

FIRST QUARTER FINANCIAL REPORT FISCAL YEAR 2024-2025

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

**Prepared by the Finance Department
November 1, 2024**

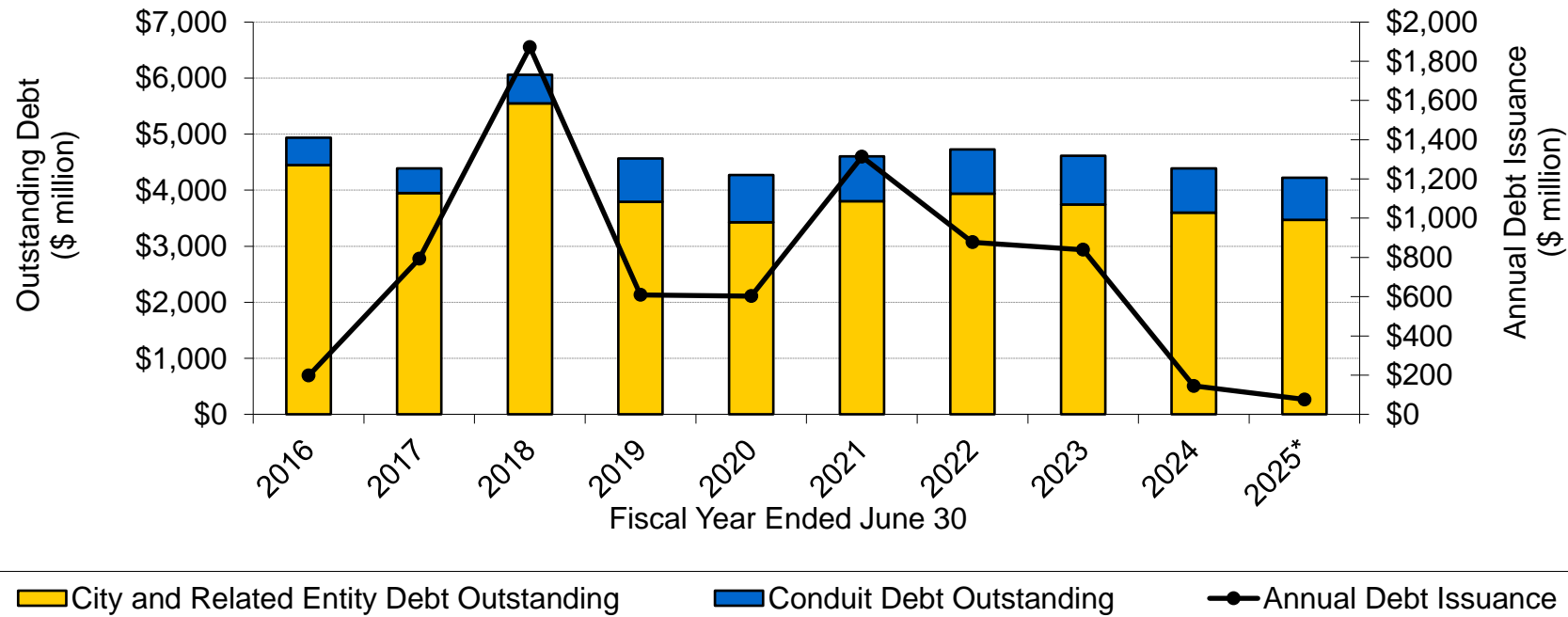


FIRST QUARTER DEBT MANAGEMENT REPORT FISCAL YEAR 2024-2025



OUTSTANDING DEBT ISSUED (CITY AND ALL AGENCIES)

Outstanding Debt as of September 30, 2024: \$4.21 Billion
FY2024-25 Debt Issuance: \$76.4 Million

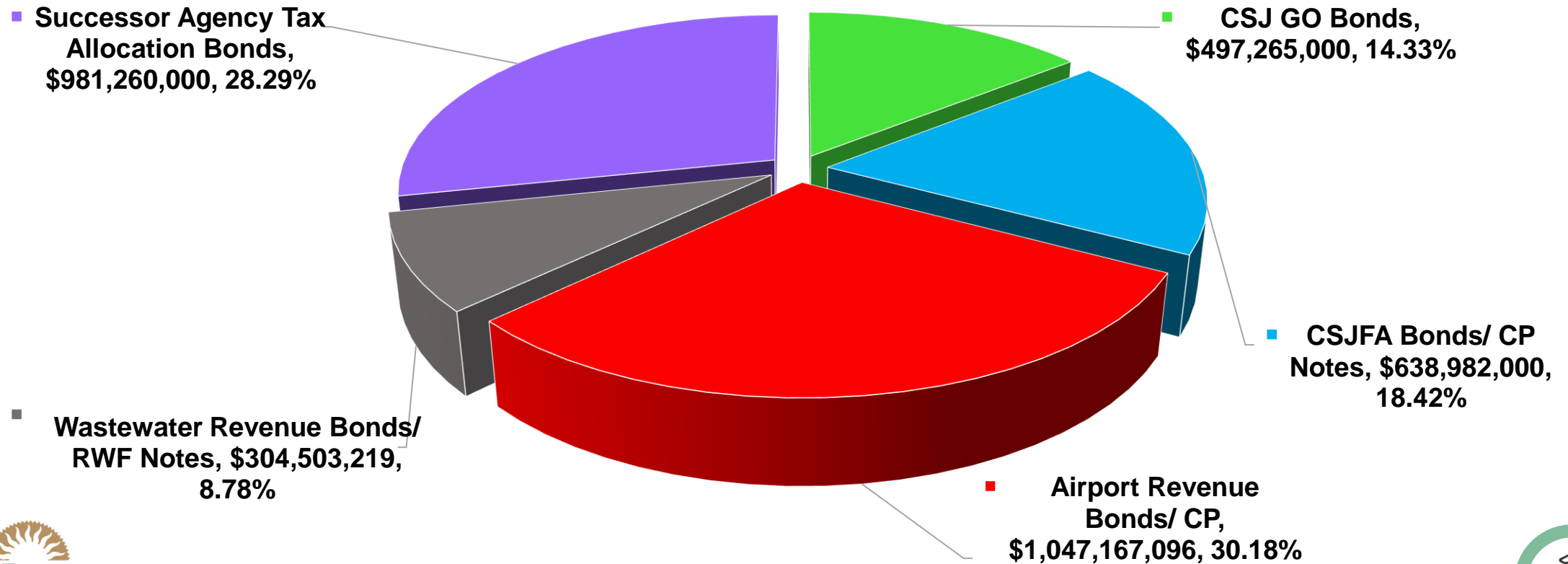


*YTD Debt Issuance



DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of September 30, 2024: \$3.47 Billion
(Excluding Multifamily Housing Revenue Bonds)



DEBT ISSUANCE AND MANAGEMENT ACTIVITIES (JULY– SEPTEMBER 2024)

- CSJ Airport Revenue Refunding Bonds, Series 2024A (\$76.4 million, July 2024)
- Extended the Airport CP Letter of Credit Reimbursement Agreement with Bank of America through September 10, 2026.
- Submitted Prior Period Adjustments to the CA Dept of Finance for FY22-23 for the Successor Agency.
- Execution of Agreement with Goodwin Consulting Group, Inc.
 - Special Tax consulting services/annual administration related to the formation of the Berryessa Community Facilities District.
 - Three-year contract with two one-year optional extensions through August 31, 2029.



