

# **FOURTH QUARTER FINANCIAL REPORT FISCAL YEAR 2022-2023**

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

**Prepared by the Finance Department  
August 2, 2023**

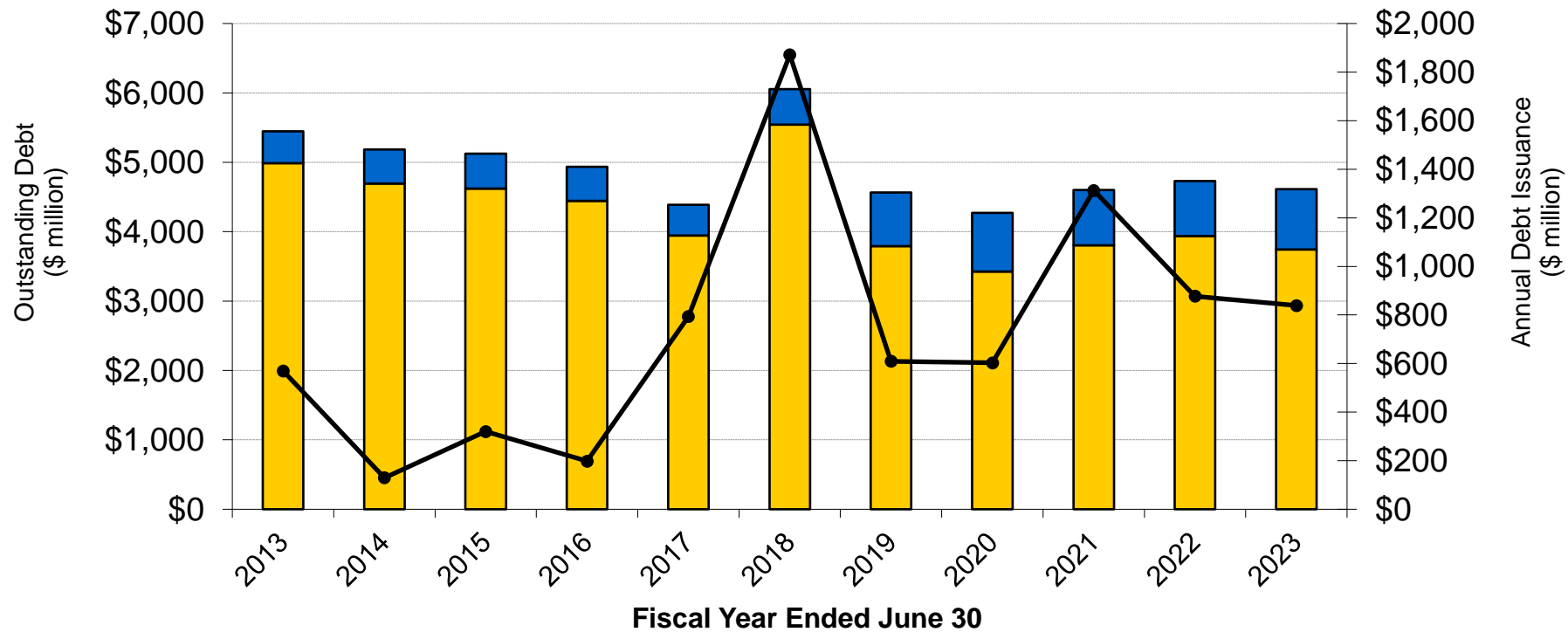


# **FOURTH QUARTER DEBT MANAGEMENT REPORT FISCAL YEAR 2022-2023**



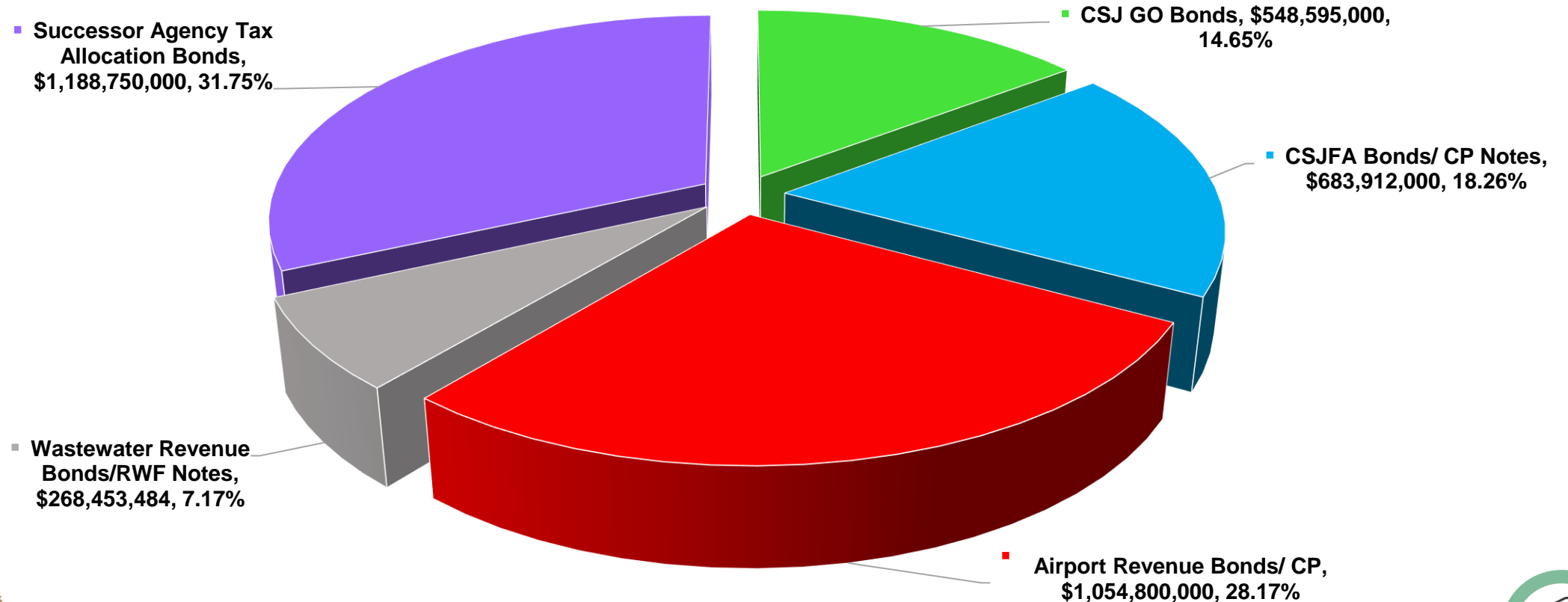
# OUTSTANDING DEBT ISSUED (CITY AND ALL AGENCIES)

Outstanding Debt as of June 30, 2023: \$4.61 Billion  
FY 2022-23 Debt Issuance: \$838.9 Million



# DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

**Outstanding Debt as of June 30, 2023: \$3.74 Billion**  
*(Excluding Multifamily Housing Revenue Bonds)*



# DEBT ISSUANCES

- Multifamily Housing Revenue Bond Issuances

Project Name	Issue Date	Taxable	Tax-Exempt	Total Issuance
1860 ALUM ROCK APARTMENTS	5/23/2023	\$2,345,543	\$28,917,579	\$31,263,122
THE CHARLES	6/9/2023	\$8,331,928	\$44,159,700	\$52,491,628
777 WEST SAN CARLOS APARTMENTS	6/12/2023	\$1,300,000	\$70,700,000	\$72,000,000
TAMIEN STATION AFFORDABLE	6/30/2023	-	\$66,100,000	\$66,100,000
<b>TOTAL</b>		<b>\$11,977,471</b>	<b>\$209,877,279</b>	<b>\$221,854,750</b>

