

COMMITTEE AGENDA: FEBRUARY 15, 2024

ITEM: (D.2)

FILE: CC 24-284

ATTACHMENT A

SECOND QUARTER FINANCIAL REPORT FISCAL YEAR 2023-2024

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

**Prepared by the Finance Department
January 31, 2024**

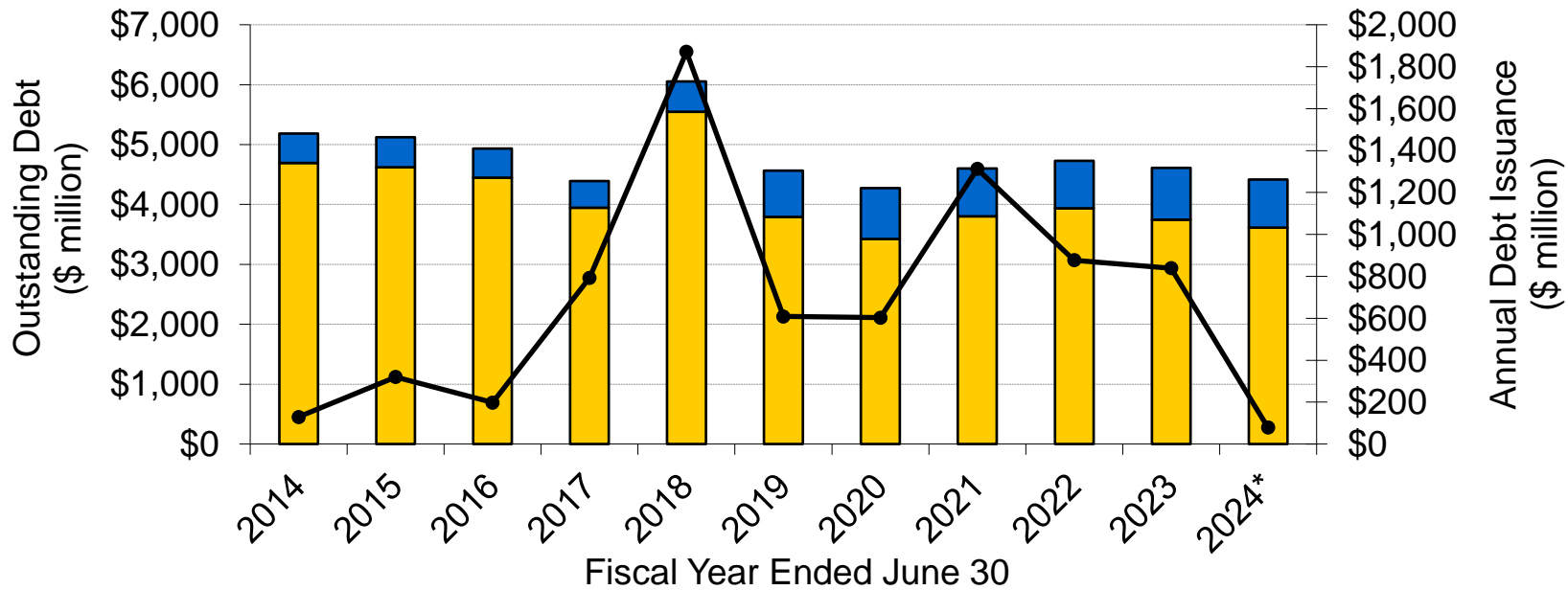


SECOND QUARTER DEBT MANAGEMENT REPORT FISCAL YEAR 2023-2024



OUTSTANDING DEBT ISSUED (CITY AND ALL AGENCIES)

Outstanding Debt as of December 31, 2023: \$4.4 Billion
 FY2023-24 Debt Issuance: \$79.2 Million



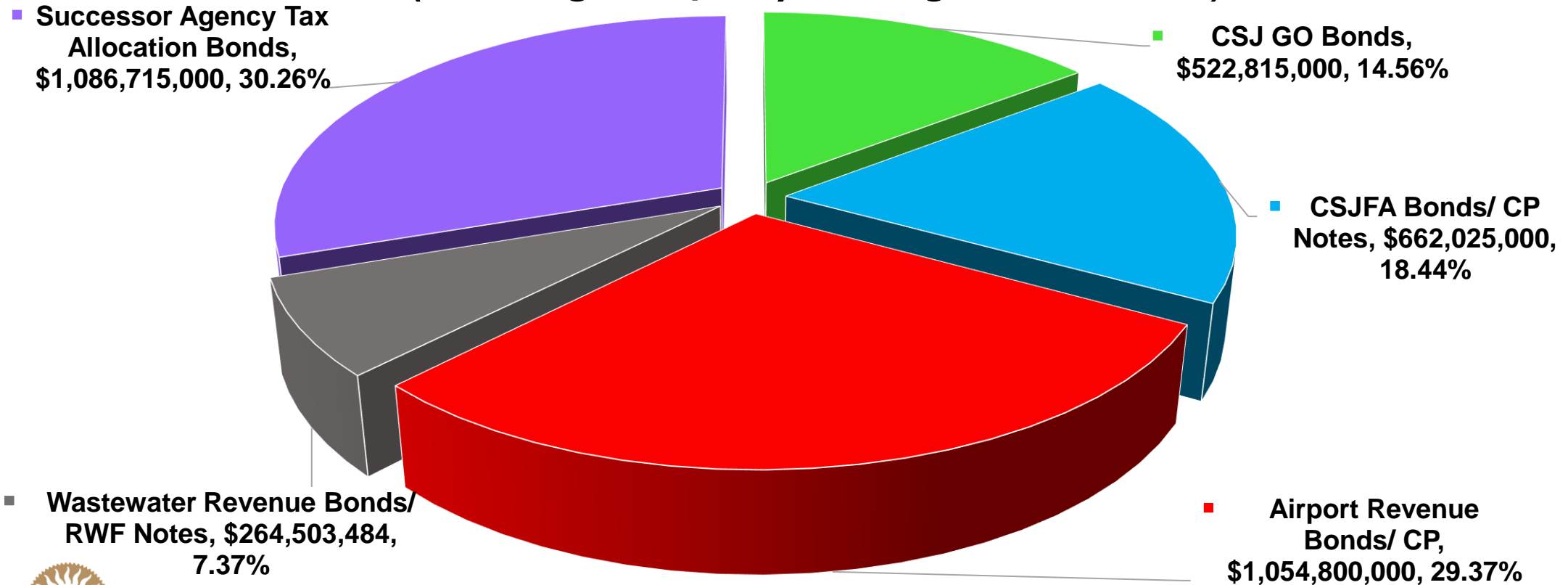
■ City and Related Entity Debt Outstanding
 ■ Conduit Debt Outstanding
 ● Annual Debt Issuance

*YTD Debt Issuance



DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of December 31, 2023: \$3.6 Billion
(Excluding Multifamily Housing Revenue Bonds)



DEBT ISSUANCES

Multifamily Housing Revenue Bond (MHRB) Issuances

Project Name	Issue Date	Taxable	Tax-Exempt	Total Issuance
Dry Creek Crossing	11/1/2023	\$8,805,095	\$31,194,905	\$40,000,000
Parkmoor Apartments	11/2/2023	-	\$39,221,000 ⁽¹⁾	\$39,221,000
			Total	\$79,221,000

(1) The bonds were issued in two series, 2023F-1 (M-TEMS) in an amount of \$2,150,000 and 2023F-2 (Cash Collateralized) in an amount of \$37,071,000.



