

Fourth Quarter Financial Report for Fiscal Year 2018-2019

Public Safety, Finance and Strategic Support Committee

Presenters:

Julia H. Cooper, Director of Finance

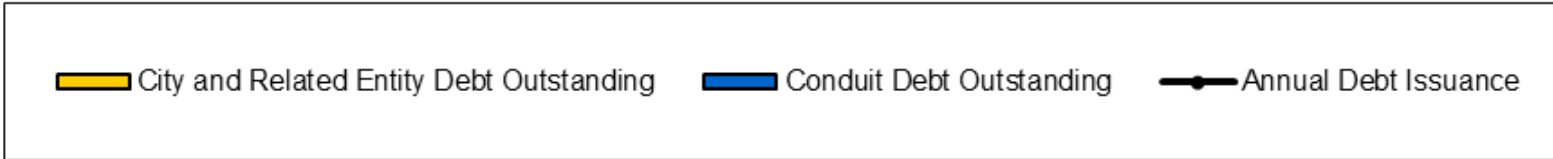
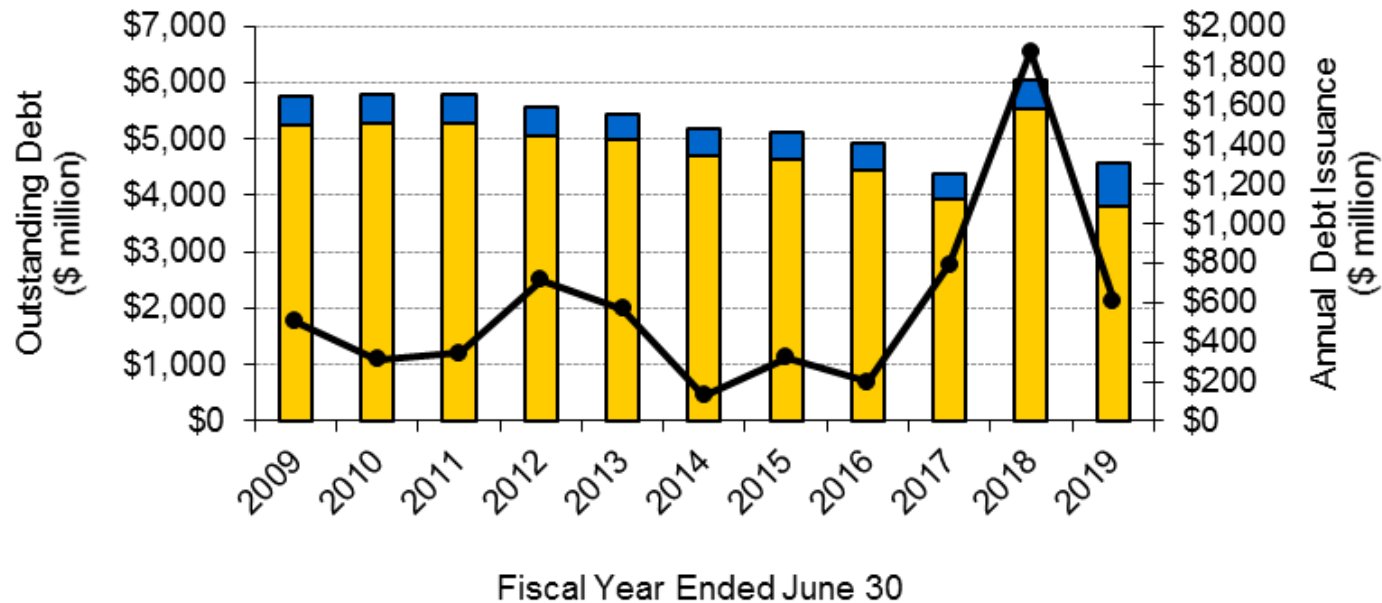
Lisa Taitano, Assistant Director of Finance

