

# **First Quarter Financial Report for Fiscal Year 2019-2020**

**Public Safety, Finance and  
Strategic Support Committee**

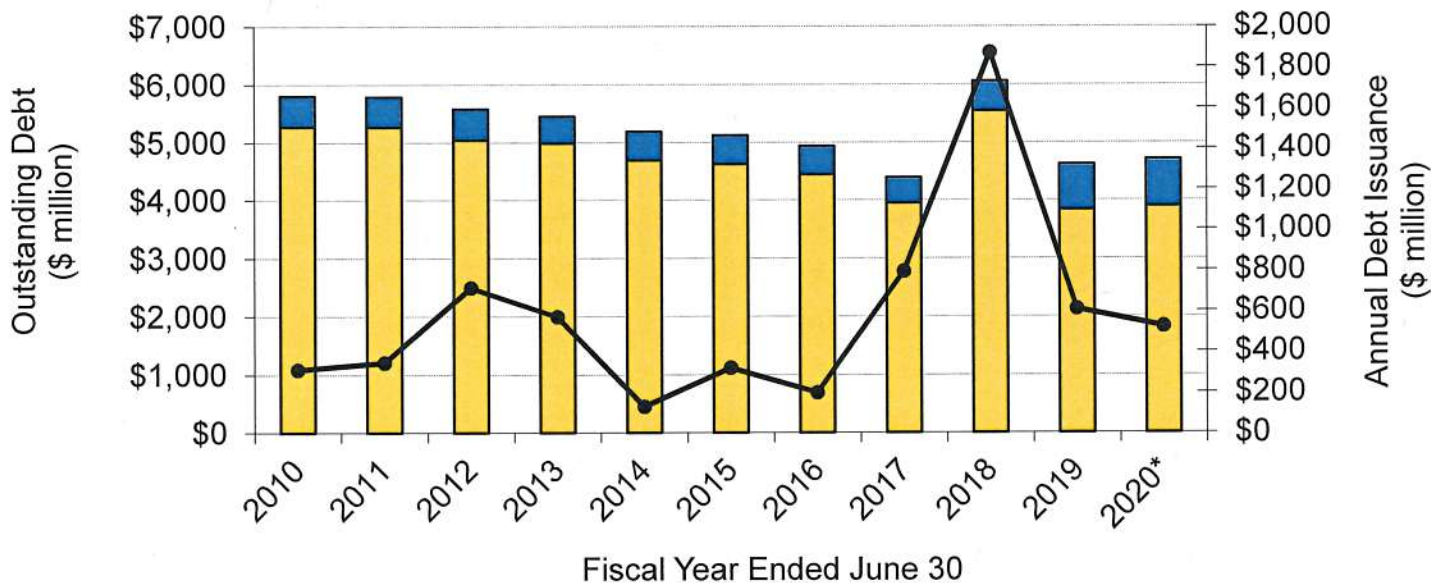
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# **First Quarter Debt Management Report for Fiscal Year 2019-2020**

# Outstanding Debt Issued by All Agencies

Outstanding Debt as of September 30, 2019: \$4.7 Billion

FY 2019-20 Actual Debt Issuance: \$523.5 Million

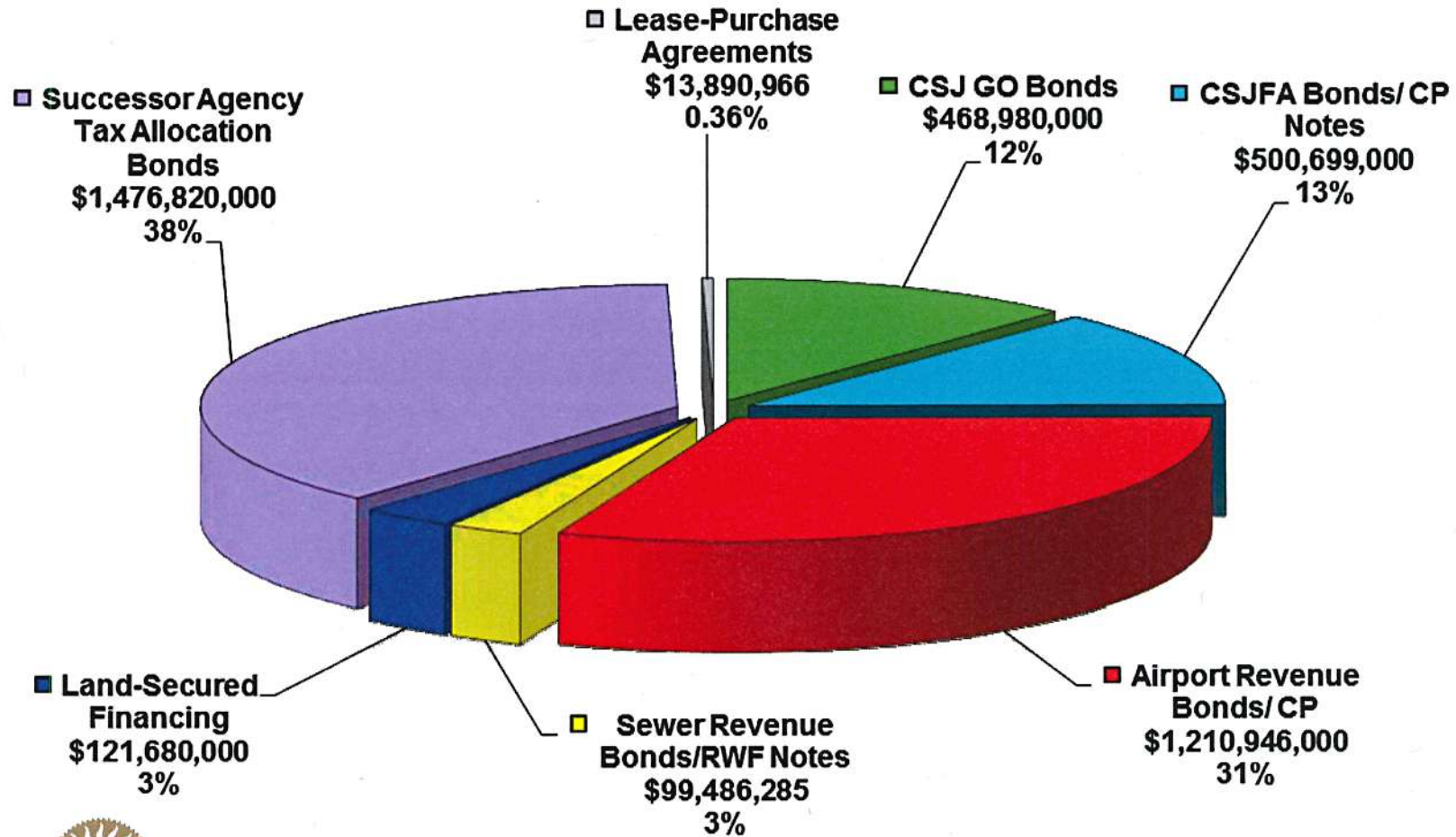


City and Related Entity Debt Outstanding
  Conduit Debt Outstanding
  Annual Debt Issuance

\* YTD Debt Issuance

# Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of September 30, 2019: \$3,892,502,251\*



\* Excludes conduit debt, pension, OPEB, and other long-term liabilities of the City.

