues at the fund level totaled \$148.6 million, a net increase of \$15.6 million. Revenues received in General Fund, Housing Authority, General Government Capital Projects, and Other Government Funds increased \$14.2 million, \$0.3 million, \$2.3 million and \$1.2 million respectively while the Street Improvement and Transit Area Impact Fee Funds has a decrease of the fund balance in fiscal year 2023.

Expenditures net decreased \$7.1 million this year to \$144.3 million from last year's \$151.4 million. The expenditures of the General Government Capital Improvement Fund, Other Government Funds, Street Improvement Fund and Transit Area Impact Fee Fund decreased \$6 million, \$2.5 million, \$2.9 million, and \$1.2 million respectively while General Fund increased \$5.6 million.

Analyses of Major Governmental Funds

General Fund

General Fund revenues (excluding transfers) increased to \$126.3 million this fiscal year, up \$14.2 million from the prior fiscal year. Hotel/Motel taxes were increased by \$3.2 million from \$8.0 million in fiscal year 2022 to \$11.2 million in fiscal year 2023.

There were primarily one-time revenue increases in Property tax revenue of \$4.5 million and Sales and Use taxes of \$4.1 million compared to the prior year.

General Fund expenditures (excluding transfers) increased to \$117.5 million without encumbrance this fiscal year, up \$5.6 million from the prior fiscal year. The increase is due primarily to personnel cost and contractual services.

Total Other Financing Sources is (\$2.1) million net in fiscal 2023. Net Other Financing Sources decreased by \$6 million compared to fiscal year 2022 Net Other Financing Sources of 3.9 million. Transfers out were approximately \$9.3 million in fiscal year 2023, as compared to Transfers out of \$3 million in fiscal 2022. The reason for the increase of transfer out was due to \$3.8 million transferred to General Government CIP fund and other transfers as part of year-end fund balance allocation per Council direction, consistent with our fiscal policy.

For the City's General Fund, actual revenues of \$126.3 million were \$5.3 million more than the final budgeted revenues of \$121 million. Property taxes and Sales taxes exceeded budget by \$3.2 million and \$2.2 million respectively primarily due to one-time transactions.

At the end of the year, actual General Fund expenditures were \$121 million including encumbrance, \$5 million less than the final budget of \$126 million. As a result of general recruitment and/or competitive labor markets, employment vacancies primarily contributed to the expenditures savings. Consequently, it is prudent to deem this as a one-time expenditure variance that provides additional fund balance resources, instead of on-going reductions of General Fund operating budget.

Housing Authority

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were \$0.8 million in fiscal 2023, comprised of interest, rental income and repayment of housing loans. Total expenditures were \$0.5 million for administration.

Street Improvement Capital Project

This Street Improvement Capital Project Fund accounts for the majority of the street capital projects activity in the City. The Fund's revenues were \$2.8 million in fiscal 2023, a decrease of \$0.1 million from fiscal 2022. Fund expenditures were \$6.1 million in fiscal 2023, a decrease of \$2.9 million from fiscal 2022, due to decrease in capital outlay. Net transfers were \$0.1 million in fiscal 2023, a decrease of \$5.5 million from fiscal 2022 due to decrease funding in street projects from the General Government Fund, Gas Tax Special Revenue Fund, and Transit Area Impact Fee Fund.

Transit Area Impact Fee

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal 2023, fund revenues were \$1.5 million, primarily from fees collected from developers. Expenditures were \$1.3 million, primarily consisting of capital improvement projects. The fund also transferred \$0.3 million in fiscal year 2023 to the general government fund for CIP projects.

General Government Capital Projects

The General Government Capital Projects Fund accounts for construction and maintenance of general government projects and assets in the City. In fiscal 2023, expenditures of \$9.4 million consisted of \$9.4 million of capital improvement project expenditures. The transfers in of \$7.8 million were primarily from General Fund, Gas Tax Fund and Park Improvement Fund. General Government Capital Projects funds also received funding from Public Art Fund, Transit Area Fund, and Park Improvement Fund in an amount of approximately \$0.8 million. The transfers out of \$0.4 million were to the Storm Drain Capital Project Fund and Community Planning Fund.

Other Governmental Funds

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

Fund Balance Classifications

Fund balances are classified in five categories: non-spendable, restricted, committed, assigned and unassigned based on a hierarchy of constraints. Further details on fund balance classifications can be found in Note 12.

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

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

	2023	2022
General Fund		
Non-spendable	\$4.9	\$4.9
Committed	17.0	15.8
Assigned	6.9	6.1
Unassigned	44.7	40.0
Total	<u>\$73.5</u>	<u>\$66.9</u>
 Housing Authority Fund		
Restricted	<u>\$40.1</u>	<u>\$39.7</u>
 Street Improvement Fund		
Restricted	<u>\$5.0</u>	<u>\$8.3</u>
 Transit Area Impact Fee Fund		
Restricted	<u>\$60.8</u>	<u>\$60.9</u>
 General Government Project Fund		
Assigned	\$25.5	\$23.4
Non-spendable	0.1	
Restricted	\$0.6	\$2.2
	<u>\$26.2</u>	<u>\$25.6</u>

On June 30, 2023, the fund balance of the General Fund was \$73.5 million. \$4.9 million was classified as non-spendable, comprised of \$0.7 million for prepaid materials and supplies, and \$4.2 million of property held for resale. \$17 million was classified as committed, comprised of \$6.1 million for PERS Rate Stabilization, \$1.9 million for Artificial turf replacement, \$2 million for Technology replacement and \$7 million for Facilities replacement. \$6.9 million was classified as Assigned, comprised of \$2.8 million for uninsured claims, \$0.5 million for other assigned and \$3.6 million for encumbrances. \$44.7 million was classified as unassigned, comprised of \$19.8 million of contingency reserve, \$19.8 million of budget stabilization reserve, \$1.4 million of future deficit reserve, \$2.3 million in ERAF reserve, \$0.7 million in Strategic Property Acquisition Revenue and \$0.7 million of unassigned.

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

The fund balance of the General Government Capital Project Fund was \$26.2 million: \$25.5 million classified as assigned due to Council's reserve policy.

Analyses of Major Proprietary Funds

Total operating revenues of major proprietary funds increased \$3.3 million from last year, while operating expenses increased \$5.6 million. Total operating revenues and total operating expenses were \$59.2 million and \$45.9 million, respectively. Total non-operating expenses were \$1.8 million in fiscal 2023, a decrease of \$3.3 million from the prior year. Capital contributions increased by \$1.5 million and net transfers out increased by \$0.3 million.

Water Utility

Water fund revenues were \$34.2 million in fiscal 2023, a decrease of \$0.2 million from prior year. The decrease in revenues was primarily due to County mandated water conservation because of the historic drought. Expenses were \$27.3 million in fiscal 2023, increase \$1.1 million from prior year, primarily due to increase in wholesale water purchase expenditure. Net position of the Water Utility Fund increased \$5.4 million in the current year to a total of \$99.6 million. The increase comprised of \$34.2 million of operating revenues for the current year, \$27.3 million of operating expenses, which result in 7.0 million operating income before accounting for unrealized market loss and transfer out expenses. The water fund also received \$0.1 million of grants, \$1.8 million of capital contributions and net of interest expense of (\$0.5) million and transfers of (\$2.9) million, and this resulted in increase of net position of \$5.4 million. Net increase has been allocated per policy to infrastructure funding, rate stabilization, pension reserve and emergency reserve.

The Water Fund's Net Position includes \$48.0 million invested in capital assets, \$43.4 million in restricted net position, and \$8.3 million in unrestricted net position allocated per Council policy.

Sewer Utility

Sewer fund revenues were \$25 million in fiscal 2023, up \$3.4 million from the prior year due to an increase in usage as businesses re-opened post-pandemic. Expenses were \$18.6 million in fiscal 2023, an increase of \$4.4 million from the prior year. Non-operating revenues and expenses in fiscal year 2023 consisted of \$1.3 million interest expense. There was 25 million of operating revenues for the current year, \$18.6 million of operating expenses, which result in \$6.4 million operating income before accounting for unrealized market loss and transfer out expenses. The sewer fund also received \$0.3 million in interest income, net of interest expense of \$1.6 million, \$0.8 million of capital contributions and net of transfers of (\$1.7) million. In fiscal year 2023, sewer fund also received a credit of \$1 million. This is a true-up of actual expenditure from previous fiscal year budget for both operation and capital improvement program for the San Jose Santa Clara Regional Waste Facility.

The Sewer Fund's Net Position includes \$83 million invested in capital assets, \$45.7 million in restricted net position, and \$4.6 million in unrestricted net position, totaling \$133.3 million in fiscal year 2023, allocated per Council policy.

CAPITAL ASSETS

The City records the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computes the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2023, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 8 below:

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

	2023	2022
<i>Governmental Activities:</i>		
Land	\$97.4	\$84.8
Construction in progress	75.4	94.4
Buildings and improvements	173.4	173.4
Other improvements	39.7	34.0
Machinery and equipment	49.1	49.1
Landscape system	30.2	30.1
Storm system	75.6	74.5
Street system	328.3	313.8
Traffic system	21.2	20.3
Intangible Right-to-use subscription asset	0.8	0
Less accumulated depreciation	(504.6)	(490.2)
Totals	\$386.3	\$384.2
<i>Business-type Activities:</i>		
Land	\$1.1	\$1.1
Construction in progress	33.7	28.5
Distribution facilities	81.2	81.2
Water Service lines	18.4	17.1
Sewer lines	88.0	87.5
Capacity rights	120.9	115.2
Less accumulated depreciation	(158.7)	(152.0)
Totals	\$184.6	\$178.6

The primary additions in fiscal 2023 were due to the land and street improvement projects and other major projects such as fire station #2, park improvement and water supervisory control & data acquisition project.

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

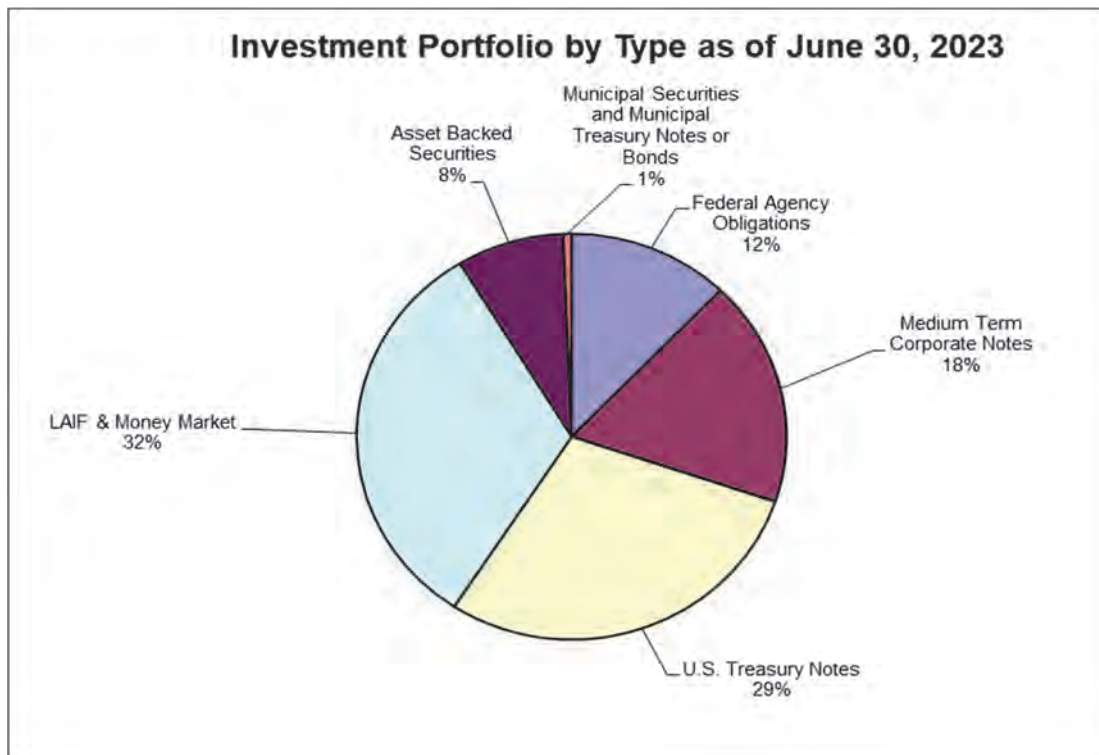
CASH AND INVESTMENTS

The City outsourced the management of the City's investments to Chandler Asset Management effective June 1, 2020 and held in a custodial account with The Bank of New York. The City also established a Section 115 trust managed by PFM Asset Management. The managed portfolio consists of securities invested in accordance with City's investment policy and the California Government Code.

Total cash and investments increased \$16.3 million from \$354.1 million to \$370.4 million. This increase was due to positive investment returns compared to the prior year's unrealized market loss. As the Federal Reserve continues to raise interest rates, the valuation of current City fixed income portfolio may decrease because they were purchased and locked in at a lower interest rate. However, this decrease in value is an unrealized market loss unless the City liquidates its investment holdings.

Total investment earnings for fiscal year 2023 was \$3.5 million. The change in fair value for the portfolio for the fiscal year ending June 30, 2023 was an unrealized loss on investments of \$1.9 million.

The following graphs depict the investment portfolio of \$335.7 million cash and investments at June 30, 2023.



DEBT ADMINISTRATION

The City's debt was issued to finance a few City's projects include Sewer infrastructure, Water infrastructure, energy improvement projects and replacement for Fire Station.

In fiscal 2018, the City refunded the 2006 Sewer Bonds with the 2017 Wastewater Revenue Refunding Bonds to reduce interest rate cost over the life of the bond issuance. The 2017 Bonds are pledged by net revenue from the City's sewer system. In fiscal 2020, Milpitas Municipal Financing Authority issued Wastewater Revenue Bonds, Series 2019 in an amount of \$29.8 million to fund for certain improvement to the City's wastewater system. The City also issued Water Revenue Bonds, Series 2019 in an amount of \$17.1 million fund for Water system improvement projects.

In fiscal 2021, Milpitas Municipal Financing Authority issued a Lease Revenue Bonds in an amount of \$18.4 million to provide funds to finance a portion of Fire Station No. 2 Replacement project and variety of energy improvement projects. Each of the City's debt issues are discussed in detail in Note 9 to the financial statements. At June 30, 2023 the City's debt is comprised of:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2023	Balance June 30, 2022
Governmental Activity Debt:		
2020 General Fund Lease Revenue Bond		
4.0% due June 1, 2041	17.7	\$18.2
Plus: Unamortized bond premium	3.1	3.3
Total Governmental-type Activity Debt	<u>\$20.8</u>	<u>\$21.5</u>
Business-type Activity Debt:		
Wastewater Revenue Refunding Bonds, 2017 Series		
2.0% - 5.0%, due November 1, 2026	2.3	2.8
Plus: Unamortized bond premium	0.3	0.4
Wastewater Revenue Bonds, 2019 Series		
4.0% - 5.0%, due November 1, 2049	28.4	28.9
Plus: Unamortized bond premium	4.8	4.9
Water Revenue, 2019 Series		
4.0% - 5.0%, due June 1, 2049	16.2	16.4
Plus: Unamortized bond premium	2.7	2.8
Total Business-type Activity Debt	<u>\$54.6</u>	<u>\$56.2</u>

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

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

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

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

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

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

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

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



CITY OF MILPITAS
STATEMENT OF NET POSITION
JUNE 30, 2023

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc. (As of December 31, 2022)
ASSETS				
Cash and investments available for operations (Note 3)	\$259,849,351	\$110,562,501	\$370,411,852	\$39,338
Restricted cash and investments (Note 3)	592,509	961,171	1,553,680	3,582,989
Receivables:				
Accounts	2,267,362	4,243,479	6,510,841	25,353
Due from other governments	11,642,293	108,127	11,750,420	
Interest	1,166,178	476,208	1,642,386	
Loans receivable (Note 5)	38,758,235		38,758,235	
Prepays, materials, supplies and deposits (Note 1E)	1,465,605	235,060	1,700,665	64,802
Property held for resale (Note 6)	6,000,000		6,000,000	
Leases receivable (Note 10)	13,461,720		13,461,720	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	172,832,251	34,843,879	207,676,130	1,607,192
Depreciable capital assets, net	213,474,549	149,727,513	363,202,062	5,117,586
Total assets	721,510,053	301,157,938	1,022,667,991	10,437,260
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 13D)	66,605,255	1,285,365	67,890,620	
Related to OPEB (Note 14E)	13,737,309	1,059,472	14,796,781	
Total deferred outflows of resources	80,342,564	2,344,837	82,687,401	
LIABILITIES				
Accounts payable	4,958,364	4,923,546	9,881,910	284,074
Accrued payroll	4,862,217	241,381	5,103,598	13,974
Accrued expenses				41,915
Interest payable	59,000	591,383	650,383	
Uninsured claims payable (Note 15):				
Due within one year	1,647,769		1,647,769	
Due in more than one year	4,704,976		4,704,976	
Refundable deposits	3,786,347	131,367	3,917,714	72,400
Unearned revenue	15,258,160	6,922	15,265,082	1,143
Accrued vacation (Note 14F):				
Due within one year	2,625,756	304,140	2,929,896	16,913
Due in more than one year	3,887,538	133,202	4,020,740	
Sick leave payable (Note 14F):				
Due within one year	661,071	90,494	751,565	
Due in more than one year	588,448	50,163	638,611	
Subscription liability (Note 11):				
Due within one year	136,679		136,679	
Due in more than one year	427,499		427,499	
Net pension liabilities (Note 13C):				
Due in more than one year	241,528,287	4,515,731	246,044,018	
Net OPEB liability (Note 14C):				
Due in more than one year	10,523,266	1,374,317	11,897,583	
Total OPEB liability (Note 14D)				
Due in more than one year	26,006,613	2,321,167	28,327,780	
Long term debt (Note 9):				
Due within one year	520,000	1,395,000	1,915,000	
Due in more than one year	20,306,165	53,160,006	73,466,171	
Total liabilities	342,488,155	69,238,819	411,726,974	430,419
DEFERRED INFLOWS OF RESOURCES				
Related to leases (Note 10)	12,886,652		12,886,652	
Related to OPEB (Note 14E)	16,151,157	1,338,072	17,489,229	
Total deferred inflows of resources	29,037,809	1,338,072	30,375,881	
NET POSITION (Note 12)				
Net investment in capital assets and capacity rights	365,508,966	130,977,557	496,486,523	6,724,778
Restricted for:				
Capital projects	91,878,462	89,090,985	180,969,447	
Redevelopment and community development activities	52,908,825		52,908,825	
Pension expenses	32,663,060		32,663,060	
Other programs	1,585,744		1,585,744	
Total restricted net position	179,036,091	89,090,985	268,127,076	
Unrestricted	(114,218,404)	12,857,342	(101,361,062)	3,282,063
Total net position	\$430,326,653	\$232,925,884	\$663,252,537	\$10,006,841

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

					Net (Expense) Revenue and Changes in Net Position	
Program Revenues					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$25,711,166	\$1,400,034	\$4,309,415		(\$20,001,717)	
Building, Safety and Housing	7,939,810	7,814,990	2,426,617	\$51,555	2,353,352	
Recreation and Community Services	8,410,448	3,327,820	1,168,324	3,937	(3,910,367)	
Public Works	23,656,662	81,084	71,841	1,277,948	(22,225,789)	
Engineering	6,006,066	2,960,232	2,556,270	5,600,583	5,111,019	
Planning	2,638,231	505,089	493,244	848,440	(791,458)	
Police	39,544,697	1,565,471	4,812,378	118,429	(33,048,419)	
Fire	31,799,146	2,498,481	391,446		(28,909,219)	
Interest on long term debt	564,911				(564,911)	
Total Governmental Activities	146,271,136	20,153,201	16,229,535	7,900,892	(101,987,508)	
Business-type Activities:						
Water Utility	28,069,779	34,241,975	59,084	1,753,060		\$7,984,340
Sewer Utility	20,225,674	24,953,067		755,632		5,483,025
Total Business-type Activities	48,295,453	59,195,042	59,084	2,508,692		13,467,365
Total Primary Government	\$194,566,589	\$79,348,243	\$16,288,619	\$10,409,584	(101,987,508)	13,467,365
Component Unit:						
Terrace Gardens Inc.	\$2,414,946	\$2,304,169	\$26,901			
General revenues:						
Taxes:						
Property taxes					47,099,953	
Sales and use taxes					37,344,284	
Hotel/Motel taxes					11,189,758	
Other taxes					736,770	
Franchise fees, unrestricted					5,689,722	
Motor vehicle in-lieu, unrestricted					84,066	
Investment earnings					1,863,732	580,164
Gain (Loss) from sale of property					33,747	
Miscellaneous					765,307	
Transfers (Note 4)					4,616,307	(4,616,307)
Total general revenues and transfers					109,423,646	(4,036,143)
Change in Net Position					7,436,138	9,431,222
Net position-Beginning					422,890,515	223,494,662
Net position-Ending					\$430,326,653	\$232,925,884

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component Unit
	Terrace Gardens Inc. (year ended December 31, 2022)
Total	
(\$20,001,717)	
2,353,352	
(3,910,367)	
(22,225,789)	
5,111,019	
(791,458)	
(33,048,419)	
(28,909,219)	
(564,911)	
(101,987,508)	
7,984,340	
5,483,025	
13,467,365	
(88,520,143)	
	(\$83,876)
47,099,953	
37,344,284	
11,189,758	
736,770	
5,689,722	
84,066	
2,443,896	9,333
33,747	
765,307	
105,387,503	9,333
16,867,360	(74,543)
646,385,177	10,081,384
\$663,252,537	\$10,006,841



FUND FINANCIAL STATEMENTS

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

MAJOR GOVERNMENTAL FUNDS

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

GENERAL FUND

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

HOUSING AUTHORITY FUND

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

STREET IMPROVEMENT FUND

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

TRANSIT AREA IMPACT FEE FUND

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

GENERAL GOVERNMENT CAPITAL PROJECT FUND

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





CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2023

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
ASSETS				
Cash and investments available for operations (Note 3)	\$83,674,807	\$2,751,774	\$3,491,375	\$60,140,299
Restricted cash and investments (Note 3)	22,234			
Receivables:				
Accounts	1,609,593			440,100
Due from other governments	7,509,396		1,554,672	
Interest	473,296	11,143	34,862	311,285
Loans receivable, net (Note 5)		35,523,352		
Prepays, materials, supplies and deposits (Note 1E)	724,275	2,000		
Property held for resale (Note 6)	4,200,000	1,800,000		
Leases receivable (Note 10)	13,461,720			
Total Assets	<u>\$111,675,321</u>	<u>\$40,088,269</u>	<u>\$5,080,909</u>	<u>\$60,891,684</u>
LIABILITIES				
Accounts payable	\$2,293,312	\$701	\$72,748	\$63,645
Accrued payroll	4,672,030		7,405	8,962
Refundable deposits	3,756,376	11,100		
Unearned revenue	14,563,938			
Total Liabilities	<u>25,285,656</u>	<u>11,801</u>	<u>80,153</u>	<u>72,607</u>
DEFERRED INFLOWS OF RESOURCES				
Leases related (Note 10)	<u>12,886,652</u>			
Total Deferred Inflows of Resources	<u>12,886,652</u>			
FUND BALANCES				
Fund balances (Note 12):				
Nonspendable	4,924,275	2,000		
Restricted		40,074,468	5,000,756	60,819,077
Committed	16,972,492			
Assigned	6,921,443			
Unassigned	44,684,803			
TOTAL FUND BALANCES	<u>73,503,013</u>	<u>40,076,468</u>	<u>5,000,756</u>	<u>60,819,077</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$111,675,321</u>	<u>\$40,088,269</u>	<u>\$5,080,909</u>	<u>\$60,891,684</u>

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

CAPITAL ASSETS

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

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

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

LONG-TERM ASSETS AND LIABILITIES

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

- Long-term debt
- Subscription liability
- Net pension liability and pension-related deferred outflows/inflows of resources
- OPEB liability and related deferred outflows/inflows of resources
- Non-current portion of accrued vacation and sick leave
- Non-current portion of uninsured claims payable

NET POSITION OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
\$26,042,044	\$36,810,212	\$212,910,511
570,275		592,509
	217,669	2,267,362
1,016,289	1,561,936	11,642,293
115,982	159,185	1,105,753
	3,234,883	38,758,235
118,429	29,784	874,488
		6,000,000
		13,461,720
<u>\$27,863,019</u>	<u>\$42,013,669</u>	<u>\$287,612,871</u>
\$1,694,183	\$713,303	\$4,837,892
13,465	110,555	4,812,417
	18,859	3,786,335
	694,222	15,258,160
<u>1,707,648</u>	<u>1,536,939</u>	<u>28,694,804</u>
		12,886,652
		12,886,652
118,429	29,784	5,074,488
570,275	39,429,275	145,893,851
		16,972,492
25,466,667	1,017,671	33,405,781
		44,684,803
<u>26,155,371</u>	<u>40,476,730</u>	<u>246,031,415</u>
<u>\$27,863,019</u>	<u>\$42,013,669</u>	
		377,132,708
		55,719,879
		(20,885,165)
		129,327
		(174,923,032)
		(38,943,727)
		(7,582,007)
		(6,352,745)
		<u>\$430,326,653</u>

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2023

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
REVENUES				
Property taxes	\$47,210,421			
Sales taxes	38,475,708			
Hotel /Motel taxes	11,189,211			
Franchise fees	5,689,722			
Other taxes	1,044,903			
Licenses and fines	8,296,633			
Use of money and property	718,143	\$837,423	\$231,422	\$751,493
Intergovernmental	6,228,491		2,528,403	
Charges for services	6,582,797			
Developer contributions			3,407	728,766
Other	854,529			
Total Revenues	126,290,558	837,423	2,763,232	1,480,259
EXPENDITURES				
Current:				
General Government	21,013,239	523,148		5,346
Building, Safety and Housing	6,841,709			
Recreation and Community Services	6,633,802			
Public Works	9,306,507			32,314
Engineering	3,448,648			
Planning	2,117,991			
Police	37,434,308			
Fire	29,187,955			
Capital outlay			6,144,359	1,278,711
Debt service:				
Principal	747,935			
Interest and fees	740,154			
Total Expenditures	117,472,248	523,148	6,144,359	1,316,371
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,818,310	314,275	(3,381,127)	163,888
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	4,201	60,283		
Transfers in (Note 4A)	7,168,628		2,801,961	16,168
Transfers (out) (Note 4A)	(9,272,426)		(2,711,393)	(294,000)
Total Other Financing Sources (Uses)	(2,099,597)	60,283	90,568	(277,832)
NET CHANGE IN FUND BALANCES	6,718,713	374,558	(3,290,559)	(113,944)
Fund balances at beginning of year	66,784,300	39,701,910	8,291,315	60,933,021
FUND BALANCES AT END OF YEAR	\$73,503,013	\$40,076,468	\$5,000,756	\$60,819,077