- Short-Term Debt Issuances in June 2023

	Total Issuance
AIRPORT COMMERCIAL PAPER, SERIES A-I (NON-AMT)	\$10,000,000
CSJFA COMMERCIAL PAPER (TAXABLE) – FLOOD IMPROVEMENT PROJECTS	\$417,000
SUBORDINATE WASTEWATER REVENUE NOTE, SERIES A	\$98,500
<b>TOTAL</b>	<b>\$10,515,500</b>



# DEBT REDEMPTIONS

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- 2022 Tax and Revenue Anticipation Note was fully redeemed on June 30
- San José Clean Energy repaid \$20.0 million of Taxable CSJFA Lease Revenue Commercial Paper in May
- San José Airport repaid \$24.6 million of Airport Commercial Paper, Series B (AMT) in June; No Series B (AMT) is outstanding



# DEBT MANAGEMENT ACTIVITIES

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- Debt Administration

- Subordinate Wastewater Revenue Notes, Series A
  - Extended the Credit Agreement for additional three years; through October 2026
  - Reduced the Credit Facility from \$300 million to \$200 million
- Completed RFP solicitation for Municipal Advisory Services and selected advisors for six engagements
- Rating surveillance from Moody's and S&P

- Reporting

- Annual Debt Service Compliance Certificate – CSJFA Commercial Paper (June)
- Annual Compliance Budget Requirement – Airport Commercial Paper (May), CSJFA Commercial Paper (June), and CSJFA Lease Revenue Bonds, Series 2013B (June)



# UPCOMING PROJECTS THROUGH SEPTEMBER 30, 2023

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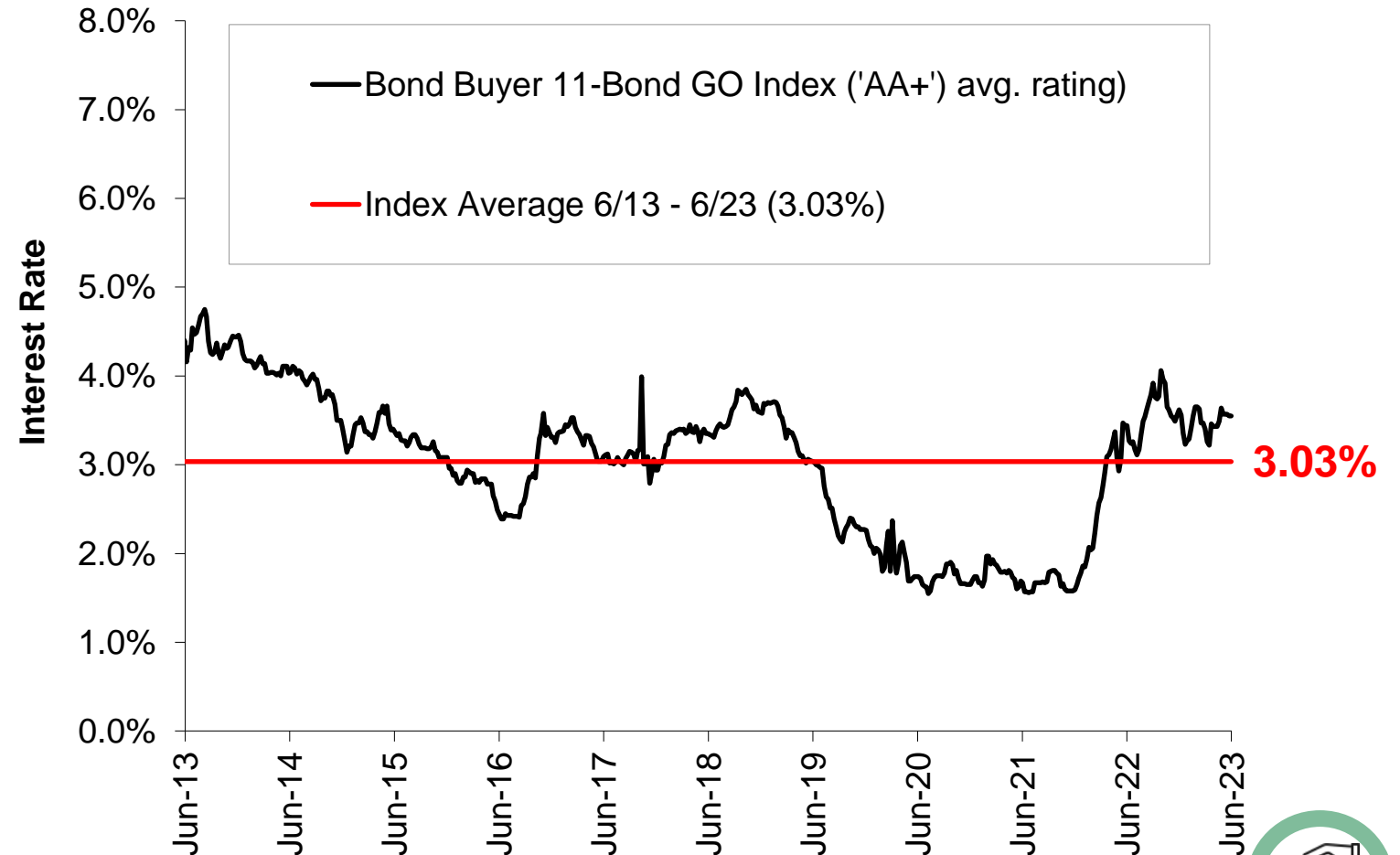
- Debt Issuance
  - CSJFA Commercial Paper (Tax-Exempt) for Muni Water – Administration and Operations Facility in September 2023
  - Airport Commercial Paper, Series A-I (Non-AMT)
  - Explore Airport bonds refunding opportunities
- Debt Administration
  - Request for Proposals for Arbitrage Rebate Services and select arbitrage rebate consultant
  - Execute contracts for newly selected municipal advisors