Qianyu Sun, Investment Officer

Fourth Quarter Debt Management Report for Fiscal Year 2018-2019

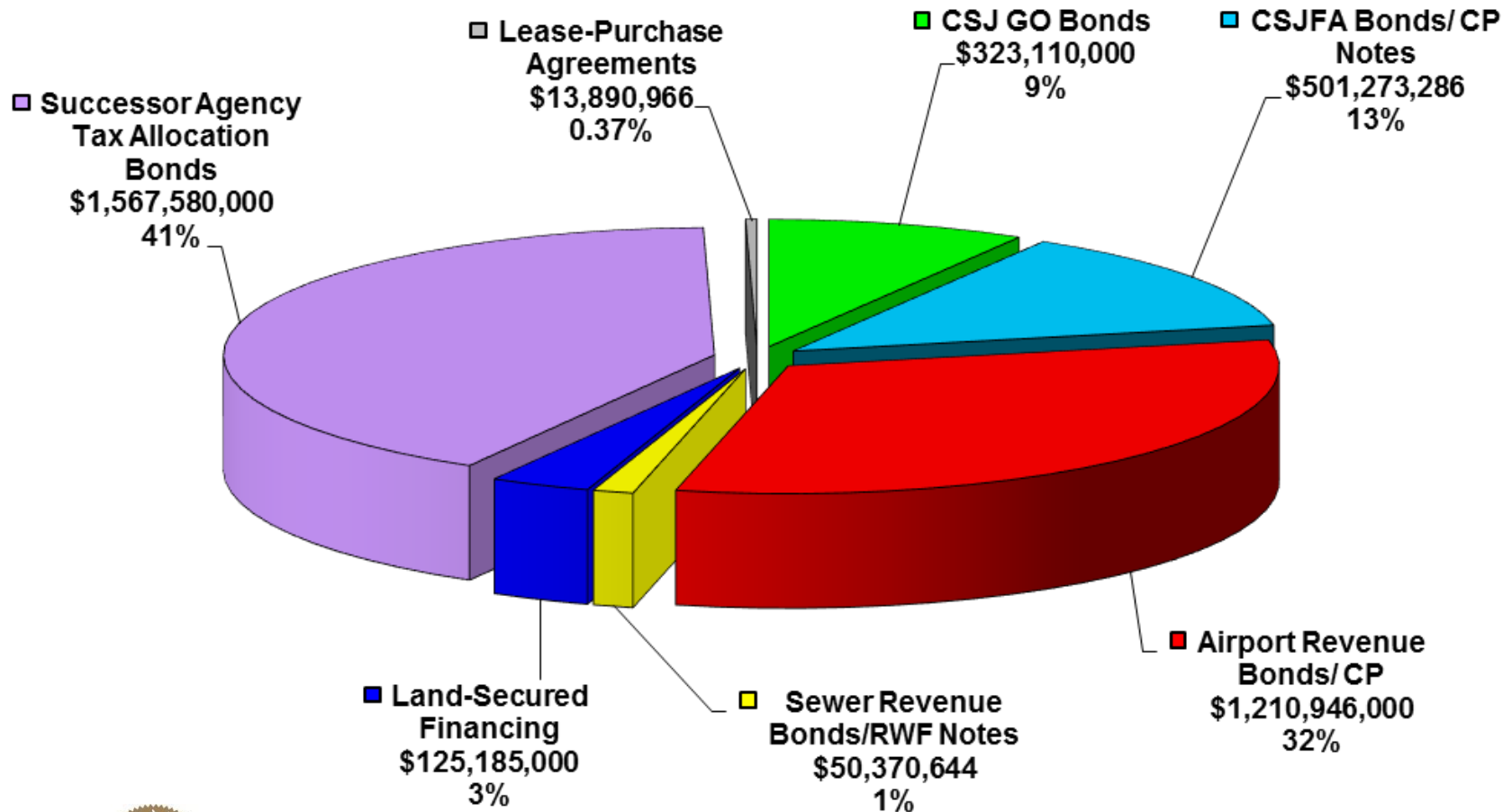
Outstanding Debt Issued by All Agencies

Outstanding Debt as of June 30, 2019: \$4.6 Billion
 FY 2018-19 Actual Debt Issuance: \$609.0 Million



Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of June 30, 2019: \$3,792,355,896



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

Selected Debt Issuance and Debt Management Activities during 4th Quarter (April-June 2019)

- Debt Issuance
 - CSJFA lease revenue commercial paper notes
 - \$3.8 million for Flood Improvements, issued June 2019
 - Norman Y. Mineta San Jose International Airport Commercial Paper Notes
 - \$15.0 million for terminal expansion project, issued June 2019
 - Clean Energy entered into a separate standby letter of credit with four power providers
 - \$13.5 million issued, but not drawn upon as of June 2019
 - Pre-issuance
 - Update various issuing documents of General Obligation Bonds, Series 2019 Bonds, for new money and refunding purposes.

Upcoming Debt Issuance Through December 31, 2019

➤ 2019 General Obligation Bonds (July 2019)

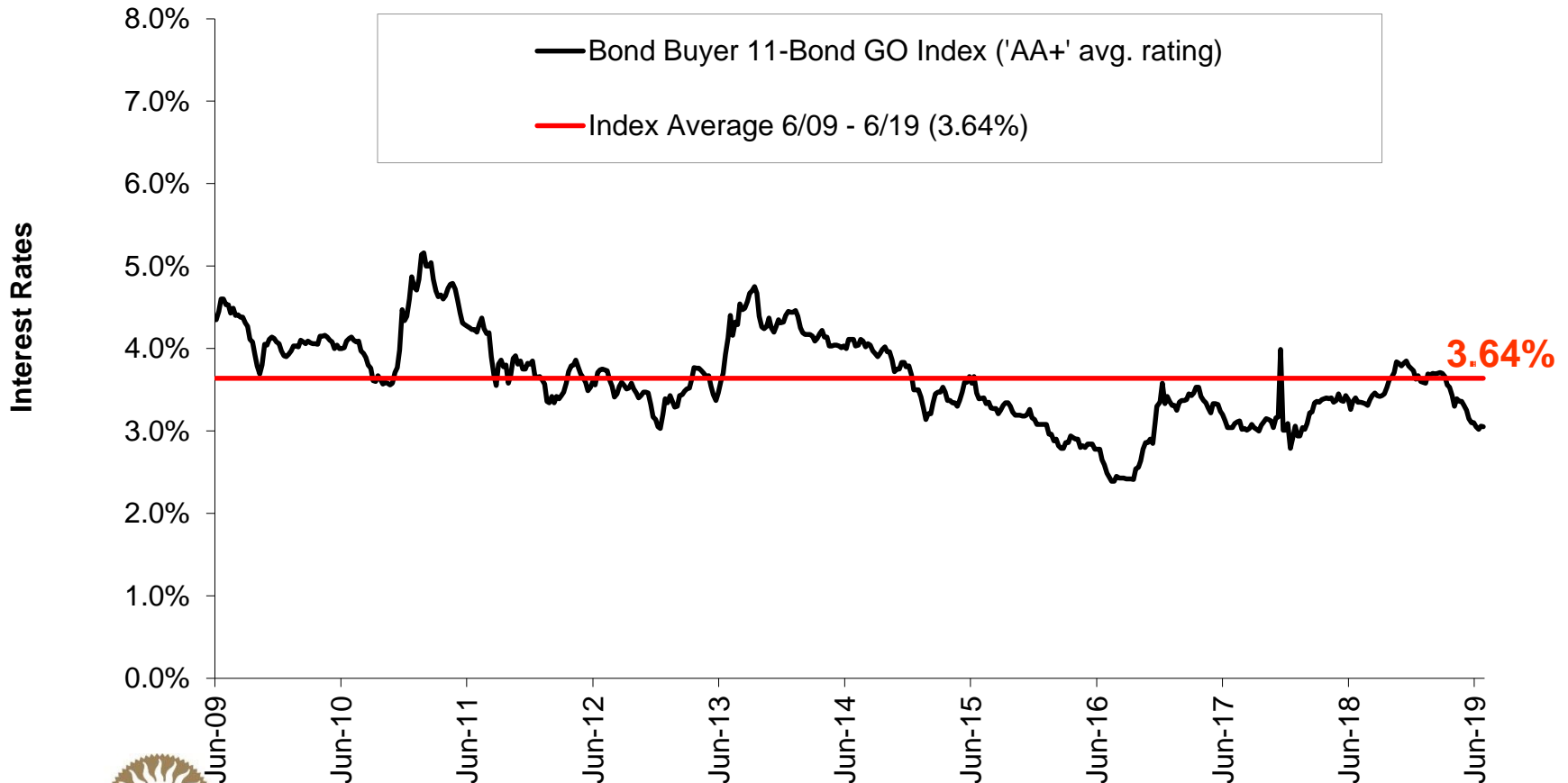
- New Issuance Measure T – the first issuance under Measure T authorization in the amount of \$239.9 million, consisting of the Series 2019A Bonds, \$173,400,000 and taxable Series 2019B, \$66,500,000.
- New Issuance – Remaining authorization of Measure O (2000) & Measure O (2002), Series 2019C, \$9,230,000.
- Refunding of Prior General Obligation Bonds, Series 2019C Bonds, \$148,955,000 and taxable Series 2019D Bonds, \$103,935,000.