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
		\$47,210,421
		38,475,708
		11,189,211
		5,689,722
	\$5,109,313	6,154,216
	1,850,693	10,147,326
\$300,337	592,788	3,431,606
1,892,114	5,413,240	16,062,248
2,076	322,884	6,907,757
	1,666,883	2,399,056
	80,576	935,105
<u>2,194,527</u>	<u>15,036,377</u>	<u>148,602,376</u>
	848,239	22,389,972
	792,844	7,634,553
	6,068	6,639,870
	2,714,026	12,052,847
	90,538	3,539,186
	366,475	2,484,466
	222,548	37,656,856
	38,887	29,226,842
9,402,737	4,369,956	21,195,763
		747,935
		740,154
<u>9,402,737</u>	<u>9,449,581</u>	<u>144,308,444</u>
<u>(7,208,210)</u>	<u>5,586,796</u>	<u>4,293,932</u>
		64,484
8,225,207	5,319,489	23,531,453
<u>(435,485)</u>	<u>(7,417,215)</u>	<u>(20,130,519)</u>
<u>7,789,722</u>	<u>(2,097,726)</u>	<u>3,465,418</u>
581,512	3,489,070	7,759,350
<u>25,573,859</u>	<u>36,987,660</u>	<u>238,272,065</u>
<u>\$26,155,371</u>	<u>\$40,476,730</u>	<u>\$246,031,415</u>

CITY OF MILPITAS
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$7,759,350
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital expenditures are therefore added back to fund balance (Internal service fund additions of \$2,363,427 have already been added to capital assets)	15,913,151
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Retirements of capital assets are deducted from fund balance (Internal service fund retirements of \$12,656 have already been deducted from capital assets)	(43,063)
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Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$1,190,932 which has already been allocated to serviced funds.)"	(13,613,472)
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LONG-TERM DEBT PROCEED AND PAYMENTS

Lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of lease principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Capital contributions and repayment of debt principal are added back to fund balance	643,676
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ACCRUAL OF NON-CURRENT ITEMS

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

Interest payable	1,567
Non-current portion of accrued vacation and sick leave	584,393
Non-current portion of uninsured claims payable	(153,526)
Subscription liability	129,327
Net pension liabilities and pension-related deferred outflows/inflows of resources	(7,866,031)
Net OPEB liabilities and OPEB-related deferred outflows/inflows of resources	1,383,874
Unavailable revenue	

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Position - All Internal Service Funds	2,696,892
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$7,436,138
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See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2023

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$42,636,192	\$44,041,044	\$47,210,421	\$3,169,377
Sales taxes	33,827,435	36,218,446	38,475,708	2,257,262
Hotel /Motel taxes	8,329,238	10,475,622	11,189,211	713,589
Franchise fees	5,448,428	5,538,665	5,689,722	151,057
Other taxes	1,067,452	1,067,452	1,044,903	(22,549)
Licenses and fines	11,484,759	9,984,759	8,296,633	(1,688,126)
Use of money and property	264,000	264,000	718,143	454,143
Intergovernmental	1,081,728	6,395,310	6,228,491	(166,819)
Charges for services	5,969,453	6,674,294	6,582,797	(91,497)
Other	349,657	349,657	854,529	504,872
Total Revenues	110,458,342	121,009,249	126,290,558	5,281,309
Expenditures				
Current:				
General Government:				
City Manager	4,240,601	4,773,354	4,371,224	402,130
City Attorney	1,198,946	950,947	741,681	209,266
Finance	4,384,363	4,502,204	4,424,026	78,178
Human Resources	1,937,584	1,949,809	1,829,885	119,924
Information Services	4,091,944	4,300,750	3,413,373	887,377
Non-departmental	6,374,021	9,480,814	8,230,361	1,250,453
Building, Safety and Housing	6,175,463	7,515,468	7,274,640	240,828
Recreation and Community Services	5,969,982	7,434,699	6,837,371	597,328
Public Works	9,692,164	10,170,094	9,565,671	604,423
Engineering	3,971,356	3,704,170	3,468,728	235,442
Planning	1,927,813	2,221,273	2,236,262	(14,989)
Police	37,935,204	37,884,455	37,620,197	264,258
Fire	28,188,869	29,728,055	29,472,685	255,370
Debt service:				
Principal	470,000	747,935	747,935	
Interest	726,800	726,800	740,154	(13,354)
Total Expenditures	117,285,110	126,090,827	120,974,193	5,116,634
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,826,768)	(5,081,578)	5,316,365	10,397,943
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			4,201	4,201
Proceeds from issuance of long term debt				
Transfers in	7,168,627	7,168,627	7,168,628	1
Transfers (out)	(341,866)	(3,741,866)	(9,272,426)	(5,530,560)
Total Other Financing Sources (Uses)	6,826,761	3,426,761	(2,099,597)	(5,526,358)
NET CHANGE IN FUND BALANCE	(\$7)	(\$1,654,817)	3,216,768	\$4,871,585
Adjustments to budgetary basis:				
Encumbrance expenditures			3,501,945	
Fund balance at beginning of year			66,784,300	
FUND BALANCE AT END OF YEAR			\$73,503,013	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2023

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Use of money and property	\$271,000	\$314,605	\$837,423	\$522,818
Total Revenues	271,000	314,605	837,423	522,818
Expenditures				
Current:				
General Government:				
City Attorney	6,429	6,429		6,429
Non-departmental	946,544	7,711,267	523,148	7,188,119
Total Expenditures	952,973	7,717,696	523,148	7,194,548
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	314,973	314,973	60,283	(254,690)
NET CHANGE IN FUND BALANCE	<u>(\$367,000)</u>	<u>(\$7,088,118)</u>	374,558	<u>\$7,462,676</u>
Fund balances at beginning of year			<u>39,701,910</u>	
FUND BALANCE AT END OF YEAR			<u>\$40,076,468</u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

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

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

WATER UTILITY FUND

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

SEWER UTILITY FUND

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



CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2023

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Totals	
ASSETS				
Current Assets				
Cash and investments				
available for operations (Note 3)	\$56,391,880	\$54,170,621	\$110,562,501	\$46,938,840
Restricted cash and investments (Note 3)	904,267	56,904	961,171	
Receivables:				
Accounts	2,368,449	1,875,030	4,243,479	
Due from other governments	63,604	44,523	108,127	
Interest	243,119	233,089	476,208	60,425
Prepays, materials, supplies and deposits (Note 1E)	212,017	23,043	235,060	591,117
Total current assets	60,183,336	56,403,210	116,586,546	47,590,382
Noncurrent assets:				
Capital assets and capacity rights (Note 8):				
Land and construction in progress	32,089,411	2,754,468	34,843,879	
Depreciable capital assets, net	33,808,500	115,919,013	149,727,513	8,480,587
Total noncurrent assets	65,897,911	118,673,481	184,571,392	8,480,587
Total assets	126,081,247	175,076,691	301,157,938	56,070,969
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 13D)	765,883	519,482	1,285,365	
Related to OPEB (Note 14E)	591,351	468,121	1,059,472	
Total deferred outflows of resources	1,357,234	987,603	2,344,837	
LIABILITIES				
Current liabilities:				
Accounts payable	2,921,226	2,002,320	4,923,546	120,472
Accrued payroll	152,760	88,621	241,381	49,800
Interest payable	120,958	470,425	591,383	
Refundable deposits	131,367		131,367	12
Unearned revenue	3,461	3,461	6,922	
Accrued vacation (Note 14F)	152,070	152,070	304,140	121,268
Sick leave payable (Note 14F)	90,494		90,494	13,820
Revenue Bonds (Note 9)	325,000	1,070,000	1,395,000	
Total current liabilities	3,897,336	3,786,897	7,684,233	305,372
Non-current liabilities:				
Accrued vacation (Note 14F)	107,992	25,210	133,202	40,772
Sick leave payable (Note 13F)	2,055	48,108	50,163	4,946
Net pension liabilities (Note 13C)	2,690,693	1,825,038	4,515,731	
Net OPEB liability (Note 14C)	672,730	701,587	1,374,317	
Total OPEB liability (Note 14D)	1,238,993	1,082,174	2,321,167	
Revenue Bonds (Note 9)	18,478,848	34,681,158	53,160,006	
Total non-current liabilities	23,191,311	38,363,275	61,554,586	45,718
Total liabilities	27,088,647	42,150,172	69,238,819	351,090
DEFERRED INFLOWS OF RESOURCES				
Related to OPEB (Note 14E)	729,709	608,363	1,338,072	
Total deferred inflows of resources	729,709	608,363	1,338,072	
NET POSITION (Note 12)				
Net investment in capital assets and capacity rights	47,998,330	82,979,227	130,977,557	8,480,587
Restricted for capital projects	43,362,392	45,728,593	89,090,985	
Restricted for pension expenses				32,663,060
Unrestricted	8,259,403	4,597,939	12,857,342	14,576,232
Total net position	\$99,620,125	\$133,305,759	\$232,925,884	\$55,719,879

See accompanying notes to financial statements

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2023

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	\$34,070,766	\$24,699,029	\$58,769,795	\$3,552,091
Other operating revenue	171,209	254,038	425,247	1,210,374
Total Operating Revenues	34,241,975	24,953,067	59,195,042	4,762,465
OPERATING EXPENSES				
Purchased water	18,924,303		18,924,303	
Sewer treatment services		5,761,505	5,761,505	
Personnel services	4,065,458	2,324,510	6,389,968	1,538,014
Services and supplies	2,671,201	5,408,739	8,079,940	1,363,462
Depreciation	1,565,385	5,088,194	6,653,579	1,213,482
Repairs and maintenance	51,428	1	51,429	618,463
Total Operating Expenses	27,277,775	18,582,949	45,860,724	4,733,421
Operating Income (Loss)	6,964,200	6,370,118	13,334,318	29,044
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets				12,326
Interest income(loss)	312,208	267,956	580,164	1,162,581
Interest expense	(792,004)	(1,642,725)	(2,434,729)	
Subventions and grants	59,084		59,084	
Total Nonoperating Revenues (Expenses)	(420,712)	(1,374,769)	(1,795,481)	1,174,907
Income (Loss) Before Contributions and Transfers	6,543,488	4,995,349	11,538,837	1,203,951
Capital contributions	1,315,113	217,597	1,532,710	277,568
Capital contributions - connection fees	437,947	538,035	975,982	
Transfers in (Note 4A)		39,282	39,282	1,365,373
Transfers (out) (Note 4A)	(2,949,393)	(1,706,196)	(4,655,589)	(150,000)
Change in net position	5,347,155	4,084,067	9,431,222	2,696,892
Net position-beginning	94,272,970	129,221,692	223,494,662	53,022,987
Net position-ending	\$99,620,125	\$133,305,759	\$232,925,884	\$55,719,879

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$34,444,025	\$24,519,322	\$58,963,347	\$4,762,704
Payments to suppliers	(21,497,093)	(9,597,498)	(31,094,591)	(1,935,634)
Payments to employees for salaries and benefits	(4,156,925)	(2,347,170)	(6,504,095)	(1,505,594)
Net cash provided by operating activities	8,790,007	12,574,654	21,364,661	1,321,476
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	59,084		59,084	
Transfers in		39,282	39,282	1,365,373
Transfers (out)	(2,949,393)	(1,706,196)	(4,655,589)	(150,000)
Cash Flows from Noncapital Financing Activities	(2,890,309)	(1,666,914)	(4,557,223)	1,215,373
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on long-term debt	(315,000)	(1,020,000)	(1,335,000)	
Interest paid	(834,121)	(1,665,313)	(2,499,434)	
Proceeds from sale of capital assets				12,326
Acquisition of capital assets	(4,842,814)	(6,309,230)	(11,152,044)	(75,135)
Capital contributions - connection fees	437,947	538,035	975,982	
Cash Flows from Capital and Related Financing Activities	(5,553,988)	(8,456,508)	(14,010,496)	(62,809)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	173,275	134,754	308,029	1,128,051
Cash Flows from Investing Activities	173,275	134,754	308,029	1,128,051
Net increase (decrease) in cash and cash equivalents	518,985	2,585,986	3,104,971	3,602,091
Cash and investments at beginning of period	56,777,162	51,641,539	108,418,701	43,336,749
Cash and investments at end of period	\$57,296,147	\$54,227,525	\$111,523,672	\$46,938,840
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$6,964,200	\$6,370,118	\$13,334,318	\$29,044
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,565,385	5,088,194	6,653,579	1,213,482
Change in assets and liabilities:				
Receivables, net	255,549	(433,745)	(178,196)	239
Materials, supplies and deposits	(47,775)	(6,184)	(53,959)	9,542
Accrued payroll	36,926	30,599	67,525	
Accounts and other payables	45,634	1,582,678	1,628,312	69,169
Due to retirement system	22,675	(21,388)	1,287	
Due to OPEB	(52,587)	(35,618)	(88,205)	
Net cash provided by operating activities	\$8,790,007	\$12,574,654	\$21,364,661	\$1,321,476
NONCASH TRANSACTIONS:				
Contributions and transfers of capital assets	\$1,315,113	\$217,597	\$1,532,710	\$277,568

See accompanying notes to financial statements



FIDUCIARY FUNDS

FIDUCIARY FUNDS

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

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

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



CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2023

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
<hr/>	
ASSETS	
Cash and investments (Note 3)	\$13,840,372
Restricted cash and investments (Note 3)	<u>5,476</u>
Total Assets	<u>13,845,848</u>
LIABILITIES	
Accounts payable	14,128
Interest payable	2,551,333
Long-term obligations (Note 15C):	
Due in one year	8,185,000
Due in more than one year	<u>75,967,632</u>
Total Liabilities	<u>86,718,093</u>
NET POSITION (DEFICIT)	
Held in trust for other governments	<u><u>(\$72,872,245)</u></u>

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Property taxes	\$17,654,569
Use of money and property	<u>336,605</u>
Total additions	<u>17,991,174</u>
Deductions:	
General and administrative	21,555
Debt service:	
Interest and fees	<u>7,353,581</u>
Total deductions	<u>7,375,136</u>
Net change in net position	10,616,038
Net position (deficit) - beginning	<u>(83,488,283)</u>
Net position (deficit) - ending	<u><u>(\$72,872,245)</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS



CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. *Reporting Entity*

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

PRIMARY GOVERNMENT

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

Blended Component Units

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the former Milpitas Redevelopment Agency under the laws of the State of California. As discussed in Note 17, the Redevelopment Agency was dissolved effective January 31, 2012. The Corporation was organized for the purpose of encouraging and facilitating the City's economic development, affordable housing and other community programs. The Corporation is governed by a board of directors consisting of the members of the City Council. Under an operating agreement with the Redevelopment Agency, the Corporation received funding from the Agency and will use the funds for redevelopment purposes consistent with the California Community Redevelopment Law, Health and Safety Code Section 33000 and to implement and carry out the Redevelopment Plans. The Corporation also entered into a Service Agreement with the City under which the City will perform the necessary services on an independent contractor basis to eliminate blight, provide affordable housing, improve the public realm, facilitate public and private developments, stimulate economic development, and create jobs. The Corporation is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Corporation. The Corporation became inactive as of June 30, 2015.

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

The Milpitas Municipal Financing Authority, formed in March 2016, is a separate government entity whose purpose is to assist with the financing and refinancing of public programs, projects and capital improvements for the benefit of the City and the Housing Authority. The Municipal Financing Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Municipal Financing Authority is controlled by the City and the Housing Authority and has the same governing body as the City, which also performs all accounting and administrative functions for the Municipal Financing Authority. The Financial activities of the Municipal Financing Authority are included in the General Government Capital Projects Fund.

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

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The former Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2022 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

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

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

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

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City also reports the following fund types:

Internal Service Funds – The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of the online permit development system on a cost reimbursement basis. The Pension Section 115 Internal Service Fund is used to accumulate funds to pay down the City’s CalPERS Unfunded Accrued Liability.

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

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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, including lease liabilities, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions, including entering into contracts giving the City the right to use leased assets, are reported as *expenditures* in governmental funds. Proceeds of general long-term debt, financing through leases and acquisitions under leases are reported as *other financing sources*.

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Prepaids, Materials, Supplies and Deposits

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

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

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

F. Deferred Inflows and Deferred Outflows of Resources

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

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

G. Property Tax

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenue Recognition for Water Utility and Sewer Utility

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

I. Fair Value Measurements

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

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

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

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

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

J. Use of Estimates

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

K. Subscription-Based Information Technology Arrangements (SBITAs) Accounting

A Subscription-Based Information Technology Arrangement (SBITA) is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

At the commencement of a SBITA, the City initially measures the subscription liability at the present value of payments expected to be made during the contract term. Subsequently, the subscription liability is reduced by the principal portion of payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for payments made at or before the SBITA commencement date, plus certain initial direct costs. Subsequently, the subscription asset is amortized on a straight-line basis over shorter of the subscription term or the useful life of the underlying IT assets. The City recognizes SBITA liabilities with an initial, individual value of \$500,000 or more for all funds, except for Capital Project Funds which the threshold is set lower at \$300,000, based on the future SBITA payments remaining at the start of the contract.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Key estimates and judgments related to SBITAs include how the City determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments as follows:

- The City uses the interest rate charged by the IT vendor as the discount rate. When the interest rate charged by the IT vendor is not provided, the City uses its estimated incremental borrowing rate as the discount rate for subscription liabilities.
- The subscription term includes the noncancellable period of the subscription.
- Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with other capital assets and subscription liabilities are reported with liabilities on the statement of net position.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Adjustments to GAAP Basis from Budgetary Basis

The City Manager's budget control remains at the level of department and/or project within any one fund. The City Manager has discretion over the unanticipated reserve (~1% of the General Fund operating budget), adopted by Council during the budget process. All additional appropriations that require the use of reserves must be approved by City Council. Expenditures cannot exceed the appropriated budget at the department level within each fund without City Council approval.

The City Manager is authorized to amend appropriations within the various departments and projects within a fund, provided that the amount of the amended appropriation is \$100,000 or less and does not impact the overall appropriations of a fund. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceeds \$100,000 require prior approval of the City Council.

NOTE 3 – CASH AND INVESTMENTS

The City pools cash from all sources and all funds except Cash and Investments held by Trustees, so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

B. Classification

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

Cash and investments available for operations	\$370,411,852
Restricted Cash and Investments	1,553,680
Total Primary Government cash and investments	<u>371,965,532</u>
Cash and investments available for operations	39,338
Restricted Cash	3,582,989
Total Component Unit cash and investments	<u>3,622,327</u>
Cash and investments in Fiduciary Funds (separate statement)	13,840,372
Restricted Cash and Investments in Fiduciary Funds (separate account)	5,476
Total Fiduciary cash and investments	<u>13,845,848</u>
Total cash and investments	<u><u>\$389,433,707</u></u>

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

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

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

(A) Eligible Commercial Paper may not represent more than 5% of outstanding paper of an issuing corporation.

*At time of purchase

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements and Trust Agreements

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

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

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

*At time of purchase

During the fiscal year ended June 30, 2022, the City also implemented investment guidelines for its Section 115 Pension Trust, which authorize investments in a diversified portfolio, including equities and mutual funds, in order to achieve a 3% to 6% investment earnings goal during the next 5 to 10 years.

E. Investments Authorized for Terrace Gardens Inc.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

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

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

Investment Type	12 Months or less	13 to 36 Months	36 to 60 Months	Total	Percentage of Portfolio
City and Successor Agency:					
Federal Agency Obligations	\$6,991,010	\$30,760,270	\$3,028,905	\$40,780,185	10.47%
Medium-Term Corporate Notes		35,938,071	24,673,041	60,611,112	15.56%
U.S. Treasury Notes		47,501,367	49,908,680	97,410,047	25.02%
California Local Agency Investment Fund	92,027,283			92,027,283	23.63%
Mutual Funds (U.S. Securities)	15,669,041			15,669,041	4.02%
Asset Backed Securities	375,485	14,358,851	12,351,906	27,086,242	6.96%
Municipal Securities and Municipal Treasury Notes or Bonds			2,144,889	2,144,889	0.55%
Terrace Gardens, Inc.:					
Nonnegotiable Certificates of Deposit	2,241,342			2,241,342	0.58%
Total Investments	<u>\$117,304,161</u>	<u>\$128,558,559</u>	<u>\$92,107,421</u>	337,970,141	
Demand Deposits - City of Milpitas				50,082,581	12.86%
Demand Deposits - Terrace Gardens				<u>1,380,985</u>	<u>0.35%</u>
Total Cash and Investments				<u>\$389,433,707</u>	<u>100.00%</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Each regular LAIF account is permitted to have up to 15 transactions per month, with a minimum transaction amount of \$5,000, no maximum transaction amount, and at least 24 hours advance notice for withdrawals of \$10 million or more. Bond proceeds accounts are subject to a one-time deposit with no cap and are set up with a monthly draw down schedule. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2023 these investments matured in an average of 260 days.

Mutual funds are available for withdrawal on demand and at June 30, 2023 matured in an average of 25 days.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

G. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2023 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA	AA+/AA/AA-	A+/A/A-	BBB+/BBB	Total
Federal Agency Obligations	\$40,780,185				\$40,780,185
Medium-Term Corporate Notes		\$12,476,648	\$47,176,936	\$957,528	60,611,112
Asset Backed Securities	18,600,844				18,600,844
Mutual Funds (U.S. Securities)	15,669,041				15,669,041
Municipal Securities and Municipal Treasury Notes or Bonds	2,144,889				2,144,889
Totals	<u>\$77,194,959</u>	<u>\$12,476,648</u>	<u>\$47,176,936</u>	<u>\$957,528</u>	<u>\$137,806,071</u>
Not rated:					
California Local Agency Investment Fund				\$92,027,283	\$92,027,283
Asset Backed Securities				8,485,398	8,485,398
Terrace Gardens, Inc.:					
Nonnegotiable Certificates of Deposit					2,241,342
Exempt from credit rate disclosure:					
U.S. Treasury Notes				97,410,047	97,410,047
Total Investments				<u>\$197,922,728</u>	<u>\$337,970,141</u>

Terrace Gardens, Inc. invests only in Nonnegotiable Certificates of Deposit. At December 31, 2022, all of Terrace Gardens' Nonnegotiable Certificates of Deposit totaling \$2,241,342 were fully insured by Federal Deposit Insurance.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

H. Fair Value Hierarchy

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

The following is a summary of the fair value hierarchy of the City's investments as of June 30, 2023:

	Level 2	Total
<i>Investments by Fair Value Level:</i>		
Federal Agency Obligations	\$40,780,185	\$40,780,185
Medium-Term Corporate Notes	60,611,112	60,611,112
U.S. Treasury Notes	97,410,047	97,410,047
Asset Backed Securites	27,086,242	27,086,242
Municipal Securities and Municipal Treasury Notes or Bonds	2,144,889	2,144,889
	<u>\$225,887,586</u>	<u>228,032,475</u>
<i>Investments Measured at Amortized Cost:</i>		
Mutual Funds (U.S. Securities)		15,669,041
<i>Investments Measured at Cost:</i>		
<i>Terrace Gardens, Inc.</i>		
Nonnegotiable Certificates of Deposit		2,241,342
<i>Investments Exempt from Fair Value Hierarchy:</i>		
California Local Agency Investment Fund		<u>92,027,283</u>
Total Investments		<u>\$337,970,141</u>

Federal Agency Obligations totaling \$42.9 million, Medium Term Corporate Notes of \$60.6 million, U.S. Treasury Notes totaling \$97.4 million, and Asset Backed Securities of \$27.1 million, classified in Level 2 of the fair value hierarchy, are valued using pricing techniques of matrix pricing or market corroborated pricing, with inputs such as yield curves or indices. These prices are obtained from various pricing sources by our custodian bank.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

I. Significant Investments

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total entity-wide investments are as follows at June 30, 2023:

Issuer	Investment Type	Amount
Federal National Mortgage Association	Federal Agency Obligations	\$18,106,942
Federal Home Loan Mortgage Corporation	Federal Agency Obligations	11,527,012
Federal Home Loan Bank	Federal Agency Obligations	9,166,654

NOTE 4 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to move resources from one fund to another. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2023 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Governmental Funds:		
General Fund	Community Facility District Special Revenue Fund	\$2,879,042 (A)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	157,997 (A)
General Fund	Water Utility Enterprise Fund	2,687,393 (A)
General Fund	Sewer Utility Enterprise Fund	1,444,196 (A)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	2,091,713 (B)
Street Improvement Capital Projects Fund	General Fund	710,248
Transit Area Impact Fee Capital Projects Fund	Park Improvement Capital Projects Fund	16,168 (C)
General Government Capital Projects Fund	General Fund	5,022,408 (B)
General Government Capital Projects Fund	Transit Area Impact Fee Fund	294,000 (B)
General Government Capital Projects Fund	Water Utility Enterprise Fund	262,000 (B)
General Government Capital Projects Fund	Sewer Utility Enterprise Fund	262,000 (B), (C)
General Government Capital Projects Fund	Gas Tax Special Revenue Fund	595,000 (B)
General Government Capital Projects Fund	Lighting & Landscape Maintenance District Special Revenue Fund	11,000 (B)
General Government Capital Projects Fund	Community Facilities District Special Revenue Fund	50,000 (B)
General Government Capital Projects Fund	Community Planning Special Revenue Fund	200,000 (B)
General Government Capital Projects Fund	Public Art Capital Projects Fund	142,500 (B)
General Government Capital Projects Fund	Park Improvement Capital Projects Fund	1,230,669 (B), (C)
General Government Capital Projects Fund	Storm Drain Development Capital Projects Fund	3,844 (C)
General Government Capital Projects Fund	Equipment Management Internal Service Fund	150,000 (B)
General Government Capital Projects Fund	General Fund	1,786 (B)
Gas Tax Special Revenue Fund	Street Improvement Capital Projects Fund	2,711,393 (C)
Lighting & Landscape Maintenance District Special Revenue Fund	General Fund	41,866 (A)
Community Planning Special Revenue Fund	General Government Capital Projects Fund	235,485 (C)
Affordable Housing Special Revenue Fund	General Fund	710,248 (C)
Storm Drain Development Capital Projects Fund	General Fund	1,420,497 (B)
	General Government Capital Projects Fund	200,000 (B)
	Governmental Funds Subtotal	<u>23,531,453</u>
Proprietary Funds:		
Sewer Utility Enterprise Fund	Park Improvement Capital Projects Fund	39,282 (C)
	Proprietary Funds Subtotal	<u>39,282</u>
Internal Service Funds:		
Equipment Management Internal Service Fund	General Fund	1,365,373 (A)
	Internal Service Funds Subtotal	<u>1,365,373</u>
	Total Interfund Transfers	<u>\$24,936,108</u>

- (A) To Transfer for Operating Cost
(B) To Fund Capital Project
(C) To Return Unexpended Project Funds

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 5 – LOANS RECEIVABLE

The City and former Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing, and for other purposes. With the dissolution of the Redevelopment Agency as discussed in Note 16, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012.

