

First Quarter Financial Report for Fiscal Year 2018-2019

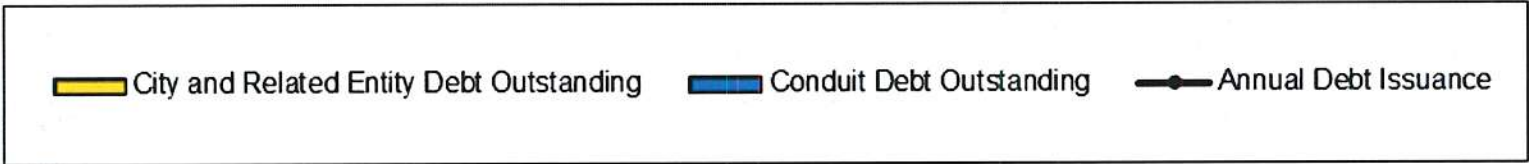
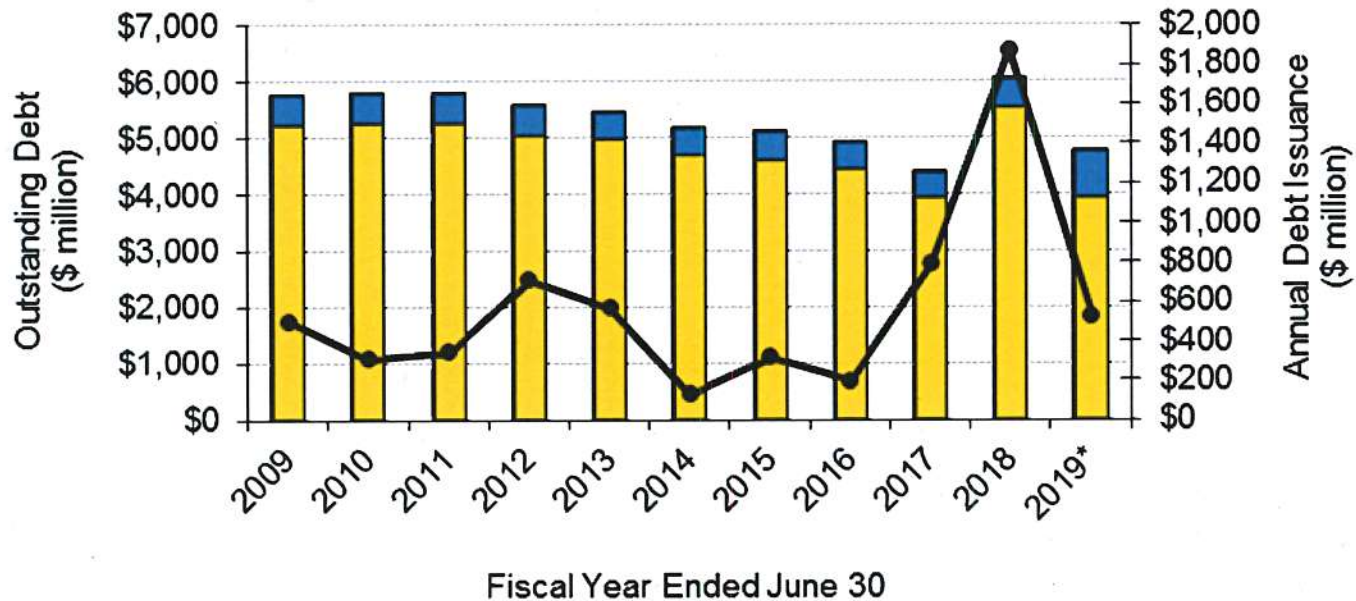
**Public Safety, Finance and
Strategic Support Committee**

Prepared by the Finance Department

First Quarter Debt Management Report for Fiscal Year 2018-2019

Outstanding Debt Issued by All Agencies

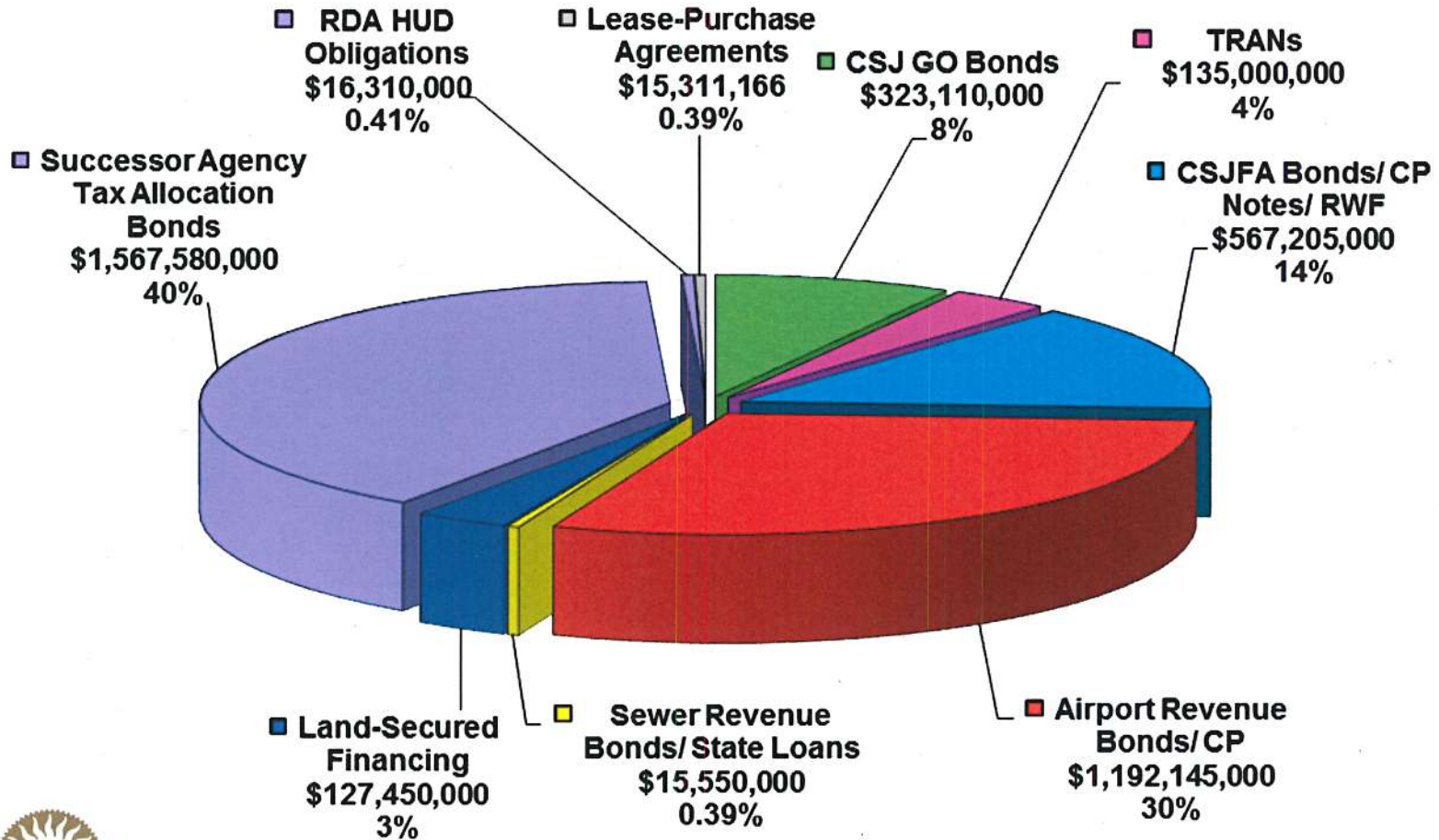
Outstanding Debt as of September 30, 2018: \$4.8 Billion
 FY 2018-19 Actual Debt Issuance: \$528.9 Million



