



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018



Future BART Station



Bob McGuire Park



Traverse Project



Harmony Project

City of Milpitas
CALIFORNIA



CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

Prepared by
THE DEPARTMENT OF FINANCIAL SERVICES



INTRODUCTORY SECTION



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CITY OF MILPITAS

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

November 16, 2018

Honorable Mayor, Members of the City Council and City Manager:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2018. The report was prepared by the Finance Department of the City. 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 reflects the entity concept prescribed by generally accepted accounting principles. It 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.

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

The City provides a full range of municipal services. These include: public safety; police, fire, community services public works; maintenance, planning, building and public facility inspection, engineering, water and sewer utilities, recreation services; redevelopment and economic development and general administrative services.

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks, Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Veterans Commission, and the Mobile Home Park Rental Review Board.

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, 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, has experienced tremendous growth since its incorporation in 1954. Over the past 40 years, the population growth has increased from 26,561 in 1970 to over 70,000 in 2010. The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2001 and 2004, over 130,000 jobs were lost as a result of the economic recession. Between 2005 and 2007, the local economy began to recover slowly until 2008 when the economy went into global recession due to subprime mortgages, plummeting home sales and meltdown of the financial market. This region was severely impacted due to a concentration of the high-tech industry, heavy reliance on exports, decline of home prices, and reduced consumer spending. Milpitas was similarly impacted because of its location and comparable economic mix. Post-recession economic recovery in the last few years was moderate at best. However, in the last twelve months, the labor markets have improved such that this region has added more jobs than many other parts of California. Employment is nearing its pre-recession peak in the Silicon Valley. We are cautiously managing this economic road to recovery while cognizant of the need to remain in a state of fiscal readiness.

Growth in the South Bay housing market has also been an important contributor to the strength of the local economy. The lack of available homes continues to push home prices upward. Median home prices in certain parts of the Bay Area are outperforming the state and nation. Beyond the residential equation, much is happening in Milpitas from a perspective of private investment. The section below titled “Major Development Activities in the City” will discuss some of the development activities that are occurring in Milpitas.

There are approximately 1,293 acres or 2.6 square miles of land area in the City limits designated for various industrial uses; about 105 acres are vacant and available in parcels ranging in size from 3 acres to 35 acres. Included in this acreage total are nine industrial parks and approximately 100 manufacturing plants. An estimated 410 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

The leading economic segments are apparel stores, restaurants, office equipment, electronic equipment, and auto sales. Top sales producing entities include manufacturing employers such as Cisco Systems, Inc., KLA-Tencor Corporation, Linear Technology Inc., and Flex. Other key retailers include South Bay Honda, Toyota/Scion, Marshall Stores, Safeway, Home Depot, Wal-Mart and Best Buy. Some of the most innovative companies, including View Glass and KLA-Tencor, make Milpitas their corporate headquarters. The three largest non-manufacturing employers in Milpitas are the Milpitas Unified School District, Kaiser Permanente and Wal-Mart.

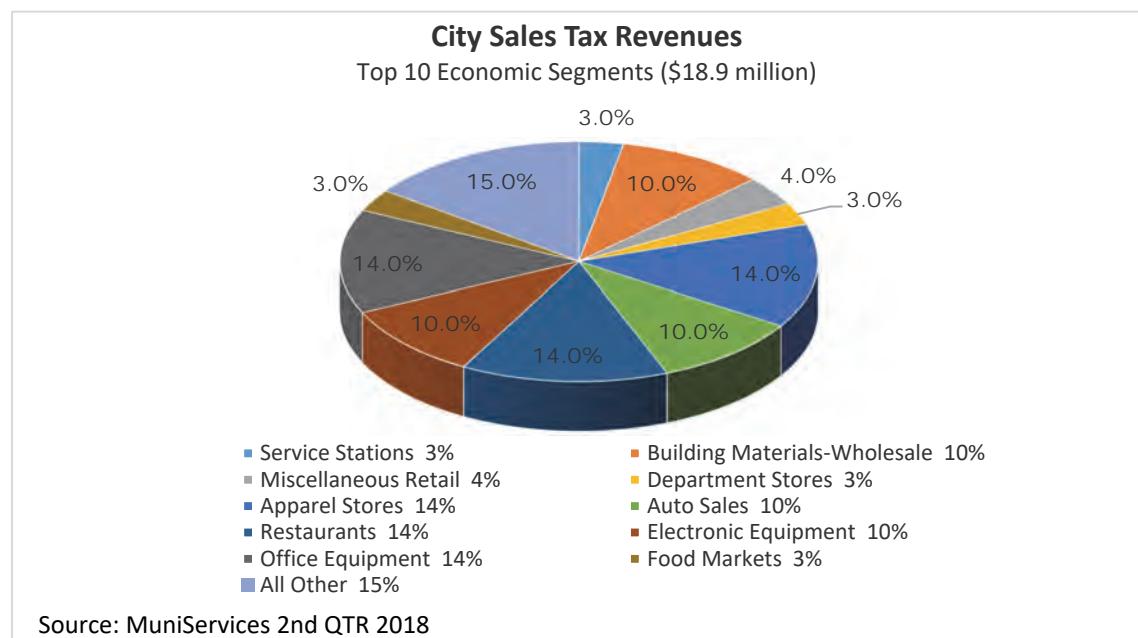
Consumer Confidence Level

The latest consumer confidence survey report showed that the U.S. consumer sentiment in June 2018 continues to stay high this past year. Consumer confidence is an indicator designed to measure the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Since consumer spending accounts for more than two-thirds of the U.S. Gross Domestic Product, the index is a good indicator that when consumers' confidence is high, consumers would likely make more purchases thus further boosting the economy.



Top Ten Sales Tax Generators by Economic Segment

The chart below provides a snapshot of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about \$23.5 million, with the top ten economic segments generating about \$19.9 million. The sales tax revenue generated from economic segments such as restaurants, office equipment, auto sales, and electronic equipment increased over a year ago, while the apparel stores, miscellaneous retail and light industry segments decreased.



Development Activities in the City

Midtown Specific Plan – The vision for this area includes smart growth, high density mixed- use housing and retail within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. In 2010, the City adopted the most recent Midtown Specific Plan, which started the neighborhood on a path towards transformation, including new residential development around the Great Mall/Main Transit Center area, redevelopment of the Milpitas Library, and streetscape improvements along Abel Street. The charge of the current Midtown Specific Plan Update, which was launched in mid-2018, is to spur the neighborhood’s transformation even further, creating a vibrant mixed-use district that addresses the City’s and region’s evolving needs. Previous implementation efforts began with several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities undertaken by outside agencies include a County Health Center, a parking garage, and a 103-unit senior housing apartment building. Other developments completed or are in the process of being developed include 200 apartment units developed by Shea Homes, new mixed-use developments at 260 S. Main Street and 808 S. Main Street. In the near term we also expect the introduction of a senior assisted living complex approximating 200 units in the first phases. The Midtown Specific Plan update is estimated to be completed by mid-2019.

Transit Area Specific Plan – The City adopted a Transit Area Specific Plan in June 2008, and updated it in 2014, which provides for medium to high density development surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. As of February 2018, there are over 6,875 housing units in the Transit Area that are under various stages of development.

Residential Development – An improving economy and high median home prices led to a heightened interest in residential developments. Outside of the Midtown and Transit Area, there are several residential developments that are either under construction or completed and occupied. These projects include a proposed single-family home development for 37 lots, including ADUs (Accessory Dwelling Units), at 1005 Park Victoria Drive, a new townhome development by KB Homes at 1210 California Circle, and various small-scale infill projects throughout the City.

Non-residential Development – FY 2017-18 was also a busy year for commercial development and expansion. KLA Tencor, The Great Mall, Embassy Suites Hotel and various businesses throughout the City invested millions in tenant improvements of their buildings. Property owners of Campus Center and Tasman Tech Park invested in revamping their buildings and outdoor spaces in order to attract new tenants. McCarthy Creekside Industrial Center started construction on over 800 thousand square feet of new manufacturing and warehousing space. As for hotel projects and developments, Springhill and Holiday Inn are under construction, the Element Hotel near Tasman, Home2Suites on California Circle, Sprig Center on McCarthy Blvd, and the proposed hotel at The Fields in the TASP are approved and will be under construction soon.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

Category and Fund Type

Governmental Funds: General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds

Proprietary Funds: Enterprise Funds and Internal Service Fund

Fiduciary Funds: Private-Purpose Trust Fund and Agency Funds

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

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

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

FINANCIAL ANALYSIS

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

LONG TERM FINANCIAL PLANNING

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

The City developed a five-year Capital Improvement Plan detailing specific budgeted capital projects. Each of the projects is consistent with the budget priorities of the City. The fiscal year 2017-18 adopted Capital Improvement Project (CIP) Budget totaled \$59.6 million. The CIP included improvements to the City's infrastructure which includes parks, streets, water, sewer and storm drain utilities.

In addition, the City produces an annual five year General Fund Forecast. The Forecast is included to allow the City Council and the community to assess the sustainability of City services in the long term. The projection also identifies the type of commitments and resource demands in the next five years and points out areas of both opportunity and risk as the City navigate fiscal cycles. These long term forecasts provide an invaluable planning tool and are an indication of sound fiscal planning and strategy.

INDEPENDENT AUDIT

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

AWARDS

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for twenty-eight of the last thirty years (fiscal years ended 1988-2017). The 1992-93 report was not submitted to GFOA due to timing delays.

We believe our current report continues to conform to the Certificate program requirements. This report will be submitted to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

I extend my 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, I extend a special "thank you" to our external auditors who contributed long hours to make this document possible. Their efforts and continued dedication are greatly appreciated. I sincerely thank the Mayor, members of the City Council and City Manager, for their support, interest, and integrity in directing the financial affairs of the City in a responsible, professional, and progressive manner.

Respectfully submitted,



Will Fuentes
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2018

City Council

Mayor	Rich Tran
Vice-Mayor	Marsha Grilli
Councilmember	Garry Barbadillo
Councilmember	Bob Nuñez
Councilmember	Anthony Phan

City Manager
Julie Edmonds-Mares

Assistant City Manager
Ashwini Kantak

Deputy City Manager
Steven McHarris

Police Chief
Armando Corpuz

City Attorney
Christopher Diaz

Director of Financial Services
Will Fuentes

Interim Fire Chief
Richard Frawley

City Clerk
Mary Lavelle

Public Works Director
Tony Ndah

Chief Information Officer
Mike Luu

Human Resources Director
Elizabeth Brown

Engineering Director/City Engineer
Steve Erickson

**Interim Planning & Neighborhood
Services Director**
Jessica Garner

Interim Building and Safety Director
Gary King



The City of Milpitas is located near the southern tip of San Francisco Bay, forty-five miles south of San Francisco. Milpitas is often called the “Crossroads of Silicon Valley” with most of its 13.66 square miles of land situated between two major freeways (I-880 and I-680), State Route 237, and a county expressway. The light rail line opened for service in 2004 and an extension of BART, with a major multi-modal station, is in the planning stages.





Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Milpitas
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2017, which represent 1.30%, 1.79%, and 1.08% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and discretely presented component unit of the City as of June 30, 2018, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which became effective during the year ended June 30, 2018 and required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Notes 10D and 12B.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maye & Associates

Pleasant Hill, California
November 13, 2018



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, 2018. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2018 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2018 reflect continued economic recovery in the South Bay region, primarily driven by improved employment and rebound of the housing market. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2018 was at 2.5%, an improvement from last year's 3.6%. The property tax revenue has shown substantial recovery due to double digit increases in median home prices. The foreclosures and property tax appeals have been trending downward. Transient Occupancy Tax revenues were better than last fiscal year, reflecting a steadily improving economy.

Fiscal 2018 financial highlights include the following:

City-wide:

- The City's total net position was \$559.9 million at June 30, 2018. Of this total, \$369.6 million were Governmental and \$190.3 million were Business-type.
- City-wide revenues include program revenues of \$111.9 million, general revenues and transfers of \$64.8 million, totaling \$176.7 million, a decrease of \$10.8 million from the prior year's total of \$187.5 million.
- Total City-wide expenses were \$148.8 million, an increase of \$12.2 million from the prior year's \$136.6 million.

Fund Level:

- Governmental Fund balances were \$229.7 million, an increase of \$17.9 million from fiscal 2017.
- Governmental Fund revenues were \$138.5 million in fiscal 2018, up \$12.1 million from the prior year's \$126.4 million.
- Governmental Fund expenditures were \$113 million in fiscal 2018, an increase of \$3.6 million from fiscal 2017's level of \$109.4 million.
- General Fund revenues of \$99.1 million represented an increase of \$7.1 million from fiscal 2017's revenues of \$92 million.
- Net other financing uses of the General Fund were \$3.7 million in fiscal 2018 while fiscal 2017 had a total other financing uses of \$6.7 million.
- General Fund balance of \$92.8 million at the fiscal 2018 year-end was \$20.1 million more than the fund balance at fiscal 2017 year-end.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in eight parts:

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

The Basic Financial Statements

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

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

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

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

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

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

The City-wide Financial Statements

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

All of the City's enterprise activities, including water and sewer 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 the governing board of these entities.

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

Fund Financial Statements

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

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

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

The City has four other Major Governmental Funds in fiscal 2018 in addition to the General Fund. These are the Housing Authority Fund, the Street Improvement Fund, the Transit Area Impact Fee Fund, and the General Government Capital Projects Fund, each of which is discussed in detail below.

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

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

Fiduciary Statements

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

CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal 2017 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	
	2018	2017*
Cash and investments	\$211.6	\$181.9
Other assets	51.8	70.7
Capital assets	323.3	312.1
Total assets	586.7	564.7
Deferred Outflows of Resources		
–Related to pensions and OPEB	44.4	33.8
Net Pension liabilities	181.7	161.0
Net OPEB liability	40.4	0
Net OPEB obligation	0	1.8
Other liabilities	34.6	41.3
Total liabilities	256.7	204.1
Deferred Inflows of Resources		
–Related to pensions and OPEB	4.8	3.7
Net position:		
Net investment in capital assets	323.2	312.1
Restricted	109.7	109.1
Unrestricted	(63.3)	(30.5)
Total net position	\$369.6	\$390.7

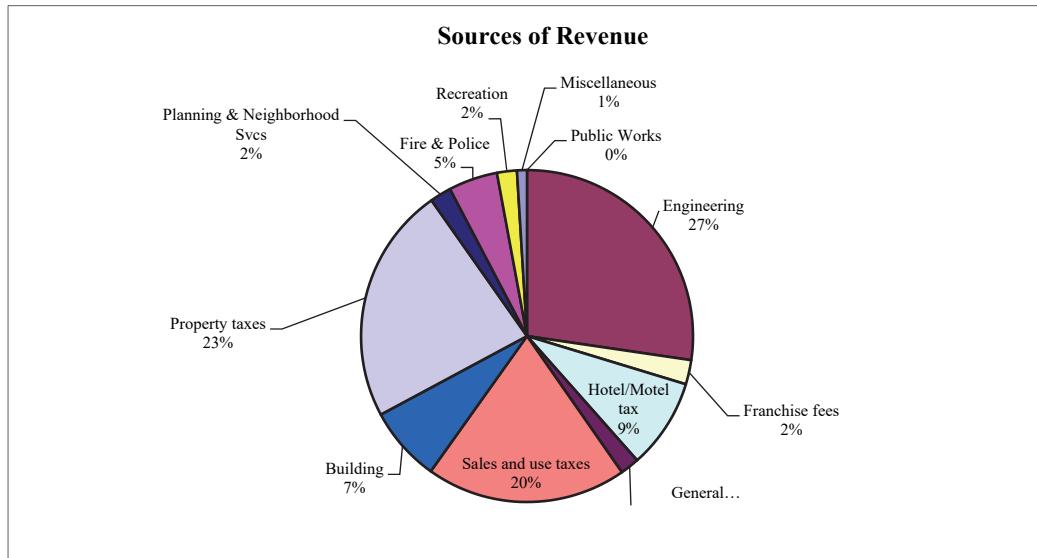
* Not restated for the implementation of GASB Statement No. 75

The City's governmental net position was \$369.6 million at June 30, 2018, a decrease of \$21.1 million from 2017. 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 \$29.7 million principally due to increased revenue from property tax, sales and use tax, hotel/motel taxes, franchise fees and developer fees.
- Other assets decreased \$18.9 million from last year due to the net activity between receivables and property held for resale.
- Capital assets increased \$11.2 million from last year, resulting from \$16.4 million depreciation, offset by \$27.6 million asset additions, net of retirements in fiscal 2018.

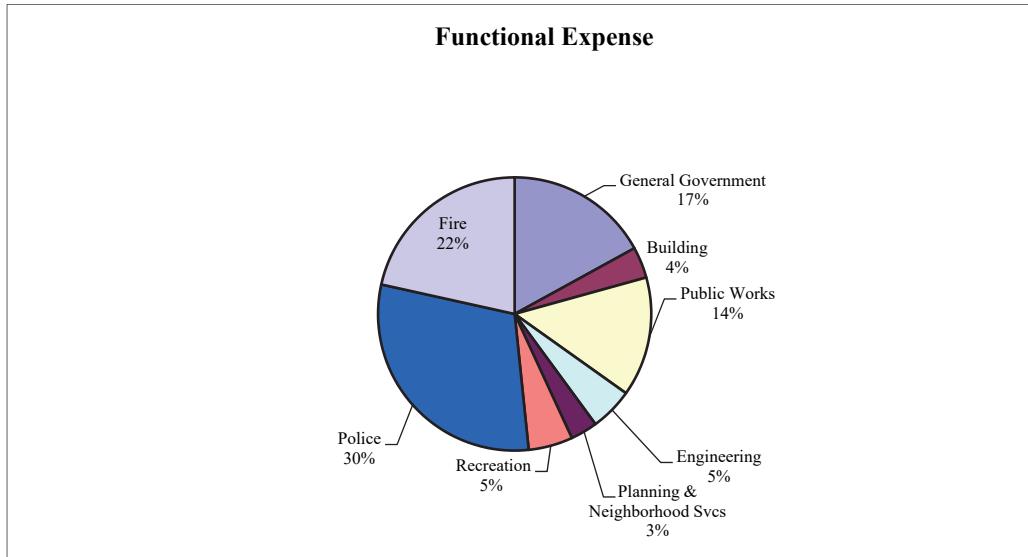
- Deferred outflows of resources related to pension and OPEB increased \$10.6 million from last year due to increased pension costs and the effects of the implementation of GASB Statement No. 75.
- Net Pension Liabilities, Net OPEB liability, Other liabilities and deferred inflows of resources increased \$53.7 million primarily due to the addition of the Net OPEB Liability related to the implementation of GASB Statement No. 75 and increase in pension and OPEB related deferred inflows offsetting decreases from other liabilities.

Fiscal Year 2018 Governmental Activities



As the Sources of Revenue Chart above shows, \$37.8 million or 27% of the City's fiscal 2018 governmental activities revenue came from impact fees, \$31.9 million or 23% came from property taxes, while \$27 million or 20% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, and building fees.

Functional Expense



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 2018'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>	
	2018	2017*
Expenses		
General Government	\$19.1	\$21.2
Building	4.1	3.4
Recreation	5.9	4.9
Public Works	15.9	16.2
Engineering	5.7	6.2
Planning & Neighborhood Svcs	3.6	3.1
Police	33.8	30.3
Fire	24.2	20.5
Interest on long term debt	0.0	0.1
Total expenses	<u>112.3</u>	<u>105.9</u>
Revenues		
Program revenues:		
Charges for services	22.0	19.5
Operating contributions and grants	6.5	7.9
Capital Grants	34.0	32.3
Total program revenues	<u>62.5</u>	<u>59.7</u>
General revenues:		
Taxes:		
Property taxes	31.9	30.3
Sales and uses taxes	27.0	25.4
Hotel/Motel taxes	12.1	11.9
Other taxes	0.8	0.8
Franchise fees	4.7	3.9
Investment earnings	0.3	0.1
Gain from sale of property	0	7.3
Miscellaneous	0.2	0.1
Total general revenues	<u>77.0</u>	<u>79.8</u>
Total Revenues	<u>139.5</u>	<u>139.5</u>
Surplus (Deficit) before transfers	27.2	33.6
Transfers	2.5	2.9
Special Item	<u>(12.4)</u>	<u>0.0</u>
Changes in net position	17.3	36.5
Beginning net position (2018 beginning restated)	<u>352.5</u>	<u>354.2</u>
Ending net position	<u>\$369.6</u>	<u>\$390.7</u>

* Not restated for the implementation of GASB Statement No. 75

Table 2 compares fiscal 2018 expenses and revenues with those of fiscal 2017. Expenses increased by \$6.3 million in fiscal 2018, due to almost all of the program expenses experiencing increases in salaries and benefits.

Table 2 shows that total governmental revenues were flat in fiscal 2018. Program revenues increased \$2.8 million while general revenues decreased \$2.8 million. The program revenues increased \$2.8 million from fiscal 2017, the net activity was due to increases of \$2.5 million in charges for services, \$1.4 million decrease in operating grants and \$1.7 million increase in capital grants. The decrease in general revenues was mainly due to property tax and sales and use tax revenue increases offsetting the prior year gain on the sale of property that did not repeat. Property tax revenue was \$1.6 million more than last year due to increase in housing and assessed valuation. Sales tax revenue in fiscal 2018 was \$1.6 million more than fiscal 2017, due to economic growth. Transient Occupancy Tax increased \$0.2 million in fiscal 2018 reflecting recovery in the economy. The increase of investment earnings by \$0.2 million in fiscal 2018 was due to the net activity of investment earning and market value loss on investments.

Table 3 presents the net cost of each of the City's largest programs—general government, building, recreation, public works, engineering, planning & neighborhood services, police, fire, and interest expense. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs was \$49.8 million.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2018	2017
General Government	\$ (16.5)	\$ (18.7)
Building	5.9	4.4
Recreation	(3.2)	(2.5)
Public Works	(15.9)	(16.3)
Engineering	32.0	32.3
Planning & Neighborhood Services	(0.7)	(0.4)
Police	(30.6)	(27.8)
Fire	(20.8)	(17.3)
Interest on long term debt	0.0	(0.1)
Totals	<u>\$ (49.8)</u>	<u>\$ (46.4)</u>

Business-type Activities

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

	Business-Type Activities	
	2018	2017*
Cash and investments	\$67.0	\$63.7
Other assets	3.3	3.1
Capital assets	136.1	128.5
Total assets	206.4	195.2
Deferred Outflows of Resources		
– Related to Pensions and OPEB	1.4	0.9
Other liabilities	2.9	2.9
Net pension liabilities	5.1	4.2
Net OPEB liability	4.0	0.0
Long-term Debt	5.3	5.6
Total liabilities	17.3	12.7
Deferred Inflows of Resources		
– Related to Pensions and OPEB	0.2	0.0
Net position:		
Net investment in capital assets	130.7	122.9
Restricted	43.8	40.3
Unrestricted	15.8	20.3
Total net position	\$190.3	\$183.5

* Not restated for the implementation of GASB Statement No. 75

The net position of business-type activities were \$190.3 million in fiscal 2018, an increase of \$6.8 million from fiscal 2017. Total assets increased \$11.1 million and deferred outflows and inflows increased \$0.5 million and increased \$0.2 million, respectively. The increase in net position was due to the increased customer service charges and capital contributions for the Sewer Fund.