These loans were comprised of the following at June 30, 2023:

Housing and Community Development Loans:

Rehabilitation Loans	\$3,234,883
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Housing Authority Loans:

Milpitas Housing Associates	3,143,641
Parc Metropolitan Housing Development	49,990
Parc North Associates LLC	512,268
Mid-Peninsula Milpitas Affordable Housing Associates	17,964,622
KB Home South Bay Inc.	1,222,900
Western Pacific Housing Inc.	1,781,440
Shapell Industries	750,000
MIL Aspen Associates, Ltd.	3,323,888
Sango Court, L.P.	6,774,603
Total Housing Authority Loans Receivable	35,523,352
Total Loans Receivable	\$38,758,235

A. Rehabilitation Loans

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2023, the City had outstanding rehabilitation loans of \$3,234,883 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2023, the City did not receive a principal payment from all participants and accrued interest of \$8,973.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 5 – LOANS RECEIVABLE (Continued)

B. *Milpitas Housing Associates Loan*

In fiscal 1997, the former Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bore interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. In January 2020, the City Council and the Housing Authority Commission approved a restructuring of the loan, which, 1) lowered the interest rate from 5.45% to a simple interest of 3.05% effective July 1, 2017, 2) forgave accrued interest of \$1,541,074 through fiscal year 2017, and 3) approved the foregoing of residual receipts totaling \$200,000 annually. As a result, fiscal year 2018 interest was recalculated to be \$91,500 and accrued and the prior fiscal year 2018 accrued interest of \$247,489 was written off. During fiscal year 2023, interest of \$143,641 was accrued, and as of June 30, 2023, principal and accrued interest outstanding totaled \$3,143,641.

C. *Parc Metropolitan Housing Development Loans*

The Housing Authority provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the year ended June 30, 2023, the Housing Authority received principal payments of \$2,919 and as of June 30, 2023, there were \$49,990 in loans outstanding.

D. *Parc North Associates LLC Loan*

In September 2003, the former Redevelopment Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of \$1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61st month after the recordation of the deeds of trust and continues until the loans are paid in full. During fiscal year 2023, principal of \$21,603 was paid and as of June 30, 2023, there were \$512,268 of such loans outstanding.

E. *Mid-Peninsula Milpitas Affordable Housing Associates*

In December 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with Mid-Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of \$1 million to the Developer and will provide a development loan up to \$14.6 million to the Developer. No interest is accrued on the first \$5 million of loan proceeds. The remaining \$9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by a second deed of trust on the property. Construction began in fiscal year 2006 and was completed in December 2008. During fiscal year 2023, \$288,000 was paid and accrued, respectively, and as of June 30, 2023, principal and accrued interest outstanding totaled \$17,964,622.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 5 – LOANS RECEIVABLE (Continued)

F. KB Home South Bay Inc. Loans

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

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

As of June 30, 2023, there were \$954,900 of loans to Parcel C households outstanding. As of June 30, 2023 subsidies totaling \$1,222,900 had been provided.

G. Western Pacific Housing Inc., Loans

In August 2005, the former Redevelopment Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The former Redevelopment Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The former Redevelopment Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. Principal of \$1,341 was repaid in fiscal year 2023 and as of June 30, 2023 there were \$584,440 such loans outstanding.

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

In September 2006, the former Redevelopment Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. Interest will begin on the date of the promissory note but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2023, there were \$1,197,000 of silent second loans outstanding.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 5 – LOANS RECEIVABLE (Continued)

H. *Shapell Industries*

In June 2004, the former Redevelopment Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2023, there were \$750,000 of silent second loans outstanding.

I. *MIL Aspen Associates, Ltd.*

In April 2007, the former Redevelopment Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a \$2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. During the year ended June 30, 2023, interest of \$165,118 was accrued, and as of June 30, 2023, principal and accrued interest totaled \$3,323,888.

J. *Sango Court, L.P.*

In May 2019, the Housing Authority entered into a development loan agreement with Sango Court, L.P. for construction of affordable housing at 355 Sango Court Apartments of which 101 will be affordable and 1 will be an above moderate income (AMI) managers unit. Under the terms of the Agreement, during fiscal year 2022 the Agency provided a \$6,500,000 loan to the Developer. The loan bears 3% interest compounded annually on outstanding principal balance and must be paid on the earlier of: (a) fifty-five (55) years from the date of conversion, or (b) December 31, 2079, or (c) by acceleration of the loan following a default. During the year ended June 30, 2023, interest of \$274,603 was accrued, and as of June 30, 2023, principal and accrued interest totaled \$6,774,603.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 6 – PROPERTY HELD FOR RESALE OR REDEVELOPMENT

A. General Fund

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

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

As of June 30, 2023, property totaling \$4,200,000 is held by the General Fund.

B. Housing Authority

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

In fiscal year 2010 the Agency purchased five housing units for \$1,503,718 in the Parc Metro Subdivision. During fiscal year 2011, the Agency purchased one additional Parc Metro Subdivision unit for \$305,095, one Centria Subdivision housing unit for \$248,056, and four KB Home Subdivision housing units for \$1,273,892. One of the KB Home Subdivision units with a book value of \$374,253 was sold in August 2011. Two of the KB Home Subdivision units with a book value of \$376,795 and \$294,921 were sold in December 2012 and February 2013, respectively. Four of the Parc Metro Subdivision units were sold in fiscal year 2013, with a total book value of \$1,245,559, and one unit with a book value of \$258,160 was sold in fiscal year 2019. The Centria unit was sold in fiscal year 2017 for \$296,000. In fiscal year 2023, two units were sold with a book value of \$305,095 and \$227,924. The units were purchased in order to retain them as affordable housing units and are being held for future resale. The remaining units are rented to tenants.

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

As of June 30, 2023, property totaling \$1,800,000 is held by the Housing Authority. The Housing Authority is required to develop or sell the properties on or before August 31, 2022.

As of June 30, 2023, the Housing Authority has completed a Phase II Environmental site assessment, asbestos, and lead based- paint analysis, a property appraisal, and retained broker representation to help prepare parcel 1 for sale.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – DEVELOPMENT AND TAX SHARING AGREEMENTS

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

A. *South Main Senior Lifestyles, LLC.*

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

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

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

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

In February 2018, the City entered into a reimbursement agreement with the developer to reimburse the developer for the full actual cost of the design and improvement to replace an existing 8-inch sanitary sewer pipe with a 12-inch pipe. As of June 30, 2023, the City has issued a total of \$702,252 reimbursements to date.

B. *Sales Tax Sharing Agreement*

In June 2009, the City entered into a Sales Tax Sharing Agreement with a corporation that provides process control for the semiconductor and related industries. Under the terms of the Agreement, the City agreed to pay the corporation 50% of the calendar year sales and use tax revenues paid by the corporation and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from the corporation for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. During the year ended June 30, 2023, the City had issued \$287,548 of sales tax were made to the corporation during fiscal year 2023.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

C. *Piper Montague Infrastructure Payment Cost Sharing Agreement*

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

The developers have completed the shared infrastructure of \$8,690,752 as of June 30, 2023. The balance due from the two developers was \$440,100 as of June 30, 2023.

D. *Milpitas Station (San Jose) Venture, LLLP*

In June 2014, the City entered into a Fee Credit Agreement with Milpitas Station (San Jose) Venture, LLLP, which requires the developer to pay TASP fees of \$9,932,643 to defray all or a portion of the improvements and facilities costs associated with the Milpitas Station Project. Under the terms of the agreement, the developer will be entitled to reimbursements totaling \$1,500,000 for construction costs for roadway improvements, pole relocation improvements, and railroad crossing improvements and a park land fee credit totaling \$4,244,486 for the park land dedication to be applied against projected TASP fees. During the year ended June 30, 2023, there was a total of \$242,000 in reimbursements that were issued, and total reimbursements of \$5,744,486 have been issued to date.

E. *Anton Milpitas 730 LLC and 750 LLC*

In April 2018, the City entered into a Fee Reimbursement Agreement with Anton Milpitas 750 LLC and Anton Milpitas 730 LLC, which requires the developer to pay TASP fees of \$19,351,735 to defray all or a portion of the improvements and facilities costs associated with the 730 E. Capitol and 750 E. Capitol apartment complexes. Under the terms of the agreement, the developer will be entitled to reimbursements totaling \$8,910,221 for construction costs for parking and a variety of site improvements, including a public park. During the year ended June 30, 2023, the City did not issue park improvement credits and a total fee credits of \$7,220,719 have been issued to date.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

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

In July 2017, the City entered into a Fee Reimbursement Agreement with LMC Milpitas Holdings I LLC and Lennar Homes of California, which requires the developer to pay TASP fees of \$16,029,909 to defray all or a portion of the costs of public parks and public recycled water system. Under the terms of the agreement, the developer will be entitled to reimbursements totaling \$4,689,574 for construction and design costs for Montague Expressway and East Penitencia Creek. During the year ended June 30, 2023, no reimbursements were issued, and total reimbursements of \$4,030,688 have been issued to date.

NOTE 8 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except for intangible right to use lease assets, the measurement of which is discussed in **Note 10** below. Contributed capital assets are valued at their estimated acquisition value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 – CAPITAL ASSETS (Continued)

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

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2022	Additions	Retirements	Transfers	Balance at June 30, 2023
Capital assets not being depreciated:					
Land	\$84,829,602			\$12,609,503	\$97,439,105
Construction in progress	94,390,303	\$9,680,803		(\$28,677,960) *	75,393,146
Total capital assets not being depreciated	179,219,905	9,680,803		(16,068,457)	172,832,251
Capital assets being depreciated:					
Buildings and improvements	173,371,133				173,371,133
Other improvements	33,984,523			5,705,465	39,689,988
Machinery and equipment	49,119,458	352,703	(\$324,778)		49,147,383
Landscape system	30,115,221	42,378			30,157,599
Storm system	74,477,062			1,093,127	75,570,189
Street system	313,770,714	6,792,487		7,737,155	328,300,356
Traffic system	20,306,714	887,130			21,193,844
Intangible Right-to-use subscription asset		842,113			842,113
Total capital assets being depreciated	695,144,825	8,916,811	(324,778)	14,535,747	718,272,605
Less accumulated depreciation for:					
Buildings and improvements	(98,852,797)	(5,423,073)			(104,275,870)
Other improvements	(24,541,828)	(934,184)			(25,476,012)
Machinery and equipment	(37,725,066)	(1,639,783)	324,778		(39,040,071)
Landscape system	(17,081,042)	(604,342)			(17,685,384)
Storm system	(73,191,641)	(186,936)			(73,378,577)
Street system	(222,113,660)	(5,580,781)			(227,694,441)
Traffic system	(16,641,238)	(457,855)			(17,099,093)
Intangible Right-to-use subscription asset		(148,608)			(148,608)
Total accumulated depreciation	(490,147,272)	(14,975,562)	324,778		(504,798,056)
Net capital assets being depreciated	204,997,553	(6,058,751)		14,535,747	213,474,549
Governmental activities capital assets, net	\$384,217,458	\$3,622,052		(\$1,532,710) *	\$386,306,800

* In FY2023, \$1,532,710 was transferred to the Sewer Fund (\$217,597) and Water Fund (\$1,315,113) upon completion of PMIP project

In fiscal year 2023, the City implemented the provisions of **GASB Statement No. 96, Subscription-Based Information Technology Arrangements**, which required the City to record an intangible right-to-use subscription asset. As a result, a right-to-use subscription asset was recorded in the amount of \$842,113. As of June 30, 2023, the City has recorded a net intangible right-to use subscription asset amounting to \$693,505, with accumulated amortization of \$148,608. The subscription asset is offset with a subscription liability as discussed in Note 11.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 – CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2023:

Project	Total Budget	Actual Costs	Unexpended Budget
Alviso Adobe Renovation	\$8,159,272	\$8,086,203	\$73,069
McCandless Park	12,154,820	11,038,933	1,115,887
Sports Fields Turf Rehabilitation Program	476,000	142,460	333,540
Sandalwood Park Renovation	475,000	239,347	235,653
Minor Sports Courts Rehabilitation	915,000	544,606	370,394
McCarthy Blvd Landscape	1,032,256	662,414	369,842
Fire Station Improvements	1,750,000	1,121,030	628,970
City Building Improvement	4,115,000	3,330,262	784,738
Sinclair LMD Improvements	230,625	138,274	92,351
City Building, Exterior Painting	600,000	239,992	360,008
PD Communications	3,155,000	2,918,044	236,956
Replacement Fire Station Alert System	345,000	344,420	580
City Building Roofing	900,000	251,377	648,623
Police Records Management	1,099,721	978,614	121,107
Citywide Park Playground	2,053,497	1,776,478	277,019
Annual Sidewalk, Curb & Gutter Repair	2,396,840	2,383,085	13,755
Technology Projects	1,800,000	1,525,190	274,810
Midtown Street Light	300,000	264,037	35,963
2017-19 Finance System Upgrade	1,250,000	1,057,152	192,848
Annual Tree Replacement Program	544,000	329,763	214,237
Fire Station #2 Replacement	14,320,000	13,137,920	1,182,080
Fire Stations Security	200,000		200,000
Facilities Water Fixtures Retrofit Project	670,000	670,000	
Community and Senior Center Energy Resilience Project	5,107,597	4,254,387	853,210
Fire Station No. 1 Modular Building	800,000	1,786	798,214
Human Resources Information System	1,100,000		1,100,000
Cardoza Park Softball Fields Improvement	800,000	10,553	789,447
Storm Drain System Rehabilitation	1,190,000	987,655	202,345
Dempsey Road Storm Drain	1,660,000	230,962	1,429,038
Bart Project-Storm Improvement	33,000		33,000
Flap Gate Replacement	100,000	28,899	71,101
Storm Drain System Rehab 17-19	1,058,410	965,012	93,398
Storm Supervisory Control & Data Acquisition	2,416,590	2,190,000	226,590
Light Rail Median Landscaping	5,996,000	3,946,346	2,049,654
Second SCVWD Water Reservoir & Pump Station	200,000	2,118	197,882
Lower Penitencia Creek	1,825,000	356,165	1,468,835
Montague Pedestrian Overcrossing at Piper Drive	8,750,000	7,845,667	904,333
SCVWD Second Water Supply Turnout #2	100,000	643	99,357
Transit Area Police Substation	310,000	29,310	280,690
(Rmb) TASP Linear Trails	3,270,000	499,261	2,770,739
(Rmb) Trade Zone/Montague Park - North	3,100,000	1,122,237	1,977,763
S. Milpitas Blvd. Veh. Bridge at Penitencia	6,400,000	647,239	5,752,761
Montague Ped. Overcrossing at Penitencia	3,500,000	1,071,662	2,428,338
(Rmb) TASP Recycled Water Distribution	500,391		500,391
Trade Zone/Montague Park - Central	600,000	23,643	576,357
SCVWD Zone 1 Pressure Red. Valve	100,000		100,000
Total construction in progress	<u>\$107,859,019</u>	<u>\$75,393,146</u>	<u>\$32,465,873</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 – CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2022	Additions	Transfer	Balance at June 30, 2023
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	28,460,393	\$5,515,934	(\$265,527)	33,710,800
Total capital assets not being depreciated	29,593,472	5,515,934	(265,527)	34,843,879
Capital assets being depreciated:				
Distribution facilities	81,197,041			81,197,041
Water Service lines	17,067,611		1,315,113	18,382,724
Sewer lines	87,500,145		483,124	87,983,269
Capacity rights	115,219,650	5,636,110		120,855,760
Total capital assets being depreciated	300,984,443	5,636,110	1,798,237	308,418,794
Less accumulated depreciation for:				
Distribution facilities	(56,246,951)	(1,192,282)		(57,439,233)
Water Service lines	(7,958,929)	(373,103)		(8,332,032)
Sewer lines	(53,769,165)	(1,425,282)		(55,194,447)
Capacity rights	(34,062,657)	(3,662,912)		(37,725,569)
Total accumulated depreciation	(152,037,698)	(6,653,579)		(158,691,281)
Net capital assets being depreciated	148,946,745	(1,017,469)	1,532,710	149,727,513
Business-type activities capital assets, net	\$178,540,217	\$4,498,465	\$1,532,710	\$184,571,392

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 – CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2023:

Project	Total Budget	Actual Costs	Unexpended Budget
BART Project-Sewer Improvement	\$243,323	\$229,730	\$13,593
Sewr Pump Station Rehabilitation Program	552,000	346,809	205,191
Minor Sewer Projects	213,000	132,871	80,129
Sanitary Supervisory Control & Data	316,600	262,500	54,100
Main Lift Station Odor Emissions Control	2,450,000	1,280,823	1,169,177
Sanitary Sewer Cathodic Protection Improvement	2,625,000	500,235	2,124,765
Well Upgrade Program	14,490,000	6,409,553	8,080,447
Water System Seismic Improvement	4,887,951	973,862	3,914,089
Hydrant Replacement	566,360	563,540	2,820
Abel St Pipeline Extension	940,000	44,777	895,223
Dempsey Road Water Line	7,857,772	1,245,433	6,612,339
Automated Water Meter	14,047,700	13,343,651	704,049
BART Project-Water Improvements	2,503,920	1,820,243	683,677
Supervisory Control & Data	6,516,600	5,722,658	793,942
Minor Water Projects	1,340,000	638,713	701,287
Water Leak Detection	631,474	195,402	436,072
	<u>\$60,181,700</u>	<u>\$33,710,800</u>	<u>\$26,470,900</u>

C. Terrace Gardens, Inc.'s Capital Assets

The following is a summary of Terrace Gardens Inc.'s changes in capital assets for the fiscal year ended December 31, 2022:

	Balance December 31, 2021	Additions	Balance December 31, 2022
Capital assets not being depreciated:			
Land	\$1,565,277	\$41,915	\$1,607,192
Total capital assets not being depreciated	<u>1,565,277</u>	<u>41,915</u>	<u>1,607,192</u>
Capital assets being depreciated:			
Buildings	12,107,935		12,107,935
Furniture	441,089	81,512	522,601
Office equipment	72,216		72,216
Improvements	2,803,128		2,803,128
Total capital assets being depreciated	<u>15,424,368</u>	<u>81,512</u>	<u>15,505,880</u>
Less accumulated depreciation	<u>(10,030,592)</u>	<u>(357,702)</u>	<u>(10,388,294)</u>
Net capital assets being depreciated	<u>5,393,776</u>	<u>(276,190)</u>	<u>5,117,586</u>
Total capital assets, net	<u>\$6,959,053</u>	<u>(\$234,275)</u>	<u>\$6,724,778</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 – CAPITAL ASSETS (Continued)

D. Depreciation Allocation

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

<i>Governmental Activities:</i>	
General Government	\$2,394,895
Public Works	7,341,391
Engineering	2,323,691
Recreation and Community Services	1,331,100
Police	80,908
Fire	290,095
Internal Service Fund	1,213,482
Total Governmental Activities	\$14,975,562
 <i>Business-Type Activities:</i>	
Water Utility	\$1,565,385
Sewer Utility	5,088,194
Total Business-Type Activities	\$6,653,579
 <i>Discretely Presented Component Unit:</i>	
Terrace Gardens, Inc.	\$357,702

E. Sewer Treatment Capacity Rights

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Regional Wastewater Facility (RWF), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 14.25 million gallons per day or about 8.53% of the total plant capacity, 167 million gallons per day. The City has capitalized its share in the amount of \$120,855,760. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2023, the City's operation and maintenance share was approximately 5.458% of the total RWF operations.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 9 – LONG-TERM DEBT

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

A. Current Year Transactions and Balances

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

	Original Issue Amount	Balance June 30, 2022	Retirements	Balance June 30, 2023	Current Portion
Governmental Activities Debt - Direct Borrowing:					
2020 General Fund Lease Revenue Bonds					
4.0%, due June 1, 2041	\$18,445,000	\$18,170,000	\$470,000	\$17,700,000	\$520,000
Plus: Unamortized bond premium		3,299,841	173,676	3,126,165	
	<u>\$18,445,000</u>	<u>\$21,469,841</u>	<u>\$643,676</u>	<u>\$20,826,165</u>	<u>\$520,000</u>
 Business-type Activities Debt					
Wastewater Revenue Refunding Bonds, 2017 Series					
2.0% - 5.0%, due November 1, 2026	\$4,725,000	\$2,815,000	\$515,000	\$2,300,000	\$535,000
Plus: Unamortized bond premium		354,279	70,856	283,423	
Wastewater Revenue Bonds, 2019 Series					
4.0% - 5.0%, due November 1, 2049	29,840,000	28,910,000	505,000	28,405,000	535,000
Plus: Unamortized bond premium		4,945,917	183,182	4,762,735	
Water Revenue Bonds, 2019 Series					
4.0% - 5.0%, due June 1, 2049	17,210,000	16,465,000	315,000	16,150,000	325,000
Plus: Unamortized bond premium		2,755,919	102,071	2,653,848	
Total Business-Type Activities	<u>\$51,775,000</u>	<u>\$56,246,115</u>	<u>\$1,691,109</u>	<u>\$54,555,006</u>	<u>\$1,395,000</u>

B. 2020 General Fund Lease Revenue Bonds

On November 10, 2020, the Milpitas Municipal Financing Authority issued the 2020 Lease Revenue Bonds (Capital Projects) in the original principal amount of \$18,445,000 to provide funds to finance a portion of the Fire Station No. 2 Replacement project and variety of energy improvement projects. The Bonds bear interest rates of 4.0 %. Interest is payable every June 1 and December 1 beginning on June 1, 2021. Principal on the bonds will be payable on June 1 beginning on June 1, 2022 through 2037, followed by a term bond which will be due June 1, 2041. The Bonds were structured with a par optional redemption date of June 1, 2030. Bonds maturing on June 1, 2041 are subject to mandatory redemption.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 9 – LONG-TERM DEBT (Continued)

C. Wastewater Revenue Refunding Bonds, Series 2017

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

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

D. Wastewater Revenue Bonds, Series 2019

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

The 2019 Bonds are pledged by net revenues from the City's Wastewater System and are on parity with the 2017 Bonds. For the fiscal year 2023, net revenues amounted to \$11,726,268 which represented coverage of 4.82 over the \$2,431,275 debt service of both bond issues.

E. Water Revenue Bonds, Series 2019

On October 24, 2019, the Milpitas Municipal Financing Authority issued Water Revenue Bonds, Series 2019, in the original principal amount of \$17,210,000 to provide funds to the City for certain improvements to the City's water system. The Bonds bear interest of 4.0% to 5.0% and interest is payable every June 1 and December 1 beginning on June 1, 2020. Principal on the bonds will be payable on June 1 beginning on June 1, 2020 through 2039, followed by term bonds that are due June 1, 2044 and June 1, 2049 respectively. The Bonds were structured with a par optional redemption date of June 1, 2029. Bonds maturing on June 1, 2044 and June 1, 2049 are subject to mandatory redemption.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 9 – LONG-TERM DEBT (Continued)

The Bonds contain a provision that in an event of default, the Trustee may declare the principal of the bonds, together with all accrued interest at the date of default, immediately due and payable, or exercise any and all rights and remedies available to it under applicable law, including the right to enforce from the City all payments due on the Bonds, and the City will pay all reasonable fees and expenses incurred by the Trustee and those of its attorneys.

The Bonds are collateralized by net revenues from the City's Water System. For the fiscal year 2023, net revenues amounted to \$8,841,793 which represented coverage of 8.47 over the \$1,047,050 debt service.

F. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Governmental Activities Revenue Bonds		Business-Type Activities Revenue Bonds	
	Total Principal	Total Interest	Total Principal	Total Interest
2024	\$520,000	\$708,000	\$1,395,000	\$2,081,400
2025	570,000	687,200	1,460,000	2,013,650
2026	625,000	664,400	1,530,000	1,939,275
2027	735,000	639,400	1,605,000	1,861,400
2028	830,000	610,000	1,040,000	1,795,775
2029-2033	4,700,000	2,522,800	6,045,000	8,130,375
2034-2038	5,715,000	1,505,400	7,705,000	6,435,500
2039-2043	4,005,000	324,400	9,750,000	4,376,775
2044-2048			11,915,000	2,200,000
2049-2050			4,410,000	177,700
	<u>17,700,000</u>	<u>\$7,661,600</u>	<u>46,855,000</u>	<u>\$31,011,850</u>
Plus: Unamortized bond premium	<u>3,126,165</u>		<u>7,700,006</u>	
	<u>\$20,826,165</u>		<u>\$54,555,006</u>	

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 10 – LEASES

A. Policies

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. The City recognizes lease receivable or liabilities with an initial, individual value of \$500,000 or more for all funds, except for Capital Project Funds which the threshold is set lower at \$300,000, based on the future lease payments remaining at the start of the lease.

Lessor

The City is a lessor for noncancellable leases of buildings and facilities. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts as follows:

- The City uses bond interest rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Lessee

The City is a lessee for miscellaneous leases. If the lease is over the threshold, the City will recognize a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 10 – LEASES (Continued)

Key estimates and judgments related to leases include how City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments as follows:

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, City generally uses bond interest rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

As of June 30, 2023, the City has no leases over the threshold subject to GASB 87 as a lessee.