➤ Multi-Family Housing Revenue Bonds

- Lenzen Square Apartments - \$23.0 million (Summer 2019)
- Markham Plaza I Apartments - \$30.0 million (Summer 2019)
- Palm Court Apartments - \$16 million (Fall 2019)
- Vista Park I Apartments- \$19 million (Fall 2019)
- Quetzal Gardens Apartments - \$45.0 million (Fall 2019)

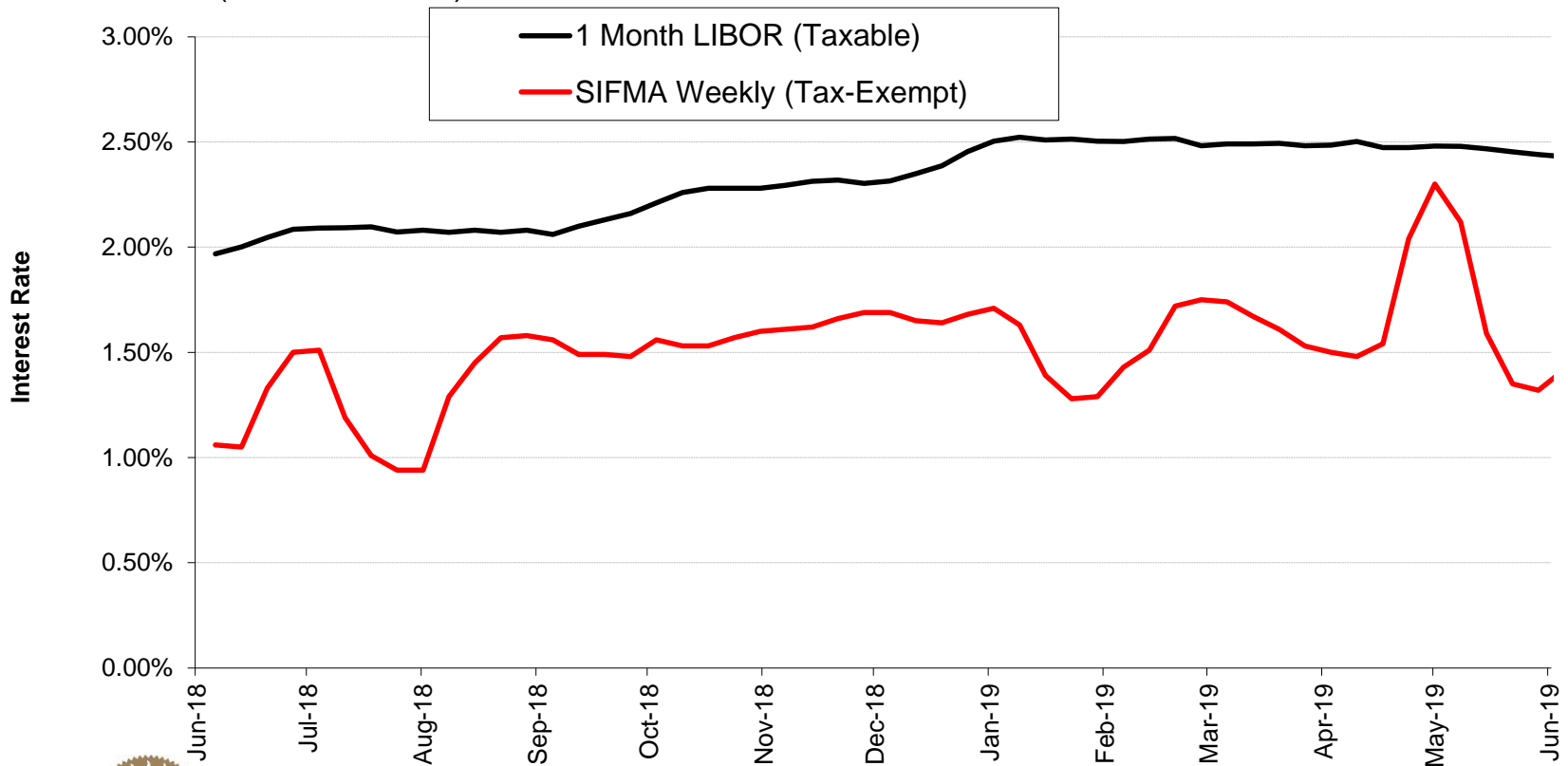
Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.64% and are currently at 2.99% (as of 7/18/19)



Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.70% in Q4 and are currently at 1.27% (as of 7/18/2019)
- Taxable LIBOR monthly interest rates paid by the City averaged 2.44% in Q4 and are currently at 2.27% (as of 7/18/2019)



City of San José – Credit Ratings¹

- City continues to maintain high general obligation (G.O.) credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3²/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 and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch³

¹ Ratings are listed in the following order by rating agency (unless noted otherwise): Moody's/S&P/Fitch.

² 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).

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

Fourth Quarter Investment Management Report for Fiscal Year 2018-2019

Investment Policy (Council Policy 1-12)