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

	Business-Type Activities	
	2018	2017*
Expenses		
Water Utility	\$23.8	\$20.7
Sewer Utility	12.7	9.9
Total expenses	<u>36.5</u>	<u>30.6</u>
Revenues		
Program revenues:		
Charges for services	46.8	43.1
Operating grants	0.1	0.1
Capital grants	2.5	4.9
Total program revenues	<u>49.4</u>	<u>48.1</u>
General revenues:		
Investment earnings	0.2	(0.1)
Total general revenues	<u>0.2</u>	<u>(0.1)</u>
Total Revenues	<u>49.6</u>	<u>48.0</u>
Excess before transfers	13.1	17.3
Transfers	<u>(2.5)</u>	<u>(2.9)</u>
Changes in net position	10.6	14.5
Beginning net position	<u>179.7</u>	<u>169.0</u>
Ending net position	<u>\$190.3</u>	<u>\$183.5</u>

* Not restated for the implementation of GASB Statement No. 75

Table 5 compares fiscal 2018 expenses and revenues with those of fiscal year 2017. Total expenses increased by \$5.9 million in fiscal 2018 due to an increase in personnel services and an increase in purchase water and contractual services. Total program revenues increased by \$1.3 million primarily due to an increase in charges for services and a decrease in capital grants. Total general revenue increased \$0.3 million from interest earnings. The net transfers represent reimbursements of administration costs to the General Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

	2018	2017
Total assets	\$257.4	\$245.3
Total liabilities	25.8	31.7
Total deferred inflows of resources	1.8	1.8
Total fund balances	229.7	211.8
Total revenues	138.5	126.4
Total expenditures	113.0	109.4
Total other financing sources	(7.6)	10.8

At June 30, 2018, the City's governmental funds reported combined fund balances of \$229.7 million, an increase of \$17.9 million from last year. The fund balances of the Housing Authority, Street Improvement Capital Projects, and General Government Capital Projects decreased \$11.9 million, \$0.3 million and \$3.1 million, respectively, while the fund balances of the General Fund, Transit Area Impact Fee and Other Funds increased \$20.1 million, \$8.9 million, and \$4.3 million, respectively.

Revenues at the fund level totaled \$138.5 million, an increase of \$12.1 million. Revenues for the General Fund, Street Improvement Fund, and Transit Area Impact Fee Fund, increased \$7.1 million, \$0.3 million and \$4.7 million, respectively. Other Governmental Funds decreased \$0.7 million, while Housing Authority Fund and General Government Capital Improvement Project and remained at the same level as last year's \$0.9 million and \$0.3 million respectively.

Expenditures increased \$3.6 million this year to \$113 million from last year's \$109.4 million. The expenditures of the General Fund, Street Improvement, General Government Fund and other Governmental Funds increased \$2.4 million, \$2.2 million, \$0.1 million and \$0.4 million, respectively while the Housing Authority Fund and Transit Area Impact Fee Fund, decreased \$0.1 million and \$1.3 million respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to \$99.1 million this fiscal year, up \$7.1 million from the prior fiscal year. Increases came from property tax revenue, sales taxes, other taxes, licenses and fines, use of money and property, intergovernmental revenue and charges for services. Property tax revenue increased \$1.6 million due to the recovery in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax increased by approximately \$1.7 million due to an increase in consumer spending. Other taxes increased by \$1 million primarily due to increased Transient Occupancy Tax revenue and franchise fees. Licenses and permits increased \$2.3 million primarily from the building permit and inspection fees as a result of increased development activities. Intergovernmental revenue increased by \$0.6 million due to the reimbursement for mutual aid fire overtime from the State Office of Emergency.

General Fund expenditures increased \$2.4 million to \$82.7 million in fiscal 2018 primarily due to an increase in salaries and benefits.

Net Other Financing Sources were approximately \$3.7 million. Net transfers out were approximately \$1.9 million, as compared to net transfers out of \$6.6 million in fiscal 2017. Net transfers consist of \$5.6 million from other funds for operating costs and transfers out of \$1.9 million for funding of future capital projects.

For the City's General Fund, actual revenues of \$99.1 million were \$10.8 million more than the final budgeted revenues of \$88.3 million. Property taxes, Sales taxes, Other taxes, and Licenses and fines, exceeded budget by \$3.1 million, \$2.3 million, \$1.6 million, and \$4 million, respectively. These increases were due to the improving views on the state of the economic recovery, increased property values and increased development activities.

At the end of the year, actual General Fund expenditures were \$83.6 million, \$9.2 million less than final budget of \$92.8 million. Savings were primarily in Non-departmental \$2.4 million for decreased payroll, benefits and utility expenditures, Recreation and Community Services \$0.4 million, Police \$3 million, Engineering \$.6 million, Public Works \$0.7 million, Planning and Neighborhood Services \$0.5 million, Building and Safety \$1 million were mostly related to delays in hiring personnel.

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

Housing Authority

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were \$0.9 million in fiscal 2018, comprised of \$0.9 million of interest, rental income and repayment of housing loans. Total expenditures were \$0.3 million for administration and operation of the "Silent Second" loan program, management of four affordable housing units and one commercial property with eight tenants.

Street Improvement Capital Project

This Street Improvement Capital Project Fund accounts for the majority of the street capital projects activity in the City that is not developed in the Transit Area. The Fund's revenues were \$1.2 million in fiscal 2018, an increase of \$0.3 million from fiscal 2017. The increase in revenues was due to one-time intergovernmental revenues and developer contributions. Fund expenditures were \$6.3 million in fiscal 2018, an increase of \$2.2 million from fiscal 2017, attributed to capital outlay increases. Transfers in of \$5 million were from the General Fund, Gas Tax Special Revenue Fund, Transit Area Impact Fee Capital Projects Fund, Sewer Utilities Fund for capital improvement project funding.

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 2018, fund revenues were \$29.4 million, primarily from fees collected from developers. Expenditures were \$15.2 million, consisting of \$15.1 million capital improvement project. The transfers out of \$5.3 million to the Water Utility Capital Project Fund and the Park Improvement Capital Project fund were to fund capital projects.

General Government Capital Projects

The General Government Capital Projects Fund accounts for construction and maintenance of general government projects in the City. In fiscal 2018, expenditures were \$2.9 million, consisted of \$2.9 million of capital improvement project expenditures. The transfers in of \$2.9 million were primarily from the General Fund, Solid Waste Reduction and Services Fund, Lighting and Landscape Maintenance District Fund, Park Improvement Fund, and Community Planning Fund, Sewer Utility Fund, Storm Drain Development Capital Project Fund, Water and Sewer Utility funds for the purpose of capital project funding and the transfers out of \$3.5 million were to the General Fund, Street Improvement Fund, Gas Tax, and the Park Improvement Fund, to return unexpended project funds.

Other Governmental Funds

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

Fund Balance Classifications

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

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

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

	<u>2018</u>	<u>2017</u>
General Fund		
Nonspendable	\$ 10.0	\$ 20.2
Committed	33.6	19.0
Assigned	8.7	8.1
Unassigned	40.5	25.4
Total	<u>\$92.8</u>	<u>\$72.7</u>
Housing Authority Fund		
Restricted	<u>\$40.5</u>	<u>\$52.4</u>
Street Improvement Fund		
Restricted	<u>\$11.9</u>	<u>\$12.2</u>
Transit Area Impact Fee Fund		
Restricted	<u>\$26.3</u>	<u>\$17.4</u>
General Government Project Fund		
Nonspendable	<u>\$2.2</u>	
Assigned	<u>\$24.0</u>	<u>\$29.4</u>

At June 30, 2018, the fund balance of the General Fund was \$92.8 million: \$10.0 million was classified as nonspendable, comprised of \$0.7 for prepaid materials and supplies, \$4.2 million of property held for resale, and \$5.2 million for advances to other funds; \$30 million for PERS Rate Stabilization \$0.08 for Artificial turf replacement, \$1 million for Technology replacement and \$2 million for Facilities replacement were classified as committed; \$8 million of the fund balance comprised of \$4.6 million for capital improvement, \$2.8 million for uninsured claims and \$1.2 million for encumbrances, was classified as assigned; \$40.2 million was classified as unassigned.

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

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

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased \$3.7 million from last year, while operating expenses increased \$5.8 million. Total operating revenues and total operating expenses were \$46.8 million and \$36.2 million respectively. Non-operating expenses were \$0.0 million in fiscal 2018, a decrease of \$0.2 million from the prior year. Capital contributions decreased by \$3.0 million while net transfers out increased by \$1.0 million.

Water Utility

Water fund revenues were \$29.7 million in fiscal 2018, up \$3.4 million from prior year. The increase in revenues was primarily due to \$0.7 million of the capital surcharge and the increase in consumption due to the lifting of water conservation restrictions. Expenses were \$23.8 million in fiscal 2018, up \$3.0 million from prior year, primarily due to increased purchased water expense and an increase in personnel services of \$2.1 million. Net position of the Water Utility Fund increased \$7.0 million in the current year to a total of \$77.7 million. The increase comprised of a \$5.9 million operating income for the current year, \$0.2 million in non-operating revenues, \$1.2 million capital contributions from developers, offset by net transfers out of -\$0.3 million. The transfer out of \$2.6 million was to reimburse administration costs incurred by the General Fund and the transfer in of \$2.3 million was to fund a capital project.

This Fund's Net Position includes \$49.6 million invested in capital assets, \$23.7 million in restricted net position, and \$4.4 million in unrestricted net position.

Sewer Utility

Sewer fund revenues were \$17.1 million in fiscal 2018, up \$0.3 million from the prior year due to an increase in usage. Expenses were \$12.4 million in fiscal 2018, up \$2.7 million from the prior year due to an increase in personnel services. Non-operating revenues and expenses in fiscal year 2018 consisted of \$0.1 million interest income, and \$0.3 million interest expense. Net position of the Sewer Utility Fund increased \$3.6 million in the current year to a total of \$112.6 million. This increase comprised of \$4.7 million in operating income, \$1.5 million in capital contributions by developers, offset by \$2.4 million net transfers out. The transfers out of \$2.4 million was to reimburse \$1.7 million administration costs incurred by the General Fund and to fund \$0.7 million in capital projects.

\$11.4 million of the Fund's Net Position was unrestricted at the fiscal year end. Of the remainder, \$81.1 million was invested in capital assets and \$20.2 million was restricted as to use.

CAPITAL ASSETS

The City records the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2018, 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)

	<u>2018</u>	<u>2017</u>
<i>Governmental Activities:</i>		
Land	\$ 65.4	\$ 57.6
Construction in progress	64.1	59.8
Buildings and improvements	166.4	163.1
Other improvements	30.0	28.9
Machinery and equipment	42.5	39.9
Landscape system	29.8	29.7
Storm system	74.3	74.3
Street system	264.4	256.4
Traffic system	19.1	19.0
Less accumulated depreciation	<u>(432.7)</u>	<u>(416.6)</u>
Totals	<u>\$323.3</u>	<u>\$312.1</u>
 <i>Business-type Activities:</i>		
Land	\$ 1.1	\$ 1.1
Construction in progress	11.6	9.3
Distribution facilities	80.5	80.4
Service lines	15.2	14.6
Sewer lines	84.0	84.0
Capacity rights	71.8	62.0
Less accumulated depreciation	<u>(128.1)</u>	<u>(122.9)</u>
Totals	<u>\$136.1</u>	<u>\$128.5</u>

The principal additions in fiscal 2018 were to the construction-in-progress, machinery and equipment, street system, and capacity rights. Construction in progress included the Calaveras Road Repair, street resurfacing, McCandless Park, Fire Apparatus Replacement, South Milpitas Blvd Extension, and TASP infrastructure improvements.

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

DEBT ADMINISTRATION

The City's debt was issued to finance Sewer infrastructure improvements. This debt issue is secured by the sewer revenue. In fiscal 2018, the City refunded the 2006 Sewer Bonds with the Wastewater Revenue Refunding Bonds which had a lower interest rate. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. At June 30, 2018 the City's debt comprised:

Table 9
Outstanding Debt
(in Millions)

	<u>Balance</u> <u>June 30, 2018</u>	<u>Balance</u> <u>June 30, 2017</u>
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A		
3.4% -4.2%, due November 1, 2026	<u>\$ 0.0</u>	<u>\$ 5.6</u>
Wastewater Revenue Refunding Bonds, 2017 Series		
2.0% -5.0%, due November 1, 2026	<u>4.7</u>	<u>0.0</u>
Plus: Unamortized bond premium	<u>0.6</u>	<u>0.0</u>
Total Business-type Activity Debt	<u><u>\$ 5.3</u></u>	<u><u>\$ 5.6</u></u>

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2018, the City collected enough assessment to repay all the local improvement district debt issued by two local improvement districts. This debt was secured only by special assessments on the real properties in the district issuing the debt, and was not the City's responsibility. The City did act as these Districts' agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 15 to the financial statements.

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, 2018

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
				Terrace Gardens Inc. (As of December 31, 2017)
ASSETS				
Cash and investments available for operations (Note 3)	\$211,601,794	\$67,040,835	\$278,642,629	\$197,665
Restricted investments (Note 3)				1,881,720
Receivables:				
Accounts	3,914,748	2,749,618	6,664,366	23,235
Due from other governments	3,376,671	83,997	3,460,668	
Interest	810,288	256,891	1,067,179	
Loans receivable (Note 5)	33,489,252		33,489,252	
Prepays, materials, supplies and deposits (Note 1E)	2,998,221	238,952	3,237,173	123,425
Property held for resale (Note 6)	7,248,003		7,248,003	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	129,478,141	12,738,713	142,216,854	1,565,277
Depreciable capital assets, net	193,761,146	123,360,293	317,121,439	6,489,522
Total assets	586,678,264	206,469,299	793,147,563	10,280,844
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	40,401,921	1,062,146	41,464,067	
Related to OPEB (Note 12B)	4,047,263	399,302	4,446,565	
Total deferred outflows of resources	44,449,184	1,461,448	45,910,632	
LIABILITIES				
Accounts payable	7,306,880	2,260,363	9,567,243	157,866
Accrued payroll	2,498,246	84,757	2,583,003	3,474
Interest payable		85,136	85,136	
Uninsured claims payable (Note 13):				
Due within one year	1,070,347		1,070,347	
Due in more than one year	5,347,187		5,347,187	
Refundable deposits	3,196,229	102,970	3,299,199	75,607
Unearned revenue	7,885,663	16,918	7,902,581	10,763
Accrued vacation (Note 12C):				
Due within one year	1,945,197	165,594	2,110,791	15,852
Due in more than one year	2,588,526	76,376	2,664,902	
Sick leave payable (Note 12C):				
Due within one year	769,929	42,372	812,301	
Due in more than one year	2,016,541	71,122	2,087,663	
Net pension liabilities (Note 11C)	181,685,057	5,085,364	186,770,421	
Net OPEB liability (Note 12B)	40,425,416	3,988,357	44,413,773	
Long term debt (Note 9):				
Due within one year		480,000	480,000	
Due in more than one year		4,882,703	4,882,703	
Total liabilities	256,735,218	17,342,032	274,077,250	263,562
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	2,914,119	44,407	2,958,526	
Related to OPEB (Note 12B)	1,917,959	189,225	2,107,184	
Total deferred inflows of resources	4,832,078	233,632	5,065,710	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	323,239,287	130,736,303	453,975,590	8,054,799
Restricted for:				
Capital projects	65,714,554	43,835,054	109,549,608	
Redevelopment and community development activities	44,011,934		44,011,934	
Total restricted net position	109,726,488	43,835,054	153,561,542	
Unrestricted	(63,405,623)	15,783,726	(47,621,897)	1,962,483
Total net position	\$369,560,152	\$190,355,083	\$559,915,235	\$10,017,282

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$19,110,629	\$2,088,215	\$161,416	\$315,559	(\$16,545,439)	
Building and Safety	4,147,970	10,093,120			5,945,150	
Recreation and Community Services	5,890,291	2,559,131	82,287	34,829	(3,214,044)	
Public Works	15,902,538				(15,902,538)	
Engineering	5,712,246	2,465,353	2,136,645	33,147,903	32,037,655	
Planning and Neighborhood Services	3,585,812	417,651	1,957,997	504,419	(705,745)	
Police	33,840,735	1,088,855	2,105,481		(30,646,399)	
Fire	24,193,981	3,326,234	77,173		(20,790,574)	
Total Governmental Activities	<u>112,384,202</u>	<u>22,038,559</u>	<u>6,520,999</u>	<u>34,002,710</u>	<u>(49,821,934)</u>	
Business-type Activities:						
Water Utility	23,740,905	29,667,368	124,297	1,042,356		\$7,093,116
Sewer Utility	12,715,581	17,139,028		1,464,323		5,887,770
Total Business-type Activities	<u>36,456,486</u>	<u>46,806,396</u>	<u>124,297</u>	<u>2,506,679</u>		<u>12,980,886</u>
Total Primary Government	<u>\$148,840,688</u>	<u>\$68,844,955</u>	<u>\$6,645,296</u>	<u>\$36,509,389</u>	<u>(49,821,934)</u>	<u>12,980,886</u>
Component Unit:						
Terrace Gardens Inc.	<u>\$2,064,603</u>	<u>\$2,031,922</u>	<u>\$63,465</u>			
General revenues:						
Taxes:						
Property taxes					31,893,019	
Sales and use taxes					26,990,987	
Hotel/Motel taxes					12,121,515	
Other taxes					814,240	
Franchise fees, unrestricted					4,677,808	
Motor vehicle in lieu, unrestricted					39,695	
Investment earnings					301,207	170,914
Miscellaneous					185,717	
Transfers (Note 4)					2,511,307	(2,511,307)
Special item (Note 7A)						
Loss from conveyance of property					<u>(12,432,333)</u>	
Total general revenues and transfers					<u>67,103,162</u>	<u>(2,340,393)</u>
Change in Net Position					17,281,228	10,640,493
Net position-Beginning, as restated (Note 10 D)					<u>352,278,924</u>	<u>179,714,590</u>
Net position-Ending					<u>\$369,560,152</u>	<u>\$190,355,083</u>

See accompanying notes to financial statements

Net (Expense) Revenue and
Changes in Net Position

Primary Government	Component Unit
Total	December 31, 2017

(\$16,545,439)
5,945,150
(3,214,044)
(15,902,538)
32,037,655
(705,745)
(30,646,399)
(20,790,574)

(49,821,934)

7,093,116
5,887,770

12,980,886

(36,841,048)

\$30,784

31,893,019
26,990,987
12,121,515
814,240
4,677,808
39,695
472,121 3,536
185,717

(12,432,333)

64,762,769 3,536

27,921,721 34,320

531,993,514 9,982,962

\$559,915,235 \$10,017,282



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, 2018

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
ASSETS				
Cash and investments available for operations (Note 3)	\$92,184,730	\$7,424,050	\$12,037,757	\$36,155,384
Receivables:				
Accounts	2,079,146	150		1,780,214
Due from other governments	3,110,278		114	
Interest	354,684	28,488	46,196	143,689
Loans receivable, net (Note 5)		30,059,809		
Prepays, materials, supplies and deposits (Note 1E)	654,241	3,566		
Property held for resale (Note 6)	4,200,000	3,048,003		
Advances to other funds (Note 4B)	5,189,042			
Total Assets	<u>\$107,772,121</u>	<u>\$40,564,066</u>	<u>\$12,084,067</u>	<u>\$38,079,287</u>
LIABILITIES				
Accounts payable	\$1,754,357	\$9,221	\$51,766	\$4,845,810
Accrued payroll	2,439,301	5,548	3,956	
Refundable deposits	3,163,931	12,600		806
Unearned revenue	7,534,098		136,854	
Advances from other funds (Note 4B)				5,189,042
Total Liabilities	<u>14,891,687</u>	<u>27,369</u>	<u>192,576</u>	<u>10,035,658</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - accounts receivable (Note 7E)				1,780,214
Unavailable revenue - interest on advances to other funds	69,292			
Total Deferred Inflows of Resources	<u>69,292</u>			<u>1,780,214</u>
FUND BALANCES				
Fund balances (Note 10):				
Nonspendable	10,043,283	3,566		
Restricted		40,533,131	11,891,491	26,263,415
Committed	33,642,501			
Assigned	8,629,416			
Unassigned	40,495,942			
TOTAL FUND BALANCES	<u>92,811,142</u>	<u>40,536,697</u>	<u>11,891,491</u>	<u>26,263,415</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$107,772,121</u>	<u>\$40,564,066</u>	<u>\$12,084,067</u>	<u>\$38,079,287</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:

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

NET POSITION OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
\$24,054,123	\$28,767,888	\$200,623,932
91,146	266,279	3,859,510
	103,936	3,376,671
	3,429,443	768,139
2,210,576	14,072	33,489,252
		2,882,455
		7,248,003
		5,189,042
<u>\$26,355,845</u>	<u>\$32,581,618</u>	<u>\$257,437,004</u>
\$117,056	\$319,850	\$7,098,060
810	27,677	2,477,292
	18,843	3,196,180
	214,711	7,885,663
		5,189,042
<u>117,866</u>	<u>581,081</u>	<u>25,846,237</u>
		1,780,214
		69,292
		<u>1,849,506</u>
2,210,576	14,072	12,271,497
	31,729,884	110,417,921
		33,642,501
24,027,403	256,581	32,913,400
		40,495,942
<u>26,237,979</u>	<u>32,000,537</u>	<u>229,741,261</u>
<u>\$26,355,845</u>	<u>\$32,581,618</u>	
		323,239,287
		10,834,676
		1,849,506
	(144,197,255)	
	(38,296,112)	
	(7,193,677)	
	(6,417,534)	
		<u>\$369,560,152</u>

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
REVENUES				
Property taxes	\$31,893,019			
Sales taxes	27,854,331			
Other taxes	17,942,112			
Licenses and fines	12,757,868			
Use of money and property	796,131	\$886,289	\$31,830	\$483,542
Intergovernmental	1,390,799		816,328	1,102,638
Charges for services	6,349,731			
Developer contributions			365,083	27,822,959
Other	<u>139,240</u>			
Total Revenues	<u>99,123,231</u>	<u>886,289</u>	<u>1,213,241</u>	<u>29,409,139</u>
EXPENDITURES				
Current:				
General Government	15,170,168	137,230		
Building and Safety	3,633,031			
Recreation and Community Services	4,496,881			
Public Works	5,834,642			
Engineering	2,541,020			
Planning and Neighborhood Services	2,344,514	199,229		
Police	27,657,857			
Fire	21,033,591			
Capital outlay			6,252,163	15,136,775
Debt service:				
Interest and fees				69,292
Total Expenditures	<u>82,711,704</u>	<u>336,459</u>	<u>6,252,163</u>	<u>15,206,067</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>16,411,527</u>	<u>549,830</u>	<u>(5,038,922)</u>	<u>14,203,072</u>
OTHER FINANCING SOURCES (USES)				
Loss from conveyance of property	6,612	(12,443,136)		
Transfers in (Note 4A)	5,551,542		4,999,915	
Transfers (out) (Note 4A)	<u>(1,900,000)</u>		<u>(230,773)</u>	<u>(5,325,000)</u>
Total Other Financing Sources (Uses)	<u>3,658,154</u>	<u>(12,443,136)</u>	<u>4,769,142</u>	<u>(5,325,000)</u>
NET CHANGE IN FUND BALANCES	<u>20,069,681</u>	<u>(11,893,306)</u>	<u>(269,780)</u>	<u>8,878,072</u>
Fund balances (deficits) at beginning of year	<u>72,741,461</u>	<u>52,430,003</u>	<u>12,161,271</u>	<u>17,385,343</u>
FUND BALANCES AT END OF YEAR	<u>\$92,811,142</u>	<u>\$40,536,697</u>	<u>\$11,891,491</u>	<u>\$26,263,415</u>

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
		\$31,893,019
		27,854,331
	\$2,486,834	20,428,946
		12,757,868
\$315,560	205,741	2,719,093
	2,918,433	6,228,198
	631,292	6,981,023
	876,756	29,064,798
	428,754	567,994
<u>315,560</u>	<u>7,547,810</u>	<u>138,495,270</u>
		89,895
		15,397,293
		3,633,031
		4,496,881
	1,147,952	6,982,594
	561,719	3,102,739
	608,819	3,152,562
	223,304	27,881,161
		21,033,591
2,879,766	2,974,133	27,242,837
<u>2,879,766</u>	<u>5,605,822</u>	<u>69,292</u>
<u>(2,564,206)</u>	<u>1,941,988</u>	<u>112,991,981</u>
<u>(575,557)</u>	<u>2,347,073</u>	<u>25,503,289</u>
2,910,620	6,042,493	(12,436,524)
<u>(3,486,177)</u>	<u>(3,695,420)</u>	<u>19,504,570</u>
<u>(3,139,763)</u>	<u>4,289,061</u>	<u>(14,637,370)</u>
<u>29,377,742</u>	<u>27,711,476</u>	<u>17,933,965</u>
<u>\$26,237,979</u>	<u>\$32,000,537</u>	<u>211,807,296</u>
		<u>\$229,741,261</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, 2018