* YTD Debt Issuance

Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of September 30, 2018: \$3,959,661,166*



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

Selected Debt Issuance and Debt Management Activities during 1st Quarter

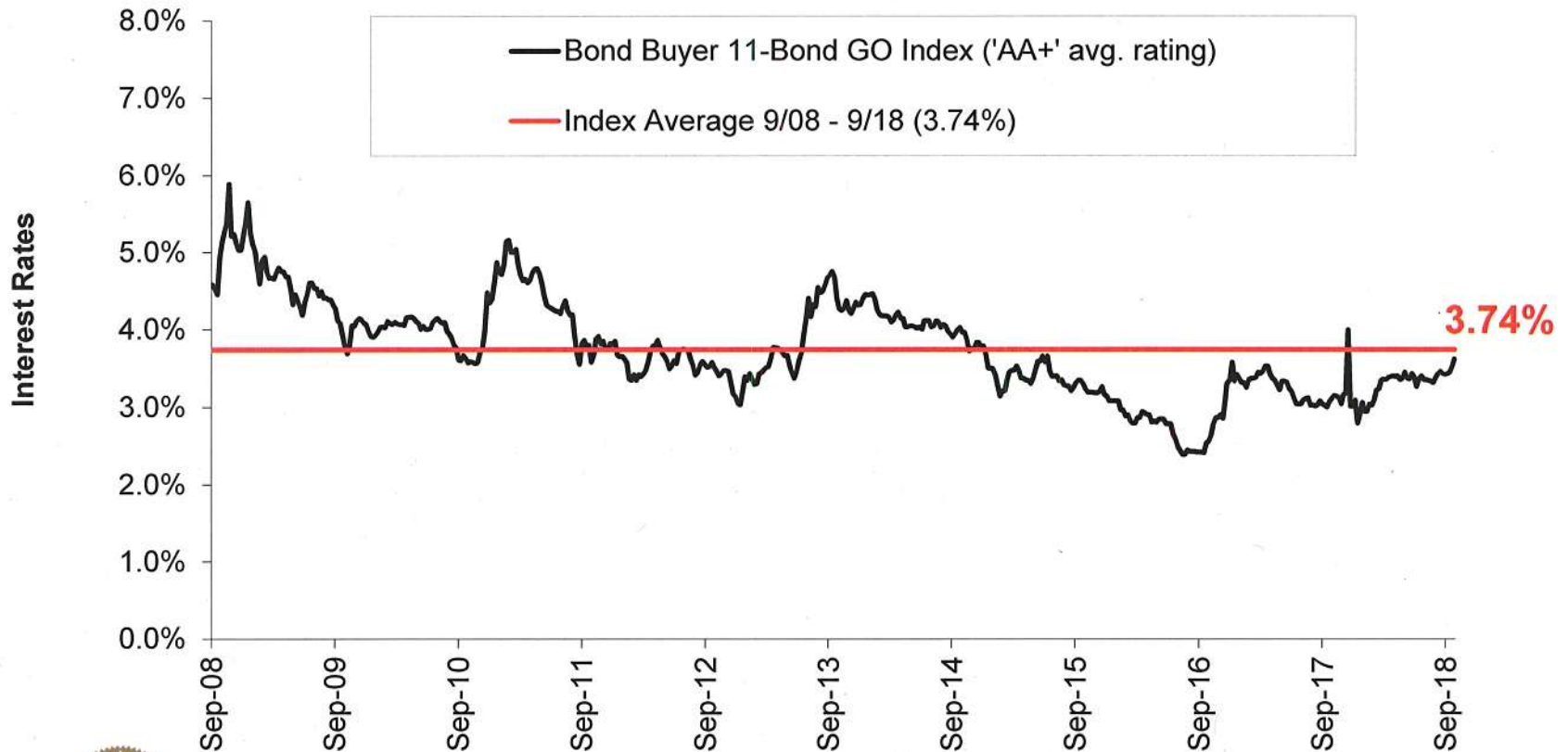
- Debt Issuance
 - \$150 million Tax and Revenue Anticipation Note (2018 TRAN issued July 2, 2018)
 - CSJFA lease revenue commercial paper notes
 - \$42.4 million San José Convention Center South Hall property
 - Multi-Family Housing Revenue Notes
 - El Rancho Verde Apartments - \$318 million, issued August 28, 2018
- Debt Management
 - Annual GO Bond Tax Levy
 - Purchase of San José Convention Center South Hall property (closed October 10, 2018)
- Credit Support
 - CSJFA Commercial Paper – Council approved (August 2018) increase in CP authorization from \$85 million to \$125 million, provided by State Street Bank and US Bank, for the South Hall purchase; and approved the extension of Letter of Credit from November 2018 to February 2022
 - Airport Commercial Paper – Council approved (August 2018) increase in CP authorization from \$38 million to \$75 million, provided by Barclays, for the Airport Terminal expansion program.
 - Revolving Credit Facility – Council approved (September 2018) a Revolving Credit Facility for Clean Energy in the not to exceed amount of \$50 million to fund working capital and for operations and the purchase of energy contracts

Upcoming Debt Issuance and Management Through December 31, 2018

- Debt Issuance
 - Pre-issuance
 - Lease Revenue and General Obligation refinancings
- Debt Management
 - 2018 Comprehensive Annual Debt Report (CADR)
 - Annual Continuing Disclosure/Compliance Reporting to MSRB

