

# **Fourth Quarter Financial Report for Fiscal Year 2016-2017**

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

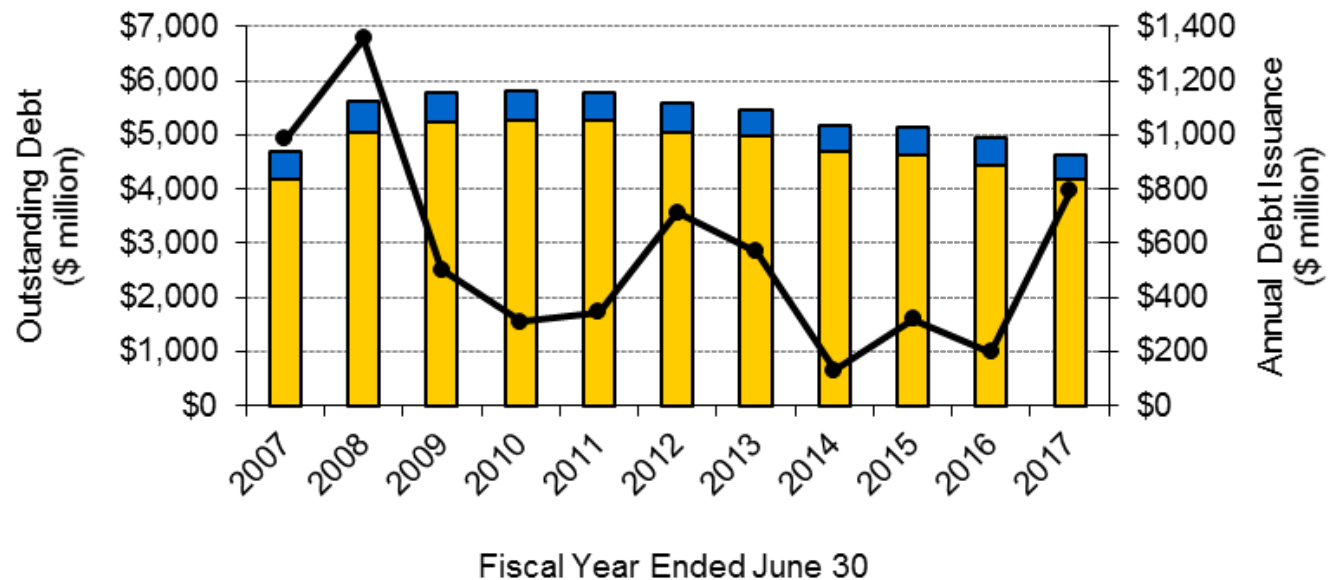
**Prepared by the Finance Department  
August 17, 2017**

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# **Fourth Quarter Debt Management Report for Fiscal Year 2016-2017**

# Outstanding Debt Issued by All Agencies

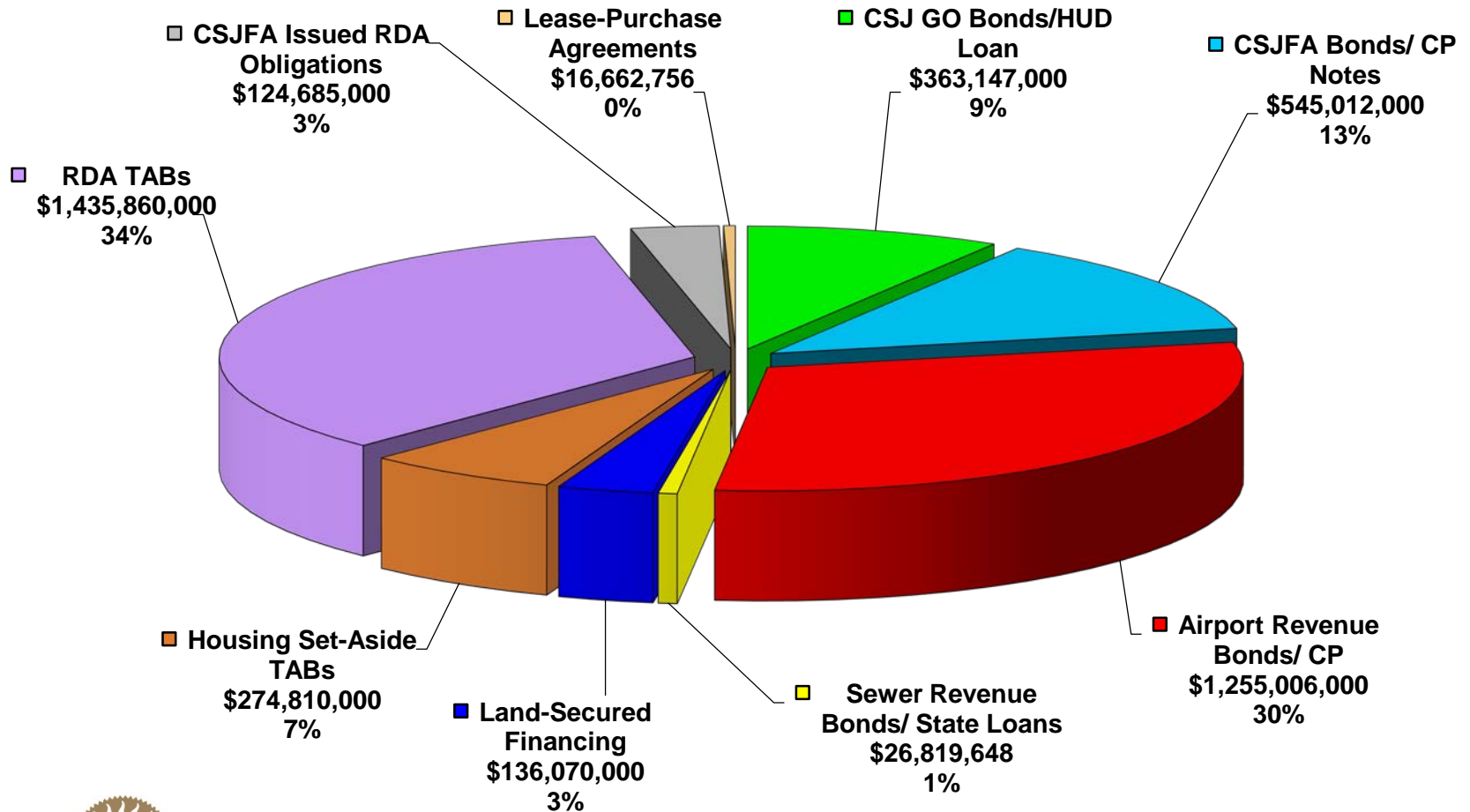
Outstanding Debt as of June 30, 2017: \$4.6 Billion  
 FY 2016-17 Actual Debt Issuance: \$793 Million