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 \$17,933,965

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

CAPITAL ASSETS TRANSACTIONS

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

The capital outlay expenditures are therefore added back to fund balance (Internal service fund additions of \$2,873,769 have already been added to capital assets)	24,869,069
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$824,867 which has already been allocated to serviced funds.)	(15,565,534)
Retirements are deducted from fund balance	(55,645)
Assets transferred to proprietary funds	(195,893)

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):

Non-current portion of accrued vacation and sick leave	993,720
Non-current portion of uninsured claims payable	(139,162)
Net pension liabilities and pension-related deferred outflows/inflows of resources	(13,302,858)
Net OPEB liability and OPEB-related deferred outflows/inflows of resources	1,913,795
Unavailable revenue	69,292

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	<u>760,479</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$17,281,228

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, 2018**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$28,840,000	\$28,840,000	\$31,893,019	\$3,053,019
Sales taxes	25,518,309	25,518,309	27,854,331	2,336,022
Other taxes	16,351,500	16,351,500	17,942,112	1,590,612
Licenses and fines	8,774,690	8,774,690	12,757,868	3,983,178
Use of money and property	892,000	892,000	796,131	(95,869)
Intergovernmental	818,000	1,544,153	1,390,799	(153,354)
Charges for services	5,999,491	6,251,729	6,349,731	98,002
Other	126,000	137,293	139,240	1,947
Total Revenues	87,319,990	88,309,674	99,123,231	10,813,557
Expenditures				
Current:				
General Government:				
City Manager	3,028,563	3,123,781	2,965,992	157,789
City Attorney	742,616	1,218,616	1,208,352	10,264
Finance	3,262,692	3,411,142	3,296,030	115,112
Human Resources	1,445,153	1,445,153	1,328,225	116,928
Information Services	2,650,483	2,650,483	2,477,829	172,654
Non-departmental	7,060,149	6,857,054	4,437,679	2,419,375
Building and Safety	4,743,544	4,663,337	3,633,031	1,030,306
Recreation and Community Services	4,892,281	4,928,345	4,500,398	427,947
Public Works	6,553,810	6,598,810	5,916,316	682,494
Engineering	3,167,884	3,167,884	2,579,844	588,040
Planning and Neighborhood Services	2,780,342	2,800,123	2,349,489	450,634
Police	30,784,757	30,827,536	27,813,974	3,013,562
Fire	20,196,446	21,083,533	21,051,270	32,263
Total Expenditures	91,308,720	92,775,797	83,558,429	9,217,368
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,988,730)	(4,466,123)	15,564,802	20,030,925
OTHER FINANCING SOURCES (USES)				
Gain from sale of property			6,612	6,612
Transfers in	5,427,000	5,427,000	5,551,542	124,542
Transfers (out)	(1,900,000)	(1,900,000)	(1,900,000)	
Total Other Financing Sources (Uses)	3,527,000	3,527,000	3,658,154	131,154
NET CHANGE IN FUND BALANCE	(\$461,730)	(\$939,123)	19,222,956	\$20,162,079
Adjustment to budgetary basis:				
Encumbrance expenditures			846,725	
Fund balance at beginning of year			72,741,461	
FUND BALANCE AT END OF YEAR			\$92,811,142	

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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>	<u>Variance with</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Use of money and property	\$749,000	\$749,000	\$886,289	\$137,289
Total Revenues	<u>749,000</u>	<u>749,000</u>	<u>886,289</u>	<u>137,289</u>
Expenditures				
Current:				
General Government:				
Finance	78,653	78,653	49,672	28,981
Non-departmental	86,961	367,561	87,558	280,003
Planning and Neighborhood Services	<u>274,290</u>	<u>332,385</u>	<u>199,229</u>	<u>133,156</u>
Total Expenditures	<u>439,904</u>	<u>778,599</u>	<u>336,459</u>	<u>442,140</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			(12,443,136)	12,443,136
NET CHANGE IN FUND BALANCE	<u>\$309,096</u>	<u>(\$29,599)</u>	<u>(11,893,306)</u>	<u>(\$11,863,707)</u>
Fund balances (deficits) at beginning of year			<u>52,430,003</u>	
FUND BALANCE AT END OF YEAR			<u><u>\$40,536,697</u></u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

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

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

WATER UTILITY FUND

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

SEWER UTILITY FUND

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

NON-MAJOR INTERNAL SERVICE FUND

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

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



CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Business-type Activities-Enterprise Funds</u>			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
ASSETS				
Current Assets				
Cash and investments available for operations (Note 3)	\$32,404,168	\$34,636,667	\$67,040,835	\$10,977,862
Receivables:				
Accounts	1,681,181	1,068,437	2,749,618	55,238
Due from other governments	49,410	34,587	83,997	
Interest	124,068	132,823	256,891	42,149
Prepays, materials, supplies and deposits (Note 1E)	214,111	24,841	238,952	115,766
Total current assets	<u>34,472,938</u>	<u>35,897,355</u>	<u>70,370,293</u>	<u>11,191,015</u>
Noncurrent assets:				
Capital assets and capacity rights (Note 8):				
Land and construction in progress	11,355,509	1,383,204	12,738,713	
Depreciable capital assets, net	<u>38,253,987</u>	<u>85,106,306</u>	<u>123,360,293</u>	<u>4,743,808</u>
Total noncurrent assets	<u>49,609,496</u>	<u>86,489,510</u>	<u>136,099,006</u>	<u>4,743,808</u>
Total assets	<u>84,082,434</u>	<u>122,386,865</u>	<u>206,469,299</u>	<u>15,934,823</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	552,821	509,325	1,062,146	
Related to OPEB (Note 12B)	<u>207,655</u>	<u>191,647</u>	<u>399,302</u>	
Total deferred outflows of resources	<u>760,476</u>	<u>700,972</u>	<u>1,461,448</u>	
LIABILITIES				
Current liabilities:				
Accounts payable	1,953,726	306,637	2,260,363	208,820
Accrued payroll	47,151	37,606	84,757	20,954
Interest payable		85,136	85,136	
Refundable deposits	102,970		102,970	49
Unearned revenue	8,459	8,459	16,918	
Accrued vacation (Note 12C)	82,797	82,797	165,594	53,845
Sick leave payable (Note 12C)	21,186	21,186	42,372	4,075
Certificates of Participation (Note 9)		480,000	480,000	
Total current liabilities	<u>2,216,289</u>	<u>1,021,821</u>	<u>3,238,110</u>	<u>287,743</u>
Non-current liabilities:				
Accrued vacation (Note 12C)	38,188	38,188	76,376	21,926
Sick leave payable (Note 12C)	35,561	35,561	71,122	46,670
Net pension liabilities (Note 11C)	2,646,808	2,438,556	5,085,364	
Net OPEB liability (Note 12B)	2,074,123	1,914,234	3,988,357	
Certificates of Participation (Note 9)		4,882,703	4,882,703	
Total non-current liabilities	<u>4,794,680</u>	<u>9,309,242</u>	<u>14,103,922</u>	<u>68,596</u>
Total liabilities	<u>7,010,969</u>	<u>10,331,063</u>	<u>17,342,032</u>	<u>356,339</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	23,113	21,294	44,407	
Related to OPEB (Note 12B)	<u>98,405</u>	<u>90,820</u>	<u>189,225</u>	
Total deferred inflows of resources	<u>121,518</u>	<u>112,114</u>	<u>233,632</u>	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	49,609,496	81,126,807	130,736,303	4,743,808
Restricted for capital projects	23,668,736	20,166,318	43,835,054	
Unrestricted	<u>4,432,191</u>	<u>11,351,535</u>	<u>15,783,726</u>	<u>10,834,676</u>
Total net position	<u>\$77,710,423</u>	<u>\$112,644,660</u>	<u>\$190,355,083</u>	<u>\$15,578,484</u>

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, 2018

	<u>Business-type Activities-Enterprise Funds</u>			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	\$29,518,659	\$17,052,188	\$46,570,847	\$3,656,443
Developer contributions		26,681	26,681	
Other operating revenue	148,709	60,159	208,868	77,268
 Total Operating Revenues	 29,667,368	 17,139,028	 46,806,396	 3,733,711
OPERATING EXPENSES				
Purchased water	16,737,142		16,737,142	
Sewer treatment services		4,715,269	4,715,269	
Personnel services	3,202,958	2,836,632	6,039,590	1,281,217
Services and supplies	1,803,585	1,093,035	2,896,620	743,698
Depreciation	1,748,959	3,413,726	5,162,685	824,867
Repairs and maintenance	248,261	386,793	635,054	519,338
 Total Operating Expenses	 23,740,905	 12,445,455	 36,186,360	 3,369,120
 Operating Income (Loss)	 5,926,463	 4,693,573	 10,620,036	 364,591
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets				4,191
Interest income	64,941	105,973	170,914	41,850
Interest expense		(270,126)	(270,126)	
Subventions and grants	124,297	745	125,042	
 Total Nonoperating Revenues (Expenses)	 189,238	 (163,408)	 25,830	 46,041
Income (Loss) Before Contributions and Transfers				
	6,115,701	4,530,165	10,645,866	410,632
Capital contributions	195,893		195,893	2,509,847
Capital contributions - connection fees	1,042,356	1,463,578	2,505,934	
Transfers in (Note 4A)	2,275,000		2,275,000	300,000
Transfers (out) (Note 4A)	(2,594,000)	(2,388,200)	(4,982,200)	(2,460,000)
 Change in net position	 7,034,950	 3,605,543	 10,640,493	 760,479
 Net position-beginning, as restated (Note 10 D)	 70,675,473	 109,039,117	 179,714,590	 14,818,005
 Net position-ending	 \$77,710,423	 \$112,644,660	 \$190,355,083	 \$15,578,484

See accompanying notes to financial statements

**CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$29,507,699	\$17,096,017	\$46,603,716	\$3,678,473
Payments to suppliers	(18,992,224)	(6,077,172)	(25,069,396)	(1,178,048)
Payments to employees for salaries and benefits	(2,885,811)	(2,326,092)	(5,211,903)	(1,277,551)
Net cash provided by operating activities	7,629,664	8,692,753	16,322,417	1,222,874
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	124,297	745	125,042	
Transfers in	2,275,000		2,275,000	300,000
Transfers (out)	(2,594,000)	(2,388,200)	(4,982,200)	(2,460,000)
Cash Flows from Noncapital Financing Activities	(194,703)	(2,387,455)	(2,582,158)	(2,160,000)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Payment to bond escrow agent		(5,171,844)	(5,171,844)	
Proceeds from issuance of debt		4,725,000	4,725,000	
Bond premium		637,703	637,703	
Principal paid on long-term debt		(470,000)	(470,000)	
Interest paid		(184,155)	(184,155)	
Proceeds from sale of capital assets				4,191
Acquisition of capital assets	(2,373,629)	(10,150,034)	(12,523,663)	(363,922)
Capital contributions - connection fees	1,042,356	1,463,578	2,505,934	
Cash Flows from Capital and Related Financing Activities	(1,331,273)	(9,149,752)	(10,481,025)	(359,731)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	10,269	72,092	82,361	32,308
Cash Flows from Investing Activities	10,269	72,092	82,361	32,308
Net increase (decrease) in cash and cash equivalents	6,113,957	(2,772,362)	3,341,595	(1,264,549)
Cash and investments at beginning of period	26,290,211	37,409,029	63,699,240	12,242,411
Cash and investments at end of period	\$32,404,168	\$34,636,667	\$67,040,835	\$10,977,862
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$5,926,463	\$4,693,573	\$10,620,036	\$364,591
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,748,959	3,413,726	5,162,685	824,867
Change in assets and liabilities:				
Receivables, net	(173,009)	(51,470)	(224,479)	(55,238)
Materials, supplies and deposits	5,277	2,233	7,510	(796)
Accrued payroll	8,296	4,436	12,732	
Accounts and other payables	(194,242)	125,082	(69,160)	89,450
Unearned revenue	8,459	8,459	16,918	
Due to retirement system	304,710	501,557	806,267	
Due to OPEB	(5,249)	(4,843)	(10,092)	
Net cash provided by operating activities	\$7,629,664	\$8,692,753	\$16,322,417	\$1,222,874
NONCASH TRANSACTIONS:				
Contributions and transfers of capital assets, net	\$195,893		\$195,893	\$2,509,847

See accompanying notes to financial statements



FIDUCIARY FUNDS

FIDUCIARY FUNDS

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

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

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

AGENCY FUNDS

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



**CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018**

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	\$9,474,467	\$1,292,563
Restricted cash and investments (Note 3)	183	
Interest receivable		4,890
 Total Assets	 9,474,650	 \$1,297,453
 LIABILITIES		
Refundable deposits		\$1,297,453
Accounts payable	31,986	
Interest payable	1,737,667	
Long-term obligations (Note 16D):		
Due in one year	9,505,408	
Due in more than one year	129,883,118	
 Total Liabilities	 141,158,179	 \$1,297,453
 NET POSITION (DEFICIT)		
Held in trust for other governments		 (\$131,683,529)

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund</u>
Additions:	
Property taxes	\$16,916,371
Use of money and property	<u>77,096</u>
 Total additions	 <u>16,993,467</u>
 Deductions:	
General and administrative	84,284
Remittance of land sale proceeds to County	312,161
 Debt Service:	
Interest and fees	<u>6,539,764</u>
 Total deductions	 <u>6,936,209</u>
 Net change in net position	10,057,258
 Net position (deficit) - beginning	<u>(141,740,787)</u>
 Net position (deficit) - ending	<u>(\$131,683,529)</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, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. *Reporting Entity*

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

PRIMARY GOVERNMENT

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

Blended Component Units

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

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

The Milpitas Municipal Financing Authority, formed in March 2016, is a separate government entity whose purpose is to assist with the financing and refinancing of public programs, projects and capital improvements for the benefit of the City and the Housing Authority. The Municipal Financing Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Municipal Financing Authority is controlled by the City and the Housing Authority and has the same governing body as the City, which also performs all accounting and administrative functions for the Municipal Financing Authority. As of June 30, 2018, no financial activities have been undertaken by the Municipal Financing Authority.

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

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The former Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2016 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

B. Basis of Presentation

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City also reports the following fund types:

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

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

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

D. Basis of Accounting

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. *Prepays, 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.

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

F. *Deferred Inflows and Deferred Outflows of Resources*

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Property Tax*

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

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

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

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

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

I. *Fair Value Measurements*

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

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

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

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

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

J. *Use of Estimates*

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

The City adopts an annual operating budget on or before June 30 of the previous fiscal year. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the City Council by resolution. Because Milpitas is a general law city, it is not subject to a budgetary process prescribed by statute or charter.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager's budget control remains at the level of department and/or project within any one fund. The City Manager may approve supplemental appropriations in the General Fund providing the total increase does not exceed 1% of the original total General Fund 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 without City Council approval.

The City Manager is authorized to amend appropriations within the various departments and projects within a fund, provided that the amount of the amended appropriation is \$20,000 or less. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceed \$20,000 require prior approval of the City Council.

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

B. *Adjustments to GAAP Basis from Budgetary Basis*

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

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

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

B. Classification

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

Cash and investments available for operations	\$278,642,629
Total Primary Government cash and investments	<u>278,642,629</u>
Cash and investments available for operations	197,665
Restricted investments	<u>1,881,720</u>
Total Component Unit cash and investments	<u>2,079,385</u>
Cash and investments in Fiduciary Funds (separate statement)	10,767,213
Total cash and investments	<u>\$291,489,227</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, 2018

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
Repurchase Agreements	1 Year		100%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		100%	\$65,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		40%	30%
Commercial Paper – Pooled Funds	270 Days	A	40%	(A)
Commercial Paper – Non-Pooled Funds	270 Days	A	25%	(A)
Negotiable Certificates of Deposit	5 Years		30%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	5 Years		100%	No Limit
Medium Term Corporate Notes	5 Years	A	30%	(A)
Money Market and Mutual Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		100%	No Limit

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	5 Years		100%	No Limit
Bankers Acceptances	180 Days	A	20%	\$5,000,000 or 10%
Commercial Paper – Pooled Funds	270 Days	A	40%	(A)
Commercial Paper – Non-Pooled Funds	270 Days	A	25%	(A)
Negotiable Certificates of Deposit	5 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	\$65,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

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

E. Investments Authorized for Terrace Gardens Inc.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

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

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total	Percentage of Portfolio
<i>City and Successor Agency:</i>					
Federal Agency Obligations	\$37,813,100	\$37,398,412	\$65,315,545	\$140,527,057	48.22%
Medium Term Corporate Notes	5,471,565	3,954,300	13,772,241	23,198,106	7.96%
U.S. Treasury Notes	15,855,460	11,830,253	6,840,727	34,526,440	11.84%
California Local Agency Investment Fund	80,149,588			80,149,588	27.50%
Mutual Funds (U.S. Securities)	9,246,315			9,246,315	3.17%
Negotiable Certificates of Deposit	997,818	985,706	1,230,930	3,214,454	1.10%
<i>Terrace Gardens, Inc.:</i>					
Nonnegotiable Certificates of Deposit	1,692,932			1,692,932	0.58%
Total Investments	<u>\$151,226,778</u>	<u>\$54,168,671</u>	<u>\$87,159,443</u>	<u>292,554,892</u>	
<i>Demand Deposits (Overdraft) - City of Milpitas</i>					
				(1,452,118)	-0.50%
<i>Demand Deposits - Terrace Gardens</i>					
				<u>386,453</u>	<u>0.13%</u>
Total Cash and Investments				<u><u>\$291,489,227</u></u>	<u><u>100.00%</u></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. 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, 2018 these investments matured in an average of 194 days.

Mutual funds are available for withdrawal on demand and at June 30, 2018 matured in an average of 29 days.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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, 2018 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		\$140,527,057			\$140,527,057
Medium Term Corporate Notes	\$5,446,143	16,754,983	\$996,980		23,198,106
Mutual Funds (U.S. Securities)	9,246,315				9,246,315
Negotiable Certificates of Deposit		243,383	1,732,901	\$740,280	2,716,564
Totals	\$14,692,458	\$157,525,423	\$2,729,881	\$740,280	175,688,042
<i>Not rated:</i>					
California Local Agency Investment Fund					80,149,588
Negotiable Certificates of Deposit					497,890
<i>Exempt from credit rate disclosure:</i>					
U.S. Treasury Notes					34,526,440
Total Investments					\$290,861,960

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2018.

Terrace Gardens, Inc. invests only in Nonnegotiable Certificates of Deposit. At June 30, 2018, all of Terrace Gardens' Nonnegotiable Certificates of Deposit totaling \$1,692,932 were fully insured by Federal Deposit Insurance.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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, 2018:

	Level 1	Level 2	Total
<i>Investments by Fair Value Level:</i>			
Federal Agency Obligations	\$140,527,057	\$140,527,057	
Medium Term Corporate Notes	23,198,106	23,198,106	
U.S. Treasury Notes	\$34,526,440	34,526,440	
Negotiable Certificates of Deposit	<u>3,214,454</u>	<u>3,214,454</u>	
Subtotal	<u><u>\$34,526,440</u></u>	<u><u>\$166,939,617</u></u>	201,466,057
<i>Investments Measured at Amortized Cost:</i>			
Mutual Funds (U.S. Securities)	9,246,315		
<i>Investments Measured at Cost:</i>			
Terrace Gardens, Inc.			
Nonnegotiable Certificates of Deposit	1,692,932		
<i>Investments Exempt from Fair Value Hierarchy:</i>			
California Local Agency Investment Fund	<u>80,149,588</u>		
Total Investments	<u><u>\$292,554,892</u></u>		

U.S. Treasury Notes totaling \$34.5 million classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. Federal Agency Obligations totaling \$140.5 million, Medium Term Corporate Notes of \$23.2 million and Negotiable Certificates of Deposit of \$3.2 million, classified in Level 2 of the fair value hierarchy, are valued using pricing techniques of matrix pricing or market corroborated pricing, with inputs such as yield curves or indices. These prices are obtained from various pricing sources by our custodian bank.

I. Significant Investments

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2018:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	\$37,483,170
Federal Home Loan Bank	Federal Agency Obligations	64,106,462
Federal Home Loan Mortgage Corporation	Federal Agency Obligations	29,127,845

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between Funds

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

Transfers between funds during the fiscal year ended June 30, 2018 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Major Funds:		
General Fund	General Government Capital Projects Fund	\$124,542 (A)
General Fund	Water Utility Enterprise Fund	2,594,000 (B)
General Fund	Sewer Utility Enterprise Fund	1,685,000 (B)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	248,000 (B)
General Fund	Community Facilities District Special Revenue Fund	900,000 (B)
Street Improvement Capital Projects Fund	General Fund	1,600,000 (C)
Street Improvement Capital Projects Fund	General Government Capital Projects Fund	1,291,917 (C)
Street Improvement Capital Projects Fund	General Government Capital Projects Fund	7,998 (A)
Street Improvement Capital Projects Fund	Sewer Utility Enterprise Fund	100,000 (C)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	2,000,000 (C)
General Government Capital Projects Fund	Sewer Utility Enterprise Fund	103,200 (C)
General Government Capital Projects Fund	Lighting and Landscape Maintenance District Special Revenue Fund	100,000 (C)
General Government Capital Projects Fund	Community Planning Special Revenue Fund	200,000 (C)
General Government Capital Projects Fund	Storm Drain Development Capital Projects Fund	47,420 (A)
General Government Capital Projects Fund	Equipment Management Internal Service Fund	2,460,000 (C)
Water Utility Enterprise Fund	Transit Area Impact Fee Capital Projects Fund	2,075,000 (C)
Water Utility Enterprise Fund	Park Improvement Capital Projects Fund	200,000 (C)
Non-Major Funds:		
Gas Tax Fund	Street Improvement Capital Projects Fund	230,773 (A)
Gas Tax Fund	General Government Capital Projects Fund	29,325 (A)
Park Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	3,250,000 (C)
Park Improvement Capital Projects Fund	General Government Capital Projects Fund	1,525,000 (C)
Park Improvement Capital Projects Fund	General Government Capital Projects Fund	107,395 (A)
Park Improvement Capital Projects Fund	Sewer Utility Enterprise Fund	500,000 (C)
Storm Drain Development Capital Projects Fund	General Government Capital Projects Fund	400,000 (C)
Equipment Management Internal Service Fund	General Fund	300,000 (B)
	Total Interfund Transfers	<u><u>\$22,079,570</u></u>

(A) To return unexpended project funds

(B) Transfer for operating costs

(C) To fund capital projects

B. Long-Term Interfund Advances

In June 2014, the General Fund advanced \$5,000,000 to the Transit Area Impact Fee Capital Projects Fund. The advance will be repaid when the fund collects sufficient impact fees from developers. The advance bears simple interest at the monthly investment return of the City's portfolio. At June 30, 2018, the balance of the advance was \$5,189,042.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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, 2018:

Housing and Community Development Loans:

Rehabilitation Loans	<u>\$3,429,443</u>
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Housing Authority Loans:

Milpitas Housing Associates	4,788,563
Parc Metropolitan Housing Development	91,820
Parc North Associates LLC	760,101
Mid-Peninsula Milpitas Affordable Housing Associates	17,130,121
KB Home South Bay Inc.	1,372,900
Western Pacific Housing Inc.	1,822,493
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	3,145,180
Resources for Community Development	<u>148,631</u>
Total Housing Authority Loans Receivable	<u>30,059,809</u>
Total Loans Receivable	<u><u>\$33,489,252</u></u>

A. Rehabilitation Loans

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2018, the City had outstanding rehabilitation loans of \$3,429,443 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2018, the City received \$40,677 from all participants.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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 bears 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. During fiscal year 2018, interest of \$247,489 was accrued, and as of June 30, 2018, principal and accrued interest outstanding totaled \$4,788,563.

