

March 21, 2013

The Honorable Noreen Evans
Chair – Senate Judiciary Committee
Room 4085
State Capitol
Sacramento, CA 95814-4900

Dear Chairwoman Evans:

As required under Section 1936 of the Civil code related to vehicle rental agreements, in December 2011 Mineta San José International Airport completed the process to implement the collection of per day customer facility charges to pay the costs to design, finance and construct a rental car facility. Subsection (1)(2)(i) of Section 1936 of the Civil Code requires that airports collecting the per day customer facility charges must provide reports of required information on an annual basis to the Senate and Assembly Judiciary Committees. The purpose of this correspondence is to provide the required information for the fiscal year ending on June 30, 2012. The Airport is submitting the information required by subsection (1)(2)(i) as follows:

(I) The total amount of the customer facility charge collected.

In FY 11-12 the Airport realized the following customer facility charge revenues:

\$10 per rental contracts (7/1/11-11/30/11)	\$3,117,083
\$6 per contract day (12/1/11-6/30/12)	\$7,019,970
Interest income	\$ 12,016
Total Revenues	\$10,149,069

The collected revenues have been verified as part of the City of San José's citywide annual single audit for the fiscal year 2011-2012. The citywide audit report was completed on November 19, 2012, except for the portion of the report on federal awards, the schedule of passenger facility charge revenues and expenditures and the schedule of customer facility charge revenues and expenditures, were completed on February 7, 2013. The audit was completed by the auditing firm of MGO Certified Public Accountants and approved by the San José City Council on March 12, 2013. The portion of the citywide single audit relating to customer facility charge revenue and expenditures is attached for your review.

(II) How the funds are being spent.

Of the \$10,149,069 collected in customer facility charges in fiscal year 2011-2012, \$10,149,069 was expended for debt service for the rental car facility.

(III) The amount of and reason for any changes in the airport's budget or financial needs for the facility or common-use transportation system.

The Airport modified its budget in FY2011-12 to address the change in customer facility charge collections and to recognize the debt service change resulting from the refinancing of the commercial paper debt associated with the consolidated rental car facility.

The common use transportation is currently not funded by customer facility charges but by the rental car companies directly.

(IV) Whether airport concession fees authorized by Section 1936.01 have increased since the prior report, if any.

The airport concession fees imposed on the rental car companies referenced in Section 1936.01 have not increased during FY 2011-12.

If the Committee has any questions on the aforementioned information, please feel free to contact me at lgomes@sjc.org or at (408) 392-3650.

Sincerely,



Terri Gomes
Director of Airport Finance

cc: Members – Senate Judiciary Committee
Benjamin Palmer – Chief Counsel
Ed Shikada – Assistant City Manager
William F. Sherry – Director of Aviation
Sharon Erickson – City Auditor
Julie Cooper – Director of Finance
Kim Aguirre – Assistant Director of Aviation/Chief Operating Officer
Roxanne Miller – San José Legislative Advocate

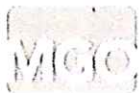
Attachments: as stated

CITY OF SAN JOSE, CALIFORNIA

Single Audit Reports

**Basic Financial Statements with
Federal and Airport Compliance Sections**

For the Year Ended June 30, 2012



Certified Public Accountants.

CITY OF SAN JOSE, CALIFORNIA

For the Year Ended June 30, 2012

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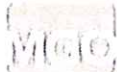
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CITY OF SAN JOSE, CALIFORNIA

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Oakland

LA/Century City

Neaport Beach

San Diego

Seattle

City Council
City of San José, California

Independent Auditor's Report

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 San José, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I.A. to the basic financial statements, the California State Legislature enacted legislation that dissolved redevelopment agencies in the State of California as of February 1, 2012. On February 1, 2012, the City, as the Successor Agency to the Redevelopment Agency of the City of San José, became responsible for overseeing the dissolution process and the wind down of redevelopment activity.

As discussed in Note IV.C.3. to the basic financial statements, on June 8, 2012, Moody's Investors Service downgraded the former Redevelopment Agency of the City of San José's Senior Obligations Rating to below "Baa1", which triggered a Special Termination Event under the Continuing Covenant Agreement of its 2010 C Housing Set-Aside Tax Allocation Bonds (Bonds). The Bonds have an outstanding balance at June 30, 2012 of \$88.6 million and are reported as a current liability. For the period commencing on August 15, 2012 and ended on November 15, 2012, the bank agreed to forebear from exercising its rights and remedies under the bond documents in respect to the existing default. Negotiations are presently underway to extend the forbearance agreement. The City cannot predict the outcome of the negotiations.