UPCOMING DEBT ISSUANCES THROUGH DECEMBER 31, 2024

- California Community Choice Financing Authority Clean Energy Project Revenue Bonds, Series 2024E (Green Bonds)
 - Conduit issuance for SJCE's energy prepayment
- Commercial paper issuance and remarketing for the Airport and CSJFA



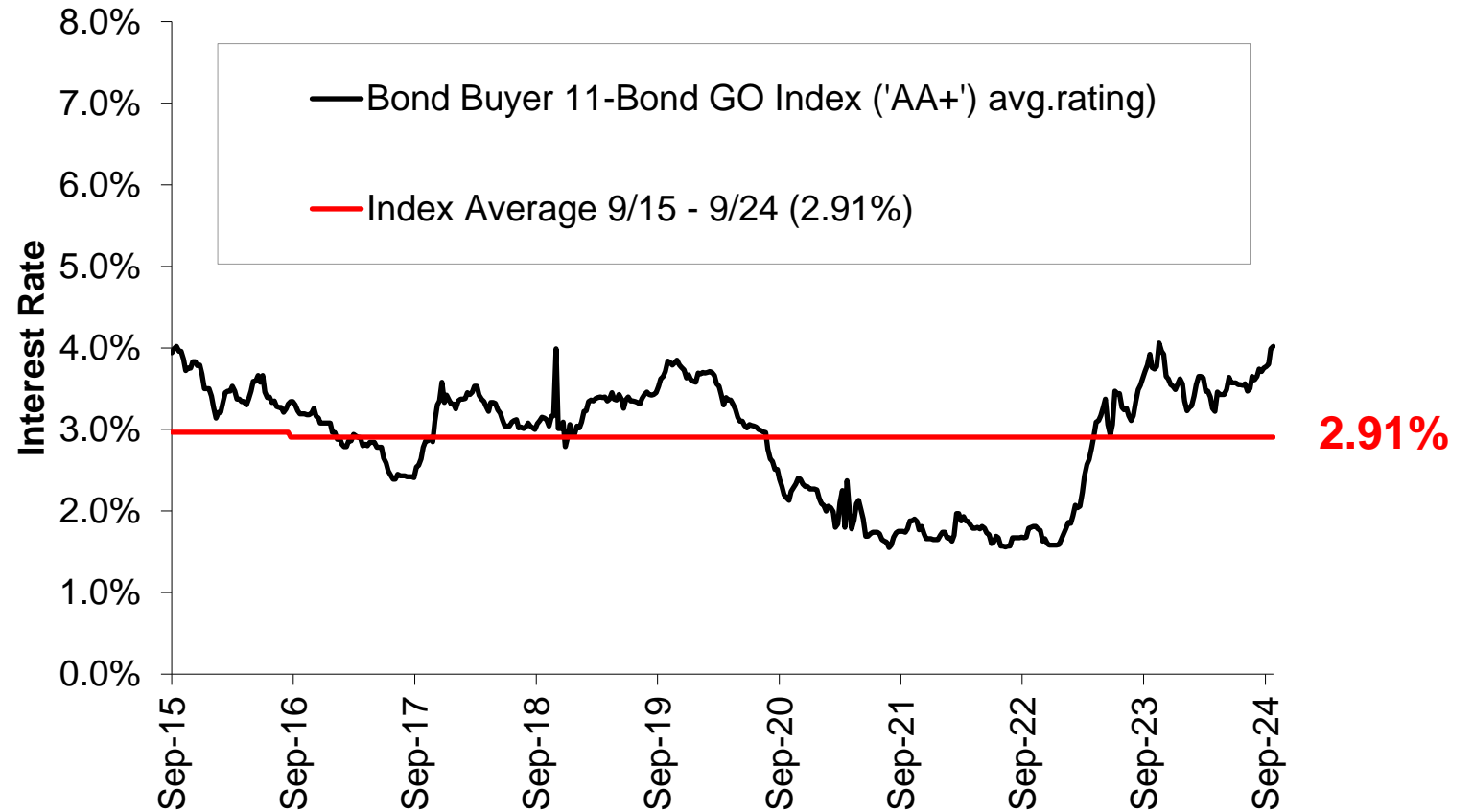
DEBT REPORTING THROUGH DECEMBER 31, 2024

- Annual Marks-Roos Reporting in October 2024
- FY 2023-24 Comprehensive Annual Debt Report
- FY 2023-24 Continuing Disclosure/Compliance Reporting
- FY 2025-26 Successor Agency Redevelopment Obligation Payment Schedule



