

Second Quarter Financial Report for Fiscal Year 2019-2020

Public Safety, Finance and Strategic Support Committee

Presenters:

Julia H. Cooper, Director of Finance

Luz Cofresi-Howe, Assistant Director of Finance

Rick Bruneau, Deputy Director of Finance

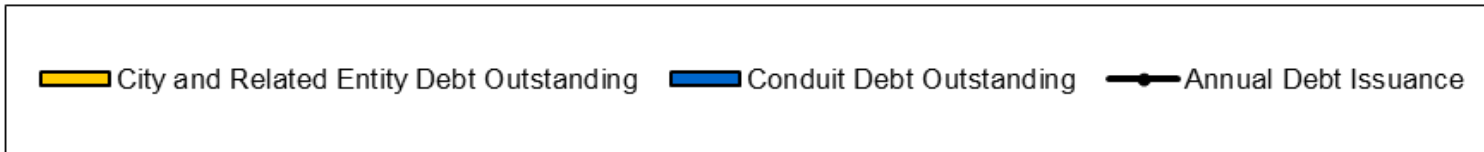
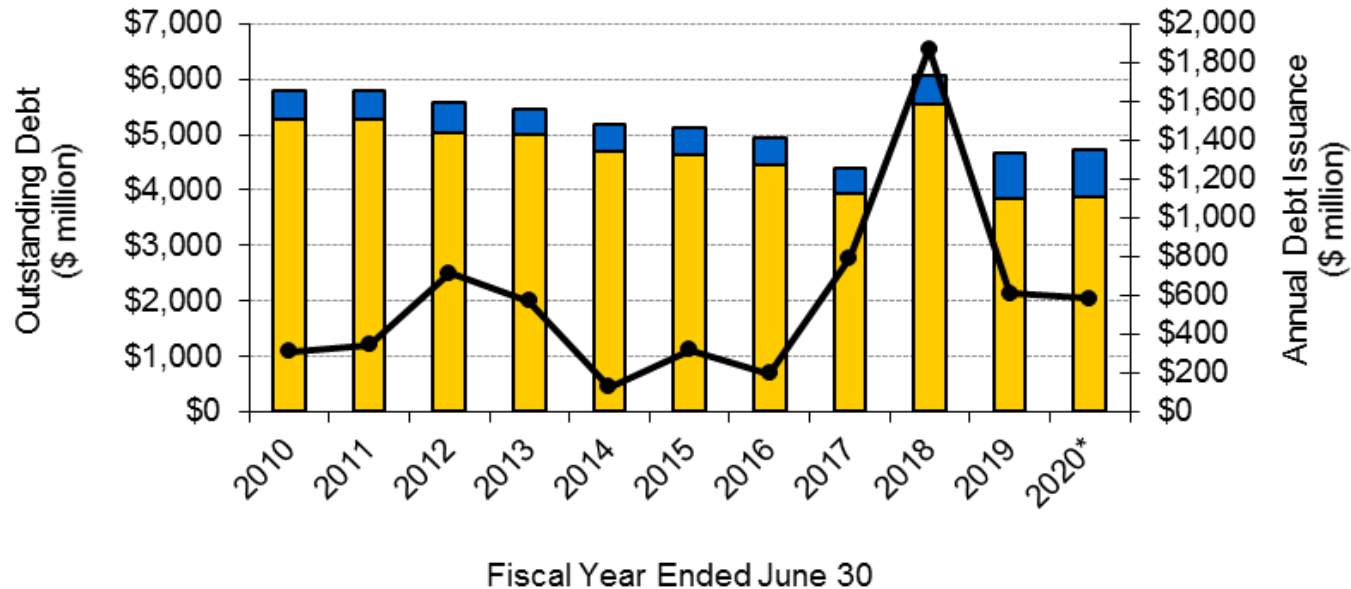
Qianyu Sun, Principal Investment Officer