DEBT MANAGEMENT ACTIVITIES (OCTOBER – DECEMBER 2023)

- CSJFA Commercial Paper Redemption
 - \$20 million by San José Clean Energy
 - \$417,000 by Parks and Recreational Neighborhood Services
- Refunding of Airport Revenue Bonds, Series 2014ABC
 - The City issued an RFP for a Placement Agent and selected Raymond James & Associates, Inc. to serve as the placement agent.
- Reporting
 - Annual Continuing Disclosure and Compliance Reporting
 - 2023 Comprehensive Annual Debt Report (CADR)



RATING SURVEILLANCE

- Wastewater Revenue Bonds, Series 2022B
 - November 2023, KBRA affirmed the City's Wastewater Revenue Bonds rating of AAA with stable outlook
 - November 2023, Fitch Ratings assigned a Review No Action and the City maintained the bond's current rating and outlook
- Moody's Investors Services maintained its credit opinion on the City of San José Issuer Rating in December 2023
- Fitch Ratings upgraded the Successor Agency to the Redevelopment Agency of the City of San Jose, CA Series A and A-T senior tax allocation refunding bonds to 'AA+' from 'AA' and Series B subordinate tax allocation refunding bonds to 'AA' from 'AA-' in October 2023. The outlook is stable.



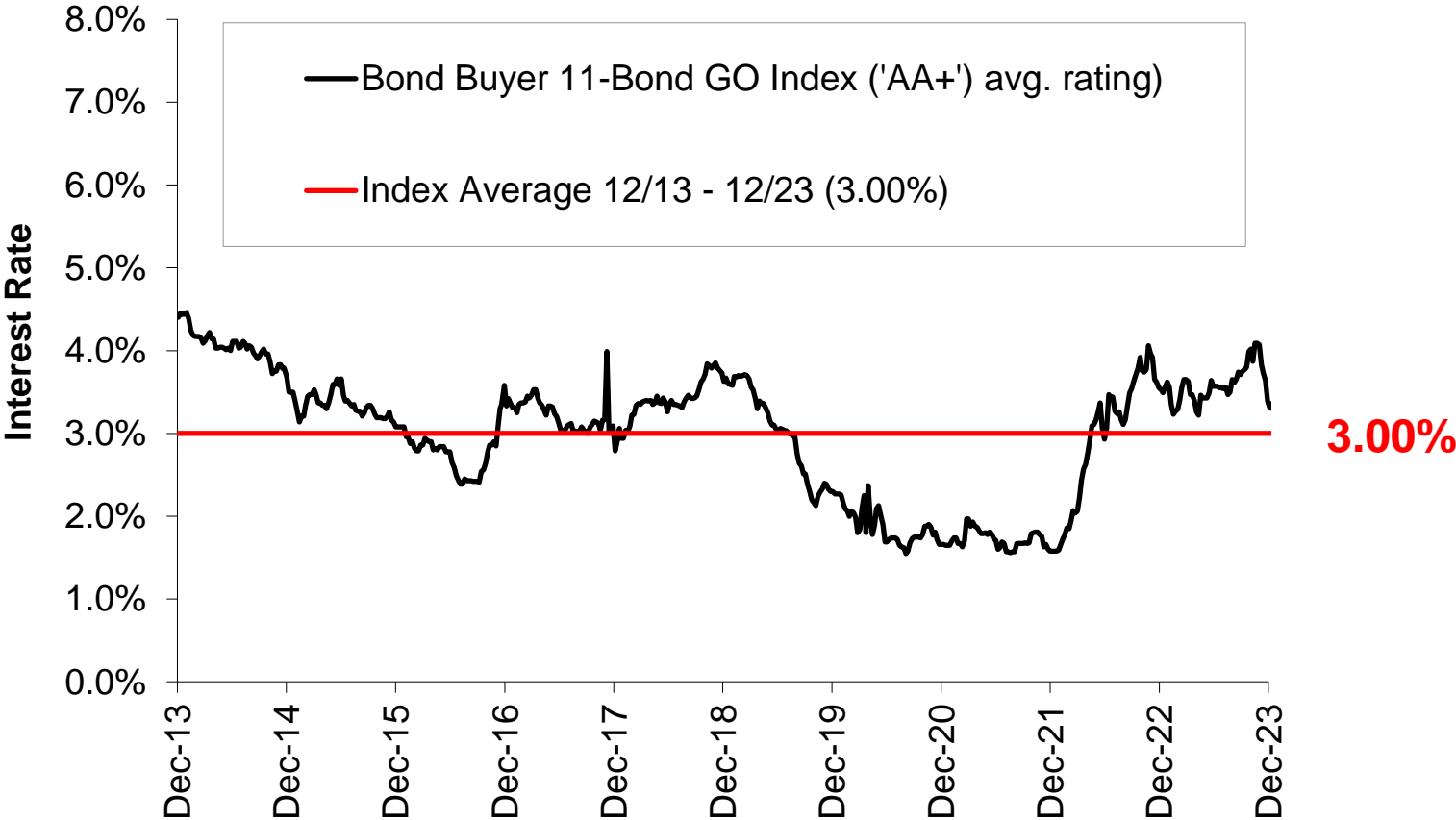
UPCOMING PROJECTS THROUGH MARCH 31, 2024

- Complete refunding of 2014 Airport Revenue Bonds
- CSJFA and Airport CP issuances and remarketing
- Arbitrage Rebate Service RFP
- SBI029 Annual Debt Transparency Reporting (ADTR)
- SARA Recognized Obligation Payment Schedule (ROPS)