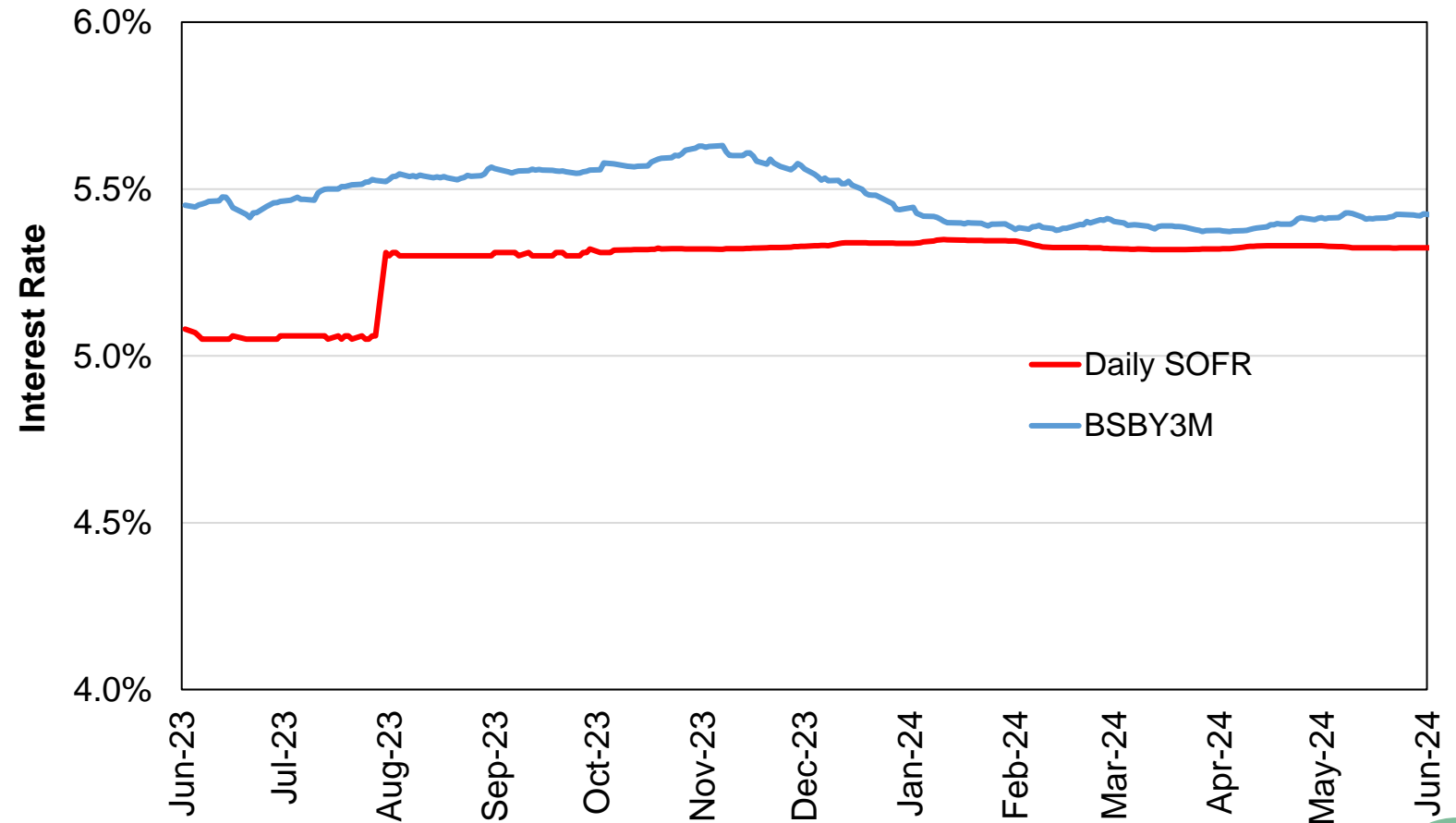
BOND BUYER GO BOND YIELD INDEX

10-year history of higher rated (“AA+”) General Obligation debt (20-year term) yield averaged 2.91% and is currently at 3.71% (as of 9/26/2024).



SOFR RATES FOR OCT 2023 – SEPT 2024

- The Daily Secured Overnight Financing Rate (SOFR) interest rate is currently 5.16% (as of 9/30/24).
- The City uses SOFR as a proxy for forecasting interest rates for various short-term debt instruments.



GENERAL OBLIGATION CREDIT RATINGS AS OF SEPTEMBER 30, 2024

The City's GO Ratings are higher than the State of California's ratings and analogous to Santa Clara County's ratings, which is to be expected given the extent of the tax base and other credit fundamentals that the City and the County share:

| Entity | Moody's | S&P | Fitch |
|-----------------------------------|---------|-----|-------|
| City of San José | Aa1 | AA+ | AAA |
| State of California | Aa2 | AA- | AA |
| Santa Clara County ⁽¹⁾ | N/A | AAA | AA+ |

(1) Moody's does not currently rate Santa Clara County's General Obligation Bonds but maintains an Issuer rating of Aa1.



GENERAL CREDIT RATINGS

CITY OF SAN JOSE

AS OF SEPTEMBER 30, 2024

The City of San José continues to maintain very high credit ratings.

| Type of Rating | Moody's | S&P | Fitch |
|--|--------------------------------|-----------------|--------------------------------|
| Issuer Rating | Aa1 (stable) | AA+ (stable) | AA+ (stable) |
| General Obligation Bonds | Aa1 (stable) | AA+ (stable) | AAA (stable) |
| Lease Revenue Bonds (Essential Assets) | Aa2 (stable) | AA (stable) | AA (stable) |
| Lease Revenue Bonds (Less Essential Assets) | Aa3 ⁽¹⁾ (stable) | AA (stable) | AA- ⁽²⁾ (stable) |

(1) Moody's assigns a rating of Aa3 to CSJFA 2020B and 2022A bonds which the rating agency considers less essential assets.

(2) Fitch assigns a rating of AA- to CSJFA 2020B bonds which the rating agency considers less essential assets.



OTHER CITY CREDIT RATINGS AS OF SEPTEMBER 30, 2024

| Type of Rating | Moody's | S&P | Fitch | KBRA (Kroll) ¹ |
|--|----------------|-----------------|-----------------------------|--------------------------------|
| San José Airport Bonds | A2 (stable) | A (stable) | A (stable) | N/A |
| Wastewater Revenue Bonds | N/A | AAA (stable) | AAA (stable) | AAA ⁽¹⁾ (stable) |
| SARA Senior Tax Allocation Bonds | N/A | AA (stable) | AA+ (stable) | N/A |
| SARA Subordinate Tax Allocation Bonds | N/A | AA- (stable) | AA (stable) ² | N/A |
| San José Clean Energy (Issuer) | A2 (stable) | A (stable) | N/A | N/A |

(1) KBRA (Kroll) has assigned a rating to the CSJFA Wastewater Revenue Bonds exclusively.

(2) SARA Subordinate TABs were upgraded by Fitch to AA+ on 10/3/2024.



FIRST QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2024-2025



INVESTMENT POLICY

(COUNCIL POLICY 1-12)

- Investments meet the requirements of the City's Investment Policy and conform with California Government Code section 53601
- Authorized investments are only highly-rated fixed income securities
- Investment Policy is reviewed annually and was last adopted by resolution of the City Council on March 5, 2024
- Investment Program is audited semi-annually for compliance purposes



INVESTMENT OBJECTIVES & REPORTING

- Manage investments to meet the City's Investment Policy objectives:
 - Safety
 - Liquidity
 - Yield
- Quarterly reports are available to the public:
 - On-line
 - In PSFSS Committee agenda packets
 - In City Council agenda packets (for acceptance)



