

# **Second Quarter Financial Report for Fiscal Year 2018-2019**

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

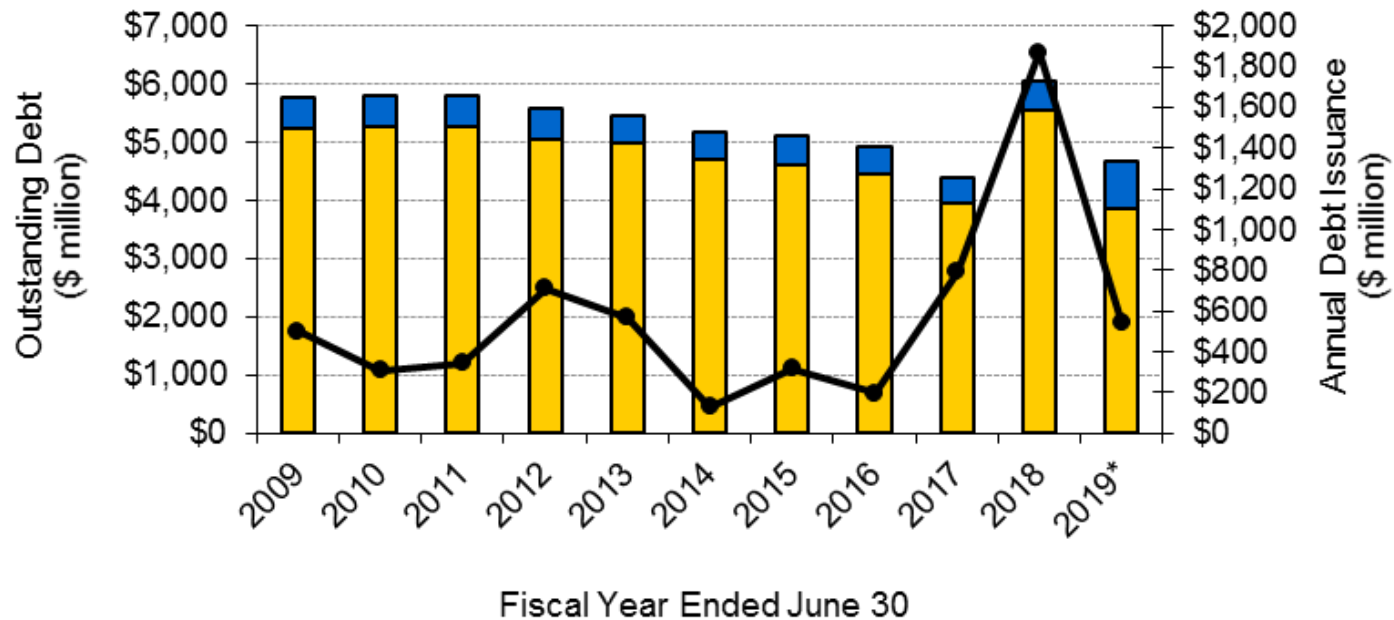
**Prepared by the Finance Department**

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# **Second Quarter Debt Management Report for Fiscal Year 2018-2019**

# Outstanding Debt Issued by All Agencies

Outstanding Debt as of December 31, 2018: \$4.7 Billion  
 FY 2018-19 Actual Debt Issuance: \$543.9 Million

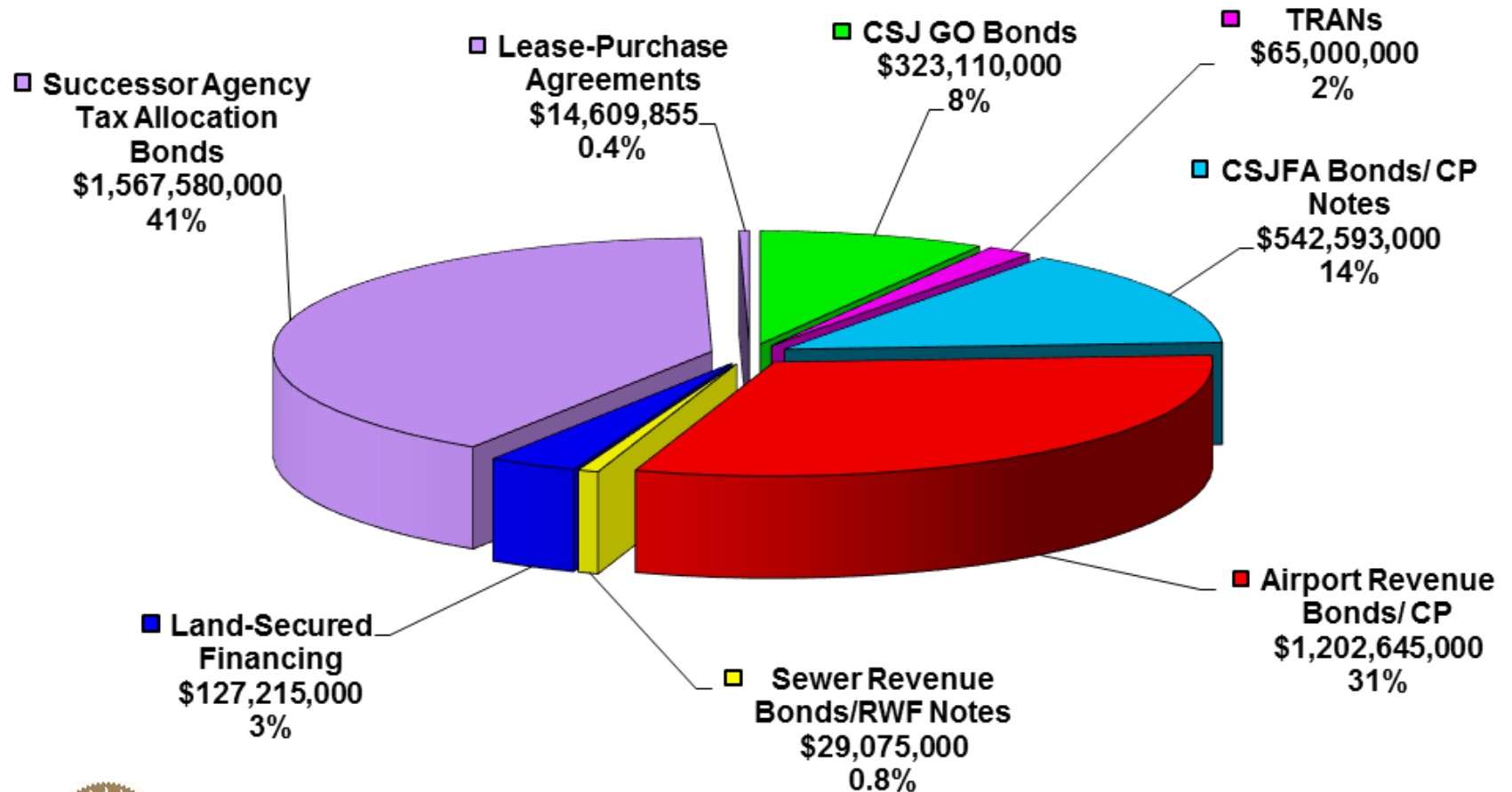


City and Related Entity Debt Outstanding
  Conduit Debt Outstanding
  Annual Debt Issuance