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, 2018, the Housing Authority made a new loan of \$25,000, received principal payments of \$39,985 and as of June 30, 2018, there were \$91,820 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 2018, principal of \$17,387 was paid and as of June 30, 2018, there were \$760,101 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 2018, \$8,803 was paid, interest of \$288,000 was accrued, and as of June 30, 2018, principal and accrued interest outstanding totaled \$17,130,121.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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, 2018, there were \$1,372,900 of loans to Parcel C households outstanding. As of June 30, 2018 subsidies totaling \$4,707,542 had been provided.

G. Western Pacific Housing Inc., Loans

In August 2005, the former Redevelopment Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The former Redevelopment Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The former Redevelopment Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. During fiscal year 2018, a new loan of \$75,000 was made. Principal of \$101,316 was repaid in fiscal year 2018 and as of June 30, 2018, there were \$625,493 such loans outstanding.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 5 - LOANS RECEIVABLE (Continued)

In September 2006, the former Redevelopment Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2018, there were \$1,197,000 of silent second loans outstanding.

H. *Shapell Industries*

In June 2004, the former Redevelopment Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2018, there were \$800,000 of silent second loans outstanding.

I. *MIL Aspen Associates, Ltd.*

In April 2007, the former Redevelopment Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a \$2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. During the year ended June 30, 2018, interest of \$150,814 accrued, and as of June 30, 2018, principal and accrued interest totaled \$3,145,180.

J. *Resources for Community Development*

In November 2017, the City entered into a predevelopment loan agreement with Resources for Community Development for certain predevelopment costs necessary for the development of a 100-unit affordable rental housing project, of which 25 units will be restricted for homeless veterans and homeless or disabled persons, and 25 units will be restricted for extremely low-income households. Under the terms of the agreement, the City provided a \$147,768 loan to the Developer. The loan bears interest of 3% and is repayable on November 29, 2019. During the year ended June 30, 2018, \$863 of interest was accrued, and as of June 30, 2018, principal and interest totaled \$148,631.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

A. General Fund

As discussed in Note 16, 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, 2018, 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. The Centria unit was sold in fiscal year 2017 for \$296,000. The units were purchased in order to retain them as affordable housing units and are being held for future resale. The remaining units are rented to tenants.

In November 2009 the Agency purchased property along South Main Street in the amount of \$12,443,137, which was intended for the development of senior housing with low income housing units as discussed in Note 7A. The property was transferred to the developer in April 2018, also discussed in Note 7A.

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

In March 2018, the Housing Authority purchased an additional property on South Main Street in the amount of \$456,826.

As of June 30, 2018, property totaling \$3,048,003 is held by the Housing Authority.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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, which has been reported as a Special Item in the amount of \$12,432,333.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

B. D.R. Horton Bay, Inc.

In November 2012, the City entered into an Acquisition and Reimbursement Agreement with D.R. Horton Bay, Inc., which requires the developer to pay Transit Area Specific Plan (TASP) and park in lieu developer impact fees of \$8,007,312 to defray all or a portion of the costs of sewer facilities and to mitigate other impacts of the Harmony Project. Under the terms of the Agreement, D.R. Horton will receive estimated fee credits totaling \$4,355,645 for impact fees for constructing trail improvements, road improvements to the east side of McCandless Road and sewer line 11A and 11B installation. Fee credits totaling \$209,683 were issued during the year ended June 30, 2018 and to date, the City has issued fee credits of \$4,355,645.

C. Sales Tax Sharing Agreement

In June 2009, the City entered into a Sales Tax Sharing Agreement with a corporation that provides process control for the semiconductor and related industries. Under the terms of the Agreement, the City agreed to pay the corporation 50% of the calendar year sales and use tax revenues paid by the corporation and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from the corporation for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. The City paid \$376,815 of sales tax to the corporation during fiscal year 2018.

D. Tax Rebate Agreement

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

E. *Piper Montague Infrastructure Payment Cost Sharing Agreement*

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

During fiscal year 2016 one of the developers began construction on one of the shared infrastructure projects and expended \$5,019,701 during fiscal year 2016 and \$489,829 during fiscal year 2017. That developer received TASP fee credits to date of \$3,085,337, which is payable from the other two developers as discussed above. One of those developers began pulling permits during fiscal year 2016, which resulted in repayment of \$198,223 in 2016 and \$1,106,899 in 2017. No repayments were made during fiscal year 2018. The balance due from the two developers was \$1,780,214 as of June 30, 2018.

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

In June 2014, the City entered into a Fee Credit Agreement with Milpitas Station (San Jose) Venture, LLLP, which requires the developer to pay TASP fees of \$9,932,643 to defray all or a portion of the improvements and facilities costs associated with the Milpitas Station Project. Under the terms of the agreement, the developer will be entitled to an improvement fee credit totaling \$1,500,000 for construction costs for roadway improvements, pole relocation improvements, and railroad crossing improvements and a park land fee credit totaling \$4,244,486 for the park land dedication to be applied against projected TASP fees. During the year ended June 30, 2018, the City issued fee credits in the amount of \$1,638,959 and fee credits of \$3,656,141 have been issued to date.

G. *Anton Milpitas 730 LLC and 750 LLC*

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

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

In July 2017, the City entered into a Fee Reimbursement Agreement with LMC Milpitas Holdings I LLC and Lennar Homes of California, which requires the developer to pay TASP fees of \$16,029,909 to defray all or a portion of the costs of public parks and public recycled water system. Under the terms of the agreement, the developer will be entitled to an improvement fee credit totaling \$3,689,574 for construction and design costs for bridge improvements for Montague Expressway and East Penitencia Creek. During the year ended June 30, 2018, the City issued fee credits in the amount of \$2,536,935.

NOTE 8 - CAPITAL ASSETS

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

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

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

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

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

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

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2017	Additions	Retirements	Transfers	Balance at June 30, 2018
Capital assets not being depreciated:					
Land	\$57,566,357	\$5,910,221	(\$55,645)	\$1,931,845	\$65,352,778
Construction in progress	59,838,631	13,368,303	—————	(9,081,571)	64,125,363
Total capital assets not being depreciated	<u>117,404,988</u>	<u>19,278,524</u>	<u>(55,645)</u>	<u>(7,149,726)</u>	<u>129,478,141</u>
Capital assets being depreciated:					
Buildings and improvements	163,159,450	—————	—————	3,205,854	166,365,304
Other improvements	28,917,310	—————	—————	1,058,749	29,976,059
Machinery and equipment	39,869,943	2,873,769	(208,803)	—————	42,534,909
Landscape system	29,675,507	68,791	—————	—————	29,744,298
Storm system	74,299,423	—————	—————	40,725	74,340,148
Street system	256,390,078	5,437,853	—————	2,619,197	264,447,128
Traffic system	19,014,167	83,901	—————	29,308	19,127,376
Total capital assets being depreciated	<u>611,325,878</u>	<u>8,464,314</u>	<u>(208,803)</u>	<u>6,953,833</u>	<u>626,535,222</u>
Less accumulated depreciation for:					
Buildings and improvements	(69,428,524)	(5,910,188)	—————	—————	(75,338,712)
Other improvements	(20,190,565)	(883,240)	—————	—————	(21,073,805)
Machinery and equipment	(32,016,466)	(2,625,310)	208,803	—————	(34,432,973)
Landscape system	(14,090,037)	(593,236)	—————	—————	(14,683,273)
Storm system	(71,739,455)	(380,641)	—————	—————	(72,120,096)
Street system	(195,060,742)	(5,434,223)	—————	—————	(200,494,965)
Traffic system	(14,066,689)	(563,563)	—————	—————	(14,630,252)
Total accumulated depreciation	<u>(416,592,478)</u>	<u>(16,390,401)</u>	<u>208,803</u>	<u>—————</u>	<u>(432,774,076)</u>
Net capital assets being depreciated	<u>194,733,400</u>	<u>(7,926,087)</u>	<u>—————</u>	<u>6,953,833</u>	<u>193,761,146</u>
Governmental activities capital assets, net	<u>\$312,138,388</u>	<u>\$11,352,437</u>	<u>(\$55,645)</u>	<u>(\$195,893)</u>	<u>\$323,239,287</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2018:

Project	Total Budget	Actual Costs	Unexpended Budget
S Milpitas Blvd Extension	\$16,534,877	\$16,534,877	
Alviso Adobe Renovation	6,999,272	5,686,435	\$1,312,837
Sports Center Sports Fields	4,585,000	4,502,391	82,609
Light Rail Median Lane	6,005,000	3,932,209	2,072,791
Higuera Adobe Park	2,600,000	2,503,438	96,562
City Building Improvements	2,125,000	1,643,481	481,519
Montague Expwy Pedestrian Overcrossing	5,400,000	1,829,453	3,570,547
McCandless Park	3,950,000	1,434,037	2,515,963
Storm Drain System	1,100,000	796,646	303,354
Police Department Communications	4,455,000	732,590	3,722,410
Fire Station Improvements	1,095,000	614,938	480,062
Park Access Improvement & Resurfacing	600,000	581,967	18,033
McCarthy Blvd Landscape	788,256	473,370	314,886
Public Safety Communications Equipment	270,000	259,592	10,408
Police Records Management	700,000	254,379	445,621
Midtown Street Light	1,800,000	235,489	1,564,511
Park Irrigation System	400,000	221,641	178,359
Dempsey Road Storm Drain	2,830,000	219,294	2,610,706
Annual Sidewalk, Curb & Gutter Repair	1,206,840	207,969	998,871
Lower Penitencia Creek	782,842	207,783	575,059
Public Safety Equipment	196,785	192,000	4,785
Technology Projects	450,000	155,425	294,575
Trash Removal Devices	350,000	125,704	224,296
Creighton Park Renovation	2,300,000	117,809	2,182,191
City Building Roofing	200,000	89,593	110,407
Sports Center Skate Park	3,025,000	31,312	2,993,688
Citywide Park Play ground Rehabilitation	700,000	23,497	676,503
Sinclair LMD Improvements	73,000	22,265	50,735
Sandalwood Park Renovation	1,275,000	4,581	1,270,419
Replacement Fire Station Alert System	220,000	464	219,536
Main Street/Library Park	1,375,000	200	1,374,800
SCVWD Second Water Supply Turnout #1	200,000	110	199,890
City Building, Exterior Painting	900,000	50	899,950
Sports Fields Turf Rehabilitation Program	225,000		225,000
Storm Drain System Rehabilitation 17-19	1,400,000		1,400,000
Flap Gate Replacement	50,000		50,000
Minor Storm Drain Projects 2016	100,000		100,000
Bart Project-Storm Improvement	250,000		250,000
Annual Tree Replacement Program	200,000		200,000
2017-19 Finance System Upgrade	300,000		300,000
Police Department MedEvac Vehicle	406,465		406,465
SCVWD Second Water Supply Turnout #2	100,000		100,000
Berryessa Creek Trail	300,000		300,000
TASP Citation-SCS	14,297,300	14,297,300	
TASP Pulte	3,656,140	3,656,140	
TASP Lennar	2,536,934	2,536,934	
Total construction in progress	<u><u>\$99,313,711</u></u>	<u><u>\$64,125,363</u></u>	<u><u>\$35,188,348</u></u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8 - CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2017	Additions	Transfers	Balance at June 30, 2018
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	9,289,256	\$2,717,245	(\$400,867)	11,605,634
Total capital assets not being depreciated	<u>10,422,335</u>	<u>2,717,245</u>	<u>(400,867)</u>	<u>12,738,713</u>
Capital assets being depreciated:				
Distribution facilities	80,398,887		62,324	80,461,211
Water Service lines	14,659,467		534,436	15,193,903
Sewer lines	84,005,615			84,005,615
Capacity rights	61,968,884	9,806,418		71,775,302
Total capital assets being depreciated	<u>241,032,853</u>	<u>9,806,418</u>	<u>596,760</u>	<u>251,436,031</u>
Less accumulated depreciation for:				
Distribution facilities	(49,474,114)	(1,436,043)		(50,910,157)
Water Service lines	(6,178,055)	(312,915)		(6,490,970)
Sewer lines	(46,870,763)	(1,349,740)		(48,220,503)
Capacity rights	(20,390,121)	(2,063,987)		(22,454,108)
Total accumulated depreciation	<u>(122,913,053)</u>	<u>(5,162,685)</u>		<u>(128,075,738)</u>
Net capital assets being depreciated	<u>118,119,800</u>	<u>4,643,733</u>	<u>596,760</u>	<u>123,360,293</u>
Business-type activities capital assets, net	<u><u>\$128,542,135</u></u>	<u><u>\$7,360,978</u></u>	<u><u>\$195,893</u></u>	<u><u>\$136,099,006</u></u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8 - CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2018:

Project	Total	Actual	Unexpended
	Budget	Costs	Budget
Sewer System Replacement 1	\$1,750,000	\$682,068	\$1,067,932
Sewer System Replacement	2,550,000	381,047	2,168,953
TASP Sewer Line Replacement	2,500,000		2,500,000
CCTV Sanitary Sewer	257,472	20,337	237,135
BART Project-Sewer Improvements	350,000	229,473	120,527
Minor Sewer Project 2	50,000	41,118	8,882
Sanitary Sewer Overflow Improvement	130,745	27,660	103,085
Sewer Pump Station Rehabilitation	200,000		200,000
Sewer Pump Station Treatment Improvement	400,000		400,000
Minor Sewer Projects	50,000		50,000
Sanitary Supervisory Control	450,000		450,000
Sewer Main Replacement	115,000		115,000
Sewer System Hydraulic Modeling	100,000		100,000
Well Up grade Project	6,645,000	2,825,907	3,819,093
Water System Seismic Improvement	4,887,951	897,387	3,990,564
Hydrant Replacement	240,000	167,487	72,513
Cathodic Protection Improvements	850,000	688,021	161,979
Abel St Pipeline Extension	440,000	42,312	397,688
Dempsey Road Water Line	4,607,772	1,159,454	3,448,318
Automated Water Meter Replacement	1,045,000	548,578	496,422
BART Project-Water Improvements	2,984,563	1,819,920	1,164,643
Water Conservation Program	1,400,000	806,582	593,418
Supervisory Control	50,000		50,000
Recycled Water Pipeline Infill	300,000	71,214	228,786
Recycled Water Pipeline Infill	3,750,000		3,750,000
Daniel Court Water Main & Service Replacement	1,500,000	1,142,066	357,934
Annual Water Distribution	600,000		600,000
Minor Water Projects	100,000	20,253	79,747
Water O & M Database Management	100,000	34,750	65,250
	\$38,403,503	\$11,605,634	\$26,797,869

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8 - CAPITAL ASSETS (Continued)

C. Terrace Gardens, Inc.'s Capital Assets

The following is a summary of Terrace Gardens Inc.'s changes in capital assets for the fiscal year ended December 31, 2017:

	Balance December 31, 2016	Additions	Balance December 31, 2017
Capital assets not being depreciated:			
Land	\$1,565,277		\$1,565,277
Capital assets being depreciated:			
Buildings	11,956,729		11,956,729
Furniture	317,094	\$19,299	336,393
Office equipment	65,096		65,096
Improvements	2,403,893	73,026	2,476,919
Total capital assets being depreciated	14,742,812	92,325	14,835,137
Less accumulated depreciation	(7,907,439)	(438,176)	(8,345,615)
Net capital assets being depreciated	6,835,373	(345,851)	6,489,522
Total capital assets, net	<u>\$8,400,650</u>	<u>(\$345,851)</u>	<u>\$8,054,799</u>

D. Depreciation Allocation

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

<i>Governmental Activities:</i>	
General Government	\$3,217,920
Public Works	7,518,800
Engineering	2,642,085
Parks and Recreation	1,020,686
Police	841,262
Fire	324,781
Internal Service Fund	824,867
Total Governmental Activities	<u>\$16,390,401</u>

<i>Business-Type Activities:</i>	
Water Utility	\$1,748,959
Sewer Utility	3,413,726
Total Business-Type Activities	<u>\$5,162,685</u>

<i>Discretely Presented Component Unit:</i>	
Terrace Gardens, Inc.	<u>\$438,176</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8 - CAPITAL ASSETS (Continued)

E. Sewer Treatment Capacity Rights

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), 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 \$71,775,302. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2018 the City's operation and maintenance share was approximately 5.817% of the total WPCP operations.

NOTE 9 - LONG TERM DEBT

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

A. Current Year Transactions and Balances

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

	Original Issue Amount	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
Business-type Activity Debt:						
Sewer Certificates of Participation, 2006 Series A						
3.4% - 4.20%, due November 1, 2026	\$9,535,000	\$5,605,000			\$5,605,000	
Wastewater Revenue Refunding Bonds, 2017 Series						
2.0% - 5.0%, due November 1, 2026	4,725,000		\$4,725,000		\$4,725,000	\$480,000
Plus: Unamortized bond premium			637,703		637,703	
	<u><u>\$14,260,000</u></u>	<u><u>\$5,605,000</u></u>	<u><u>\$5,362,703</u></u>	<u><u>\$5,605,000</u></u>	<u><u>\$5,362,703</u></u>	<u><u>\$480,000</u></u>

B. Sewer Certificates of Participation, 2006 Series A

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of \$9,535,000 to finance certain sewer facilities within the City. The Sewer COPs were collateralized by net revenues from the City's Sewer System Installment Sale Agreement. In lieu of a reserve fund, the COPs were secured by a \$695,758 surety bond issued by the MBIA Insurance Corporation. Principal was payable annually and interest was payable semi-annually through 2027. The Sewer COPs were refunded in December 2017 by the Wastewater Revenue Refunding Bonds, Series 2017 and the Sewer COPs were called in January 2018.

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 refunding resulted in an overall debt service savings of \$403,001 and the net present value of the debt service savings, called an economic gain, amounted to \$369,478. Principal on the 2017 Bonds is payable annually and interest is payable semi-annually through 2027.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 9 - LONG TERM DEBT (Continued)

The Sewer COPs and the 2017 Bonds are collateralized by net revenues from the City's Sewer System. For the fiscal year 2018, net revenues amounted to \$8,213,272 which represented coverage of 13.86 over the \$592,680 debt service.

D. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Business-Type Activities	
	Total Principal	Total Interest
2019	\$480,000	\$170,273
2020	460,000	187,500
2021	475,000	173,700
2022	495,000	154,700
2023	515,000	134,900
2024 - 2027	2,300,000	294,250
	4,725,000	<u>\$1,115,323</u>
Plus: Unamortized bond premium	637,703	
		<u>\$5,362,703</u>

NOTE 10 – NET POSITION AND FUND BALANCES

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

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

A. Net Position

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

B. Fund Balances

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2018, are below:

Fund Balance Classifications	Major		Major				Total	
	Special		Capital Projects					
	Revenue Fund	Street Improvement Fund	Transit Area Impact Fee Fund	General Government Project Fund	Other Governmental Funds			
General Fund	Housing Authority							
No nspendable:								
Loans receivable								
Prepays, materials, supplies and deposits	\$ 654,241	\$ 3,566		\$ 2,210,576	\$ 14,072	\$ 2,882,455		
Property held for resale	4,200,000					4,200,000		
Advance to other funds	5,189,042					5,189,042		
Subtotal Nonspendable	10,043,283	3,566		2,210,576	14,072	12,271,497		
Restricted for:								
Redevelopment Projects and Programs and Maintenance			\$ 11,891,491			2,060,144	13,951,635	
Housing and community development	40,533,131					3,473,733	44,006,864	
Law enforcement services						92,276	92,276	
Solid waste reduction and services						1,908,722	1,908,722	
Assessment district services						1,084,205	1,084,205	
Hetch-Hetchy ground lease						1,597,540	1,597,540	
Community planning						868,105	868,105	
Community benefits						254,419	254,419	
Park improvement projects						13,513,172	13,513,172	
Storm drain projects						6,877,568	6,877,568	
Transit area capital projects			\$ 26,263,415				26,263,415	
Subtotal Restricted	40,533,131	11,891,491	26,263,415			31,729,884	110,417,921	
Committed to:								
PERS stabilization	29,892,501						29,892,501	
Artificial turf replacement	750,000						750,000	
Technology replacement	1,000,000						1,000,000	
Facilities replacement	2,000,000						2,000,000	
Subtotal Committed	33,642,501						33,642,501	
Assigned to:								
Uninsured claims payable	2,816,694						2,816,694	
Public art projects						256,581	256,581	
Other contracts	1,164,854						1,164,854	
General government capital projects	4,647,868			\$ 24,027,403			28,675,271	
Subtotal Assigned	8,629,416			24,027,403		256,581	32,913,400	
Unassigned:								
General Fund								
Budget stabilization	4,000,000						4,000,000	
Unassigned	36,495,942						36,495,942	
Subtotal Unassigned	40,495,942						40,495,942	
Total fund balances (deficit)	\$ 92,811,142	\$ 40,536,697	\$ 11,891,491	\$ 26,263,415	\$ 26,237,979	\$ 32,000,537	\$ 229,741,261	

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. Minimum Fund Balance Policies

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

- 1) 16.67% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.
- 2) The City will maintain a Budget Stabilization Reserve in the General Fund with a target of \$8.3 million. The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be 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. Any use of the General Fund Budget Stabilization Reserve shall require majority vote by the City Council through the adoption of the Operating Budget or by appropriation action during the fiscal year. The City Council will set the reserve amount annually after the results of the prior fiscal year's Comprehensive Annual Financial Report (CAFR) are known. The replenishment of this reserve may also be incorporated into the annual Adopted Operating Budget, as resources are available to replenish the reserve.
- 3) Maintain a \$5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished from unassigned fund balance after the 16.67% requirement of the operating expenditures has been met.
- 4) Maintain an artificial turf replacement reserve to provide funding for the cost of replacing artificial turf fields, such as the field installed at the Milpitas Sports Center. The initial reserve is \$750,000, with a long-term target for this reserve of \$2 million. The City Council must approve utilization of this reserve at the time of the budget hearing or by appropriation action during the fiscal year.
- 5) Maintain a technology replacement reserve to provide funding for major rehabilitation or replacement of the City's technology infrastructure or new technology initiatives. The initial reserve is \$1 million, with a long-term target for this reserve of \$5 million, and will endeavor to set-aside an annual amount of \$300,000 in the Equipment Management Internal Service Fund. The City Council must approve utilization of this reserve at the time of the budget hearing or by appropriation action during the fiscal year.
- 6) Maintain a facilities replacement reserve to provide funding for major rehabilitation or replacement of City facilities (buildings/structures). The initial reserve is \$2 million, with a long-term target for this reserve of \$10 million. The City Council must approve utilization of this reserve at the time of the budget hearing or by appropriation action during the fiscal year.
- 7) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside \$500,000 annually from the General Fund reserve for this purpose.
- 8) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated and adjusted annually at appropriate levels.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

- 9) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs and pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.
- 10) Maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 11) Maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.

D. Net Position Restatements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), which became effective during the year ended June 30, 2018. In June 2015, GASB issued Statement No. 75 and the intention of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees – both active employees and inactive employees – are provided with postemployment benefits other than pensions by requiring recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense.

The implementation of the Statement required the City to make prior period adjustments. As a result, the beginning net positions of the Governmental Activities, Business-Type Activities, Water Utility Enterprise Fund and sewer utility Enterprise Fund were restated and reduced by \$38,398,395, \$3,788,372, \$1,970,122 and \$1,818,250, respectively. See Note 12B below.