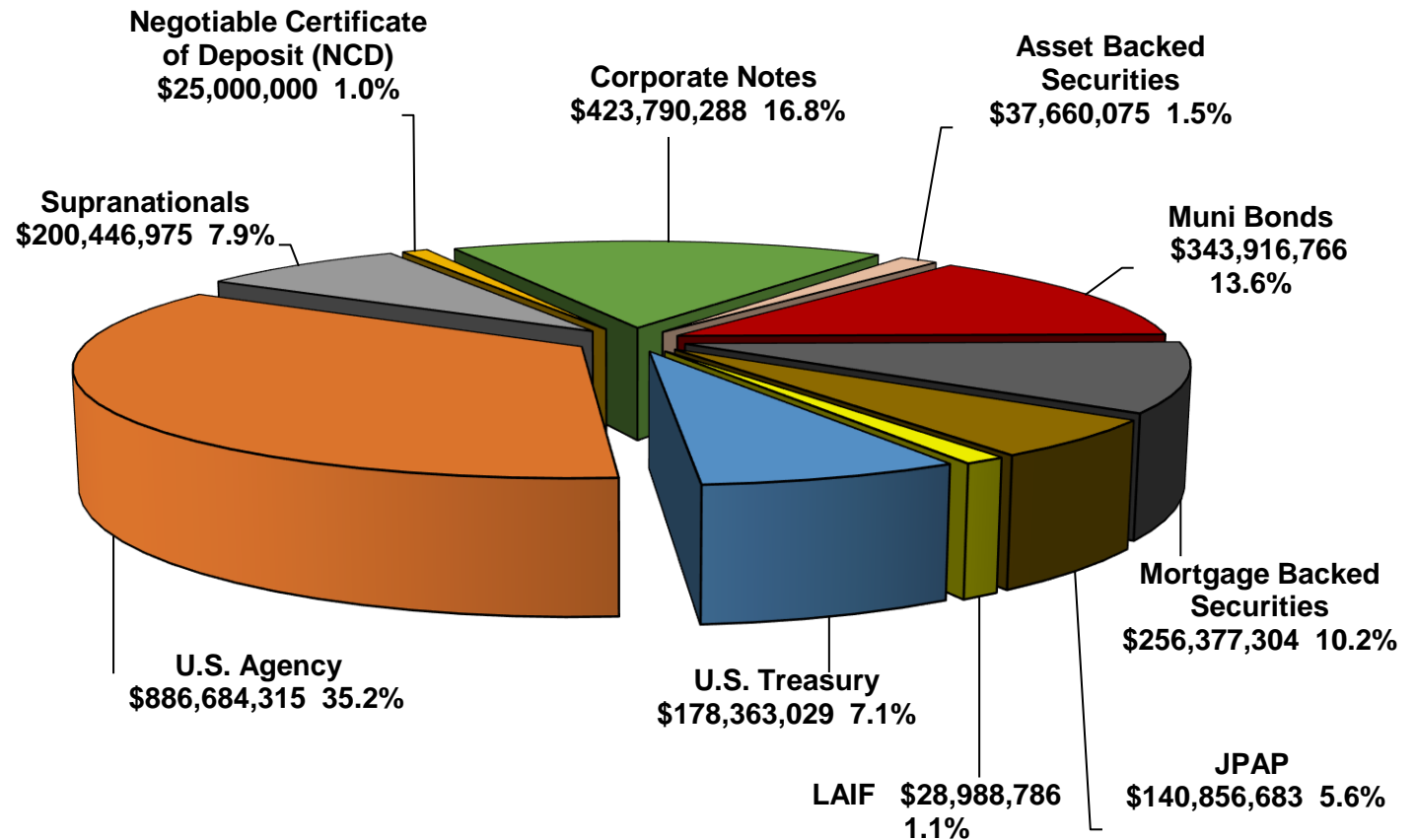
PORTFOLIO PERFORMANCE SUMMARY

| | |
|---|-----------------|
| Size of Total Portfolio | \$2,522,084,221 |
| Earned Interest Yield | 3.605% |
| Weighted Average Maturity | 646 days |
| Fiscal Year-to-Date Net Income Recognized | \$24,022,421 |
| Exceptions to the City Investment Policy this Quarter | None |



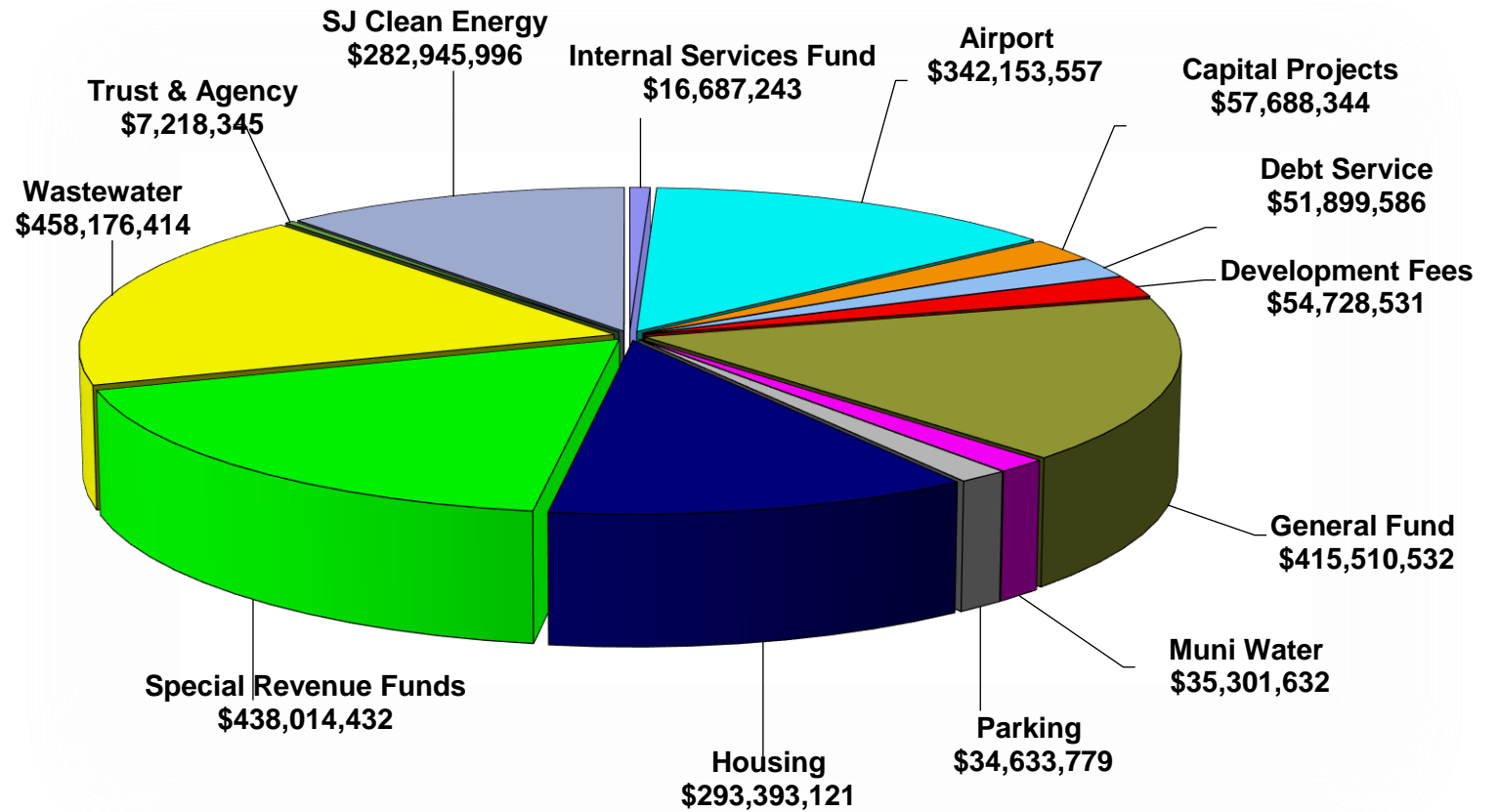
PORTFOLIO INVESTMENTS

Total Investment Portfolio:
\$2,522,084,221



INVESTMENTS BY FUND

The \$416 million in the General Fund presented includes \$403,492,133 of General Fund monies, as well as \$12,018,399 in other, separately tracked general funds, such as the Depositor Fund, Developer Fees and other smaller funds and reserves.