\* YTD Debt Issuance

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

Outstanding Debt as of December 31, 2018: \$3,871,827,855\*



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

# Selected Debt Issuance and Debt Management Activities during 2<sup>nd</sup> Quarter

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- Debt Issuance
  - Norman Y. Mineta San Jose International Airport Commercial Paper Notes
    - \$15.0 million for terminal expansion project, issued November 15, 2018
- Debt Management
  - Issued RFP for feasibility consultant services for the Ice Centre Expansion Project
- Reporting
  - 2018 Comprehensive Annual Debt Report (CADR)
  - Annual Continuing Disclosure/Compliance Reporting to Municipal Securities Rulemaking Board (MSRB)

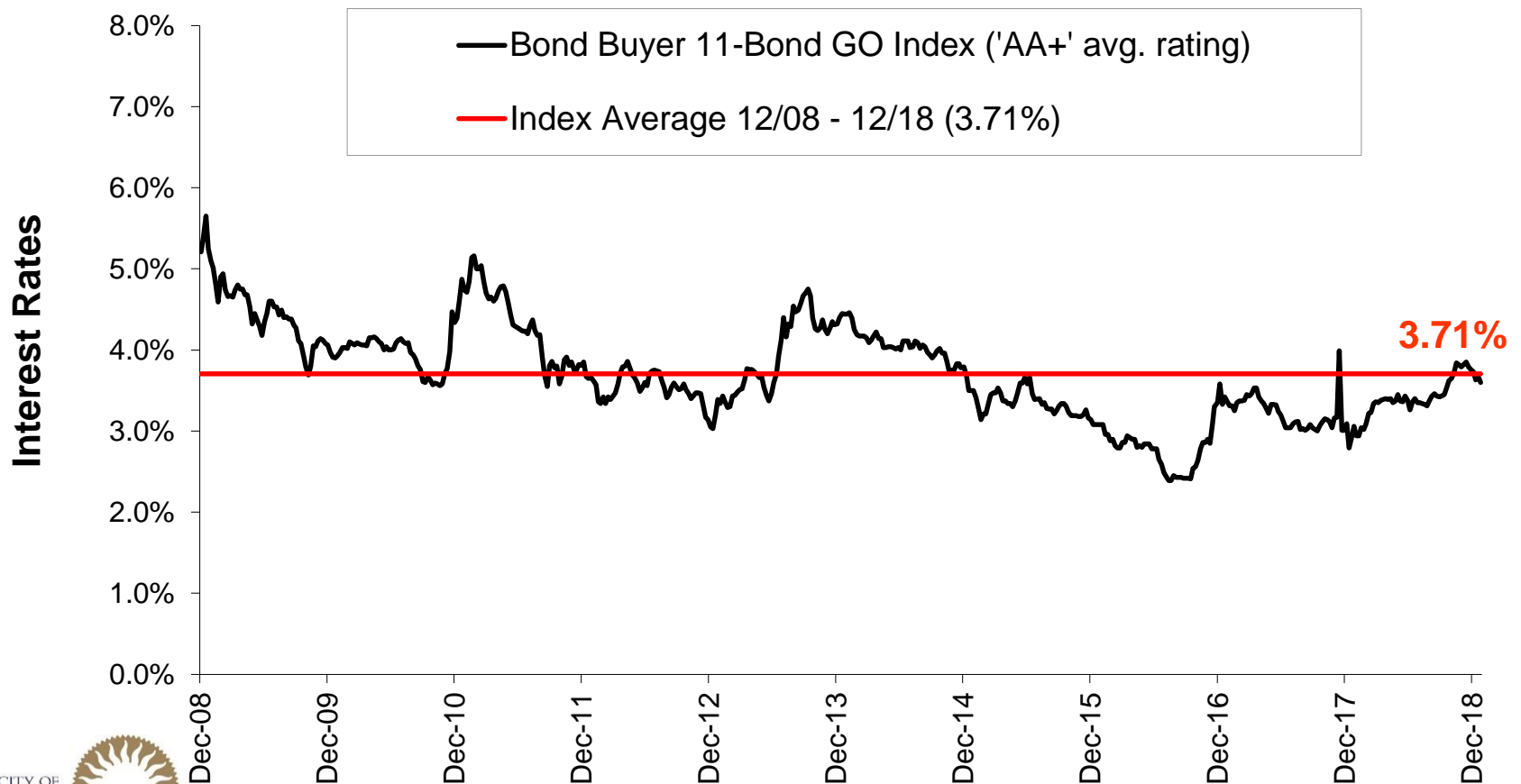
# Upcoming Debt Issuance and Management Through June 30, 2019

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- Debt Issuance
  - Multi-Family Housing Revenue Bonds
    - Lenzen Square Apartments - \$23.0 (Spring 2019)
    - Markham Apartments - \$30.0 million (Spring 2019)
  - Pre-issuance
    - Planning for General Obligation bond issue (Measure T; GO Refunding; and \$9.2 million of previously authorized but unissued GO new money bonds); including disclosure updates and tax analysis of proposed projects.
  - Refundings
    - General Obligation and CSJFA lease revenue bonds – Summer 2019
- Debt Management
  - Selection of feasibility consultant and commencement of feasibility analysis for the Ice Centre Expansion Project
- Reporting – Bond Ratings
  - CSJ Special Hotel Tax Revenue Bonds, Series 2011 – January 15, 2019, Standard & Poor’s raised its long-term and underlying rating to “A+” from “A”, with Stable Outlook.