As discussed in Note IV.D.3 to the basic financial statements, in connection with the Redevelopment Dissolution Law, the County of Santa Clara's Auditor-Controller issued its Agreed-Upon Procedures Report on October 5, 2012, which identified three separate issues questioning a total of \$203.0 million of assets held by the City and a component unit, which are currently in dispute by the City and the Successor Agency to the Redevelopment Agency of the City of San José. The City has requested meet and confer meetings with the State Department of Finance and is in the process of other administrative procedures to resolve these issues. Due to uncertainties with the Redevelopment Dissolution Law, the ultimate outcome of these issues cannot presently be determined, accordingly, no provision for any liability that may result has been recorded in the financial statements. It is reasonably possible that a determination may be made at a later date by an appropriate State or judicial authority that would resolve this matter unfavorably to the City.

As discussed in Note IV.A.1.4. to the basic financial statements, based on the most recent actuarial valuations as of June 30, 2011, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2011, the value of the defined benefit pensions plans' actuarial accrued liability exceeded the actuarial value of their assets by \$510.3 million and \$981.6 million, respectively. Also, as described in Note IV.A.2.4., based on the most recent actuarial valuations as of June 30, 2011, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2011, the value of the postemployment healthcare plans' actuarial accrued liability exceeded the actuarial value of their assets by \$943.1 million and \$1,009.9 million, respectively.

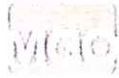
In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedules of revenues, expenditures, and changes in fund balances – budget and actual for the General Fund, Housing Activities Fund and the Affordable Housing Investment Fund; and the schedules of funding progress 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, schedule of revenues and expenditures of passenger facility charges, and schedule of revenues and expenditures of customer facility charges are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the *Passenger Facility Charge Audit Guide for Public Agencies*, and the *California Civil Code Section 1936, as amended by SB 1192*, respectively, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & Cunniff LLP
Walnut Creek, California

November 19, 2012, except for our report on the schedule of expenditures of federal awards, schedule of passenger facility charge revenues and expenditures and schedule of customer facility charge revenues and expenditures, as to which the date is February 7, 2013



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**Independent Auditor's Report on Compliance with
Requirements of the Customer Facility Charge Program and on
Internal Control over Compliance**

City Council
City of San José, California

Compliance

We have audited Norman Y. Mineta San José International Airport's (Airport), an enterprise fund of the City of San José (City), compliance with the compliance requirements described in the California Civil Code Section 1936, applicable to its customer facility charge program for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance 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; and the California Civil Code Section 1936. Those standards and the California Civil Code Section 1936 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its customer facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Airport's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, the City's and the Airport's management, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Walnut Creek, California
February 7, 2013

CITY OF SAN JOSE, CALIFORNIA
Schedule of Customer Facility Charges Revenues and Expenditures
Year Ended June 30, 2012

Revenues

Customer facility charges:

\$10 per rental contract (7/01/2011-11/30/2011)

\$ 3,117,083

\$6 per contract day (12/01/2011-6/30/2012)

7,019,970

Interest income

12,016

Total revenues

10,149,069

Expenditures

ConRAC debt service expenditures

10,149,069

Total expenditures

10,149,069

Revenues over expenditures

\$ -

See accompanying notes to the Schedule of Customer Facility Charge Revenues and Expenditures.

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures

Year Ended June 30, 2012

(1) GENERAL

California Civil Code Section 1936, as amended by Senate Bill 1192 (Code), permits an airport sponsor to require rental car companies to collect from a renter a Customer Facility Charge (CFC) to finance, design and construct a consolidated airport rental car facility; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

Since January 1, 2008, the Norman Y. Mineta San José International Airport (Airport) has imposed a CFC of \$10.00 per rental contract. Effective on December 1, 2011, pursuant to Section 1936 of the California Civil Code (Section 1936), the City increased the CFC to \$6.00 per contract day, to a maximum of five days, on each rental instead of the \$10.00 per rental contract CFC to help pay first for debt service associated with the Consolidated Rental Car Facility (ConRAC) and then certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC.

(2) BASIS OF ACCOUNTING

The accompanying schedule are presented using the accrual basis of accounting as described in Note I to the City's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of CFCs are reported in the City's basic financial statements as reduction of liabilities in the Airport enterprise fund. CFC expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.