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

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

Outstanding Debt as of June 30, 2017: \$4,178,072,405\*



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

# Selected Debt Issuance and Debt Management Activities during 4<sup>th</sup> Quarter

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- Debt Issuance
  - \$624.3 million in Airport Revenue Refunding Bonds, Series 2017AB
  - Multi-Family Housing Revenue Notes
    - Villa De Guadalupe - \$42.3 million
  - Pre-issuance activities
    - Refinancing of SARA debt
    - Short-term financing for Regional Wastewater Facility Capital Improvement Program
- Debt Management
  - RFP for financial advisors and financial advisory pools
- Bond Ratings
  - Upgrades to RDA TABs and HSA TABs by Moody's, S&P, and Fitch
- Credit Support renewal/replacement:
  - Renewal of Direct Placement for SARA Housing Set-Aside TABs, Series 2010C
  - Renewal of Direct Placements for CSJFA Series 2008CD (Hayes Mansion), Series 2008E (Ice Centre) and Series 2008F (Land Acquisition)

# Upcoming Debt Issuance and Management Through December 31, 2017

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- Debt Issuance
  - \$150 million Tax and Revenue Anticipation Note (2017 TRAN issue date July 3, 2017)
  - \$1.8 billion SARA RDA debt refinancing
  - \$300 million short-term financing program for RWF CIP
  - CSJFA lease revenue commercial paper notes for various projects including San José Clean Energy (SJCE) startup, parks' flood improvements, Convention Center exhibit hall, energy conservation equipment
  - Pre-Bond Issuance work efforts
    - General Obligation and CSJFA lease revenue bonds' refinancing
- Debt Management
  - 2017 Comprehensive Annual Debt Report (CADR)
  - Annual Continuing Disclosure/Compliance Reporting to Municipal Securities Rulemaking Board (MSRB)
  - Selection of Financial Advisors (General, Airport, Housing, Wastewater, SARA, Land-Secured, SJCE) - current agreements expire on August 31, 2017