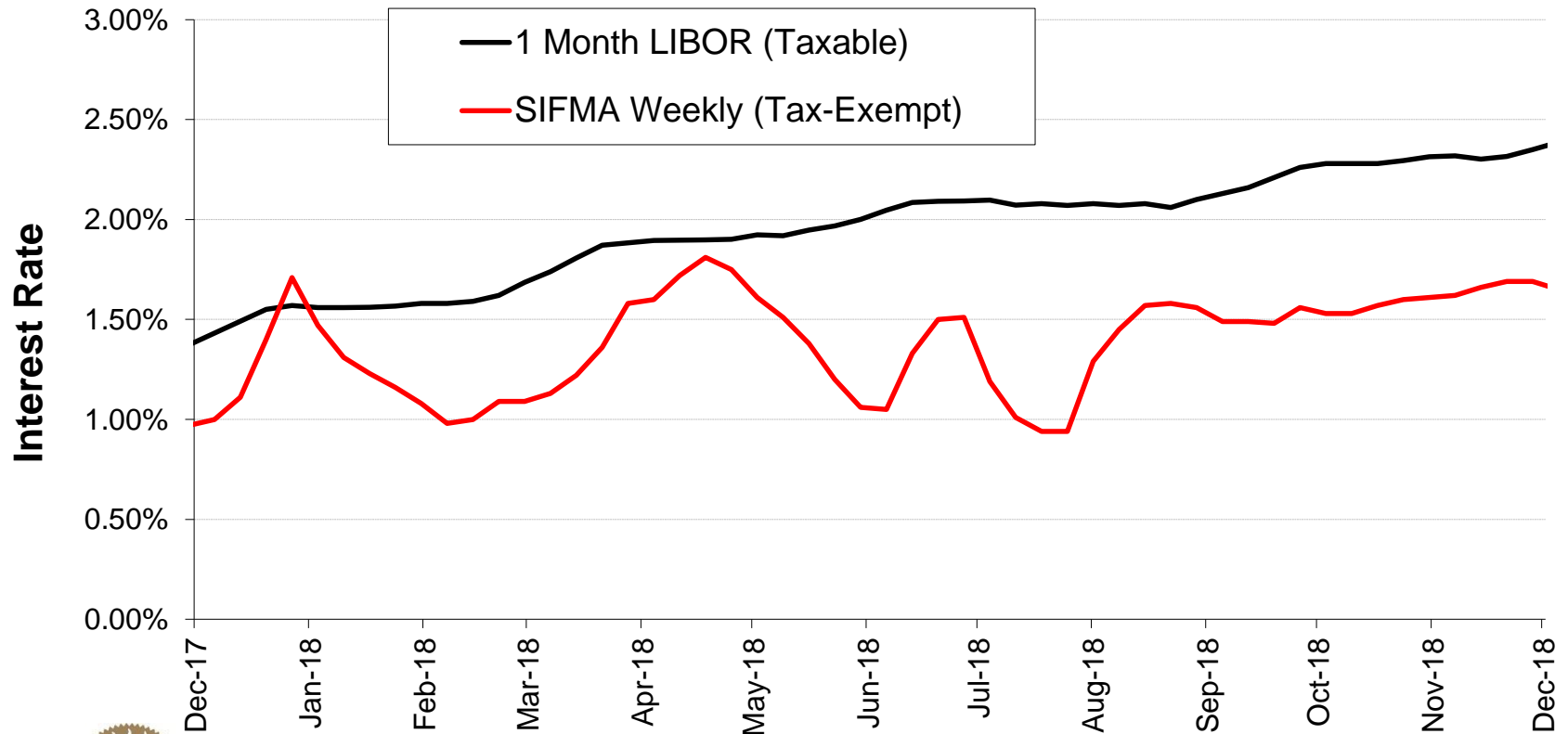
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.71% and are currently at 3.70% (as of 1/24/19)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.63% in Q2 and are currently at 1.29% (as of 1/23/2019)
- Taxable LIBOR monthly interest rates paid by the City averaged 2.35% in Q2 and are currently at 2.50% (as of 1/24/2019)





# 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 Aa1 by Moody's, slightly 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 Fitch<sup>3</sup>

<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).

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

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# **Second Quarter Investment Management Report for Fiscal Year 2018-2019**

# 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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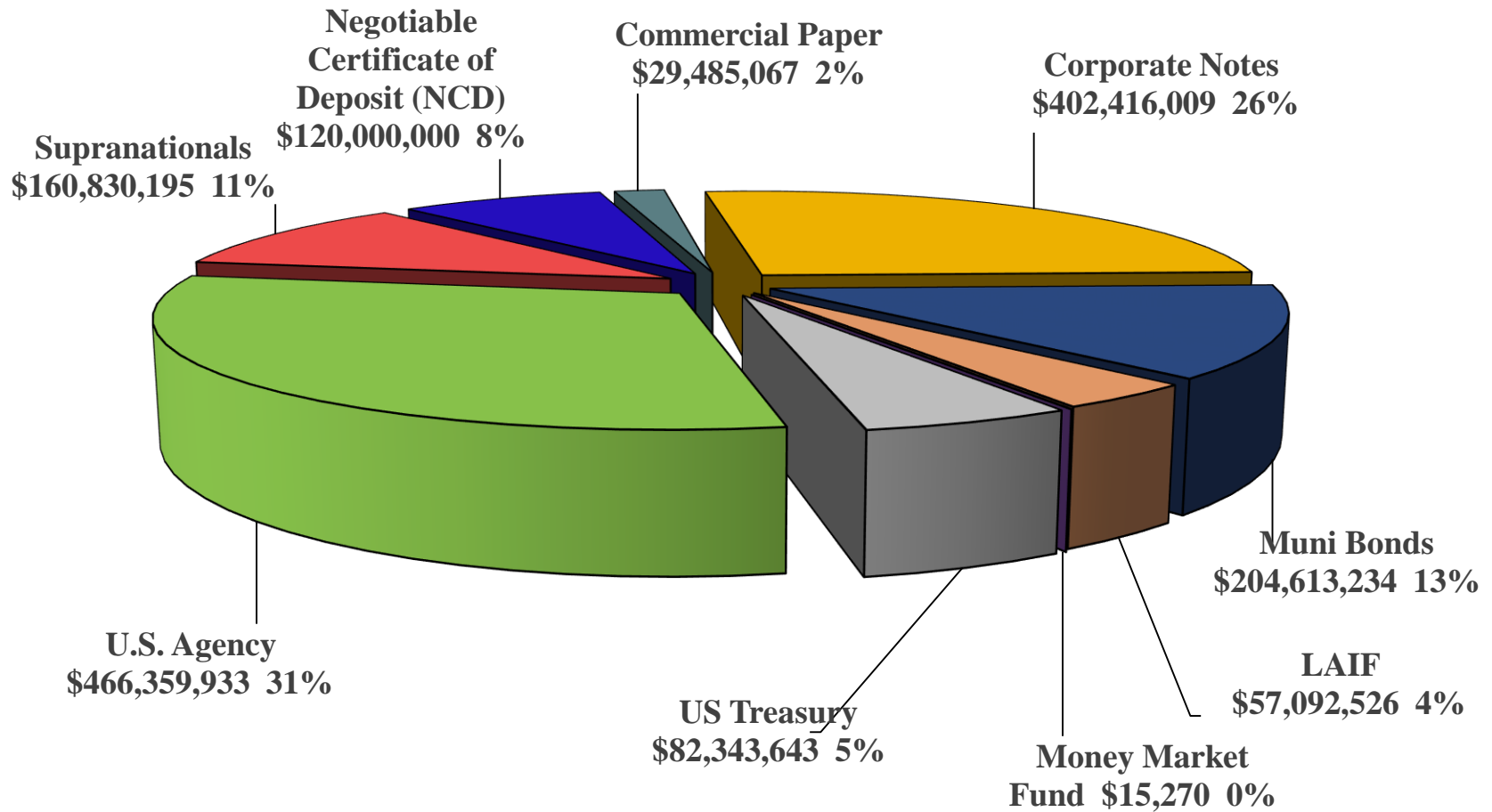
- Manage investments to meet the City's objectives:
  - Safety
  - Liquidity
  - Yield
- Quarterly reports on-line, placed on PSFSS Committee agenda and separately agendized for City Council's acceptance