Joe Gray, Debt Administrator

Second Quarter Debt Management Report for Fiscal Year 2019-2020

Outstanding Debt Issued by All Agencies

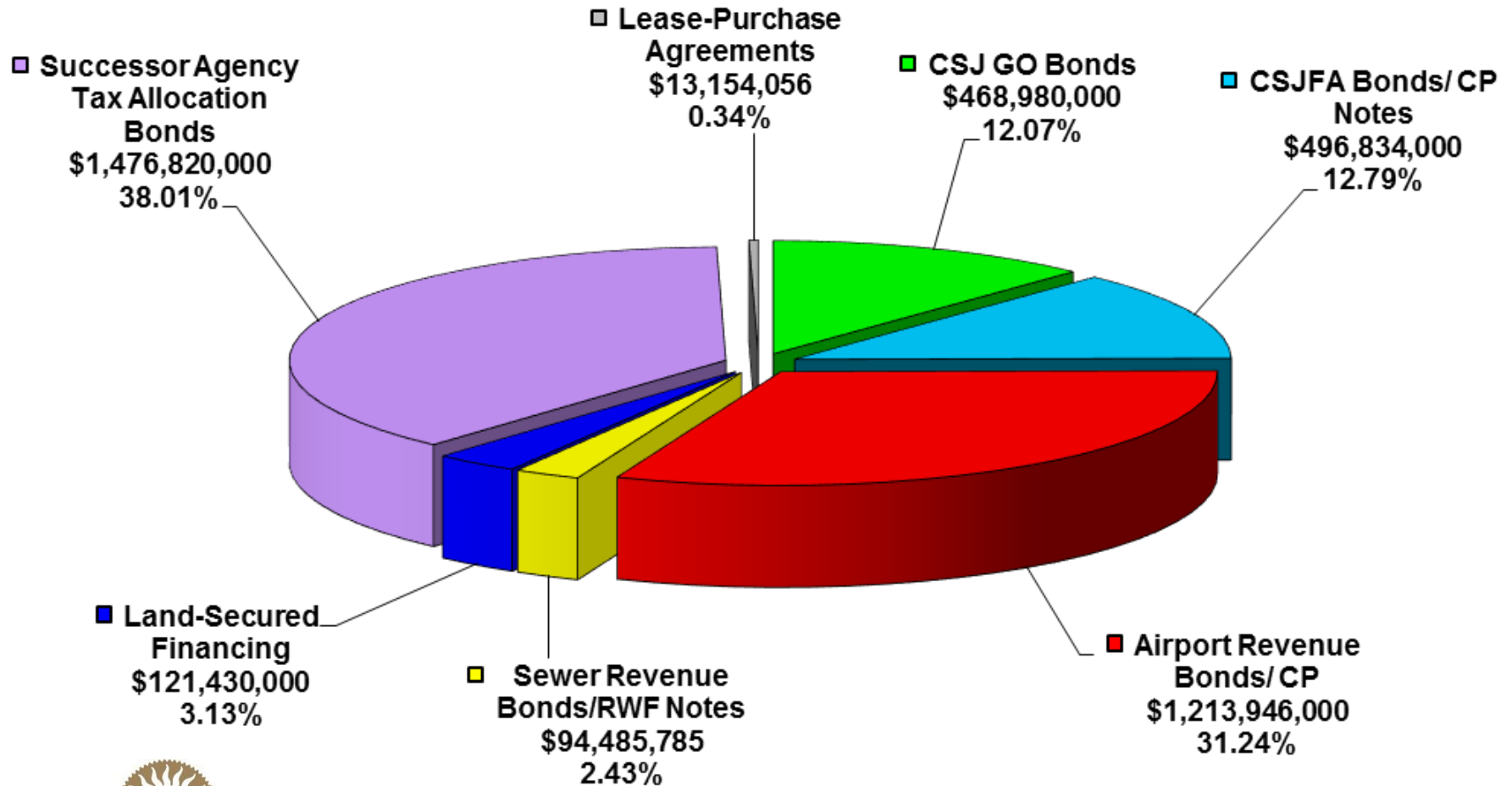
Outstanding Debt as of December 31, 2019: \$4.7 Billion
 FY 2019-20 Actual Debt Issuance: \$584.1 Million



* YTD Debt Issuance

Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of December 31, 2019: \$3,885,649,841



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

Selected Debt Issuance and Debt Management Activities during 2nd Quarter (Oct-Dec 2019)