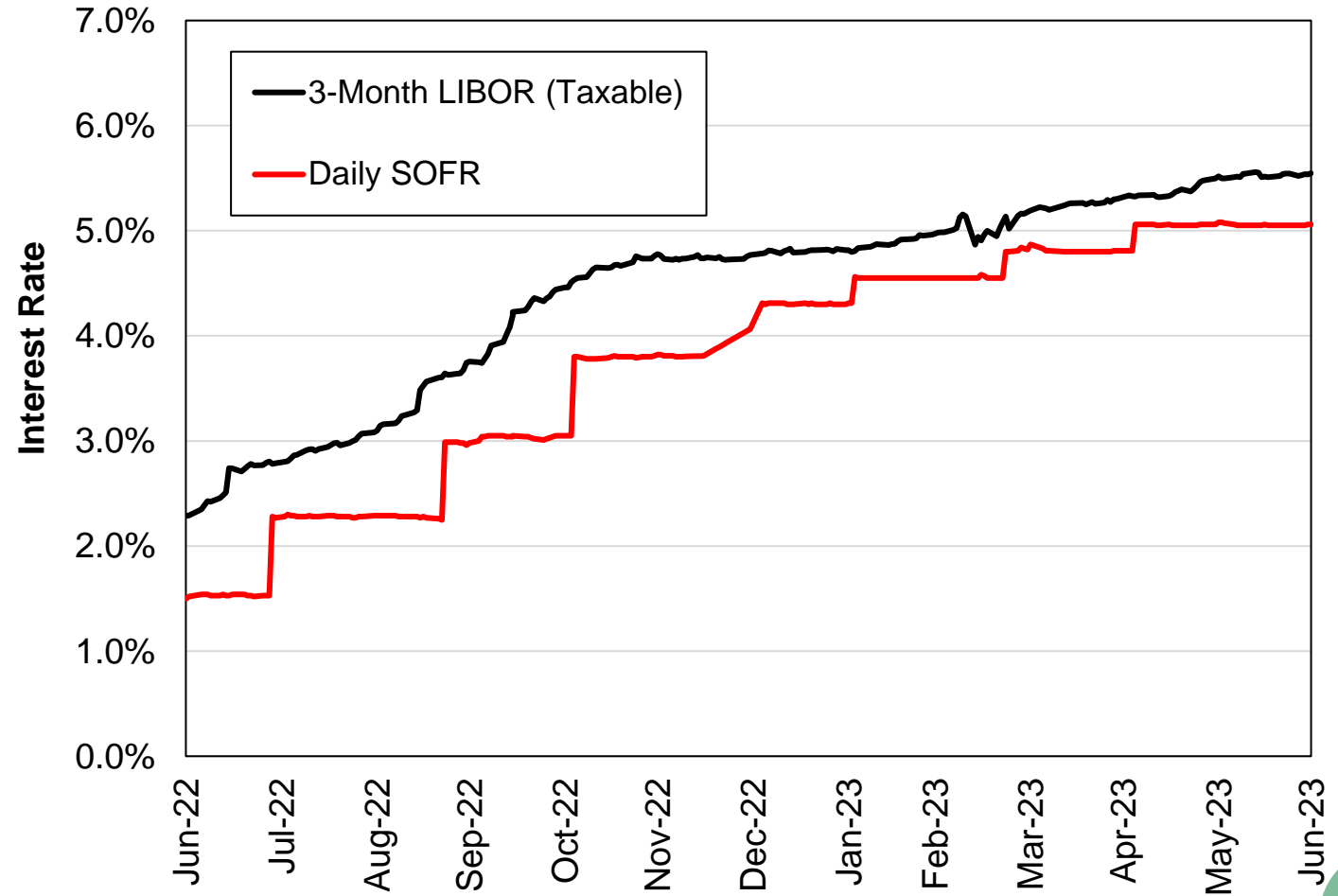
# BOND BUYER GO BOND YIELD INDEX

- 10-year history of higher rated (“AA+”) General Obligation debt (20-year term) yield averaged 3.03% and is currently at 3.54% (as of 7/6/2023).



# VARIABLE INTEREST RATES (TAXABLE)

- Taxable LIBOR interest rates paid by the City averaged 5.39% in Q4. The Daily SOFR interest rate which replaced the LIBOR as of July is currently 5.06% (as of 7/7/2023).
- The graph shows the increase in variable interest rates in FY 22-23.



# 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 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	KBRA (Kroll)
ISSUER RATING	Aa1 (stable)	AA+ (stable)	AA+ (stable)	N/A
GENERAL OBLIGATION BONDS	Aa1 (stable)	AA+ (stable)	AAA (stable)	N/A
LEASE REVENUE BONDS (ESSENTIAL ASSETS)	Aa2 (stable)	AA (stable)	AA (stable)	N/A
LEASE REVENUE BONDS (LESS ESSENTIAL ASSETS)	Aa3 <sup>[2]</sup> (stable)	AA (stable)	AA- <sup>[3]</sup> (stable)	N/A
WASTEWATER REVENUE BONDS	N/A <sup>[1]</sup>	AAA (stable)	AAA (stable)	AAA <sup>[4]</sup> (stable)

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

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

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

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



# OTHER CITY CREDIT RATINGS

Type of Rating	Moody's	S&P	Fitch
SAN JOSÉ AIRPORT BONDS	A2 (stable)	A (stable)	A (stable)
SARA SENIOR TAX ALLOCATION BONDS	N/A	AA (stable)	AA (stable)
SARA SUBORDINATE TAX ALLOCATION BONDS	N/A	AA- (stable)	AA- (stable)



# **FOURTH QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023**



# INVESTMENT POLICY

## (COUNCIL POLICY 1-12)

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- 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

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- 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)





# INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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The report noted two findings for the period of July – December 2022, and no exceptions to the Investment Policy

- The first finding noted a difference in market value of 0.03% due to outdated fair market values (FMVs) in the City's investment management system
  - The City has subsequently corrected the FMVs in the City's investment management system
- The second finding noted a net variance of \$11 million between the Investment Report and the City's general ledger due to posting errors
  - The City has subsequently corrected all variances
  - Finance staff has implemented an additional reconciliation process to prevent similar posting errors in the future



# PORTFOLIO PERFORMANCE SUMMARY

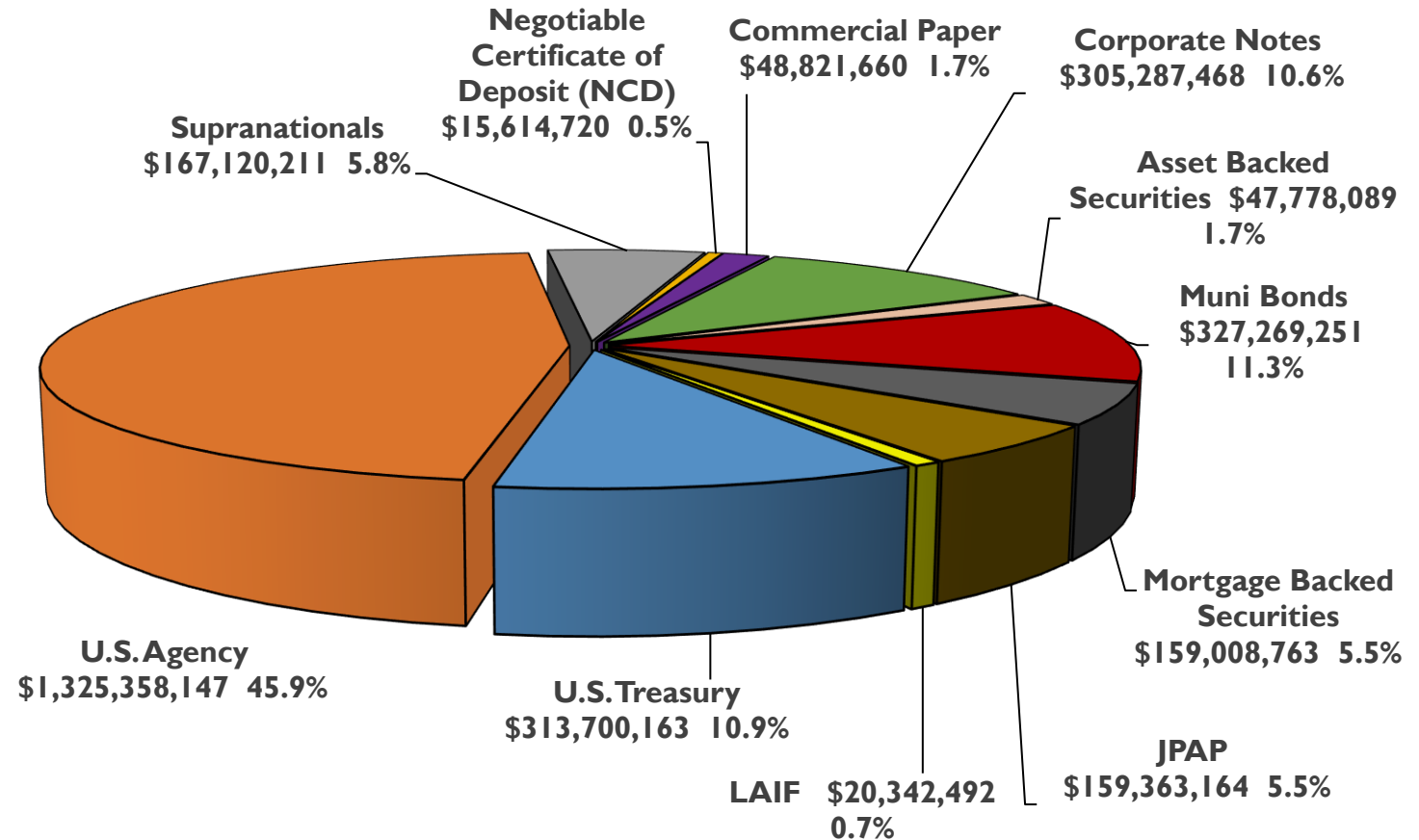
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SIZE OF TOTAL PORTFOLIO	\$2,889,664,128
EARNED INTEREST YIELD	2.858%
WEIGHTED AVERAGE MATURITY	530 days
FISCAL YEAR-TO-DATE NET INCOME RECOGNIZED	\$62,078,780
EXCEPTIONS TO THE CITY INVESTMENT POLICY THIS QUARTER	None