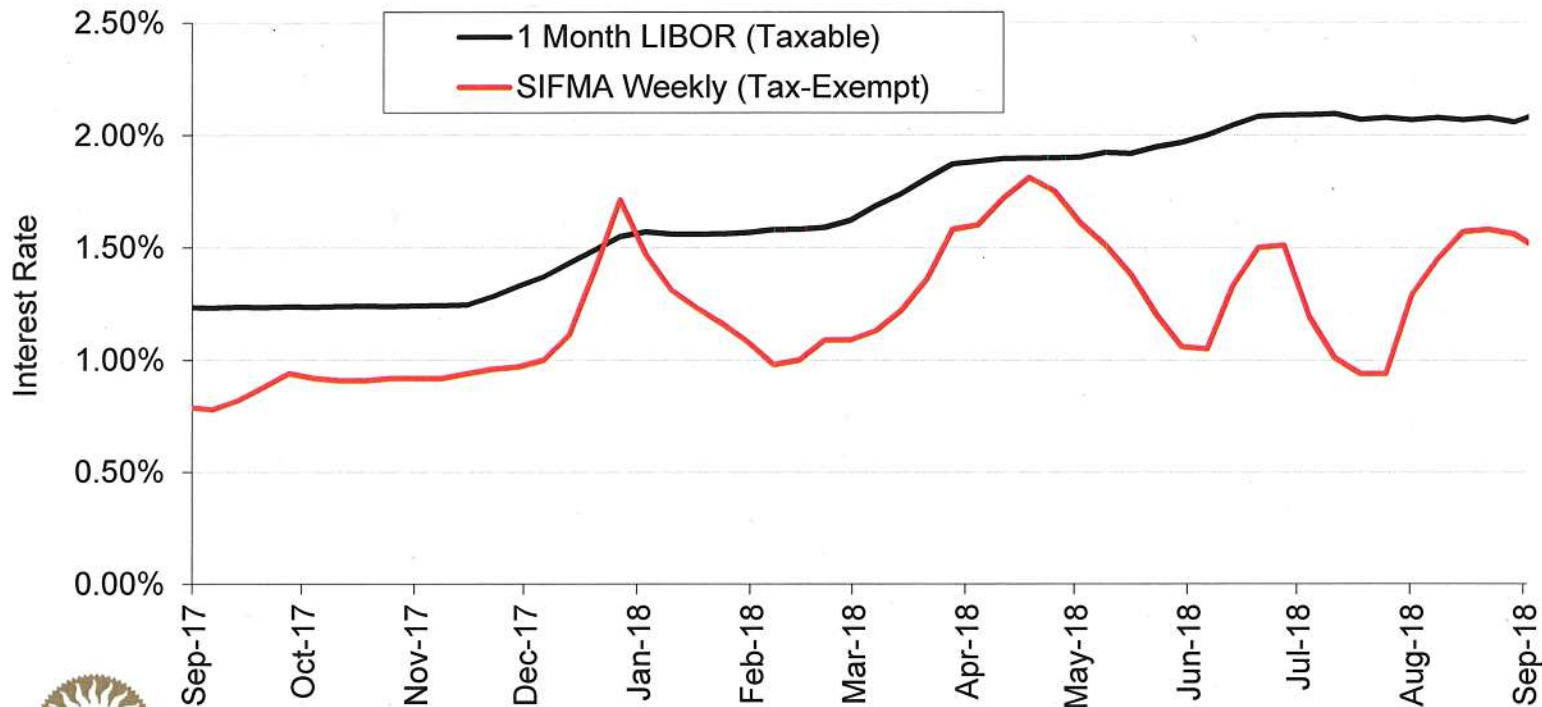
Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.74% and are currently at 3.84% (as of 10/11/18)



Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.35% in Q1 and are currently at 1.53% (as of 10/10/2018)
- Taxable LIBOR monthly interest rates paid by the City averaged 2.11% in Q1 and are currently at 2.28% (as of 10/10/2018)



City of San José – Credit Ratings¹

- City continues to maintain high general obligation (G.O.) credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3²/AA/AA
 - City G.O. bonds continue to be rated higher than State of California (Aa3/AA-/AA-)
 - Santa Clara County G.O. bonds are rated lower by Moody's (Aa2), 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 by both S&P and Fitch and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch³

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

² 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).

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

First Quarter Investment Management Report for Fiscal Year 2018-2019

Investment Policy (Council Policy 1-12)