- 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

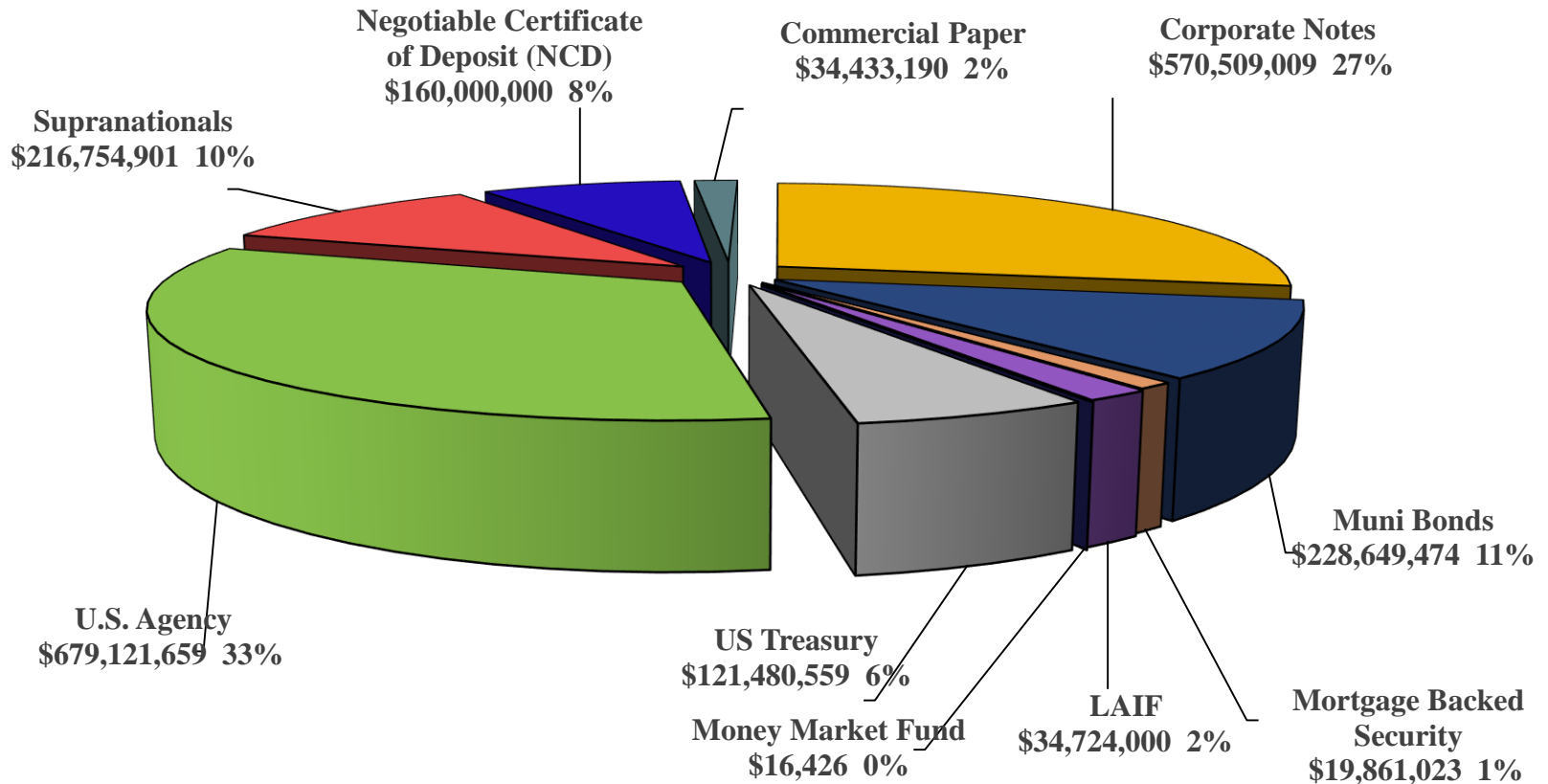
Investment Objectives & Reporting

- 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

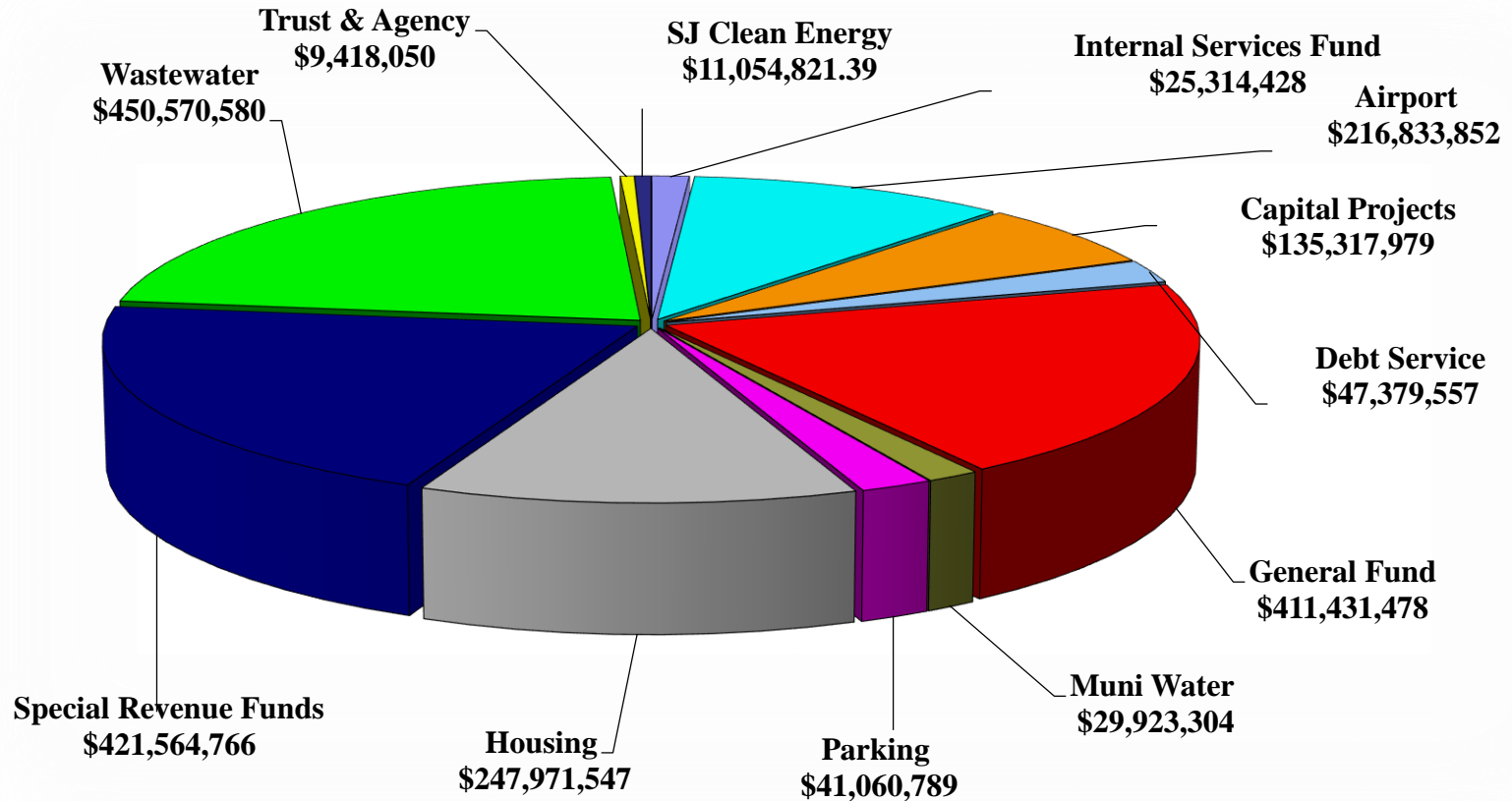
- Size of total portfolio: \$2,065,550,242
- Earned interest yield: 2.348%
- Weighted average days to maturity: 661 days
- Fiscal year-to-date net interest earnings: \$35,501,942
- No exceptions to the City's Investment Policy during this quarter.