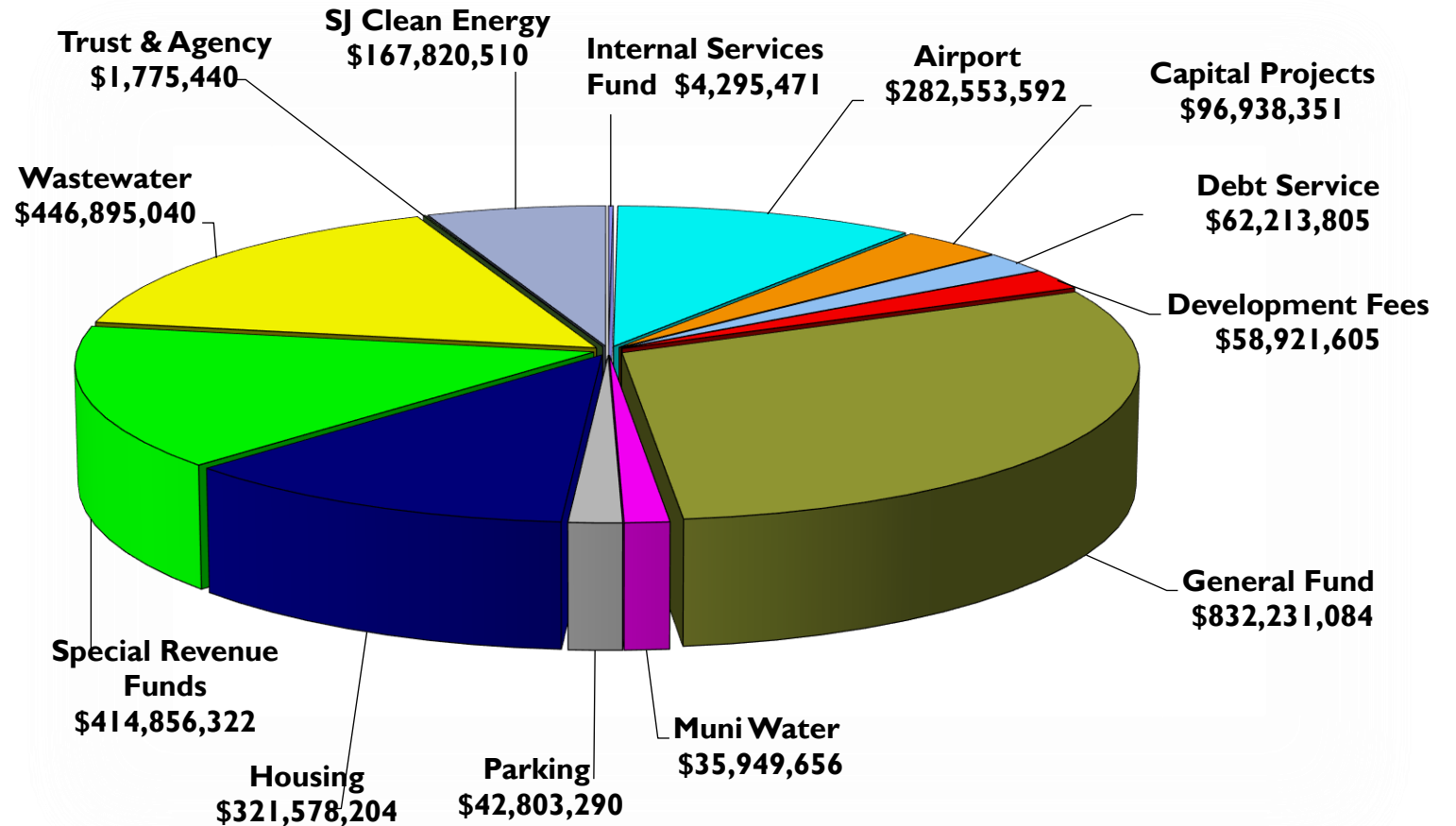
# PORTFOLIO INVESTMENTS

Total Investment Portfolio:  
\$2,889,664,128



# INVESTMENTS BY FUND

The \$832.2 million in the General Fund presented includes \$564.1 million of General Fund monies, as well as \$268.1 million in other, separately tracked general funds, such as the Emergency Reserve Fund, the American Rescue Plan Act (ARPA) of 2021 and other smaller funds and reserves.