B. Leases Receivable (City as Lessor)

The summary for the leases details and balances related to leases receivable and deferred inflows of resources recorded in the General Fund as of June 30, 2023 were:

Lessee	Property Location	Original Lease Date	Original Term (Years)	Extension (Years)	Expiration Date Including Options	Monthly Revenue as of June 30, 2023	Lease Receivable Balance at June 30, 2023	Deferred Inflow of Resources at June 30, 2023
Capital Telecom Acquisition LLC	Fire Station No. 1 Grounds, 777 So. Main Street, Milpitas, CA 95035	6/6/2012	15	25	6/6/2052	\$2,044	\$851,604	\$807,629
American Tower	HWY680 on CALAVERAS	2/1/2019	5	20	2/1/2044	2,727	739,249	701,611
Milpitas Auto Properties LLC	Freeway Sign on 950 Thompson	8/17/2010	10	30	8/17/2050	10,036	2,482,554	2,433,401
Clear Channel	Advertising display on the property	7/30/2013	30	30	7/30/2073	14,363	9,388,313	8,944,011
Total						<u>\$29,170</u>	<u>\$13,461,720</u>	<u>\$12,886,652</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 10 – LEASES (Continued)

The future principal and interest lease receivables as of June 30, were as follows:

For the Year Ended June 30	Principal	Interest	Total
2024	\$66,986	\$286,098	\$353,084
2025	74,718	284,596	359,314
2026	82,787	282,927	365,714
2027	91,205	281,082	372,287
2028	99,986	279,054	379,040
2029-2033	645,213	1,357,894	2,003,107
2034-2038	926,725	1,274,942	2,201,667
2039-2043	1,270,060	1,158,869	2,428,929
2044-2048	1,387,564	1,015,790	2,403,354
2049-2053	1,339,990	861,551	2,201,541
2054-2058	1,186,679	737,375	1,924,054
2059-2063	1,586,156	590,736	2,176,892
2064-2068	2,065,469	397,484	2,462,953
2069-2074	2,638,182	148,424	2,786,606
Totals	<u>\$13,461,720</u>	<u>\$8,956,822</u>	<u>\$22,418,542</u>

Fire Station No. 1 grounds

As shown in the summary table, the City leases a part of the Tower Leases Area in 777 South Main Street to Capital Telecom Acquisition LLC. The original lease terms were 15 years with a 25 year extension. As of June 30, 2023, the leases had 29 years remaining. The City recognized \$5,635 in lease revenue and \$18,206 in interest revenue during the current fiscal year related to these leases. Also, the City has deferred inflows of resources associated with these leases that will be recognized as revenue over the lease term.

HWY 680 on CALAVERAS

As shown in the summary table, the City leases a portion of the parcel in 1325 E. Calaveras Blvd. to American Tower. The original lease terms were 5 years with a 20 year extension. As of June 30, 2023, the leases had 21 years remaining. The City recognized \$16,549 in lease revenue and \$15,939 in interest revenue during the current fiscal year related to these leases. Also, the City has deferred inflows of resources associated with these leases that will be recognized as revenue over the lease term.

Freeway Sign on 950 Thompson

As shown in the summary table, the City leases the Piercey Toyota dealership site at 950 Thompson Street to Milpitas Auto Properties LLC. The original lease terms were 10 years with a 30 year extension. As of June 30, 2023, the leases had 27 years remaining. The City recognized \$66,785 in lease revenue and \$53,651 in interest revenue during the current fiscal year related to these leases. Also, the City has deferred inflows of resources associated with these leases that will be recognized as revenue over the lease term.

Advertising display

As shown in the summary table, the City leases parcels for purpose of advertising to be visible from the US interstate 880 to Clear Channel. The original lease terms were 30 years with a 30 year extension. As of June 30, 2023, the leases had 50 years remaining. The City recognized \$170,253 in rental revenue related to these leases. Also, the City has deferred inflows of resources associated with these leases that will be recognized as revenue over the lease term.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 11 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

A summary of subscription-based information technology arrangements (SBITA) transactions for the fiscal year ended June 30, 2023, are as follows:

	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023	Current Portion
Subscription Liability					
Microsoft 365	\$0	\$842,113	(\$277,935)	\$564,178	\$136,679
Total	\$0	\$842,113	(\$277,935)	\$564,178	\$136,679

On March 2022, the City entered into a three-year SBITA for the purchases of software and software services for Microsoft 365. An initial subscription liability was recorded in the amount of \$842,113 during fiscal year 2023, at the time the subscription was placed into service. Implementation costs and prepayments made on the subscription were included in the measurement of the liability during the year ended June 30, 2023.

As of June 30, 2023, the value of the subscription liability was \$564,178. The City is required to make annual principal and interest payments throughout the life of the subscription. The subscription has an interest rate of 2.08%. As part of the subscription, the City has recorded an intangible right to use subscription asset and accumulated amortization as disclosed in Note 8.

The future subscription and interest subscription payments as of June 30, 2023 follows:

For the Year Ended June 30	Principal	Interest	Total
2024	\$136,679	\$11,078	\$147,757
2025	139,549	8,208	147,757
2026	142,479	5,277	147,756
2027	145,471	2,285	147,756
Totals	\$564,178	\$26,848	\$591,026

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – NET POSITION AND FUND BALANCES

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

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

A. Net Position

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

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

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

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

B. Fund Balances

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – NET POSITION AND FUND BALANCES (Continued)

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

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

Detailed classifications of the City's Fund Balances, as of June 30, 2023, are below:

Fund Balance Classifications	General Fund	Major Special Revenue Fund	Major Capital Projects		General Government Projects	Other Governmental Funds	Total
		Housing Authority	Street Improvement Fund	Transit Area Impact Fee Fund	Fund		
Nonspendable:							
Loans receivable							
Prepays, materials, supplies and deposits	\$724,275	\$2,000			\$118,429	\$29,784	\$874,488
Property held for resale	4,200,000						4,200,000
Subtotal Nonspendable	4,924,275	2,000			118,429	29,784	5,074,488
Restricted for:							
Programs and Maintenance			\$5,000,756			8,413,209	13,413,965
Housing and community development		40,074,468				3,826,276	43,900,744
Law enforcement services						114,439	114,439
Solid waste reduction and services						2,283,705	2,283,705
Assessment district services						2,443,660	2,443,660
Hetch-Hetchy ground lease						1,468,865	1,468,865
Community planning						318,447	318,447
Community benefits						422,822	422,822
Affordable housing						5,089,723	5,089,723
Affordable housing unrestricted						3,170,042	3,170,042
Park improvement projects						5,451,027	5,451,027
Storm drain projects						6,427,060	6,427,060
General government projects					570,275		570,275
Transit area capital projects				\$60,819,077			60,819,077
Subtotal Restricted		40,074,468	5,000,756	60,819,077	570,275	39,429,275	145,893,851
Committed to:							
PERS stabilization	6,072,492						6,072,492
Artificial turf replacement	1,900,000						1,900,000
Technology replacement	2,000,000						2,000,000
Facilities replacement	7,000,000						7,000,000
Subtotal Committed	16,972,492						16,972,492
Assigned to:							
Uninsured claims payable	2,775,318						2,775,318
Public art projects						1,017,671	1,017,671
Contracts	3,627,706						3,627,706
General government capital projects					25,466,667		25,466,667
Other assigned	518,419						518,419
Subtotal Assigned	6,921,443				25,466,667	1,017,671	33,405,781
Unassigned:							
General Fund							
Contingency reserve	19,758,079						19,758,079
Budget stabilization	19,758,079						19,758,079
Future deficit	1,452,576						1,452,576
ERAF reserve	2,322,866						2,322,866
Strategic Property Acquisition Revenue	710,248						710,248
Unassigned	682,955						682,955
Subtotal Unassigned	44,684,803						44,684,803
Total fund balances	\$73,503,013	\$40,076,468	\$5,000,756	\$60,819,077	\$26,155,371	\$40,476,730	\$246,031,415

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – NET POSITION AND FUND BALANCES (Continued)

C. Fund Balance Policies

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

- 1) The City will fund the following reserves as follows with any General Fund audited year end operating surplus after the General Fund Contingency Reserve and General Fund Budget Stabilization Reserve requirements are met and pension budgetary surplus are allocated to the PERS Rate Stabilization Reserve:
 - **Part I**
 - Contingency Reserve (Policy Statement #41)
 - General Fund Budget Stabilization Reserve (Policy Statement #42)
 - **Part II (any remaining balance)**
 - Pension budgetary surplus allocated to the PERS Rate Stabilization Reserve (Policy Statement #43)
 - **Part III (any remaining balance)**
 - Artificial Turf Replacement (\$230,000) (Policy Statement #54)
 - **Part IV (any remaining balance)**
 - 30% General Government Capital Improvement Fund
 - 20% Storm Drain Fund
 - 10% Affordable Housing
 - 10% Transportation/transit
 - 15% Technology Replacement
 - 10% SPAR (Strategic Property Acquisition Revenue) (Policy #57)
 - 5% Unassigned
- 2) The City will maintain a Contingency Reserve of at least 16.67% or two months of the annual operating expenditures in the General Fund to be used only in the case of dire need as a result of physical or financial emergencies and disasters as determined by the City Council. The City Council will set the reserve amount annually after the results of the prior fiscal year's Annual Comprehensive Financial Report (ACFR) are known. For the year ended June 30, 2023, the reserve is set at \$19,758,079 and classified in the unassigned fund balance.
- 3) The City will maintain a General Fund Budget Stabilization Reserve with a target of 16.67%, or two months, of annual operating expenditures. The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and or higher than projected expenditures that cannot be rebalanced within existing budget resources in any given fiscal year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. This reserve will be funded only after General Fund Contingency Reserve requirements have been met. The City Council will set the reserve amount annually after the results of the prior fiscal year's Annual Comprehensive Financial Report (ACFR) are known. For the year ended June 30, 2023, the reserve is set at \$19,758,079 and classified in the unassigned fund balance.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – NET POSITION AND FUND BALANCES (Continued)

- 4) The City will maintain in the General Fund and the Water and Sewer Utility Enterprise Funds or in a Section 115 Trust a Public Employees Retirement (PERS) Rate Stabilization Reserve. The City's actuary has determined that the General Fund portion of the Unfunded Actuarial Liability for the Miscellaneous Retirement Plan is 84.9% and for the Water and Sewer Utility Enterprise Funds portion of the Unfunded Actuarial Liability for the Miscellaneous Retirement Plan is 8.5% and 6.6%, respectively. The contributions to the PERS Rate Stabilization Reserve from the Utility Funds shall be consistent with the General Fund contributions. If confirmed by City's actuary that contributions are advised for that respective year, then any savings resulting from the pension budgeting methodologies shall be contributed to the PERS Rate Stabilization Reserve. However, the General Fund portion of any pension savings shall only be allocated to the PERS Rate Stabilization Reserve after the General Fund Contingency Reserve and the General Fund Budget Stabilization Reserve requirements have been met. The Utility Funds' portion of any pension savings shall only be allocated to the PERS Rate Stabilization Reserve after the Capital Reserve and Rate Stabilization Reserve (RSR) requirements in the Water and Sewer utility funds have been met. If confirmed by City's actuary that contributions are advised for that respective year, then additionally, 20% of any General Fund or Enterprise Funds annual operating surpluses shall be allocated to the PERS Rate Stabilization Reserve.
- 5) The City will maintain a capital reserve for artificial turf replacement with a target of \$2 million and an annual set-aside amount of at least \$230,000 until the target is reached. This reserve shall be used to accrue funding for the normal depreciation expense of the City's artificial turf fields over their useful life. Eligible uses of this reserve may include the replacement of the City's artificial turf fields so as to eliminate large spikes in capital expenses and normalize annual costs.
- 6) Annually, the City will endeavor to transfer \$300,000 from the General Fund to the Technology Replacement Fund set aside in a reserve with a target of \$5 million. This reserve shall be used to accrue funding for technology projects such as the major rehabilitation or replacement of the City's technology infrastructure or new technology initiatives.
- 7) The City will maintain a capital reserve for Facilities Replacement with a target of \$10 million. This reserve shall be used to accrue funding for major rehabilitation or replacement of City facilities (buildings/structures). Eligible uses of this reserve may include both the direct funding of public facility improvements and the servicing of related debt.
- 8) The City will maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to transfer \$500,000 annually from the General Fund to the Storm Drain Fund for this purpose.
- 9) The City will maintain a General Liability and Workers' Compensation Claims Reserve of \$2 million in the General Fund, which will be reviewed for adjustments annually.
- 10) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated adjusted annually at appropriate levels.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – NET POSITION AND FUND BALANCES (Continued)

- 11) The City will maintain capital reserves in the Water and Sewer utility enterprise funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs, pump station repairs. The City will attempt to maintain a capital reserve of approximately 30% of the annual operating and maintenance expenses for the Water utility fund and 25% of the annual operating and maintenance expenses for the Sewer utility fund. The City Council will set the reserve amounts annually after the results of the prior fiscal year's Annual Comprehensive Financial Report (ACFR) are known. For the year ended June 30, 2023, the capital reserve for the Water Operating Fund is set at \$8,638,318 and for the Sewer Operating Fund at \$4,132,726.
- 12) The City will maintain a Rate Stabilization Reserve (RSR) in the Water and Sewer utility enterprise funds with a goal of at least 16.67% or two months of the respective annual operating expenditures after the Capital Reserve requirements have been met. The RSR shall be used to mitigate the effects of occasional shortfalls in revenue or unanticipated expenditures that cannot be re-balanced within existing budgeted resources in any given fiscal year. Revenue shortfalls may result from a number of events such as weather factors (wet weather or drought events and natural disasters), increased water conservation, and poor regional economic conditions. The Rate Stabilization Reserves should be used to assist in smoothing out revenue variability resulting from these factors and ensure that adequate resources are available during such times that might otherwise require large rate increases to utility customers. The City Council will set the reserve amounts annually after the results of the prior fiscal year's Annual Comprehensive Financial Report (ACFR) are known. The RSR funding will be phased within five years, or sooner, as part of the fiscal year end closing process. Thereafter, the replenishment of these reserves may also be incorporated into the annual Adopted Operating Budget if resources are available to replenish the reserves.
- 13) The City will maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 14) The City will maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.

D. Net Investment In Capital Assets

The balances related to Net Investment in Capital Assets are comprised of the following as of June 30, 2023:

	Governmental Activities	Business-Type Activities	Total
Capital Asset, Net of Accumulated Depreciation	\$386,306,800	\$184,571,392	\$570,878,192
Less Capital Debt	(21,390,343)	(54,555,006)	(75,945,349)
Plus Unspent Bond Proceeds	592,509	961,171	1,553,680
	<u>\$365,508,966</u>	<u>\$130,977,557</u>	<u>\$496,486,523</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – PENSION PLANS

A. General Information

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

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

The Plans’ provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to	After	On or after
Hire date	October 9, 2011	October 9, 2011	January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% - 2.7%	1.092% - 2.418%	1.0% - 2.5%
Required employee contribution rates	8%	7%	7%
Required employer contribution rates	9.99%	9.99%	9.99%
Required Unfunded Actuarial Liability Contribution	\$6,568,304		

	Safety		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to	After	On or after
Hire date	April 8, 2012	April 8, 2012	January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2.4% - 3%	2.0% - 2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	19.03%	19.03%	19.03%
Required Unfunded Actuarial Liability Contribution	\$10,718,177		

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – PENSION PLANS (Continued)

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability (UAL). The dollar amounts are billed on a monthly basis or the City can elect a lump sum payment option. The City's required contributions for the unfunded liability in the Miscellaneous and Safety Plans for the year ended June 30, 2023 were \$6,568,304 and \$10,718,177, respectively, which were made under the lump sum payment option.

Employees Covered – The following employees were covered by the benefit terms for each Plan as of the most recent actuarial valuation date of June 30, 2021 and measurement date of June 30, 2022:

	Miscellaneous			Safety		
	Classic Tier I	Classic Tier II	PEPRA Tier	Classic Tier I	Classic Tier II	PEPRA Tier
Inactive employees or beneficiaries currently receiving benefits	429			259		
Inactive employees entitled to but not yet receiving benefits	356			25		
Active employees	104	11	115	84	8	66
Total	889	11	115	368	8	66

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. If the client made additional UAL payments in FY20, FY21 or FY22, CalPERS may have issued letters subsequent to the FY20 Actuarial Valuation to revise the required UAL payment amounts.

In May 2021, the City established a Section 115 irrevocable trust to set aside funds to meet the City's future pension contributions or unfunded liabilities. The Trust is owned and monitored by the City but externally managed by investment professionals. In June 2021, the City transferred \$35.4 million to the Trust, and as of June 30, 2023, the City reported the account balance of the trust of \$32,671,513. This amount has been reported as cash and investments in the Pension Section 115 Internal Service Fund.

B. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each Plan is measured as of June 30, 2022, using an annual actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – PENSION PLANS (Continued)

Actuarial Assumptions – The total pension liabilities as of the June 30, 2022 measurement date were determined using the following actuarial assumptions:

	Miscellaneous and Safety (1)
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	2.80%
Projected Salary Increase	(2)
Investment Rate of Return	6.90% (3)
Mortality	Derived using CalPERS Membership Data for all Funds (4)
Post Retirement Benefit Increase	The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies. 2.30% thereafter

- (1) Actuarial assumptions are the same for all benefit tiers (Classic Tier I, Classic Tier II, and PEPRA)
- (2) Depending on age, service and type of employment
- (3) Net of pension plan investment expenses, including inflation
- (4) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2021 valuation were based on the results of a November 2021 actuarial experience study for the period 2001 to 2019. Further details of the Experience Study can be found on the CalPERS website at www.calpers.ca.gov.

Discount Rate – The discount rate used to measure the total pension liability for each Plan was 6.90%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 basis points.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – PENSION PLANS (Continued)

The expected real rates of return by asset class are as follows:

Asset Class (1)	Assumed Asset Allocation	Real Return (1,2)
Global Equity-Cap Weighted	30.0%	4.54%
Global Equity-Non-Cap Weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	<u>100.00%</u>	

(1) An expected inflation of 2.30% used for this period.

(2) Figures are based on the 2021 Asset Liability Management study.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – PENSION PLANS (Continued)

C. Changes in the Net Pension Liability

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

Miscellaneous Plan			
Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2021 (Measurement Date)	\$266,299,950	\$216,090,576	\$50,209,374
Changes in the year:			
Service cost	4,859,903		4,859,903
Interest on the total pension liability	18,711,899		18,711,899
Differences between actual and expected experience	1,596,580		1,596,580
Changes of assumptions	8,099,828		8,099,828
Changes in benefit terms			
Contribution - employer		9,800,794	(9,800,794)
Contribution - employee		1,861,769	(1,861,769)
Net Plan to Plan Resource Movement			
Net investment income		(16,338,954)	16,338,954
Administrative expenses		(134,612)	134,612
Other Miscellaneous Income/(Expense)			
Benefit payments, including refunds of employee contributions	(14,478,741)	(14,478,741)	
Net changes	18,789,469	(19,289,744)	38,079,213
Balance at June 30, 2022 (Measurement Date)	\$285,089,419	\$196,800,832	\$88,288,587

Safety Plan			
Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2021 (Measurement Date)	\$393,250,269	\$292,618,647	\$100,631,622
Changes in the year:			
Service cost	7,801,769		7,801,769
Interest on the total pension liability	27,775,910		27,775,910
Differences between actual and expected experience	1,878,012		1,878,012
Changes of assumptions	14,433,785		14,433,785
Changes in benefit terms			
Contribution - employer		14,258,505	(14,258,505)
Contribution - employee		2,853,307	(2,853,307)
Net Plan to Plan Resource Movement			
Net investment income		(22,163,861)	22,163,861
Administrative expenses		(182,284)	182,284
Other Miscellaneous Income/(Expense)			
Benefit payments, including refunds of employee contributions	(21,827,081)	(21,827,081)	
Net changes	30,062,395	(27,061,414)	57,123,809
Balance at June 30, 2022 (Measurement Date)	\$423,312,664	\$265,557,233	\$157,755,431
Grand Totals - Both Plans	\$708,402,083	\$462,358,065	\$246,044,018

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – PENSION PLANS (Continued)

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	5.90%	5.90%
Net Pension Liability	\$125,691,788	\$214,455,733
Current Discount Rate	6.90%	6.90%
Net Pension Liability	\$88,288,587	\$157,755,431
1% Increase	7.90%	7.90%
Net Pension Liability	\$57,349,896	\$111,157,850

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

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

For the year ended June 30, 2023, the City recognized pension expense of \$32,765,120 for the Miscellaneous Plan and \$13,021,231 for the Safety Plan, for total pension expense of \$19,743,889. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Miscellaneous Plan</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions after the measurement date	\$9,421,792	
Differences between actual and expected experience	1,175,834	
Changes of assumptions	4,724,900	
Net differences between projected and actual earnings on plan investments	9,821,396	
Total	<u>\$25,143,922</u>	<u>\$0</u>

General Fund typically has been used in prior years to liquidate pension liabilities.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – PENSION PLANS (Continued)

	Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions after the measurement date	\$15,469,857	
Differences between actual and expected experience	2,890,087	
Changes of assumptions	11,226,277	
Net differences between projected and actual earnings on plan investments	13,160,477	
Total	<u>\$42,746,698</u>	<u>\$0</u>
Grand Totals - Both Plans	<u>\$67,890,620</u>	<u>\$0</u>

\$24,891,649 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization	
	Miscellaneous	Safety
2023	\$5,832,733	\$6,383,097
2024	3,001,601	5,978,169
2025	659,880	4,666,511
2026	6,227,916	10,249,064
	<u>\$15,722,130</u>	<u>\$27,276,841</u>

E. Public Agency Retirement System

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

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

The City's required contributions of \$34,064 and the employee's required contributions of \$136,248 were made during the fiscal year ending June 30, 2023.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS

A. *Deferred Compensation Plan*

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

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

B. *Retiree Medical Benefits*

The liability for explicit subsidy benefits for the dependents of City retirees were previously included together with other City plan OPEB liabilities. However, the City was also contributing directly toward the cost of these dependent benefits by making negotiated contributions determined as a percentage of payroll for active employees in each bargaining group, effectively contributing twice. Beginning with fiscal year 2020, the total OPEB liability for these dependent fund benefits is now being determined and reported separately. Further discussion is included in Note 13C and 13D.

The City provides postretirement health care benefits through its defined benefit Retiree Medical Benefits Agent Multiple-employers Plan to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2023, there were 310 participants receiving these health care benefits.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

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

Medical Benefit for Retirees:

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

Medical benefits for retirees (continued):

	Hire/Retirement Date	Date of Retirement	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Before January 1, 1996	Before January 1, 1989	n/a	PEMHCA Minimum Only
		After December 31, 1988 but before July 1, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Any employee only medical premium rate
		After June 30, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Up to the Retiree Cap
	After December 31, 1995	Before July 1, 2003	Less than 1	PEMHCA Minimum Only
			1 but less than 9	25% of any employee only premium
			9 but less than 14	50% of any employee only premium
			14 but less than 19	75% of any employee only premium
			At least 19	100% of any employee only premium
		After June 30, 2003	Less than 1	PEMHCA Minimum Only
			1 but less than 9	Up to 25% of the Retiree Cap
			9 but less than 14	Up to 50% of the Retiree Cap
			14 but less than 19	Up to 75% of the Retiree Cap
			At least 19	Up to 100% of the Retiree Cap
Employee Association (MEA)	Before July 1, 1996	Before July 16, 1989	n/a	PEMHCA Minimum Only
		After July 17, 1989 but before March 19, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Any employee only medical premium rate
		After March 18, 2003	Less than 5	PEMHCA Minimum Only
			At least 5	Benefit Cap
	After June 30, 1996	Any	Less than 1	PEMHCA Minimum Only
			1 but less than 10	Up to 25% of the Benefit Cap
			10 but less than 15	Up to 50% of the Benefit Cap
			15 but less than 20	Up to 75% of the Benefit Cap
			At least 20	Up to 100% of the Benefit Cap
Supervisors (MSA) (Ended June, 30, 2012)	Before June 30, 1995	Before July 1, 1996	n/a	PEMHCA Minimum Only
		After June 30, 1996 and before November 27, 2007	Less than 5	PEMHCA Minimum Only
			At least 5	Any employee only medical premium rate
		After November 26, 2007	Less than 5	PEMHCA Minimum Only
			At least 5	Benefit Cap
	After June 29, 1995	After November 27, 2007	Less than 5	PEMHCA Minimum Only
			5 but less than 9	Up to 25% of the Benefit Cap
			9 but less than 14	Up to 50% of the Benefit Cap
			14 but less than 19	Up to 75% of the Benefit Cap
			At least 19	Up to 100% of the Benefit Cap

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

Medical benefits for dependents:

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

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

² If the UNREP-Police fund is depleted, MPOA will provide funding for the dependent benefits. Effective September 1, 2019, MPOA will Administer dependent medical benefits for Unrep Police.

³ The Fire Chief is ineligible for dependent fund benefits.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

Medical benefits for dependents (continued):

Group	Date of Hire	Date of Retirement	Minimum Years of Continuous Service	City Contribution for Dependent Medical Premiums ¹
Unrepresented (UNREP-Misc)5	Before January 1, 1996	After June 30, 2018	At least 5	100% of family/dependent premiums
	After December 31, 1995	After June 30, 2018	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium
Fire Safety (IAFF)4	Before January 1, 1995	After February 19, 2007	5 but less than 9	50% of family/dependent medical premiums
	After December 31, 1994	After February 19, 2007	At least 10	100% of family/dependent medical premiums
			5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium
Police (MPOA)	Before January 1, 1996	After June 30, 2003	At least 5	100% of family/dependent premiums
	After December 31, 1995	After June 30, 2003	5 but less than 9	Up to 25% of the family/dependent premium
			9 but less than 14	Up to 50% of the family/dependent premium
			14 but less than 19	Up to 75% of the family/dependent premium
			At least 19	Up to 100% of the family/dependent premium
Employee Association (MEA)	Before June 30, 1996	After June 30, 2003	At least 5	100% of any family/dependent medical premiums
	After June 29, 1996		5 but less than 10	Up to 25% of the lowest family/dependent premium
			10 but less than 15	Up to 50% of the lowest family/dependent premium
			15 but less than 20	Up to 75% of the lowest family/dependent premium
			At least 20	Up to 100% of the lowest family/dependent premium

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

⁴ The amounts paid for dependents are adjusted to keep the fund viable. Currently, the IAFF dependent fund pays the following amounts:

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

⁵ The fire Chied is eligible for dependent fund benefits in Unrep Misc group.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

C. Net OPEB Liability

Funding Policy and Contributions – The City’s policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the City’s annual budget approved by Council. For the year ended June 30, 2023, the City’s contributions to the Plan were \$2,267,207.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2022:

Active employees	387
Inactive employees or beneficiaries currently receiving benefit payments	310
Inactive employees entitled to but not yet receiving benefit payments	93
Total	790

Actuarial Methods and Assumptions – The City’s net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2021, that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2023, based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	6.15%
Inflation	2.50%
Salary Increase	3.00%
Investment Rate of Return	6.15%
Mortality Rate	MacLeod Watts Scale of 2022 applied generationally
Healthcare Trend Rate	5.80% grading down to 3.9% for years 2076 and thereafter

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

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

Asset Class	Target Allocation
Global Equities	49.0%
Fixed Income	23.0%
Global Real Estate (REITs)	20.0%
Treasury Inflation Protected Securities	5.0%
Commodities	3.0%
Total	100.0%

Discount Rate

Explicit Subsidy Liability – The City expects the trust assets to yield 6.15 over the long term, based on information published by CalPERS as of the June 30, 2022 valuation date. Net contributions to the trust in recent years have been set at a level to prefund the explicit portion of benefits, with no advance funding of the implicit subsidy liability. Accordingly, the discount rate used for the City's explicit OPEB liability is 6.15%.