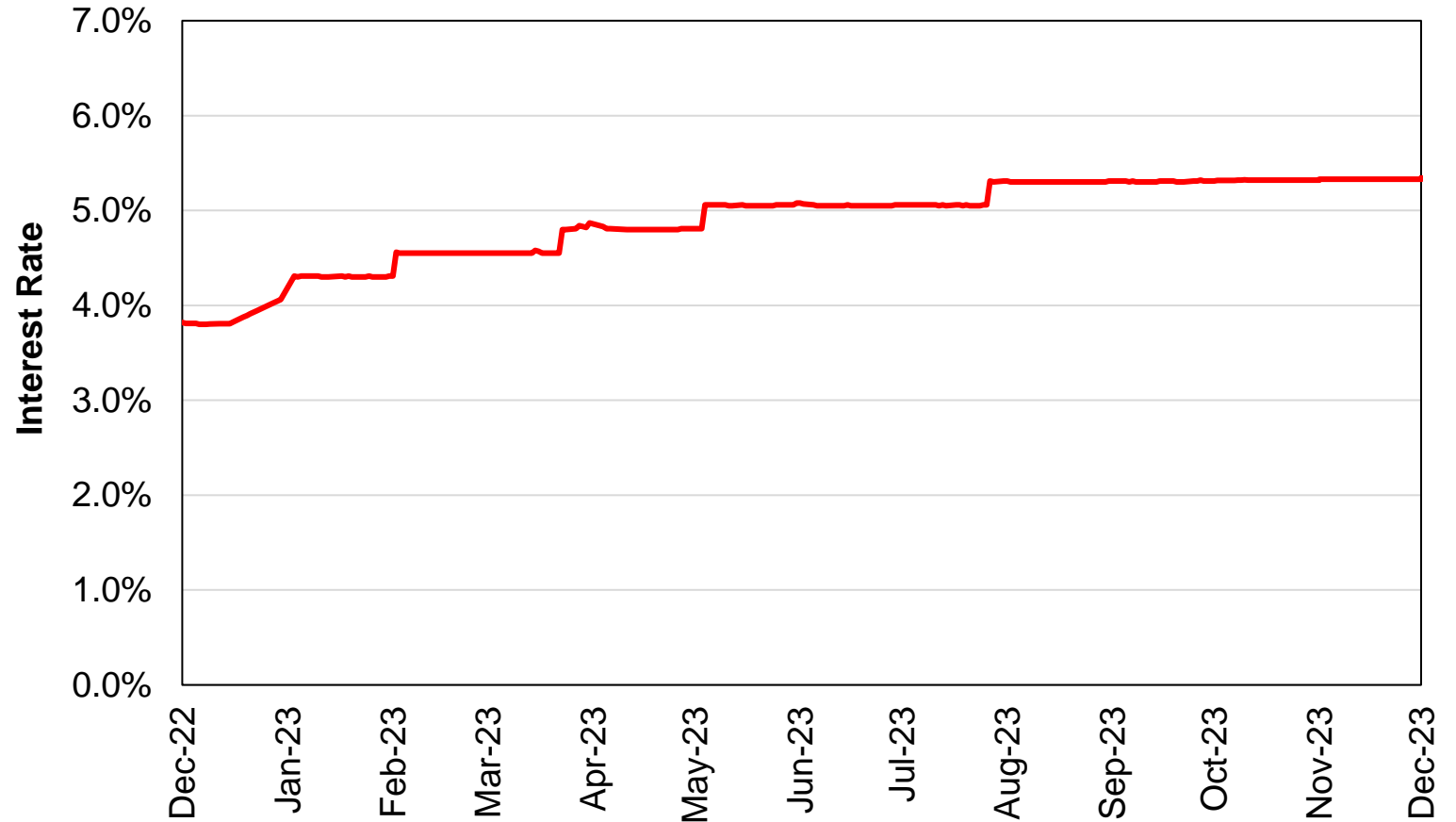
BOND BUYER GO BOND YIELD INDEX

10-year history of higher rated (“AA+”) General Obligation debt (20-year term) yield averaged 3.00% and is currently at 3.21% (as of 1/4/2024).



SECURED OVERNIGHT FINANCING RATE

- The Daily SOFR interest rate is currently 5.31% (as of 1/10/2024).
- The graph shows the increase in variable SOFR interest rates in FY 23-24.
- The City uses SOFR as a proxy to forecast taxable financing rates.



GENERAL OBLIGATION CREDIT RATINGS

The City's GO Ratings are higher than the State of California's ratings and analogous to Santa Clara County's ratings, which is to be expected given the extent of the tax base and other credit fundamentals that the City and the County share:

Entity	Moody's	S&P	Fitch
City of San José	Aa1	AA+	AAA
State of California	Aa2	AA-	AA
Santa Clara County	N/A	AAA	AA+

[1] Moody's does not currently rate Santa Clara County's General Obligation Bonds but maintains an Issuer rating of Aa1.



GENERAL CREDIT RATINGS

CITY OF SAN JOSE

- The City of San José continues to maintain very high credit ratings.

Type of Rating	Moody's	S&P	Fitch
Issuer Rating	Aa1 (stable)	AA+ (stable)	AA+ (stable)
General Obligation Bonds	Aa1 (stable)	AA+ (stable)	AAA (stable)
Lease Revenue Bonds (Essential Assets)	Aa2 (stable)	AA (stable)	AA (stable)
Lease Revenue Bonds (Less Essential Assets)	Aa3 ^[1] (stable)	AA (stable)	AA- ^[2] (stable)

[1] Moody's assigns a rating of Aa3 to CSJFA 2020B and 2022A bonds which the rating agency considers less essential assets.

[2] Fitch assigns a rating of AA- to CSJFA 2020B bonds which the rating agency considers less essential assets.



OTHER CITY CREDIT RATINGS

Type of Rating	Moody's	S&P	Fitch	KBRA (Kroll)
San José Airport Bonds	A2 (stable)	A (stable)	A (stable)	N/A
Wastewater Revenue Bonds	N/A ^[1]	AAA (stable)	AAA (stable)	AAA ^[2] (stable)
SARA Senior Tax Allocation Bonds	N/A	AA (stable)	AA+ (stable)	N/A
SARA Subordinate Tax Allocation Bonds	N/A	AA- (stable)	AA (stable)	N/A

[1] Moody's does not rate CSJFA Wastewater Revenue Bonds.

[2] KBRA (Kroll) has assigned a rating to the CSJFA Wastewater Revenue Bonds exclusively.



SECOND QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2023-2024



INVESTMENT POLICY

(COUNCIL POLICY 1-12)

- Investments meet the requirements of the City's Investment Policy and conform with California Government Code section 53601
- Authorized investments are only highly-rated fixed income securities
- Investment Policy is reviewed annually and was last adopted by resolution of the City Council on March 14, 2023
- Investment Program is audited semi-annually for compliance purposes



INVESTMENT OBJECTIVES & REPORTING

- Manage investments to meet the City's Investment Policy objectives:
 - Safety
 - Liquidity
 - Yield
- Quarterly reports are available to the public
 - On-line
 - In PSFSS Committee agenda packets
 - In City Council agenda packets (for acceptance)



