

City of San José

Comprehensive Annual Debt Report Fiscal Year 2018-2019

*Public Safety, Finance and Strategic Support Committee
November 21, 2019
Item: 5*

Presenters:

Julia Cooper, Director of Finance

Lisa Taitano, Assistant Director of Finance

Joe Gray, Debt Administrator

Debt Management Program

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

Debt Issuance

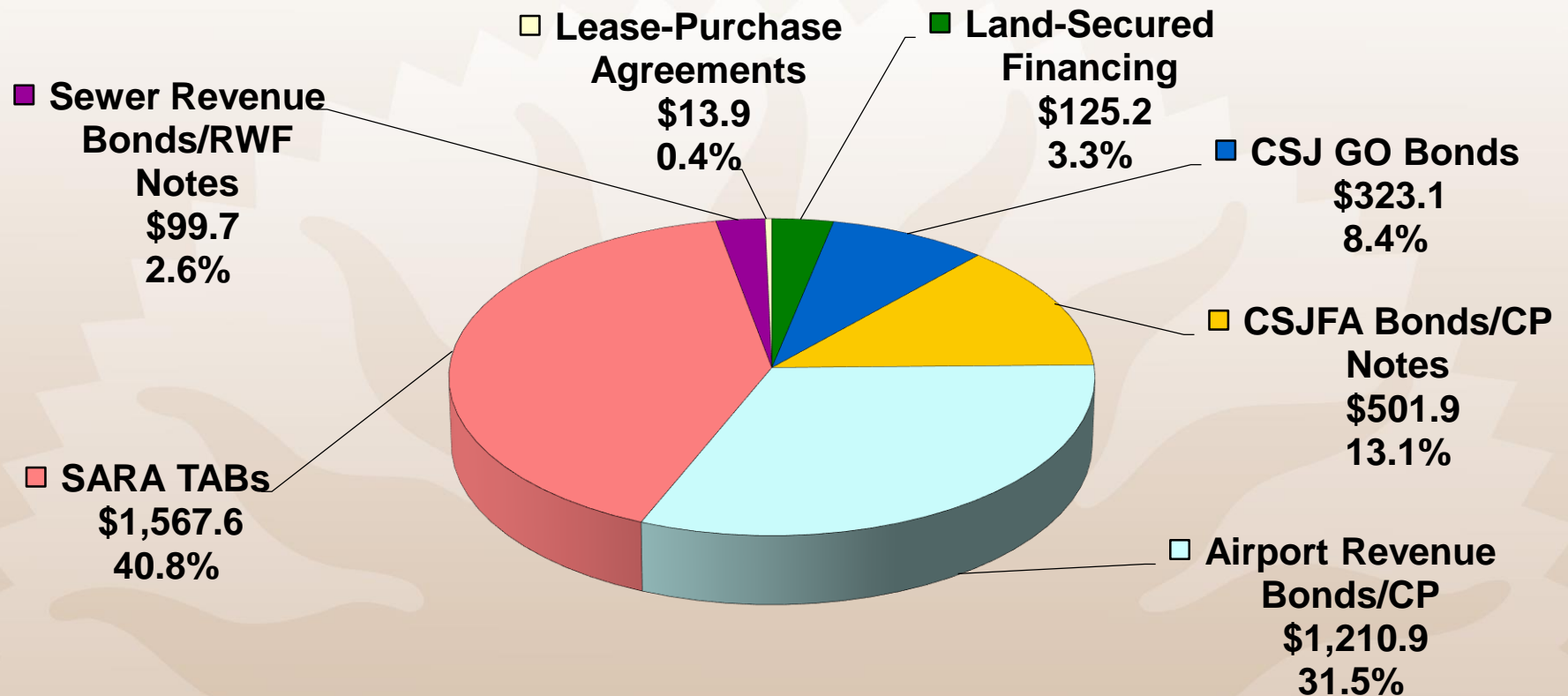
Debt Administration

**Financial Advisory
Services**

Outstanding Debt Issued by All Agencies

Excluding Multifamily Housing Revenue Bonds (i.e., Conduit Debt),
and Pension, OPEB, and other City liabilities

Balance as of June 30, 2019: \$3,842,287,000
(\$ shown below in millions)



Debt Issuance

- FY 2018-19 debt: \$640 million
 - Tax Revenue Anticipation Note (retirement prefunding)
 - Subordinate Wastewater Notes for RWF
 - Lease Revenue Commercial Paper Notes
 - San Jose Airport Commercial Paper Notes
 - Conduit Multi-family Housing Revenue Obligations
- FY 2019-20 completed/planned debt: \$815 million
 - GO and Lease Revenue Bond Refundings and New Money (Measure T and prior GO Authorization)
 - Revenue Bonds Related to Ice Centre Expansion Project
 - Lease Revenue Commercial Paper Notes
 - Conduit Multi-family Housing Revenue Obligations

Debt Administration – Variable Rate Program

- Variable rate exposure reduced in recent years
- Interest rates low since 2008, but increasing
- City's/CSJFA's commercial paper LOC program support extended and expanded
 - 3.5-year term agreement through February 2022
 - Expanded CP program from \$85 million to \$125 million
- Commercial paper notes issued or to be issued for:
 - Convention Center South Hall – \$42.4 million issued
 - Flood Issuance - \$3.8 million issued
 - City Hall Campus Expansion - \$6.5 million (Spring 2020)

Financial Advisory Services – Major Projects

- 2019 General Obligation Bonds – Series A - D
- Sale of Hayes Mansion Property – Proceeds redeemed the CSJFA 2008C&D Bonds
- Purchase of San Jose Convention Center South Hall Property
- Request for Proposal solicitation for feasibility consultant related to the Ice Centre Expansion Project
- Clean Energy entered into a separate standby letter of credit with four power providers

Credit Ratings

- City continues to maintain high general obligation credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3¹/AA/AA 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)
 - 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 and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch²

¹ 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).

² Successor Agency to the San Jose Redevelopment Agency Bonds are not rated by Moody's.

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

PSFSS Committee acceptance of:

- Comprehensive Annual Debt Report for FY 2018-19 (Item 5)
- Cross-Reference for Council presentation and acceptance on December 10, 2019.

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