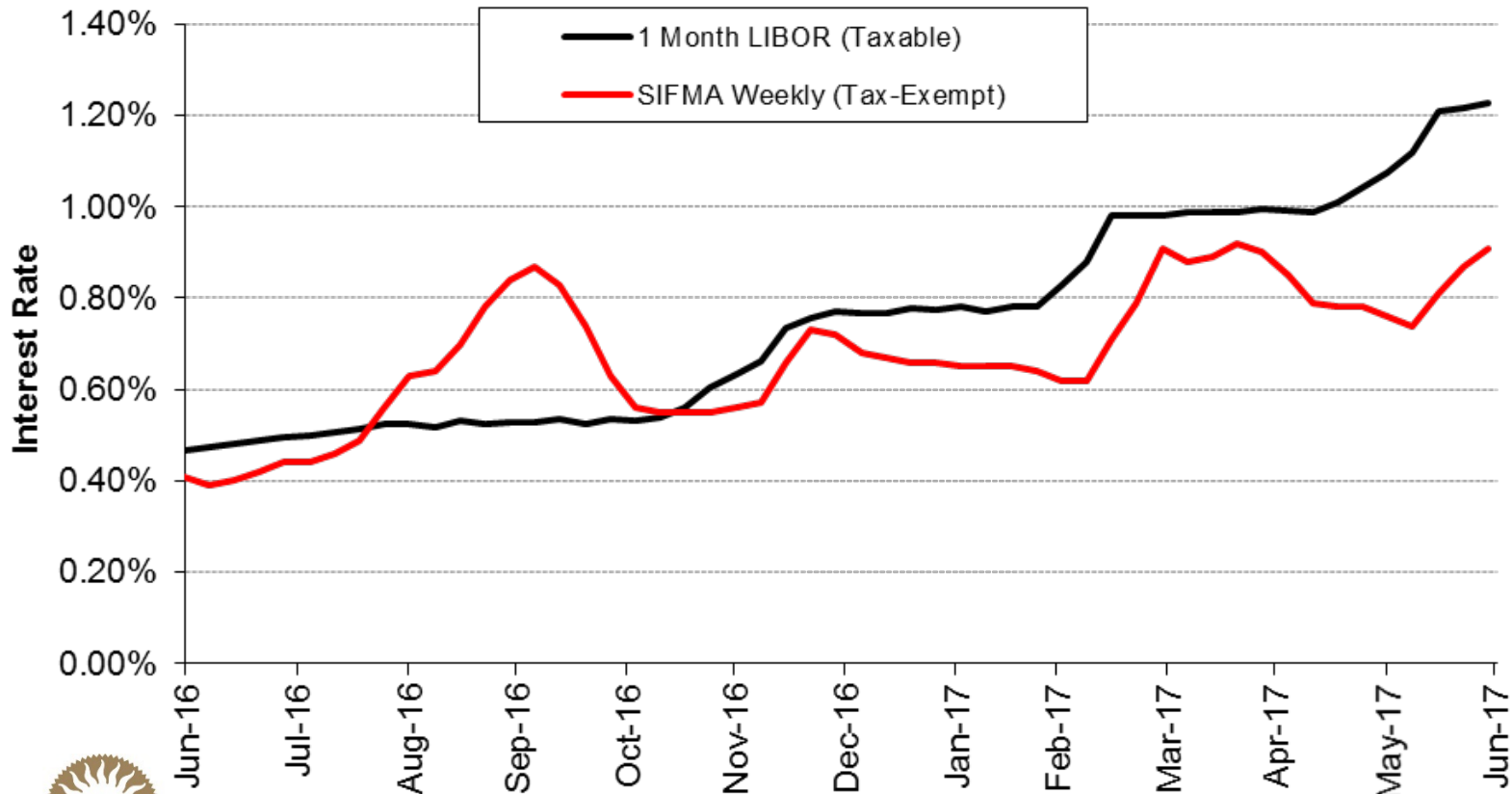
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged around 3.89% and are currently at 3.12% (as of 7/13/17)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 0.84% in Q4 and are currently at 0.82% (as of 07/19/2017)
- Taxable LIBOR monthly interest rates paid by the City averaged 1.06% in Q4 and are currently at 1.23% (as of 07/19/2017)





# 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 (Aa3/AA-/AA-)
  - Santa Clara County G.O. bonds are rated lower by Moody's (Aa2), higher by S&P (AAA), and the same by Fitch
- SJC Airport bonds are rated A2/A-/A-
- RDA non-Housing Tax Allocation Bonds are rated A2/AA-/A+
- RDA Housing Set-Aside Tax Allocation Bonds are rated A1/A/AA

<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).

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# **Fourth Quarter Investment Management Report for Fiscal Year 2016-2017**