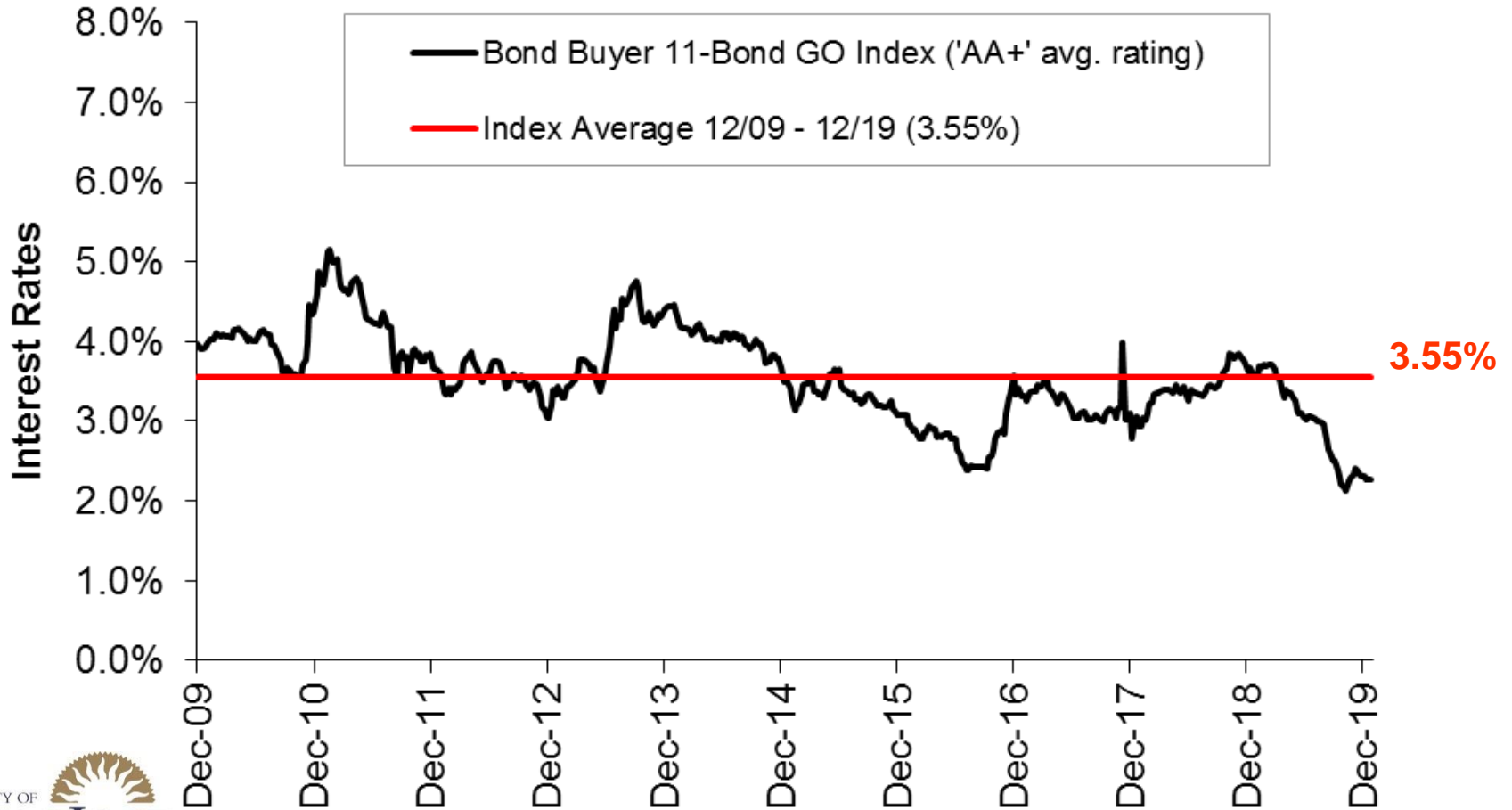
- Debt Issuance
 - Multi-Family Housing Revenue Obligation
 - Vista Park I - \$13.2 million (October 2019)
 - Palm Court - \$12.2 million (October 2019)
 - Quetzal Gardens - \$32.2 million (December 2019)
 - Norman Y. Mineta San Jose International Airport Commercial Paper Notes
 - \$3.0 million (November 2019)
- Debt Management
 - Request for Proposals (RFP) – Underwriter Services for CSJFA lease revenue bonds (Ice Centre Expansion and CSJFA Refundings)
- Reporting
 - 2019 Comprehensive Annual Debt Report (CADR)
 - Annual Continuing Disclosure/Compliance Reporting to Municipal Securities Rulemaking Board (MSRB)