GENERAL FUND BALANCE

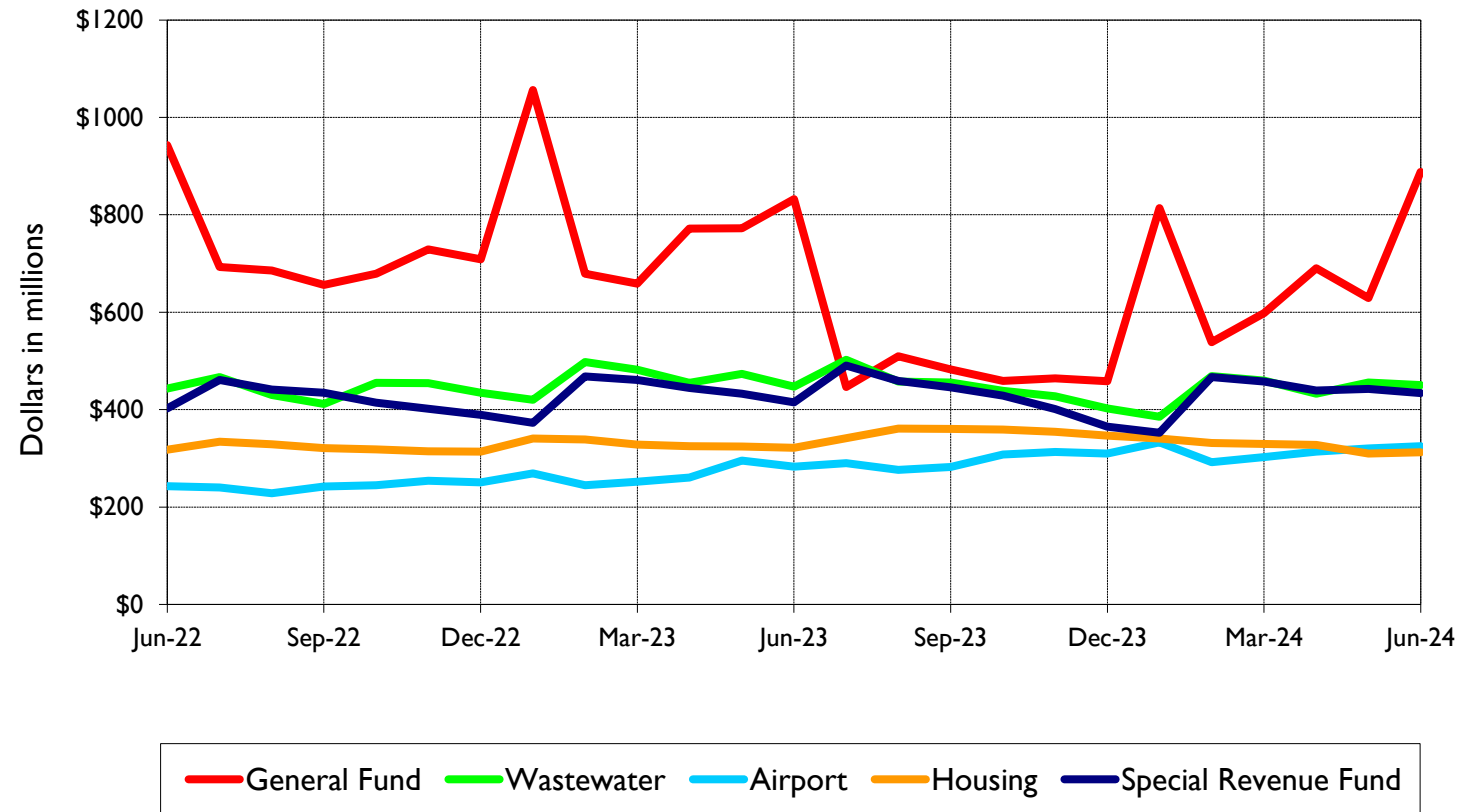
- The General Fund balances decreased by \$472 million during the quarter and ended with a balance of \$416 million as of September 30, 2024. This decrease is attributed to prefunding of employer contributions towards the Police and Fire Retirement Plan in July 2024, and debt service payments in August 2024. General Fund cash balances usually peak during the months of January and June, when the bulk of property taxes are received, and decline in the summer months due to retirement prefunding, debt service payments and operational expenditures.
- Projected investment maturities, cash and revenues are sufficient to cover anticipated expenditures for the next six months.



COMPARISON OF CASH BALANCES

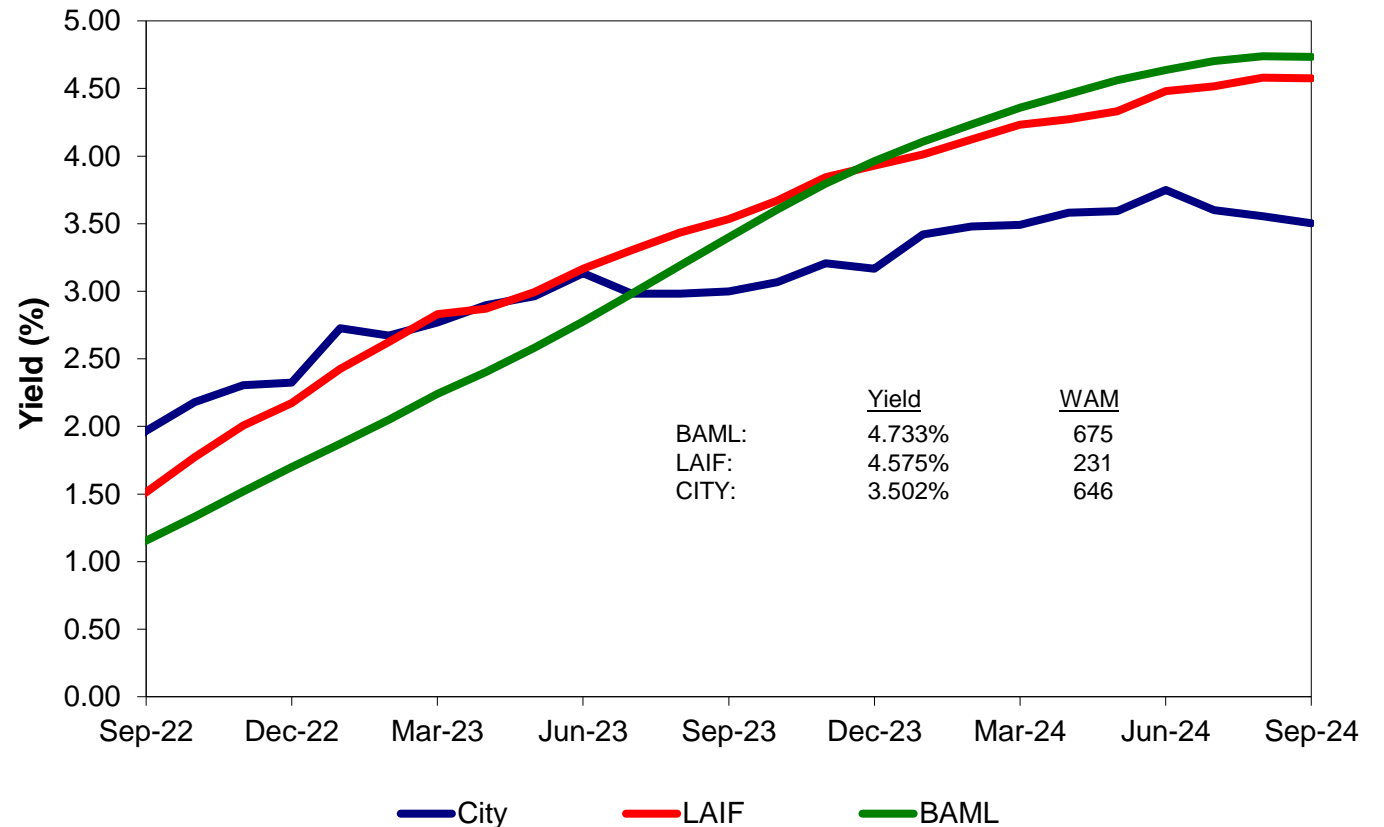
(BY SELECT FUNDS)

The following graph compares monthly balances of the five largest City funds as reported by FMS.