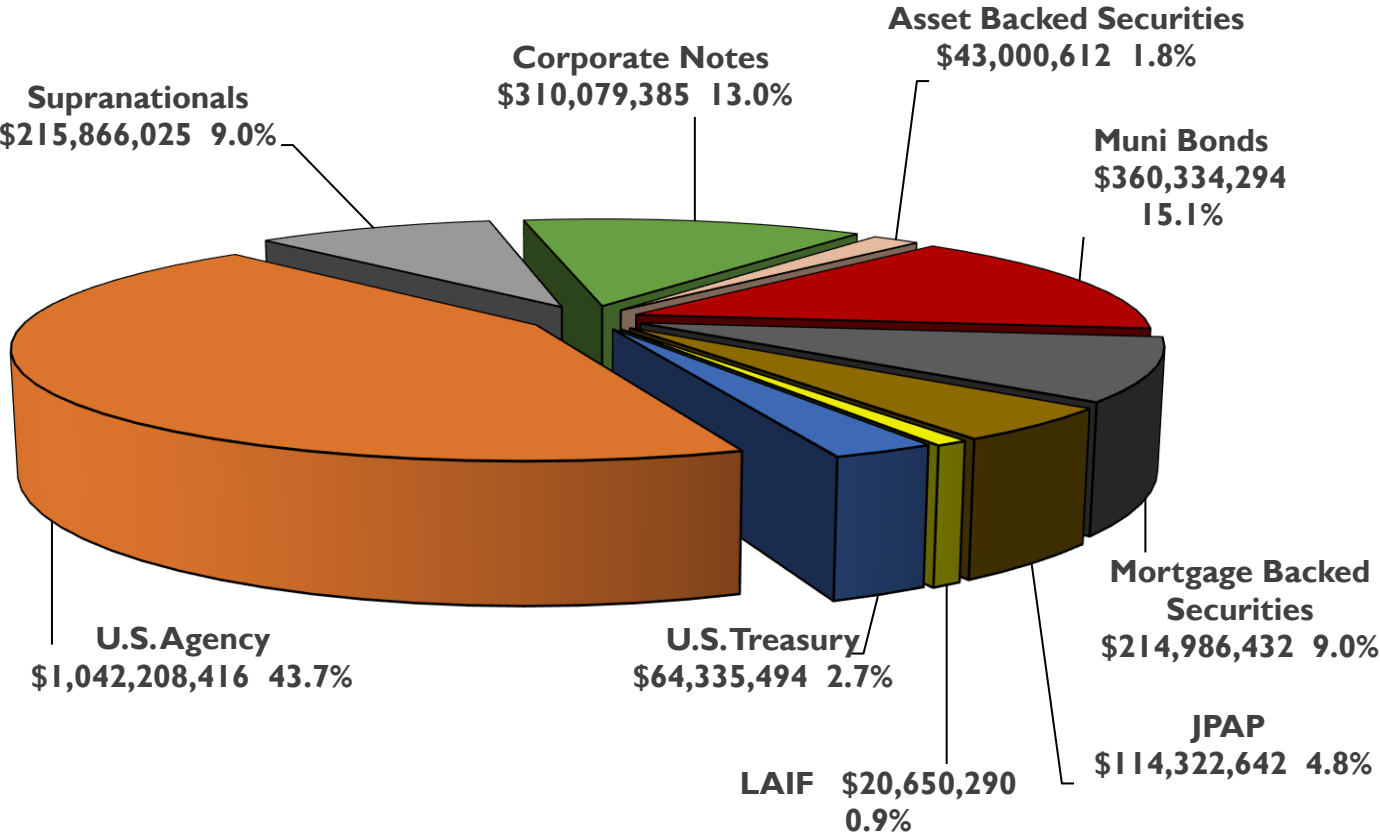
PORTFOLIO PERFORMANCE SUMMARY

Size of Total Portfolio	\$2,385,783,590
Earned Interest Yield	3.106%
Weighted Average Maturity	682 days
Fiscal Year-to-Date Net Income Recognized	\$39,082,488
Exceptions to the City Investment Policy this Quarter	None



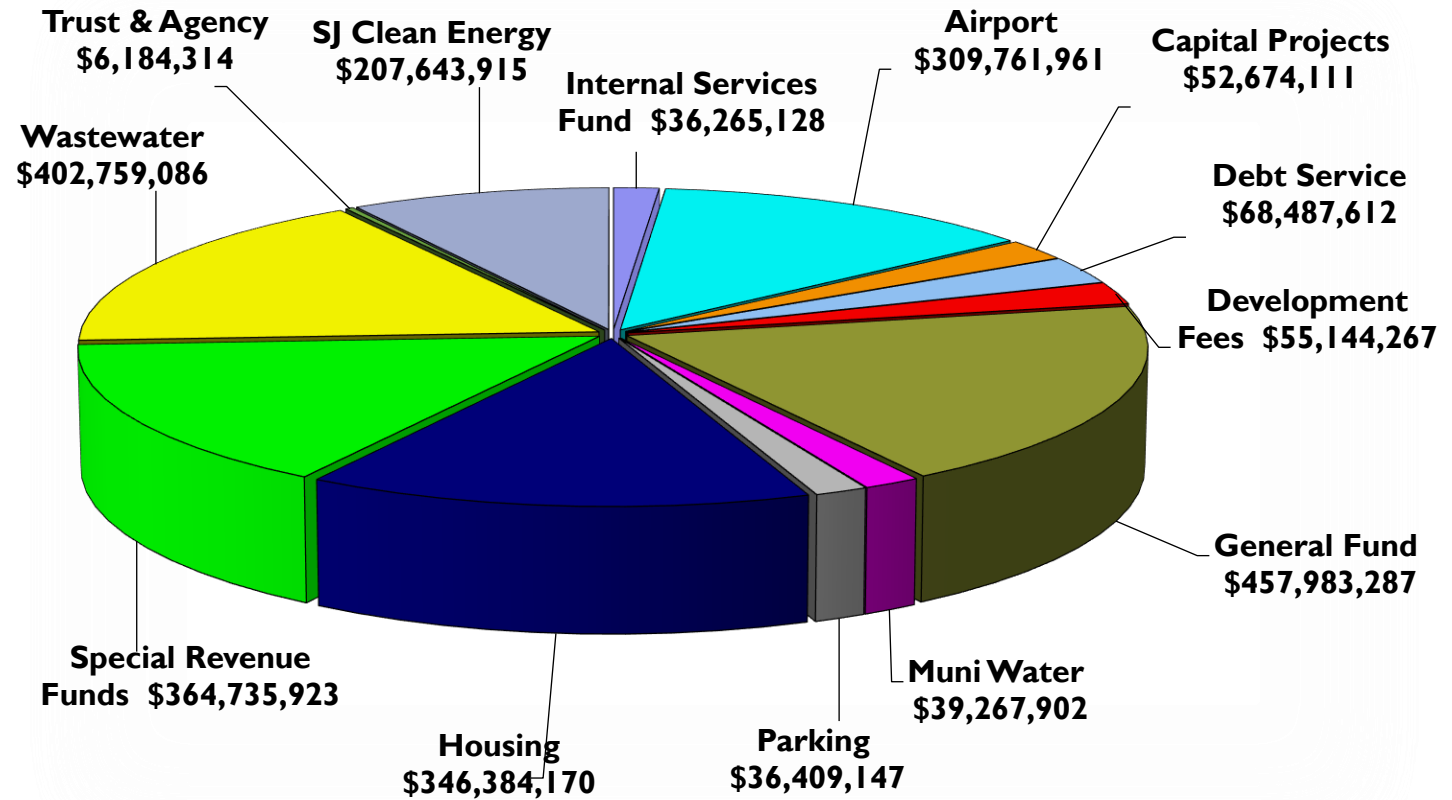
PORTFOLIO INVESTMENTS

Total Investment Portfolio:
\$2,385,783,590



INVESTMENTS BY FUND

The \$458.0 million in the General Fund presented includes \$442,840,960 of General Fund monies, as well as \$15,142,327 in other, separately tracked general funds, such as the Depositor Fund, the American Rescue Plan Act (ARPA) of 2021 and other smaller funds and reserves.