# Selected Debt Issuance and Debt Management Activities during 1<sup>st</sup> Quarter (Jul-Sep 2019)

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- Debt Issuance
  - Series 2019 A-D Obligation Series Bonds - \$502 million:
    - New Issuance Measure T – The first issuance under Measure T authorization in the amount of \$239.9 million (Series 2019A Bonds \$173,400,000 and taxable Series 2019B \$66,500,000) for critical infrastructure projects.
    - New Issuance (Prior Authorization) – Series 2019C Bonds provided \$9,230,000 in new issuance under remaining authorization (Measure O 2000 & Measure O 2002) for library projects (\$5.9 million) and public safety projects (\$3.3 million).
    - Refunding of Prior General Obligation Bonds - Series 2019C Bonds (\$148.9 million) and taxable Series 2019D Bonds (\$103.9 million) provided funds sufficient to refund prior General Obligation Bond.
  - Multi-Family Housing Revenue Obligation
    - Lenzen Square - \$21.5 million (August 2019)
- Debt Management
  - Annual GO Bond Tax Levy
- Reporting – Bond Ratings
  - SJC Airport – September 2019, Fitch Ratings raised its long-term rating to “A” from “A-”, Stable Outlook, on the City of San José outstanding General Airport Revenue Bonds.

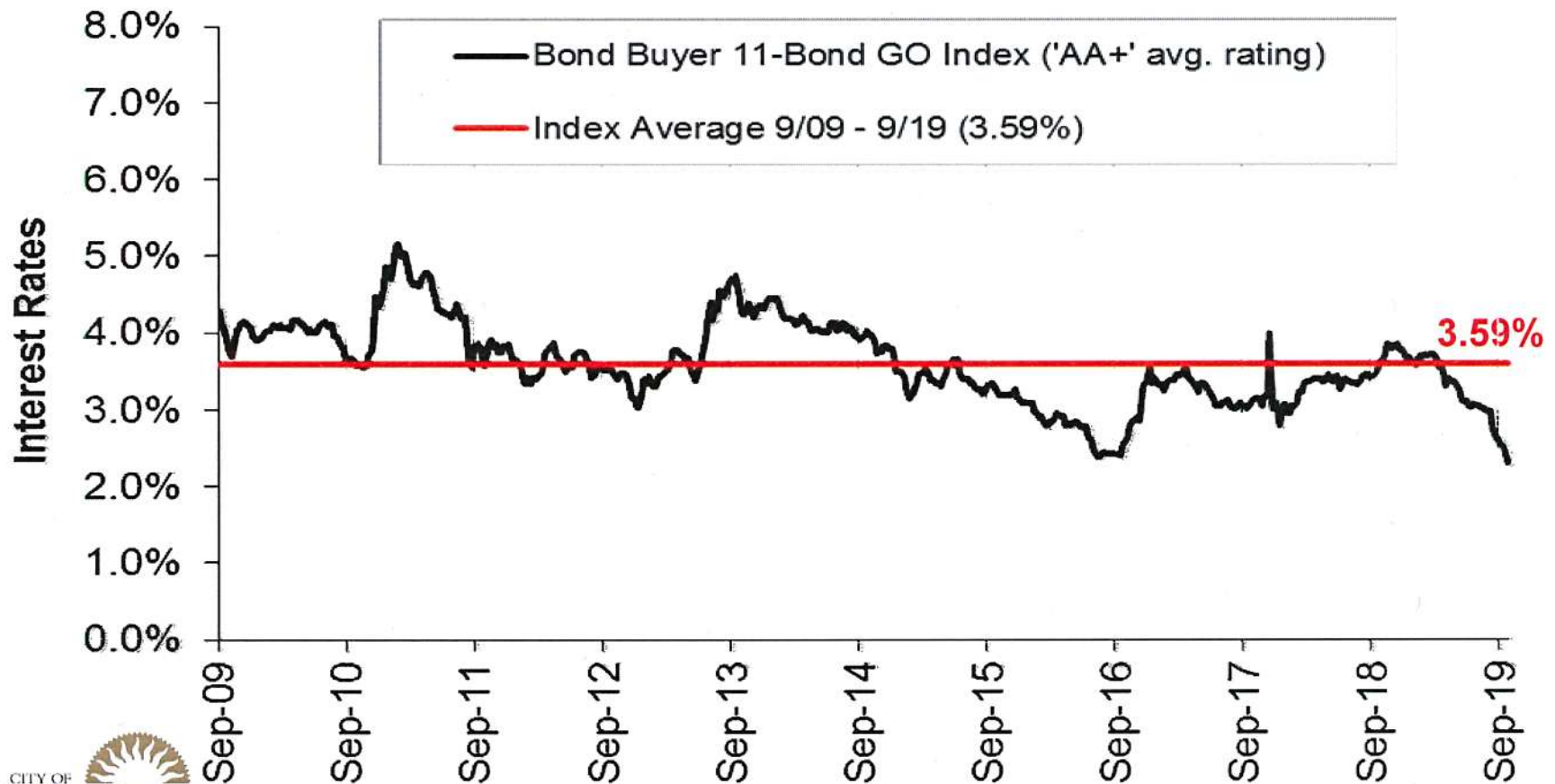
# Upcoming Debt Issuance and Management Through December 31, 2019

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- Debt Issuance
  - Multi-Family Housing Revenue Bonds
    - Markham Plaza I Apartments - \$26 million (Summer 2019)
    - Palm Court Apartments - \$16 million (Fall 2019)
    - Vista Park I Apartments- \$19 million (Fall 2019)
    - Quetzal Gardens Apartments - \$45 million (Fall 2019)
  - Refunding
    - CSJFA lease revenue bonds – Spring 2020
- Reporting
  - 2019 Comprehensive Annual Debt Report (CADR)
  - Annual continuing Disclosure/Compliance Reporting to MSRB