- 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

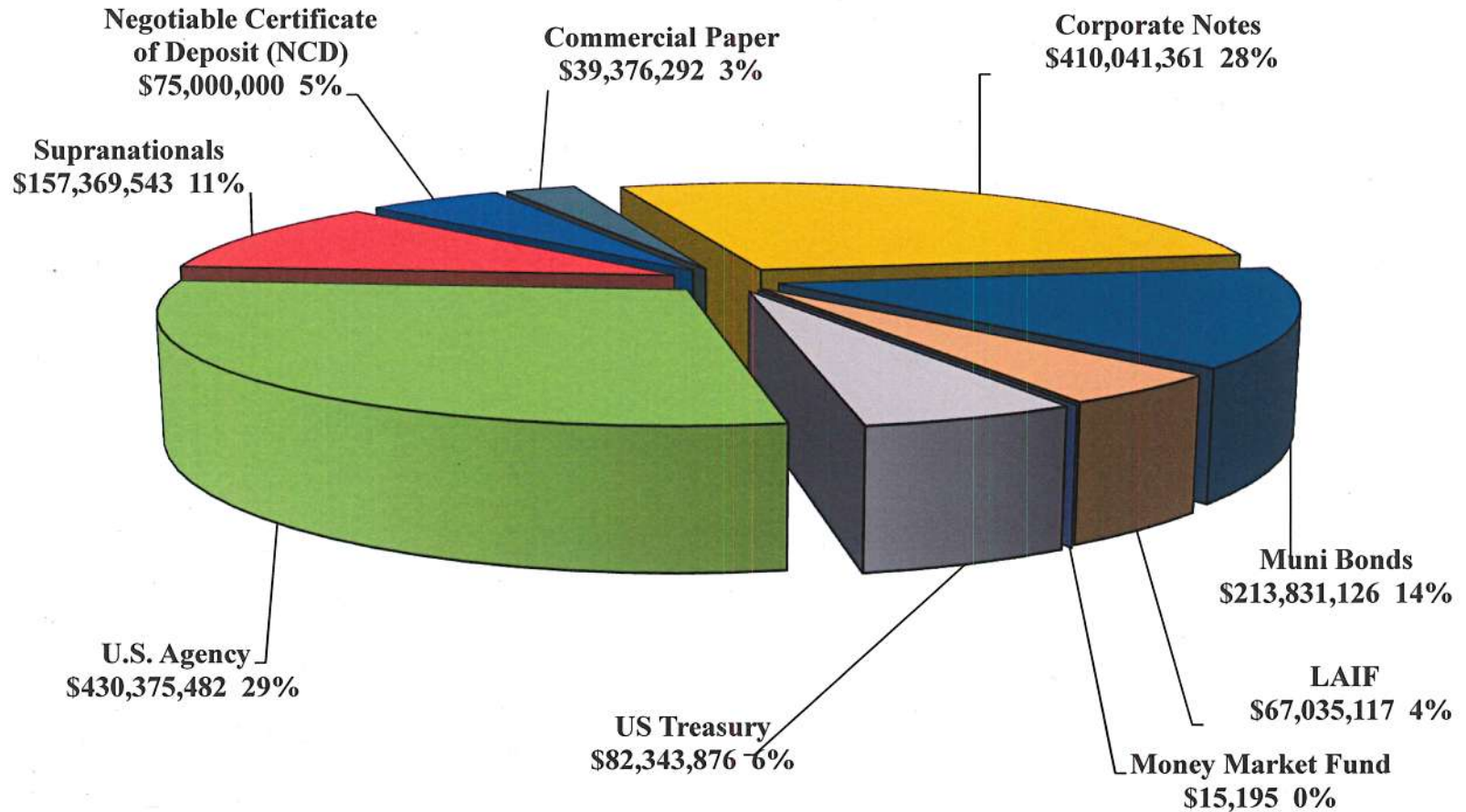
Investment Objectives & Reporting

- 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

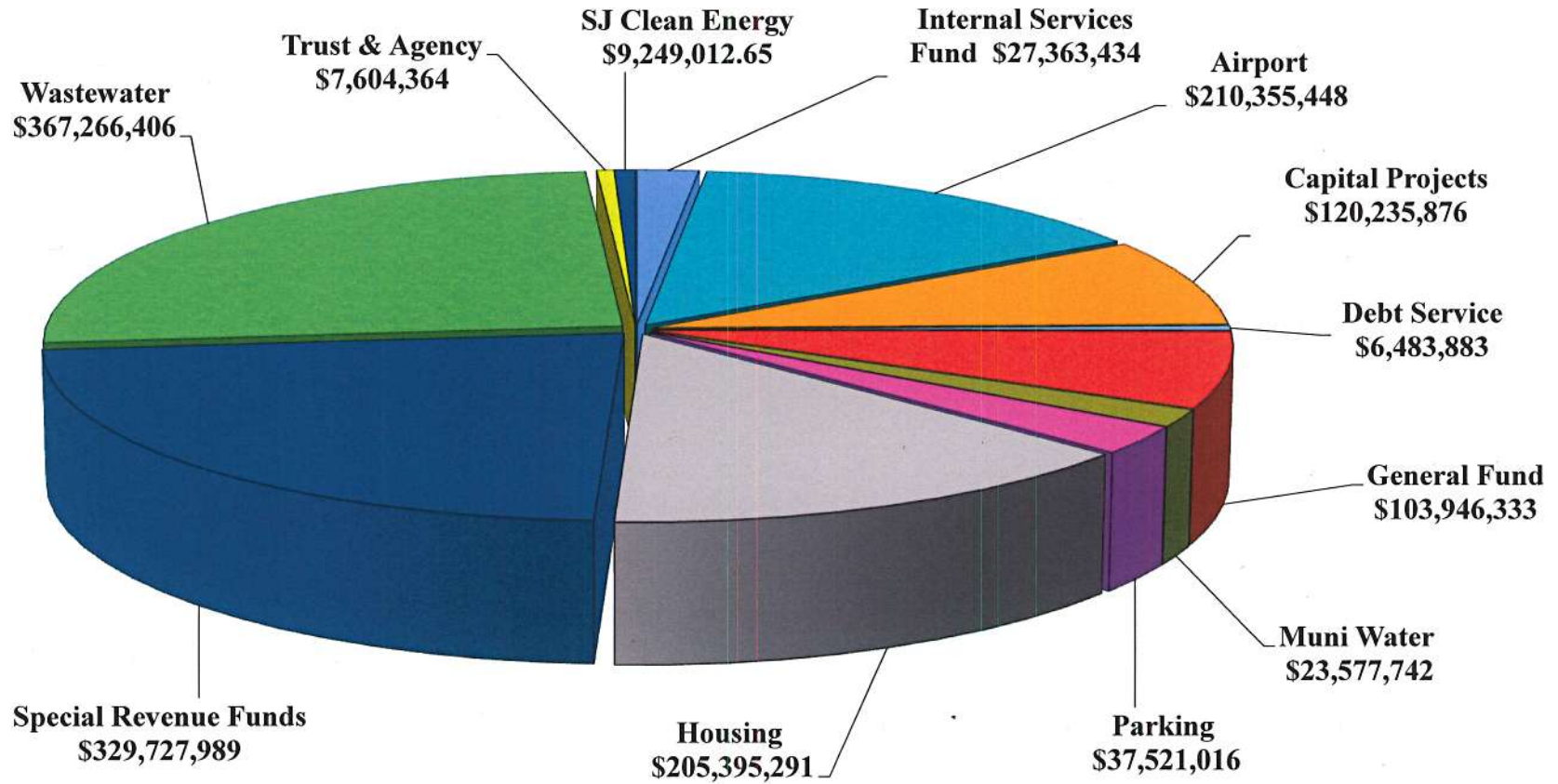
- Size of total portfolio: \$1,475,387,992
- Earned interest yield: 1.936%
- Weighted average days to maturity: 581 days
- Fiscal year-to-date net interest earnings: \$7,621,752
- No exceptions to the City's Investment Policy during this quarter
- The City's external auditor, Macias, Gini, & O'Connell LLP, evaluated the City's investment program for the year ended June 30, 2018. The report noted two findings and no exceptions to the Investment Policy.