# GENERAL FUND BALANCE

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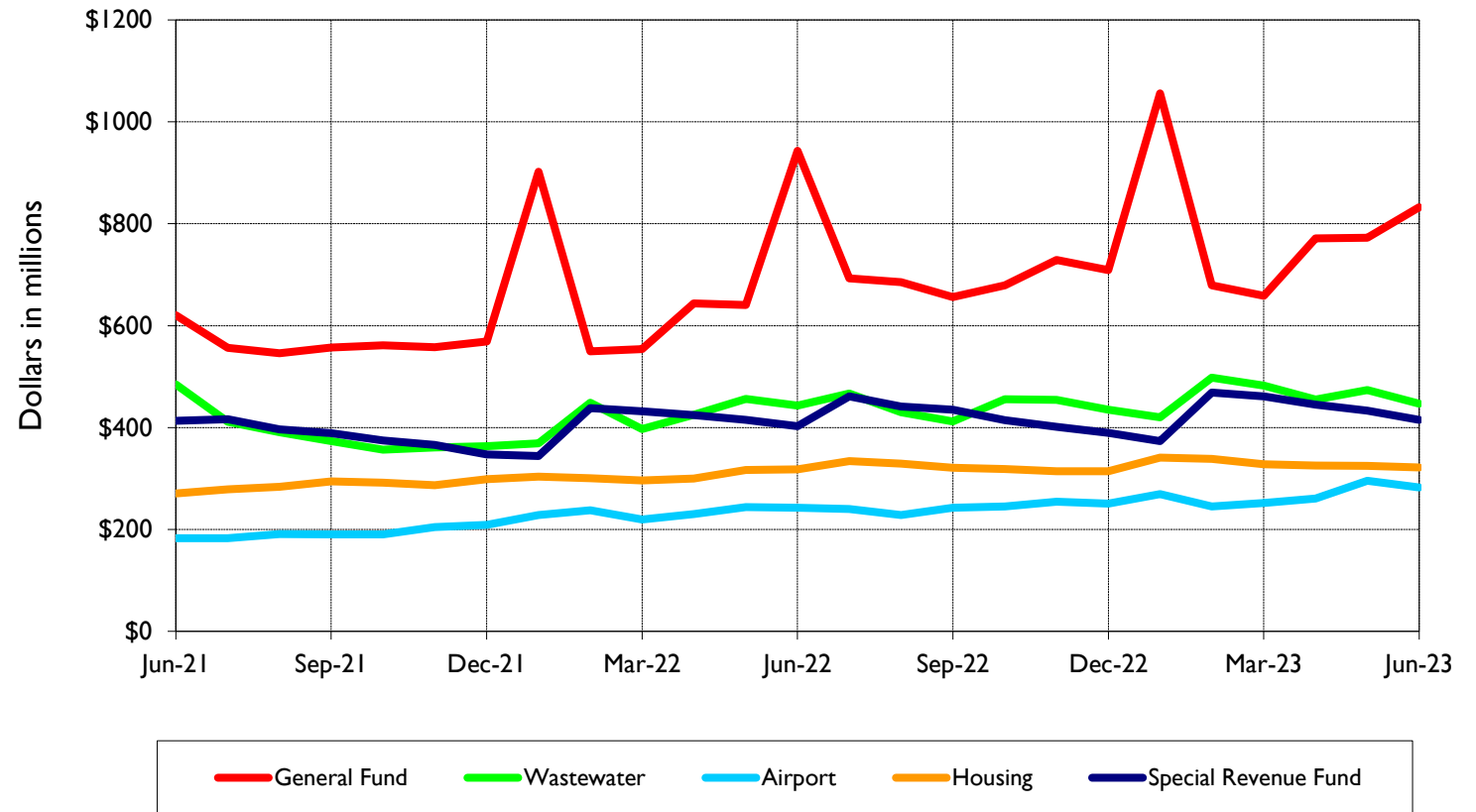
- General Fund balance increased by \$173 million during the quarter due to debt service payments and ended with a balance of \$832.2 million as of June 30, 2023
  - General Fund balances usually peak during the months of January and June, when the bulk of property taxes are received, decline in the summer due to retirement prefunding; and decline 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

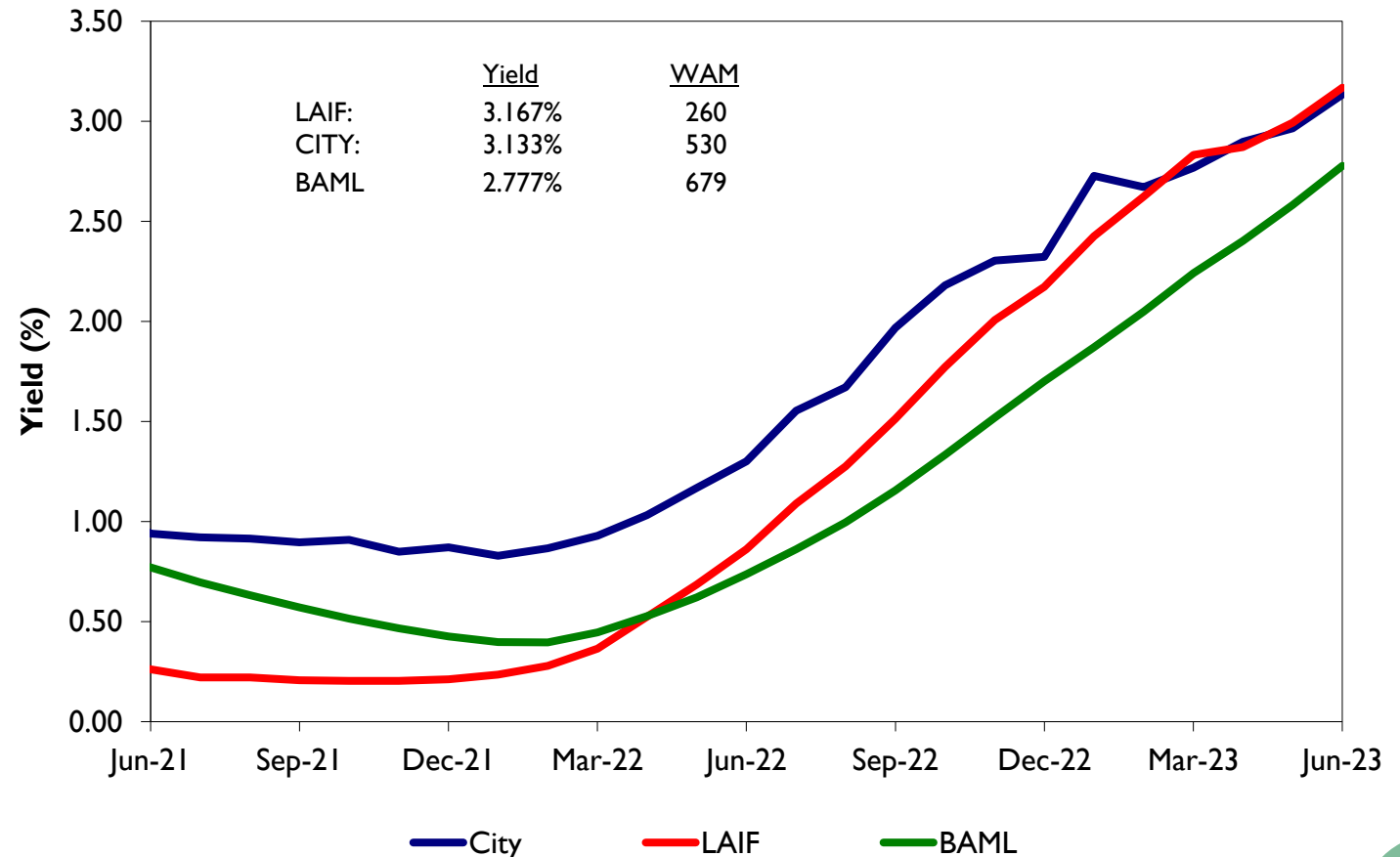
## (BY SELECT FUNDS)

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

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- 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





# **FOURTH QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023**



# REVENUE MANAGEMENT PROGRAMS

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- Finance Department Revenue Management focuses on collecting all 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.



