

City of San José

Comprehensive Annual Debt Report Fiscal Year 2019-20

*City Council Meeting
December 15, 2020
Item: 3.6*

Presenters:

Julia H. Cooper, Director of Finance

Nikolai Sklaroff, Deputy Director, Debt & Treasury Management

Joe Gray, Debt Administrator

Debt Management Program

Debt Issuance

Debt Administration

**Financial Advisory
Services**

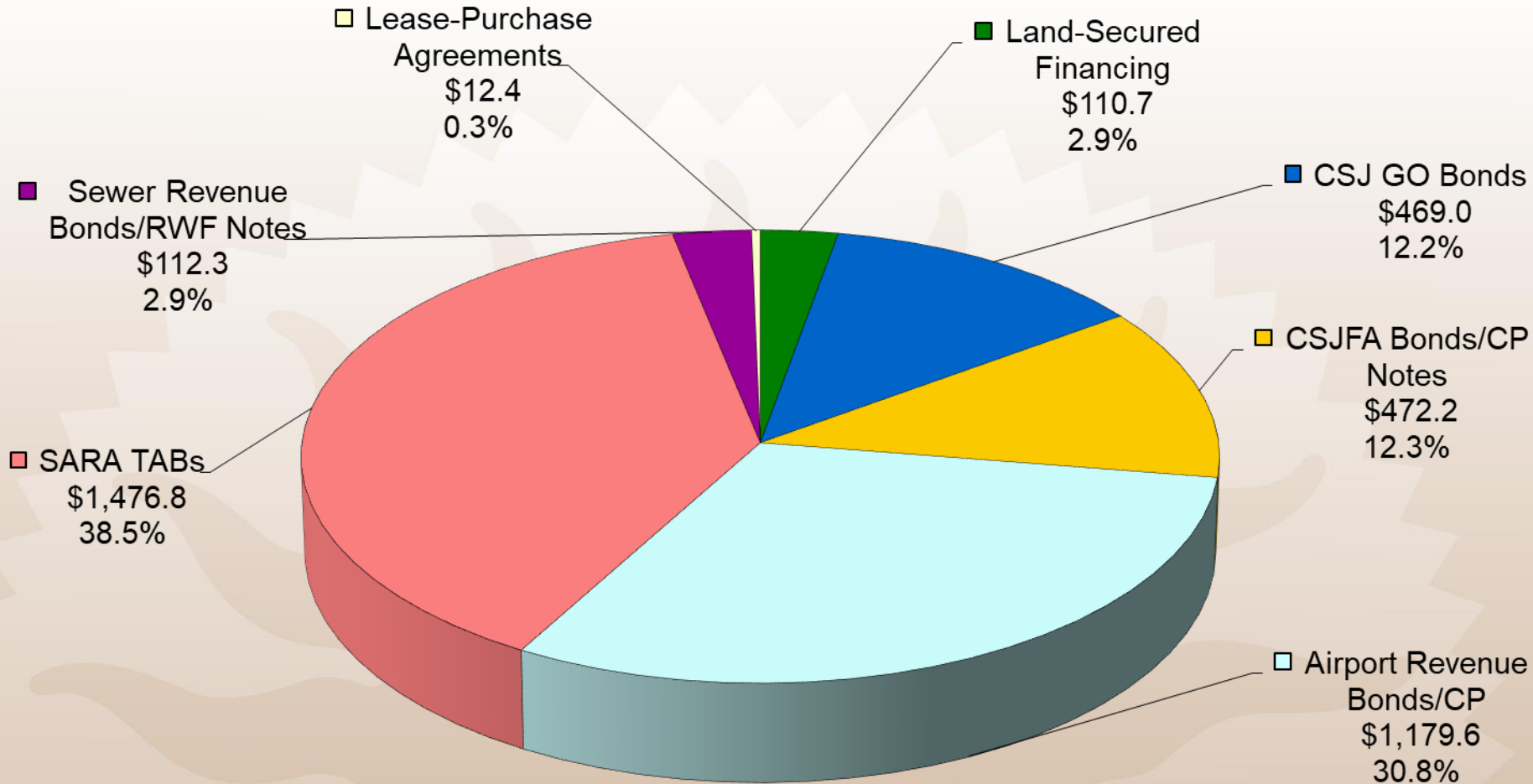
Policy Objectives

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with Federal and State laws
- Assess financial impacts of significant City projects

Outstanding Debt Issued by All Agencies

Excluding Multifamily Housing Revenue Bonds, and Pension, OPEB, and other City liabilities

