



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE, AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Julia H. Cooper

**SUBJECT:** **FOURTH QUARTER FINANCIAL  
REPORTS FOR FISCAL YEAR  
2020-2021**

**DATE:** August 4, 2021

Approved

Date

8-11-21

## RECOMMENDATION

- (1) Accept the Fourth Quarter (period ended June 30, 2021) Financial Reports for Fiscal Year 2020-2021 for the following programs:
  - (a) Debt Management
  - (b) Investment Management
  - (c) Revenue Management;
- (2) Refer and cross-reference the Fourth Quarter Financial Reports for Fiscal Year 2020-2021 to the September 14, 2021 City Council Meeting for full adoption.

## OUTCOME

Provide the quarterly update on debt management, investment management, and revenue management work efforts.

## BACKGROUND

The attached Fourth Quarter Financial Reports for Fiscal Year 2020-2021 presents the Finance Department's quarterly activity for the City of San José ("City") Debt Management, Investment Management, and Revenue Management programs (Attachment A). Additionally, the Fourth Quarter Investment Report has been distributed to the City Council via email and is available on the Finance Department web page<sup>1</sup>. As part of the ongoing effort to streamline work efforts

<sup>1</sup> <https://www.sanjoseca.gov/your-government/departments/finance/reports/-folder-450>

within the Finance Department, these three reports are combined in one single report for submission to the Public Safety, Finance, and Strategic Support Committee (“PSFSS Committee”) for its review and acceptance. A brief narrative discussion is provided below for all three components of this quarterly report.

## **ANALYSIS**

This section of the report is divided into the following sections: Debt Management Program, Investment Management Program, and Revenue Management Program.

### **Debt Management Program**

This Fourth Quarter Debt Report focuses on the City’s debt activities for the period ended June 30, 2021, and relates to the following elements of the City’s Debt Management Program:

- Completed financings and current debt portfolio
- Debt issuance and management activities completed and anticipated to fiscal year end
- Current interest rate environments and credit ratings

#### ***Completed financings and current debt portfolio***

- **Completed financings:**
  - **Airport Revenue Refunding Bonds, Series 2021A (AMT), Series 2021B (non-AMT) and Series 2021C (Taxable) (the "Series 2021 ABC Bonds")**. On April 7, 2021, the City successfully sold \$428,080,000 of Airport Refunding Bonds, Series 2021ABC to refund all of the outstanding Series 2011A-1, Series 2011A-2, Series 2011B, and a portion of outstanding Series 2014A, 2017A and 2017B Bonds (collectively, the "Refunded Bonds"). As a result of the transaction, the Airport will achieve a net present value savings of \$148,746,394, or 31.4%, of the Refunded Bonds over the term of the bonds. The Bonds were issued with an all-in true interest cost (“TIC”) of 2.68% and represented aggregate cash savings to the Airport of \$188,229,190 over the term of the bonds. The refunding also provided front-loaded budget relief in Fiscal Year 2021-22 and Fiscal Year 2022-23 to allow the Airport to gradually recover from the impact of COVID-19.
  - **Multi-Family Housing Revenue Bonds: Markham Plaza II Apartments**. In May 2021, the City served as a conduit issuer for \$25 million in a private placement of tax-exempt 501(c)(3) housing revenue bonds for Markham Plaza II apartments to finance the construction by Core Affordable Housing LLC of 152-unit affordable housing project for low/very low-income residents in San Jose.