BENCHMARK COMPARISONS

- City refers to City's Portfolio, and the yield data are month-end weighted average yields.
- LAIF refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
- 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 known expenditures with suitable investments 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 objectives of safety, liquidity, and yield



FIRST QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2024-2025



REVENUE MANAGEMENT PROGRAMS

- Finance Department Revenue Management focuses on collecting outstanding receivables, with an emphasis on reducing delinquent accounts and enhancing revenue compliance, through four primary collection programs:
 - Accounts Receivable
 - Business Tax
 - Compliance and Monitoring
 - Utility Billing
- Efforts may span several reporting periods, and actual collections are reported as funds are received by the City.



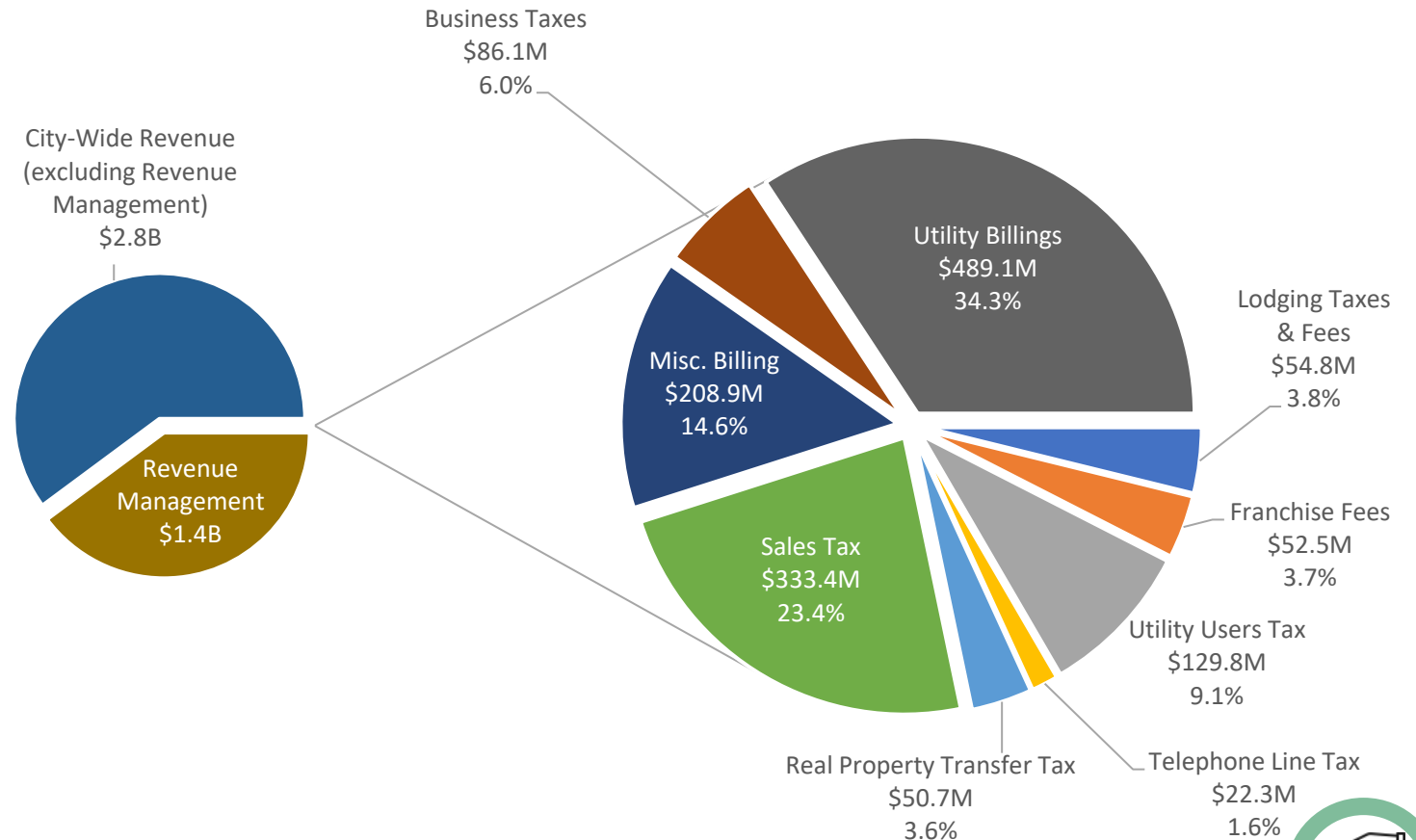
REVENUE MANAGEMENT PORTFOLIO

FY 2023-24 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.231B

Source: 2023-24 City Manager's
Budget Office Annual Report

(Graph is updated annually)

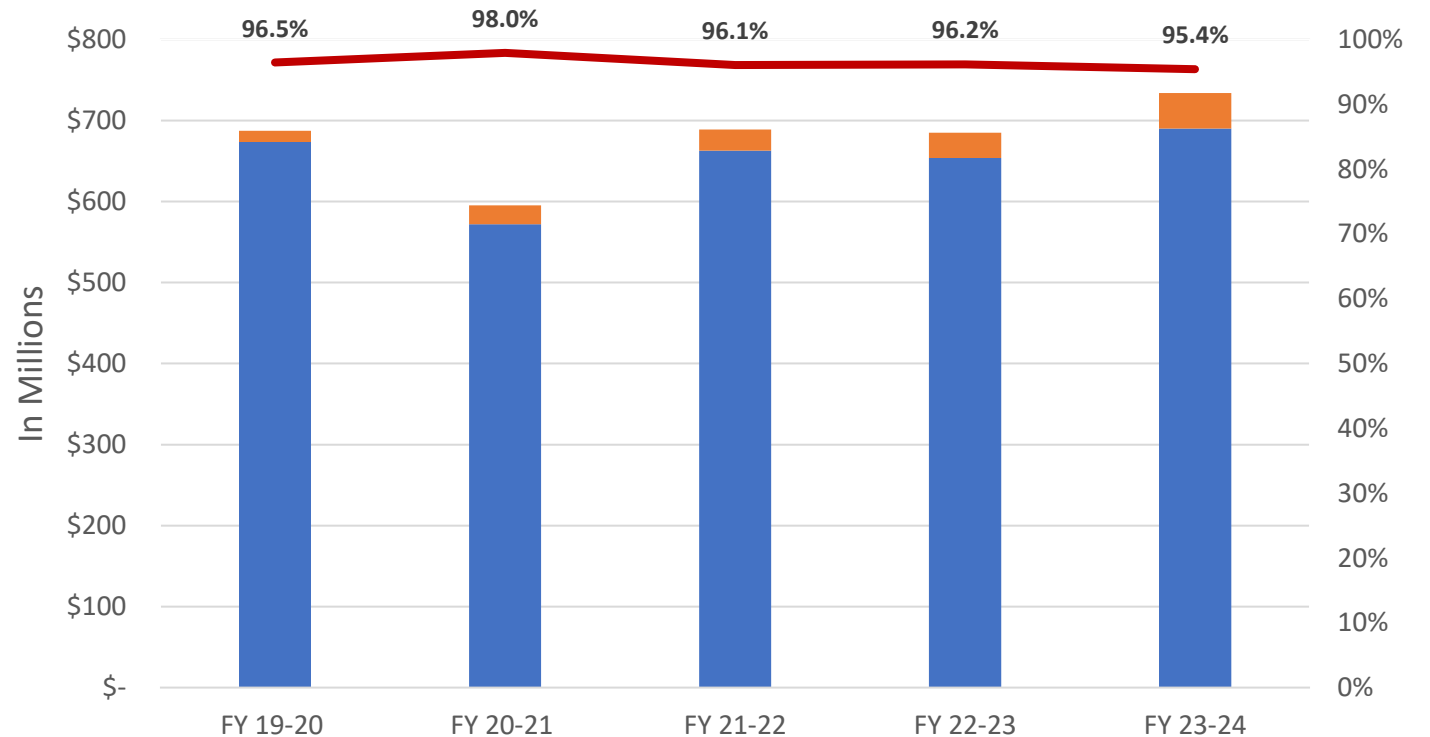


INVOICING AND PAYMENTS

FIVE-YEAR HISTORY (FY 2019-20 TO FY 2023-24)