Implicit Subsidy Liability – The City expects to continue to fund the implicit subsidy liability on a pay-as-you-go basis. Therefore, the Fidelity 20 year AA General Obligation Municipal Bond Index was used in determining the discount rates used to calculate the implicit subsidy liability. As of the end of the Measurement Period, the discount rates for the Fidelity index were 3.69%.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (a) - (b)
Balance at June 30, 2022	\$63,294,468	\$64,102,543	(\$808,075)
Changes Recognized for the Measurement Period:			
Service Cost	2,077,984		2,077,984
Interest on the total OPEB liability	3,916,381		3,916,381
Changes in benefit terms			
Differences between expected and actual experience			
Changes of assumptions			
Contributions from the employer		1,757,265	(1,757,265)
Net investment income		(8,452,324)	8,452,324
Other Expenses			
Plan Experience			
Administrative expenses		(16,234)	16,234
Benefit payments	(3,382,910)	(3,382,910)	
Net changes	2,611,455	(10,094,203)	12,705,658
Balance at June 30, 2023 (Measurement Date 6/30/22)	\$65,905,923	\$54,008,340	\$11,897,583

The benefit payments and refunds include implied subsidy benefit payments in the amount of \$2,308,511.

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

Net OPEB Liability/(Asset)		
	Discount Rate	
Discount Rate -1%	(6.15%)	Discount Rate +1%
\$20,311,270	\$11,897,583	\$4,930,109

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

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

Net OPEB Liability/(Asset)		
Healthcare Cost Trend Rates		
1% Decrease	(5.40%-4.00%)	1% Increase
\$4,263,228	\$11,897,583	\$21,270,264

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

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

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2022:

Active employees	387
Inactive dependents of retirees currently receiving benefit payments	171
Inactive employees entitled to but not yet receiving benefit payments	29
Total	587

Actuarial Methods and Assumptions – The Union Dependent Funds' total OPEB liability was measured as of June 30, 2022 and the total OPEB liability was determined by an actuarial valuation dated June 30, 2022, that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2022 based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	6.15%
Inflation	2.50%
Salary Increase	3.00%
Investment Rate of Return	6.15%
Mortality Rate	MacLeod Watts Scale of 2022 applied generationally
Healthcare Trend Rate	5.80% grading down to 3.9% for years 2076 and thereafter

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

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

	<u>Increase (Decrease)</u> <u>Total OPEB</u> <u>Liability</u> <u>(a)</u>
Balance at June 30, 2022	\$34,524,825
Changes Recognized for the Measurement Period:	
Service Cost	1,767,339
Interest on the total OPEB liability	687,094
Changes in benefit terms	
Differences between expected and actual experience	
Changes of assumptions	(7,639,426)
Contributions from the employer	(1,012,052)
Net investment income	
Other Expenses	
Plan Experience	
Administrative expenses	
Benefit payments	
Net changes	(6,197,045)
Balance at June 30, 2023 (Measurement Date)	<u>\$28,327,780</u>

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.69%) or 1-percentage point higher (4.69%) than the current discount rate:

<u>Net OPEB Liability/(Asset)</u>		
<u>Discount Rate</u>		
<u>Discount Rate -1%</u>	<u>3.67%</u>	<u>Discount Rate +1%</u>
<u>\$32,301,032</u>	<u>\$28,327,780</u>	<u>\$25,076,646</u>

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

<u>Net OPEB Liability/(Asset)</u>		
<u>Healthcare Cost</u>		
<u>Trend Rates</u>		
<u>1% Decrease</u>	<u>(5.80% - 3.90%)</u>	<u>1% Increase</u>
<u>\$24,426,248</u>	<u>\$28,327,780</u>	<u>\$33,293,093</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

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

For the year ended June 30, 2023, the City recognized Retiree Medical Benefits OPEB Plan and Dependent Fund OPEB Plan recognized expense of (\$283,307) and \$2,110,424 respectively, for total OPEB expense of \$1,827,117. At June 30, 2023, the Retiree Medical Benefits OPEB plan and Union Dependent Funds reported deferred outflows and inflows of resources related to OPEB from the following sources:

Retiree Medical Benefits OPEB Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$2,267,207	
Differences between actual and expected experience		(\$6,160,675)
Changes of assumptions	3,457,971	(3,463,196)
Net differences between projected and actual earnings on plan investments	4,214,051	
Total	<u>\$9,939,229</u>	<u>(\$9,623,871)</u>
Dependent Fund OPEB Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$1,031,989	
Differences between actual and expected experience		(\$1,121,527)
Changes of assumptions	3,825,563	(6,743,831)
Net differences between projected and actual earnings on plan investments		
Total	<u>\$4,857,552</u>	<u>(\$7,865,358)</u>
Grand Total, Both Plans	<u>\$14,796,781</u>	<u>(\$17,489,229)</u>

\$3,299,196 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as part of OPEB expense as follows:

Year Ended June 30	Annual Amortization	
	Retiree Medical Benefits Plan	Dependent Fund
2024	(\$2,285,524)	(\$344,009)
2025	(2,085,684)	(344,009)
2026	(463,342)	(344,009)
2027	2,725,657	(344,009)
2028	157,044	(599,932)
Thereafter		(2,063,827)
Total	<u>(1,951,849)</u>	<u>(4,039,795)</u>

General Fund has been primarily used in prior years to liquidate OPEB liabilities.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 14 – EMPLOYEE BENEFITS (Continued)

F. Accrued Vacation and Sick Leave Liabilities

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

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2023, sick leave benefits payable decreased by \$987,110 and vacation benefits payable increased by \$341,328. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Position.

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

	Accrued Vacation		Sick Leave	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Balance as of June 30, 2022	\$6,140,534	\$468,774	\$2,173,327	\$203,959
Additions	2,766,805	202,280	1,093,912	77,035
Payments and adjustments	(2,394,045)	(233,712)	(2,017,720)	(140,337)
Balance as of June 30, 2023	<u>\$6,513,294</u>	<u>\$437,342</u>	<u>\$1,249,519</u>	<u>\$140,657</u>
General Government	\$638,194		\$2,246	
Building	173,312			
Public Works	465,553		281,537	
Engineering	273,412			
Planning	209,657			
Recreation	488,291		29,046	
Police	2,453,777		494,911	
Fire	1,649,058		423,013	
Water Utility		\$260,062		\$92,549
Sewer Utility		177,280		48,108
Internal Service	162,040		18,766	
Total	<u>\$6,513,294</u>	<u>\$437,342</u>	<u>\$1,249,519</u>	<u>\$140,657</u>
Long-Term Portion:				
Governmental activities	\$3,887,538		\$588,448	
Business-type activities		\$304,140		\$50,163
Total long term portions	<u>\$3,887,538</u>	<u>\$304,140</u>	<u>\$588,448</u>	<u>\$50,163</u>
Current Portion:				
Governmental activities	\$2,625,756		\$661,071	
Business-type activities		\$133,202		\$90,494
Total current portions	<u>\$2,625,756</u>	<u>\$133,202</u>	<u>\$661,071</u>	<u>\$90,494</u>

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 15 – RISK MANAGEMENT

A. Risk Pool

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

During the fiscal year, ended June 30, 2023, the City contributed \$2,360,851 for the 2022/23 program year.

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

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

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

B. Workers Compensation

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

C. Dental

The City is self-insured for dental care for miscellaneous employees up to a maximum of \$14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2023 the City paid \$1,144,091 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 15 – RISK MANAGEMENT (Continued)

D. Liability for Uninsured Claims

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

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

	2023			2022
	Worker's Compensation	General Liability	Total	
Beginning balance	\$5,803,733	\$395,486	\$6,199,219	\$6,900,574
Liability for current fiscal year claims	2,001,694	552,866	2,554,560	2,300,509
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(290,663)	25,780	(264,883)	(1,470,358)
Claims paid	(1,901,544)	(234,607)	(2,136,151)	(1,531,506)
Ending balance	<u>\$5,613,220</u>	<u>\$739,525</u>	<u>\$6,352,745</u>	<u>\$6,199,219</u>
Due in one year	<u>\$1,315,630</u>	<u>\$332,139</u>	<u>\$1,647,769</u>	<u>\$1,483,266</u>

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

NOTE 16 – COMMITMENTS AND CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grant Programs

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 16– COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. Encumbrances

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2023 were as follows:

Major Governmental Funds:	
General Fund	\$2,156,892
Housing Authority Fund	8,258
Non-Major Governmental Funds	<u>79,818</u>
Total Encumbrances	<u><u>\$2,244,968</u></u>

D. South Bay Water Recycling System Facility Replacement

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 16 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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

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

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

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

The City paid its surcharge of \$820,819 during fiscal year 2023, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2024 is estimated to be \$603,300.

F. Housing Successor Excess Surplus

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 17 – SUCCESSOR AGENCY ACTIVITIES

A. *Redevelopment Dissolution*

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

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

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

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

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

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

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

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

Cash and investments of the Successor Agency as of June 30, 2023 are discussed in Note 3. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2023.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 17 – SUCCESSOR AGENCY ACTIVITIES (Continued)

B. Development Agreements

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

Installment Purchase Agreement

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

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

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

C. Long-Term Obligations

1. Current Year Transactions and Balances

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

	Balance June 30, 2022	Retirements	Balance June 30, 2023	Current Portion
Installment Purchase Agreement with the County of Santa Clara - Direct Borrowing				
due June 30, 2023	\$2,493,124	\$2,493,124	\$0	\$0
2015 Tax Allocation Bonds				
2%-5%, due September 1, 2032	80,440,000	7,800,000	72,640,000	8,185,000
Plus: Unamortized bond premium	12,703,594	1,190,962	11,512,632	
Total	<u>\$95,636,718</u>	<u>\$11,484,086</u>	<u>\$84,152,632</u>	<u>\$8,185,000</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 17 – SUCCESSOR AGENCY ACTIVITIES (Continued)

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

The former Redevelopment Agency had a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of \$135,000,000, as mentioned in Note 15B. As discussed in Note 15B, under the Agreement, the former Redevelopment Agency purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. During fiscal year 2022-23, the Agency paid off the debt in full.

3. *2015 Tax Allocation Refunding Bonds*

In March 2015, the Successor Agency issued Tax Allocation Refunding Bonds in the original principal amount of \$127,790,000. The proceeds of the Bonds were used to advance refund and defease the outstanding balance of the 2003 Tax Allocation Bonds, which were redeemed on March 23, 2015. The Bonds are secured by Redevelopment Property Tax Trust Fund (RPTTF) revenues. In lieu of a reserve fund, the 2015 Bonds are secured by a reserve insurance policy in the amount of \$11,822,000, issued by Assured Guaranty Municipal Corp. Principal is payable annually and the interest is payable semi-annually through 2032. The 2015 Bonds contain a provision that in an event of default, the Trustee may declare the principal of the bonds, together with all accrued interest at the date of default, immediately due and payable, or (b) exercise any and all rights and remedies available to it under applicable law, including right to enforce from the Successor Agency all payments due on the Bonds, and the Successor Agency will pay all reasonable fees and expenses incurred by the Trustee and those of its attorneys. On August 27, 2021, S&P Global Ratings (formerly Standard & Poor's Financial Services, LLC) upgraded its Local Currency Long-Term Ratings on the Bonds from 'AA- to AA'.

4. *Debt Service Requirements*

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

Year Ending June 30	2015 Tax Allocation Bonds	
	Total Principal	Total Interest
2024	\$8,185,000	\$3,427,375
2025	8,595,000	3,007,875
2026	9,025,000	2,567,375
2027	9,475,000	2,104,875
2028	9,950,000	1,619,250
2029-2033	27,410,000	3,054,250
	72,640,000	\$15,781,000
Plus: Unamortized bond premium	11,512,632	
	<u>\$84,152,632</u>	

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 17 – SUCCESSOR AGENCY ACTIVITIES (Continued)

5. *Defeased Bonds*

As of June 30, 2023, the outstanding balance of defeased debt was \$2,635,000 for the Redevelopment Agency 1997 Tax Allocation Bonds.

D. *Commitments and Contingencies*

State Approval of Enforceable Obligations

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



REQUIRED SUPPLEMENTARY INFORMATION



City of Milpitas

Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Agent Multiple-Employer Retiree Medical Benefits (OPEB) Plan
Last 10 fiscal years*

Measurement Date	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/22
Total OPEB Liability						
Service Cost	\$2,386,392	\$2,356,491	\$2,423,566	\$1,958,563	\$1,503,917	\$2,077,984
Interest	4,794,071	5,155,080	5,462,138	3,581,088	4,100,155	3,916,381
Changes in benefit terms			(17,098,878)			
Differences between expected and actual experience			(11,594,216)		(3,161,213)	
Changes of assumptions	(1,263,847)	(113,934)	(1,624,371)	(5,621,298)	4,971,305	
Benefit payments	(3,325,081)	(2,994,247)	(3,183,858)	(3,122,284)	(3,221,642)	(3,382,910)
Net change in total OPEB liability	2,591,535	4,403,390	(25,615,619)	(3,203,931)	4,192,522	2,611,455
Total OPEB liability - beginning	80,926,571	83,518,106	87,921,496	62,305,877	59,101,946	63,294,468
Total OPEB liability - ending (a)	\$83,518,106	\$87,921,496	\$62,305,877	\$59,101,946	\$63,294,468	\$65,905,923
Plan fiduciary net position						
Contributions - employer	\$4,959,756	\$4,803,893	\$4,651,743	\$4,528,174	\$1,743,593	\$1,757,265
Contributions - employee						
Net investment income	3,708,342	3,175,844	2,834,217	1,745,028	14,164,474	(8,452,324)
Administrative expense	(18,732)	(21,490)	(9,742)	(24,292)	(19,480)	(16,234)
Benefit payments	(3,325,081)	(2,994,247)	(3,183,858)	(3,122,284)	(3,221,642)	(3,382,910)
Other Expenses		(51,721)				
Net change in plan fiduciary net position	5,324,285	4,912,279	4,292,360	3,126,626	12,666,945	(10,094,203)
Plan fiduciary net position - beginning	33,780,048	39,104,333	44,016,612	48,308,972	51,435,598	64,102,543
Plan fiduciary net position - ending (b)	\$39,104,333	\$44,016,612	\$48,308,972	\$51,435,598	\$64,102,543	\$54,008,340
Net OPEB liability (asset) - ending (a)-(b)	\$44,413,773	\$43,904,884	\$13,996,905	\$7,666,348	(\$808,075)	\$11,897,583
Plan fiduciary net position as a percentage of the total OPEB liability	46.82%	50.06%	77.54%	87.03%	101.28%	81.95%
Covered-employee payroll	\$42,017,236	\$43,375,678	\$48,788,854	\$52,202,907	\$59,134,552	\$59,298,425
Net OPEB liability as a percentage of covered-employee payroll	105.70%	101.22%	28.69%	14.69%	-1.36%	20.06%

* Fiscal year 2018 was the first year of implementation.

City of Milpitas

Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

Agent Multiple-Employer Retiree Medical Benefits (OPEB) Plan
Last 10 fiscal years*

Fiscal Year Ended June 30,	2018			2019			2020		
	Explicit	Implicit	Total	Explicit	Implicit	Total	Explicit	Implicit	Total
Actuarially determined contribution	\$3,387,020	(\$219,104)	\$3,167,916	\$3,492,808	(\$546,593)	\$2,946,215	\$788,831	\$1,545,113	\$2,333,944
Contributions in relation to the actuarially determined contribution	3,387,020	1,416,873	4,803,893	3,492,808	1,158,935	4,651,743	3,478,018	1,050,156	4,528,174
Contribution deficiency (excess)	\$0	(\$1,635,977)	(\$1,635,977)	\$0	(\$1,705,528)	(\$1,705,528)	(\$2,689,187)	\$494,957	(\$2,194,230)
Covered-employee payroll	\$43,375,678	\$43,375,678	\$43,375,678	\$48,788,854	\$48,788,854	\$48,788,854	\$52,202,907	\$52,202,907	\$52,202,907
Contributions as a percentage of covered-employee payroll	7.81%	3.27%	11.08%	7.16%	2.38%	9.53%	6.66%	2.01%	8.67%

Fiscal Year Ended June 30,	2021			2022			2023		
	Explicit	Implicit	Total	Explicit	Implicit	Total	Explicit	Implicit	Total
Actuarially determined contribution	\$655,377	\$1,552,190	\$2,207,567	\$655,377	\$1,611,861	\$2,267,238	\$1,723,519	\$1,232,729	\$2,956,248
Contributions in relation to the actuarially determined contribution	655,377	1,088,216	1,743,593	682,866	1,074,399	1,757,265	1,034,478	1,232,729	2,267,207
Contribution deficiency (excess)	\$0	\$463,974	\$463,974	(\$27,489)	\$537,462	\$509,973	\$689,041	\$0	\$689,041
Covered-employee payroll	\$59,134,552	\$59,134,552	\$59,134,552	\$59,298,425	\$59,298,425	\$59,298,425	\$59,298,425	\$59,298,425	\$59,298,425
Contributions as a percentage of covered-employee payroll	1.11%	1.84%	2.95%	1.15%	1.81%	2.96%	1.74%	2.08%	3.82%

Notes to Schedule

Valuation date:

Methods and assumptions used to determine contribution rates:

Valuation Date	June 30, 2022
Actuarial Assumptions:	
Discount Rate	6.15%
Inflation	2.50%
Salary Increase	3.00%
Investment Rate of Return	6.15%
Mortality Rate	MacLeod Watts Scale of 2022 applied generationally
Healthcare Trend Rate	5.8% grading down to 3.9% for years 2076 and thereafter

* Fiscal year 2018 was the first year of implementation.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
Dependent Fund (OPEB) Plan
Last 10 fiscal years*

Measurement Date	6/30/2019	6/30/20	6/30/21	6/30/22
Total OPEB Liability				
Service Cost		\$1,139,508	\$1,402,597	\$1,767,339
Interest		905,377	810,987	687,094
Changes in benefit terms	\$28,504,872			
Differences between expected and actual experience			(1,465,027)	
Changes of assumptions		3,100,405	2,591,371	(7,639,426)
Benefit payments		(1,437,201)	(1,028,064)	(1,012,052)
Net change in total OPEB liability	28,504,872	3,708,089	2,311,864	(6,197,045)
Total OPEB liability - beginning		28,504,872	32,212,961	34,524,825
Total OPEB liability - ending (a)	<u>\$28,504,872</u>	<u>\$32,212,961</u>	<u>\$34,524,825</u>	<u>\$28,327,780</u>
Plan fiduciary net position				
Contributions - employer		\$1,437,201		\$1,012,052
Contributions - employee				
Net investment income				
Administrative expense				
Benefit payments		(1,437,201)		(1,012,052)
Other Expenses				
Net change in plan fiduciary net position	-	-	-	-
Plan fiduciary net position - beginning				
Plan fiduciary net position - ending (b)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Net OPEB liability - ending (a)-(b)	<u>\$28,504,872</u>	<u>\$32,212,961</u>	<u>\$34,524,825</u>	<u>\$28,327,780</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%
Covered-employee payroll	<u>\$48,788,854</u>	<u>\$52,202,907</u>	<u>\$59,134,552</u>	<u>\$59,298,425</u>
Net OPEB liability as a percentage of covered-employee payroll	<u>58.42%</u>	<u>61.71%</u>	<u>58.38%</u>	<u>47.77%</u>

*The liability of this Plan had been previously included together with other City plan OPEB Liabilities.
Beginning with fiscal year 2020, the City began to report the liability of this plan separately.
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

Dependent Fund (OPEB) Plan

Last 10 fiscal years*

Fiscal Year Ended June 30,	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
	<u>Explicit</u>	<u>Explicit</u>	<u>Explicit</u>	<u>Explicit</u>
Actuarially required contribution	N/A (a)	N/A (a)	N/A (a)	N/A (a)
Contributions in relation to the actuarially required contributions	<u>\$1,028,064</u>	<u>\$0</u>	<u>\$1,012,052</u>	<u>\$0</u>
Contribution deficiency (excess)	<u>N/A (a)</u>	<u>N/A (a)</u>	<u>N/A (a)</u>	<u>N/A (a)</u>
Covered-employee payroll	<u>\$48,788,854</u>	<u>\$52,202,907</u>	<u>\$59,298,425</u>	<u>\$59,298,425</u>
Contributions as a percentage of covered-employee payroll	N/A (a)	N/A (a)	N/A (a)	N/A (a)

*No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

(a) Due to the nature of the Plan, actuarially required contribution is not available.

See Note 12D for contribution requirements.



City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan

Last 10 Years*

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

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

Changes in assumptions. In 2022, the accounting discount rate reduced from 7.15% to 6.90%. In 2016, 2018, 2019, 2020 and 2021, there were no changes. In 2022, the accounting discount rate reduced from 7.15% to 6.90%. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.5% discount rate.

* Fiscal year 2015 was the first year of implementation.

City of Milpitas

Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

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

Measurement Period	2017-18	2018-19	2019-20	2021-22	2022-23
Total Pension Liability					
Service Cost	\$3,042,853	\$3,361,140	\$3,777,335	\$4,262,309	\$4,859,903
Interest	15,647,110	16,517,342	17,295,222	18,046,275	18,711,899
Differences between expected and actual experience	1,831,444	4,569,776	2,592,349	1,466,976	1,596,580
Changes in assumptions	(1,404,854)				8,099,828
Changes in benefits					
Benefit payments, including refunds of employee contributions	(10,906,398)	(11,589,225)	(12,009,750)	(12,545,846)	(14,478,741)
Net change in total pension liability	8,210,155	12,859,033	11,655,156	11,229,714	18,789,469
Total pension liability - beginning	222,345,892	230,556,047	243,415,080	255,070,236	266,299,950
Total pension liability - ending (a)	\$230,556,047	\$243,415,080	\$255,070,236	\$266,299,950	\$285,089,419
Plan fiduciary net position					
Contributions - employer	\$5,762,448	\$6,864,376	\$7,965,270	\$8,925,250	\$9,800,794
Contributions - employee	1,473,732	1,569,027	1,772,996	1,998,174	1,861,769
Net investment income	13,123,448	10,774,536	8,527,794	40,453,566	(16,338,954)
Administrative expense	(241,795)	(116,977)	(241,663)	(177,248)	(134,612)
Benefit payments, including refunds of employee contributions	(10,906,398)	(11,589,225)	(12,009,750)	(12,545,846)	(14,478,741)
Other Miscellaneous Income/Expense	(459,172)	381			
Net Plan to Plan Resource Movement	(381)				
Net change in plan fiduciary net position	8,751,882	7,502,118	6,014,647	38,653,896	(19,289,744)
Plan fiduciary net position - beginning	155,168,033	163,919,915	171,422,033	177,436,680	216,090,576
Plan fiduciary net position - ending (b)	\$163,919,915	\$171,422,033	\$177,436,680	\$216,090,576	\$196,800,832
Net pension liability - ending (a)-(b)	\$66,636,132	\$71,993,047	\$77,633,556	\$50,209,374	\$88,288,587
Plan fiduciary net position as a percentage of the total pension liability	71.10%	70.42%	69.56%	81.15%	69.03%
Covered payroll	\$18,846,066	\$22,079,190	\$19,463,309	\$25,754,131	\$27,165,471
Net pension liability as percentage of covered payroll	353.58%	326.07%	398.87%	194.96%	325.00%

* Fiscal year 2015 was the first year of implementation.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

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

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	\$3,252,668	\$4,236,931	\$5,082,638	\$6,243,904
Contributions in relation to the actuarially determined contributions	3,252,668	4,236,931	5,082,638	6,243,904
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$16,009,660	\$16,161,589	\$16,418,123	\$18,846,066
Contributions as a percentage of covered payroll	20.32%	26.22%	30.96%	33.13%
Notes to Schedule				
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015
Methods and assumptions used to determine contribution rates:				
Actuarial cost method	Entry Age Actuarial Cost Method			
Amortization method	Level percentage of payroll			
Asset valuation method	Fair Value of Assets.			
Inflation	2.75% for 2015 to 2019, 2.625% for 2020, 2.50% for 2021 and 2022, and 2.30% for 2023			
Salary increases	Varies by Entry Age and Service			
Investment rate of return	7.5% for 2015 to 2018, 7.375% for 2019, 7.25% for 2020, 7.00% for 2021 and 2022, and 6.80% for 2023, net of administrative expenses, including inflation.			
Retirement age	The probabilities of Retirement are base on the CalPERS Experience Study.			
Mortality	The probabilities of mortality are based on the CalPERS Experience Study. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Society of Actuaries for 2015 to 2018. For 2019, 2020, 2021 and 2022, pre-retirement and post-retirement mortality rates include 15 years of projected mortality using 90% of Scale MP-2016 published by the Society of Actuaries. For 2023, pre-retirement and post-retirement mortality rates include generational mortality using 80% of Scale MP-2020 published by the Society of Actuaries.			

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

2019	2020	2021	2022	2023
\$6,863,508	\$8,337,504	\$8,916,157	\$9,799,723	\$9,421,792
6,863,508	8,337,504	8,916,157	9,799,723	9,421,792
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$22,079,190	\$19,463,309	\$21,793,252	\$25,754,131	\$27,165,471
31.09%	42.84%	40.91%	38.05%	34.68%
6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2021

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Safety Plan - Agent Multiple-Employer Defined Pension Plan

Last 10 Years*

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

Notes to Schedule:

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

Changes in assumptions. In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016, 2018, 2019, 2020 and 2021, there were no changes. In 2022, the accounting discount rate reduced from 7.15% to 6.90%. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.5% discount rate.