# 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

# Investment Objectives & Reporting

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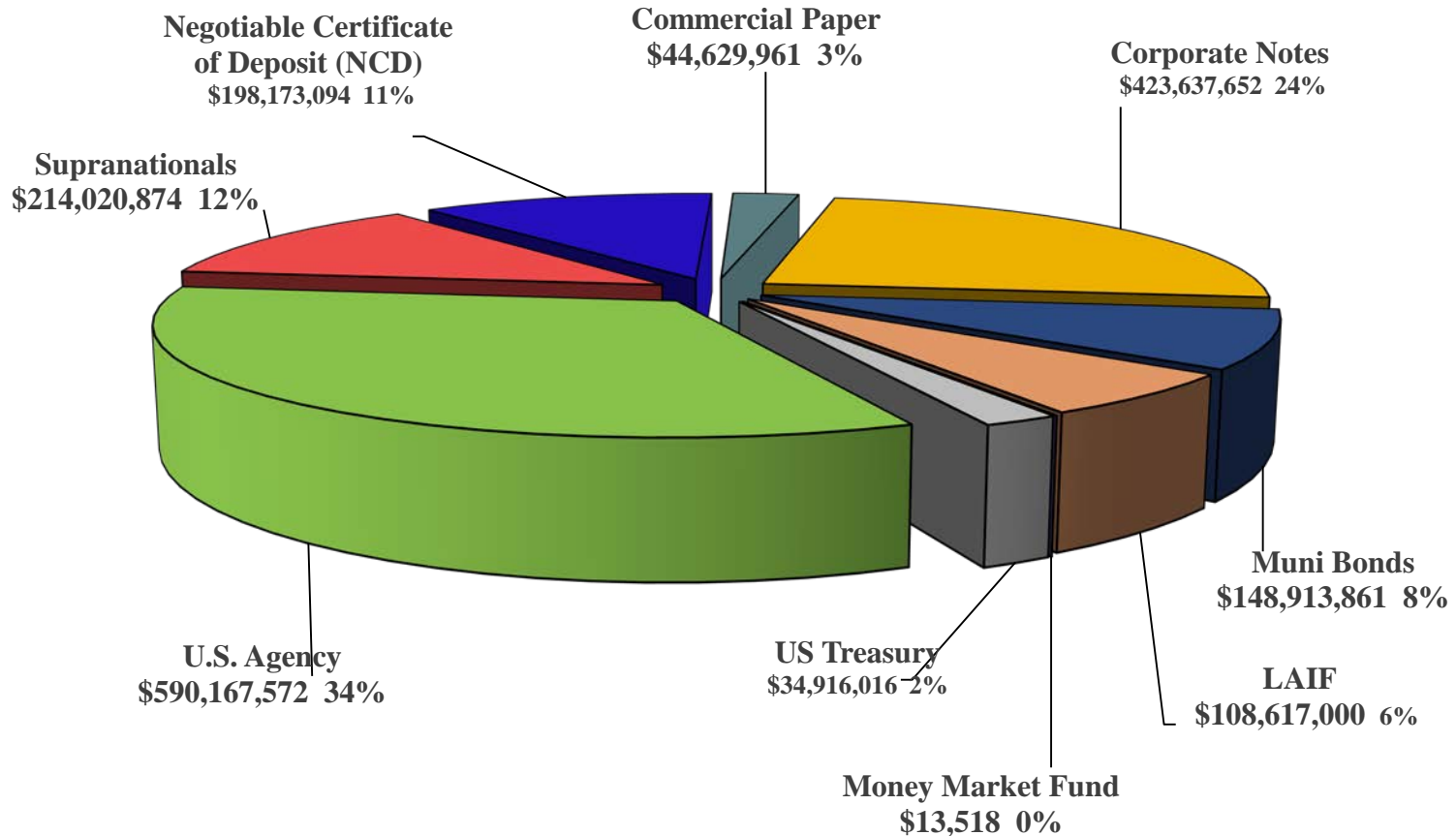
- Manage investments to meet the City's objectives:
  - Safety
  - Liquidity
  - Yield
- Quarterly reports on-line and placed on PSF&SS Committee agenda