# Summary of Portfolio Performance

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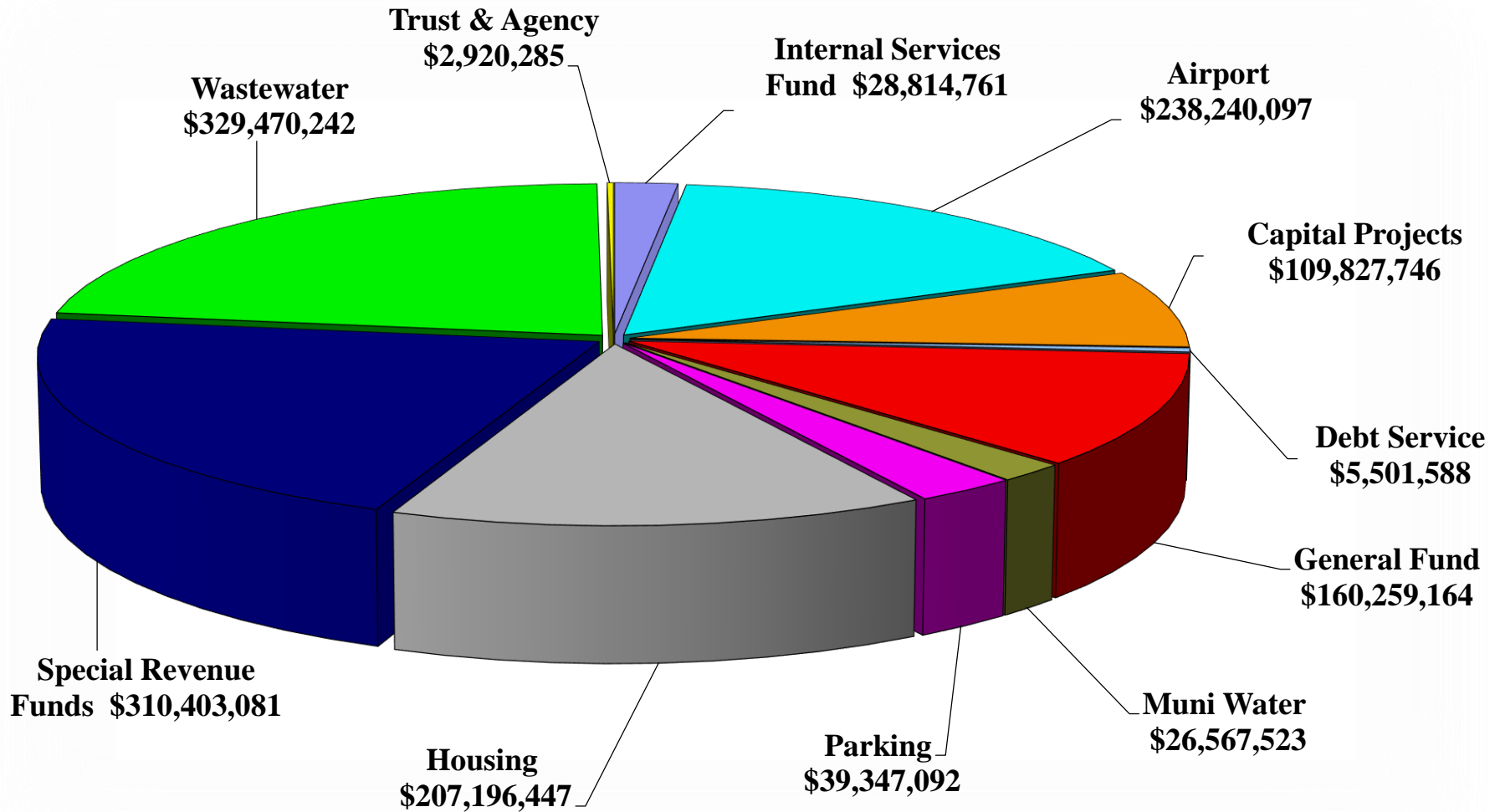
- Size of total portfolio: \$1,523,155,876
- Earned interest yield: 2.070%
- Weighted average days to maturity: 559 days
- Fiscal year-to-date net interest earnings: \$15,368,148
- No exceptions to the City's Investment Policy during this quarter