Balance as of June 30, 2020: \$3,833,047,000



Debt Issuance

- FY 2019-20 debt: \$603 million
 - General Obligation Bonds
 - Subordinate Wastewater Notes for RWF
 - Lease Revenue Commercial Paper Notes
 - San Jose Airport Commercial Paper Notes
 - Conduit Multi-family Housing Revenue Obligations
- FY 2020-21 completed/planned debt: estimated \$1.2 billion
 - Tax Revenue Anticipation Notes (TRANS)
 - Lease Revenue Bonds (new and refunding)
 - Conduit Multi-family Housing Revenue Obligations
 - Airport Refunding Bonds

Debt Administration – Variable Rate Program

Summary of Letters of Credit and Direct Placement Banks

As of June 30, 2020

<u>Bond Series</u>	<u>Project Description</u>	<u>Bank</u>	<u>Authorized Amount ⁽¹⁾</u>	<u>Expiration Date</u>
<u>Letters of Credit</u>				
Airport Commercial Paper Series ABC	Airport Terminal Area Improvement Program	Bank of America	\$75,000,000 ⁽²⁾	9/10/2021
City of San José Financing Authority Commercial Paper	Various City projects	State Street/ US Bank	125,000,000 ⁽³⁾	2/23/2022
<u>Revolving Line of Credit</u>				
San Jose-Santa Clara Regional Wastewater Facility	Wastewater System and Treatment Plant Projects	Wells Fargo Bank, N.A.	300,000,000 ⁽⁴⁾⁽⁵⁾	10/18/2023
San Jose Clean Energy Revolving Credit Facility	Energy Power Provider Contracts	Barclays Bank PLC	80,000,000 ⁽⁵⁾	11/27/2023
<u>Direct Placement</u>				
City of San José Financing Authority Lease Revenue Bonds Series 2008E-1 and Series 2008E-2	Ice Centre	US Bank	18,210,000	12/13/2020
Total			\$598,210,000	

(1) Commercial Paper principal or Credit Facility capacity.

(2) The Airport CP outstanding as of June 30, 2020 was \$51.9 million.

(3) The CSJFA CP outstanding as of June 30, 2020 was \$72.5 million.

(4) The amount drawn on the Revolving Line of Credit during FY19-20 was \$17.8 million; total amount drawn as of June 30, 2020 was \$106.9 million.

(5) Debt Service calculated using LIBOR.

Financial Advisory Services – Major Projects – FY2020-21

- Pension Obligation Bond Analysis
- 10-year Capital Funding Strategy for Regional Wastewater Facility and WIFIA funding application process
- Renewal of the Airport LOC Facility
- RFPs for Airport Refunding (Underwriter) and POB Analysis (Municipal Advisor)
- Airport Revenue Bond Refunding
- Pre-issuance planning for GO Measure T (second issuance); LRB Refunding (Fire Training Center/Central Service Yard/EOC project and refunding);

Credit Ratings as of November 2020

- City continues to maintain high general obligation credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2,Aa3¹/AA/AA,AA-¹ from all three national rating agencies (Moody's/S&P/Fitch).
 - City G.O. bonds continue to be rated higher than State of California (Aa2/AA-/AA)
 - County of Santa Clara 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-²/A
- SARA Senior Tax Allocation Bonds are rated AA and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch³

¹ Moody's and Fitch 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 and Ice Centre (Aa3).

² SJC Airport was downgraded from A to A- in October 2020 from S&P.

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

General Obligation Credit Ratings – 10 Largest Cities (as of December 2, 2020)

Population Ratings

<u>Rank</u>	<u>Rank</u>	<u>City</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
1	4	New York	Aa2	AA	AA
2	5/6	Los Angeles	Aa2	AA	AA
3	10	Chicago	NR	BBB+	BBB-
4	7	Houston	Aa3	AA	AA
5	2	Phoenix	Aa1	AA+	AAA
6	9	Philadelphia	A2	A	A-
7	1	San Antonio	Aaa	AAA	AA+
8	5/6	San Diego	Aa2	AA	AA
9	8	Dallas	A1	AA-	AA
10	3	San Jose	Aa1	AA+	AA+

Debt Planned for 2021-22 with significant work efforts in 2020-21

- General Obligation Bonds – Measure T
 - 2ND round of issuance
- Lease Refunding Bonds
 - Refund 2003A and new issuance Fire Training Center/Central Service Yard project (in conjunction with GO funded EOC)
- Moderate Income and Low-Income Housing Projects
- Regional Wastewater Facility Financing
 - WIFIA loan application

Summary

- Debt Management program continues to be highly active in the areas of issuance, administration and financial advisory services.
- Maintaining a strong and dedicated program protects the City's financial interests, credit ratings, and long-term management of debt compliance to minimize financial penalties.
- Failure to comply with regulatory requirements can result in significant penalties.

Recommendation

Acceptance of Comprehensive Annual Debt Report for FY 2019-20.

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