GENERAL FUND BALANCE

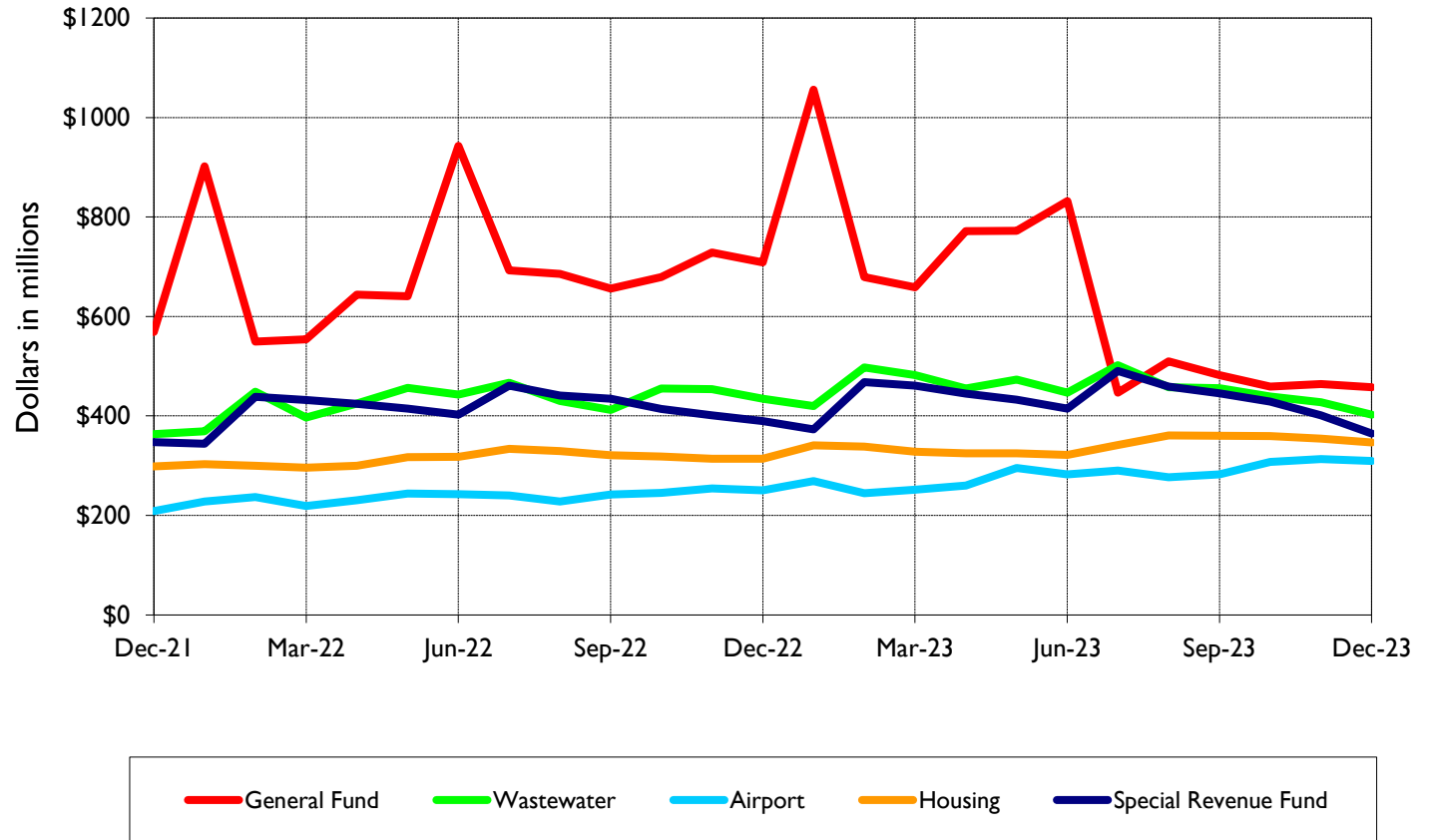
- General Fund balances decreased by \$24 million during the quarter and ended with a balance of \$458 million as of December 31, 2023. General Fund balances usually peaks during the months of January and June, when the bulk of property taxes are received; declines in the summer due to retirement prefunding; and declines throughout the rest of the year due to debt service payments and operational expenditures
- Projected investment maturities, cash and revenues are sufficient to cover anticipated expenditures for the next six months



COMPARISON OF CASH BALANCES

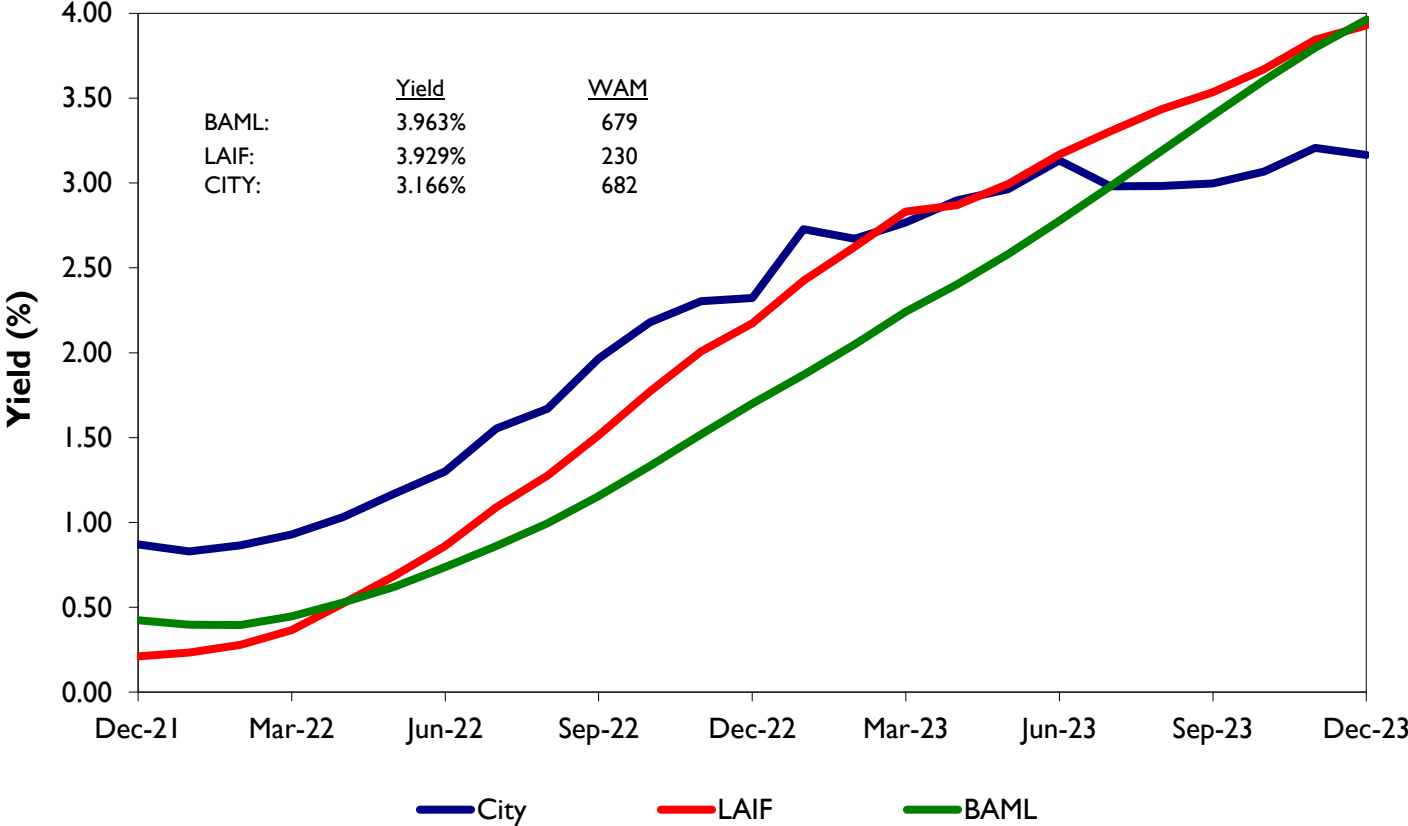
(BY SELECT FUNDS)

The following graph compares monthly balances of the five largest City funds as reported by FMS.



BENCHMARK COMPARISONS

- City refers to City's Fund 3 Portfolio, and the yield data are month-end weighted average yields.
- LAIF refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
- 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 known expenditures with suitable investments 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 objectives of safety, liquidity, and yield



SECOND QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2023-2024



REVENUE MANAGEMENT PROGRAMS

- Finance Department Revenue Management focuses on collecting outstanding receivables, with an emphasis on reducing delinquent accounts and enhancing revenue compliance, through four primary collection programs:
 - Accounts Receivable
 - Business Tax
 - Compliance and Monitoring
 - Utility Billing
- Efforts may span several reporting periods, and actual collections are reported as funds are received by the City.