# Portfolio Investment



Total Investment Portfolio = \$1,523,155,876

# Investment by Fund



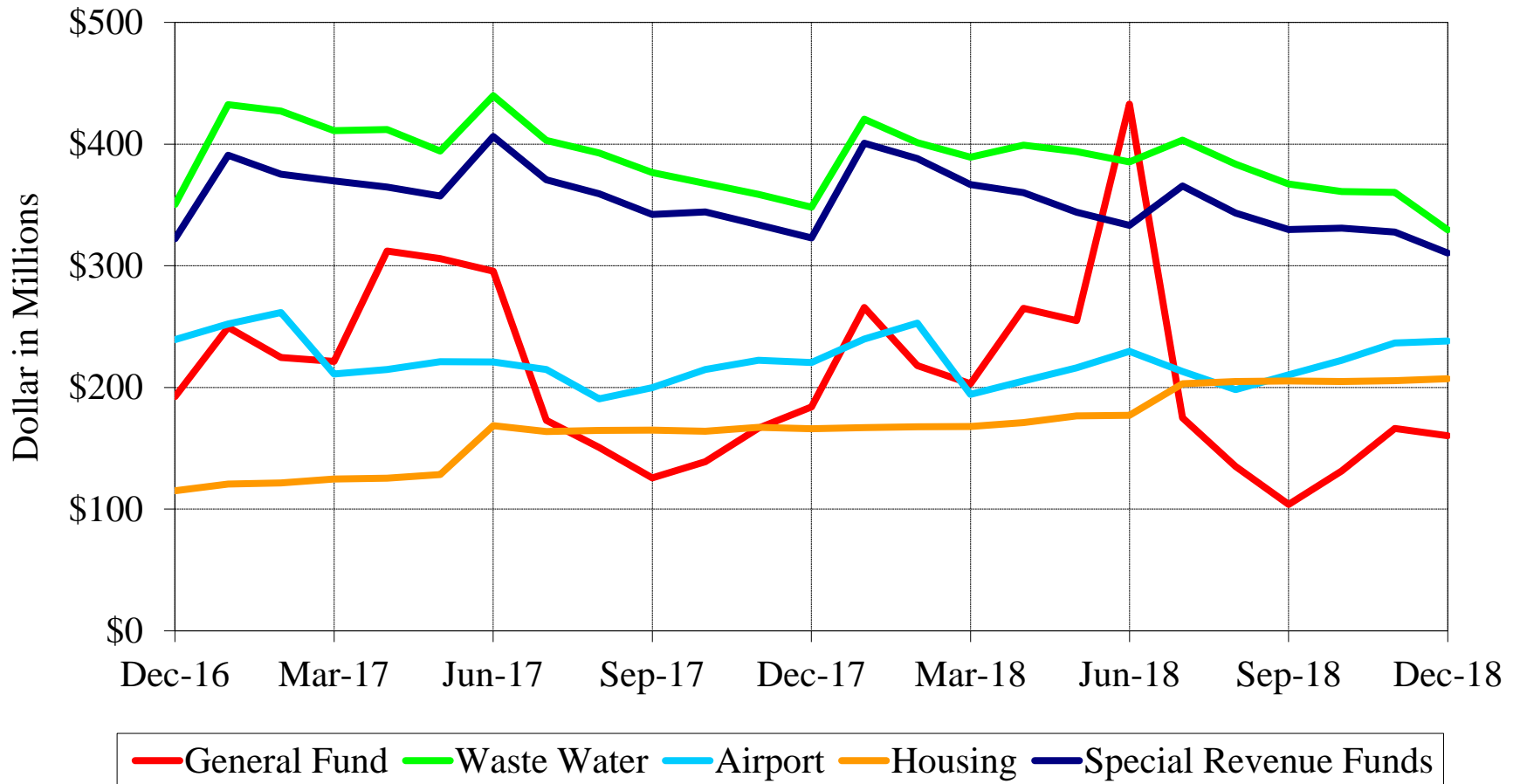
# General Fund Balances

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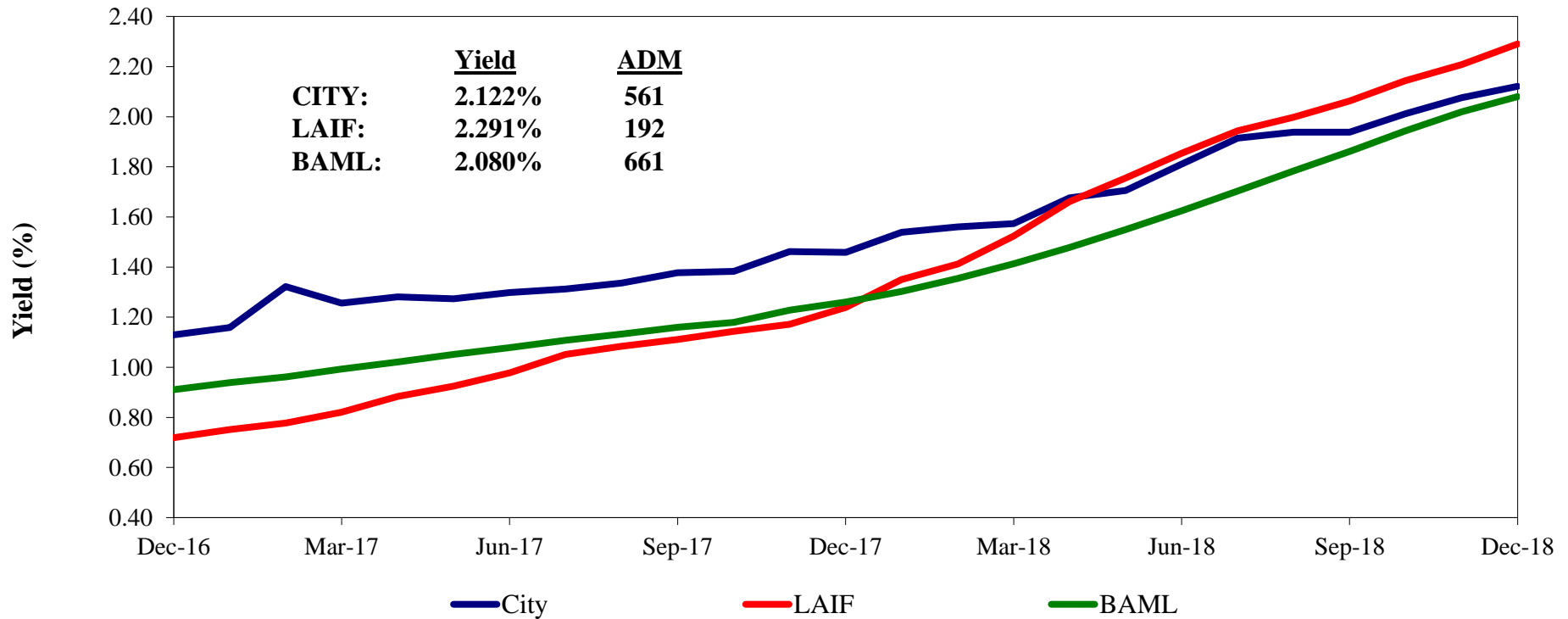
- General Fund balances increased by approximated \$56.31 million to \$160.26 million this quarter
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months



# 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

# Limitation on City's Portfolio

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- Reposition the City's cash flow and provide safety and liquidity
- 5-year maximum maturity at the time of purchase
- Buy and hold
- Performance measured in book yield at the time of purchase
- Past prefunding retirement contribution required sizeable asset allocation on 7/1

# Conceptual Portfolio Yield Comparison

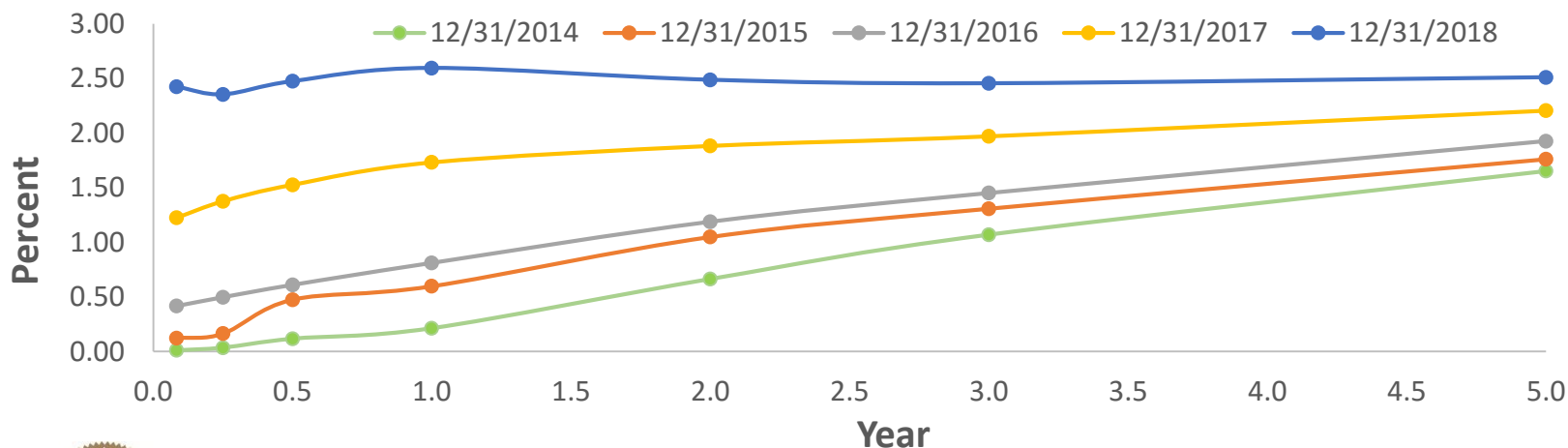
## Treasury Yields (%)

TERM	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
1M	0.010	0.122	0.416	1.225	2.425
3M	0.035	0.163	0.497	1.376	2.355
6M	0.117	0.474	0.610	1.527	2.475
1Y	0.213	0.597	0.811	1.732	2.596
2Y	0.664	1.048	1.188	1.883	2.488
3Y	1.070	1.307	1.451	1.971	2.456
5Y	1.653	1.760	1.927	2.206	2.511