Portfolio Investment



Total Investment Portfolio = \$2,065,550,242

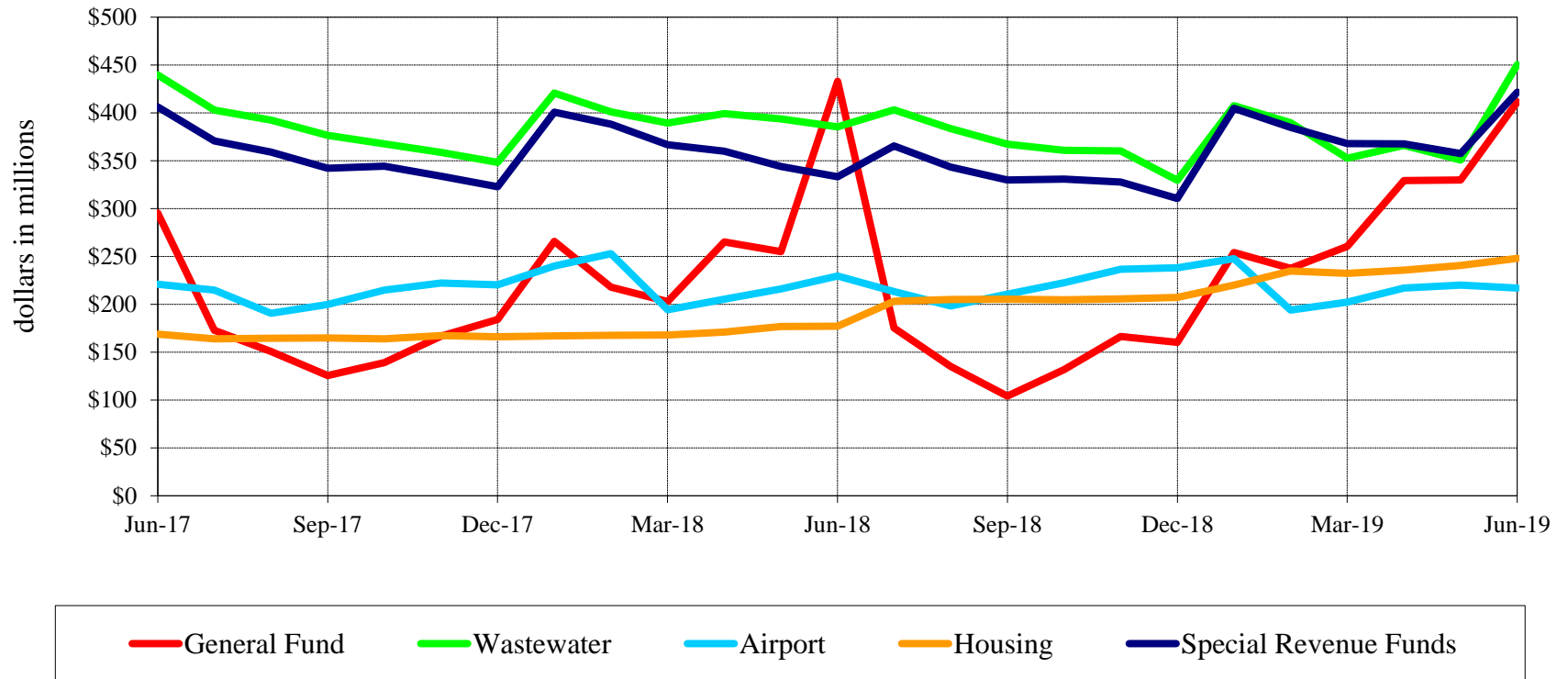
Investment by Fund



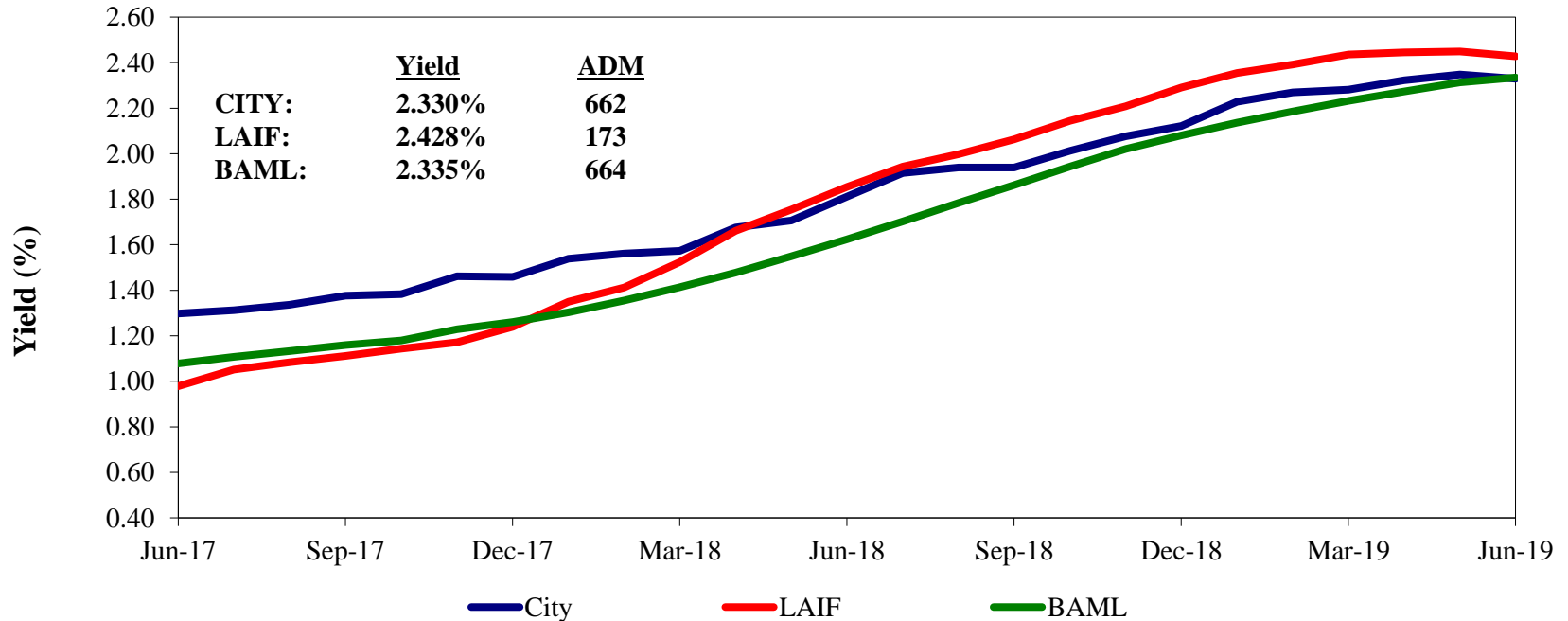
General Fund Balances

- General Fund balances increased by approximated \$151 million to \$411.43 million this quarter, as the bulk of property taxes were received
- 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