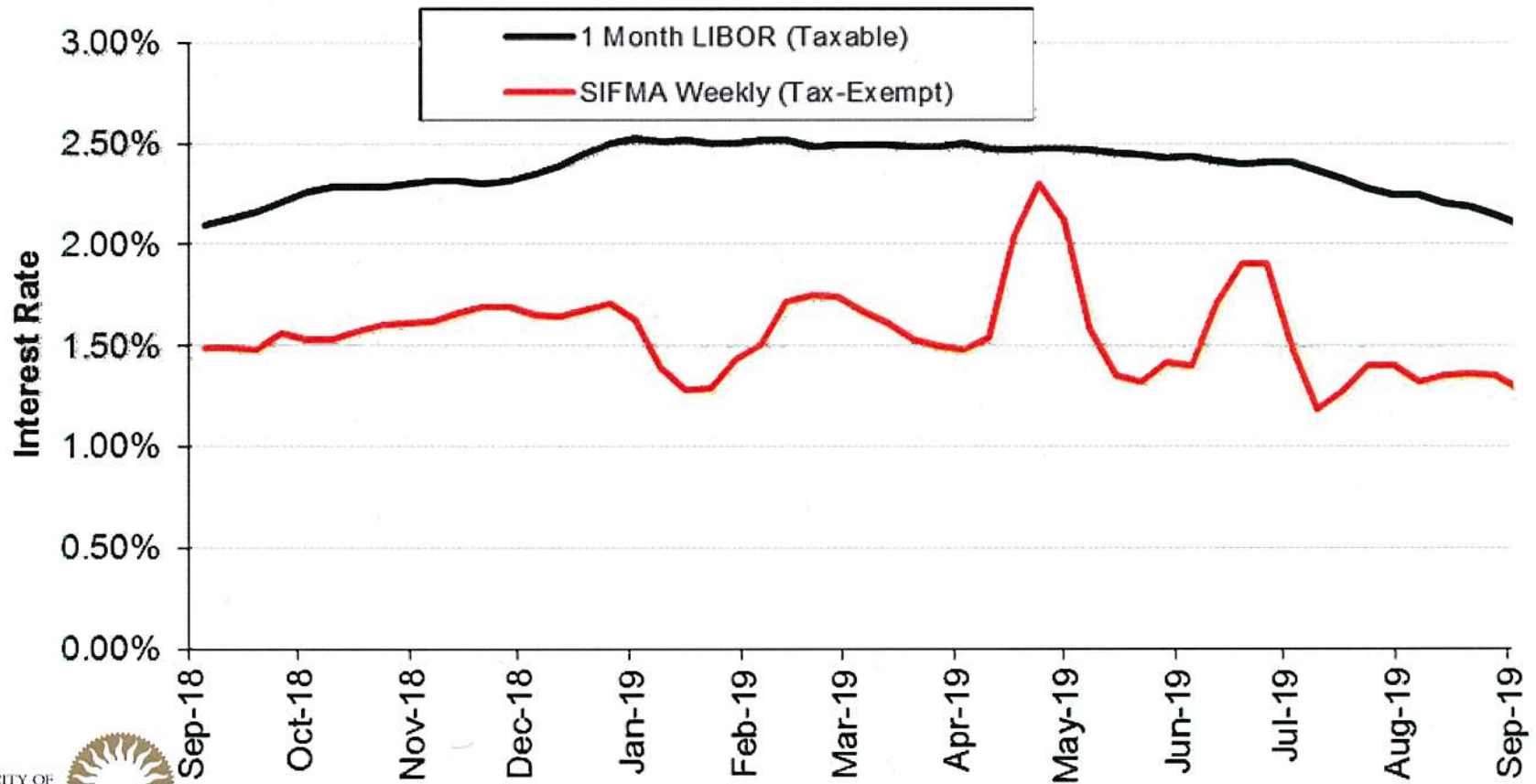
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.59% and are currently at 2.14% (as of 10/17/19)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.56% in Q1 and are currently at 1.29% (as of 10/16/2019)
- Taxable LIBOR monthly interest rates paid by the City averaged 2.35% in Q1 and are currently at 1.85% (as of 10/17/2019)





# City of San José – Credit Ratings<sup>1</sup>

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- City continues to maintain high general obligation (G.O.) credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3<sup>2</sup>/AA/AA
  - City G.O. bonds continue to be rated higher than State of California (Aa2/AA-/AA)
  - Santa Clara County G.O. bonds are rated Aa1 by Moody's, slightly higher by S&P (AAA), and AA+ by Fitch
- SJC Airport bonds are rated A2/A/A
- SARA Senior Tax Allocation Bonds are rated AA and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch<sup>3</sup>

<sup>1</sup> Ratings are listed in the following order by rating agency (unless noted otherwise): Moody's/S&P/Fitch.

<sup>2</sup> Moody's determines its lease revenue bond ratings, in part, based on "essentiality" of leased asset; bonds tied to an essential asset like City Hall carry a higher rating (Aa2) than bonds tied to a less essential asset like the Convention Center (Aa3).

<sup>3</sup> Successor Agency to the San Jose Redevelopment Agency Bonds are not rated by Moody's.

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# **First Quarter Investment Management Report for Fiscal Year 2019-2020**

# Investment Policy (Council Policy 1-12)

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- Conforms to the California Government Code Sections 53600 et seq.
- Authorized investments only include high grade fixed income securities. (Long-term rating A or higher; Short-term rating A1/P1/F1\*)
- Policy is reviewed annually and shall be adopted by resolution of the City Council
- Investment Program is audited semiannually for compliance purposes

\* A1, P1, F1 are high quality ratings for short-term securities issued by S&P, Moody's and Fitch respectively.

# Investment Objectives & Reporting

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- Manage investments to meet the City's objectives:
  - Safety
  - Liquidity
  - Yield
- Quarterly reports on-line, placed on PSFSS Committee agenda and separately agendized for City Council's acceptance