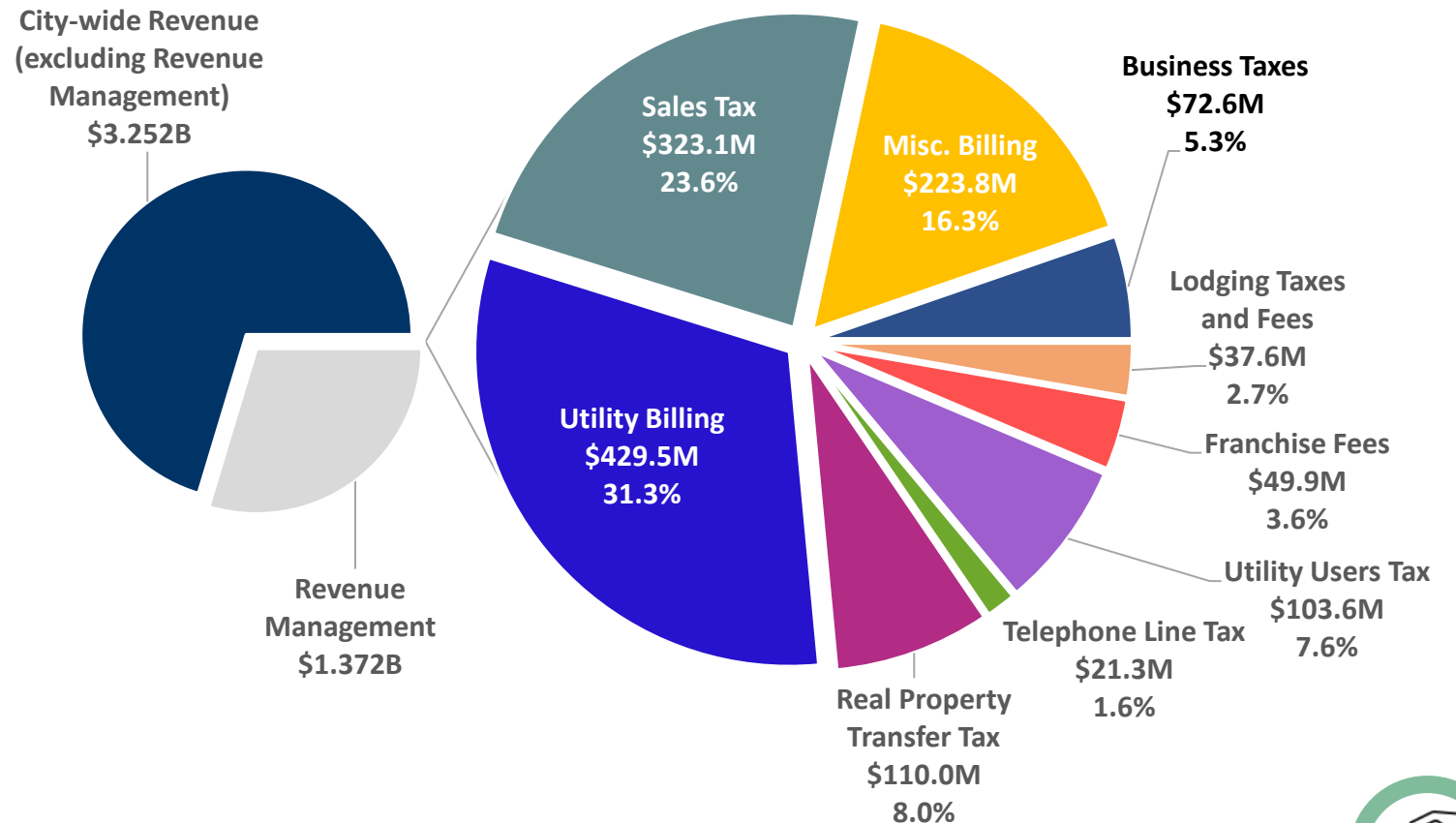
# REVENUE MANAGEMENT PORTFOLIO

## FY 2021-22 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.624B

Source: 2021-22 City Manager's  
Budget Office Annual Report

(Graph is updated annually)