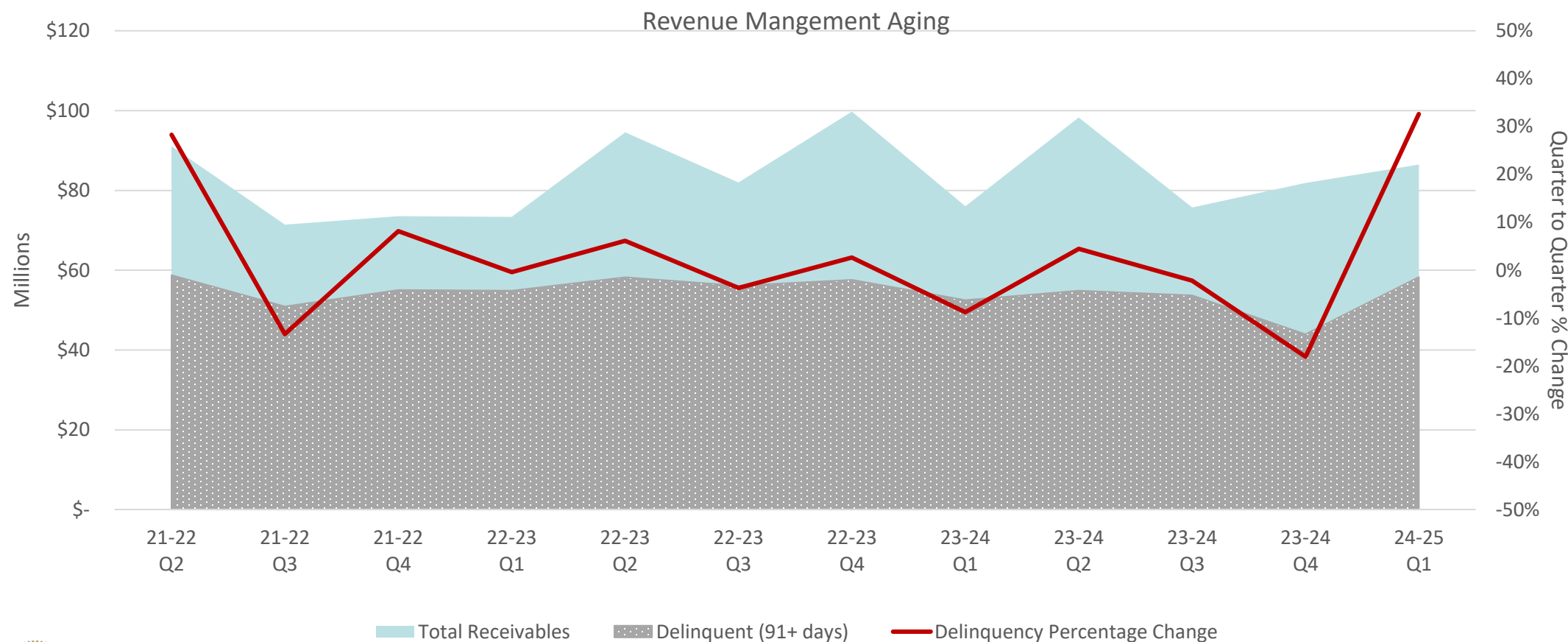
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System.

(Graph is updated annually)



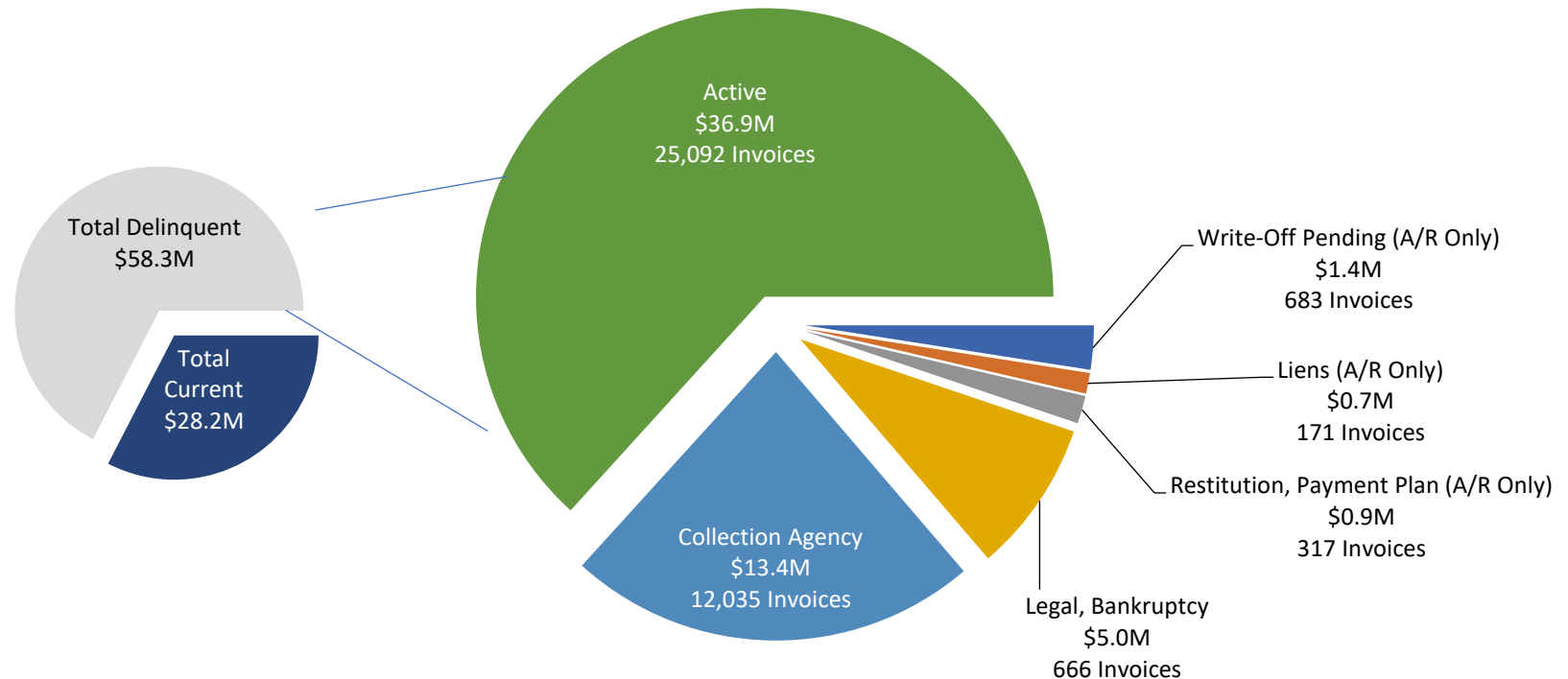
OUTSTANDING RECEIVABLES

THREE-YEAR HISTORY (FY 2021-22 Q2 TO FY 2024-25 Q1)