## Portfolio Yield as of 12/31/18

- 6 Month Portfolio – 2.475%
- LAIF – 2.291%
- City's Portfolio – 2.122%

## Treasury Curve



# 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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# **Second Quarter Revenue Management Report for Fiscal Year 2018-2019**

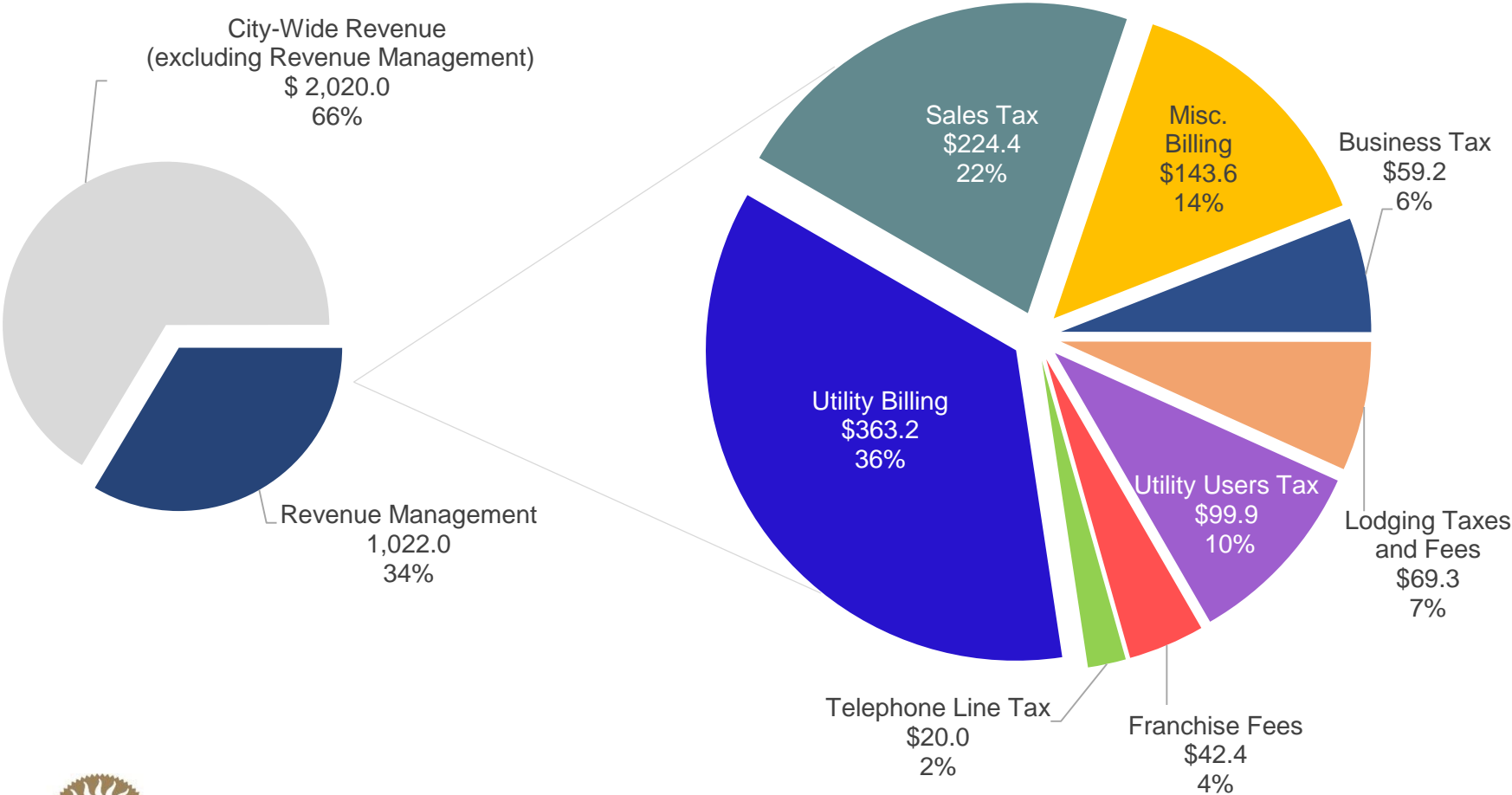
# Revenue Management Programs

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- 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 Management Portfolio