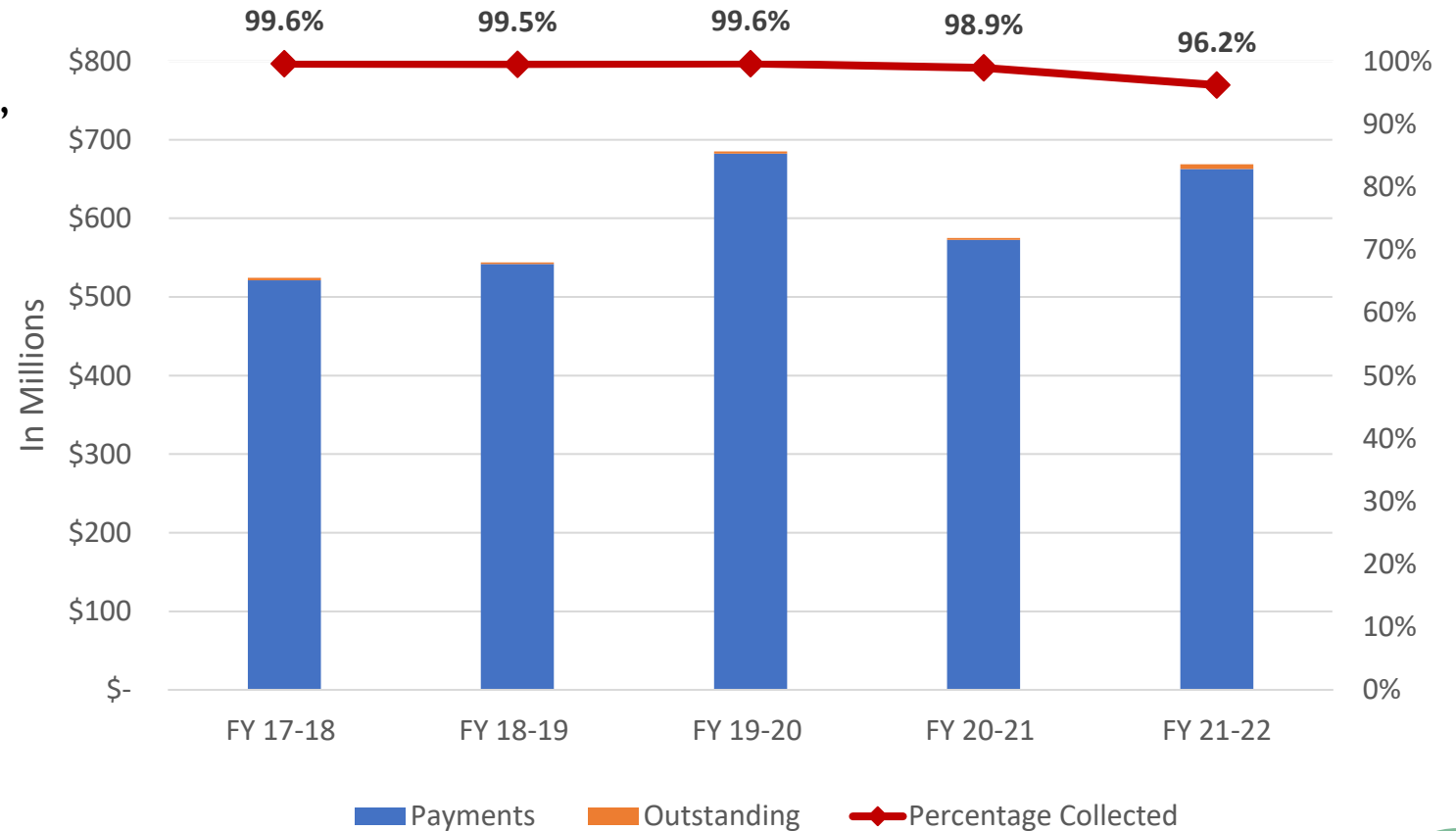


# INVOICING AND PAYMENTS

## FIVE-YEAR HISTORY (FY 2017-18 TO FY 2021-22)

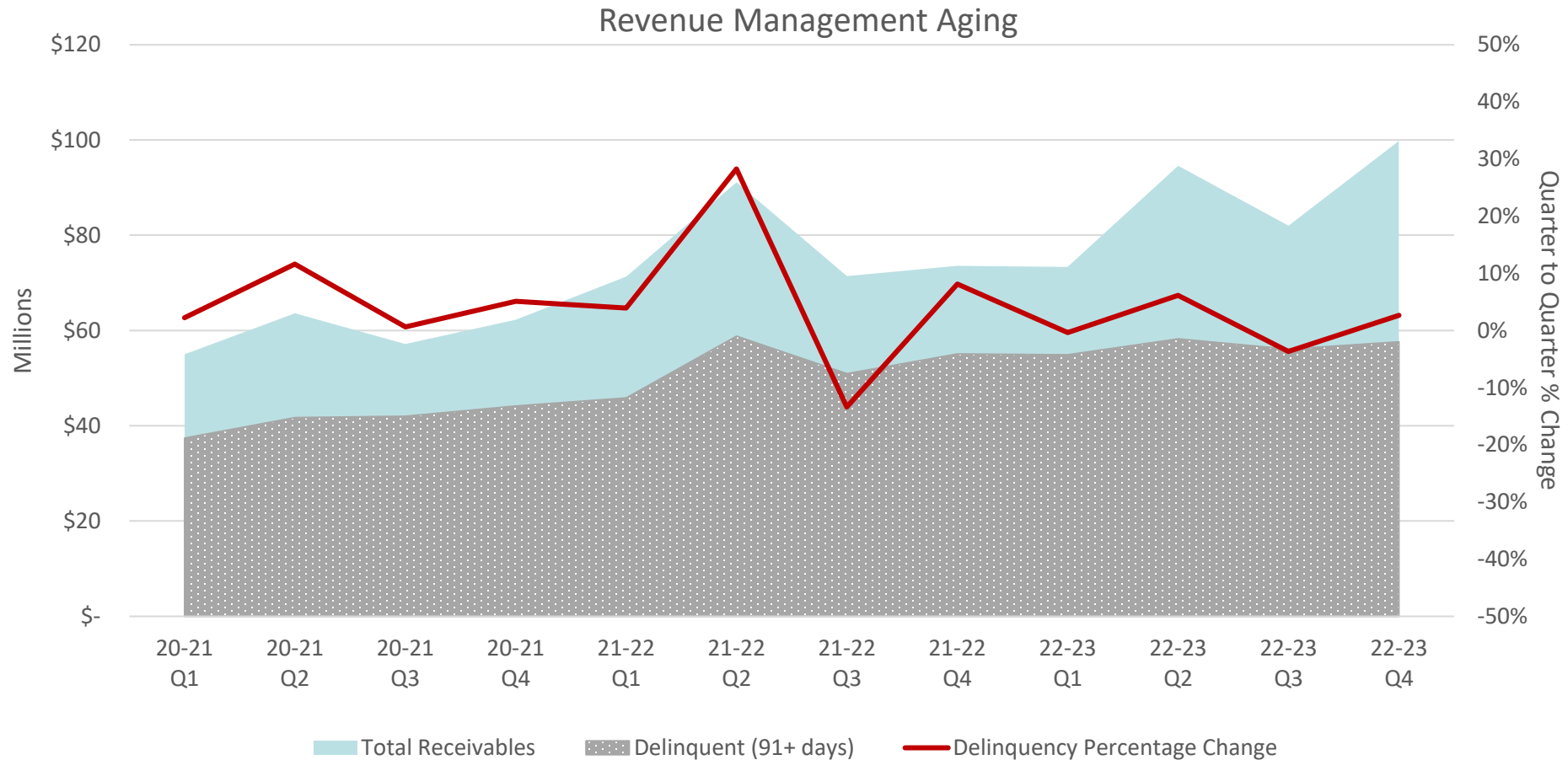
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System.

(Graph is updated annually)