Portfolio Investment



Total Investment Portfolio = \$1,475,387,992

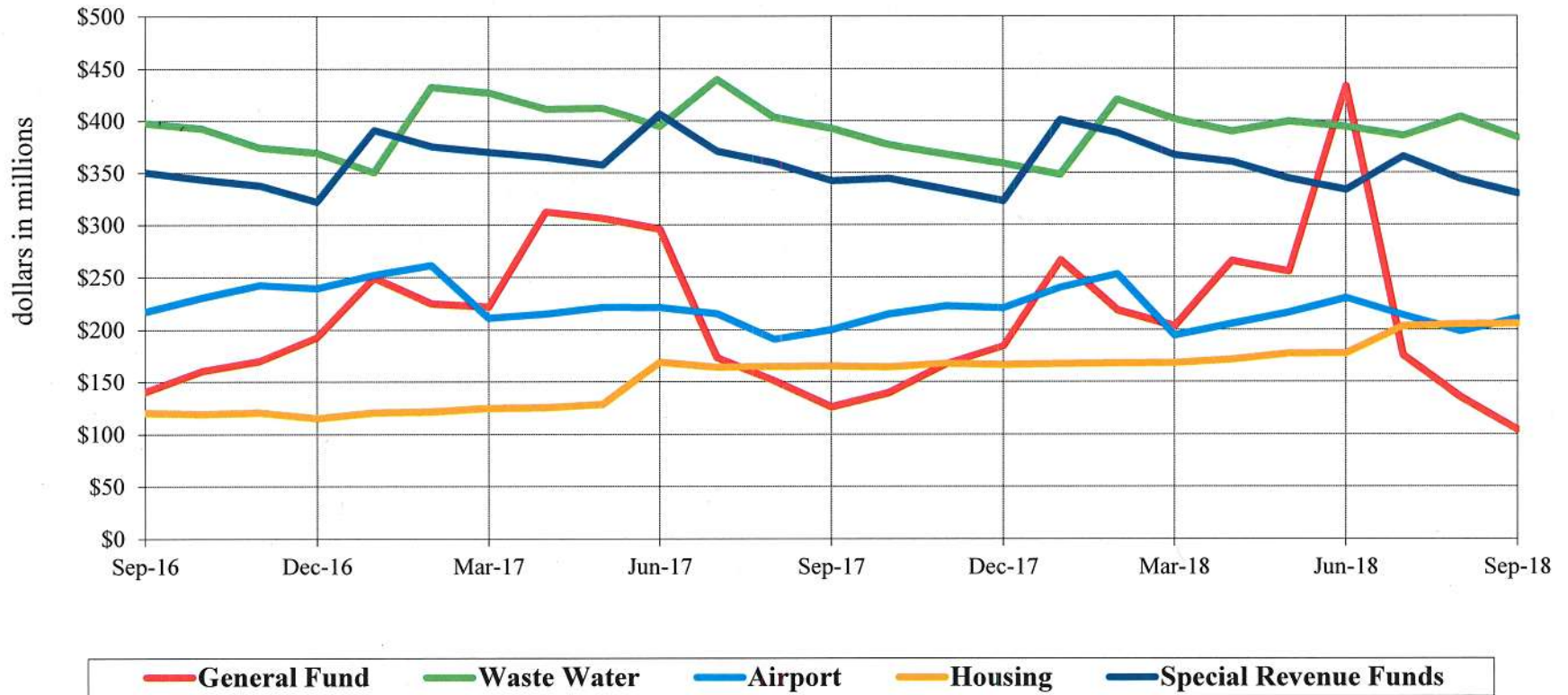
Investment by Fund



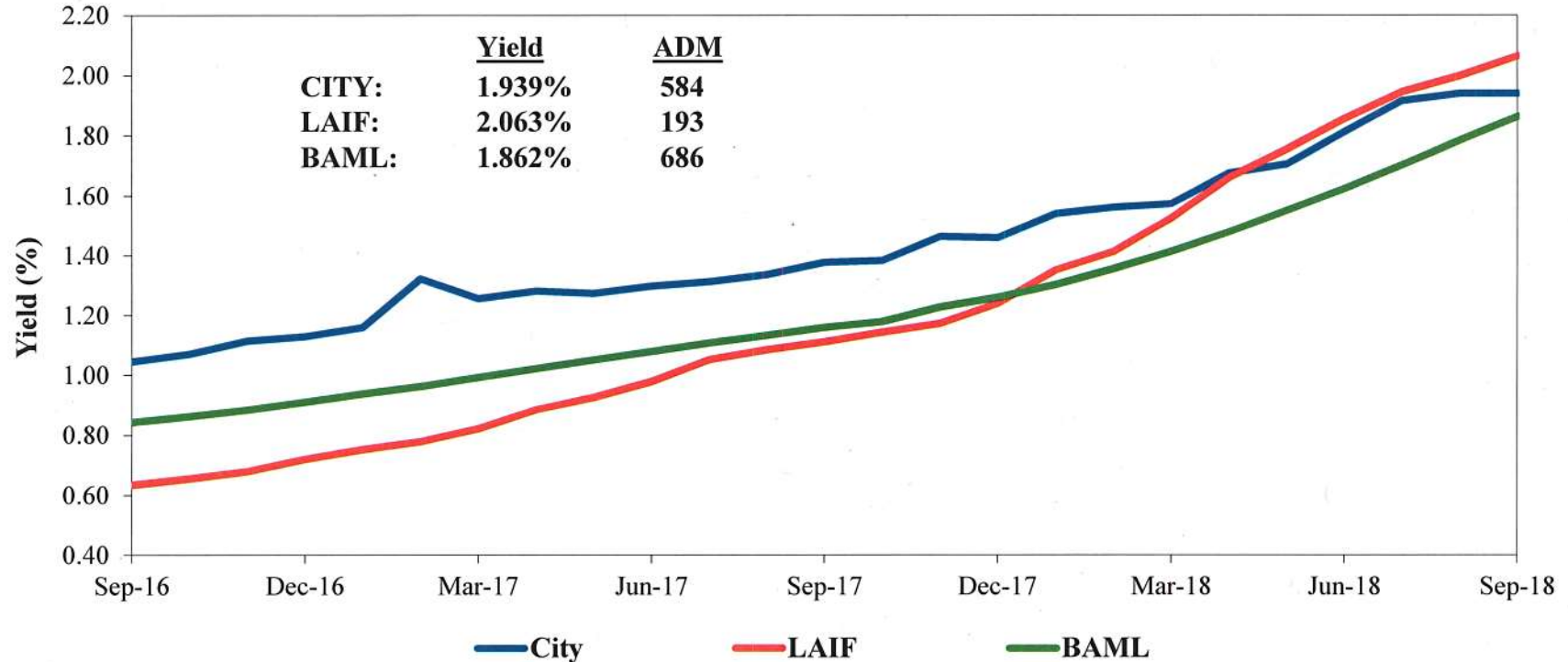
General Fund Balances

- General Fund balances decreased by approximately \$329 million to \$104 million this quarter, as overall expenditures exceeded revenues
- 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