Upcoming Debt Issuance and Management Through June 30, 2020

- Debt Issuance
 - CSJFA Lease Revenue Bonds (Taxable)
 - Ice Centre Expansion, Series 2020A (\$145 million, Spring 2020)
 - Lease Revenue Refundings, Series 2020B (\$350 million, Spring 2020)
 - Multi-Family Housing Revenue Bonds
 - Alum Rock Family Housing (\$42 million, Spring 2020)
 - Page Street Studios (\$40 million, Spring 2020)
 - West San Carlos Supportive Housing (\$35 million, Spring 2020)
 - Balbach Housing (\$45 million, Summer 2020)
- Debt Management
 - Commence Airport expansion capital and debt planning activities
 - Partially redeem CSJFA 2007A Bonds (February 2020)
- Reporting
 - Annual Debt Transparency Report to State Treasurer (January 2020)

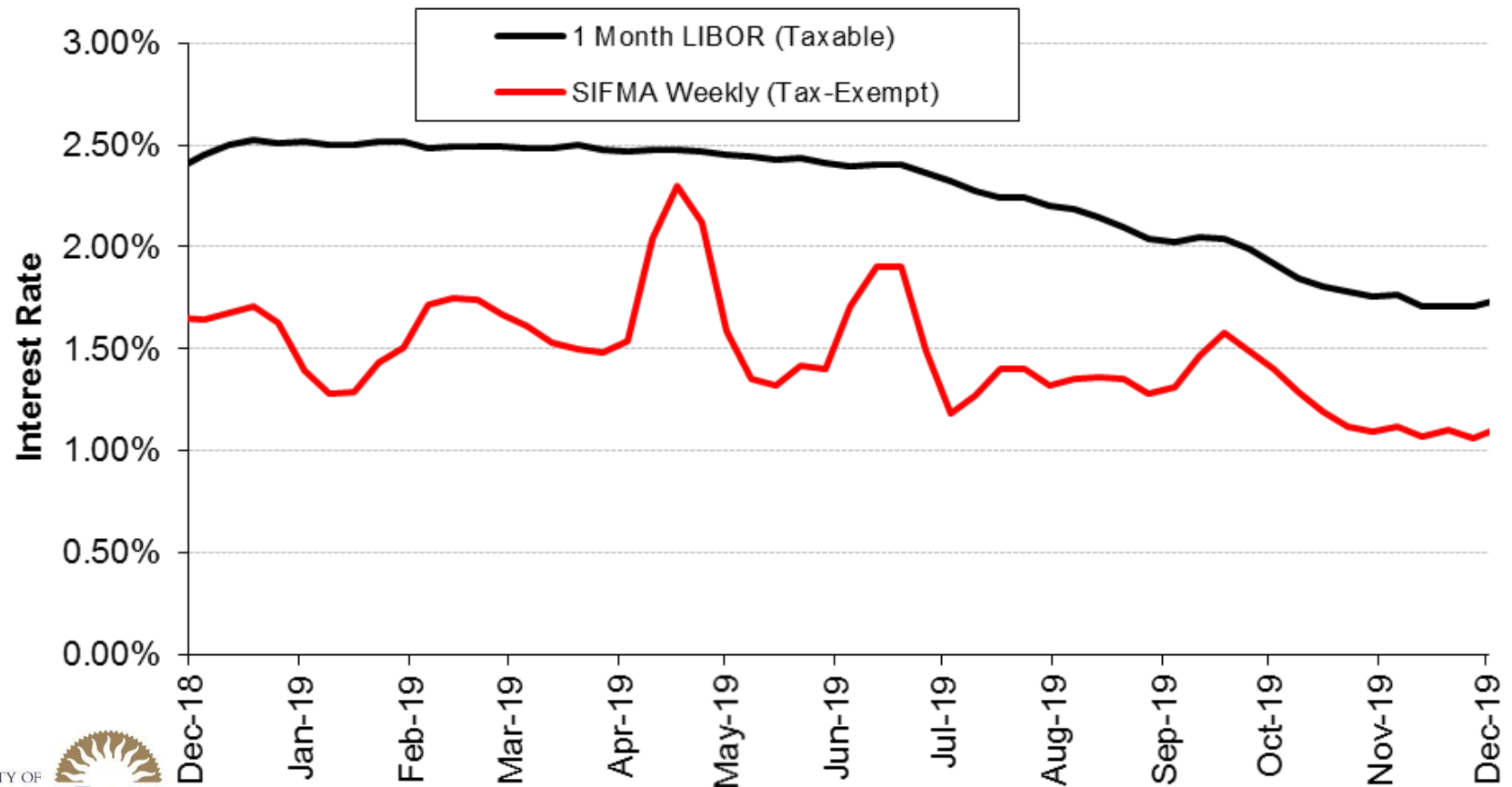
Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.55% and are currently at 2.09% (as of 1/16/20)



Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.20% in Q2 and are currently at 0.80% (as of 1/15/2020)
- Taxable LIBOR monthly interest rates paid by the City averaged 1.79% in Q2 and are currently at 1.67% (as of 1/15/2020)



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 (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 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.

Second Quarter Investment Management Report for Fiscal Year 2019-2020

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 semi-annually for compliance purposes

* A1, P1, F1 are high quality ratings for short-term securities issued by S&P, Moody's and Fitch respectively.

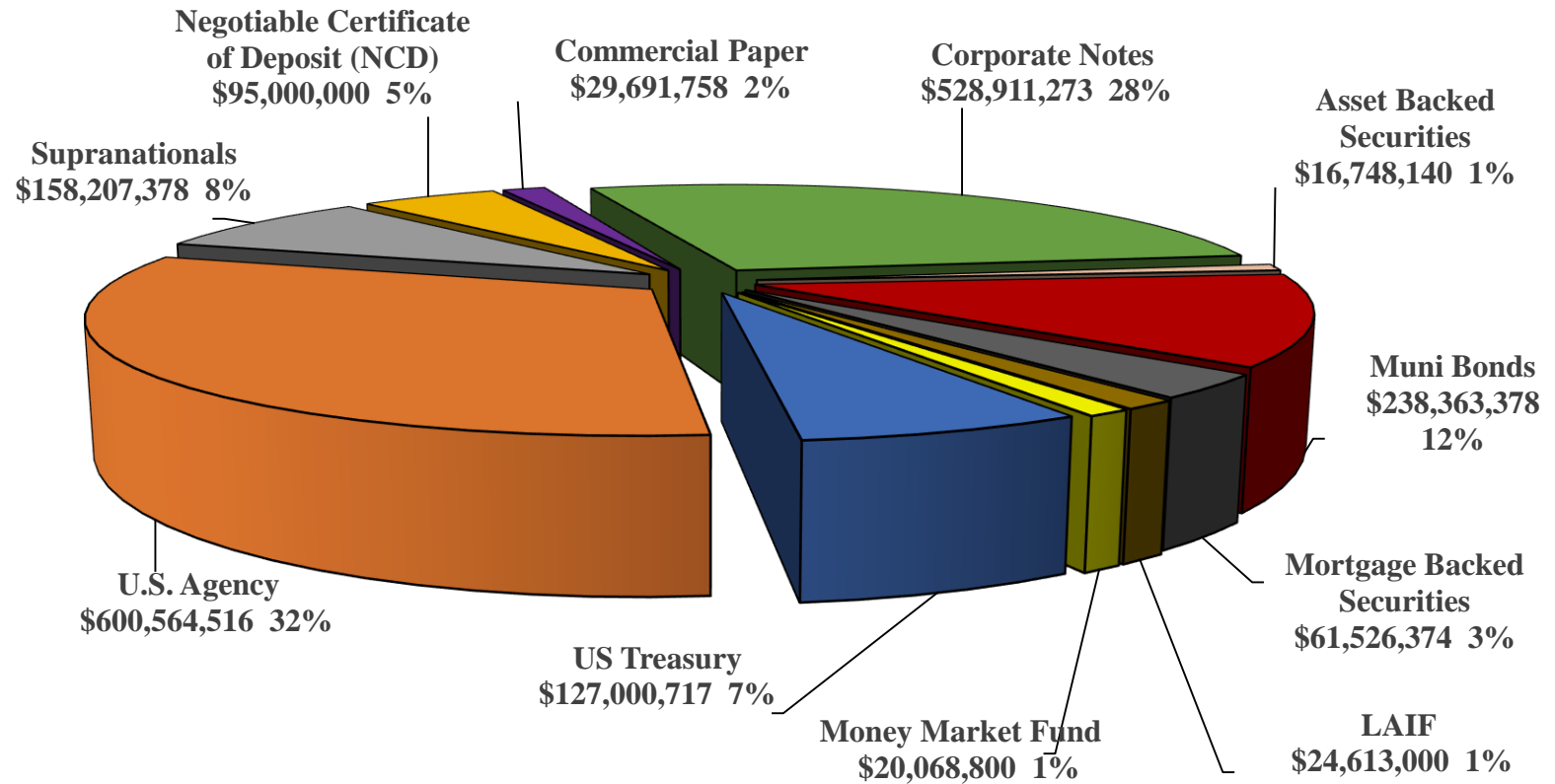
Investment Objectives & Reporting

- 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

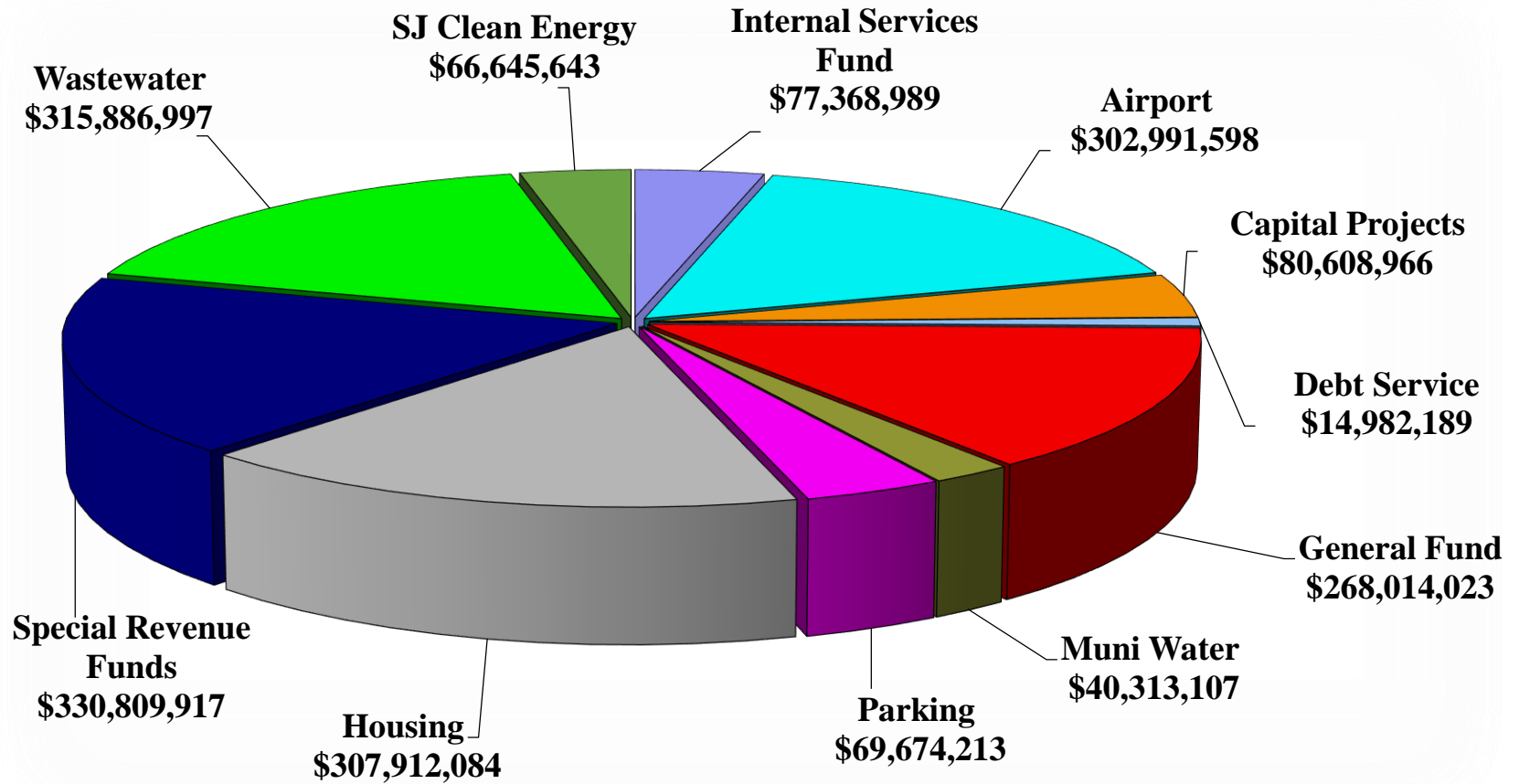
- Size of total portfolio: \$1,900,695,333
- Earned interest yield: 2.286%
- Weighted average days to maturity: 641 days
- Fiscal year-to-date net interest earnings: \$23,114,952
- No exceptions to the City's Investment Policy during this quarter.