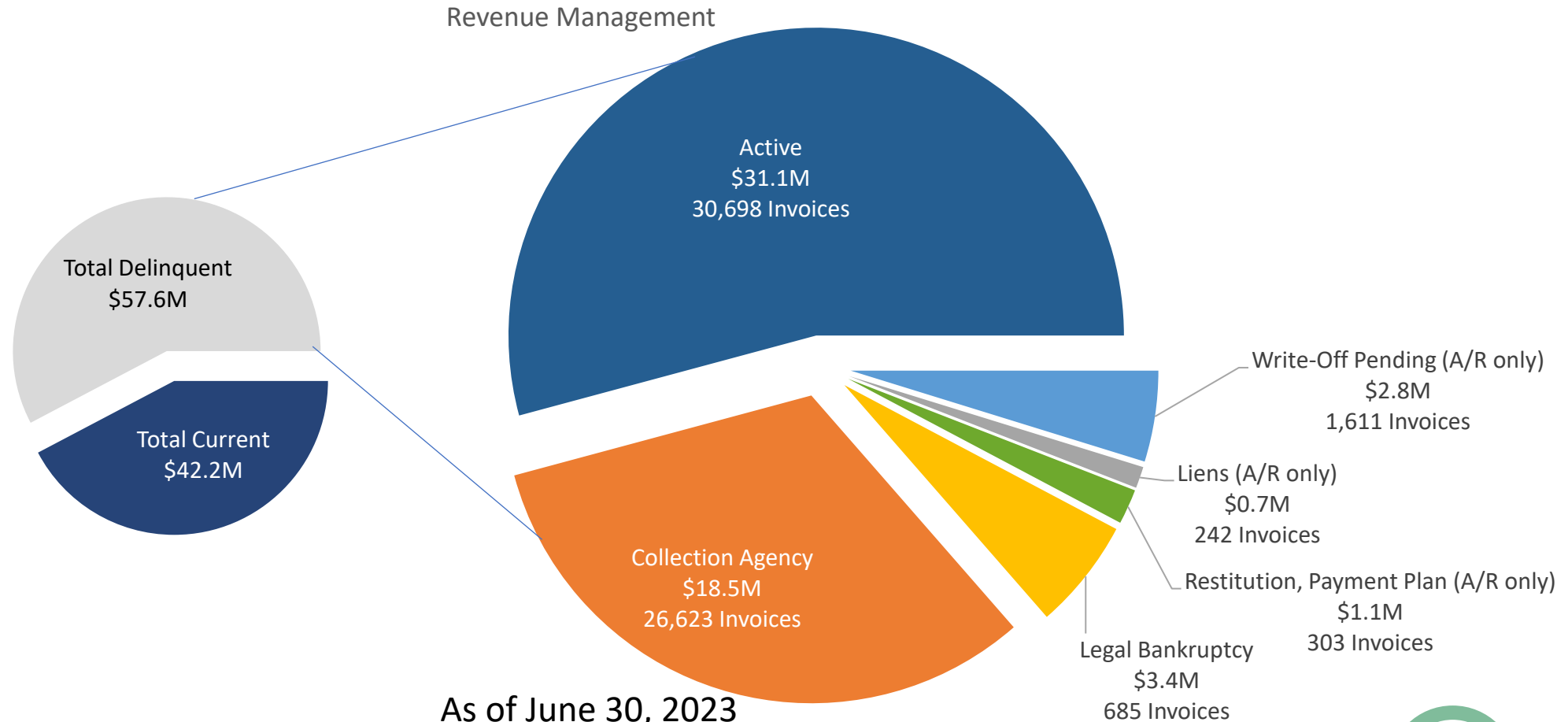
# OUTSTANDING RECEIVABLES

## THREE-YEAR HISTORY (Q1 FY 2020-21 To Q4 FY 2022-23)



# FY 2022-23 Q4 DELINQUENT RECEIVABLES

## COLLECTION STATUS SUMMARY (\$ IN MILLIONS\*)

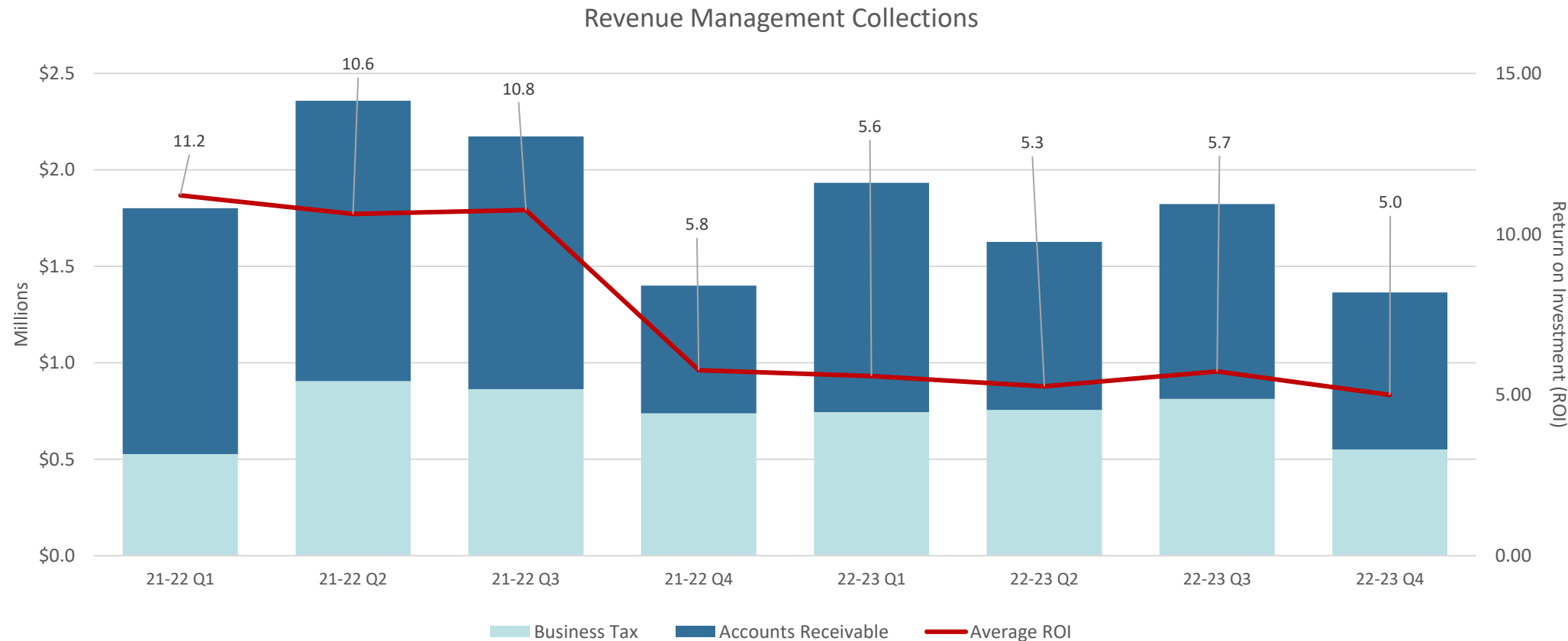


\*Rounded



# COLLECTIONS & RETURN ON INVESTMENT

## REVENUE MANAGEMENT COLLECTIONS (Q1 FY 2021-22 To Q4 FY 2022-23)



Target ROI: 5.0



# ACCOUNTS RECEIVABLE AMNESTY PROGRAM

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- 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 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 as of June 30, 2023: \$184.3K
- Payment Plan Pending Amount as of June 30, 2023: \$37.5K
- Amnesty Outreach:
  - 3,046 letters sent in January and February 2023
  - 2,471 final notices sent in June 2023





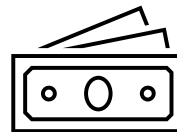
# **FOURTH QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023**



# PURCHASING PROGRAM

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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

## FOURTH QUARTER FY2022-23

PROCUREMENT TYPE	FOURTH QUARTER TRANSACTIONS	FISCAL YEAR TO DATE
REQUEST FOR QUOTES AWARDED	13	49
REQUEST FOR BIDS AWARDED	5	43
REQUEST FOR INFORMATION COMPLETED	1	5
REQUEST FOR PROPOSALS AWARDED	0	3
PURCHASE ORDERS AND PURCHASE ORDER ADJUSTMENTS ISSUED	417	2,043
NEW AGREEMENTS NEGOTIATED AND EXECUTED	2	17
AMENDMENTS, CHANGE ORDERS, SERVICE ORDERS, OPTIONS EXECUTED	37	138
COUNCIL MEMORANDA ISSUED	21	56
PURCHASE ORDER & CONTRACT DOLLARS PROCURED	\$66,848,819	\$398,811,493



# PROCUREMENT IMPROVEMENT UPDATE

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- 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.
- City Attorney's Office has completed the initial draft of the ordinance to implement the proposed changes to Title 4. The planned date to return to Council with the proposed ordinance is September 2023.
- Staff will continue to review and consider other recommendations from Procurement Improvement Study for adoption and implementation.



# DISPARITY STUDY UPDATE

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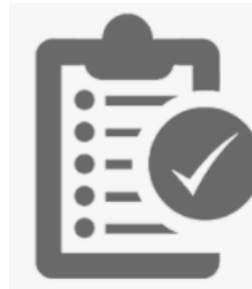
- A Citywide Disparity Study is underway to evaluate any need for new or updated procurement policies to facilitate participation of diverse business enterprises in City contracting.
- Finance-Purchasing, in collaboration with the City Manager's Office of Communications, Racial Equity and Economic Development & Cultural Affairs, is working with MGT of America Consulting, LLC to deliver this scope of work.
- Completed Activities this Quarter
  - MGT conducted more targeted outreach to contractors resulting in increased participation.
  - The Mayor recorded a call-to-action video which will be hosted on the study website.
  - In anticipation of study completion in October, MGT has begun developing the final report.



# RISK MANAGEMENT PROGRAM

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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

## FY2022-23, FOURTH QUARTER

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TRANSACTION TYPE	Fourth Quarter Transactions	Fiscal Year to Date
REQUEST FOR CONTRACT INSURANCE SPECIFICATIONS	347	1,151
REQUEST FOR INSURANCE COMPLIANCE REVIEW	244	679
REQUEST FOR LETTERS OF SELF-INSURANCE	27	82
SUBROGATION DOLLARS BILLED TO RESPONSIBLE THIRD PARTIES	\$99,840	\$681,000
COUNCIL AND COMMITTEE MEMORANDUMS ISSUED	2	5



# RISK MANAGEMENT PROGRAM ACTIVITIES

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- Facilitated property loss prevention visits at the Civic Auditorium Complex and Montgomery Theater
- Completed San José Mineta International Airport property appraisal
- Negotiated \$323,844 in insurance recoveries related to capital projects at the San José – Santa Clara Regional Wastewater Facility
- Implemented Special Events Liability Insurance Program