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

2017-18	2018-19	2019-20	2021-22	2022-23
\$5,975,378	\$6,211,449	\$6,711,730	\$7,266,789	\$7,801,769
23,331,989	24,560,414	25,568,359	26,671,979	27,775,910
626,935	4,563,968	981,131	2,106,663	1,878,012
(986,630)				14,433,785
(16,083,729)	(17,533,455)	(18,278,539)	(20,179,552)	(21,827,081)
12,863,943	17,802,376	14,982,681	15,865,879	30,062,395
331,735,390	344,599,333	362,401,709	377,384,390	393,250,269
\$344,599,333	\$362,401,709	\$377,384,390	\$393,250,269	\$423,312,664
\$8,866,550	\$10,288,856	\$12,104,306	\$13,294,083	\$14,258,505
2,240,962	2,441,763	2,748,961	2,834,054	2,853,307
17,931,642	14,733,700	11,689,024	55,066,837	(22,163,861)
(330,577)	(159,951)	(329,757)	(241,588)	(182,284)
(521)				
(627,771)	521			
(16,083,729)	(17,533,455)	(18,278,539)	(20,179,552)	(21,827,081)
11,996,556	9,771,434	7,933,995	50,773,834	(27,061,414)
212,142,828	224,139,384	233,910,818	241,844,813	292,618,647
\$224,139,384	\$233,910,818	\$241,844,813	\$292,618,647	\$265,557,233
\$120,459,949	\$128,490,891	\$135,539,577	\$100,631,622	\$157,755,431
65.04%	64.54%	64.08%	74.41%	62.73%
\$20,840,464	\$21,681,207	\$23,703,982	\$26,167,767	\$26,110,338
578.01%	592.64%	571.80%	384.56%	604.19%

City of Milpitas
Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

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

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	\$5,856,270	\$7,230,399	\$7,887,539	\$8,866,550
Contributions in relation to the actuarially determined contributions	5,904,019	7,346,983	7,887,539	8,866,550
Contribution deficiency (excess)	<u>(\$47,749)</u>	<u>(\$116,584)</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$18,810,920	\$20,170,400	\$21,078,669	\$21,698,152
Contributions as a percentage of covered payroll	31.39%	36.42%	37.42%	40.86%
Notes to Schedule				
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percentage of payroll
Asset valuation method	Fair Value of Assets.
Inflation	2.75% for 2015 to 2019, 2.625% for 2020, 2.50% for 2021 and 2022, and 2.30% for 2023
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.5% for 2015 to 2018, 7.375% for 2019, 7.25% for 2020, 7.00% for 2021 and 2022, and 6.80% for 2023, net of administrative expenses, including inflation.
Retirement age	The probabilities of Retirement are base on the CalPERS Experience Study.
Mortality	The probabilities of mortality are based on the CalPERS Experience Study. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Society of Actuaries for 2015 to 2018. For 2019, 2020, 2021 and 2022, pre-retirement and post-retirement mortality rates include 15 years of projected mortality using 90% of Scale MP-2016 published by the Society of Actuaries. For 2023, pre-retirement and post-retirement mortality rates include generational mortality using 80% of Scale MP-2020 published by the Society of Actuaries.

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

City of Milpitas
Required Supplementary Information

2019	2020	2021	2022	2023
\$10,288,856	\$12,104,306	\$13,294,083	\$14,258,505	\$15,469,857
10,288,856	12,104,306	13,294,083	14,258,505	15,469,857
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$20,840,464	\$21,681,207	\$23,707,982	\$26,167,767	\$26,110,338
49.37%	55.83%	56.07%	54.49%	59.25%
6/30/2016	6/30/2017	6/30/2018	6/30/2018	6/30/2021



NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

GAS TAX FUND

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

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and expenditures.

LAW ENFORCEMENT SERVICES FUND

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

SOLID WASTE REDUCTION AND SERVICES FUND

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

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND

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

COMMUNITY FACILITIES DISTRICT FUND

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

HETCH-HETCHY GROUND LEASE FUND

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

COMMUNITY PLANNING FUND

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

COMMUNITY BENEFITS FUND

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

AFFORDABLE HOUSING FUND

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

AFFORDABLE HOUSING UNRESTRICTED FUND

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

CAPITAL PROJECTS FUNDS:

PUBLIC ART FUND

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

PARK IMPROVEMENT FUND

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

STORM DRAIN DEVELOPMENT FUND

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





CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2023

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Community Facilities District
ASSETS						
Cash and investments available for operations	\$7,892,463	\$588,802	\$751,388	\$2,188,999	\$348,456	\$2,073,382
Receivables:						
Accounts				217,669		
Due from other governments	501,212	187,005	15,740			64,659
Interest	19,534		90	5,880	936	11,698
Loans receivable		3,234,883				
Prepays, materials, supplies and deposits			2,440	3,486	2,509	16,298
Total Assets	<u>\$8,413,209</u>	<u>\$4,010,690</u>	<u>\$769,658</u>	<u>\$2,416,034</u>	<u>\$351,901</u>	<u>\$2,166,037</u>
LIABILITIES						
Accounts payable		\$184,414	\$29,096	\$15,578	\$2,497	\$3,759
Accrued payroll			748	23,135	5,763	43,452
Unearned revenue			622,935	71,287		
Refundable deposits				18,843		
Total Liabilities		<u>184,414</u>	<u>652,779</u>	<u>128,843</u>	<u>8,260</u>	<u>47,211</u>
FUND BALANCE						
Fund Balances:						
Nonspendable			2,440	3,486	2,509	16,298
Restricted	\$8,413,209	3,826,276	114,439	2,283,705	341,132	2,102,528
Assigned						
Total Fund Balances	<u>8,413,209</u>	<u>3,826,276</u>	<u>116,879</u>	<u>2,287,191</u>	<u>343,641</u>	<u>2,118,826</u>
Total Liabilities and Fund Balances	<u>\$8,413,209</u>	<u>\$4,010,690</u>	<u>\$769,658</u>	<u>\$2,416,034</u>	<u>\$351,901</u>	<u>\$2,166,037</u>

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Affordable Housing	Affordable Housing Unrestricted	Public Art	Park Improvement	Storm Drain Development	
\$1,461,329	\$326,441	\$422,822	\$5,080,213	\$3,159,096	\$1,012,942	\$5,000,726	\$6,503,153	\$36,810,212
			13,500			779,820		217,669
7,536	3,273		24,702	10,946	5,406	42,974	26,210	1,561,936
								159,185
	2,176		2,871		4			3,234,883
								29,784
<u>\$1,468,865</u>	<u>\$331,890</u>	<u>\$422,822</u>	<u>\$5,121,286</u>	<u>\$3,170,042</u>	<u>\$1,018,352</u>	<u>\$5,823,520</u>	<u>\$6,529,363</u>	<u>\$42,013,669</u>
			\$3,323			\$372,333	\$102,303	\$713,303
	\$11,251		25,369		\$677	160		110,555
								694,222
	16							18,859
	<u>11,267</u>		<u>28,692</u>		<u>677</u>	<u>372,493</u>	<u>102,303</u>	<u>1,536,939</u>
	2,176		2,871		4			29,784
\$1,468,865	318,447	\$422,822	5,089,723	\$3,170,042		5,451,027	6,427,060	39,429,275
					<u>1,017,671</u>			<u>1,017,671</u>
<u>1,468,865</u>	<u>320,623</u>	<u>422,822</u>	<u>5,092,594</u>	<u>3,170,042</u>	<u>1,017,675</u>	<u>5,451,027</u>	<u>6,427,060</u>	<u>40,476,730</u>
<u>\$1,468,865</u>	<u>\$331,890</u>	<u>\$422,822</u>	<u>\$5,121,286</u>	<u>\$3,170,042</u>	<u>\$1,018,352</u>	<u>\$5,823,520</u>	<u>\$6,529,363</u>	<u>\$42,013,669</u>

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2023

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Community Facilities District
REVENUES:						
Other taxes					\$457,525	\$4,651,788
Licenses and fines				\$1,850,693		
Use of money and property	\$75,734	\$8,971	\$8,916	\$16,158	11,145	30,962
Intergovernmental	3,888,101	581,154	259,641	194,142		
Charges for services				20,172		
Developer contributions						
Other						
Total Revenues	3,963,835	590,125	268,557	2,081,165	468,670	4,682,750
EXPENDITURES:						
Current:						
General Government		581,154				11,155
Building, Safety and Housing						
Recreation and Community Services			4,611			
Public Works				681,960	256,019	1,776,047
Engineering				200	90,338	
Planning						
Police			222,548			
Fire			38,887			
Capital outlay						
Total Expenditures		581,154	266,046	682,160	346,357	1,787,202
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,963,835	8,971	2,511	1,399,005	122,313	2,895,548
OTHER FINANCING SOURCES (USES)						
Transfers in	2,711,393				41,866	
Transfers (out)	(2,686,713)			(157,997)	(11,000)	(2,929,042)
Total Other Financing Sources (Uses)	24,680			(157,997)	30,866	(2,929,042)
NET CHANGE IN FUND BALANCES	3,988,515	8,971	2,511	1,241,008	153,179	(33,494)
Fund balances at beginning of year	4,424,694	3,817,305	114,368	1,046,183	190,462	2,152,320
FUND BALANCES AT END OF YEAR	\$8,413,209	\$3,826,276	\$116,879	\$2,287,191	\$343,641	\$2,118,826

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Affordable Housing	Affordable Housing Unrestricted	Public Art	Park Improvement	Storm Drain Development	
								\$5,109,313
\$18,288	\$6,215	\$4,386	\$72,184	\$33,758	\$14,769	\$223,200	\$68,102	1,850,693
			51,555			438,647		592,788
	302,712							5,413,240
		60,000	786,631			655,993	164,259	322,884
					80,576			1,666,883
								80,576
18,288	308,927	64,386	910,370	33,758	95,345	1,317,840	232,361	15,036,377
35,789		6,110	95,893	118,138				848,239
			792,844					792,844
					1,457			6,068
								2,714,026
	329,185		37,290					90,538
								366,475
								222,548
								38,887
						2,928,303	1,441,653	4,369,956
35,789	329,185	6,110	926,027	118,138	1,457	2,928,303	1,441,653	9,449,581
(17,501)	(20,258)	58,276	(15,657)	(84,380)	93,888	(1,610,463)	(1,209,292)	5,586,796
	235,485			710,248			1,620,497	5,319,489
	(200,000)				(142,500)	(1,286,119)	(3,844)	(7,417,215)
	35,485			710,248	(142,500)	(1,286,119)	1,616,653	(2,097,726)
(17,501)	15,227	58,276	(15,657)	625,868	(48,612)	(2,896,582)	407,361	3,489,070
1,486,366	305,396	364,546	5,108,251	2,544,174	1,066,287	8,347,609	6,019,699	36,987,660
\$1,468,865	\$320,623	\$422,822	\$5,092,594	\$3,170,042	\$1,017,675	\$5,451,027	\$6,427,060	\$40,476,730

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2023

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Licenses and fines						
Use of money and property	\$42,674	\$75,734	\$33,060	\$10,952	\$8,971	(\$1,981)
Intergovernmental	3,917,532	3,888,101	(29,431)	686,922	581,154	(105,768)
Charges for services						
Developer contributions						
Total Revenues	<u>3,960,206</u>	<u>3,963,835</u>	<u>3,629</u>	<u>697,874</u>	<u>590,125</u>	<u>(107,749)</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
City Attorney						
Finance					14,578	(14,578)
Non-departmental				1,239,162	566,576	672,586
Building, Safety and Housing						
Recreation and Community Services						
Public Works						
Engineering						
Planning						
Police						
Fire						
Total Expenditures				<u>1,239,162</u>	<u>581,154</u>	<u>658,008</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,960,206</u>	<u>3,963,835</u>	<u>3,629</u>	<u>(541,288)</u>	<u>8,971</u>	<u>550,259</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	848,458	2,711,393	1,862,935			
Transfers (out)	<u>(2,789,041)</u>	<u>(2,686,713)</u>	<u>102,328</u>			
Total Other Financing Sources (Uses)	<u>(1,940,583)</u>	<u>24,680</u>	<u>1,965,263</u>			
NET CHANGE IN FUND BALANCES	<u>\$2,019,623</u>	<u>3,988,515</u>	<u>\$1,968,892</u>	<u>(\$541,288)</u>	<u>8,971</u>	<u>\$550,259</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>4,424,694</u>			<u>3,817,305</u>	
Fund balances at end of year		<u>\$8,413,209</u>			<u>\$3,826,276</u>	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
						\$459,473	\$457,525	(\$1,948)
\$22,415	\$8,916	(\$13,499)	\$400,000	\$1,850,693	\$1,450,693			
391,487	259,641	(131,846)	36,650	16,158	(20,492)	1,878	11,145	9,267
			413,084	194,142	(218,942)			
				20,172	20,172			
413,902	268,557	(145,345)	849,734	2,081,165	1,231,431	461,351	468,670	7,319
	4,611							
			988,542	697,485	291,057	329,499	256,019	73,480
			8,382	200	8,182	109,573	92,736	16,837
777,897	351,397	426,500						
38,887	38,887							
816,784	394,895	426,500	996,924	697,685	299,239	439,072	348,755	90,317
(402,882)	(126,338)	276,544	(147,190)	1,383,480	1,530,670	22,279	119,915	97,636
60,000		(60,000)				41,866	41,866	
			(157,996)	(157,997)	(1)	(11,000)	(11,000)	
60,000		(60,000)	(157,996)	(157,997)	(1)	30,866	30,866	
(\$342,882)	(126,338)	\$216,544	(\$305,186)	1,225,483	\$1,530,669	\$53,145	150,781	\$97,636
	128,849			15,525			2,398	
	114,368			1,046,183			190,462	
	\$116,879			\$2,287,191			\$343,641	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2023

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	\$4,156,571	\$4,651,788	\$495,217			
Use of money and property	52,329	30,962	(21,367)	\$39,539	\$18,288	(\$21,251)
Intergovernmental						
Charges for services						
Developer contributions						
Total Revenues	<u>4,208,900</u>	<u>4,682,750</u>	<u>473,850</u>	<u>39,539</u>	<u>18,288</u>	<u>(21,251)</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
City Attorney						
Finance						
Non-departmental	8,008	11,155	(3,147)	37,500	35,789	1,711
Building, Safety and Housing						
Recreation and Community Services						
Public Works	1,484,556	1,776,047	(291,491)			
Engineering						
Planning						
Police						
Total Expenditures	<u>1,492,564</u>	<u>1,787,202</u>	<u>(294,638)</u>	<u>37,500</u>	<u>35,789</u>	<u>1,711</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,716,336</u>	<u>2,895,548</u>	<u>179,212</u>	<u>2,039</u>	<u>(17,501)</u>	<u>(19,540)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	<u>(2,929,042)</u>	<u>(2,929,042)</u>				
Total Other Financing Sources (Uses)	<u>(2,929,042)</u>	<u>(2,929,042)</u>				
NET CHANGE IN FUND BALANCES	<u>(\$212,706)</u>	<u>(33,494)</u>	<u>\$179,212</u>	<u>\$2,039</u>	<u>(17,501)</u>	<u>(\$19,540)</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>2,152,320</u>			<u>1,486,366</u>	
Fund balances at end of year		<u>\$2,118,826</u>			<u>\$1,468,865</u>	

COMMUNITY PLANNING			COMMUNITY BENEFITS			AFFORDABLE HOUSING		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
\$16,846	\$6,215	(\$10,631)	\$9,414	\$4,386	(\$5,028)	\$129,124	\$72,184	(\$56,940)
254,000	302,712	48,712		60,000	60,000	51,555	51,555	
						\$500,000	786,631	286,631
270,846	308,927	38,081	9,414	64,386	54,972	680,679	910,370	229,691
			50,000	6,110	43,890	\$34,506	33,673	833
						23,211	3,399	19,812
						95,030	58,821	36,209
						1,021,266	792,844	228,422
269,813	329,185	(59,372)					37,290	(37,290)
269,813	329,185	(59,372)	50,000	6,110	43,890	1,174,013	926,027	247,986
1,033	(20,258)	(21,291)	(40,586)	58,276	98,862	(493,334)	(15,657)	477,677
235,485	235,485							
(200,000)	(200,000)							
35,485	35,485							
\$36,518	15,227	(\$21,291)	(\$40,586)	58,276	\$98,862	(\$493,334)	(15,657)	\$477,677
	305,396			364,546			5,108,251	
	\$320,623			\$422,822			\$5,092,594	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2023

	AFFORDABLE HOUSING UNRESTRICTED			PUBLIC ART		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property	\$56,574	\$33,758	(\$22,816)	\$30,944	\$14,769	(\$16,175)
Intergovernmental						
Charges for services					80,576	80,576
Developer contributions						
Total Revenues	<u>56,574</u>	<u>33,758</u>	<u>(22,816)</u>	<u>30,944</u>	<u>95,345</u>	<u>64,401</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
City Attorney						
Finance						
Non-departmental		118,138	(118,138)			
Building, Safety and Housing						
Recreation and Community Services					1,457	(1,457)
Public Works						
Engineering						
Planning						
Police						
Total Expenditures		<u>118,138</u>	<u>(118,138)</u>		<u>1,457</u>	<u>(1,457)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>56,574</u>	<u>(84,380)</u>	<u>(140,954)</u>	<u>30,944</u>	<u>93,888</u>	<u>62,944</u>
OTHER FINANCING SOURCES (USES)						
Transfers in		710,248	710,248			
Transfers (out)				(130,000)	(142,500)	(12,500)
Total Other Financing Sources (Uses)		<u>710,248</u>	<u>710,248</u>	<u>(130,000)</u>	<u>(142,500)</u>	<u>(12,500)</u>
NET CHANGE IN FUND BALANCES	<u>\$56,574</u>	<u>625,868</u>	<u>\$569,294</u>	<u>(\$99,056)</u>	<u>(48,612)</u>	<u>\$50,444</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>2,544,174</u>			<u>1,066,287</u>	
Fund balances at end of year		<u>\$3,170,042</u>			<u>\$1,017,675</u>	

TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
\$4,616,044	\$5,109,313	\$493,269
400,000	1,850,693	1,450,693
449,339	301,486	(147,853)
5,460,580	4,974,593	(485,987)
254,000	322,884	68,884
500,000	927,207	427,207
11,679,963	13,486,176	1,806,213

84,506	33,673	50,833
23,211	3,399	19,812
	14,578	(14,578)
1,379,700	790,479	589,221
1,021,266	792,844	228,422
	6,068	(6,068)
2,802,597	2,729,551	73,046
117,955	92,936	25,019
269,813	329,185	(59,372)
777,897	351,397	426,500

6,476,945	5,144,110	1,332,835
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5,203,018	8,342,066	3,139,048
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950,324	3,698,992	2,748,668
(6,217,079)	(6,127,252)	89,827

(5,266,755)	(2,428,260)	2,838,495
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(\$63,737)	5,913,806	\$5,977,543
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146,772
22,620,352
<u>\$28,680,930</u>



INTERNAL SERVICE FUNDS

Internal Service Funds report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its components units, or to other governments, on a cost reimbursement basis. These funds include the following:

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

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

PENSION SECTION 115 INTERNAL SERVICE FUND

The Pension Section 115 Internal Service Fund is used to accumulate funds which may be used to fund either the annual actuarially determined pension contribution amounts, pay down unfunded pension liabilities with CalPERS, or reduce the length of pension cost amortization schedules with CalPERS.



CITY OF MILPITAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2023

	Equipment Management	Pension Section 115	Totals
ASSETS			
Current Assets			
Cash and investments	\$14,267,327	\$32,671,513	\$46,938,840
Interest receivable	60,425		60,425
Total current assets	14,327,752	32,671,513	46,999,265
Noncurrent Assets			
Materials, supplies and deposits	591,117		591,117
Capital assets (net of accumulated depreciation)	8,480,587		8,480,587
Total noncurrent assets	9,071,704		9,071,704
Total Assets	23,399,456	32,671,513	56,070,969
LIABILITIES			
Current Liabilities			
Accounts payable	112,019	8,453	120,472
Interest payable			
Refundable deposit	12		12
Accrued payroll	49,800		49,800
Accrued vacation	121,268		121,268
Sick leave payable	13,820		13,820
Capital lease			
Noncurrent Liabilities			
Accrued vacation	40,772		40,772
Sick leave payable	4,946		4,946
Total Liabilities	342,637	8,453	351,090
NET POSITION			
Invested in capital assets	8,480,587		8,480,587
Restricted for pension expenses		32,663,060	32,663,060
Unrestricted	14,576,232		14,576,232
Total Net Position	\$23,056,819	\$32,663,060	\$55,719,879

CITY OF MILPITAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

	Equipment Management	Pension Section 115	Totals
OPERATING REVENUES			
Charges for services	\$3,552,091		\$3,552,091
Other	65,533	\$1,144,841	1,210,374
Total Operating Revenues	3,617,624	1,144,841	4,762,465
OPERATING EXPENSES			
Personal services	1,538,014		1,538,014
Services and supplies	1,278,271	85,191	1,363,462
Depreciation and amortization	1,213,482		1,213,482
Maintenance and repairs	618,463		618,463
Total Operating Expenses	4,648,230	85,191	4,733,421
Operating Income (Loss)	(1,030,606)	1,059,650	29,044
NONOPERATING REVENUES (EXPENSES)			
Gain on sale of capital assets	12,326		12,326
Interest income(loss)	96,517	1,066,064	1,162,581
Total Nonoperating Revenues (Expenses)	108,843	1,066,064	1,174,907
Income (Loss) Before Contributions and Transfers	(921,763)	2,125,714	1,203,951
Contributions	277,568		277,568
Transfer in	1,365,373		1,365,373
Transfer out	(150,000)		(150,000)
Change in net position	571,178	2,125,714	2,696,892
Net position-beginning	22,485,641	30,537,346	53,022,987
Net position-ending	\$23,056,819	\$32,663,060	\$55,719,879

CITY OF MILPITAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

	Equipment Management	Pension Section 115	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$3,617,863	\$1,144,841	\$4,762,704
Payments to suppliers	(1,858,896)	(76,738)	(1,935,634)
Payments to employees	(1,505,594)		(1,505,594)
Net cash provided by operating activities	253,373	1,068,103	1,321,476
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	1,365,373		1,365,373
Transfers out	(150,000)		(150,000)
Cash Flows from Noncapital Financing Activities	1,215,373		1,215,373
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(75,135)		(75,135)
Proceeds from sale of capital assets	12,326		12,326
Cash Flows from Capital and Related Financing Activities	(62,809)		(62,809)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	61,987	1,066,064	1,128,051
Cash Flows from Investing Activities	61,987	1,066,064	1,128,051
Net increase (decrease) in cash and cash equivalents	1,467,924	2,134,167	3,602,091
Cash and investments at beginning of period	12,799,403	30,537,346	43,336,749
Cash and investments at end of period	\$14,267,327	\$32,671,513	\$46,938,840
NONCASH TRANSACTIONS:			
Contributions and transfers of capital assets, net	\$277,568		\$277,568
Retirement of capital assets, net			
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	(1,030,606)	\$1,059,650	29,044
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,213,482		1,213,482
Change in assets and liabilities:			
Receivables, net	239		239
Materials, supplies and deposits	9,542		9,542
Accounts and other payables	60,716	8,453	69,169
Net cash provided by operating activities	\$253,373	\$1,068,103	\$1,321,476



STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

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

Operating Information

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

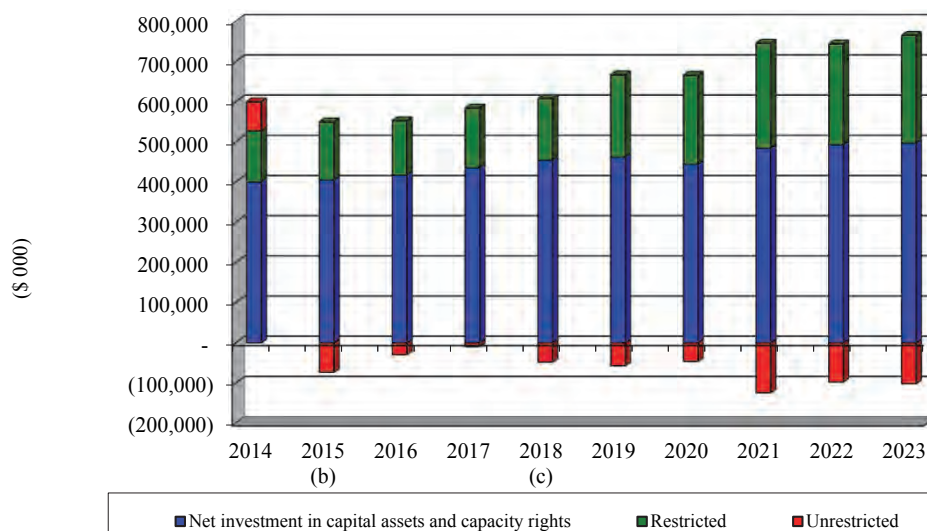
- Authorized Full-Time Equivalent Employees by Function/Program – Schedule 22
- Operating Indicators by Function/Program – Schedule 23
- Capital Asset Statistics by Function/Program – Schedule 24

Sources

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



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



	Fiscal Year Ended June 30,				
	2014	2015 (b)	2016	2017	2018 (c)
Governmental activities					
Net investment in capital assets and capacity rights	\$291,704	\$291,500	\$298,321	\$312,138	\$323,239
Restricted	90,758	103,829	100,327	108,630	109,726
Unrestricted	51,315	(84,598)	(44,368)	(30,091)	(63,405)
Total governmental activities net position	<u>\$433,777</u>	<u>\$310,731</u>	<u>\$354,280</u>	<u>\$390,677</u>	<u>\$369,560</u>
Business-type activities					
Net investment in capital assets and capacity rights	\$107,816	\$113,232	\$118,588	\$122,937	\$130,736
Restricted	37,254	40,867	35,130	40,311	43,834
Unrestricted	20,880	11,586	15,261	20,254	15,784
Total business-type activities net position	<u>\$165,950</u>	<u>\$165,685</u>	<u>\$168,979</u>	<u>\$183,502</u>	<u>\$190,354</u>
Primary government					
Net investment in capital assets and capacity rights	\$399,520	\$404,732	\$416,909	\$435,075	\$453,975
Restricted	128,012	144,696	135,457	148,941	153,560
Unrestricted	72,195	(73,012)	(29,107)	(9,837)	(47,621)
Total primary government net position	<u>\$599,727</u>	<u>\$476,416</u>	<u>\$523,259</u>	<u>\$574,179</u>	<u>\$559,914</u>
	Fiscal Year Ended June 30				
	2019	2020	2021	2022	2023
Governmental activities					
Net investment in capital assets and capacity rights	\$326,564	\$344,471	\$358,445	\$365,009	\$365,509
Restricted	145,983	158,716	189,030	176,451	179,036
Unrestricted	(65,799)	(93,911)	(142,708)	(118,570)	(114,218)
Total governmental activities net position	<u>\$406,748</u>	<u>\$409,276</u>	<u>\$404,767</u>	<u>\$422,890</u>	<u>\$430,327</u>
Business-type activities					
Net investment in capital assets and capacity rights	\$135,048	\$99,331	\$125,206	\$127,204	\$130,978
Restricted	59,191	63,084	72,629	75,083	89,091
Unrestricted	8,930	47,967	18,483	21,208	12,857
Total business-type activities net position	<u>\$203,169</u>	<u>\$210,382</u>	<u>\$216,318</u>	<u>\$223,495</u>	<u>\$232,926</u>
Primary government					
Net investment in capital assets and capacity rights	\$461,612	\$443,802	\$483,651	\$492,213	\$496,487
Restricted	205,174	221,800	261,659	251,534	268,127
Unrestricted	(56,869)	(45,944)	(124,225)	(97,362)	(101,361)
Total primary government net position	<u>\$609,917</u>	<u>\$619,658</u>	<u>\$621,085</u>	<u>\$646,385</u>	<u>\$663,253</u>

- (a) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term “net assets” with the term “net position”
- (b) The City implemented the provisions of GASB Statement 68 in fiscal year 2015 that required the restatement of net position. Amounts prior to 2015 have not been restated.
- (c) The City implemented the provisions of GASB Statement 75 in fiscal year 2018 that required the restatement of net position. Amounts prior to 2018 have not been restated.