FY 2024-25 Q1 DELINQUENT RECEIVABLES

COLLECTION STATUS SUMMARY (\$ IN MILLIONS*)



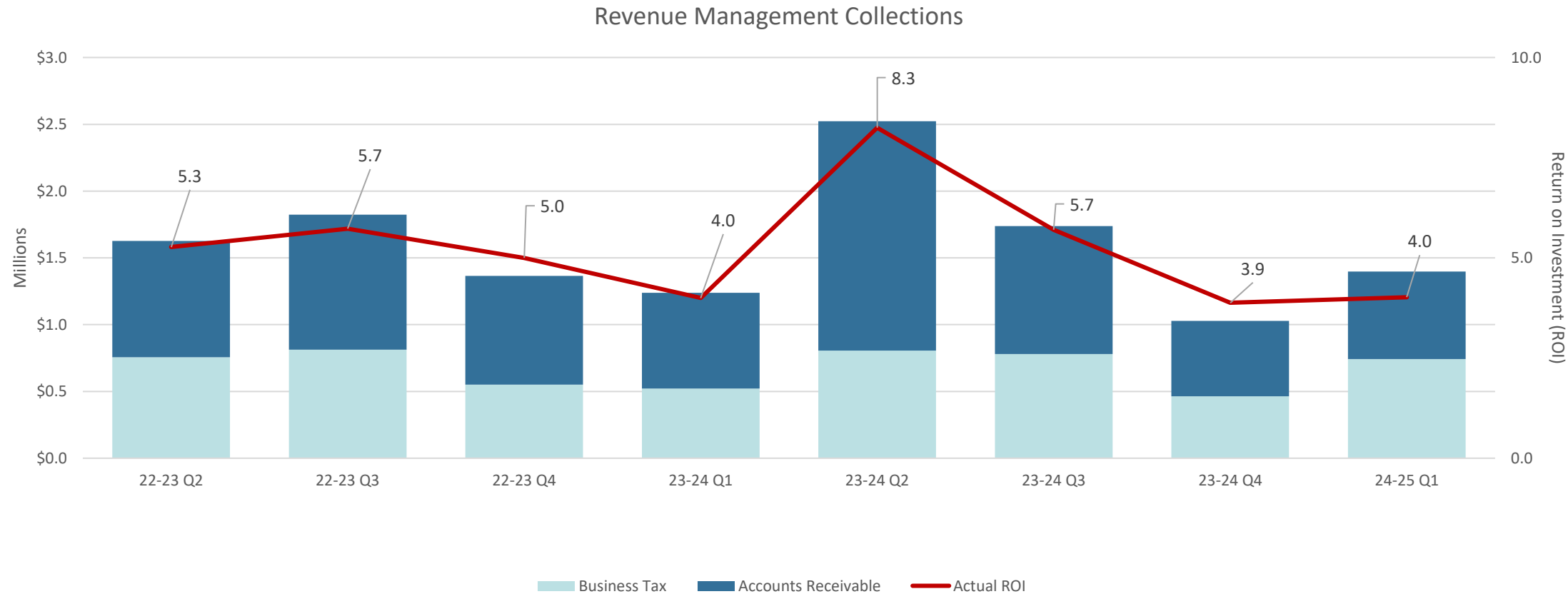
*Rounded

As of September 30, 2024



COLLECTIONS & RETURN ON INVESTMENT

REVENUE MANAGEMENT COLLECTIONS (FY 2022-23 Q2 To FY 2024-25 Q1)



REVENUE COMPLIANCE REVENUE RECOVERY

- Revenue Compliance and Monitoring conducts cyclical tax and fee audits for a variety of programs (e.g., Sales and Use Tax, Hotel Taxes/Lodging Fees, Utilities, Telecommunications, and Cannabis).
- In Q1, Revenue Compliance and Monitoring recovered ~\$1.36M in compliance revenue, including:
 - One-time finding of ~\$249K from a single telecommunications tax audit.
 - One-time finding of ~\$221K from a single cannabis business tax audit.
 - One-time finding of ~\$169K from a single hotel lodging tax audit.

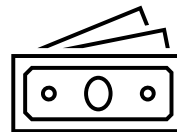


FIRST QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2024-2025



PURCHASING PROGRAM

The Purchasing Division of the Finance Department is responsible for the centralized procurement of equipment, supplies, materials, Information Technology (IT), and non-consulting services, pursuant to the City of San José Municipal Code Title 4, Chapter 4.12.



PURCHASING TRANSACTIONS COMPLETED

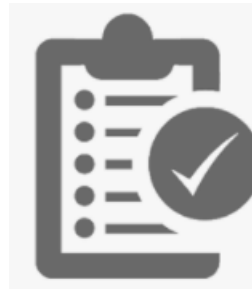
FIRST QUARTER FY2024-25

| DESCRIPTION | FIRST QUARTER TRANSACTIONS | FISCAL YEAR TO DATE |
|---|-------------------------------|------------------------|
| SOLICITATIONS COMPLETED (RFx) | 43 | 43 |
| PURCHASE ORDERS & PURCHASE ORDER ADJUSTMENTS EXECUTED | 643 | 643 |
| CONTRACTS NEGOTIATED & EXECUTED | 5 | 5 |
| AMENDMENTS, CHANGE ORDERS, SERVICE ORDERS, & OPTIONS EXECUTED | 38 | 38 |
| COUNCIL MEMORANDA ISSUED | 11 | 11 |
| PURCHASE ORDER DOLLARS PROCURED | \$100,190,359 | \$100,190,359 |
| CONTRACT DOLLARS PROCURED | \$7,938,600 | \$7,938,600 |



RISK MANAGEMENT PROGRAM

The Division is responsible for the procurement and oversight of the City's property and casualty insurance programs and providing contractual risk management services, property subrogation claims reporting and other key services to City Departments.



RISK MANAGEMENT TRANSACTIONS COMPLETED

FIRST QUARTER FY2024-25

| Transaction Type | First Quarter Transactions | Fiscal Year to Date |
|---|----------------------------|---------------------|
| Request for Contract Insurance Specifications | 405 | 405 |
| Request for Insurance Compliance Review | 163 | 163 |
| Request for Letters of Self-Insurance | 25 | 25 |
| Subrogation Dollars Billed to Responsible Third Parties | \$62,964 | \$62,964 |
| Council and Committee Memorandums Issued | 2 | 2 |



OTHER FIRST QUARTER RISK MANAGEMENT ACCOMPLISHMENTS

- Other highlights include:
 - Completed the Citywide Insurance Renewals
 - Collaborated with the IT Department to migrate the Certificate of Insurance Database to SharePoint
 - Facilitated loss prevention engineering visits by the City's property insurer to the McEnery Convention Center and Police Department Substation



RECOMMENDATION

(1) Accept the First Quarter (period ended September 30, 2024) Financial Reports for Fiscal Year 2024-2025 for the following programs:

- (a) Debt Management;
- (b) Investment Management;
- (c) Revenue Management; and
- (d) Purchasing and Risk Management;

(2) Refer and cross-reference the First Quarter Financial Reports for Fiscal Year 2024-2025 to the December 17, 2024 City Council meeting for full adoption.