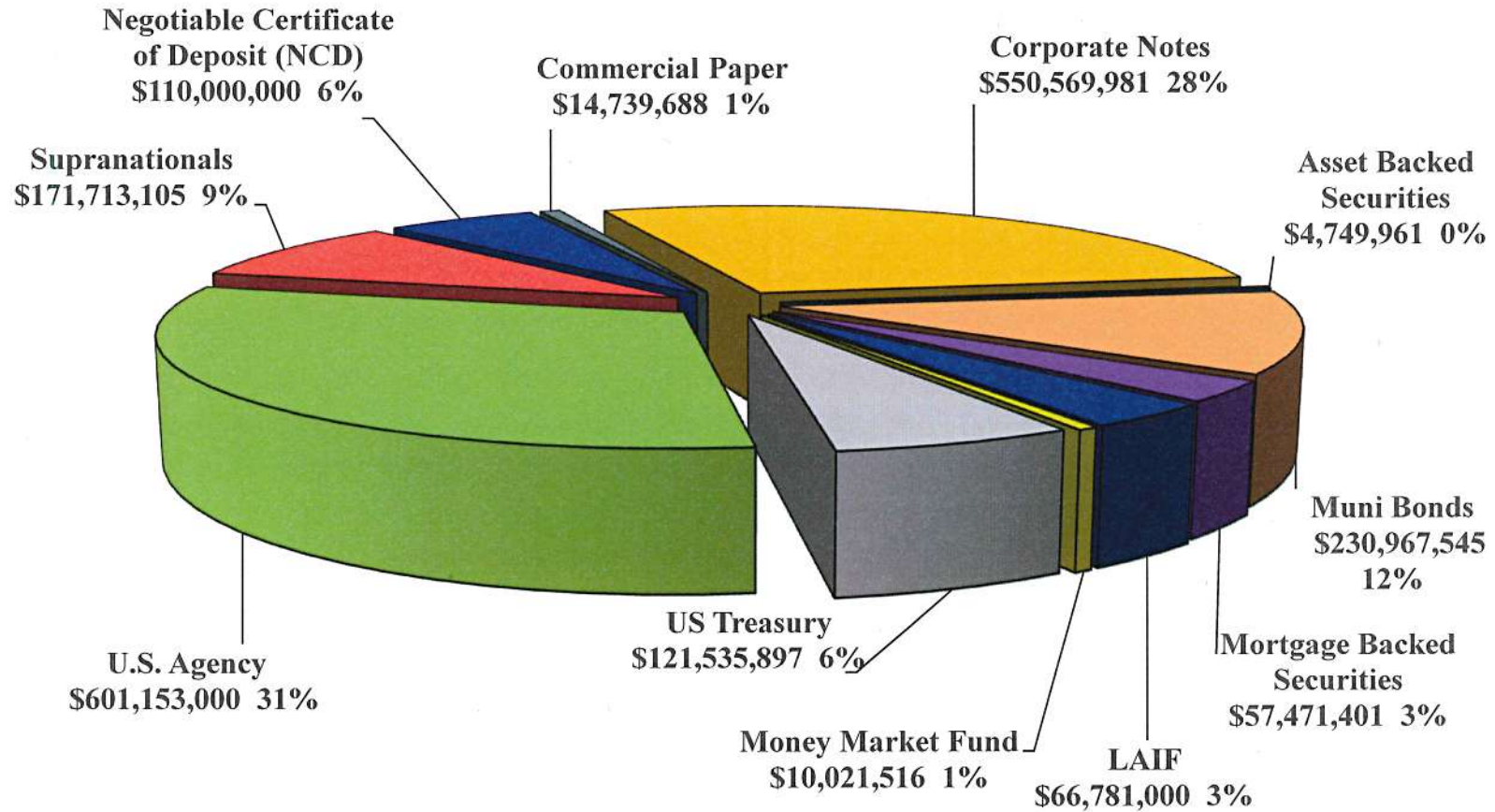
# Summary of Portfolio Performance

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- Size of total portfolio: \$1,939,703,093
- Earned interest yield: 2.363%
- Weighted average days to maturity: 621 days
- Fiscal year-to-date net interest earnings: \$12,016,145
- No exceptions to the City's Investment Policy during this quarter.
- The City's external auditor, Macias, Gini, & O'Connell LLP, evaluated the City's investment program for the year ended June 30, 2019. The report noted one reporting variance and one security downgrade.

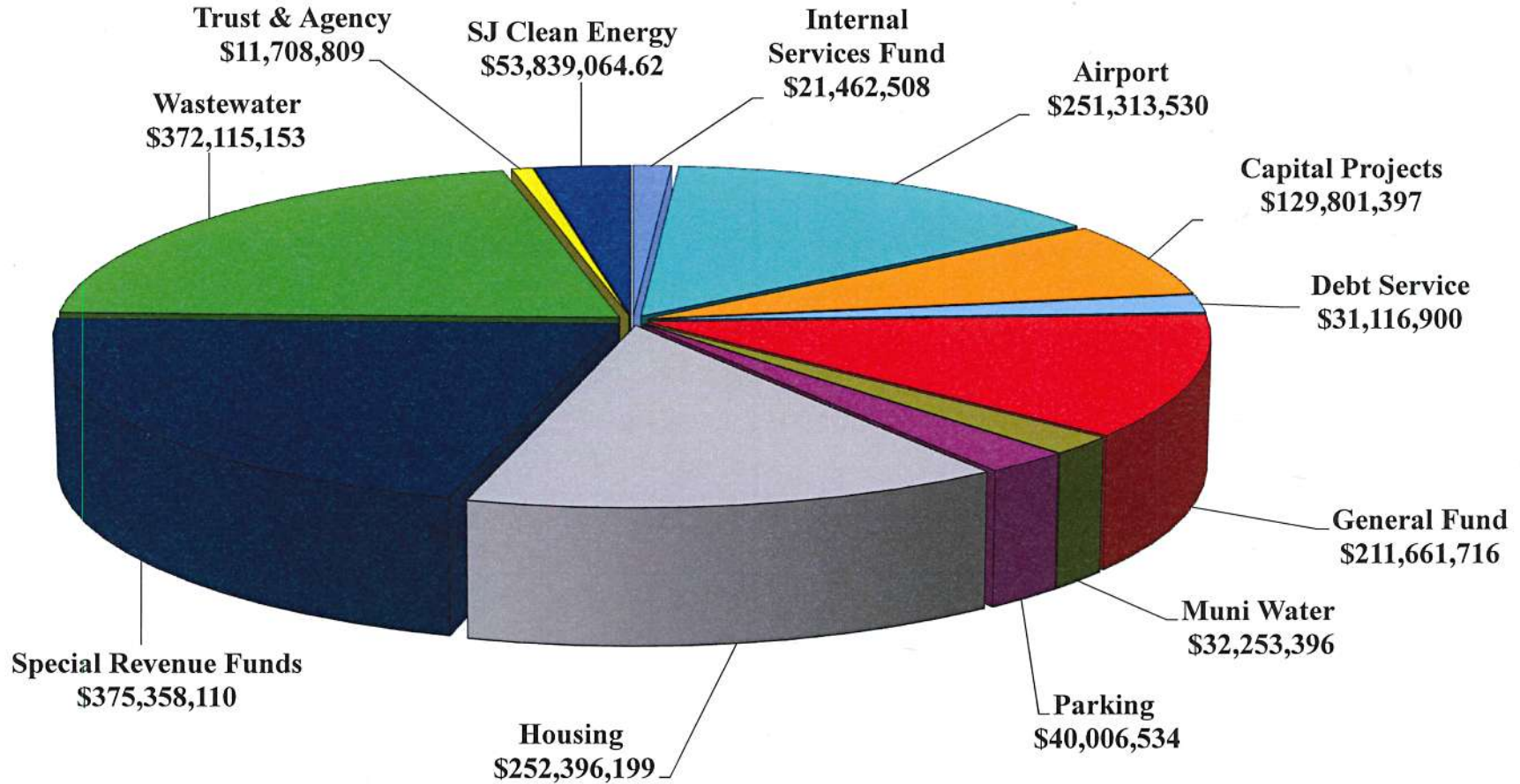
# Portfolio Investment

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Total Investment Portfolio = \$1,939,703,093