## FY 2017-18 Revenue (\$ in millions)

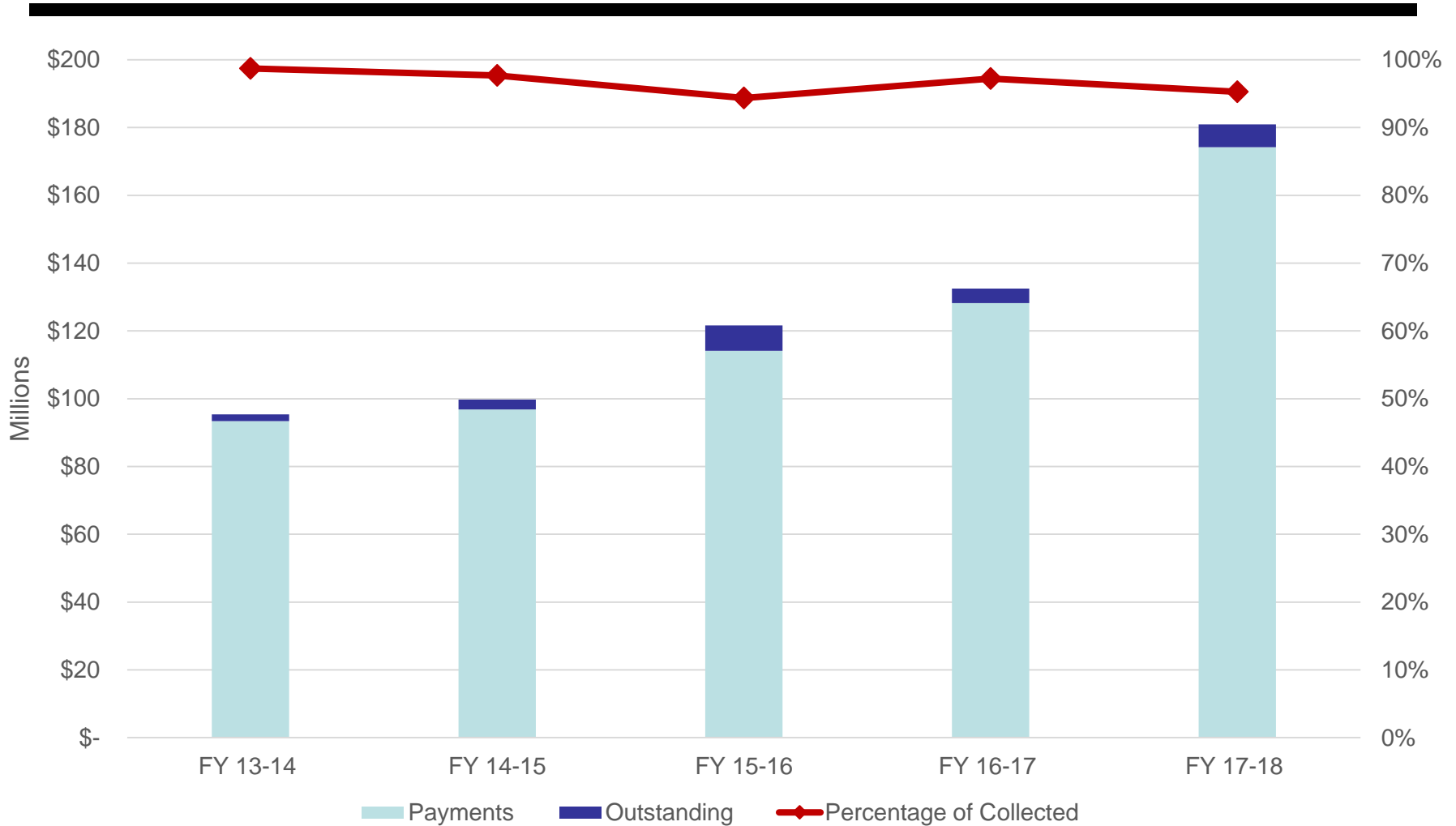


Source: Total Revenue (\$3.042B) figures from 2017-18 City Manager's Budget Office Annual Report  
 (Graph will be updated on an annual basis)