- 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

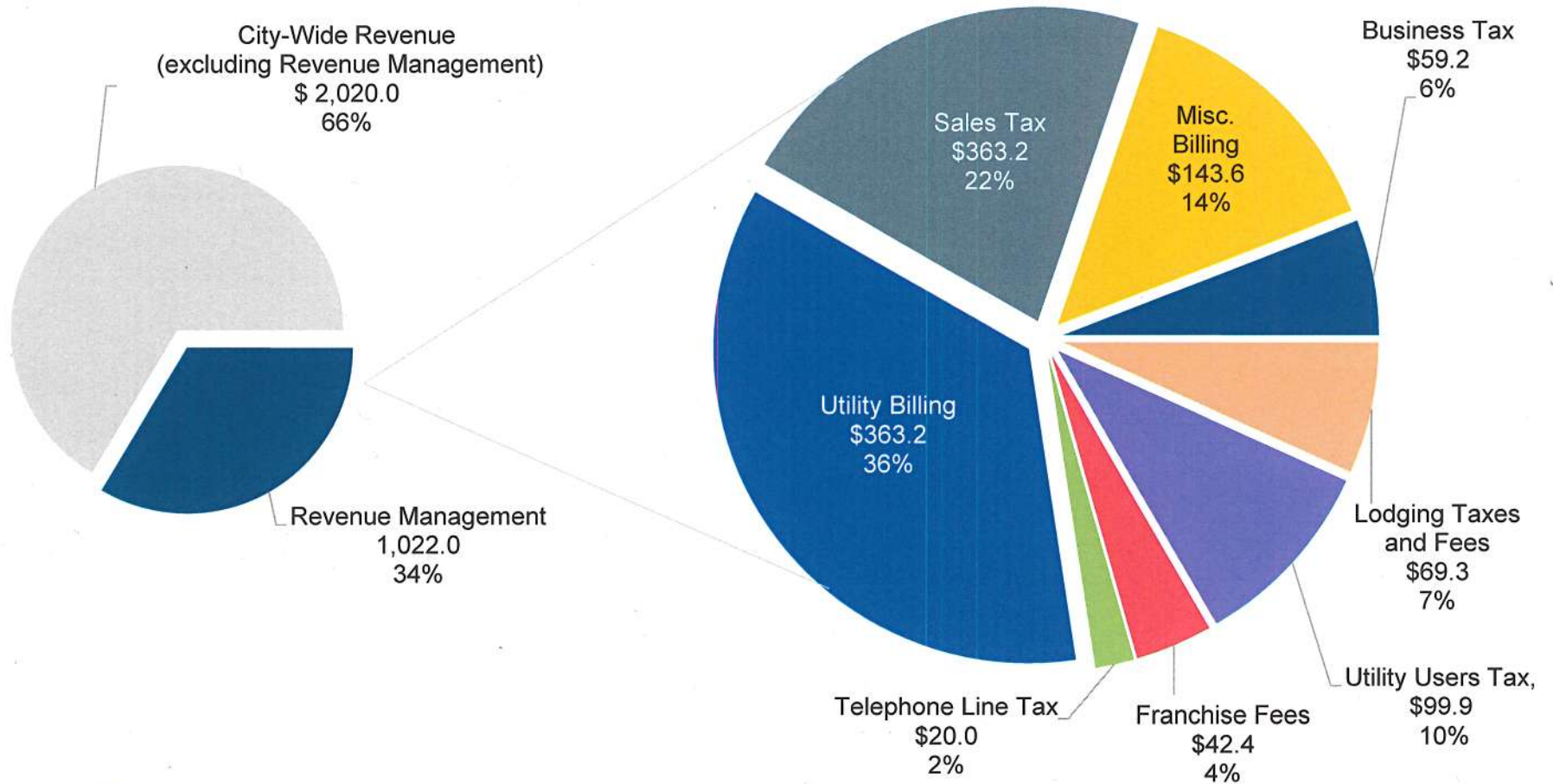
First Quarter Revenue Management Report for Fiscal Year 2018-2019

Revenue Management Programs

- 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 and compliance activities related to Marijuana Business Tax are reported separately

Revenue Management Portfolio

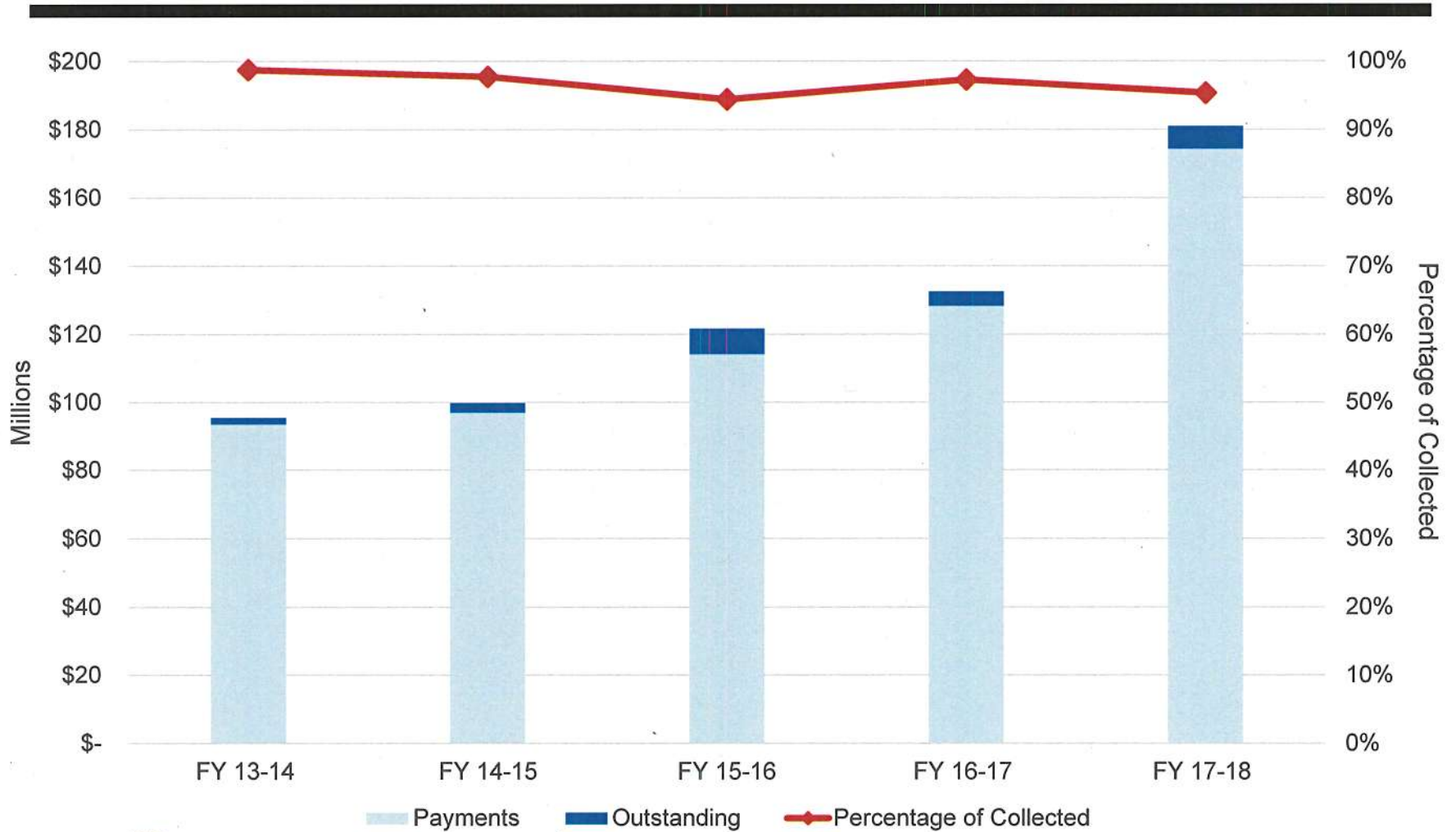
FY 2017-18 Revenue (\$ in millions)