# Summary of Portfolio Performance

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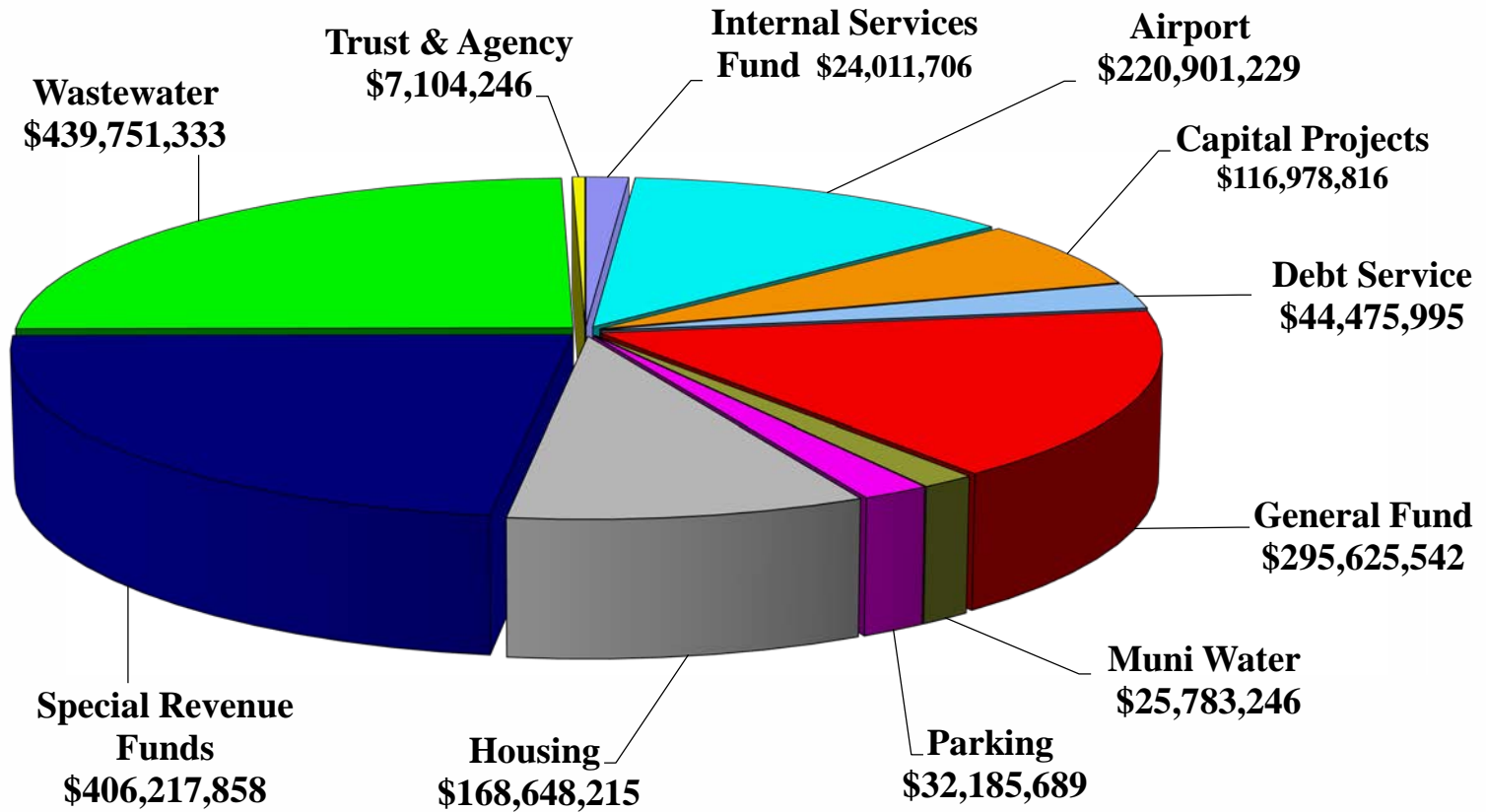
- Size of total portfolio: \$1,763,089,548
- Earned interest yield: 1.283%
- Weighted average days to maturity: 513 days
- Fiscal year-to-date net interest earnings: \$17,631,471
- Sale of \$5 million Praxair corporate note realizing a gain of \$1,950
- No exceptions to the City's Investment Policy during this quarter