- **Multi-Family Housing Revenue Bonds: Blossom Hill Senior Apartments.** In June 2021, the City served as a conduit issuer for \$39.4 million in a private placement of tax-exempt 501(c)(3) housing revenue notes for Blossom Hill Senior Apartments to finance the construction by Charities Housing Development of 147-unit affordable housing project for extremely low/very low-income senior residents in San José.
  - **Multi-Family Housing Revenue Bonds: Immanuel Sobrato Community.** In June 2021, the City served as a conduit issuer for \$35 million in a private placement of tax-exempt 501(c)(3) housing revenue notes for Immanuel Sobrato Community to finance the construction by MidPen Housing Corporation of 108-unit affordable housing project for extremely low/very low-income residents in San José.
  - **City of San José Financing Authority (“CSJFA”) Lease Revenue Commercial Paper Notes.** In June 2021<sup>2</sup>, the City issued \$0.9 million of previously authorized Commercial Paper for the Parks, Recreation & Neighborhood Services Department’s Flood Improvement projects and \$15 million of Commercial Paper (“CP”) for San José Clean Energy (“SJCE”) to finance the purchase of power and other operating costs as authorized by the CSJFA Board and by two-thirds majority of Council on June 22, 2021. The CP Notes draws started in Fourth Quarter 2020-21 and will continue into 2021-22 to keep SJCE cash balances positive. Finance, SJCE, the City Manager’s Budget Office and the City’s Attorney’s Office collaborated to assess the SJCE cash shortfall and borrowing options to help SJCE through a convergence of energy market events. SJCE’s existing revolving credit agreement with Barclays Bank was determined to be insufficient to meet the SJCE current financial needs, and the mechanics of drawing on the Barclays’ line of credit made its use impractical under the current circumstances. Additionally, the commercial paper interest rates are significantly lower than the Barclays’ line of credit.
- **Current Debt Portfolio**

The City’s total outstanding debt portfolio as of June 30, 2021 is \$4.6 billion; of that amount, \$3.8 billion is direct debt issued by the City and agencies of the City and \$798 million is conduit debt for multi-family housing. The amount of debt issued (City, agency and conduit) for FY 2020-21 was \$1.3 billion.

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<sup>2</sup> Joint Meeting of City Council and City of San Jose Financing Authority, June 22, 2021, item #1 - <https://sanjose.legistar.com/View.ashx?M=F&ID=9502611&GUID=4C1DEA12-2533-4189-8832-F073D38772B1>

### ***Debt issuance and management activities completed to fiscal year end***

- **Debt Issuance**

**Pre-issuance activities.** During the Fourth Quarter, the City was engaged in pre-issuance activities for the 2021 Tax and Revenue Anticipation Notes or “TRANs”. Proceeds from this nearly annual borrowing, together with other cash, is used to prefund retirement system obligations for the new fiscal year. While the bulk of activity occurred during the Third and Fourth Quarter, the transaction closes in the First Quarter of the new fiscal year and will be discussed more completely in the First Quarter Financial Report for Fiscal Year 2021-22. Both the TRANs and 2021 General Obligation Bonds (second issuance of Measure T authorization) issuances received Council authorization in June in anticipation of issuance in July 2021. City of San José Financing Authority Lease Revenue Bonds, Series 2021A, are tentatively scheduled for Council approval and issuance in the first quarter of Fiscal Year 2021-22 for the Fire Training Center/Central Service Yard improvements.

In April, Debt Management assisted in presenting a nearly four-hour Council Study session for Pension Obligation Bonds in response to a December 2020 City Council referral. The April 23, 2021 Study Session featured external outside experts and comprehensive analyses. This was followed by a May 11, 2021 Council presentation at which time Council provided direction to staff to return with bond validation papers to make the Pension Obligation Bond tool available to Council in the future, should Council authorize such bonds following a successful judicial validation. Originally scheduled for June 29, this item has been deferred to September pending further discussions with the retirement boards. Planning is underway for briefings of the retirement boards and Council in advance of a planned joint September 30 Study Session.

- **Reporting**

During this period, Fitch Ratings, Inc. raised its long-term and underlying ratings on the City’s General Obligation Bonds to “AAA” from “AA+” with stable outlook and assigned the new rating to Series 2021 Bonds in a rating commentary dated June 30, 2021. (See “Current interest rate environments and credit ratings”). (The City subsequently posted notice to the Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (“EMMA”) website<sup>3</sup>).

### ***Current interest rate environments and credit ratings***

- **Current interest rate environment**

*Fixed Rates* – Over the last 10 years, the index of tax-exempt bond interest rates maturing in 20 years has averaged 3.19%; the index was 1.57% as of July 15, 2021.

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<sup>3</sup> <https://emma.msrb.org/MarketActivity/ContinuingDisclosureDetails/P11148468>

*Variable Taxable Interest Rates* –Taxable LIBOR monthly interest rates averaged 0.10% in the fourth quarter and are currently at 0.09% as of July 20, 2021.