NOTE 11 - PENSION PLANS

A. General Information

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to October 9, 2011	After October 9, 2011	On or after January 1, 2013
Hire date	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%	5.75%
Required employer contribution rates	9.393%	9.393%	9.393%
Required Unfunded Actuarial Liability Contribution		\$4,172,985	

	Safety		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to April 8, 2012	After April 8, 2012	On or after January 1, 2013
Hire date	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%	10.00%
Required employer contribution rates	17.837%	17.837%	17.837%
Required Unfunded Actuarial Liability Contribution		\$5,481,836	

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. The City's required contributions for the unfunded liability in the Miscellaneous and Safety Plans were \$4,172,985 and \$5,481,836, respectively.

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, 2016 and measurement date of June 30, 2017:

	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	349			220		
Inactive employees entitled to but not yet receiving benefits	307			30		
Active employees	144	3	30	117	5	18
Total	800	3	30	367	5	18

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - PENSION PLANS (Continued)

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

B. Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous (1)	Safety (1)
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.2% - 12.2% (2)	3.2% - 20.0% (2)
Investment Rate of Return	7.15% (3)	7.15% (3)
Mortality	Derived using CalPERS Membership Data for all Funds (4)	Derived using CalPERS Membership Data for all Funds (4)
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.00% thereafter	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.00% thereafter

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

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

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

(4) The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Change of Assumptions – For the measurement date of June 30, 2017, the accounting discount rate reduced from 7.65% to 7.15%.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - PENSION PLANS (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u><u>100.0%</u></u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - PENSION PLANS (Continued)

C. Changes in the Net Pension Liability

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

Miscellaneous Plan			
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016 (Measurement Date)	\$203,258,712	\$143,192,191	\$60,066,521
Changes in the year:			
Service cost	3,008,973		3,008,973
Interest on the total pension liability	15,078,047		15,078,047
Differences between actual and expected experience	(1,238,427)		(1,238,427)
Changes in assumptions	12,475,424		12,475,424
Changes in benefit terms			
Contribution - employer		5,048,143	(5,048,143)
Contribution - employee (paid by employer)		1,266,956	(1,266,956)
Contribution - employee		(370)	370
Plan to Plan Resource Movement		16,109,364	(16,109,364)
Net investment income		(211,414)	211,414
Administrative expenses		(10,236,837)	(10,236,837)
Benefit payments, including refunds of employee contributions	19,087,180	11,975,842	7,111,338
Net changes	\$222,345,892	\$155,168,033	\$67,177,859
Balance at June 30, 2017 (Measurement Date)			
Safety Plan			
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016 (Measurement Date)	\$300,196,672	\$195,083,877	\$105,112,795
Changes in the year:			
Service cost	5,934,642		5,934,642
Interest on the total pension liability	22,434,283		22,434,283
Differences between actual and expected experience	(690,685)		(690,685)
Changes in assumptions	18,725,315		18,725,315
Changes in benefit terms			
Contribution - employer		7,887,539	(7,887,539)
Contribution - employee (paid by employer)		2,233,341	(2,233,341)
Contribution - employee		(14,864,837)	22,090,936
Plan to Plan Resource Movement		31,538,718	(288,028)
Net investment income		17,058,951	288,028
Administrative expenses		(14,479,767)	
Benefit payments, including refunds of employee contributions	\$331,735,390	\$212,142,828	\$119,592,562
Net changes	\$554,081,282	\$367,310,861	\$186,770,421
Balance at June 30, 2017 (Measurement Date)			
Grand Totals - Both Plans			

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - PENSION PLANS (Continued)

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$97,131,873	\$164,934,443
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$67,177,859	\$119,592,562
1% Increase	8.15%	8.15%
Net Pension Liability	\$42,474,594	\$82,329,999

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, 2018, the City recognized pension expense of \$28,793,927. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Miscellaneous Plan</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$6,243,904	(\$586,623)
Differences between actual and expected experience		
Changes in assumptions	5,909,411	
Net differences between projected and actual earnings on plan investments	1,877,673	
Total	\$14,030,988	(\$586,623)

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - PENSION PLANS (Continued)

	Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$9,247,165	
Differences between actual and expected experience	1,637,166	(\$1,108,880)
Changes in assumptions	14,043,986	(1,263,023)
Net differences between projected and actual earnings on plan investments	2,504,762	
Total	<u>\$27,433,079</u>	<u>(\$2,371,903)</u>
Grand Totals - Both Plans	<u>\$41,464,067</u>	<u>(\$2,958,526)</u>

\$15,491,069 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Miscellaneous Plan:

Year Ended June 30	Annual Amortization
2019	\$5,189,570
2020	2,385,974
2021	835,002
2022	(1,210,085)

Safety Plan:

Year Ended June 30	Annual Amortization
2019	\$3,275,934
2020	8,578,828
2021	5,630,826
2022	(1,671,577)

E. Public Agency Retirement System

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - PENSION PLANS (Continued)

The City's required contributions of \$28,844 and the employee's required contributions of \$115,367 were made during the fiscal year ending June 30, 2018.

NOTE 12 - EMPLOYEE BENEFITS

A. *Deferred Compensation Plan*

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

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

B. *Retiree Medical Benefits*

The City provides postretirement health care benefits through its Retiree Medical Benefits Plan to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2018 there were 280 participants receiving these health care benefits.

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 – EMPLOYEE BENEFITS (Continued)

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 – EMPLOYEE BENEFITS (Continued)

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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, 2018, the City's contributions to the Plan were \$4,446,565.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2017:

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

Actuarial Methods and Assumptions – The City's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017, that was rolled back using standard update procedures to determine the total OPEB liability as of June 30, 2016 and June 30, 2017, based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	July 1, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Actuarial Assumptions:	
Discount Rate	7.0% (explicit subsidies) and 3.56% (implicit subsidies)
Inflation	2.75%
Salary Increase	3.25%
Assumed Wage Inflation	3.0%
Investment Rate of Return	7.0%
Mortality Rate	MacLeod Watts Scale of 2017 applied generationally
Healthcare Trend Rate	7.5% grading down to 5% for years 2024 and thereafter

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

Asset Class	Target Allocation
Global Equities	40.0%
Global Debt Securities	39.0%
REIT's	10.0%
Inflation Assets	8.0%
Commodities	3.0%
Total	100.0%

Discount Rate

Explicit Subsidy Liability – The City expects the trust assets to yield 7.0% over the long term, based on information published by CalPERS as of the June 30, 2017 valuation date. Net contributions to the trust in recent years have been set at a level to prefund the explicit portion of benefits, with no advance funding of the implicit subsidy liability. Accordingly, the discount rate used for the City's explicit OPEB liability is 7.0%.

Implicit Subsidy Liability – The City expects to continue to fund the implicit subsidy liability on a pay-as-you-go basis. Therefore, the Fidelity 20 year AA General Obligation Municipal Bond Index was used in determining the discount rates used to calculate the implicit subsidy liability. As of the beginning and end of the Measurement Period, the discount rates for the Fidelity index were 2.92% and 3.56%, respectively.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - 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, 2016	\$80,926,571	\$33,780,048	\$47,146,523
Changes Recognized for the Measurement Period:			
Service Cost	2,386,392		2,386,392
Interest on the total OPEB liability	4,794,071		4,794,071
Changes in benefit terms			
Differences between expected and actual experience			
Changes of assumptions	(1,263,847)		(1,263,847)
Contributions from the employer		4,959,756	(4,959,756)
Net investment income		3,708,342	(3,708,342)
Administrative expenses		(18,732)	18,732
Benefit payments	(3,325,081)	(3,325,081)	
Net changes	2,591,535	5,324,285	(2,732,750)
Balance at June 30, 2017 (Measurement Date)	<u>\$83,518,106</u>	<u>\$39,104,333</u>	<u>\$44,413,773</u>

The benefit payments and refunds include implied subsidy benefit payments in the amount of \$807,502.

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

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

Net OPEB Liability/(Asset)		
Discount Rate -1% (6.0%-2.65%)	Discount Rate (7.0%-3.65%)	Discount Rate +1% (8.0%-4.65%)
<u>\$54,608,961</u>	<u>\$44,413,773</u>	<u>\$35,878,642</u>

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

Net OPEB Liability/(Asset)		
Healthcare Cost		
1% Decrease (6.5%-4.0%)	Trend Rates (7.5%-5.0%)	1% Increase (8.5%-6.0%)
<u>\$34,406,480</u>	<u>\$44,413,773</u>	<u>\$57,329,831</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - EMPLOYEE BENEFITS (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - For the year ended June 30, 2018, the City recognized OPEB expense of \$4,334,190. At June 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$4,446,565	
Differences between actual and expected experience		
Changes of assumptions		\$1,077,439
Net differences between projected and actual earnings on plan investments		1,029,745
Total	\$4,446,565	\$2,107,184

\$4,446,565 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, 2019. 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
2019	\$443,844
2020	443,844
2021	443,844
2022	443,845
2023	186,408
Thereafter	145,399

C. Accrued Vacation and Sick Leave Liabilities

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

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2018, sick leave benefits payable decreased by \$846,823 and vacation benefits payable decreased by \$121,864. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Position.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

	Accrued Vacation		Sick Leave	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Balance as of June 30, 2017	\$4,666,881	\$230,676	\$3,640,779	\$106,008
Additions	3,440,147	157,976	705,883	69,924
Payments and adjustments	(3,573,305)	(146,682)	(1,560,192)	(62,438)
Balance as of June 30, 2018	<u><u>\$4,533,723</u></u>	<u><u>\$241,970</u></u>	<u><u>\$2,786,470</u></u>	<u><u>\$113,494</u></u>
General Government	\$429,137		\$134,904	
Building	84,838		32,962	
Public Works	241,693		125,706	
Engineering	114,356			
Planning	84,028			
Recreation	130,678		70,685	
Police	2,275,910		922,801	
Fire	1,097,312		1,448,667	
Water Utility		\$120,985		\$56,747
Sewer Utility		120,985		56,747
Internal Service	<u><u>75,771</u></u>		<u><u>50,745</u></u>	
Total	<u><u>\$4,533,723</u></u>	<u><u>\$241,970</u></u>	<u><u>\$2,786,470</u></u>	<u><u>\$113,494</u></u>
Long-Term Portion:				
Governmental activities	\$2,588,526		\$2,016,541	
Business-type activities		\$76,376		\$71,122
Total long term portions	<u><u>\$2,588,526</u></u>	<u><u>\$76,376</u></u>	<u><u>\$2,016,541</u></u>	<u><u>\$71,122</u></u>
Current Portion:				
Governmental activities	\$1,945,197		\$769,929	
Business-type activities		\$165,594		\$42,372
Total current portions	<u><u>\$1,945,197</u></u>	<u><u>\$165,594</u></u>	<u><u>\$769,929</u></u>	<u><u>\$42,372</u></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, 2018

NOTE 13 - RISK MANAGEMENT

A. Risk Pool

Prior to January 2018 the City participated in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. On January 16, 2018, ABAG Plan Corporation transitioned to the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA). PLAN JPA provides \$2,500,000 of self-funded general liability and auto coverage and \$27,500,000 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 cyber crime coverage (with various sub-limits depending on the type of cyber 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, 2018 the City contributed \$608,224 for current year coverage.

PLAN JPA is governed by a board consisting of representatives from member municipalities. The board controls the operations of PLAN JPA Plan 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, 2018 the City paid \$880,810 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, 2018

NOTE 13 - RISK MANAGEMENT (Continued)

D. Liability for Uninsured Claims

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

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

	2018			
	Worker's Compensation	General Liability	Total	2017
Beginning balance	\$6,069,567	\$208,805	\$6,278,372	\$5,182,229
Liability for current fiscal year claims	434,580	340,266	774,846	1,243,659
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	612,960	64,988	677,948	1,020,106
Claims paid	(1,197,385)	(116,247)	(1,313,632)	(1,167,622)
Ending balance	<u><u>\$5,919,722</u></u>	<u><u>\$497,812</u></u>	<u><u>\$6,417,534</u></u>	<u><u>\$6,278,372</u></u>
Due in one year	<u><u>\$912,765</u></u>	<u><u>\$157,582</u></u>	<u><u>\$1,070,347</u></u>	<u><u>\$983,977</u></u>

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

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grant Programs

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. Encumbrances

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2018 were as follows:

Major Governmental Funds:	
General Fund	\$1,164,854
Housing Authority Fund	2,232
Street Improvement Fund	4,133,673
Transit Area Impact Fee Fund	3,895,905
Non-Major Governmental Funds	<hr/> 5,686,424
Total Encumbrances	<hr/> <hr/> \$14,883,088

D. Silicon Valley Rapid Transit Program Berryessa Extension Project

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

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

The Milpitas Boulevard extension project began in fiscal year 2014 and the VTA has billed the City for project costs in the amount of \$14.8 million through June 30, 2017. During fiscal year 2017, the City paid \$5.1 million to VTA, but the Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment of the remaining balance due, therefore the City has recorded a liability in the amount of \$9.7 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2017. During fiscal year 2018, the City paid \$4 million to VTA and again the Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment of the remaining balance due, therefore the City has recorded a liability in the amount of \$4.4 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2018.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

E. South Bay Water Recycling System Facility Replacement

As required by the Water Pollution Control Plant's National Pollutant Discharge Elimination System (NPDES) permit, the regional partner agencies are responsible for maintenance and operation of the South Bay Water Recycling System. The regional partner agencies, which includes the City of Milpitas, are also responsible for the planned \$2 billion rehabilitation/replacement of the facility over the next thirty years. The City's share of the project is approximately 5.817% as discussed in Note 8E.

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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

The City paid its surcharge of \$919,377 during fiscal year 2018, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2019 is estimated to be \$1,057,548.

G. *Sunnyhills Apartment Complex*

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

NOTE 15 – LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balances of LID #18 and LID #20 were repaid during fiscal year 2018.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND 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.

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

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 are subject to review and approval of the Oversight Board, which is comprised of seven members, including one member of City Council and one former Redevelopment Agency employee appointed by the Mayor.

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 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, 2018 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2018.

B. PROPERTY HELD FOR RESALE

In November 2017, the Successor Agency entered into a purchase and sale agreement with a developer and sold property held for resale with a carrying value of \$315,000 for the same amount.

C. DEVELOPMENT AGREEMENTS

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

Installment Purchase Agreement

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

D. 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, 2017	Retirements	Balance June 30, 2018	Current Portion
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	\$16,427,691	\$2,651,607	\$13,776,084	\$3,030,408
2015 Tax Allocation Bonds 2%-5%, due September 1, 2032 Plus: Unamortized bond premium	114,370,000 18,658,404	6,225,000 1,190,962	108,145,000 17,467,442	6,475,000
Total	\$149,456,095	\$10,067,569	\$139,388,526	\$9,505,408

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 16C(1) above. As discussed in Note 16C (1), under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Successor Agency has therefore recorded a liability of \$13,776,084 at June 30, 2018, representing the present value of future payments due under this Agreement.

3. *2015 Tax Allocation Refunding Bonds*

In March 2015, the Successor Agency issued Tax Allocation Refunding Bonds in the original principal amount of \$127,790,000. The proceeds of the Bonds were used to advance refund and defease the outstanding balance of the 2003 Tax Allocation Bonds, which were redeemed on March 23, 2015. The Bonds are secured by Redevelopment Property Tax Trust Fund (RPTTF) revenues. In lieu of a reserve fund, the 2015 Bonds are secured by a reserve insurance policy in the amount of \$11,822,000, issued by Assured Guaranty Municipal Corp. Principal is payable annually and the interest is payable semi-annually through 2032.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

4. *Debt Service Requirements*

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

Year Ending June 30	Principal	Interest
2019	\$9,505,408	\$8,182,592
2020	9,621,103	8,029,022
2021	9,818,669	7,821,331
2022	10,042,780	7,589,845
2023	10,293,124	7,333,876
2024-2028	45,230,000	12,726,750
2029-2033	27,410,000	3,054,250
	121,921,084	<u>\$54,737,666</u>
Plus: Unamortized bond premium	17,467,442	
	<u>\$139,388,526</u>	

5. *Defeased Bonds*

As of June 30, 2018, the outstanding balance of defeased debt was \$13,880,000 for the Redevelopment Agency 1997 Tax Allocation Bonds.

E. STATE ASSET TRANSFER REVIEW, DEMAND FOR RETURN OF ASSETS AND SETTLEMENT AGREEMENT

The activities of the former Redevelopment Agency and the Successor Agency were subject to examination by the State of California and the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The review resulted in a demand that the City return certain assets to the Redevelopment Agency and some of the assets were returned and others remain in the possession of the Economic Development Corporation.

The City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling \$31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to \$38,775,908. The City disputed the results of the DDR and the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders.

The City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties entered into a settlement agreement in June 2014 to resolve the matters discussed above. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling \$48,330,360 to the Successor Agency and the Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress capital assets in the amount of \$98,129,255 to the City. In addition, with the conveyance of certain parcels of land to the City, the City forgave the balance of the Purchase and Sale Agreement in the amount of \$9,472,571.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

The Successor Agency received a Finding of Completion on June 27, 2014.

In July 2015, the County alleged that the City, Economic Development Corporation and the Housing Authority have breached the Settlement Agreement and the dissolution laws with respect to several actions/inactions by the City and relating to certain City properties. The City has provided a written response to the accusation, inviting a meet and confer over one of the subject properties and has agreed to execute remaining documents to resolve the majority of the dispute. The County is questioning the zoning of one of the subject properties as parkland, rather than multi-family housing. The City has complied with most of the County's demands. With the Oversight Board's November 2017 approval of the sale of the property in question, and the November 2016 voter-approved Ordinance requiring that any attempt to rezone parkland to residential or commercial property be approved by a two-thirds majority vote in a general election, City management believes the dispute has been resolved and does not expect any further claims that it has breached the Settlement Agreement.

F. COMMITMENTS AND CONTINGENCIES

1. *State Approval of Enforceable Obligations*

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the 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.

2. *Long Range Property Management Plan*

In fiscal year 2013, the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. As discussed in Note 16E, the two cases were settled in June 2014 with a settlement agreement executed between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties.

Under the agreement, the Successor Agency and the County agreed to jointly prepare and submit the long range property management plan ("LRPMP") to the Oversight Board for review and approval, all pursuant to Health and Safety Code section 34191.5. The State Department of Finance approved the LRPMP in March 2015.

The LRPMP requires four of the properties discussed in Note 16B to be auctioned for sale and one parcel to be transferred to the County of Santa Clara for the County Health Clinic and other public parking. The parcel was transferred to the County in September 2015, and three of the four parcels were sold in fiscal year 2017. The Successor Agency approved a purchase and sale agreement for the last parcel in November 2017.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

G. *SANTA CLARA COUNTYWIDE CONSOLIDATED OVERSIGHT BOARD*

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



REQUIRED SUPPLEMENTARY INFORMATION



City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Retiree Medical Benefits (OPEB) Plan
 Last 10 fiscal years*

Measurement Date	6/30/17
Total OPEB Liability	
Service Cost	\$2,386,392
Interest	4,794,071
Changes in benefit terms	
Differences between expected and actual experience	
Changes of assumptions	(1,263,847)
Benefit payments	<u>(3,325,081)</u>
Net change in total OPEB liability	2,591,535
Total OPEB liability - beginning	80,926,571
Total OPEB liability - ending (a)	<u>\$83,518,106</u>
Plan fiduciary net position	
Contributions - employer	\$4,959,756
Contributions - employee	
Net investment income	3,708,342
Administrative expense	(18,732)
Benefit payments	<u>(3,325,081)</u>
Net change in plan fiduciary net position	5,324,285
Plan fiduciary net position - beginning	33,780,048
Plan fiduciary net position - ending (b)	<u>\$39,104,333</u>
Net OPEB liability - ending (a)-(b)	<u>\$44,413,773</u>
Plan fiduciary net position as a percentage of the total OPEB liability	46.82%
Covered-employee payroll	<u>\$42,017,236</u>
Net OPEB liability as a percentage of covered-employee payroll	105.70%

* Fiscal year 2018 was the first year of implementation.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

Retiree Medical Benefits (OPEB) Plan

Last 10 fiscal years*

Fiscal Year Ended June 30,

	2018		
	Explicit	Implicit	Total
Actuarially determined contribution	\$3,387,020	\$1,652,641	\$5,039,661
Contributions in relation to the actuarially determined contribution	3,387,020	1,059,545	4,446,565
Contribution deficiency (excess)	\$0	\$593,096	\$593,096
Covered-employee payroll	<u>\$43,375,678</u>	<u>\$43,375,678</u>	<u>\$43,375,678</u>
Contributions as a percentage of covered-employee payroll	7.81%	2.44%	10.25%

Notes to Schedule

Valuation date:

Methods and assumptions used to determine contribution rates:

Valuation Date	July 1, 2017
Actuarial Assumptions:	
Discount Rate	7.0% (explicit subsidies) and 3.56% (implicit subsidies)
Inflation	2.75%
Salary Increase	3.25%
Assumed Wage Inflation	3.0%
Investment Rate of Return	7.0%
Mortality Rate	MacLeod Watts Scale of 2017 applied generationally
Healthcare Trend Rate	8.0% grading down to 5% for years 2024 and thereafter

* Fiscal year 2018 was the first year of implementation.

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan

Last 10 Years*

Measurement Period	2013-14	2014-15	2015-16	2016-17
Total Pension Liability				
Service Cost	\$2,652,510	\$2,664,628	\$2,666,665	\$3,008,973
Interest	13,600,615	14,114,152	14,689,192	15,078,047
Differences between expected and actual experience	-	(982,598)	(18,301)	(1,238,427)
Changes in assumptions	-	(3,463,459)	-	12,475,424
Changes in benefits	-	-	-	-
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)	(9,558,779)	(10,236,837)
Net change in total pension liability	7,871,791	3,402,207	7,778,777	19,087,180
Total pension liability - beginning	184,205,937	192,077,728	195,479,935	203,258,712
Total pension liability - ending (a)	\$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)
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, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

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

* Fiscal year 2015 was the first year of implementation.

**City of Milpitas
Required Supplementary Information**

SCHEDULE OF CONTRIBUTIONS

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

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	\$3,252,668	\$4,236,931	\$5,082,638	\$6,243,904
Contributions in relation to the actuarially determined contributions	<u>3,252,668</u>	<u>4,236,931</u>	<u>5,082,638</u>	<u>6,243,904</u>
Contribution deficiency (excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
 Covered payroll	 \$16,009,660	 \$16,161,589	 \$16,418,123	 \$18,846,066
 Contributions as a percentage of covered payroll	 20.32%	 26.22%	 30.96%	 33.13%

Notes to Schedule

Valuation date: 6/30/2012 6/30/2013 6/30/2014 6/30/2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	15 Years as of the Valuation Date
Asset valuation method	Market Value of Assets
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on Age, Service, and type of employment.
Investment rate of return	7.50%, net of pension plan investment expense, including inflation.
Retirement age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Society of

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

City of Milpitas
Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Safety Plan - Agent Multiple-Employer Defined Pension Plan

Last 10 Years*

Measurement Period	2013-14	2014-15	2015-16	2016-17
Total Pension Liability				
Service Cost	\$4,932,970	\$4,808,751	\$5,094,318	\$5,934,642
Interest	19,838,662	20,535,893	21,663,378	22,434,283
Differences between expected and actual experience	-	(2,363,470)	3,274,330	(690,685)
Changes in assumptions	-	(5,052,089)	-	18,725,315
Changes in benefits	-	-	-	-
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)	(14,390,575)	(14,864,837)
Net change in total pension liability	11,695,003	4,272,889	15,641,451	31,538,718
Total pension liability - beginning	268,587,329	280,282,332	284,555,221	300,196,672
Total pension liability - ending (a)	\$280,282,332	\$284,555,221	\$300,196,672	\$331,735,390
 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)
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)	\$200,237,534	\$199,270,085	\$195,083,877	\$212,142,828
 Net pension liability - ending (a)-(b)	\$80,044,798	\$85,285,136	\$105,112,795	\$119,592,562
 Plan fiduciary net position as a percentage of the total pension liability	71.44%	70.03%	64.99%	63.95%
 Covered payroll	\$18,310,535	\$18,810,920	\$20,170,400	\$21,078,669
 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, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

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

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

City of Milpitas
Required Supplementary Information

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

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	\$5,904,019	\$7,346,983	\$8,741,506	\$9,247,165
Contributions in relation to the actuarially determined contributions	<u>5,904,019</u>	<u>7,346,983</u>	<u>8,741,506</u>	<u>9,247,165</u>
Contribution deficiency (excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></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%	 41.47%	 42.62%

Notes to Schedule

Valuation date: 6/30/2012 6/30/2013 6/30/2014 6/30/2015

Methods and assumptions used to determine contribution rates:

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

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

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

GAS TAX FUND

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

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and expenditures.