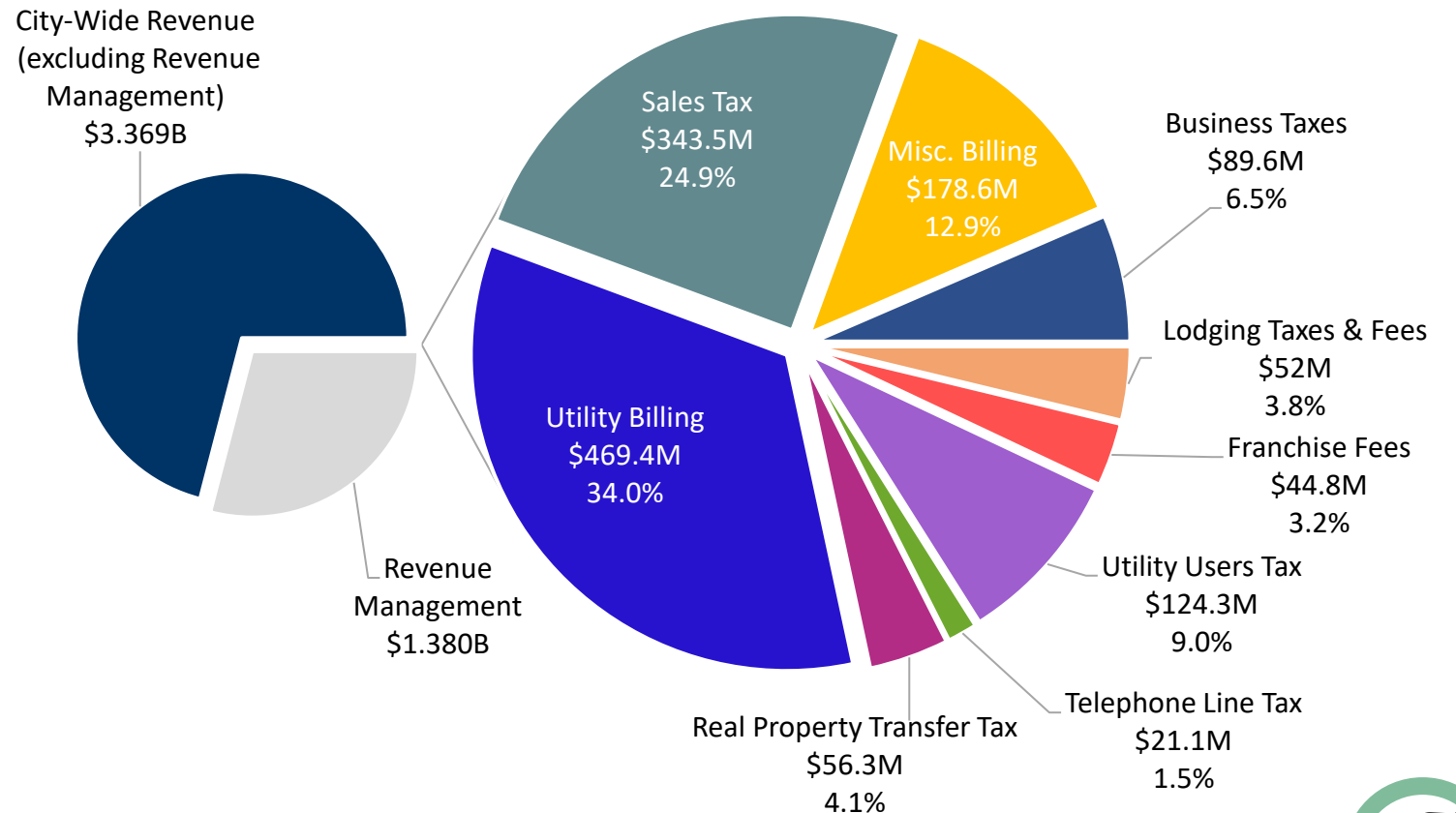
REVENUE MANAGEMENT PORTFOLIO

FY 2022-23 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.749B

Source: 2022-23 City Manager's
Budget Office Annual Report

(Graph is updated annually)

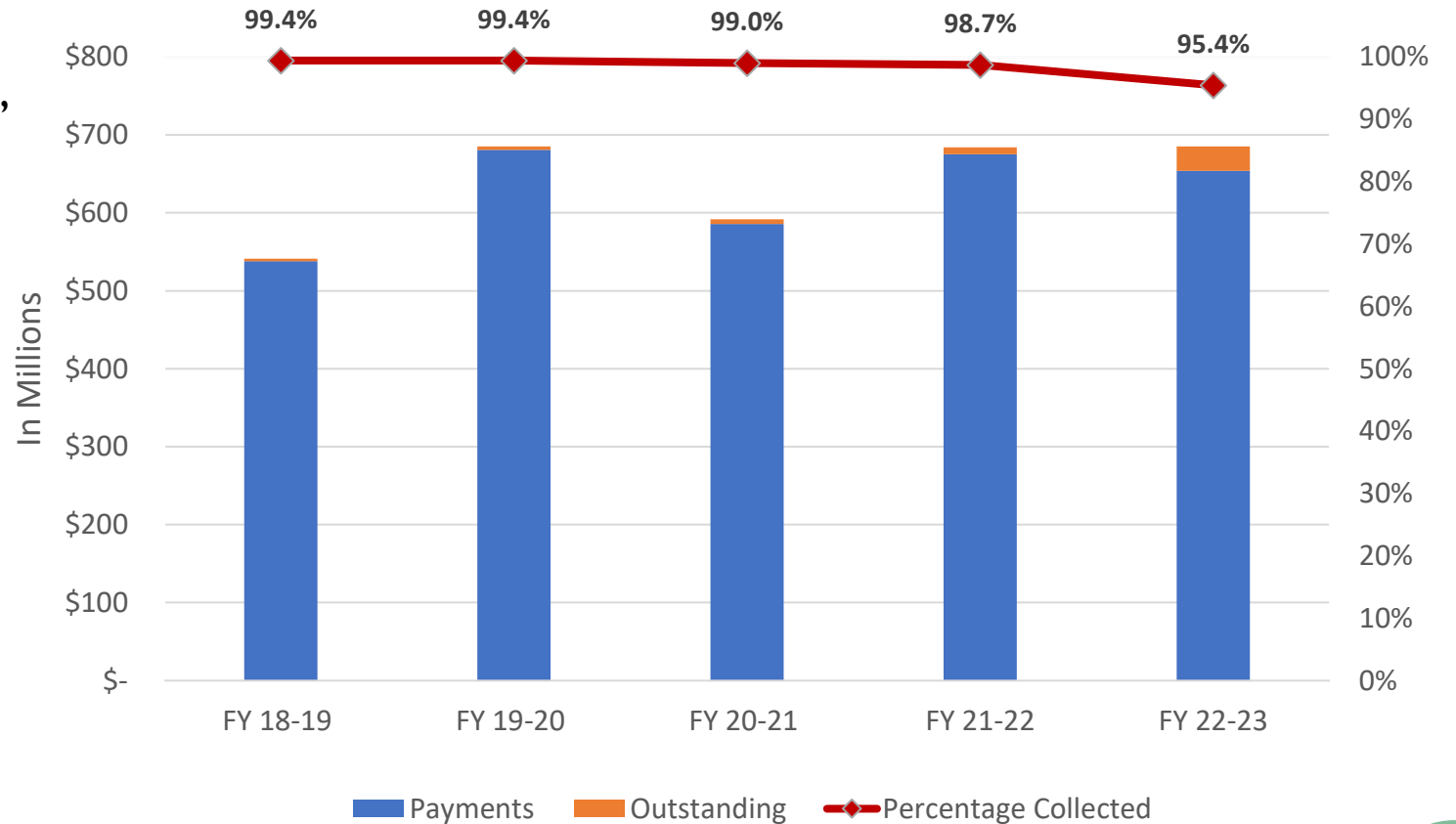


INVOICING AND PAYMENTS

FIVE-YEAR HISTORY (FY 2018-19 TO FY 2022-23)