*LIBOR Update* –The London Interbank Offered Rate (LIBOR), represents the average rate at which a leading bank can obtain unsecured funding in the London interbank market. LIBOR serves as a benchmark for various interest rates. The City uses LIBOR (1-month and 3-month LIBOR) for its projections of Commercial Paper interest cost calculations, for budgeting purposes and certain bank agreements. In the wake of the financial crisis of 2008 and LIBOR manipulation by several financial institutions in 2012, regulators grew wary of that particular benchmark and established a scheduled phase-out substituting LIBOR with an alternative reference rate, SOFR (Secured Overnight Financing Rate). On November 30, 2020, the Federal Reserve announced that LIBOR will be phased out and eventually replaced by June 2023; banks were instructed to stop writing contracts using LIBOR by the end of 2021 and all contracts using LIBOR are to wrap up by June 30, 2023.

- **Credit ratings**

The City made bond rating presentations to three of the major national bond rating agencies Moody’s Investors Services Inc. (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”), and Fitch Ratings (“Fitch”) on June 16, 17 and 18, 2021 in anticipation of the City’s general obligation bond sale on July 14, 2021. Based on its review, Fitch Ratings, Inc. raised its long-term and underlying ratings on the City’s general obligation Bonds to “AAA” from “AA+” with stable outlook and assigned the new rating to the Series 2021 Bonds. A full explanation of the Fitch Rating action is available in their Rating Action Commentary<sup>4</sup>. San José was the first city in California to receive an additional credit boost by Fitch. Due to the refunding of all outstanding general obligation bonds in 2019, all of the City's general obligation bonds are secured by a new statutory lien law that took effect in 2016. Moody’s Investors Service and Standard & Poor’s reaffirmed their Aa1 and AA+ ratings respectively and assigned the same rating to the Series 2021 General Obligation Bonds, both with stable outlooks.

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<sup>4</sup> View the full Fitch Ratings announcement online: <https://www.fitchratings.com/research/us-public-finance/fitch-rates-200mm-san-jose-go-bonds-aaa-upgrades-outstanding-gos-affirms-idr-outlook-stable-30-06-2021>

The City's current credit ratings are:

Type of Rating	Moody's	S&P	Fitch
<b>Issuer Rating</b>	Aa1 (stable)	AA+ (stable)	AA+ (stable)
<b>General Obligation Bonds</b>	Aa1 (stable)	AA+ (stable)	AAA (stable)
<b>Lease Revenue Bonds (Essential Assets)</b>	Aa2 (stable)	AA (stable)	AA (stable)
<b>Lease Revenue Bonds (Less Essential Assets)</b>	Aa3 (stable)	AA (stable)	AA- (stable)
<b>Airport Revenue Bonds</b>	A2 (stable)	A- (stable)	A (stable)
<b>Successor Agency Senior Tax Allocation Bonds</b>	Not rated	AA (stable)	AA- (stable)
<b>Special Hotel Tax Revenue Bonds</b>	A2 (stable)	A (negative)	Not rated

### **Investment Management Program**

A quarterly investment report for the period ended June 30, 2021 is posted on the Finance Department website and provided to the PSFSS Committee. Pursuant to the City's Investment Policy, verbal presentations in addition to the written reports are provided to the PSFSS Committee for the Second and Fourth Quarter Reports. The materials presented in this consolidated report provide a "snapshot" of the investment portfolio. The report will be agendaized for acceptance by the City Council pursuant to the Investment Policy.

### **Revenue Management Program**

The Revenue Management report highlights the key aspects of the City's ongoing collection efforts. These efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance through four primary collection programs: Accounts Receivable, Business Tax, Revenue Compliance and Monitoring, and Utility Billing. This report highlights the Revenue Management Division collection efforts and summarizes the progress towards maintaining a return on investment ratio of 5.5 to 1. Actual year-to-date return on investment through the fourth quarter of fiscal year 2020-21 is 6.5 to 1.