- 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

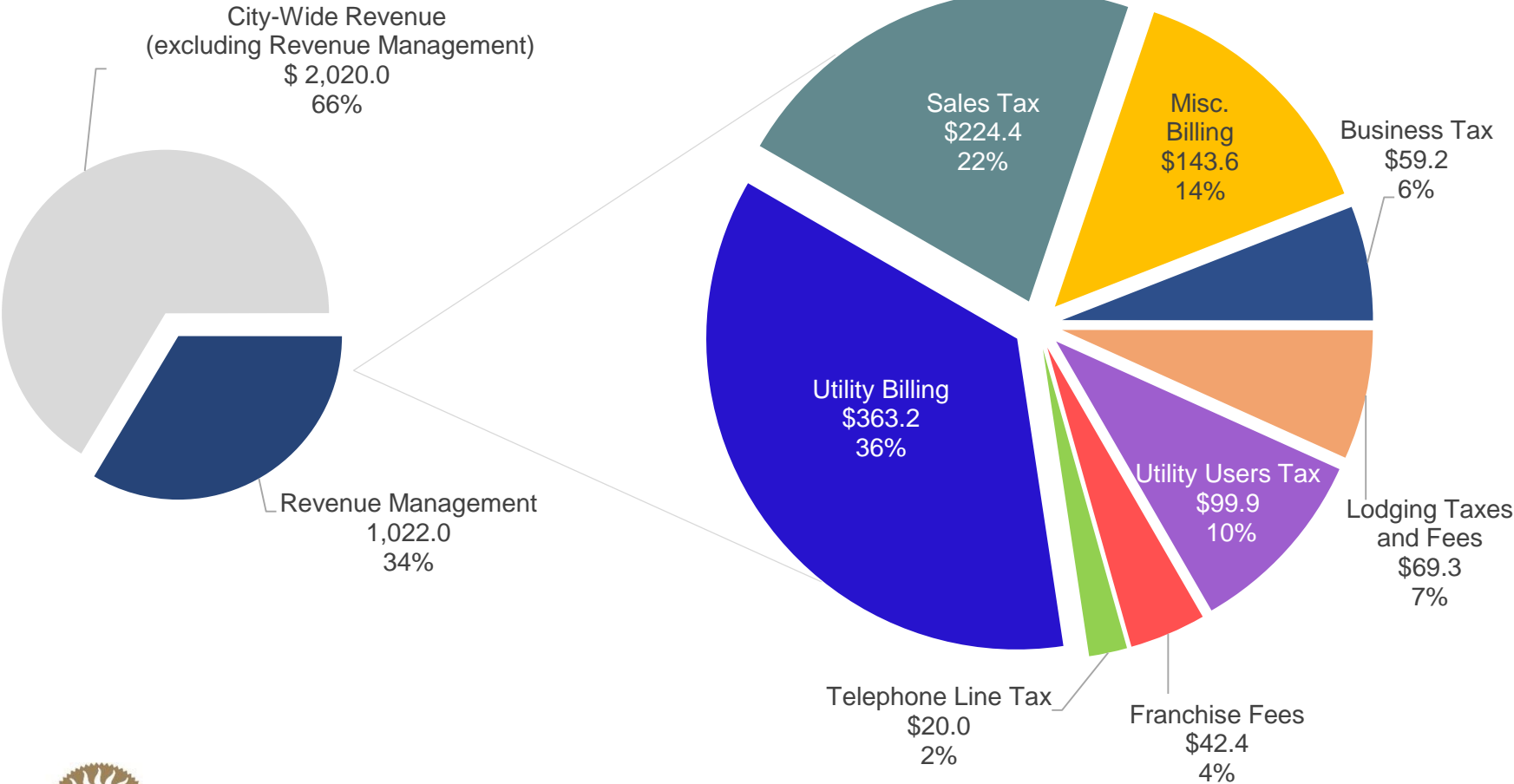
Fourth Quarter Revenue Management Report for Fiscal Year 2018-2019

Revenue Management Programs

- 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

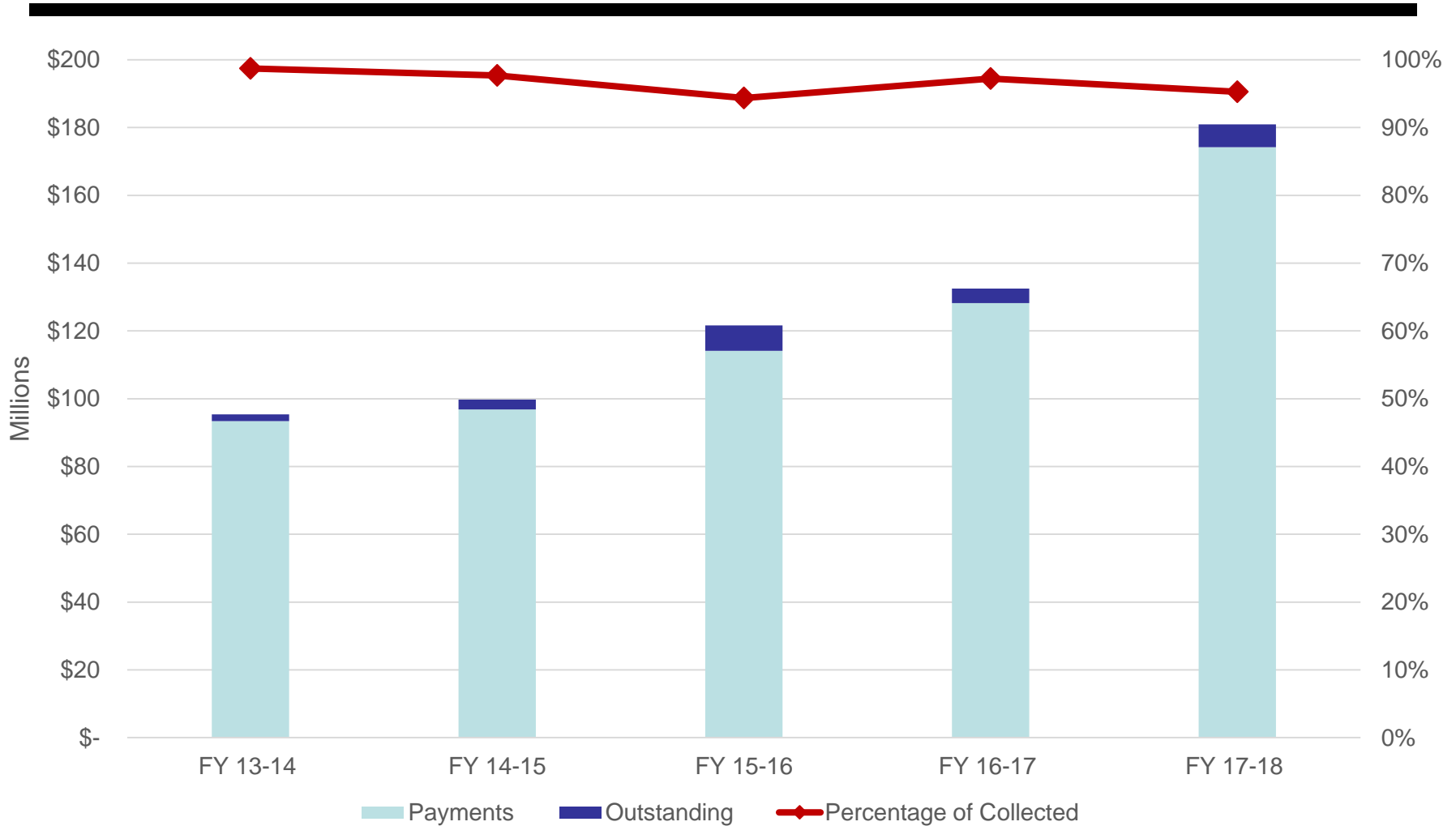
FY 2017-18 Revenue (\$ in millions)