LAW ENFORCEMENT SERVICES FUND

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

SOLID WASTE REDUCTION AND SERVICES FUND

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

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND

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

COMMUNITY FACILITIES DISTRICT FUND

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

HETCH-HETCHY GROUND LEASE FUND

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

COMMUNITY PLANNING FUND

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

COMMUNITY BENEFITS FUND

Established to account for fees collected to fund Public Benefits for the Community and Affordable housing.

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, 2018

	SPECIAL REVENUE FUNDS				
	<u>Gas Tax</u>	<u>Housing and Community Development</u>	<u>Law Enforcement Services</u>	<u>Solid Waste Reduction and Services</u>	<u>Lighting and Landscape Maintenance District</u>
ASSETS					
Cash and investments available for operations	\$1,893,139	\$63,436	\$347,350	\$1,930,501	\$189,794
Receivables:					
Due from other governments	159,831	\$72,851	1,100	26,046	
Interest	7,174		1,448	7,282	706
Loans receivable		3,429,443			
Prepays, materials, supplies and deposits	1,504			2,064	1,609
Total Assets	<u>\$2,060,144</u>	<u>\$3,567,234</u>	<u>\$349,898</u>	<u>\$1,965,893</u>	<u>\$192,109</u>
LIABILITIES					
Accounts payable		\$91,997	\$57,435	\$14,683	\$2,025
Accrued payroll		4,255		2,802	4,539
Unearned revenue		195,932		18,779	
Refundable deposits				18,843	
Total Liabilities	<u>91,997</u>	<u>257,622</u>	<u>55,107</u>	<u>6,564</u>	
FUND BALANCE					
Fund Balances:					
Nonspendable		1,504		2,064	1,609
Restricted	\$2,060,144	3,473,733	92,276	1,908,722	183,936
Assigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>2,060,144</u>	<u>3,475,237</u>	<u>92,276</u>	<u>1,910,786</u>	<u>185,545</u>
Total Liabilities and Fund Balances	<u>\$2,060,144</u>	<u>\$3,567,234</u>	<u>\$349,898</u>	<u>\$1,965,893</u>	<u>\$192,109</u>

SPECIAL REVENUE FUNDS				CAPITAL PROJECTS FUNDS				Total Nonmajor Governmental Funds
Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Public Art	Park Improvement	Storm Drain Development		
\$926,008	\$1,597,540	\$863,867	\$254,419	\$255,600	\$13,586,870	\$6,859,364		\$28,767,888
6,451								266,279
3,956		4,238		981	52,159	25,992		103,936
								3,429,443
6,077	2,818							14,072
\$942,492	\$1,600,358	\$868,105	\$254,419	\$256,581	\$13,639,029	\$6,885,356		\$32,581,618
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$21,653					\$124,269	\$7,788		\$319,850
14,493					1,588			27,677
								214,711
								18,843
36,146					125,857	7,788		581,081
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
6,077	\$2,818							14,072
900,269	1,597,540	\$868,105	\$254,419		13,513,172	6,877,568		31,729,884
				\$256,581				256,581
906,346	1,600,358	868,105	254,419	256,581	13,513,172	6,877,568		32,000,537
\$942,492	\$1,600,358	\$868,105	\$254,419	\$256,581	\$13,639,029	\$6,885,356		\$32,581,618

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

SPECIAL REVENUE FUNDS					
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Other taxes				\$199,925	\$362,842
Use of money and property	\$22,879	\$1,833	\$4,836	24,616	1,991
Intergovernmental	2,038,790	373,820	244,736	261,087	
Charges for services				171,916	
Developer contributions				428,754	
Other					
Total Revenues	<u>2,061,669</u>	<u>375,653</u>	<u>249,572</u>	<u>1,086,298</u>	<u>364,833</u>
EXPENDITURES:					
Current:					
General Government		15,000		34,136	
Public Works				8,000	300,052
Engineering				549,866	11,853
Planning		358,819		223,304	
Police				43,595	
Capital outlay					
Total Expenditures		<u>373,819</u>	<u>266,899</u>	<u>592,002</u>	<u>311,905</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,061,669</u>	<u>1,834</u>	<u>(17,327)</u>	<u>494,296</u>	<u>52,928</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	260,098				
Transfers (out)	(2,000,000)			(248,000)	(100,000)
Total Other Financing Sources (Uses)	<u>(1,739,902)</u>			<u>(248,000)</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCES	<u>321,767</u>	<u>1,834</u>	<u>(17,327)</u>	<u>246,296</u>	<u>(47,072)</u>
Fund balances at beginning of year	<u>1,738,377</u>	<u>3,473,403</u>	<u>109,603</u>	<u>1,664,490</u>	<u>232,617</u>
FUND BALANCES AT END OF YEAR	<u>\$2,060,144</u>	<u>\$3,475,237</u>	<u>\$92,276</u>	<u>\$1,910,786</u>	<u>\$185,545</u>

SPECIAL REVENUE FUNDS				CAPITAL PROJECTS FUNDS				Total Nonmajor Governmental Funds
Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Community Benefits	Public Art	Park Improvement	Storm Drain Development		
\$1,924,067 9,370	\$2,079	\$10,965	\$4,419	\$828	\$34,829	\$87,096		\$2,486,834 205,741 2,918,433 631,292 876,756 428,754
		459,376	500,000			376,756		
<u>1,933,437</u>	<u>2,079</u>	<u>470,341</u>	<u>504,419</u>	<u>828</u>	<u>34,829</u>	<u>463,852</u>		<u>7,547,810</u>
6,258 839,900	32,939			1,562				89,895 1,147,952 561,719 608,819 223,304
		250,000			2,785,648	144,890		2,974,133
<u>846,158</u>	<u>32,939</u>	<u>250,000</u>		<u>1,562</u>	<u>2,785,648</u>	<u>144,890</u>		<u>5,605,822</u>
<u>1,087,279</u>	<u>(30,860)</u>	<u>470,341</u>	<u>254,419</u>	<u>(734)</u>	<u>(2,750,819)</u>	<u>318,962</u>		<u>1,941,988</u>
<u>(900,000)</u>		<u>(200,000)</u>			<u>5,382,395</u>	<u>400,000</u>		<u>6,042,493</u>
<u>(900,000)</u>		<u>(200,000)</u>			<u>(200,000)</u>	<u>(47,420)</u>		<u>(3,695,420)</u>
187,279	(30,860)	270,341	254,419	(734)	2,431,576	671,542		4,289,061
<u>719,067</u>	<u>1,631,218</u>	<u>597,764</u>		<u>257,315</u>	<u>11,081,596</u>	<u>6,206,026</u>		<u>27,711,476</u>
<u>\$906,346</u>	<u>\$1,600,358</u>	<u>\$868,105</u>	<u>\$254,419</u>	<u>\$256,581</u>	<u>\$13,513,172</u>	<u>\$6,877,568</u>		<u>\$32,000,537</u>

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2018

	HOUSING AND COMMUNITY DEVELOPMENT					
	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts	Variance	Budget	Actual Amounts	Variance
Actual Amounts						
Budgetary Basis						
(Negative)						
REVENUES						
Other taxes						
Use of money and property	\$31,000	\$22,879	(\$8,121)		\$1,833	\$1,833
Intergovernmental	1,585,783	2,038,790	453,007	\$400,000	373,820	(26,180)
Charges for services						
Developer contributions						
Other						
Total Revenues	<u>1,616,783</u>	<u>2,061,669</u>	<u>444,886</u>	<u>400,000</u>	<u>375,653</u>	<u>(24,347)</u>
EXPENDITURES						
Current:						
General Government:						
City Manager						
Finance				15,000	15,001	(1)
Non-departmental				7,000		7,000
Public Works						
Engineering						
Planning and Neighborhood Services				728,000	358,819	369,181
Police						
Total Expenditures				<u>750,000</u>	<u>373,820</u>	<u>376,180</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,616,783</u>	<u>2,061,669</u>	<u>444,886</u>	<u>(350,000)</u>	<u>1,833</u>	<u>351,833</u>
OTHER FINANCING SOURCES (USES)						
Transfers in		260,098	260,098			
Transfers (out)	<u>(2,000,000)</u>	<u>(2,000,000)</u>				
Total Other Financing Sources (Uses)	<u>(2,000,000)</u>	<u>(1,739,902)</u>	<u>260,098</u>			
NET CHANGE IN FUND BALANCES	<u>(\$383,217)</u>	<u>321,767</u>	<u>\$704,984</u>	<u>(\$350,000)</u>	<u>1,833</u>	<u>\$351,833</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						1
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>1,738,377</u>				<u>3,473,403</u>
Fund balances at end of year		<u>\$2,060,144</u>				<u>\$3,475,237</u>

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
		Variance			Variance			Variance
Budget	Actual Amounts	Positive (Negative)	Budget	Actual Amounts	Positive (Negative)	Budget	Actual Amounts	Positive (Negative)
Budgetary Basis			Budgetary Basis			Budgetary Basis		
\$2,000	\$4,836	\$2,836	\$415,000	\$199,925	(\$215,075)	\$340,700	\$362,842	\$22,142
313,468	244,736	(68,732)	18,000	24,616	6,616	1,000	1,991	991
			223,002	261,087	38,085			
			150,000	171,916	21,916			
				428,754	428,754			
315,468	249,572	(65,896)	806,002	1,086,298	280,296	341,700	364,833	23,133
				18,362	18,362			
				35,700	34,136	1,564	1,000	1,000
				8,000	8,000		302,126	300,052
				830,598	563,596	267,002	18,512	2,074
							14,059	4,453
373,468	231,189	142,279						
373,468	231,189	142,279	892,660	605,732	286,928	321,638	314,111	7,527
(58,000)	18,383	76,383	(86,658)	480,566	567,224	20,062	50,722	30,660
				(248,000)	(248,000)		(100,000)	(100,000)
				(248,000)	(248,000)		(100,000)	(100,000)
(\$58,000)	18,383	\$76,383	(\$334,658)	232,566	\$567,224	(\$79,938)	(49,278)	\$30,660
(43,595)								
7,885								
109,603								
<u>\$92,276</u>								
				13,730			2,206	
				1,664,490			232,617	
				<u>\$1,910,786</u>			<u>\$185,545</u>	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2018

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Actual Amounts		Variance	Actual Amounts		Variance
	Budget	Budgetary Basis	(Positive (Negative))	Budget	Budgetary Basis	(Positive (Negative))
REVENUES						
Other taxes	\$1,858,722	\$1,924,067	\$65,345			
Use of money and property	4,000	9,370	5,370			
Intergovernmental						
Charges for services						
Developer contributions						
Other						
Total Revenues	1,862,722	1,933,437	70,715		2,079	2,079
EXPENDITURES						
Current:						
General Government:						
City Manager						
Finance						
Non-departmental	28,000	6,258	21,742	\$35,000	32,939	2,061
Public Works	1,145,641	839,900	305,741			
Engineering						
Planning and Neighborhood Services						
Police						
Total Expenditures	1,173,641	846,158	327,483	35,000	32,939	2,061
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	689,081	1,087,279	398,198	(35,000)	(30,860)	4,140
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(900,000)	(900,000)				
Total Other Financing Sources (Uses)	(900,000)	(900,000)				
NET CHANGE IN FUND BALANCES	(\$210,919)	187,279	\$398,198	(\$35,000)	(30,860)	\$4,140
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>719,067</u>				<u>1,631,218</u>
Fund balances at end of year		<u>\$906,346</u>				<u>\$1,600,358</u>

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2018

	TOTALS		
	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
	<u>Budgetary Basis</u>		<u>Positive</u> <u>(Negative)</u>
REVENUES			
Other taxes	\$2,614,422	\$2,486,834	(\$127,588)
Use of money and property	61,000	83,816	22,816
Intergovernmental	2,522,253	2,918,433	396,180
Charges for services	400,000	631,292	231,292
Developer contributions		500,000	500,000
Other		428,754	428,754
 Total Revenues	 5,597,675	 7,049,129	 1,451,454
EXPENDITURES			
Current:			
General Government:			
City Manager	18,362	18,362	
Finance	15,000	15,001	(1)
Non-departmental	173,700	74,895	98,805
Public Works	1,455,767	1,147,952	307,815
Engineering	849,110	577,655	271,455
Planning and Neighborhood Services	978,000	608,819	369,181
Police	373,468	231,189	142,279
 Total Expenditures	 3,863,407	 2,655,511	 1,207,896
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,734,268	4,393,618	2,659,350
OTHER FINANCING SOURCES (USES)			
Transfers in		260,098	260,098
Transfers (out)	(3,448,000)	(3,448,000)	
 Total Other Financing Sources (Uses)	 (3,448,000)	 (3,187,902)	 260,098
	 (\$1,713,732)	 1,205,716	 \$2,919,448
 Expenditures capitalized for GAAP purposes		 1	
Capital Outlay		(43,595)	
Encumbrance adjustments		23,821	
 Fund balances at beginning of year		 10,423,854	
 Fund balances at end of year		 <u><u>\$11,609,797</u></u>	

AGENCY FUNDS

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

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

EMPLOYEE BENEFITS FUND

Established to account for specific negotiated employee benefits.

SENIOR ADVISORY COMMISSION FUND

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

LOCAL IMPROVEMENT DISTRICT (LID) FUNDS

Established to account for debt service reserves of Local Improvement Districts (LIDs) for which the City acts as administrator and paying agent. The City is not obligated for the debt issued by the LIDs.



**CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,276,993	\$20,632	\$12,946	\$1,284,679
Receivables:				
Interest	<u>3,397</u>	<u>4,860</u>	<u>3,397</u>	<u>4,860</u>
Total Assets	<u><u>\$1,280,390</u></u>	<u><u>\$25,492</u></u>	<u><u>\$16,343</u></u>	<u><u>\$1,289,539</u></u>
<u>Liabilities</u>				
Refundable deposits	<u><u>\$1,280,390</u></u>	<u><u>\$25,492</u></u>	<u><u>\$16,343</u></u>	<u><u>\$1,289,539</u></u>
Total Liabilities	<u><u>\$1,280,390</u></u>	<u><u>\$25,492</u></u>	<u><u>\$16,343</u></u>	<u><u>\$1,289,539</u></u>
 <u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$8,852	\$1,861	\$2,829	\$7,884
Receivables:				
Interest	<u>23</u>	<u>30</u>	<u>23</u>	<u>30</u>
Total Assets	<u><u>\$8,875</u></u>	<u><u>\$1,891</u></u>	<u><u>\$2,852</u></u>	<u><u>\$7,914</u></u>
<u>Liabilities</u>				
Refundable deposits	<u><u>\$8,875</u></u>	<u><u>\$1,891</u></u>	<u><u>\$2,852</u></u>	<u><u>\$7,914</u></u>
Total Liabilities	<u><u>\$8,875</u></u>	<u><u>\$1,891</u></u>	<u><u>\$2,852</u></u>	<u><u>\$7,914</u></u>
 <u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$353,884	\$1,436	\$355,320	
Cash and investments held by trustees	256,926		256,926	
Receivable:				
Interest	<u>939</u>		<u>939</u>	
Total Assets	<u><u>\$611,749</u></u>	<u><u>\$1,436</u></u>	<u><u>\$613,185</u></u>	
<u>Liabilities</u>				
Due to Local Improvement Districts	<u><u>\$611,749</u></u>	<u><u>\$1,436</u></u>	<u><u>\$613,185</u></u>	
Total Liabilities	<u><u>\$611,749</u></u>	<u><u>\$1,436</u></u>	<u><u>\$613,185</u></u>	

**CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
<hr/>				
<u>LID #20</u>				
<hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,580,521	\$5,389	\$1,585,910	
Cash and investments held by trustees	1,218,623			1,218,623
Receivables:				
Interest	4,172			4,172
Total Assets	<u>\$2,803,316</u>	<u>\$5,389</u>	<u>\$2,808,705</u>	<u> </u>
<u>Liabilities</u>				
Due to Local Improvement Districts	\$2,803,316	\$5,389	\$2,808,705	
Total Liabilities	<u>\$2,803,316</u>	<u>\$5,389</u>	<u>\$2,808,705</u>	<u> </u>
<hr/>				
TOTAL AGENCY FUNDS				
<hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$3,220,250	\$29,318	\$1,957,005	\$1,292,563
Cash and investments held by trustees	1,475,549			1,475,549
Receivables:				
Interest	8,531	4,890	8,531	4,890
Total Assets	<u>\$4,704,330</u>	<u>\$34,208</u>	<u>\$3,441,085</u>	<u>\$1,297,453</u>
<u>Liabilities</u>				
Refundable deposits	\$1,289,265	\$27,383	\$19,195	\$1,297,453
Due to Local Improvement Districts	3,415,065	6,825	3,421,890	
Total Liabilities	<u>\$4,704,330</u>	<u>\$34,208</u>	<u>\$3,441,085</u>	<u>\$1,297,453</u>

STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

- Bimonthly Sewer Rates by Customer Class – Schedule 17
- Demographic and Economic Statistics – Schedule 18
- Principal Employers – Schedule 19

Operating Information

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

- Authorized Full-Time Equivalent Employees by Function/Program – Schedule 20
- Operating Indicators by Function/Program – Schedule 21
- Capital Asset Statistics by Function/Program – Schedule 22

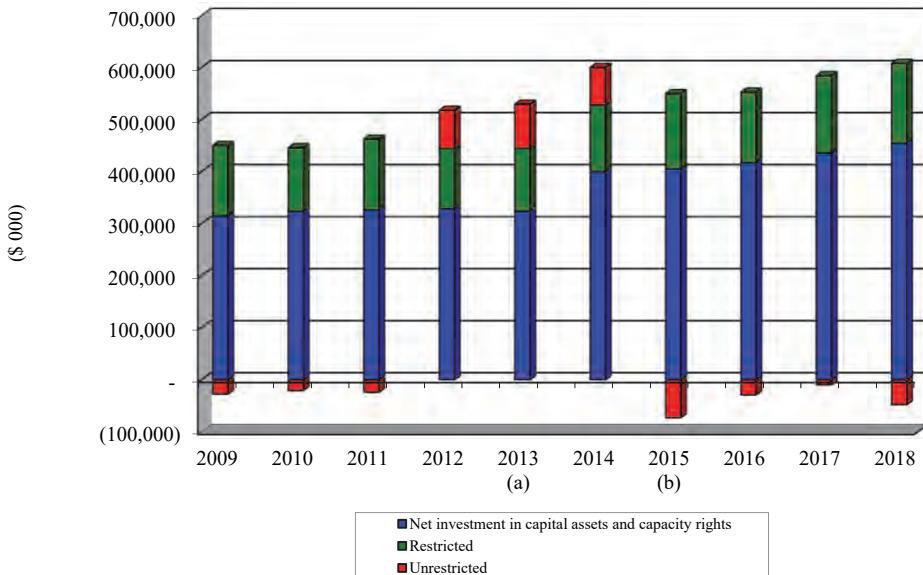
Sources

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



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

Schedule 1



	Fiscal Year Ended June 30				
	2009	2010	2011	2012	2013 (a)
Governmental activities					
Net investment in capital assets and capacity rights	\$221,744	\$218,878	\$218,116	\$219,034	\$217,002
Restricted	110,463	98,426	115,474	90,878	88,147
Unrestricted	(41,574)	(38,500)	(44,592)	53,417	64,876
Total governmental activities net position	<u><u>\$290,633</u></u>	<u><u>\$278,804</u></u>	<u><u>\$288,998</u></u>	<u><u>\$363,329</u></u>	<u><u>\$370,025</u></u>
Business-type activities					
Net investment in capital assets and capacity rights	\$92,576	\$104,370	\$107,707	\$109,146	\$106,489
Restricted	24,911	24,059	20,743	25,239	32,889
Unrestricted	14,172	17,851	20,577	19,838	19,799
Total business-type activities net position	<u><u>\$131,659</u></u>	<u><u>\$146,280</u></u>	<u><u>\$149,027</u></u>	<u><u>\$154,223</u></u>	<u><u>\$159,177</u></u>
Primary government					
Net investment in capital assets and capacity rights	\$314,320	\$323,248	\$325,823	\$328,180	\$323,491
Restricted	135,374	122,485	136,217	116,117	121,036
Unrestricted	(27,402)	(20,649)	(24,015)	73,255	84,675
Total primary government net position	<u><u>\$422,292</u></u>	<u><u>\$425,084</u></u>	<u><u>\$438,025</u></u>	<u><u>\$517,552</u></u>	<u><u>\$529,202</u></u>
	Fiscal Year Ended June 30				
	2014	2015 (b)	2016	2017	2018
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><u>\$433,777</u></u>	<u><u>\$310,731</u></u>	<u><u>\$354,280</u></u>	<u><u>\$390,677</u></u>	<u><u>\$369,560</u></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><u>\$165,950</u></u>	<u><u>\$165,685</u></u>	<u><u>\$168,979</u></u>	<u><u>\$183,502</u></u>	<u><u>\$190,354</u></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><u>\$599,727</u></u>	<u><u>\$476,416</u></u>	<u><u>\$523,259</u></u>	<u><u>\$574,179</u></u>	<u><u>\$559,914</u></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.