# Investment by Fund



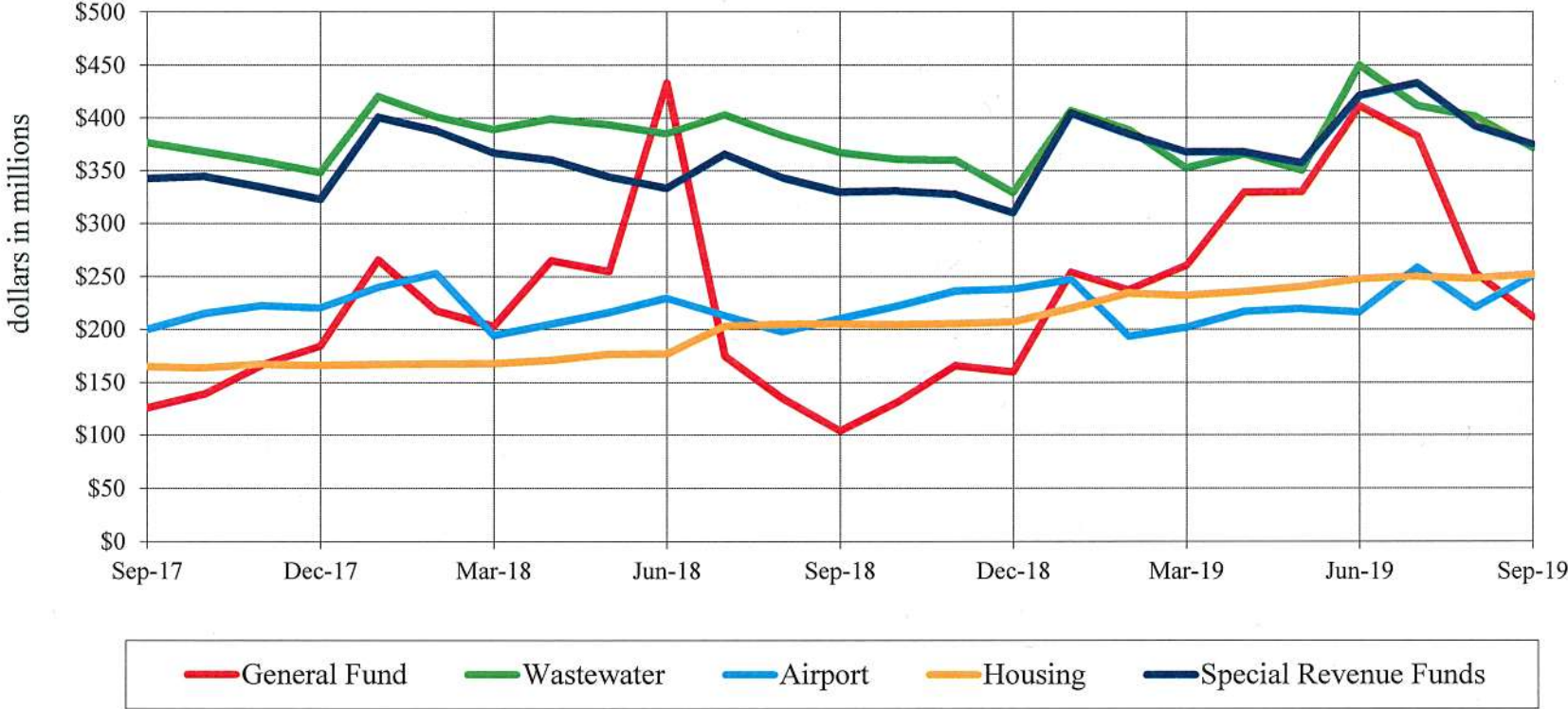
# General Fund Balances

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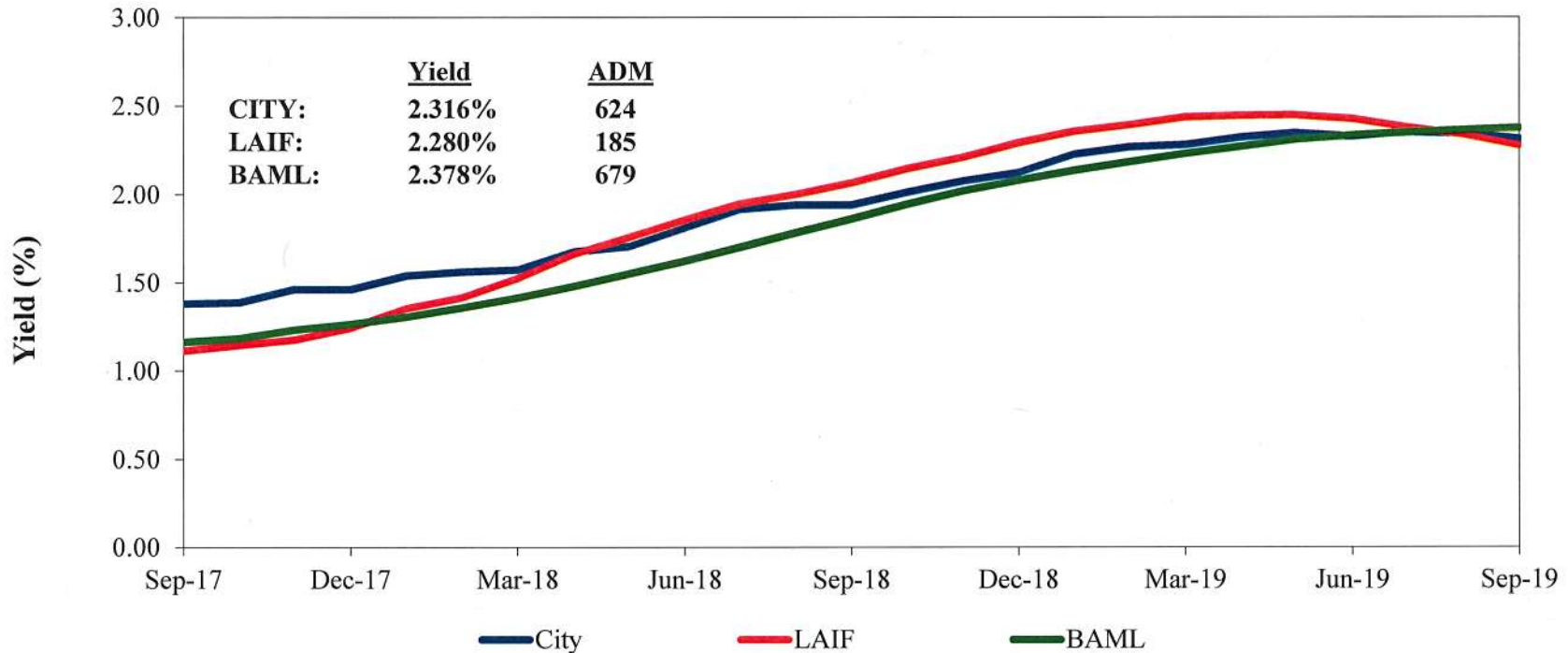
- General Fund balances decreased by approximated \$199 million to \$211.66 million this quarter
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months



# Comparison of Cash Balances by Select Funds



# Benchmark Comparisons



Notes:

1. City refers to City's Fund 1 Portfolio, and the yield data are month end weighted average yields.
2. LAIF refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
3. BAML refers to Bank of America Merrill Lynch 1-3 Year AAA-A US Corporate & Government Index and yield data are rolling 2-year effective yield

# Investment Strategy

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- Continue matching investment maturities with known expenditures within the 24-month horizon
- Extend a portion of the portfolio beyond two-year term, when appropriate, to provide income and structure to the portfolio
- Maintain the diversification of the portfolio
- Focus on core mandate of safety, liquidity, and yield