# Portfolio Investment



Total Investment Portfolio = \$1,763,089,548

# Investment by Fund



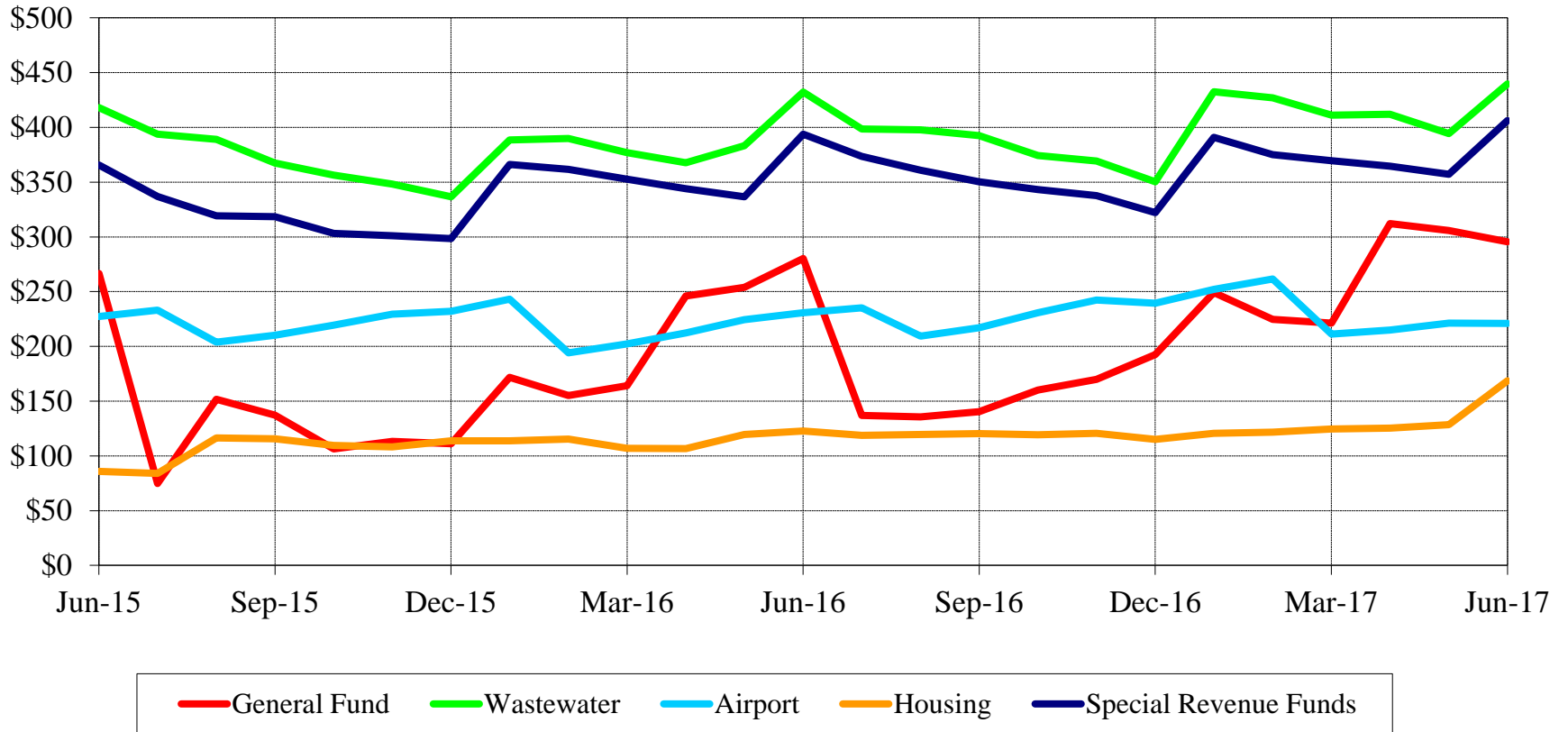
# General Fund Balances

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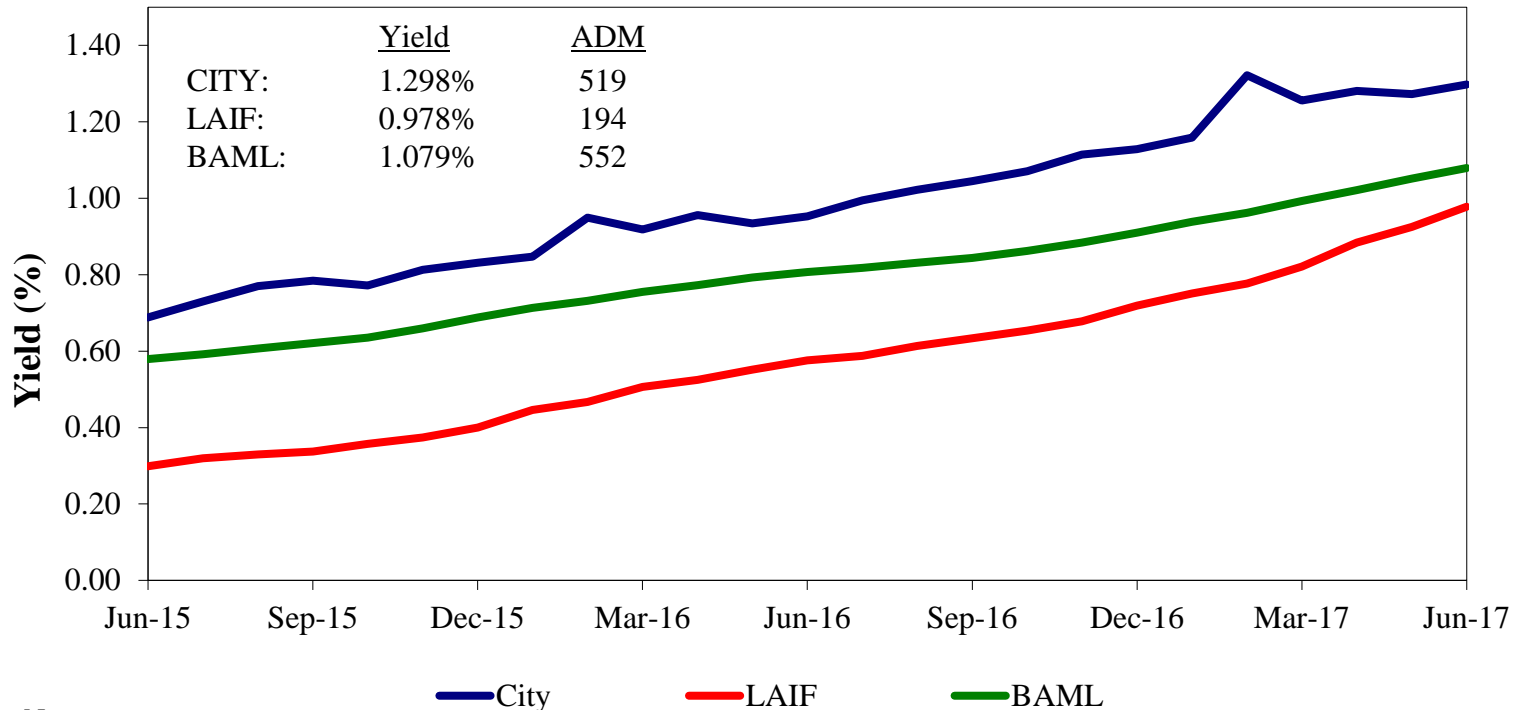
- General Fund balances increased by \$74.2 million to \$295.6 million.
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months



# 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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# **Fourth Quarter Revenue Collection Report for Fiscal Year 2016-2017**

# Revenue Collection Program

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- Finance Department revenue collection efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance in three primary collection programs:
  - Business Tax
  - Accounts Receivable
  - Revenue Compliance and Monitoring
- 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 Collection Results – Quarter to Quarter Comparison

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<u>Collection Programs</u>	<u>FY 2016-17 4<sup>th</sup> Quarter</u>	<u>FY 2015-16 4<sup>th</sup> Quarter</u>
Business Tax	\$ 705,843	\$ 706,443
Accounts Receivable	1,354,599	1,302,331
Revenue Compliance/Monitoring	740,636	438,562
<b>Total Program Collections</b>	<b>\$2,801,078</b>	<b>\$2,447,336</b>