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

	Fiscal Year Ended June 30,			
	2009	2010	2011	2012
Expenses				
Governmental activities				
General Government	\$18,184	\$33,535 (a)	\$21,474 (a)	\$17,418 (b)
Building and Safety	2,401	1,972	1,984	2,029
Recreation and Community Services				
Public Works	19,605	22,843	16,777	21,787
Engineering				
Planning and Neighborhood Services	3,249	2,874	2,155	2,144
Parks and Recreation	6,518	6,096	6,529	5,823
Police	22,514	22,771	22,661	22,620
Fire	15,260	14,748	15,085	14,904
Interest on Long Term Debt	9,402	9,570	9,536	2,050
Total governmental activities expenses	<u>97,133</u>	<u>114,409</u>	<u>96,201</u>	<u>88,775</u>
Business-type activities				
Water Utility	12,545	11,788	12,766	15,229
Recycled Water Utility	576	476	470	599
Sewer Utility	12,312	8,730	9,240	8,399
Total business-type activities expenses	<u>25,433</u>	<u>20,994</u>	<u>22,476</u>	<u>24,227</u>
Total primary government expenses	<u><u>\$122,566</u></u>	<u><u>\$135,403</u></u>	<u><u>\$118,677</u></u>	<u><u>\$113,002</u></u>
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	\$956	\$1,165	\$1,071	\$1,349
Building and Safety	2,897	2,031	2,823	3,436
Recreation and Community Services				
Public Works	1,996	2,571	1,826	2,440
Engineering				
Planning and Neighborhood Services	358	182	139	237
Parks and Recreation	1,655	1,642	1,662	1,833
Police	1,425	1,091	1,263	1,134
Fire	1,108	1,137	1,210	1,292
Operating grants and contributions	4,920	3,892	4,869	6,146
Capital grants and contributions	9,801	8,840	5,704	8,294
Total government activities program revenues	<u>25,116</u>	<u>22,551</u>	<u>20,567</u>	<u>26,161</u>
Business-type activities				
Charges for services:				
Water Utility	13,873	14,051	15,201	16,773
Recycled Water Utility	1,288	1,260	1,300	1,447
Sewer Utility	9,849	10,393	11,406	12,445
Operating grants and contributions		79	70	43
Capital grants and contributions	471	6,406	163	1,629
Total business-type activities program revenue	<u>25,481</u>	<u>32,189</u>	<u>28,140</u>	<u>32,337</u>
Total primary government program revenues	<u><u>\$50,597</u></u>	<u><u>\$54,740</u></u>	<u><u>\$48,707</u></u>	<u><u>\$58,498</u></u>
Net (Expense)/Revenue				
Governmental activities	(\$72,017)	(\$91,858)	(\$75,634)	(\$62,614)
Business-type activities	48	11,195	5,664	8,110
Total primary government net expense	<u><u>(\$71,969)</u></u>	<u><u>(\$80,663)</u></u>	<u><u>(\$69,970)</u></u>	<u><u>(\$54,504)</u></u>

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

2013	(c)	2014	2015	2016	2017	2018
\$15,329		\$21,074	\$18,118	\$18,614	\$21,174	\$19,111
2,293		2,684	2,617	2,513	3,389	4,148
						5,890
17,700	(d)	18,664	17,509	12,761	16,266	15,903
				5,790 (g)	6,249 (g)	5,712
2,553		2,119	2,372	2,649	3,103	3,586
3,107	(d)	3,012	3,098	4,090	4,949	
21,702		23,373	24,699	24,556	30,270	33,840
15,810		15,159	16,301	16,400	20,499	24,194
227		240	67	56	48	
<u>78,721</u>		<u>86,325</u>	<u>84,781</u>	<u>87,429</u>	<u>105,947</u>	<u>112,384</u>
17,195		17,369	18,344	19,743	20,666	23,742
(e)		(e)	(e)	(e)	(e)	(e)
9,418		11,008	10,426	10,872	9,969	12,715
<u>26,613</u>		<u>28,377</u>	<u>28,770</u>	<u>30,615</u>	<u>30,635</u>	<u>36,457</u>
<u>\$105,334</u>		<u>\$114,702</u>	<u>\$113,551</u>	<u>\$118,044</u>	<u>\$136,582</u>	<u>\$148,841</u>
\$1,700		\$1,819	\$1,063	\$2,065	\$1,970	\$2,088
4,554		6,445	5,128	5,963	7,814	10,093
						2,559
2,668		2,472	2,644	(g)	(g)	(g)
				2,863 (g)	2,720 (g)	2,465 (g)
301		432	700	747	292	418
1,987		1,958	2,060	1,981	2,301	
1,051		1,091	1,151	1,138	1,184	1,089
1,508		2,120	1,885	2,440	3,224	3,326
7,487		6,195	6,201	7,320	7,880	6,521
8,286		15,483	14,711	35,195	32,256	34,003
<u>29,542</u>		<u>38,015</u>	<u>35,543</u>	<u>59,712</u>	<u>59,641</u>	<u>62,562</u>
19,801		21,354	21,136	18,709	26,318	29,667
(e)		(e)	(e)	(e)	(e)	(e)
12,632		12,753	14,453	15,964	16,803	17,139
111		57	127	63	89	124
1,975		1,402	710	1,103	4,937	2,507
<u>34,519</u>		<u>35,566</u>	<u>36,426</u>	<u>35,839</u>	<u>48,147</u>	<u>49,437</u>
<u>\$64,061</u>		<u>\$73,581</u>	<u>\$71,969</u>	<u>\$95,551</u>	<u>\$107,788</u>	<u>\$111,999</u>
(\$49,179)		(\$48,310)	(\$49,238)	(\$27,717)	(\$46,306)	(\$49,822)
7,906		7,189	7,656	5,224	17,512	12,980
<u>(\$41,273)</u>		<u>(\$41,121)</u>	<u>(\$41,582)</u>	<u>(\$22,493)</u>	<u>(\$28,794)</u>	<u>(\$36,842)</u>

(continued)

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

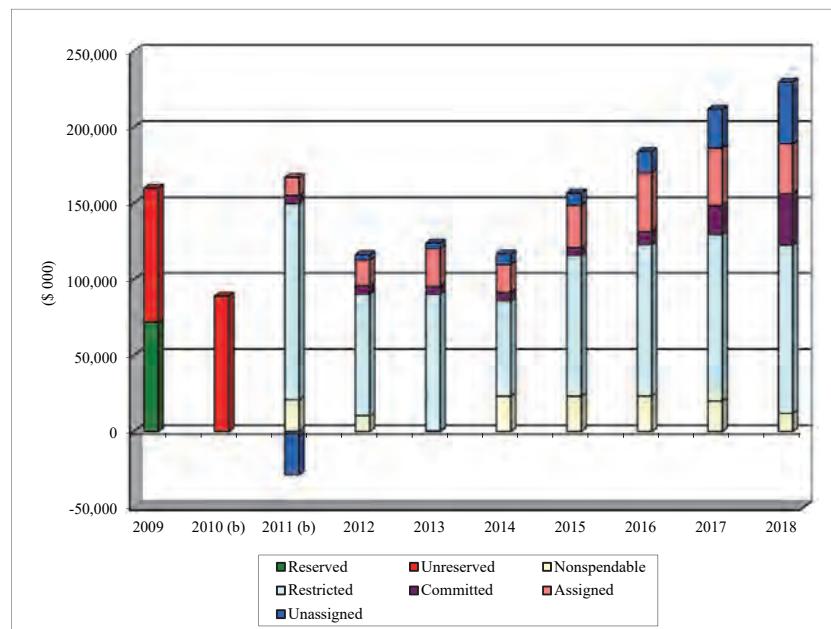
	Fiscal Year Ended June 30,			
	2009	2010	2011	2012
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	\$53,917	\$58,012 (a)	\$55,655 (a)	\$34,029
Sales and use taxes	15,670	14,725	16,429	18,758
Hotel/Motel taxes	5,550	5,297	6,124	7,068
Other taxes	416	407	380	491
Franchise fees	3,151	2,993	3,083	3,218
Motor vehicle in lieu	237	209	323	35
Investment earnings	1,553	700	399	1,093
Gain on sale of capital assets/property	35	171		
Miscellaneous	92	85	62	67
Redevelopment expense				
Transfers	4,029	(2,570)	3,374	3,304
Extraordinary item				68,882 (b)
Special Item				
Total government activities	<u>84,650</u>	<u>80,029</u>	<u>85,829</u>	<u>136,945</u>
Business-type activities				
Investment earnings	1,756	857	455	390
Transfers	(4,029)	2,570	(3,374)	(3,304)
Total business-type activities	<u>(2,273)</u>	<u>3,427</u>	<u>(2,919)</u>	<u>(2,914)</u>
Total primary government	<u><u>\$82,377</u></u>	<u><u>\$83,456</u></u>	<u><u>\$82,910</u></u>	<u><u>\$134,031</u></u>
Change in net position				
Governmental activities	\$12,633	(\$11,829)	\$10,195	\$74,331
Business-type activities	(2,225)	14,622	2,745	5,196
Total primary government	<u><u>\$10,408</u></u>	<u><u>\$2,793</u></u>	<u><u>\$12,940</u></u>	<u><u>\$79,527</u></u>

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

2013	(c)	2014	2015	2016	2017	2018
\$20,469		\$27,607	\$24,927	\$27,068	\$30,262	\$31,893
20,196		19,014	18,779	23,924	25,392	26,991
7,933		9,336	10,917	11,757	11,858	12,122
516		672	664	822	803	814
3,270		3,453	3,659	3,841	3,871	4,678
37		31	29	29	34	39
260		844	379	913	118	301
46					7,324	
103		200	333	287	118	186
3,045		3,402	1,627	2,625	2,923	2,511
		49,799				(12,432) (f)
<u>55,875</u>		<u>114,358</u>	<u>61,314</u>	<u>71,266</u>	<u>82,703</u>	<u>67,103</u>
94		690	383	695	(65)	171
(3,045)		(3,402)	(1,627)	(2,625)	(2,923)	(2,511)
(2,951)		(2,712)	(1,244)	(1,930)	(2,988)	(2,340)
<u>\$52,924</u>		<u>\$111,646</u>	<u>\$60,070</u>	<u>\$69,336</u>	<u>\$79,715</u>	<u>\$64,763</u>
\$6,696		\$66,048	\$12,076	\$43,549	\$36,397	\$17,281
4,955		4,477	6,412	3,294	14,524	10,640
<u>\$11,651</u>		<u>\$70,525</u>	<u>\$18,488</u>	<u>\$46,843</u>	<u>\$50,921</u>	<u>\$27,921</u>



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



Fiscal Year Ended June 30,										
	2009	2010 (b)	2011 (b)	2012	2013	2014	2015	2016	2017	2018

General Fund

Reserved	\$21,542									
Unreserved	29,293									
Nonspendable	\$20,977	\$20,970	\$577	\$468	\$23,279	\$23,265	\$23,387	\$20,209	\$10,043	
Restricted		24,555								
Committed	5,433	5,433	5,433	5,433	5,433	5,433	8,440	19,026	33,643	
Assigned	9,465	9,698	13,904	10,434	6,658	7,013	9,052	8,067	8,629	
Unassigned	14,920	15,448	15,800	16,444	13,521	13,864	13,410	25,440	40,496	
Total General Fund	\$50,835	\$50,795	\$76,104	\$35,714	\$32,779	\$48,891	\$49,575	\$54,289	\$72,742	\$92,811
										(a)

All Other Governmental Funds

Reserved	\$50,608									
Unreserved, reported in:										
Special revenue funds	4,603									
Capital project funds	53,845									
Debt service funds										
Nonspendable	\$115	\$23	\$9,788	\$11	\$32	\$11	\$13	\$15	\$2,229	
Restricted	96,873	104,290	80,112	89,821	62,661	92,347	99,701	109,416	110,418	
Assigned	2,196	2,127	2,892	14,244	11,808	20,806	29,956	29,635	24,284	
Unassigned	(10,219)	(43,624)	(12,234)	(12,955)	(6,610)	(5,932)				
Total all other governmental funds	\$109,056	\$88,965	\$62,816	\$80,558	\$91,121	\$67,891	\$107,232	\$129,670	\$139,066	\$136,931
										(a)

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.
(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011, and years prior to 2010 have not been restated to conform with the new presentation.

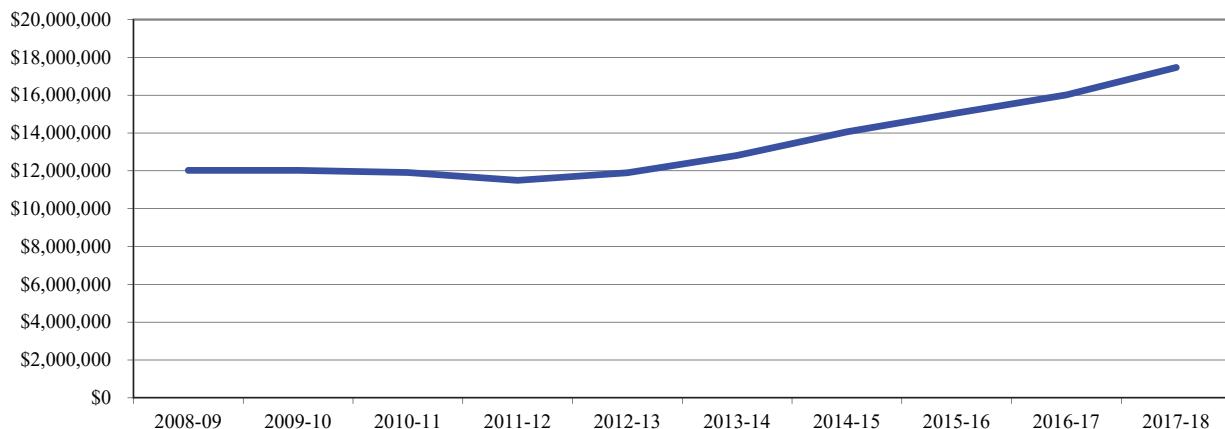
CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013
Revenues					
Property taxes	\$53,917	\$58,012 (a)	\$55,655 (a)	\$34,029 (b)	\$20,466
Sales taxes	16,251	15,268	16,994	19,403	20,908
Other taxes	9,937	9,495	10,917	12,230	13,343
Licenses and fines	4,619	3,481	4,309	4,956	5,875
Use of money and property	8,984	7,168	3,948	5,303	1,538
Intergovernmental	6,004	6,362	5,082	4,834	5,842
Charges for services	4,146	3,704	4,020	4,725	5,550
Developer contributions	2,558	4,739	3,360	7,549	7,987
Other	816	933	1,039	578	715
Total Revenues	107,232	109,162	105,324	93,607	82,224
Expenditures					
Current:					
General Government	17,834	20,602 (a)	19,003 (a)	12,753 (b)	11,871
Building and Safety	2,420	1,992	1,975	2,060	2,278
Recreation and Community Services					
Human Resources and Recreation					3,087
Parks and Recreation	6,416	6,052	5,688	5,261	(c)
Public Works	10,066	13,619	7,960	8,772	9,124
Engineering					
Planning and Neighborhood Services	2,576	2,180	2,267	2,196	2,030
Police	21,602	22,071	21,682	21,733	20,978
Fire	15,279	14,249	14,994	14,562	15,420
Supplemental educational revenue augmentation fund payment		11,774	2,424		
Capital outlay	21,585	16,938	12,940	28,876	7,510
Debt service:					
Principal	8,481	8,169	8,225	13,153	4,209
Interest and fees	11,516	11,982	12,386	6,823	668
Total Expenditures	117,775	129,628	109,544	116,189	77,175
Excess (deficiency) of revenues over (under) expenditures	(10,543)	(20,466)	(4,220)	(22,582)	5,049
Other Financing Sources (Uses)					
Proceeds from debt issuance				21,780	
Payments to refunded debt escrow agent					46
Proceeds/gain from sale of properties	14	4	5	8	
Loss from sale/conveyance of property					(512)
Transfers in	23,278	23,590	119,213	34,994	13,780
Transfers (out)	(18,624)	(23,259)	(115,839)	(31,690)	(10,735)
Total other financing sources (uses)	4,668	335	3,379	25,092	2,579
Extraordinary Items					
Assets transferred to Housing Successor				17,274 (b)	
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor				(42,431) (b)	
Special Item					
Assets transferred to/from Successor Agency and County					
Net Change in fund balances	<u>(\$5,875)</u>	<u>(\$20,131)</u>	<u>(\$841)</u>	<u>(\$22,647)</u>	<u>\$7,628</u>
Debt service as a percentage of noncapital expenditures	20.8%	17.9%	18.5%	22.9%	7.0%

- (a) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.
- (b) Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department. However starting in fiscal year 2016, the recreation was separated out from Human Resources as an individual department
- (d) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.
- (e) Human Resources is a component of General Government and Recreation is a separate department beginning in fiscal year 2016.

Fiscal Year Ended June 30				
2014	2015	2016	2017	2018
\$27,608	\$24,927	\$27,068	\$30,261	\$31,893
19,766	19,572	24,719	26,214	27,854
14,992	17,505	18,737	19,349	20,429
8,193	6,971	8,051	10,497	12,758
2,964	2,032	3,037	2,180	2,719
5,216	5,482	6,104	4,696	6,228
5,735	6,449	7,196	7,238	6,981
13,975	11,614	29,410	25,637	29,065
1,144	205	113	310	568
<u>99,593</u>	<u>94,757</u>	<u>124,435</u>	<u>126,382</u>	<u>138,495</u>
13,204	12,814	13,771	17,089	15,397
2,658	2,706	2,885	3,148	3,633
		3,383	3,876	4,497
3,124	3,329	(e)	(e)	(e)
(c)	(c)	(c)	(c)	(c)
8,535	9,199	6,020	6,839	6,983
		3,257	3,527	3,103
2,202	2,570	2,805	2,978	3,153
22,165	24,193	26,124	27,247	27,880
14,587	15,605	17,470	18,456	21,034
10,035	14,376	24,811	26,151	27,243
3,828	6,000			
223	61	54	48	69
<u>80,561</u>	<u>90,853</u>	<u>100,580</u>	<u>109,359</u>	<u>112,992</u>
<u>19,032</u>	<u>3,904</u>	<u>23,855</u>	<u>17,023</u>	<u>25,503</u>
6	4	160	7,324	
7,499	25,558	23,001	18,405	(12,437)
(4,098)	(19,305)	(19,864)	(14,903)	19,505
<u>3,407</u>	<u>6,257</u>	<u>3,297</u>	<u>10,826</u>	<u>(14,637)</u>
<u>(27,261)</u> (d)				
<u>\$22,439</u>	<u>\$10,161</u>	<u>\$27,152</u>	<u>\$27,849</u>	<u>\$17,934</u>
5.7%	7.5%	0.1%	0.1%	0.1%

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



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

Notes:

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

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

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
2008-09	\$1.00	\$1.00	\$0.0412	\$0.0874	\$0.0061
2009-10	1.00	1.00	0.0412	0.1238	0.0074
2010-11	1.00	1.00	0.0412	0.1389	0.0072
2011-12	1.00	1.00	0.0412	0.1490	0.0064
2012-13	1.00	1.00	0.0412	0.1140	0.0069
2013-14	1.00	1.00	0.0412	0.0961	0.0070
2014-15	1.00	1.00	0.0412	0.0750	0.0065
2015-16	1.00	1.00	0.0412	0.0817	0.0057
2016-17	1.00	1.00	0.0412	0.0734	0.0086
2017-18	1.00	1.00	0.0412	0.0880	0.0062

Source: County of Santa Clara, Tax Rates & Information

Notes:

- (a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.
- (b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.

CITY OF MILPITAS
PRINCIPAL PROPERTY TAX PAYERS
FISCAL YEARS 2017-18 and 2008-09

Taxpayer	2017-2018			2008-2009		
	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.	\$914,801,531	1	5.24%	\$434,481,406	1	3.61%
KLA Tencor Corporation	388,865,080	2	2.23%	188,049,631	4	1.56%
Sandbox Expansion LLC	353,309,239	3	2.02%			
Santa Clara Valley Transportation	318,414,831	4	1.82%			
Western Digital Technologies	211,860,249	5	1.21%			
Amalfi Milpitas LLC	178,399,623	6	1.02%			
McCarthy Center Holdings LLC	176,218,241	7	1.01%			
Essex Portfolio Lp	155,197,343	8	0.89%			
Hudson Campus Center LLC	145,005,600	9	0.83%			
Linear Technology Corporation	129,654,038	10	0.74%	113,092,927	7	0.94%
Milpitas Mills LP				298,757,619	2	2.48%
Silicon Valley California, Inc.				201,629,520	3	1.68%
Diversifield Real Estate Investors				182,628,600	5	1.52%
Headway Technologies				116,748,123	6	0.97%
Seagate Technology				102,174,304	8	0.85%
Trinet Milpitas Associates				95,006,739	9	0.79%
Bre Milpitas LLC				91,800,000	10	0.76%
Subtotal	\$2,971,725,775		17.01%	\$1,824,368,869		15.17%
Fiscal Year 2017-2018 Total Net Assessed Valuation			\$17,465,358,000			
Fiscal Year 2008-2009 Total Net Assessed Valuation			\$12,026,706,000			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2017/18 Combined Tax Rolls

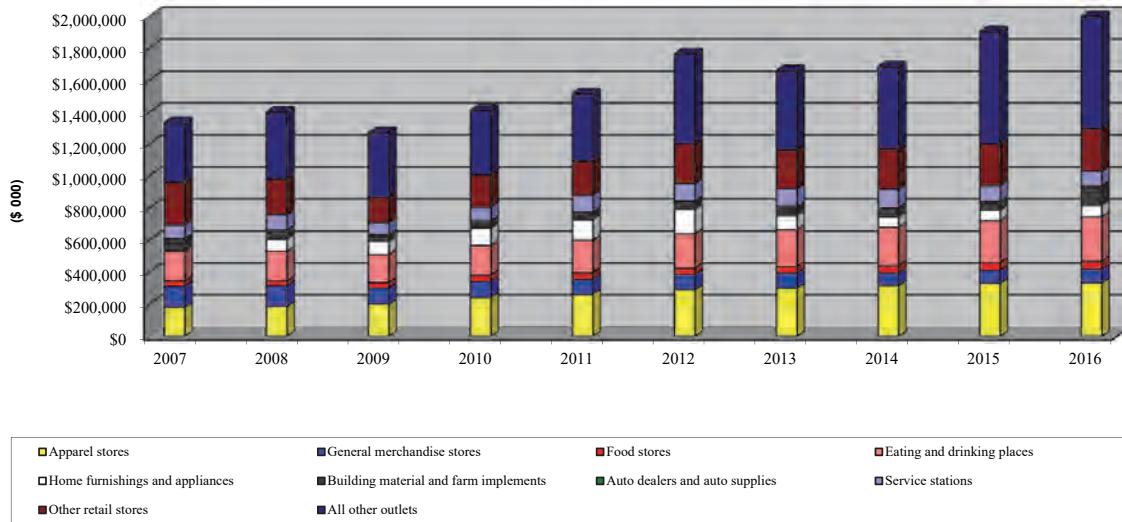
CITY OF MILPITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollars in thousands)

Fiscal Year	Taxes Levied (a)	Current Collections (a)	Percent of Levy Collected	Delinquent Tax Collections	Total Taxes Collected (a)	Percent of Levy
2008-09	\$53,917	\$53,917	100.00%	\$0	\$53,917	100.00%
2009-10 (b)	58,012	58,012	100.00%	0	58,012	100.00%
2010-11 (b)	55,655	55,655	100.00%	0	55,655	100.00%
2011-12 (c)	34,029	34,029	100.00%	0	34,029	100.00%
2012-13 (c)	20,469	20,469	100.00%	0	20,469	100.00%
2013-14	27,608	27,608	100.00%	0	27,608	100.00%
2014-15	24,927	24,927	100.00%	0	24,927	100.00%
2015-16	27,068	27,068	100.00%	0	27,068	100.00%
2016-17	30,262	30,262	100.00%	0	30,262	100.00%
2017-18	31,893	31,893	100.00%	0	31,893	100.00%

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

Source: City of Milpitas Comprehensive Financial Annual Report

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



	CALENDAR YEARS									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Apparel stores	\$181,878	\$185,023	\$200,140	\$241,992	\$261,414	\$291,268	\$302,168	\$317,680	\$331,402	\$333,934
General merchandise stores	131,594	130,193	101,561	100,790	94,828	92,652	91,224	75,862	78,572	84,441
Food stores	34,362	31,105	34,453	38,004	39,344	40,725	43,238	46,833	49,565	49,640
Eating and drinking places	181,668	183,049	174,016	187,002	203,411	214,065	227,952	240,470	261,459	278,140
Home furnishings and appliances	(a)	77,669	80,746	108,491	130,572	155,616	91,325	66,160	68,671	72,599
Building material and farm implements	79,360	57,594	44,818	45,501	48,131	51,128	54,486	55,746	54,157	121,232
Auto dealers and auto supplies	(a)									
Service stations	85,468	93,324	73,280	83,100	102,231	108,073	109,326	114,791	96,147	89,510
Other retail stores	266,915	225,954	158,982	204,074	215,350	250,826	246,769	253,155	262,292	268,447
All other outlets	373,394	417,099	402,516	401,569	420,024	558,935	491,929	511,564	700,857	700,726
Total	\$1,334,639	\$1,401,010	\$1,270,512	\$1,410,523	\$1,515,305	\$1,763,288	\$1,658,417	\$1,682,261	\$1,903,122	\$1,998,669
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

(a) Sales omitted because their publication would result in the disclosure of confidential information.
The numbers are included with "Other retail stores".

Data for calendar year 2017 is not available.