Source: Total Revenue (\$3.042B) figures from 2017-18 City Manager's Budget Office Annual Report
 (Graph will be updated on an annual basis)

Invoicing and Payments

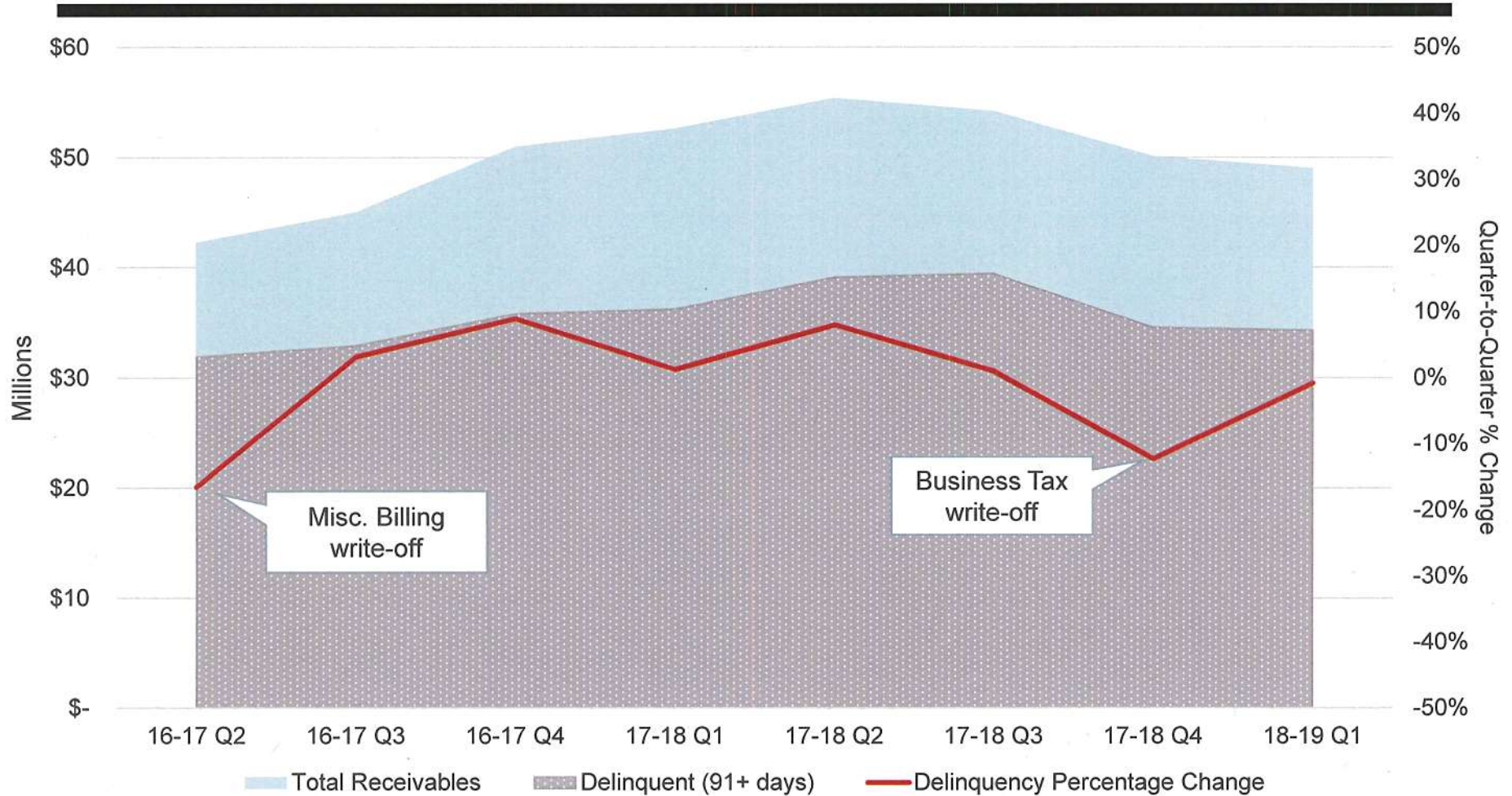
5 Years History (FY 2013-14 to FY 2017-18)



*Invoices billed through Business Tax System and the centralized Miscellaneous Billing system, RevQ