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# **First Quarter Revenue Management Report for Fiscal Year 2019-2020**

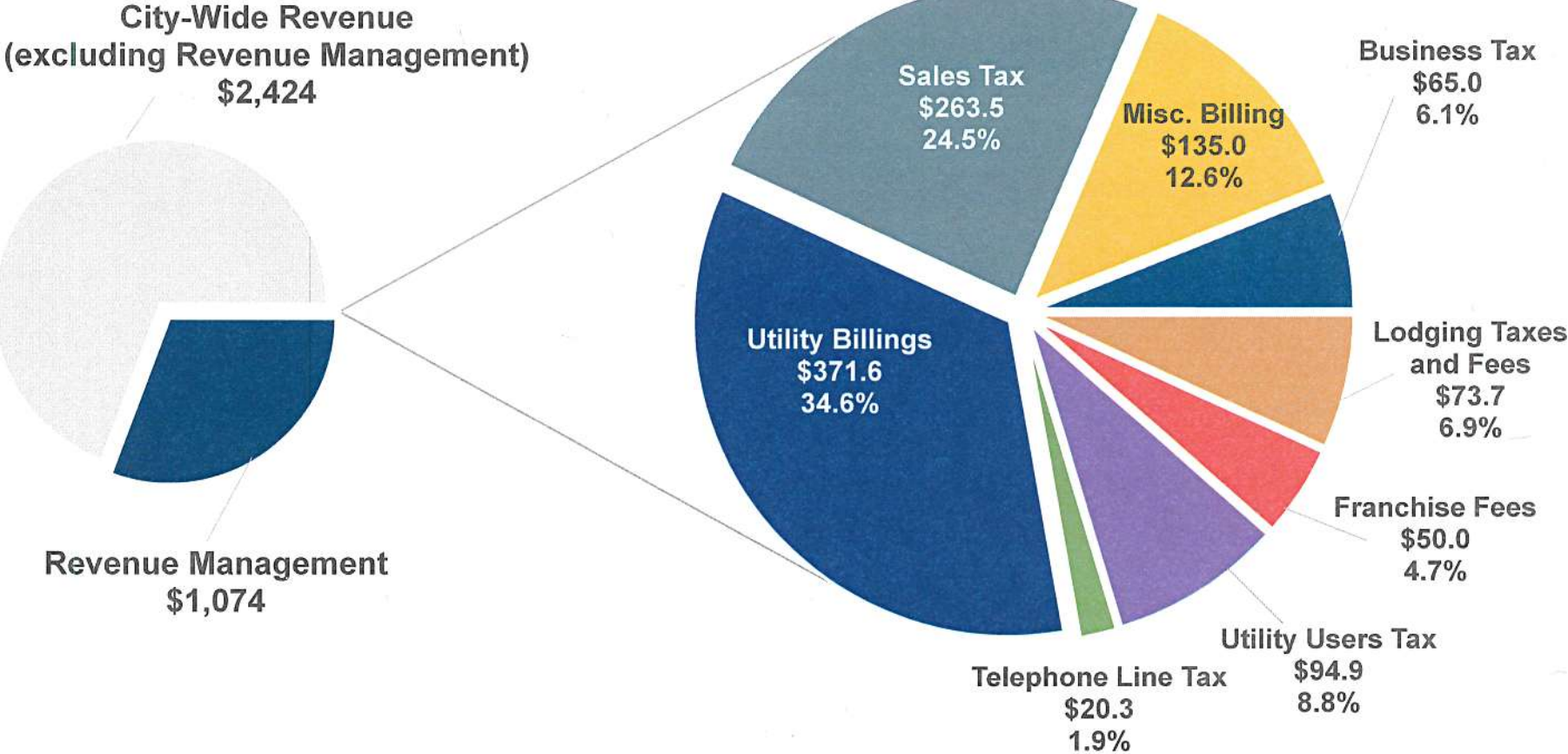
# Revenue Management Programs

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- Finance Department revenue collection efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance in four primary collection programs:
  - Accounts Receivable
  - Business Tax
  - Compliance and Monitoring
  - Utility Billing
- Efforts may span several reporting periods and actual collections are reported when funds are received by the City

# Revenue Management Portfolio

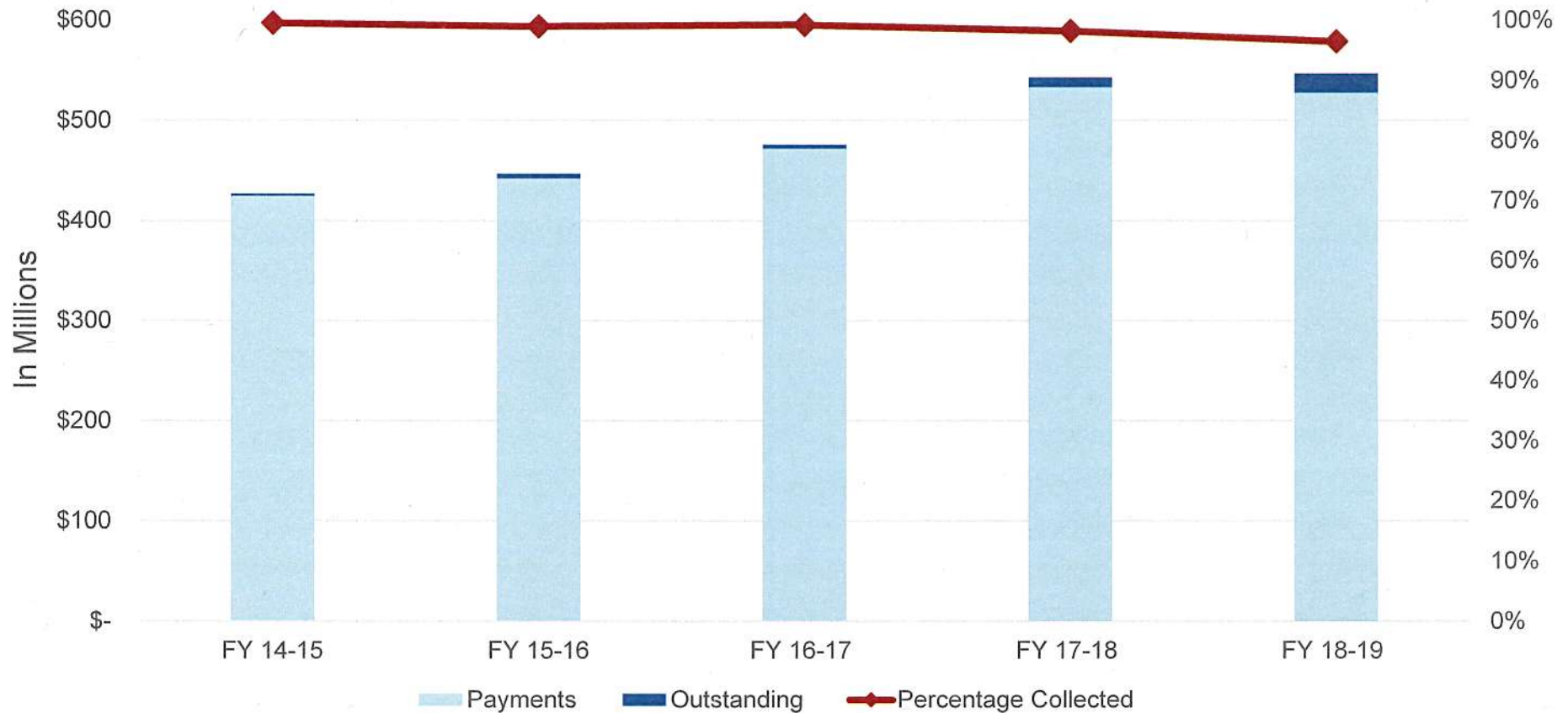
FY 2018-19 Revenue (\$ in millions)