Source: California State Board of Equalization

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

Fiscal Year	City Direct Rate	Santa Clara County	State of California	
2008-09	\$1.00	\$1.00	\$7.25	(a)
2009-10	1.00	1.00	7.25	
2010-11	1.00	1.00	7.25	
2011-12	1.00	1.00	6.25	(b)
2012-13	1.00	1.25	(c) 6.50	(d)
2013-14	1.00	1.25	6.50	
2014-15	1.00	1.25	6.50	
2015-16	1.00	1.25	6.50	
2016-17	1.00	1.75	6.25	(e)
2017-18	1.00	1.75	6.25	

Source: California State Board of Equalization

- (a) April 1, 2009 the State increased the State Rate 1%
- (b) July 1, 2011 the State decreased the State Rate 1%
- (c) April 1, 2013 the County increased the rate 0.25%
- (d) On both July 1, 2012 and April 1, 2013 the State increased the State Rate 0.125%
- (e) On April 1, 2017, the County increased the rate 0.50% and on January 1, 2017 the State decreased the rate 0.25%.

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

CITY OF MILPITAS
PRINCIPAL SALES TAX PAYERS
CALENDAR YEARS 2017 and 2007
IN ALPHABETICAL ORDER

2017	2007
Acme Construction Supply Co.	Best Buy Stores
Ashley Furniture Homestore	Burlington Coat Factory
Best Buy Stores	Chevron Service Stations
Burlington Coat Factory	Contract Office Group
Chevron Service Stations	Credence Systems
Cisco Systems Inc.	Dave & Busters
Cisco Technology	Hanson Concrete Products
Coach Stores	HD Supply Solutions
Consolidated Electrical Distributors	Headway Technologies
Dave & Busters	Home Depot
Eplus Technology	KLA Tencor Corporation
Flextronics	Kohl's Department Stores
Home Depot	Life Scan
Hoya	Marshall's Stores
Independent Electric Supply	Mervyn's Department Store
KLA Tencor	Milpitas Materials Company
Kohl's Department Stores	McDonald's Restaurants
Marshall's Store	One Workplace L. Ferrari
Michael Kors Stores	Orchard Supply Hardware
Milpitas Materials Company	Rackable Systems
Nike Factory Stores	Saks Fifth Avenue
Piercey Toyota & Scion	Shell Service Stations I
Shell Service Stations	Shell Service Stations II
South Bay Honda	Sportmart
Wal Mart Stores	Wal Mart Stores

Source: MBIA MuniServices Company

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

Fiscal Year	Governmental Activities					Business-type Activities		Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation	Revenue Bonds			
2008-09	\$0	\$179,215	\$40,097	\$0	\$0	\$8,815	\$0	\$228,127	0.01%	\$3,301
2009-10	0	174,180	36,963	0	0	8,460	0	219,603	0.01%	3,101
2010-11	0	168,940	33,978	0	0	8,090	0	211,008	0.01%	2,949
2011-12	0	0 (b)	0 (b)	14,037	0	7,710	0	21,747	0.00%	325
2012-13	0	0	0	9,828	360	7,315	0	17,503	0.00%	258
2013-14	0	0	0	6,000	274	6,910	0	13,184	0.00%	188
2014-15	0	0	0	0	186	6,490	0	6,676	0.00%	96
2015-16	0	0	0	0	94	6,055	0	6,149	0.00%	81
2016-17	0	0	0	0	0	5,605	0	5,605	0.00%	74
2017-18	0	0	0	0	0	0	4,725	4,725	(c)	63

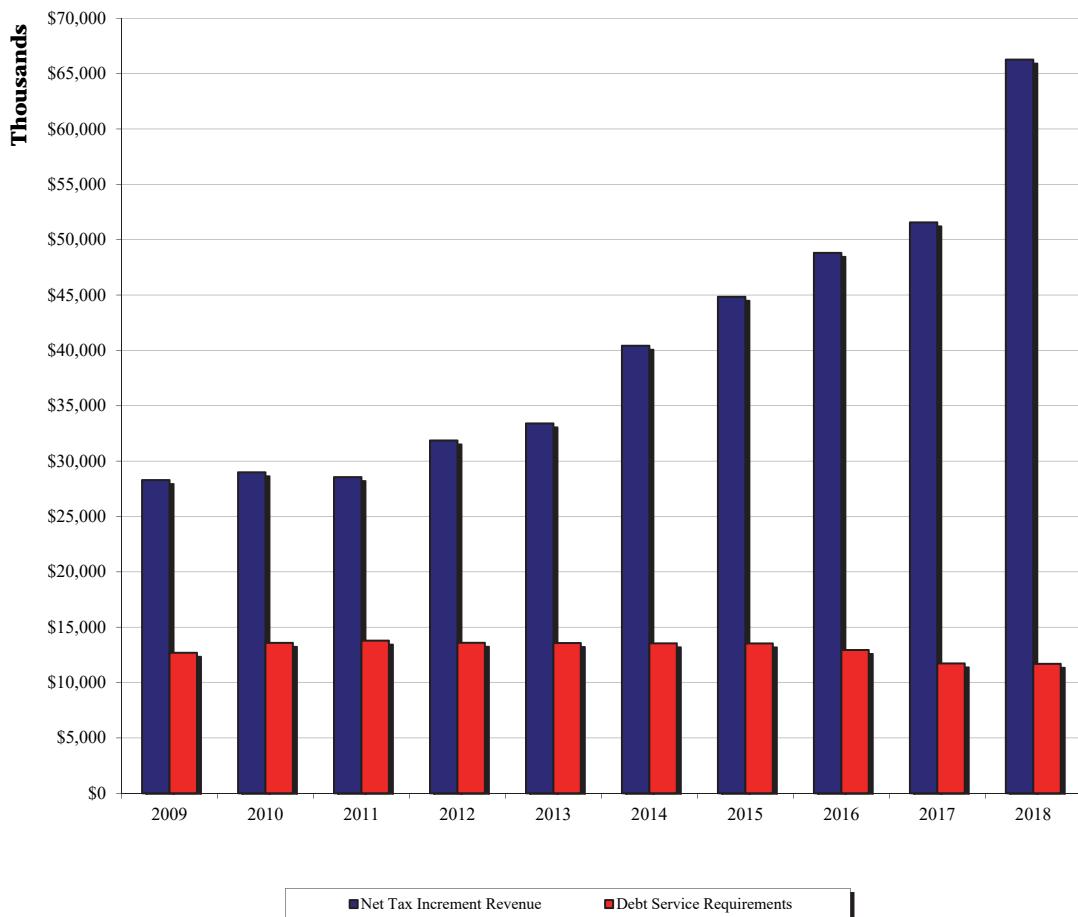
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

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

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

(c) Data for fiscal year 2017-18 not available until May of 2019.

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	
2009	\$36,167,427	\$7,876,041	\$28,291,386	\$3,960,000	\$8,728,458	\$12,688,458	2.23
2010	37,162,281	8,175,650	28,986,631	5,035,000	8,548,558	13,583,558	2.13
2011	36,353,737	7,800,736	28,553,001	5,240,000	8,548,559	13,788,559	2.07
2012	31,866,464 (b) (d)	0 (b)	31,866,464	5,410,000 (c)	8,182,883 (c)	13,592,883	2.34
2013	33,401,413 (d)	0 (b)	33,401,413	5,595,000 (d)	7,973,533 (d)	13,568,533	2.46
2014	40,418,284 (d)	0 (b)	40,418,284	5,825,000 (d)	7,713,234 (d)	13,538,234	2.99
2015	44,843,881 (d)	0 (b)	44,843,881	6,120,000 (d)	7,414,608 (d)	13,534,608	3.31
2016	48,810,216 (d)	0 (b)	48,810,216	7,375,000 (d)	5,567,028 (d)	12,942,028	3.77
2017	51,563,292 (d)	0 (b)	51,563,292	6,045,000 (d)	5,682,175 (d)	11,727,175	4.40
2018	66,266,187 (d)	0 (b)	66,266,187	6,225,000 (d)	5,467,000 (d)	11,692,000	5.67

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

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2018

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2017-18 Assessed Valuation, Direct and Overlapping Debt		<u>\$17,465,358,074</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	3.883%	\$39,311,492
San Jose- Evergreen Community College District	12.321%	62,778,649
Milpitas Unified School District	99.102%	100,023,649
East Side Union High School District	31.800%	2,691,925
Berryessa Union School District	2.100%	1,820,869
Santa Clara Valley Water District Benefits Assessment District	3.883%	3,195,127
City of Milpitas 1915 Act Bonds	100%	0
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>209,821,711</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations	3.883%	22,919,134
Santa Clara County Pension Obligations	3.883%	13,883,557
Santa Clara County Board of Education Certificates of Participation	3.883%	193,568
San Jose- Evergreen Community College District OPEB Bonds	12.321%	5,846,315
East Side Union High School District OPEB Bonds	31.800%	91,775
Berryessa Union School District Certificates of Participation	2.100%	101,568
City of Milpitas	100%	0
Santa Clara County Vector District Certifications of Participations	3.883%	95,910
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>43,131,827</u>
Less: Santa Clara County supported obligations		(15,799,370)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$27,332,457</u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	100%	<u>\$108,145,000</u>
<u>TOTAL DIRECT DEBT</u>		<u>\$0</u>
TOTAL GROSS OVERLAPPING DEBT		<u>\$361,098,538</u>
TOTAL NET OVERLAPPING DEBT		<u>\$345,299,168</u>
GROSS COMBINED TOTAL DEBT		<u>\$361,098,538 (2)</u>
NET COMBINED TOTAL DEBT		<u>\$345,299,168</u>

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value.

Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

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

<u>Ratios to 2017-18 Assessed Valuation:</u>	
Total Overlapping Tax and Assessment Debt	1.20%

<u>Ratios to Assessed Valuation:</u>	
Direct Debt %	0.00%
Total Gross Debt %	2.07%

Source: California Municipal Statistics, Inc.

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

Legal Debt Margin Calculation for Fiscal Year 2017-18

Assessed value (net) - June 30, 2018	<u><u>\$17,465,358</u></u>
Debt limit: 3.75% of assessed value (a)	\$654,951
Debt applicable to limit	
Total Bonded Debt	\$4,725
Less: Tax Allocation Bonds	
not subject to limit	4,725
Amount of Debt subject to limit	<u><u>0</u></u>
Legal debt margin	<u><u>\$654,951</u></u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2008-09	\$451,001	\$0	\$451,001	0.0%
2009-10	450,946	0	450,946	0.0%
2010-11	446,703	0	446,703	0.0%
2011-12	431,188	0	431,188	0.0%
2012-13	446,277	0	446,277	0.0%
2013-14	480,501	0	480,501	0.0%
2014-15	527,280	0	527,280	0.0%
2015-16	564,703	0	564,703	0.0%
2016-17	600,705	0	600,705	0.0%
2017-18	654,951	0	654,951	0.0%

(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	
2008-09	\$10,703,586	\$9,838,790	\$864,796	\$345,000	\$406,212	\$751,212	1.15
2009-10	10,896,264	6,196,015	4,700,249	355,000	331,793	686,793	6.84
2010-11	11,752,362	6,420,615	5,331,747	370,000	319,468	689,468	7.73
2011-12	12,757,123	5,405,936	7,351,187	380,000	304,267	684,267	10.74
2012-13	12,785,567	6,356,621	6,428,946	395,000	292,966	687,966	9.34
2013-14	13,235,908	7,834,220	5,401,688	405,000	278,965	683,965	7.90
2014-15	14,664,759	7,263,553	7,401,206	420,000	264,528	684,528	10.81
2015-16	16,408,718	7,687,848	8,720,870	435,000	249,348	684,348	12.74
2016-17	16,803,344	6,657,757	10,145,587	450,000	233,193	683,193	14.85
2017-18	17,245,001	9,031,729	8,213,272	470,000	216,055	686,055	11.97

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

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

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

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)
2008-09	\$59.70	\$43.14	\$26.88	\$10.08	0.02 - 3.93
2009-10	65.08	46.49	28.73	10.99	0.97 - 6.52
2010-11	70.94	50.68	31.18	11.98	0.72 - 7.61
2011-12	72.95	51.06	33.36	12.82	2.38 - 6.99
2012-13	75.92	51.06	33.36	13.72	2.38 - 6.99
2013-14	75.92	51.06	33.36	13.72	2.38 - 6.99
2014-15	86.93	52.22	38.20	14.68	2.73 - 8.00
2015-16	90.27	69.32	56.97	14.97	3.94 - 8.34
2016-17	90.27	69.32	56.97	14.97	3.94 - 8.34
2017-18	90.27	69.32	56.97	14.97	3.94 - 8.34

Source: City of Milpitas, Engineering Department

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

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

Calendar Year	Population	Population Density (Sq. Mile)	Total Personal Income	Per Capita Personal Income	School Enrollment	Unemployment Rate (%)	Land Area (Sq. Mile)
2008	69,115	5,060	\$2,634,504	\$38,118	9,649	6.20%	13.66
2009	70,812	5,184	2,606,712	36,812	9,802	11.30%	13.66
2010	71,552	5,238	2,067,137	28,890	9,887	11.50%	13.66
2011	66,966	4,902	2,052,307	30,647	9,949	10.00%	13.66
2012	67,894	4,970	2,143,889	31,577	10,033	6.70%	13.66
2013	70,092	5,131	2,234,603	31,881	10,156	5.50%	13.66
2014	69,903	5,117	2,287,366	32,722	10,281	4.90%	13.66
2015	75,521	5,529	2,374,221	31,437	10,291	3.90%	13.66
2016	75,410	5,520	2,528,663	33,532	10,260	3.50%	13.66
2017	75,410	5,520	2,721,275	36,086	10,318	3.60%	13.66

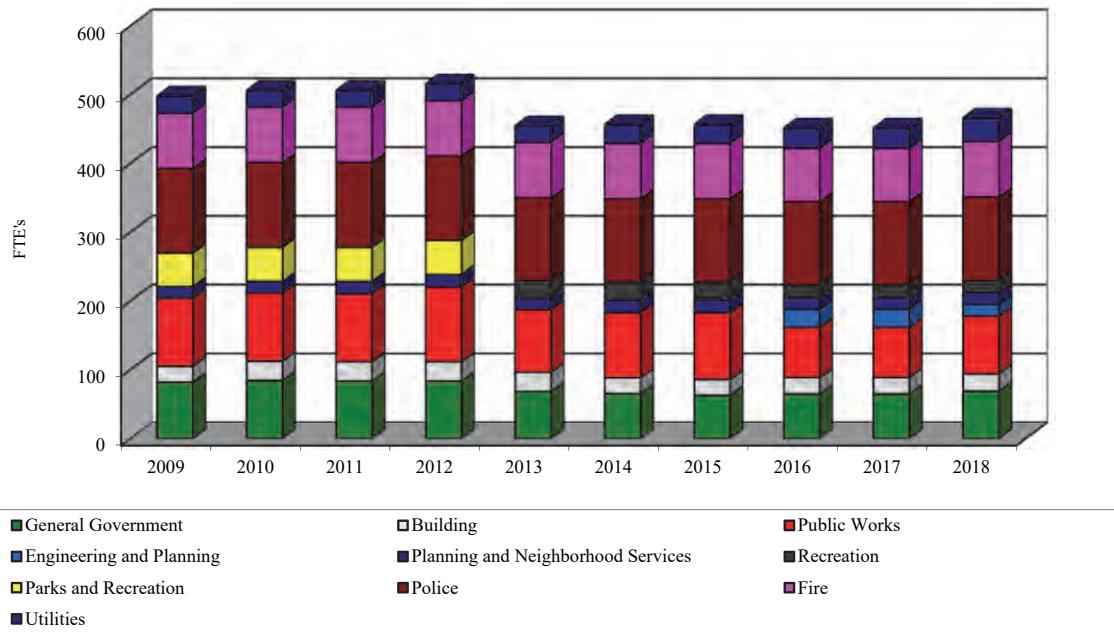
Sources: HdL, Coren & Cone
 City of Milpitas Annual Budget

CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2017-18 and 2010-2011

Employer	2017-18			2010-11		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,647	1	8.72%	2,947	1	3.61%
KLA-Tencor Corporation	2,147	2	5.14%	2,298	2	2.81%
San Disk Corporation	1,952	3	4.67%	1,797	3	2.20%
Flextronics International	1,600	4	3.83%	915	5	1.12%
Linear Technology Corporation	1,288	5	3.08%	1,348	4	1.65%
Milpitas Unified School District	899	6	2.15%	793	6	0.97%
Headway Technologies	698	7	1.67%	362	10	0.44%
FireEye, Inc.	664	8	1.59%			
Wal-Mart	459	9	1.10%			
Micron Consumer Products	450	10	1.08%			
LSI Logic Corporation				726	7	0.89%
JDS Uniphase Corporation				619	8	0.76%
Lifescan, Inc.				640	9	0.78%
Subtotal	<u>13,804</u>		<u>33.02%</u>	<u>12,445</u>		<u>15.24%</u>
Total Labor Force			41,800			81,646

Source: California Municipal Statistics, Inc.

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



Function	Fiscal Year Ended June 30									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government	82.0	84.5	83.5	83.5	68.5	65.5	63.0	64.8	64.8	69.0
Building and Safety	23.0	28.0	28.0	28.0	28.0	23.0	23.0	24.0	24.0	25.0
Public Works	99.0	99.0	99.0	109.0	91.0	94.5	97.0	73.0	73.0	84.0
Engineering								26.0 (b)	26.0	17.0
Planning and Neighborhood Services	17.0	17.0	18.0	18.0	16.5	18.5	18.5	17.0 (b)	17.0	17.0
Recreation					25.5 (a)	25.5	25.5	18.0	18.0	17.5
Parks and Recreation	48.5	49.5	49.5	49.5	(a)					
Police:										
Sworn Police	94.5	94.5	94.5	94.0	91.5	92.0	92.0	92.0	93.0	93.0
Civilians	29.0	29.0	29.0	29.0	29.5	30.0	30.0	30.0	29.0	29.0
Fire:										
Officers	70.0	70.0	70.0	70.0	70.0	70.0	68.0	66.0	66.0	68.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	12.0	11.0	11.0	12.0
Utilities	25.0	24.5	24.5	24.5	24.0	27.5	27.5	29.5	29.5	34.5
Total	<u>498.0</u>	<u>506.0</u>	<u>506.0</u>	<u>515.5</u>	<u>454.5</u>	<u>456.5</u>	<u>456.5</u>	<u>451.3</u>	<u>451.3</u>	<u>466.0</u>

(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.

Source: City of Milpitas, final budget

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

	Fiscal Year Ended June 30				
	2009	2010	2011	2012	2013
Function/Program					
Building and Safety					
Building permits issued	3,500	2,700	2,800	2,800	3,400
Plan checked performed	1,000	800	800	800	1,100
Public Works					
Street miles maintained	139	139	139	139	139
Customer Service Requests	3,924	3,900	3,000	3,350	3,500
Development projects reviewed	100	118	225	200	200
Planning and Neighborhood Services					
Customer Service Requests/Violations abated	1,250	980	800	725	725
Applications to Planning Commission	112	84	45	96	106
Parks and Recreation					
Sports Center members	8,500	10,000	1,200	1,400	1,600
Senior nutrition meals served	23,228	24,056	23,076	23,304	22,090
Athletic Field maintenance (hours)	2,242	2,100	1,641	n/a	n/a
Police					
Avg response time to emergency calls (minutes)	2:46	2:47	2:49	2:42	2:32
Number of anti-terrorist patrol checks	3,500	1,469	1,469	1,693	1,996
Crime prevention presentations	275	266	281	235	201
Number of vehicle citations issued	11,558	11,391	8,544	6,901	4,120
DARE presentations: schools/students	13/1440	12/850	11/845	12/770	0
Fire					
Emergency calls for service	4,300	4,400	4,400	4,075	4,356
Public education events	70	90	80	120	45
Permits Inspections	4,000	4,000	4,000	4,334	4,510
Plan Review	995	1,000	900	671	807
Utility					
Clean sewer lines (feet)	500,000	500,000	550,000	500,000	329,313
Repair, replace or set water meters	700	500	380	491	149
Average daily consumption (thousands of gallons)	8,870	9,200	8,100	8,200	9,340

Source: City of Milpitas, final budget

Fiscal Year Ended June 30				
2014	2015	2016	2017	2018
4,300	4,300	4,200	4,090	4,200
1,500	1,400	1,500	1,610	1,700
139	139	139	139	298
2,880	2,800	2,794	2,800	3,000
205	190	178	158	160
725	755	755	800	850
159	236	92	92	100
1,450	1,504	1,600	1,325	1,450
20,656	21,231	20,158	18,678	17,206
n/a	n/a	n/a	n/a	
2:33	2:32	2:40	2:44	2:50
2,550	2,300	2,400	2,200	2,200
200	200	125	70	70
3,516	3,600	5,900	5,720	5,900
0	0	0	0	0
4,356	4,950	5,000	5,000	5,200
45	80	100	112	200
4,510	4,666	7,600	7,322	7,400
807	983	1,200	1,550	1,600
640,255	500,000	500,000	500,000	491,244
298	279	189	152	115
9,300	9,300	7,800	5,800	6,590

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

	Fiscal Year Ended June 30				
	2009	2010	2011	2012	2013
Function/Program					
Public Works					
Miles of streets	138	139	139	287	287
Street lights	4,460	4,496	4,496	4,500	4,500
Square feet of buildings maintained (in thousands)	350	350	427	376	376
City vehicles	617	622	622	247	242
Signs	8,131	8,363	8,363	8,534	8,534
Signal lights	71	71	71	72	72
City Parks	32	29	31	31	33
Acres of Parkland	179	179	178	179	179
Playgrounds	37	33	33	33	24
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Satellite centers	0	0	0	0	0
Swimming pools	3	4	4	3	3
Tennis courts	24	20	17	20	20
Football field	1	1	1	1	1
Baseball/softball fields	21	15	15	12	8
Soccer fields	13	5	2	3	9
Basketball courts	6	5	5	4	8
Volleyball courts / Horse Shoe Pits / Bocce Ball / Cricket Field / Par Course	7	5	4	5	4
Handball courts	4	4	4	4	5
Joint use:					
Russell Bobbysocks Fields	0	0	0	0	0
Soccer fields	0	0	0	0	0
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	28	28	28	27	27
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	14	13	15	13	22
Fire hydrants	1,756	1,840	1,840	1,840	1,840
Utility					
Miles of water mains	204	213	213	213	213
Water Tank Storage capacity (million of gallons)	16	16	16	16	16
Miles of sanitary sewers	173	178	178	179	179
Miles of storm drain	106	110	110	110	110
Miles of recycled water main	11	3	3	4	4

Source: City of Milpitas, final budget

Fiscal Year Ended June 30				
2014	2015	2016	2017	2018
287	298	298	298	298
4,500	4,577	4,577	4,581	5,119
376	376	376	376	322
252	260	264	264	269
5,500	5,700	5,700	6,000	10,000
72	70	71	72	72
34	34	33	32	32
180	180	180	195	195
25	34	34	33	30
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
0	0	0	2	2
3	3	3	3	3
20	21	21	21	21
1	1	1	1	1
8	9	9	7	7
9	12	13	13	13
8	7	9	10	10
9	7	10	13	12
5	5	5	6	6
0	0	0	3	3
0	0	0	2	2
2	2	2	2	2
29	28	34	29	29
4	4	4	4	4
19	19	13	11	11
1,847	2,033	2,033	2,039	2,039
214	213	203	203	206
16	16	16	16	16
179	179	173	173	175
110	110	99	99	105
4	23	23	21	23



OTHER AUDIT REPORT



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Milpitas, California, as of and for the year ended June 30, 2018, and have issued our report thereon dated November 13, 2018. 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 compliance and other matters that are reported on separately by those auditors. Our report also includes emphasis of a matter paragraphs disclosing the implementation of new accounting principles and the restatement of beginning net position.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated November 13, 2018, which is an integral part of our audit and should be read in conjunction with this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, except as noted in item 2017-01 in our separately issued Memorandum on Internal Control dated November 13, 2018, which is an integral part of our audit and should be read in conjunction with this report.

City's Response to Findings

The City's response to the findings identified in our audit is described in our separately issued Memorandum on Internal Control dated November 13, 2018, which is an integral part of our audit and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Mage & Associates". The signature is fluid and cursive, with "Mage" on the first line and "& Associates" on the second line.

Pleasant Hill, California
November 13, 2018