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

	Fiscal Year Ended June 30,			
	2014	2015	2016	2017
Expenses				
Governmental activities				
General Government	\$21,074	\$18,118	\$18,614	\$21,174
Building and Safety	2,684	2,617	2,513	3,389
Building, Housing and Safety				
Recreation and Community Services				
Public Works	18,664	17,509	12,761	16,266
Engineering			5,790 (d)	6,249 (d)
Planning and Neighborhood Services	2,119	2,372	2,649 (d)	3,103 (d)
Planning				
Parks and Recreation	3,012	3,098	4,090	4,949
Police	23,373	24,699	24,556	30,270
Fire	15,159	16,301	16,400	20,499
Interest on Long Term Debt	240	67	56	48
Total governmental activities expenses	86,325	84,781	87,429	105,947
Business-type activities				
Water Utility	17,369	18,344	19,743	20,666
Recycled Water Utility	(c)	(c)	(c)	(c)
Sewer Utility	11,008	10,426	10,872	9,969
Total business-type activities expenses	28,377	28,770	30,615	30,635
Total primary government expenses	\$114,702	\$113,551	\$118,044	\$136,582
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	\$1,819	\$1,063	\$2,065	\$1,970
Building and Safety	6,445	5,128	5,963	7,814
Building, Housing and Safety				
Recreation and Community Services				
Public Works	2,472	2,644	(d)	(d)
Engineering			2,863 (d)	2,720 (d)
Planning and Neighborhood Services	432	700	747	292
Planning				
Parks and Recreation	1,958	2,060	1,981	2,301
Police	1,091	1,151	1,138	1,184
Fire	2,120	1,885	2,440	3,224
Operating grants and contributions	6,195	6,201	7,320	7,880
Capital grants and contributions	15,483	14,711	35,195	32,256
Total government activities program revenues	38,015	35,543	59,712	59,641
Business-type activities				
Charges for services:				
Water Utility	21,354	21,136	18,709	26,318
Recycled Water Utility	(c)	(c)	(c)	(c)
Sewer Utility	12,753	14,453	15,964	16,803
Operating grants and contributions	57	127	63	89
Capital grants and contributions	1,402	710	1,103	4,937
Total business-type activities program revenue	35,566	36,426	35,839	48,147
Total primary government program revenues	\$73,581	\$71,969	\$95,551	\$107,788
Net (Expense)/Revenue				
Governmental activities	(\$48,310)	(\$49,238)	(\$27,717)	(\$46,306)
Business-type activities	7,189	7,656	5,224	17,512
Total primary government net expense	(\$41,121)	(\$41,582)	(\$22,493)	(\$28,794)

- (a) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (b) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (c) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (d) Public Works and Engineering are separate departments beginning in fiscal year 2016.
- (e) Neighborhood Services is a component of Building, Housing and Safety, and Planning is a separate department beginning in fiscal year 2019.
- (f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

2018	2019	2020	2021	2022	2023
\$19,111	\$25,281	\$24,050	\$25,247	\$25,213	\$25,711
4,148	(e)	(e)	(e)	(e)	(e)
(e)	5,449	7,418	6,705	4,943	7,940
5,890	7,020	7,095	5,174	6,114	8,410
15,903	20,053	20,342	20,219	22,063	23,657
5,712 (d)	6,459 (d)	7,314 (d)	6,826 (d)	5,047 (d)	6,006 (d)
3,586 (d)	(e)	(e)	(e)	(e)	(e)
	1,851	2,741	2,489	1,851	2,638
33,840	35,868	43,505	38,919	29,468	39,545
24,194	26,535	31,472	31,859	29,040	31,799
	17	37	785	838	565
112,384	128,533	143,974	138,223	124,577	146,271
23,742	25,232	28,750	28,959	26,898	28,070
(c)	(c)	(c)	(c)	(c)	(c)
12,715	12,231	15,240	15,982	15,622	20,226
36,457	37,463	43,990	44,941	42,520	48,296
\$148,841	\$165,996	\$187,964	\$183,164	\$167,097	\$194,567
\$2,088	\$2,347	\$1,809	\$1,710	\$1,931	\$1,400
10,093 (e)		(e)	(e)	(e)	(e)
	9,718	6,621	8,629	8,815	7,815
2,559	2,655	1,145	762	2,360	3,328
(d)	(d)	(d)	(d)	(d)	(d)
2,465 (d)	2,379 (d)	2,132 (d)	1,792 (d)	1,096 (d)	2,960 (d)
418 (e)		(e)	(e)	(e)	(e)
	226	452	408	474	505
1,089	1,130	1,087	1,055	1,421	1,565
3,326	2,172	2,402	2,553	2,582	2,498
6,521	8,277	10,643	14,986	15,335	16,230
34,003	47,194	33,423	18,997	19,924	7,901
62,562	76,098	59,714	50,892	53,938	44,283
29,667	29,355	32,792	34,658	34,374	34,242
(c)	(c)	(c)	(c)	(c)	(c)
17,139	17,830	19,566	20,152	21,593	24,953
124	114	171	125	306	59
2,507	2,755	601	1,434	1,026	2,509
49,437	50,054	53,130	56,369	57,299	61,763
\$111,999	\$126,152	\$112,844	\$107,261	\$111,237	\$106,046
(\$49,822)	(\$52,435)	(\$84,260)	(\$87,331)	(\$70,639)	(\$101,988)
12,980	12,591	9,140	11,428	14,779	13,467
(\$36,842)	(\$39,844)	(\$75,120)	(\$75,903)	(\$55,860)	(\$55,860)

(Continued)

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

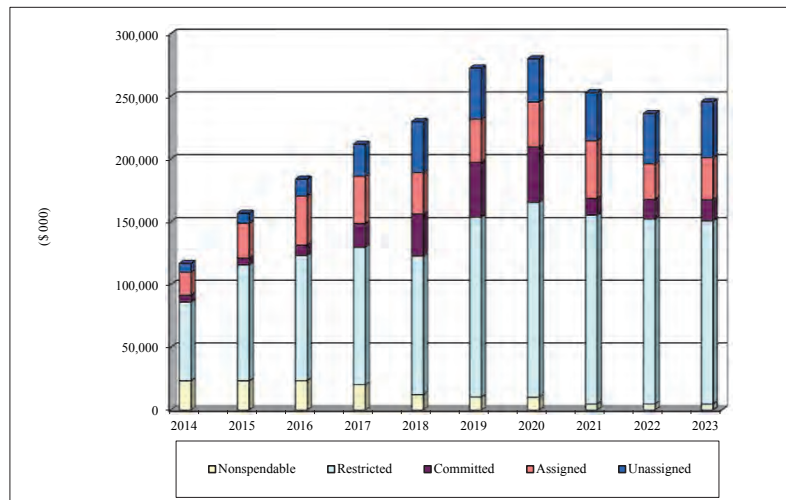
	Fiscal Year Ended June 30,			
	2014	2015	2016	2017
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	\$27,607	\$24,927	\$27,068	\$30,262
Sales and use taxes	19,014	18,779	23,924	25,392
Hotel/Motel taxes	9,336	10,917	11,757	11,858
Other taxes	672	664	822	803
Franchise fees	3,453	3,659	3,841	3,871
Motor vehicle in lieu	31	29	29	34
Investment earnings	844	379	913	118
Gain on sale of capital assets/property				7,324
Miscellaneous	200	333	287	118
Transfers	3,402	1,627	2,625	2,923
Extraordinary item				
Special Item	49,799			
Total governmental activities	64,559	61,314	71,266	82,703
Business-type activities				
Investment earnings	690	383	695	(65)
Transfers	(3,402)	(1,627)	(2,625)	(2,923)
Total business-type activities	(2,712)	(1,244)	(1,930)	(2,988)
Total primary government	\$61,847	\$60,070	\$69,336	\$79,715
Change in net position				
Governmental activities	\$16,249	\$12,076	\$43,549	\$36,397
Business-type activities	4,477	6,412	3,294	14,524
Total primary government	\$20,726	\$18,488	\$46,843	\$50,921

- (a) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term “net assets” with the term “net position.”
- (b) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (c) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (d) Public Works and Engineering are separate departments beginning in fiscal year 2016.
- (e) Neighborhood Services is a component of Building, Housing and Safety, and Planning is a separate department beginning in fiscal year 2019.
- (f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

2018	2019	2020	2021	2022	2023
\$31,893	\$33,811	\$37,684	\$40,979	\$42,646	\$47,100
26,991	27,983	24,173	24,170	33,210	37,344
12,122	14,503	11,377	4,213	8,013	11,190
814	808	836	791	1,070	737
4,678	5,127	5,173	5,036	5,188	5,690
39	36	60	57	87	84
301	4,474	2,808	965	(7,560)	1,864
	4	43	28	198	34
186	390	446	503	1,554	765
2,511	2,489	4,187	6,079	4,357	4,616
(12,432) (f)					
67,103	89,625	86,787	82,821	88,763	109,424
171	2,712	2,261	588	(3,246)	580
(2,511)	(2,489)	(4,187)	(6,079)	(4,357)	(4,616)
(2,340)	223	(1,926)	(5,491)	(7,603)	(4,036)
\$64,763	\$89,848	\$84,861	\$77,330	\$81,160	\$105,388
\$17,281	\$37,190	\$2,527	(\$4,510)	\$18,124	\$7,436
10,640	12,814	7,214	5,937	7,176	9,431
\$27,921	\$50,004	\$9,741	\$1,427	\$25,300	\$16,867



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



	Fiscal Year Ended June 30,									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General Fund										
Nonspendable	\$23,279	\$23,265	\$23,387	\$20,209	\$10,043	\$10,234	\$10,189	\$4,783	\$4,866	\$4,924
Restricted	0	0	0	0	0	0	0	0	0	0
Committed	5,433	5,433	8,440	19,026	33,643	43,852	44,082	13,266	15,766	16,972
Assigned	6,658	7,013	9,052	8,067	8,629	5,916	6,118	6,543	6,114	6,921
Unassigned	13,521	13,864	13,410	25,440	40,496	40,655	34,387	38,128	40,038	44,685
Total General Fund	<u>\$48,891</u>	<u>\$49,575</u>	<u>\$54,289</u>	<u>\$72,742</u>	<u>\$92,811</u>	<u>\$100,657</u>	<u>\$94,776</u>	<u>\$62,720</u>	<u>\$66,784</u>	<u>\$73,502</u> (a)
All Other Governmental Funds										
Nonspendable	\$32	\$11	\$13	\$15	\$2,229	\$85	\$20	\$28	\$27	\$150
Restricted	62,661	92,347	99,701	109,416	110,418	143,232	155,359	150,544	147,231	145,894
Assigned	11,808	20,806	29,956	29,635	24,284	28,532	29,768	39,508	22,250	26,485
Unassigned	(6,610)	(5,932)	0	0	0	0	0	0	0	0
Total all other governmental funds	<u>\$67,891</u>	<u>\$107,232</u>	<u>\$129,670</u>	<u>\$139,066</u>	<u>\$136,931</u>	<u>\$171,849</u>	<u>\$185,147</u>	<u>\$190,080</u>	<u>\$169,508</u>	<u>\$172,529</u> (a)

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

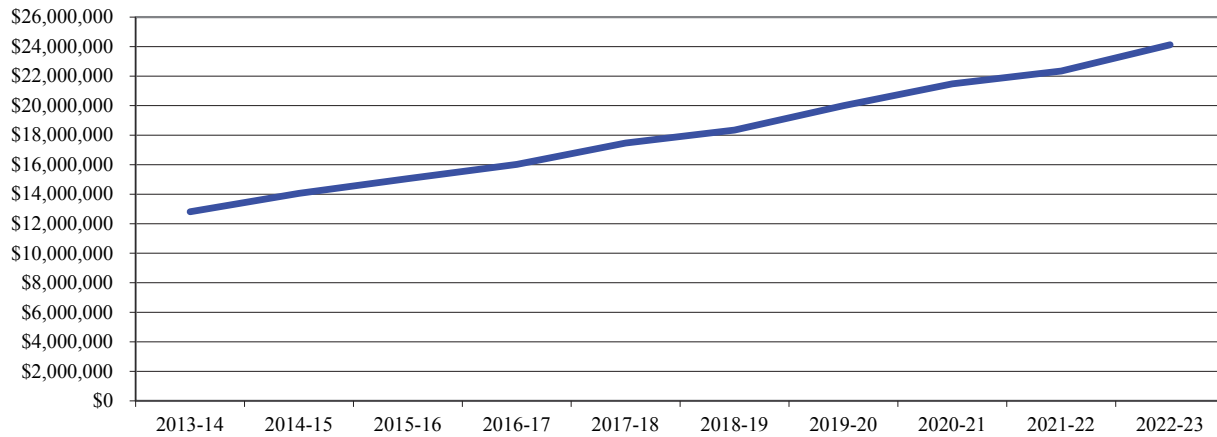
CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2014	2015	2016	2017	2018
Revenues					
Property taxes	\$27,608	\$24,927	\$27,068	\$30,261	\$31,893
Sales taxes	19,766	19,572	24,719	26,214	27,854
Hotel/Motel taxes					
Franchise fees					
Other taxes	14,992	17,505	18,737	19,349	20,429
Licenses and fines	8,193	6,971	8,051	10,497	12,758
Use of money and property	2,964	2,032	3,037	2,180	2,719
Intergovernmental	5,216	5,482	6,104	4,696	6,228
Charges for services	5,735	6,449	7,196	7,238	6,981
Developer contributions	13,975	11,614	29,410	25,637	29,065
Other	1,144	205	113	310	568
Total Revenues	99,593	94,757	124,435	126,382	138,495
Expenditures					
Current:					
General Government	13,204	12,814	13,771	17,089	15,397
Building and Safety	2,658	2,706	2,885	3,148	3,633
Building, Housing and Safety					
Recreation and Community Services					
Human Resources and Recreation	3,124	3,329	(c)	(c)	(c)
Parks and Recreation	(a)	(a)	(a)	(a)	(a)
Public Works	8,535	9,199	6,020	6,839	6,983
Engineering			3,257	3,527	3,103
Planning and Neighborhood Services	2,202	2,570	2,805	2,978	3,153
Planning					
Police	22,165	24,193	26,124	27,247	27,880
Fire	14,587	15,605	17,470	18,456	21,034
Capital outlay	10,035	14,376	24,811	26,151	27,243
Debt service:					
Principal	3,828	6,000			
Interest and fees	223	61	54	48	69
Total Expenditures	80,561	90,853	100,580	109,359	112,992
Excess (deficiency) of revenues over (under) expenditures	19,032	3,904	23,855	17,023	25,503
Other Financing Sources (Uses)					
Proceeds from debt issuance					
Payments to refunded debt escrow agent					
Proceeds/gain from sale of properties	6	4	160	7,324	
Loss from sale/conveyance of property					(12,437)
Transfers in	7,499	25,558	23,001	18,405	19,505
Transfers (out)	(4,098)	(19,305)	(19,864)	(14,903)	(14,637)
Total other financing sources (uses)	3,407	6,257	3,297	10,826	(7,569)
Extraordinary Items					
Assets transferred to Housing Successor					
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor					
Special Item					
Assets transferred to/from Successor Agency and County	-27,261	(b)			
Net Change in fund balances	<u>\$22,439</u>	<u>\$10,161</u>	<u>\$27,152</u>	<u>\$27,849</u>	<u>\$17,934</u>
Debt service as a percentage of noncapital expenditures	5.5%	7.4%	0.1%	0.1%	0.1%

- (a) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department. However starting in fiscal year 2016, the recreation was separated out from Human Resources as an individual department
- (b) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.
- (c) Human Resources is a component of General Government and Recreation is a separate department beginning in fiscal year 2016.
- (d) Neighborhood Services is a component of Building, Housing and Safety, and Planning is a separate department beginning in fiscal year 2019.
- (e) Transient occupancy taxes and Franchise fees were reported separately from Other taxes beginning in fiscal year 2020.

Fiscal Year Ended June 30,				
2019	2020	2021	2022	2023
\$33,811	\$37,799	\$41,093	\$42,759	\$47,210
28,890	25,058	25,114	34,364	38,476
	11,377 (e)	4,213 (e)	8,012 (e)	11,189 (e)
	5,173 (e)	5,036 (e)	5,188 (e)	5,690 (e)
23,386	4,632 (e)	4,889 (e)	5,940 (e)	6,154 (e)
11,757	9,039	10,993	11,287	10,147
8,452	8,092	1,505	(5,980)	3,432
6,019	9,089	12,576	15,403	16,062
6,969	5,228	4,816	6,114	6,908
41,153	24,684	15,880	9,331	2,399
926	983	642	621	935
161,363	141,154	126,757	133,039	148,602
21,352	19,146	22,902	24,657	22,390
(d)	(d)	(d)		
5,038	5,784	6,088	5,853	7,635
5,144	5,227	3,662	5,041	6,640
(c)	(c)	(c)		
(a)	(a)	(a)		
8,151	9,588	10,671	10,850	12,053
3,201	3,559	3,846	3,474	3,539
(d)	(d)	(d)		
1,648	2,116	2,293	2,142	2,484
30,389	34,301	34,803	35,023	37,656
23,225	26,416	28,200	29,483	29,227
23,435	32,106	33,648	33,828	21,196
199	728		275	748
104	155	449	737	740
121,886	139,126	146,562	151,363	144,308
39,477	2,028	(19,805)	(18,324)	4,294
952		21,919		
1		3	118	65
(152)				
37,936	27,164	21,486	16,902	23,531
(35,449)	(21,777)	(50,724)	(13,225)	(20,131)
3,288	5,387	(7,316)	3,795	3,465
\$42,765	\$7,415	(\$27,121)	(\$14,529)	\$7,759
0.3%	0.7%	0.3%	0.7%	0.7%

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



Fiscal Year	Real Property				Unsecured	Less: Tax-Exempt Property (c)	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other (c)				
2013-14	\$6,793,845	\$1,388,236	\$2,622,328	\$540,230	\$1,764,760	(\$296,041)	\$12,813,358	1%
2014-15	7,728,283	1,427,474	2,628,858	654,879	1,887,428	(266,136)	14,060,786	1%
2015-16	8,629,667	1,445,665	2,788,984	649,712	1,844,591	(299,860)	15,058,759	1%
2016-17	9,386,926	1,493,922	3,248,012	675,017	1,529,223	(314,291)	16,018,809	1%
2017-18	10,143,815	1,581,140	3,563,327	782,718	1,710,357	(315,999)	17,465,358	1%
2018-19	10,997,080	1,619,668	3,504,633	790,143	1,761,094	(328,719)	18,343,899	1%
2019-20	12,311,913	1,684,889	3,752,681	665,325	1,917,745	(333,527)	19,999,026	1%
2020-21	13,398,580	1,792,792	4,048,447	534,924	1,890,212	(186,858)	21,478,097	1%
2021-22	14,045,849	1,861,634	4,231,585	463,153	1,922,357	(178,163)	22,346,415	1%
2022-23	15,166,680	1,890,500	4,568,761	496,705	2,196,227	(193,979)	24,124,894	1%

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

Notes:

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

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

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara (c)	School Districts	Special Districts
2013-14	1.00	1.00	0.0437	0.0961	0.0070
2014-15	1.00	1.00	0.0503	0.0750	0.0065
2015-16	1.00	1.00	0.0503	0.0817	0.0057
2016-17	1.00	1.00	0.0498	0.0734	0.0086
2017-18	1.00	1.00	0.0621	0.0880	0.0062
2018-19	1.00	1.00	0.0589	0.0850	0.0042
2019-20	1.00	1.00	0.0581	0.1245	0.0410
2020-21	1.00	1.00	0.0412	0.1255	0.0037
2021-22	1.00	1.00	0.0412	0.1210	0.0051
2022-23	1.00	1.00	0.0412	0.1172	0.0044

Source: County of Santa Clara, Tax Rates & Information

Notes:

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

CITY OF MILPITAS
PRINCIPAL PROPERTY TAX PAYERS
FISCAL YEARS 2022-23 and 2013-14

Taxpayer	2022-2023			2013-2014		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cisco Systems Inc.	\$826,020,918	1	3.42%	\$987,389,413	1	7.71%
KLA Tencor Corporation	612,263,450	2	2.54%	249,599,168	3	1.95%
Headway Technologies Inc	525,346,522	3	2.18%	114,307,730	7	0.89%
Milpitas-District 1 Owner LLC	452,824,710	4	1.88%			
Milpitas Mills LP	352,602,886	5	1.46%	302,422,174	2	2.36%
Sanbox Expansion LLC	249,318,497	6	1.03%	89,250,000	9	0.70%
Anton Milpitas	236,590,987	7	0.98%			
Western Digital Technologies Inc	224,214,039	8	0.93%			
McCarthy Center Holding LLC	203,531,025	9	0.84%			
Amalfi Milpitas LLC	176,047,464	10	0.73%			
California Diversified LLC				153,500,000	4	1.20%
Linear Technology Corporation				132,393,688	5	1.03%
BRE Milpitas LLC				121,141,738	6	0.95%
Silicon Valley California I LLC				106,048,587	8	0.83%
Fairfield Murphy RD LLC				83,610,070	10	0.65%
Subtotal	<u>\$3,858,760,498</u>		<u>15.99%</u>	<u>\$2,339,662,568</u>		<u>18.26%</u>
Fiscal Year 2022-2023 Total Net Assessed Valuation			\$24,124,894,000			
Fiscal Year 2013-2014 Total Net Assessed Valuation			\$12,813,358,000			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2022/23 Combined Tax Rolls

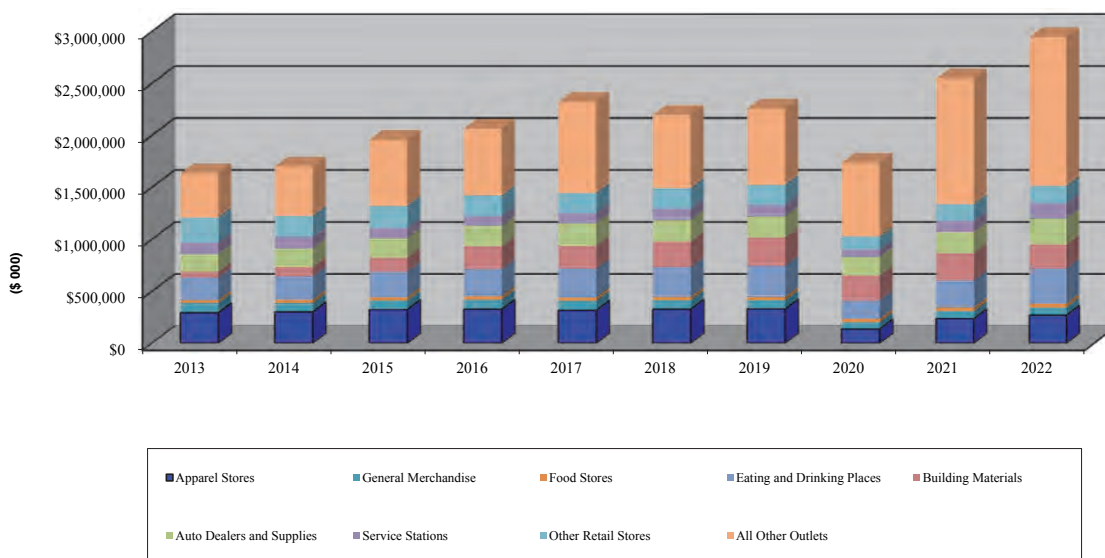
CITY OF MILPITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollars in thousands)

<u>Fiscal Year</u>	<u>Taxes Levied (a)</u>	<u>Current Collections (a)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Taxes Collected (a)</u>	<u>Percent of Levy</u>
2013-14	27,608	27,608	100.00%	0	27,608	100.00%
2014-15	24,927	24,927	100.00%	0	24,927	100.00%
2015-16	27,068	27,068	100.00%	0	27,068	100.00%
2016-17	30,262	30,262	100.00%	0	30,262	100.00%
2017-18	31,893	31,893	100.00%	0	31,893	100.00%
2018-19	33,811	33,811	100.00%	0	33,811	100.00%
2019-20	37,684	37,684	100.00%	0	37,684	100.00%
2020-21	41,093	41,093	100.00%	0	41,093	100.00%
2021-22	42,759	42,759	100.00%	0	42,759	100.00%
2022-23	47,210	47,210	100.00%	0	47,210	100.00%

(a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

Source: City of Milpitas Comprehensive Financial Annual Report

CITY OF MILPITAS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(Dollars in Thousands)
Adjusted for Economic Data (a)



	CALENDAR YEARS									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Apparel Stores	\$291,569	\$300,449	\$321,992	\$324,754	\$314,471	\$325,502	\$328,545	\$135,733	\$235,718	\$267,979
General Merchandise	93,209	85,048	86,475	92,857	90,725	86,646	83,356	63,773	70,904	73,663
Food Stores	27,962	30,876	32,076	32,093	32,541	31,105	31,622	33,133	35,305	37,683
Eating and Drinking Places	216,040	225,234	246,653	262,560	278,180	285,726	299,484	176,508	260,109	337,908
Building Materials	58,260	90,386	134,128	219,504	217,800	245,999	273,634	241,873	261,114	230,481
Auto Dealers and Supplies	167,073	177,278	186,944	195,626	218,899	208,229	201,342	176,691	204,344	249,917
Service Stations	110,416	115,955	98,981	93,188	97,579	107,423	110,121	72,722	108,410	148,616
Other Retail Stores	241,299	197,600	211,323	198,233	191,621	198,054	192,134	123,956	158,486	163,503
All Other Outlets	427,716	476,482	636,541	645,440	877,058	706,636	734,758	709,740	1,211,268	1,433,583
Total	<u>\$1,633,544</u>	<u>\$1,699,308</u>	<u>\$1,955,113</u>	<u>\$2,064,255</u>	<u>\$2,318,874</u>	<u>\$2,195,320</u>	<u>\$2,254,996</u>	<u>\$1,734,129</u>	<u>\$2,545,658</u>	<u>\$2,943,333</u>

Source: State Board of Equalization, California Department of Taxes and Fees Administration, State Controller's Office, The HdL Companies

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the City's revenue.