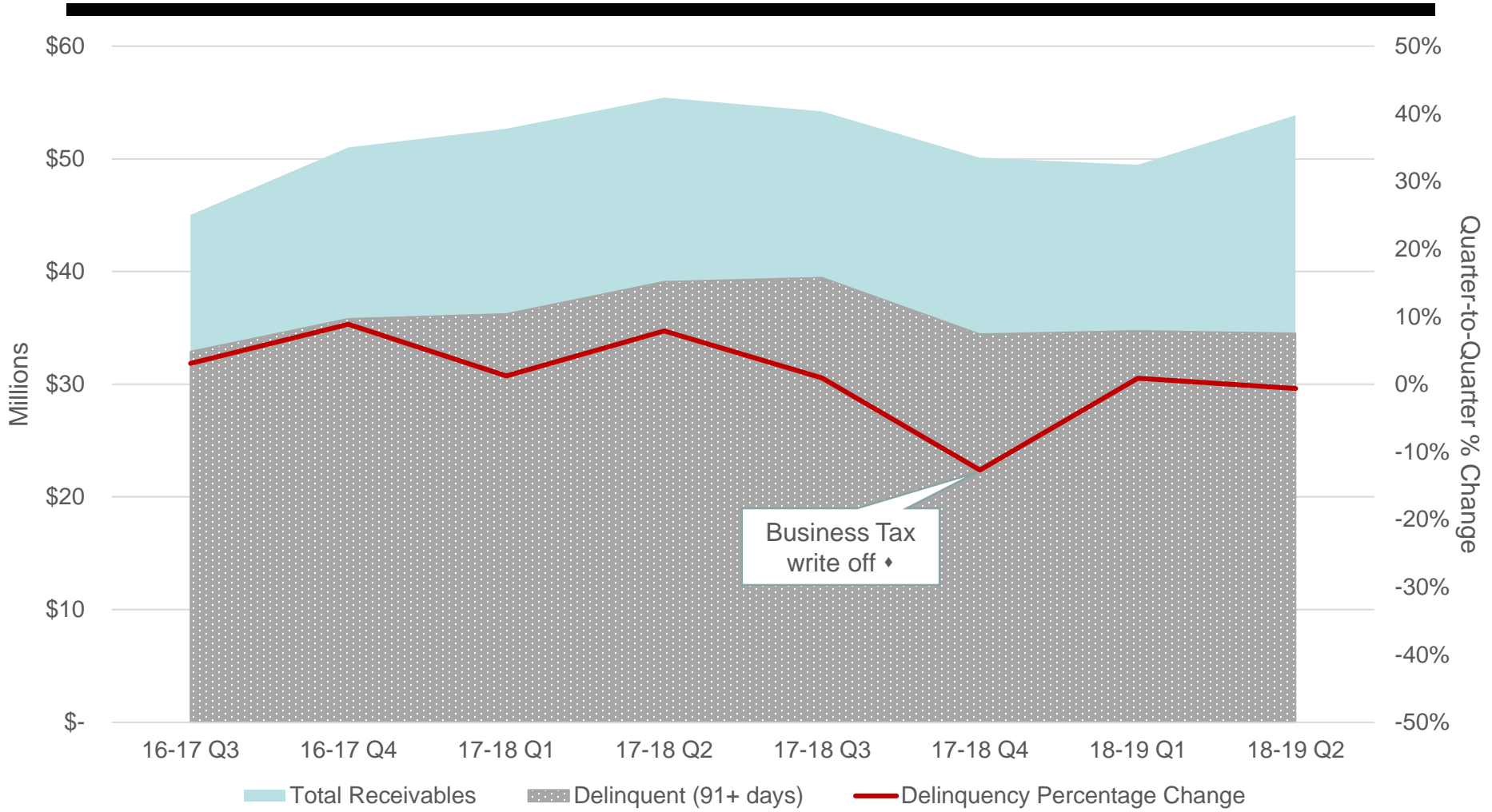
# Invoicing and Payments

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



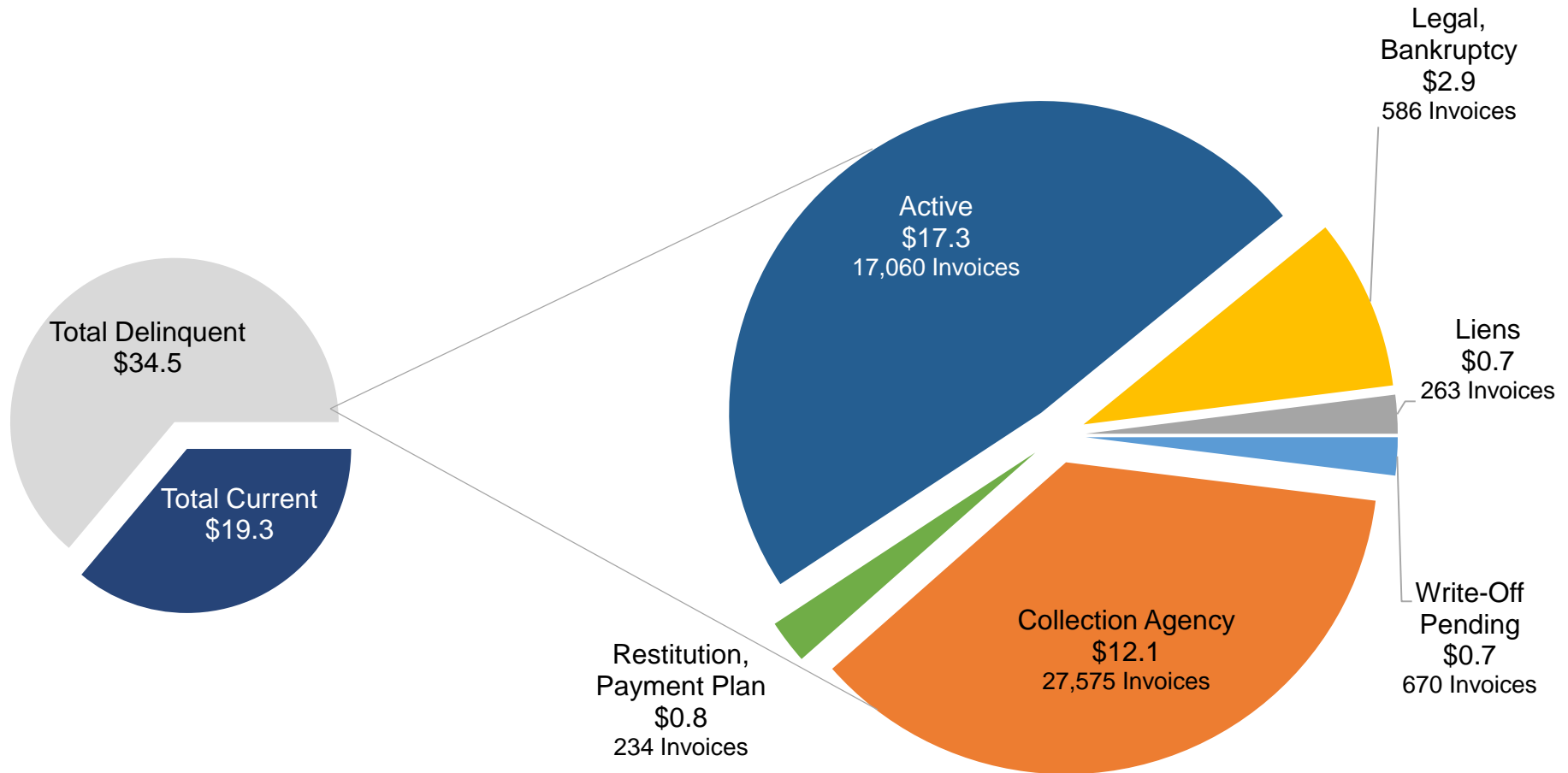
# Outstanding Receivables

## Two Year History

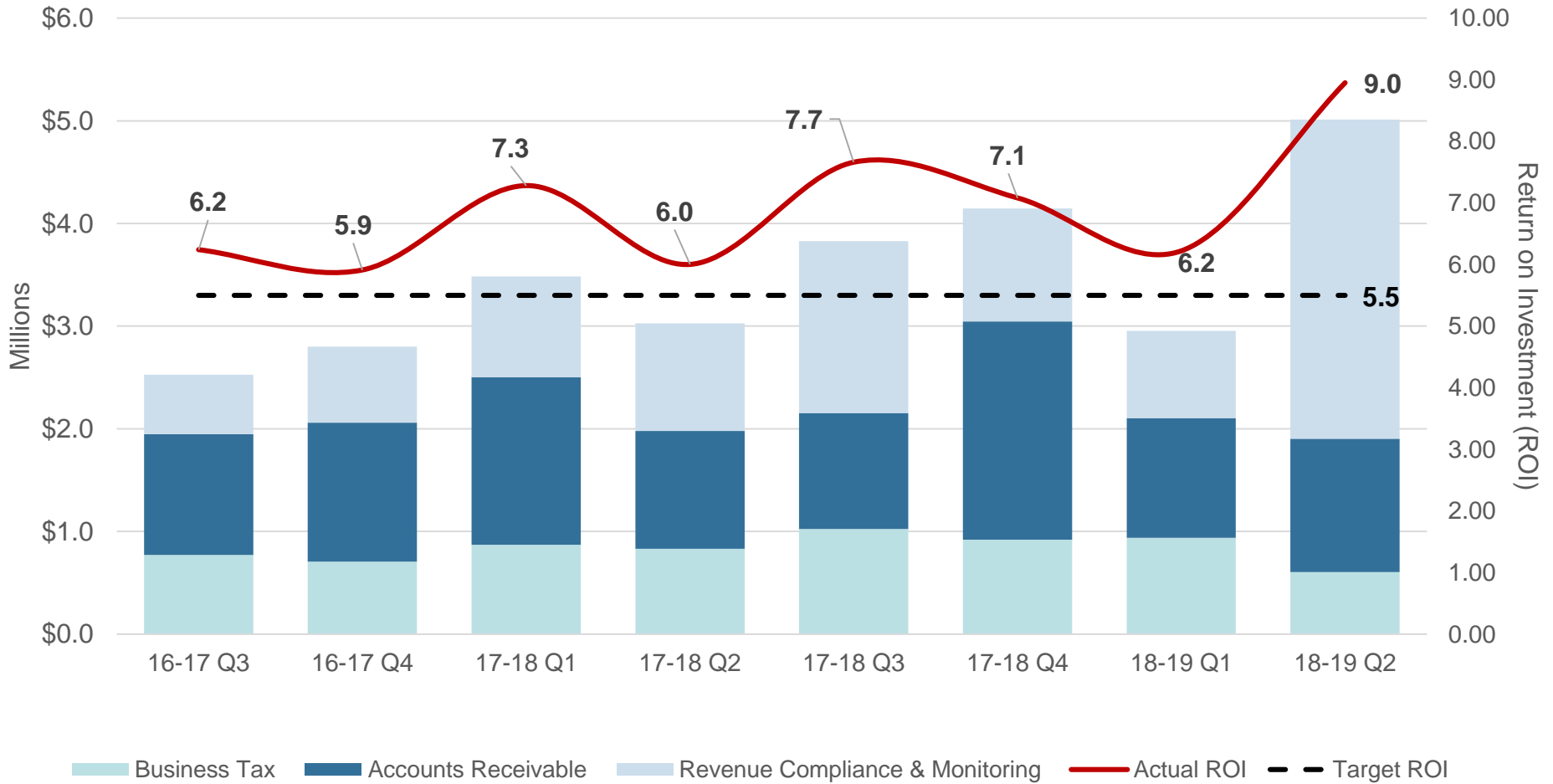


# Delinquent Receivables

## Collection Status Summary (\$ in millions)



# Collections & Return on Investment



# Collection and Write-Off Process

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## Delinquency Notifications Sent to Debtor

- 30 Day Notice, 60 Day Notice, Final Notice

## Collection Agency Referral Analysis

- Cost-benefit analysis of staff time vs. receivable amount
- City's ability to collect through alternative means
- Type of service billed or receivable amount

## Analysis for Write-Off

- Collection efforts exhausted
- Debtor has no assets, filed bankruptcy, expiration of statute, deceased, incarcerated, or "skipped"

# Recommendation

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1. Accept the Second Quarter Financial Reports for Fiscal Year 2018-2019 for the following programs:
  - Debt Management
  - Investment Management
  - Revenue Collection
2. Refer the Second Quarter Financial Reports for Fiscal Year 2018-2019 to the March 12, 2019 City Council meeting for full adoption
3. Forward recommendation to City Council for March 12, 2019 City Council Meeting to adopt resolution authorizing the Director of Finance to write-off uncollectable debts in amounts up to \$2,230,723.30.