## **Business Tax COVID-19 Assistance**

On September 29, 2020, the City Council approved Ordinance 30483 amending Chapter 4.76 of Title 4 of the San José Municipal Code to add a new Section 4.76.345.6 to temporarily expand, retroactive to October 1, 2020, eligibility for the existing financial hardship exemptions for low-revenue generating small businesses and small business owners with limited household incomes to include all persons engaged in business in the City who satisfy certain financial hardship requirements<sup>5</sup>. This temporary expansion of business tax financial hardship exemptions through September 30, 2021 increased eligibility for existing financial hardship exemptions to any business, in addition to small business owners, that meet the income requirements. The income requirements are as follows:

- Businesses with gross receipts of \$25,520 or less in the 2020 calendar tax year are eligible for the financial hardship exemption for low revenue generating businesses.
- Business owners with adjusted gross income of \$51,040 or less in the 2020 calendar tax year are eligible for the financial hardship exemption for business owners with limited household incomes.

Businesses may apply for this financial hardship exemption based on their anticipated 2020 income, rather than relying on income reported on 2019 tax returns. This financial hardship exemption is in effect from October 1, 2020 through September 30, 2021.

For the fourth quarter, 7,800 businesses and residential landlords with renewals due were notified about the expanded COVID-19 assistance. Of those over 7,800 businesses, 727 applied for an exemption, with 306 approved, 33 denied, 352 pending and 36 duplicate requests. Estimated loss of revenue associated with exemptions for the fourth quarter is \$128,221.

From inception of this financial hardship exemption on October 1, 2020 through June 30, 2021, 19,544 business and residential landlords with renewals due have been contacted about the COVID-19 assistance. Of those 19,544, 2,290 applied for an exemption, with 1,430 approved, 195 denied, 577 pending, 78 duplicate requests and 10 invalid accounts. For all COVID-19 Business Tax Assistance financial hardship exemptions through June 30, 2021, there is an estimated loss of revenue of \$409,127.

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<sup>5</sup> <https://sanjose.legistar.com/LegislationDetail.aspx?ID=4641742&GUID=004F7CD3-0124-4DAE-AE9A-ABFF4B9AF6C9&Options=&Search=>

## **CONCLUSION**

The Financial Reports provide information and transparency of the Finance Department's debt, investment, and revenue management activities for the quarter.

## **EVALUATION AND FOLLOW-UP**

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. The Finance Department staff will be available to answer questions on the Fourth Quarter Financial Reports for Fiscal Year 2020-2021 at the PSFSS Committee meeting on August 19, 2021.

Business tax revenue reductions due to the Business Tax COVID-19 Assistance temporary financial hardship exemption have been reported since its October 1, 2020 inception in the Bi-Monthly Financial Reports to the Public Safety, Finance and Strategic Support Committee. The September 29, 2020 Council memo estimated that up to 6,000 businesses and residential landlords could meet the expanded financial hardship eligibility criteria with an associated, estimated FY 2020-21 revenue reduction of approximately \$1.0 million. As described above, actual revenue loss through June 30, 2021 is \$409,127. Given the response through June 30, 2021 to the temporary financial hardship exemptions, as noted above, staff is reviewing the need for continued relief beyond September 30, 2021 and may return to City Council with an extension of the temporary expansion of business tax financial hardship exemption prior to its expiration.

## **CLIMATE SMART SAN JOSE**

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

## **PUBLIC OUTREACH/INTEREST**

This memorandum will be posted on the City's website for the August 19, 2021 PSFSS Committee meeting.

## **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and City Manager's Budget Office.



August 4, 2021

**Subject: Fourth Quarter Financial Reports for Fiscal Year 2020-2021**

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**COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

/s/

**JULIA H. COOPER**

Director of Finance

Attachment A: Fourth Quarter (period ended June 30, 2021) Financial Reports Presentation for Fiscal Year 2020-2021

For Debt Management Program and Investment Management Program questions, please contact Nikolai J. Sklaroff, Deputy Director of Finance, Debt & Treasury Management Division at (408) 535-7832. For Revenue Management Program questions, please contact Luz Cofresí-Howe, Assistant Director of Finance at (408) 535-7041.