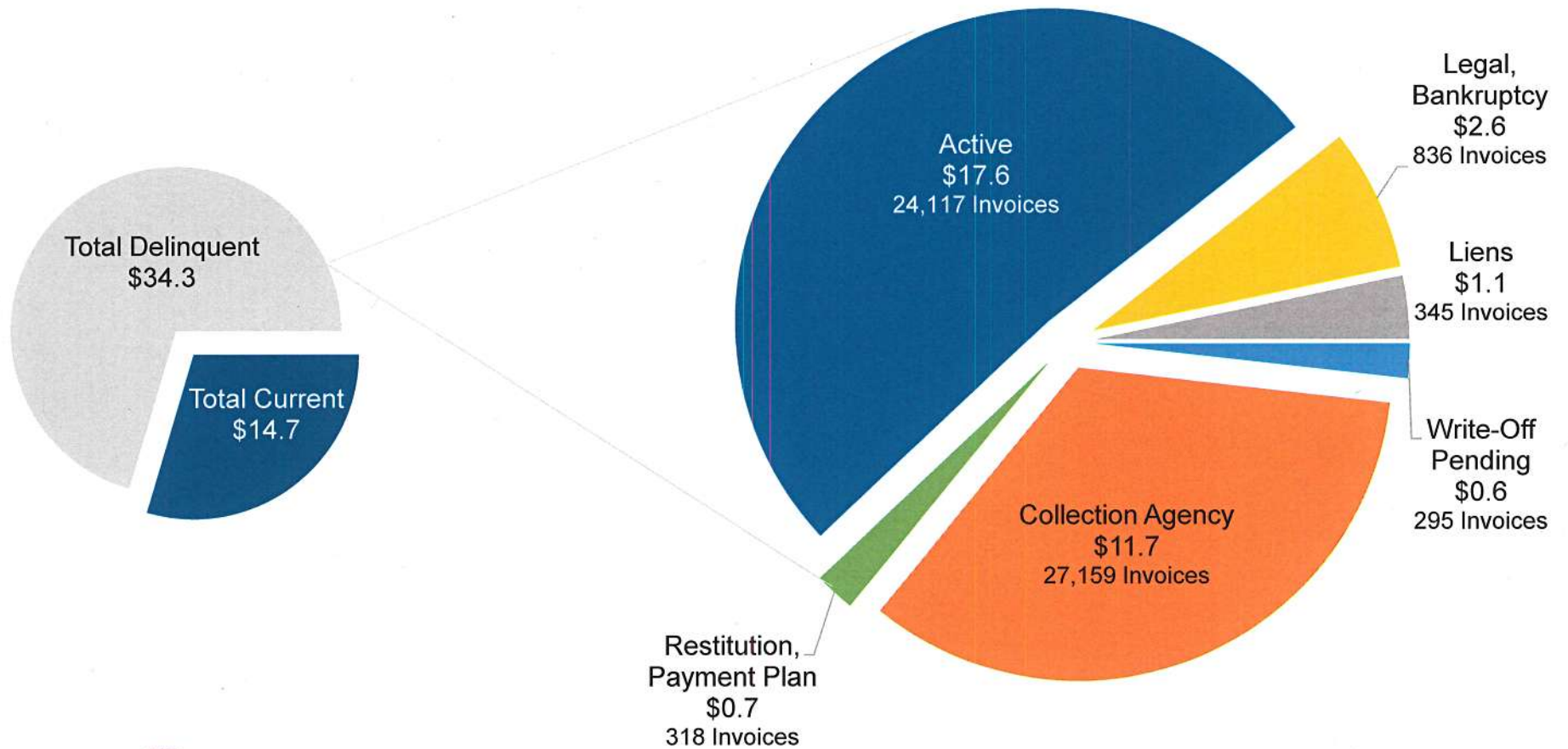
Aging Outstanding Debt

Two Year History

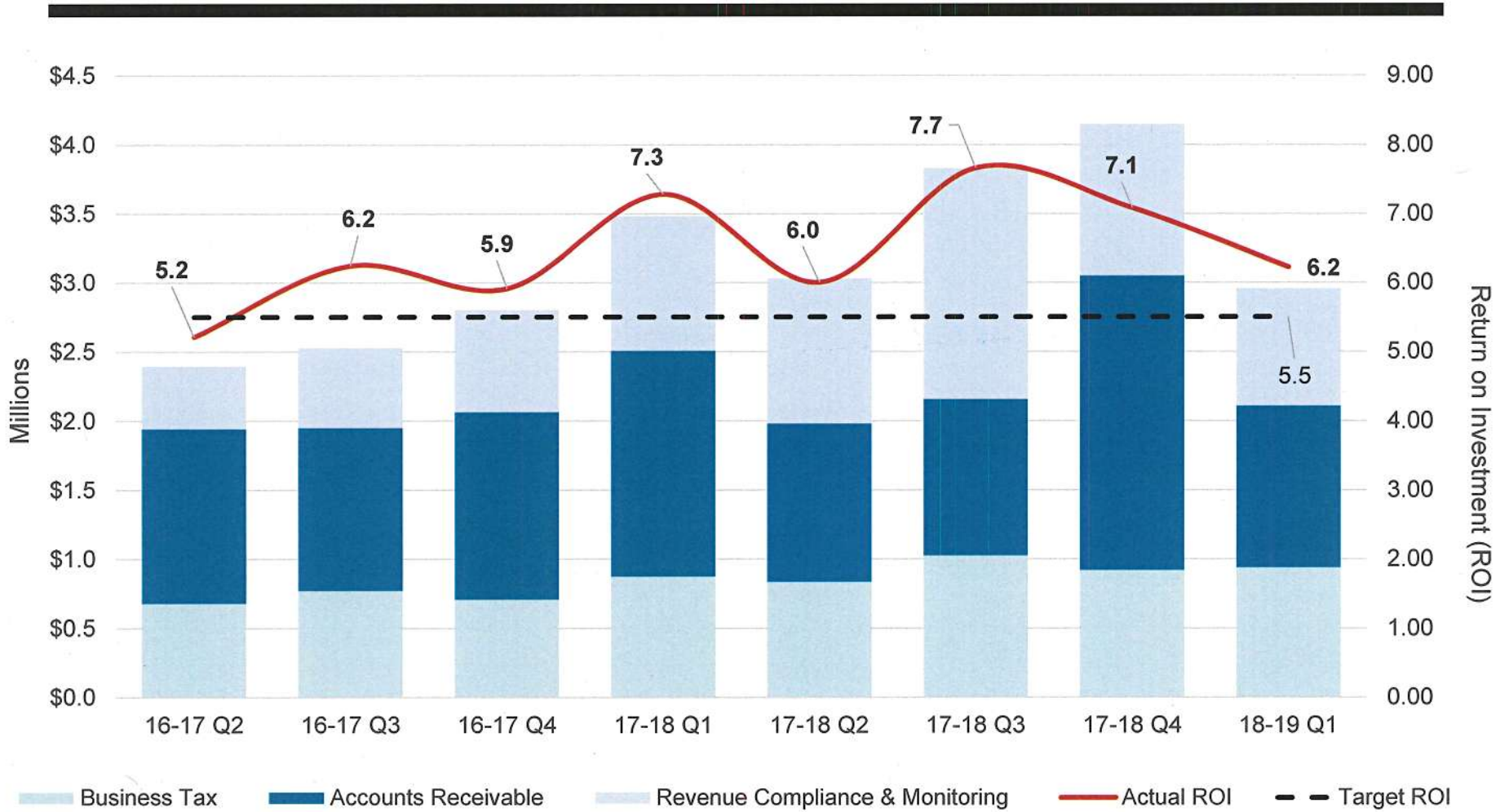


Delinquent Receivables

Collection Status Summary (\$ in millions)



Collections & Return on Investment



Collection Efforts and Write-Off Process

Delinquency Notifications Sent to Debtor

- 30 Day Notice, 60 Day Notice, Final Notice

Collection Agency Referral Analysis

- Cost Benefit Analysis of Staff Time vs. Debt Value
- City's Ability to Collect Through Alternate Means
- Type of Services Billed or Debt Value

Analysis for Write-Off

- All Collection Efforts Exhausted
- Debtor has no Assets, filed Bankruptcy, Expiration of Statute, deceased, incarcerated, or "skipped".