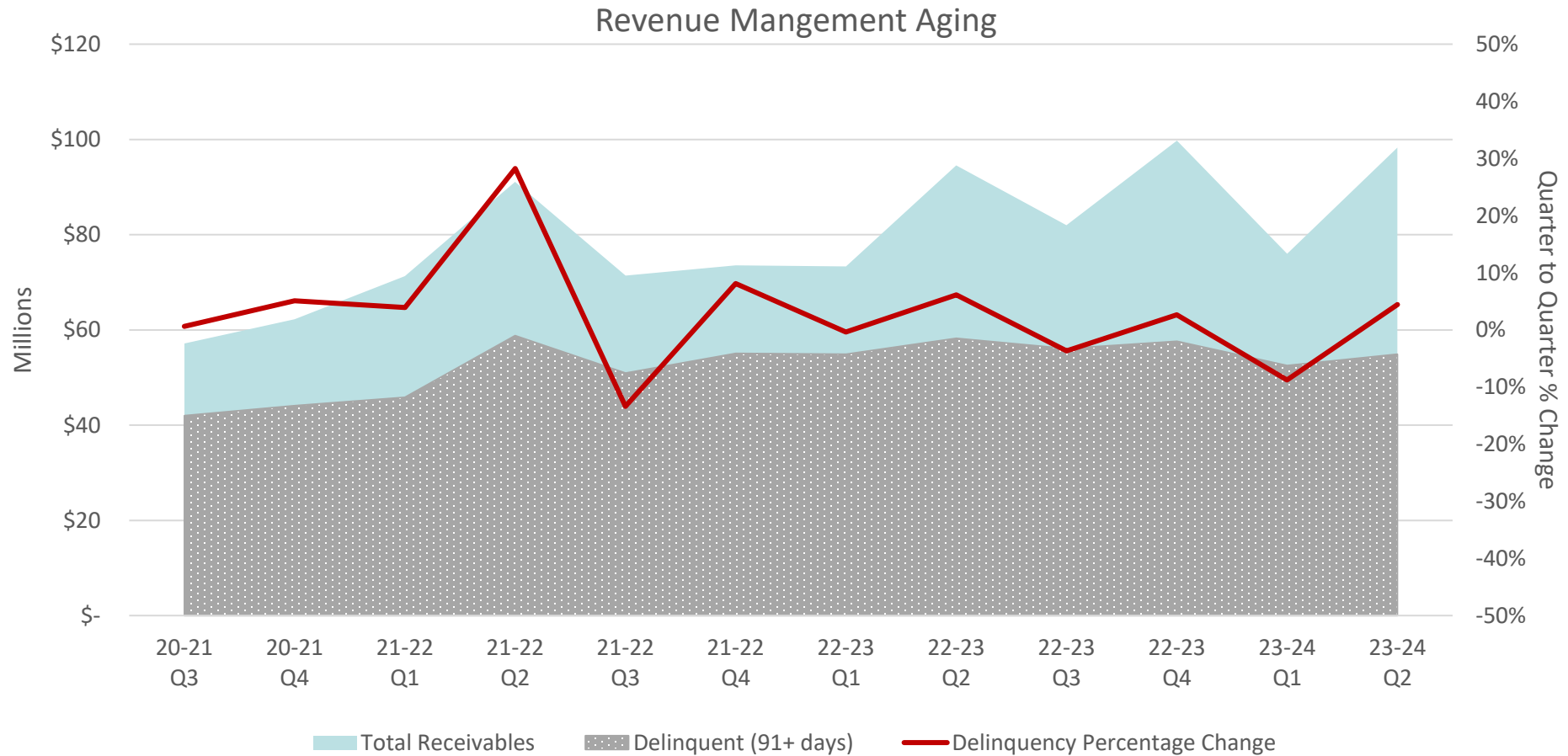
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System.

(Graph is updated annually)



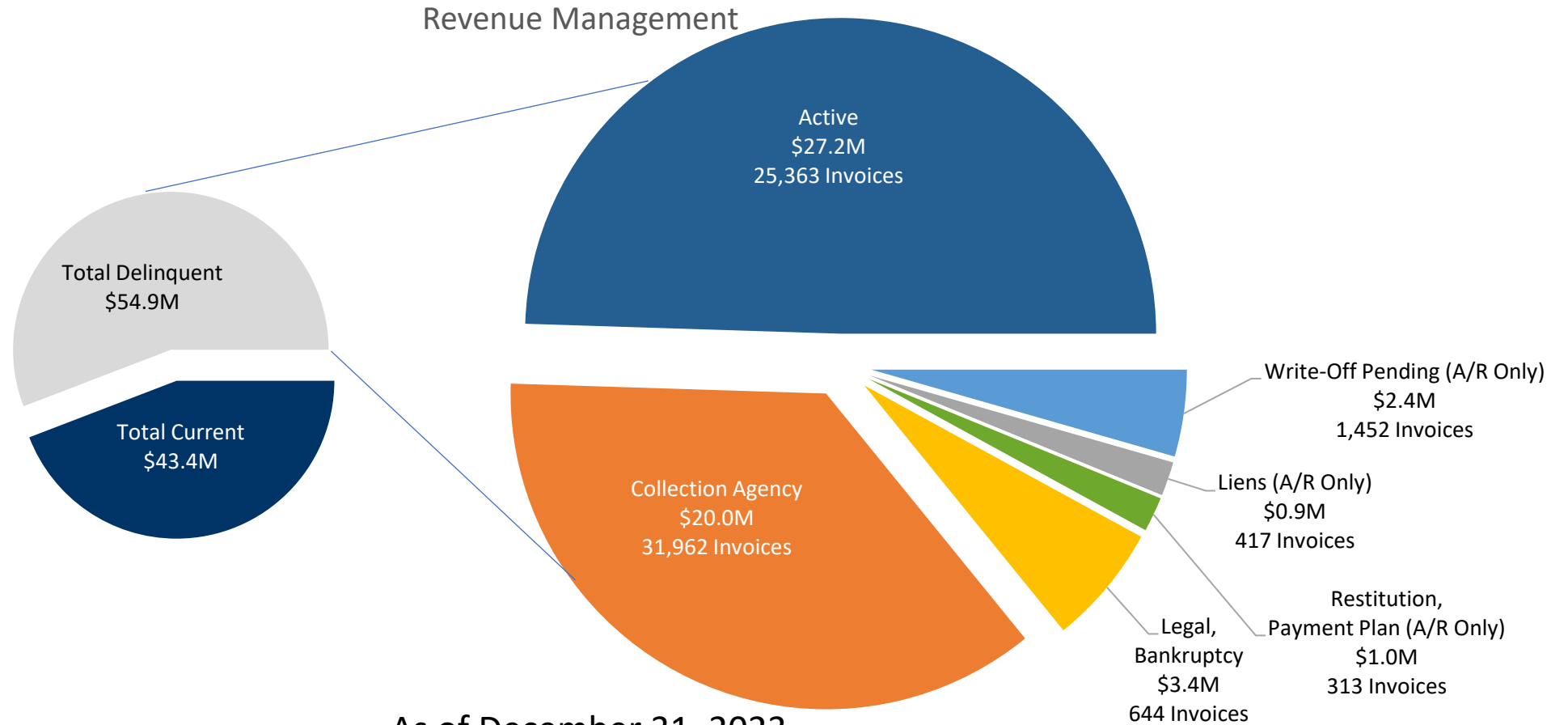
OUTSTANDING RECEIVABLES

THREE-YEAR HISTORY (Q3 FY 2020-21 To Q2 FY 2023-24)