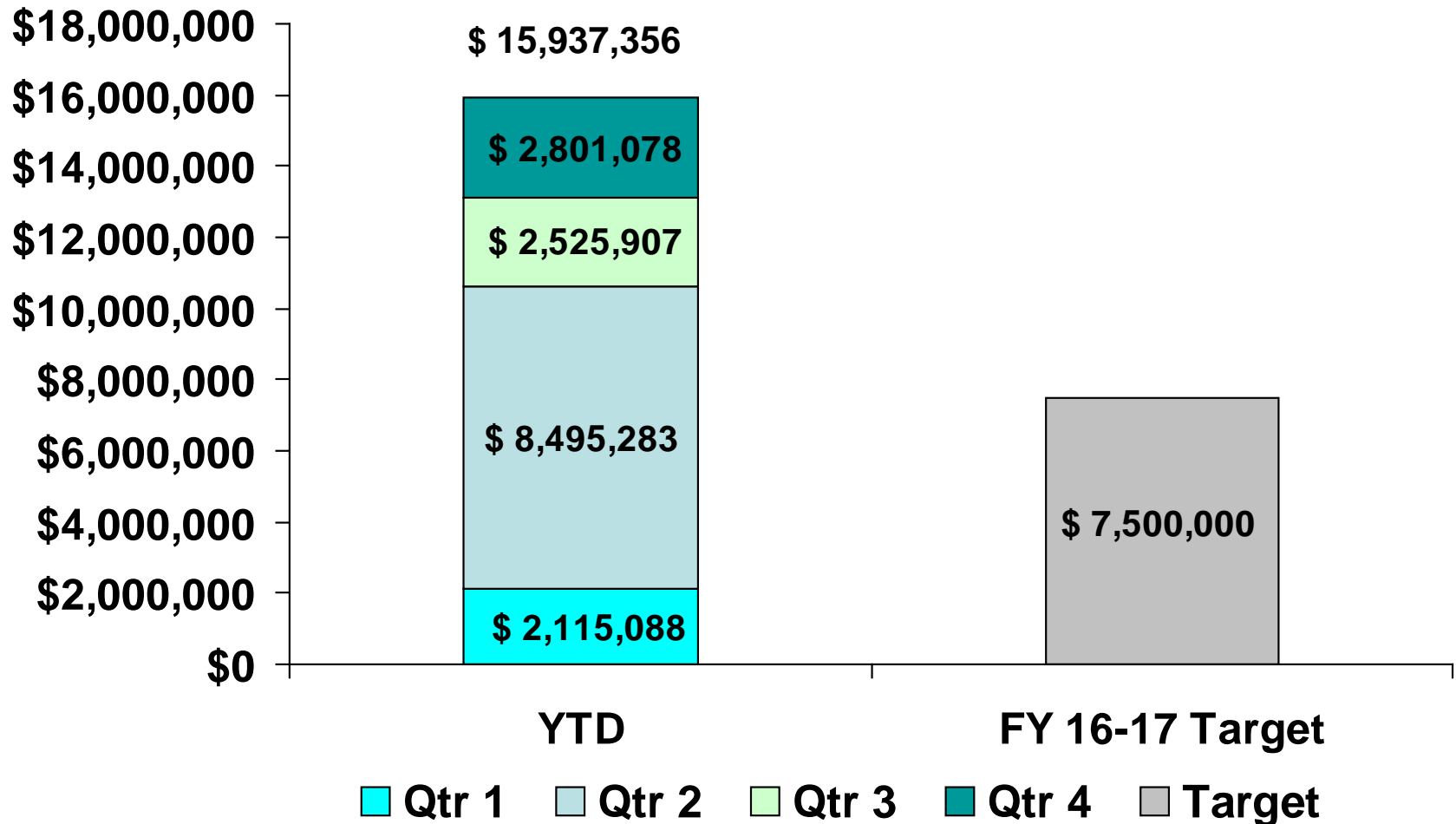
# Return on Investment (ROI)

## Quarter to Quarter Comparison

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	<u>FY 2016-17</u> <u>4<sup>th</sup> Quarter</u>	<u>FY 2015-16</u> <u>4<sup>th</sup> Quarter</u>
<b>Total Return on Investment</b>	<b>5.91</b>	<b>6.25</b>
<b>Return on Investment by Program</b>		
Business Tax Delinquencies	3.53	4.25
Accounts Receivable Delinquencies	10.22	9.18
Revenue Compliance/Monitoring	5.24	5.37

# FY 2016-17 YTD Revenue Collection Results: 212% of Annual Target



- AR revenues significantly increased in the 2<sup>nd</sup> quarter due to one-time large collections from two government agencies; if removed, collections would be 91% of annual target.