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

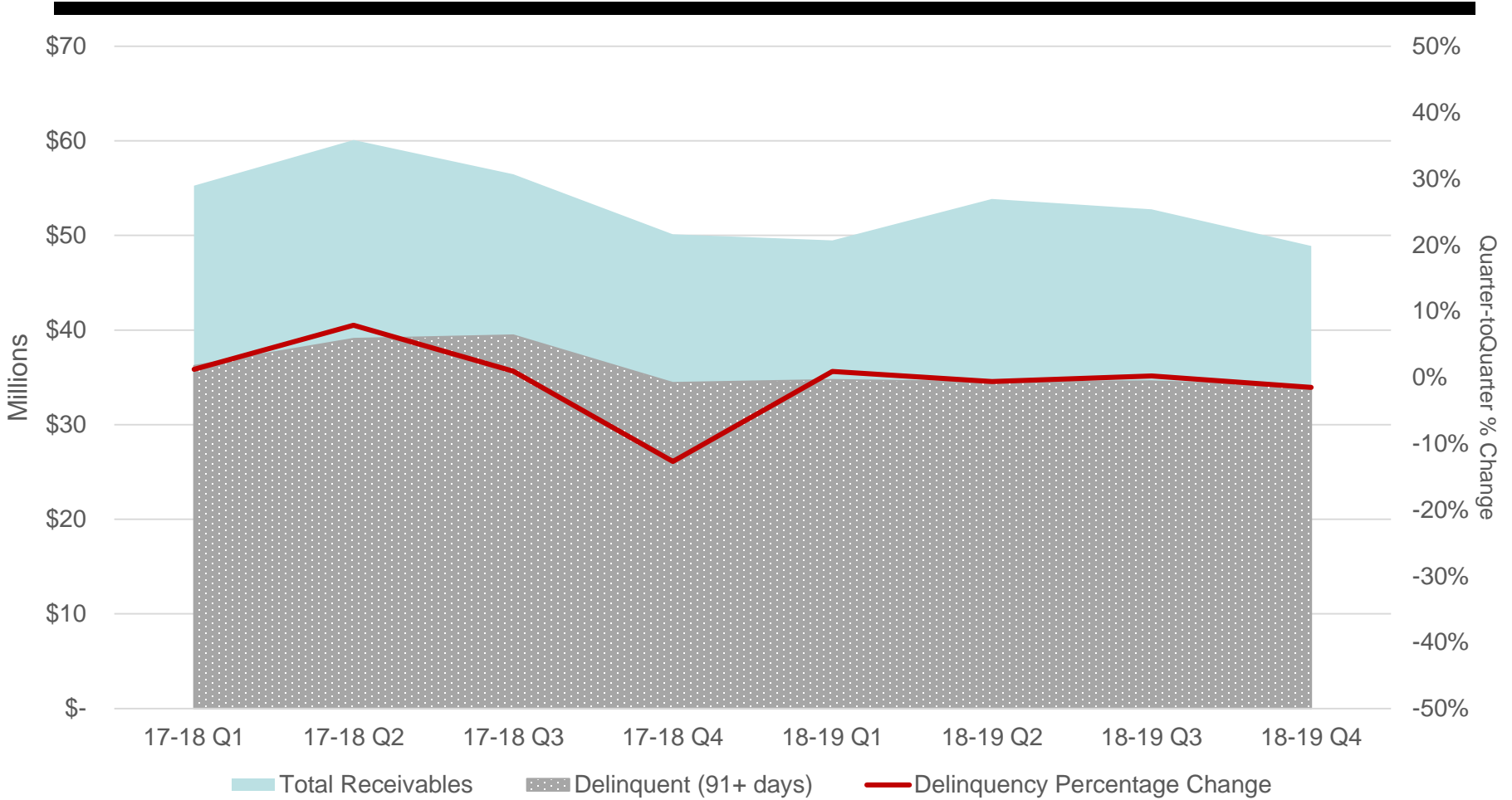
Invoicing and Payments

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



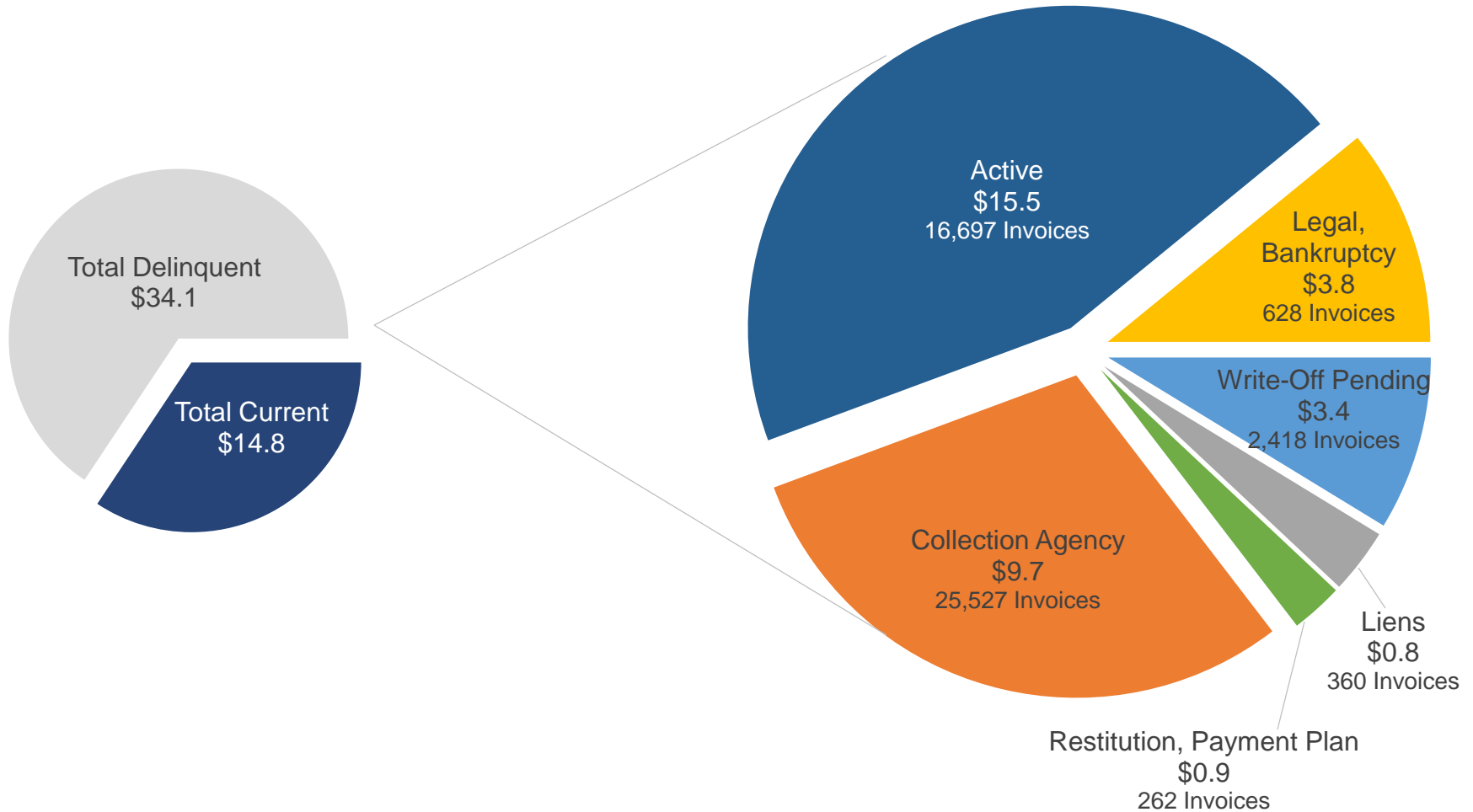
Outstanding Receivables

Two Year History



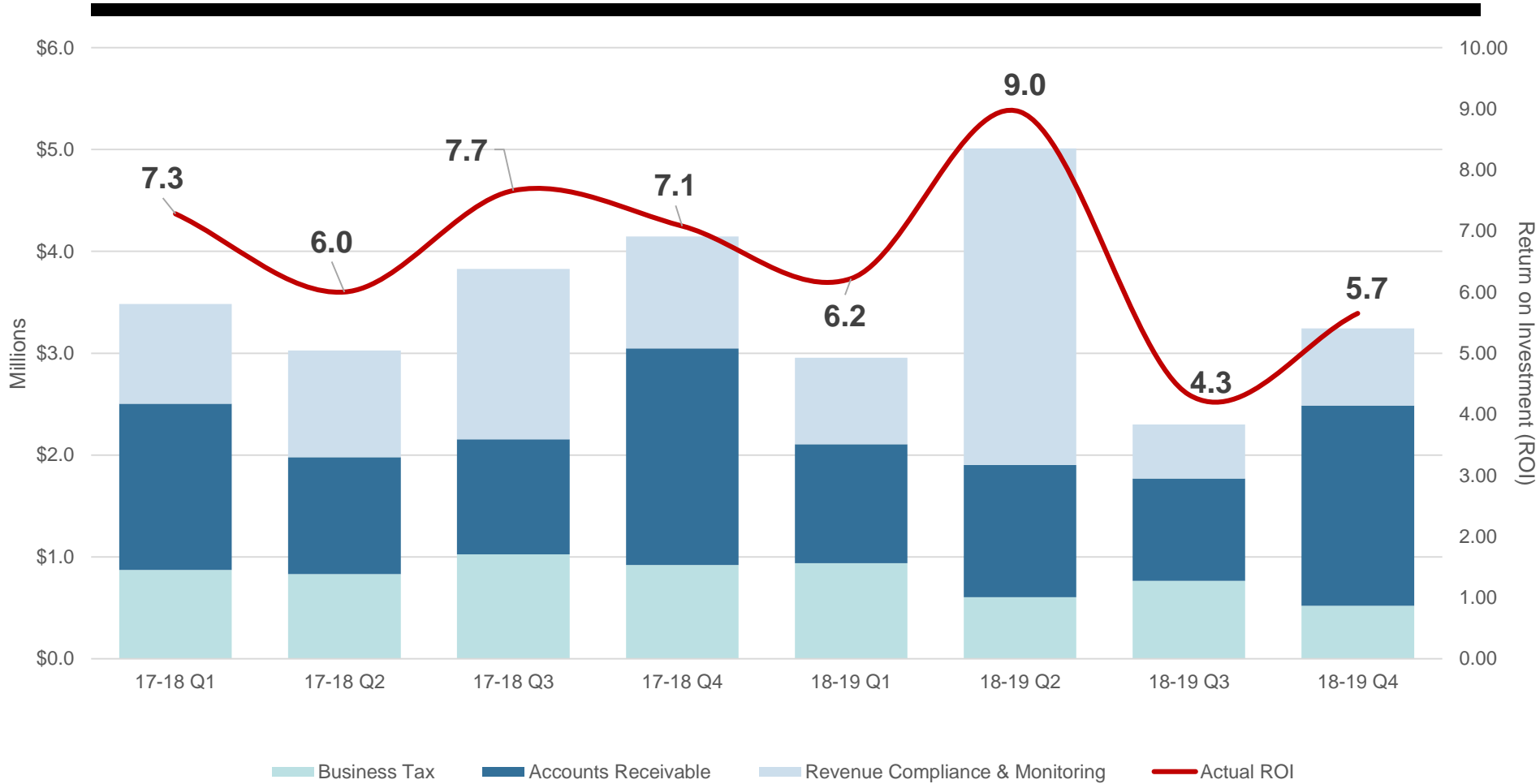
Delinquent Receivables

Collection Status Summary (\$ in millions)



As of June 30, 2019

Collections & Return on Investment



Target ROI: 5.5

Recommendation

1. Accept the Fourth Quarter Financial Reports for Fiscal Year 2018-2019 for the following programs:
 - Debt Management
 - Investment Management
 - Revenue Management
2. Refer the Fourth Quarter Financial Reports for Fiscal Year 2018-2019 to the September 10, 2019 City Council meeting for full adoption.