Source: Total Revenue (\$3.498B) figures from 2018-19 City Manager's Budget Office Annual Report (Graph will be updated on an annual basis)

# Invoicing and Payments

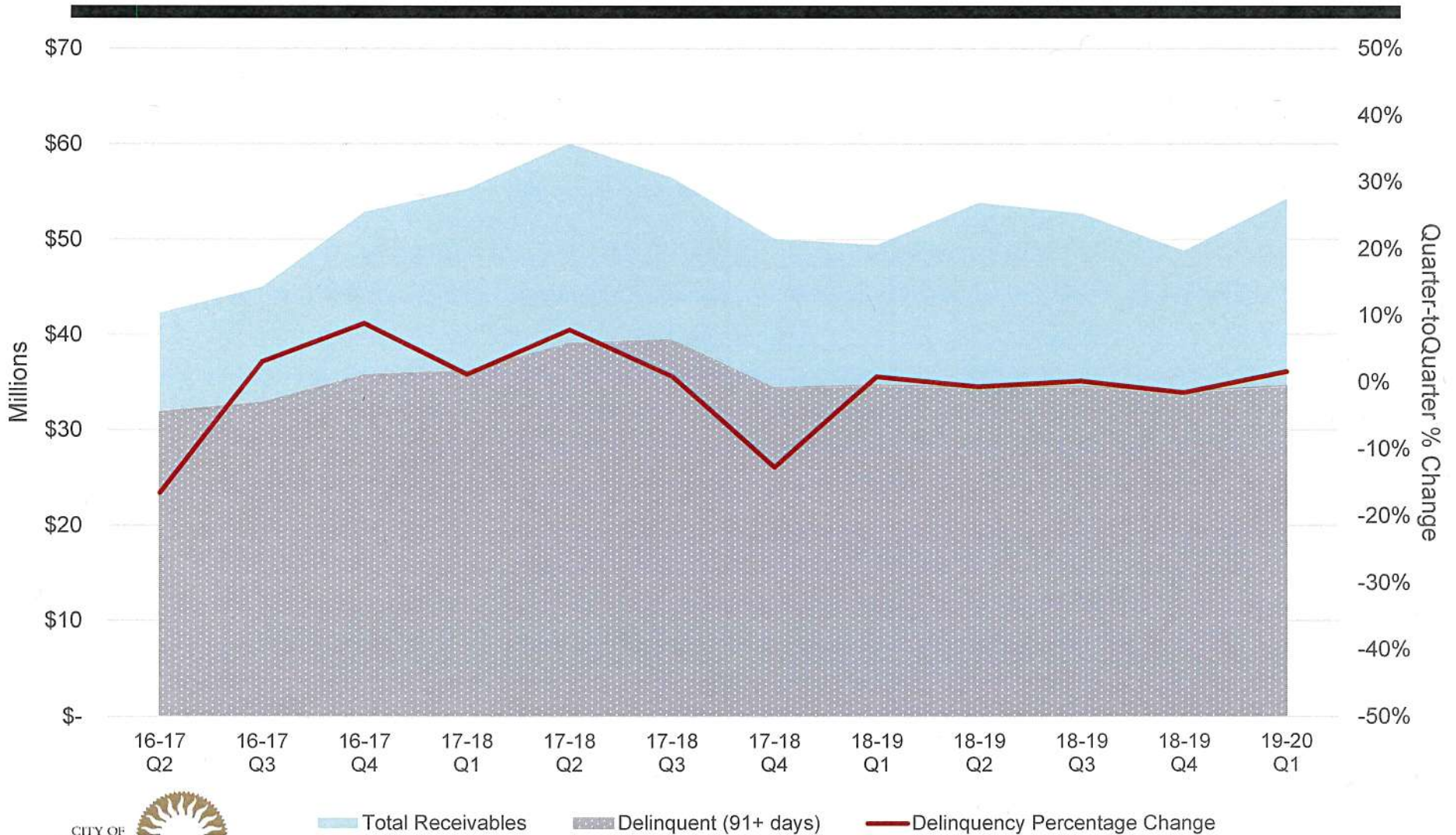
## 5 Years History (FY 2014-15 to FY 2018-19)



Invoices billed through Business Tax System, the centralized accounts receivable system (RevQ), and the Utility Billing System. (Graph will be updated on an annual basis)