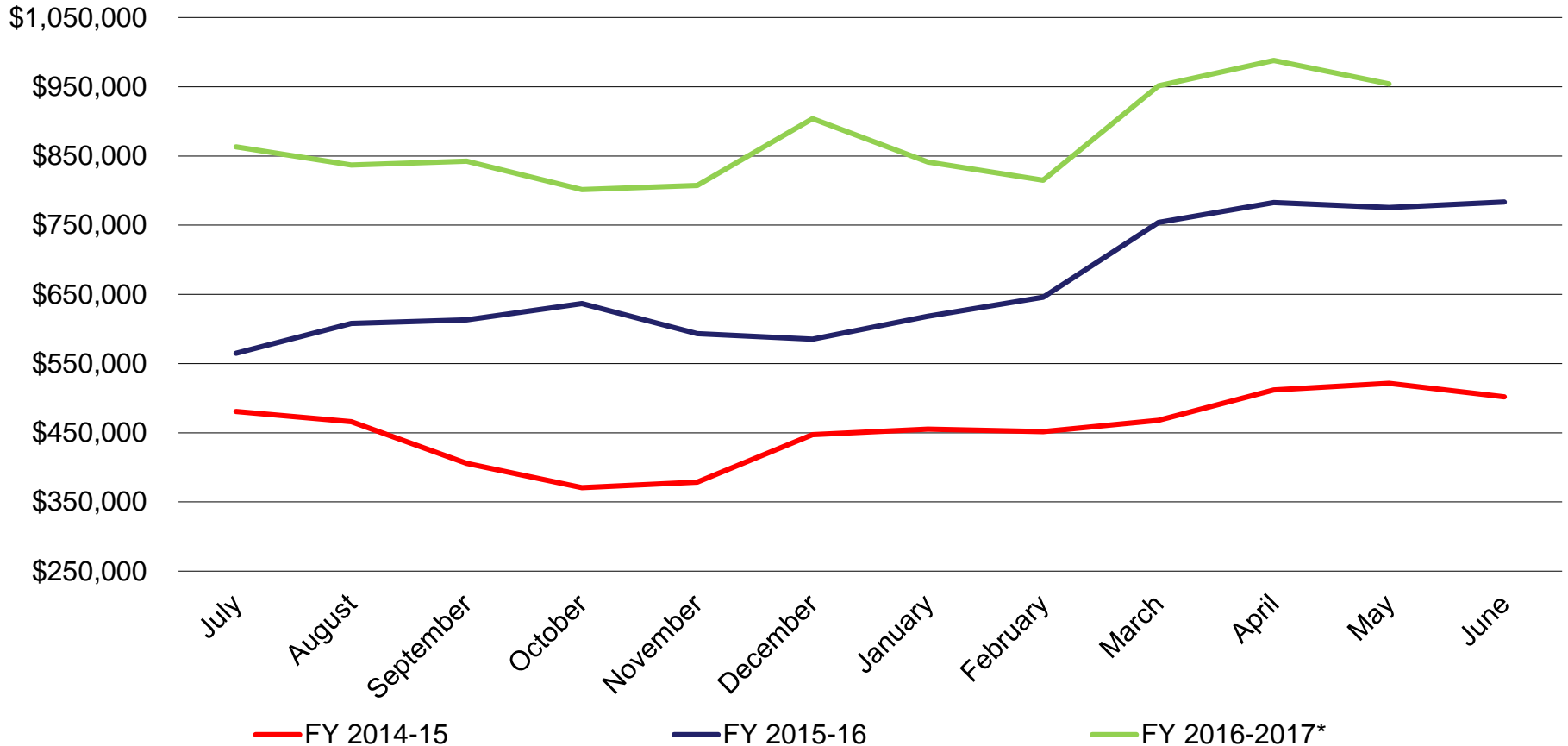
# Accounts Receivable Balance

	As of Jun. 30, 2017	As of Jun. 30, 2016
<u>Current Receivables</u>		
0-60 Days	\$ 4,820,499	\$ 3,571,470
61-90 Days	1,090,031	2,529,852
Total Current Receivables	\$ 5,910,530	\$ 6,101,322
<u>Delinquent Receivables</u>		
91-365 Days	\$ 3,893,369	\$ 7,690,442
Over 1 Year	17,865,488	15,940,949
Total Delinquent Receivables	\$ 21,758,857	\$ 23,631,390
<b>Total Accounts Receivable</b>	<b>\$ 27,669,387</b>	<b>\$ 29,732,713</b>

- Delinquent Receivables include \$5.0M in reserved MBT assessments under litigation/collections
- 80% of the receivable balance ending June 30, 2017 is General Fund
- 74% of the receivable balance ending June 30, 2016 is General Fund

# Marijuana Business Tax (MBT) Revenues

Marijuana Business Tax: Revenue Collected



- Revenue in FY 16-17 has increased over FY 15-16 revenue as the collectives that remain open are taking in customers from non-tax remitting dispensaries that were closed due to Code Enforcement actions.

# Billing System Online Functionality

Revenue Management is currently upgrading/implementing two new billing systems

	Take Payments & Provide Receipt	Update Contact Information	Accept New Account Applications
<b>Business Tax System</b> Implementation to be complete Spring 2018	★	★	★
<b>Revenue Results*</b> Upgrade to be complete Winter 2017	★	n/a	n/a

- Revenue Results is a delinquent invoice/tax collection system, not a registration/billing system.
- Beginning July 1, 2017 taxpayers can access an online payment portal on the Finance Department's website to pay the Business Tax.