(a) Adjusted for Economic Data - reflects adjustments for prior periods taxable sales in the appropriate quarters.

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

Fiscal Year	City Direct Rate	Santa Clara County (b)	State of California
2013-14	1.00	1.50	6.25
2014-15	1.00	1.50	6.25
2015-16	1.00	1.50	6.25
2016-17	1.00	2.00	6.00 (a)
2017-18	1.00	2.00	6.00
2018-19	1.00	2.00	6.00
2019-20	1.00	2.00	6.00
2020-21	1.25	2.00	6.00
2021-22	1.25	2.13	6.00
2022-23	1.25	2.13	6.00

Source: California State Board of Equalization

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

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

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

CITY OF MILPITAS
 PRINCIPAL SALES TAX PAYERS
 FISCAL YEARS 2022-23 and 2013-14
 IN ALPHABETICAL ORDER

Fiscal Year 2022-2023	Fiscal Year 2013-2014
7 Eleven	Best Buy
Arco	Burlington
Autumn Information Systems	Chevron
Best Buy	Chevron
Burlington	Cisco Systems
Cisco Systems	Coach
Coach	Dave & Busters
Consolidated Electrical Distributors	Flextronics
Envision Honda of Milpitas	Gap Outlet
Envision Toyota of Milpitas	Headway Technologies
Eplus Technology	Home Depot
Flextronics	KLA Tencor
Floor & Décor	Kohls
Headway Technologies	Marshalls
Home Depot	Mazak Corporation
Hoya Corporation USA	Milpitas Materials Company
Inspur Systems	Nanometrics
Jacklin Shell	Nike Factory Store
KLA Tencor	One Workplace
KZ Kitchen Cabinet & Stone	Piercey Toyota
Marshalls	Pivot Interiors
Milpitas Materials Company	Shell
Teledyne Lecroy	South Bay Honda
Veeco Process Equipment Inc	USA Gas
Walmart Supercenter	Walmart Supercenter

Source: HDL Coren & Cone

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

Fiscal Year	Governmental Activities			Business-type Activities		Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Lease Revenue Bonds	Purchase Agreement	Capital Lease	Certificates of Participation	Revenue Bonds (d)			
2013-14	\$0	\$6,000	\$274	\$6,910	\$0	\$13,184	0.59%	\$188
2014-15	0	0	186	6,490	0	6,676	0.29%	96
2015-16	0	0	94	6,055	0	6,149	0.26%	81
2016-17	0	0	0	5,605	0	5,605	0.22%	74
2017-18	0	0	0	0	5,363	5,363	0.20%	71
2018-19	0	0	728	0	4,812	5,540	0.19% (b)	73
2019-20	0	0	0	0	59,448	59,448	1.76%	763
2020-21	21,919	0	0	0	57,882	79,801	2.11%	1,056
2021-22	21,470	0	0	0	56,246	77,716	2.11%	961
2022-23	20,826	0	0	0	54,555	75,381	1.76%	930

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

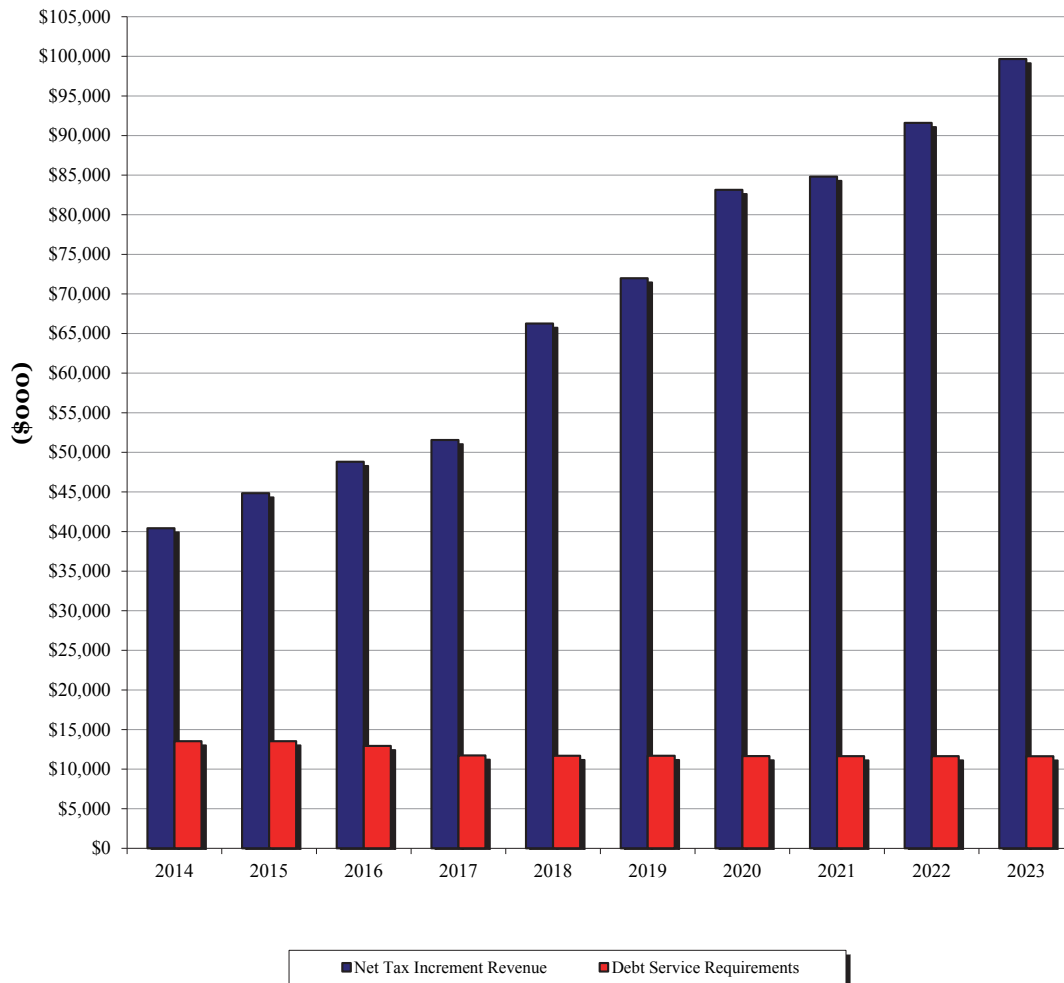
(a) See Schedule 20 for personal income and population data.

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

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

(d) Balance of Revenue Bonds includes unamortized Bond Premium

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



Fiscal Year Ended June 30	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2014	\$40,418,284 (c)	\$0 (b)	\$40,418,284	\$5,825,000 (c)	\$7,713,234 (c)	\$13,538,234	2.99
2015	44,843,881 (c)	0 (b)	44,843,881	6,120,000 (c)	7,414,608 (c)	13,534,608	3.31
2016	48,810,216 (c)	0 (b)	48,810,216	7,375,000 (c)	5,567,028 (c)	12,942,028	3.77
2017	51,563,292 (c)	0 (b)	51,563,292	6,045,000 (c)	5,682,175 (c)	11,727,175	4.40
2018	66,266,187 (c)	0 (b)	66,266,187	6,225,000 (c)	5,467,000 (c)	11,692,000	5.67
2019	71,988,412 (c)	0 (b)	71,988,412	6,475,000 (c)	5,213,000 (c)	11,688,000	6.16
2020	83,139,471	0 (b)	83,139,471	6,735,000 (c)	4,915,125 (c)	11,650,125	7.14
2021	84,805,793	0 (b)	84,805,793	7,070,000 (c)	4,570,000 (c)	11,640,000	7.29
2022	91,606,749	0 (b)	91,606,749	7,425,000 (c)	4,207,625 (c)	11,632,625	7.87
2023	99,657,121	0 (b)	99,657,121	7,800,000 (c)	3,827,000 (c)	11,627,000	8.57

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

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2023

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2022-23 Assessed Valuation, Direct and Overlapping Debt		\$24,124,508,667
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County		\$40,572,641
San Jose- Evergreen Community College District		128,148,445
Milpitas Unified School District		269,361,281
East Side Union High School District		8,357,755
Berryessa Union School District		10,546,251
Santa Clara Valley Water District Benefits Assessment District		1,515,933
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		458,502,306
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations		\$43,662,166
Santa Clara County Pension Obligation Bonds		12,850,040
Santa Clara County Board of Education Certificates of Participation		36,437
San Jose-Evergreen Community College District OPEB Bonds		5,909,390
Milpitas Unified School District General Fund Obligations		9,207,889
East Side Union High School District OPEB Bonds		234,525
Berryessa Union School District General Fund Obligations		150,132
City of Milpitas General Fund Obligations	100%	17,700,000
Santa Clara County Vector District Certifications of Participations		47,933
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		89,798,512
Less: Santa Clara County supported obligations		409,973
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$89,388,539
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	100%	\$72,640,000
TOTAL DIRECT DEBT		\$17,700,000
TOTAL GROSS OVERLAPPING DEBT		\$603,240,818
TOTAL NET OVERLAPPING DEBT		\$602,830,845
GROSS COMBINED TOTAL DEBT		\$620,940,818 (2)
NET COMBINED TOTAL DEBT		\$620,530,845

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

<u>Ratios to 2022-23 Assessed Valuation:</u>	
Total Overlapping Tax and Assessment Debt	1.90%
<u>Ratios to Assessed Valuation:</u>	
Direct Debt %	0.07%
Total Gross Debt %	2.57%

Source: Avenu Insights & Analytics, California Municipal Statistics, Inc.

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

Legal Debt Margin Calculation for Fiscal Year 2022-23

Assessed value (net) - June 30, 2023	<u>\$24,124,508,667</u>	
Debt limit: 3.75% of assessed value (a)		\$904,669,075
Debt applicable to limit		
Total Bonded Debt		
Less: Tax Allocation Bonds		
not subject to limit		
Amount of Debt subject to limit		<u>0</u>
Legal debt margin		<u>\$904,669,075</u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2013-14	\$480,501	\$0	\$480,501	0.0%
2014-15	527,280	0	\$527,280	0.0%
2015-16	564,703	0	\$564,703	0.0%
2016-17	600,705	0	\$600,705	0.0%
2017-18	654,951	0	\$654,951	0.0%
2018-19	687,896	0	\$687,896	0.0%
2019-20	749,963	0	\$749,963	0.0%
2020-21	805,429	0	\$805,429	0.0%
2021-22	837,991	0	\$837,991	0.0%
2022-23	904,669	0	\$904,669	0.0%

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

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

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

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2013-14	\$13,235,908	\$7,834,220	\$5,401,688	\$405,000	\$278,965	\$683,965	7.90
2014-15	14,664,759	7,263,553	7,401,206	420,000	264,528	684,528	10.81
2015-16	16,408,718	7,687,848	8,720,870	435,000	249,348	684,348	12.74
2016-17	16,803,344	6,657,757	10,145,587	450,000	233,193	683,193	14.85
2017-18	17,245,001	9,031,729	8,213,272	470,000	216,055	686,055	11.97
2018-19	19,163,495	8,427,888	10,735,607	480,000	170,273	650,273	16.51
2019-20	20,664,951	10,235,463	10,429,488	460,000	808,477	1,268,477	8.22
2020-21	20,499,033	11,425,234	9,073,799	920,000	1,498,525	2,418,525	3.75
2021-22	21,592,843	9,373,484	12,219,359	980,000	1,455,875	2,435,875	5.02
2022-23	25,221,023	13,494,755	11,726,268	1,020,000	1,411,275	2,431,275	4.82

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

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

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

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2013-14							
2014-15							
2015-16							
2016-17							
2017-18							
2018-19							
2019-20	\$33,954,254	\$26,919,455	\$7,034,799	\$155,000	\$419,018	\$574,018	12.26
2020-21	35,023,092	27,314,613	7,708,479	290,000	755,650	1,045,650	7.37
2021-22	32,732,692	24,593,074	8,139,618	300,000	744,050	1,044,050	7.80
2022-23	34,554,183	25,712,390	8,841,793	315,000	744,050	732,050	12.08

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

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

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

Fiscal Year	Residential			Commercial	
	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges (a)
2013-14	75.92	51.06	33.36	13.72	2.38 - 6.99
2014-15	86.93	52.22	38.20	14.68	2.73 - 8.00
2015-16	90.27	69.32	56.97	14.97	3.94 - 8.34
2016-17	90.27	69.32	56.97	14.97	3.94 - 8.34
2017-18	90.27	69.32	56.97	14.97	3.94 - 8.34
2018-19	102.52	78.73	64.70	24.30	4.21 - 9.63
2019-20	111.07	85.30	70.08	25.78	4.54 - 10.65
2020-21	118.34	90.88	74.66	26.55	4.91 - 11.48
2021-22	124.14	95.34	78.28	27.35	5.31-12.09
2022-23	128.44	97.96	84.42	29.25	4.95 - 11.58

Source: City of Milpitas, Ordinance 208.53

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

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

Fiscal Year	Single Family Residential			Commercial (a)	
	Potable Residential	Capital Surcharge	5/8 inch Meter Charge	Potable Commercial Industrial Institutional Construction	5/8 to 10 inch Meter Charge
2013-14	2.30 - 4.86*		26.82	4.94	26.82 - 654.23
2014-15	2.62 - 5.29*		27.36	5.29	27.36 - 667.31
2015-16	4.75		18.00	4.75	18.00 - 900.00
2016-17	5.13	1.30	19.44	5.13	19.44 - 972.00
2017-18	5.13	1.30	19.44	5.13	19.44 - 972.00
2018-19**	5.13 - 5.31	1.30 - 1.08	19.44 - 27.01	5.13 - 5.31	19.44 - 1,350.33
2019-20	5.63	1.08	28.63	5.63	26.83 - 1,431.35
2020-21	6.32	1.08	32.17	6.32	32.17-1608.26
2021-22	6.70	1.08	34.10	6.70	34.10-1704.76
2022-23	7.17	1.14	35.87	7.17	35.87-4700.56

Source: City of Milpitas, Ordinance 120.50

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

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

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

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

<u>Calendar Year</u>	<u>Population</u>	<u>Population Density (Sq. Mile)</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%)</u>	<u>Land Area (Sq. Mile)</u>
2013	70,092	5,131	\$2,234,603	\$31,881	10,156	5.50%	13.66
2014	69,903	5,117	2,287,366	32,722	10,281	4.90%	13.66
2015	75,521	5,529	2,374,221	31,437	10,291	3.90%	13.66
2016	75,410	5,520	2,528,663	33,532	10,260	3.50%	13.66
2017	75,410	5,520	2,721,275	36,086	10,318	3.60%	13.66
2018	76,231	5,581	2,966,362	38,912	10,172	2.80%	13.66
2019	77,961	5,707	3,373,340	43,269	10,308	2.70%	13.66
2020	75,663	5,539	3,787,034	50,051	10,413	7.50%	13.66
2021	80,839	5,918	3,744,971	46,326	10,072	5.30%	13.66
2022	81,067	5,935	4,289,458	52,912	9,967	2.70%	13.66

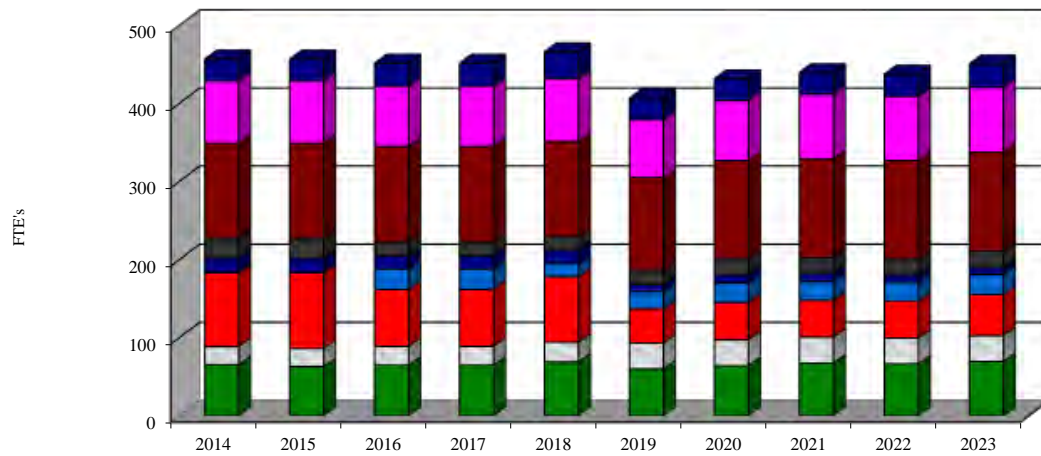
Sources: HdL, Coren & Cone
 City of Milpitas Annual Budget

CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEARS 2022-23 and 2013-14

Employer	2022-23			2013-14		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,600	1	8.759%	3,816	1	11.43%
KLA-Tencor Corporation	2,718	2	6.613%	2,402	2	7.19%
Western Digital Tech (SanDisk Corporation)	1,700	3	4.136%	1,875	3	5.61%
Analog Devices (Linear Technology Corporation)	1,283	4	3.122%	1,240	4	3.71%
Flextronics International (aka Vista Point Technologies)	1,139	5	2.771%	1,200	5	3.59%
Milpitas Unified School District	901	6	2.192%	841	6	2.52%
Headway Technologies Inc. (2 Locations)	874	7	2.127%	699	8	2.09%
Amazon Delivery	639	8	1.555%			
City of Milpitas	401	9	0.976%			
Walmart Supercenter	325	10	0.791%			
FireEye, Inc				702	7	2.10%
Spectra Laboratories				350	9	1.05%
Kaiser Permanente				350	10	1.05%
Subtotal	<u>13,580</u>		<u>33.0414%</u>	<u>13,475</u>		<u>40.3443%</u>
Total Labor Force	41,100			33,400		

Source: California Municipal Statistics, Inc.

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



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

	Fiscal Year Ended June 30									
Function	2014	2015	2016	2017	2018	2019 (e)	2020	2021	2022	2023
General Government	65.5	63.0	64.8	64.8	69.0	60.0	64.0	67.5	66.5	69.5
Building, Housing and Safe	23.0	23.0	24.0	24.0	25.0	33.0 (c)	33.0 (c)	33.0	33.0	33.0
Public Works	94.5	97.0	73.0 (b)	73.0	84.0	44.0	48.0	47.5	47.6	52.4
Engineering			26.0 (b)	26.0	17.0	22.0	25.0	24.0	24.0	26.0
Planning	18.5	18.5	17.0	17.0	17.0	9.0 (c)	10.0 (c)	10.0	9.0	9.0
Recreation	25.5	25.5	18.0	18.0	17.5	18.0	20.75	20.75	20.75	20.75
Parks and Recreation										
Police:										
Sworn Police	92.0	92.0	92.0	93.0	93.0	90.0	93.0	93.0	93.0	93.0
Civilians	30.0	30.0	30.0	29.0	29.0	29.0	33.0	33.0	33.0	34.0
Fire:										
Firefighters and Safety										
Officers	70.0	68.0	66.0	66.0	68.0	71.0	73.0	79.0	78.0	79.0
Civilians	10.0	12.0	11.0	11.0	12.0	3.0	4.0	4.0	4.0	4.0
Utilities (d)	27.5	27.5	29.5	29.5	34.5	27.5	27.5	27.5	28.4	29.6
Total	456.5	456.5	451.3	451.3	466.0	406.5	431.3	439.3	437.3	450.3

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

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

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

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

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

Source: City of Milpitas, final budget

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

	Fiscal Year Ended June 30				
	2014	2015	2016	2017	2018
Function/Program					
Building Safety & Housing					
Building permits issued	4,300	4,300	4,200	4,090	4,200
Plan review performed	1,500	1,400	1,500	1,610	1,700
Code Customer Service Requests / Violations abated	725	755	755	800	714
Public Works					
Street miles maintained	139	139	139	139	298
Customer Service Requests	2,880	2,800	2,794	2,800	3,000
Development projects reviewed	205	190	178	158	160
Planning					
Applications to Planning Commission	159	236	92	92	100
Recreation					
Sports Center members	1,450	1,504	1,600	1,325	1,450
Senior nutrition meals served	20,656	21,231	20,158	18,678	17,206
Police					
Avg response time to emergency calls (minutes)	2:33	2:32	2:40	2:44	2:57
Number of anti-terrorist patrol checks	2,550	2,300	2,400	2,200	2,200
Crime prevention presentations	200	200	125	70	56
Number of vehicle citations issued	3,516	3,600	5,900	5,720	5,900
Fire					
Emergency calls for service	4,356	4,950	5,000	5,000	5,200
Public education events	45	80	100	112	200
Permits Inspections	4,510	4,666	7,600	7,322	7,577
Plan Review	807	983	1,200	1,550	1,700
Utility					
Clean sewer lines (feet)	640,255	500,000	500,000	500,000	491,244
Repair, replace or set water meters	298	279	189	152	115
Average daily consumption (thousands of gallons)	9,300	9,300	7,800	5,800	6,590

Source: City of Milpitas, final budget

Footnote: Statistic for DARE presentations: schools/students is removed from this schedule in 2022 due to no activity since 2013

Fiscal Year Ended June 30				
2019	2020	2021	2022	2023
4,300	4,000	3,000	3,000	3,800
1,600	4,800	4,900	4,900	5,200
784	600	600	600	600
298	298	303	303	308
2,384	4,468	3,353	4,652	5,176
225	134	48	24	15
419	37	31	60	60
1,575	1,877	506	1,024	1,104
18,322	20,145	39,783	28,699	21,112
2:41	2:36	2:40	2:49	2:55
1,949	1,479	958	490	233
104	110	105	47	28
5,895	6,000	6,300	4,230	3,829
5,640	5,600	5,390	6,164	6,782
223	134	0	2,082	5,079
7,824	7,772	2,949	1,652	1,668
1,600	1,575	1,884	1,401	1,448
528,051	432,022	636,681	331,232	234,040
147	219	113	25	18
8,394	8,410	7,440	6,895	6,490

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

	2014	2015	2016	2017	2018
Function/Program					
Public Works					
Miles of streets	287	298	298	298	298
Street lights	4,500	4,577	4,577	4,581	5,119
Square feet of buildings maintained (in thousands)	376	376	376	376	322
City vehicles	252	260	264	264	269
Signs	5,500	5,700	5,700	6,000	10,000
Signal lights	72	70	71	72	72
City Parks	34	34	33	32	32
Acres of Parkland	180	180	180	195	195
Playgrounds	25	34	34	33	30
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Satellite centers	0	0	0	2	2
Swimming pools	3	3	3	3	3
Tennis courts	20	21	21	21	21
Football field	1	1	1	1	1
Baseball/softball fields	8	9	9	7	7
Soccer fields	9	12	13	13	13
Basketball courts	8	7	9	10	10
Volleyball courts / Horse Shoe Pits / Bocce Ball / Cricket Field / Par Course	9	7	10	13	12
Handball courts	5	5	5	6	6
Skate Park					
Joint use:					
Russell Bobbysocks Fields	0	0	0	3	3
Soccer fields	0	0	0	2	2
Open Space - Number of School Sites	0	0	0	0	0
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	29	28	34	29	29
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	19	19	13	11	11
Fire hydrants	1,847	2,033	2,033	2,039	2,039
Utility					
Miles of water mains	214	213	203	203	206
Water Tank Storage capacity (million of gallons)	16	16	16	16	16
Miles of sanitary sewers	179	179	173	173	175
Miles of storm drain	110	110	99	99	105
Miles of recycled water main	4	23	23	21	23

Source: City of Milpitas, final budget

Fiscal Year Ended June 30				
2019	2020	2021	2022	2023
298	298	303	303	308
5,141	4,418	4,494	4,494	4,516
473	473	473	455	455
271	258	268	256	302
10,000	6,000	6,000	6,000	6,000
74	78	83	83	83
32	36	36	36	36
195	154	154	154	154
33	33	33	33	33
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	2	1	1	1
3	3	3	3	3
21	21	21	21	21
1	1	1	1	1
9	9	9	11	11
8	8	8	8	8
10	10	10	10	10
10	10	10	10	10
6	6	6	6	6
			1	1
3	3	3	0	0
8	2	2	0	0
0	0	0	13	13
2	2	2	2	2
29	29	30	30	30
4	4	4	4	4
12	13	13	13	13
2,039	2,308	2,308	2,308	2,308
206	206	206	206	206
16	16	16	16	16
173	173	173	173	160
99	99	99	99	99
26	26	26	24	24



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Milpitas, California, as of and for the year ended June 30, 2023, and have issued our report thereon dated September 25, 2022. Our report includes a reference to other auditors who audited the financial statements of Terrace Gardens, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or on compliance and other matters that are reported on separately by those auditors.

Report on Internal Control over Financial Reporting

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

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

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

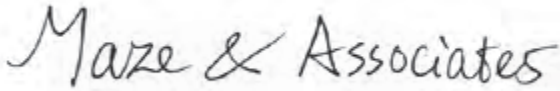
Report on Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated September 25, 2023 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

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

A handwritten signature in dark ink that reads "Maze & Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California
September 25, 2023