# Outstanding Receivables

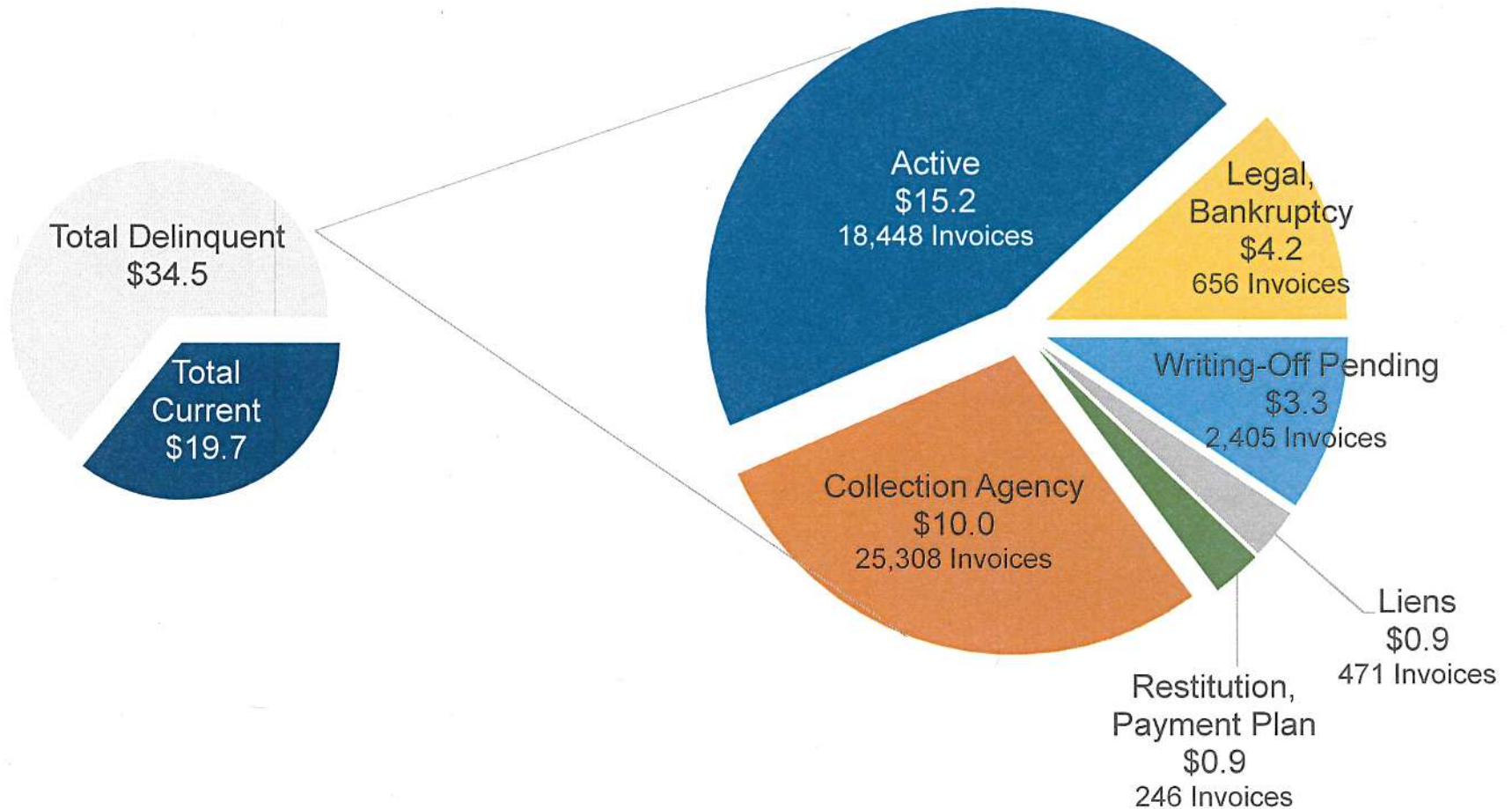
## Three Year History





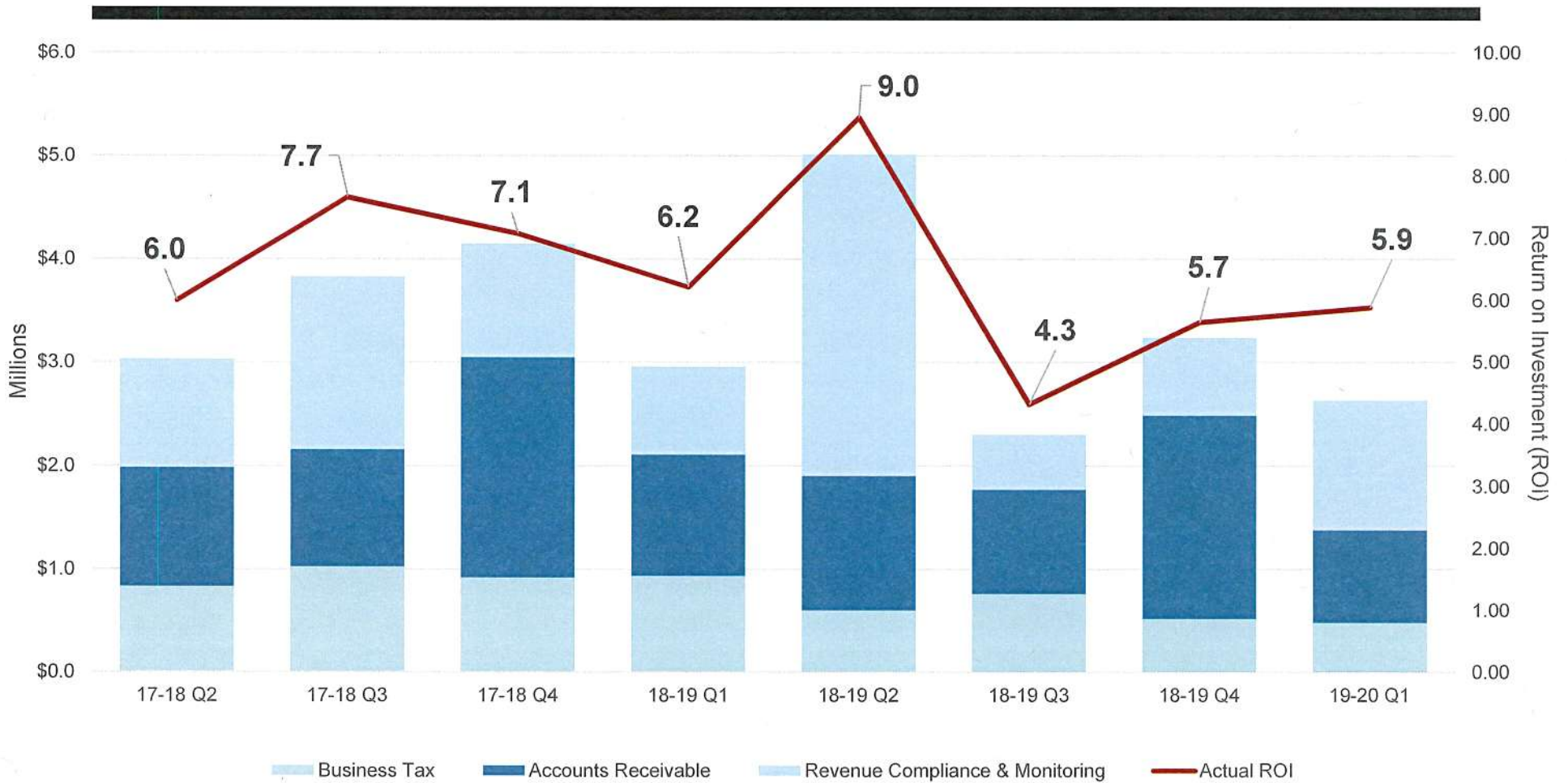
# Delinquent Receivables

## Collection Status Summary (\$ in millions)



As of September 30, 2019

# Collections & Return on Investment



# Collection and Write-Off Process

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## Delinquency Notifications Sent to Debtor

- 30 Day Notice, 60 Day Notice, Final Notice

## Collection Agency Referral Analysis

- Cost-benefit analysis of staff time vs. receivable amount
- City's ability to collect through alternative means
- Type of service billed or receivable amount

## Analysis for Write-Off

- Collection efforts exhausted
- Debtor has no assets, filed bankruptcy, expiration of statute, deceased, incarcerated, or "skipped"

# Recommendation

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1. Accept the First Quarter Financial Reports for Fiscal Year 2019-2020 for the following programs:
  - Debt Management
  - Investment Management
  - Revenue Management
  
2. Forward recommendation to City Council for December 10, 2019 City Council Meeting to adopt resolution authorizing the Director of Finance to write-off uncollectable debts in amounts up to \$381,357.80
  
3. Refer the First Quarter Financial Reports for Fiscal Year 2019-2020 to the December 10, 2019 City Council meeting for full adoption