FY 2023-24 Q2 DELINQUENT RECEIVABLES

COLLECTION STATUS SUMMARY (\$ IN MILLIONS*)



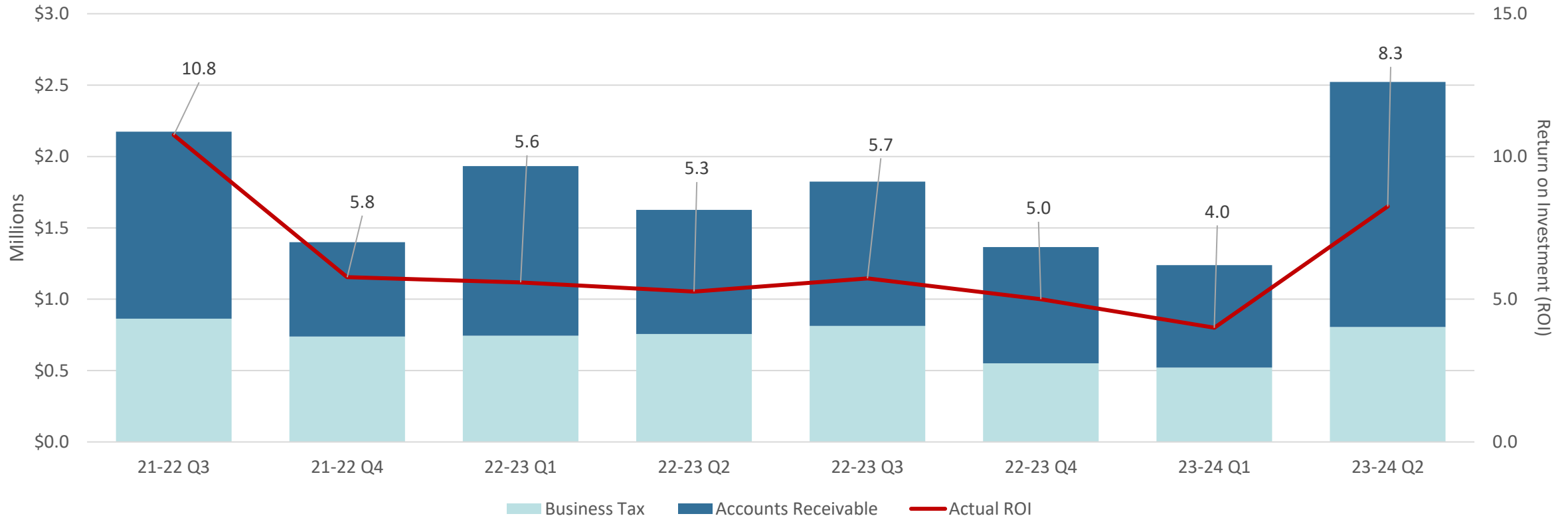
As of December 31, 2023

*Rounded



COLLECTIONS & RETURN ON INVESTMENT

REVENUE MANAGEMENT COLLECTIONS (Q3 FY 2021-22 To Q2 FY 2023-24)



ACCOUNTS RECEIVABLE PILOT AMNESTY PROGRAM

- The Amnesty Program was a limited-time opportunity for individuals and entities to pay the principal invoice amount owed in exchange for forgiveness of associated penalties and interest
- Amnesty Program Application Period: November 1, 2022 – June 30, 2023
- Invoice Eligibility: Billed from April 2020 – August 2021
 - Invoice may not pertain to a tax, license or lien
 - Debtor must have outstanding delinquent fees (Invoices paid in full prior to Amnesty are not eligible)
- Payments Received: \$210K
- Amnesty Waivers: \$73K
- Recommendation: No extension/expansion at this time

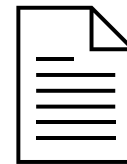
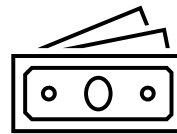


SECOND QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2023-2024



PURCHASING PROGRAM

The Purchasing Division of the Finance Department is responsible for the centralized procurement of equipment, supplies, materials, Information Technology (IT), and non-consulting services, pursuant to the City of San José Municipal Code Title 4, Chapter 4.12.



PURCHASING TRANSACTIONS COMPLETED

SECOND QUARTER FY2023-24

PROCUREMENT TYPE	SECOND QUARTER TRANSACTIONS	FISCAL YEAR TO DATE
PROCUREMENT SOLICITATIONS COMPLETED (RFx)	28	59
PURCHASE ORDERS AND PURCHASE ORDER ADJUSTMENTS ISSUED	430	1,122
NEW AGREEMENTS NEGOTIATED AND EXECUTED	6	8
AMENDMENTS, CHANGE ORDERS, SERVICE ORDERS, OPTIONS EXECUTED	41	56
COUNCIL MEMORANDA ISSUED	22	34
PURCHASE ORDER & CONTRACT DOLLARS PROCURED	\$134,951,147	\$289,728,943



PROCUREMENT IMPROVEMENT UPDATE

- Procurement Improvement is a Strategic Support initiative that was created under the legacy City Roadmap structure.
- Staff presented a status report on the efforts to implement the recommendations at the last quarterly meeting including the changes to Title 4 of the City of San Jose Municipal Code. The changes to Title 4 went into effect on November 16, 2023.
- Staff will continue to review and consider other recommendations from Procurement Improvement Study for adoption and implementation.



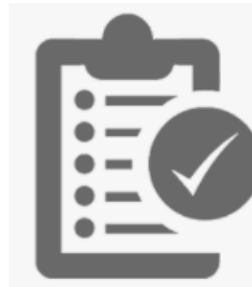
DISPARITY STUDY UPDATE

- A Citywide Disparity Study is underway to evaluate any need for new or updated procurement policies to facilitate participation of diverse business enterprises in City contracting.
- Finance-Purchasing, in collaboration with the City Manager's Office of Communications, Racial Equity and Economic Development & Cultural Affairs, is working with MGT of America Consulting, LLC to deliver this scope of work.
- MGT Consulting has provided staff with a full draft report of the study. Staff is reviewing the draft report and providing input to the consultant. Staff hopes to complete the review by the middle of February 2024.
- Target date for final completion of the study is end of March 2024.



RISK MANAGEMENT PROGRAM

The Division is responsible for the procurement and oversight of the City's property and casualty insurance programs and providing contractual risk management services, property subrogation claims reporting and other key services to City Departments.



RISK MANAGEMENT TRANSACTIONS COMPLETED

SECOND QUARTER FY2023-24

Transaction Type	Second Quarter Transactions	Fiscal Year to Date
Request for Contract Insurance Specifications	242	604
Request for Insurance Compliance Review	206	359
Request for Letters of Self-Insurance	19	39
Subrogation Dollars Billed to Responsible Third Parties	\$150,200	\$343,203
Council and Committee Memorandums Issued	0	2



OTHER SECOND QUARTER RISK MANAGEMENT ACCOMPLISHMENTS

- Other highlights include:
 - Facilitated property loss prevention visits at the San Jose – Santa Clara Regional Wastewater Facility, the Central Service Yard, the San Jose Museum of Art, and the Police Department Administrative Building
 - Negotiated \$504,516 in insurance recoveries from property and builders risk insurers related to property losses at History Park and the San Jose-Santa Clara Regional Wastewater Facility
 - Implemented business process automation for Self-Insurance Letter Requests