Portfolio Investment



Total Investment Portfolio = \$1,900,695,333

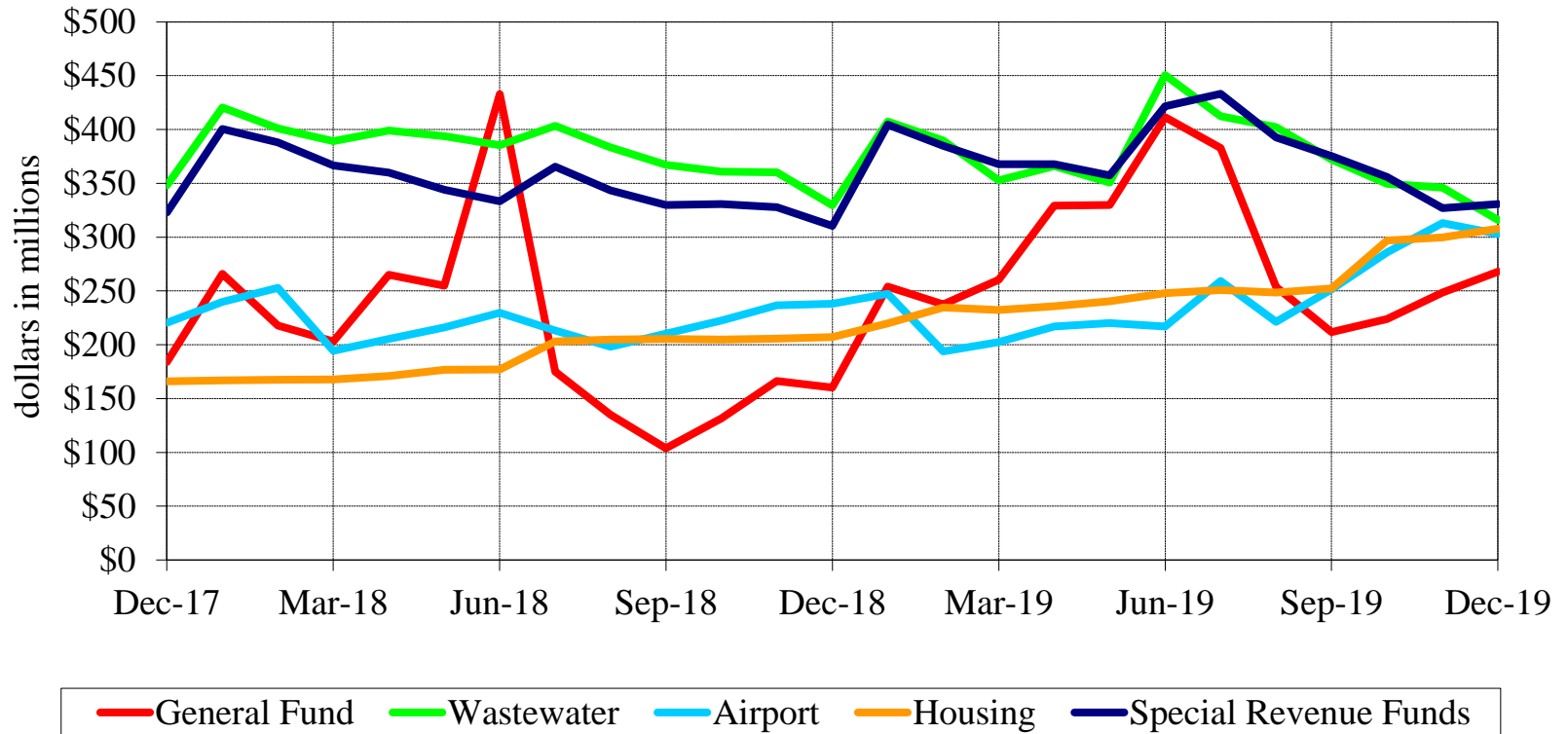
Investment by Fund



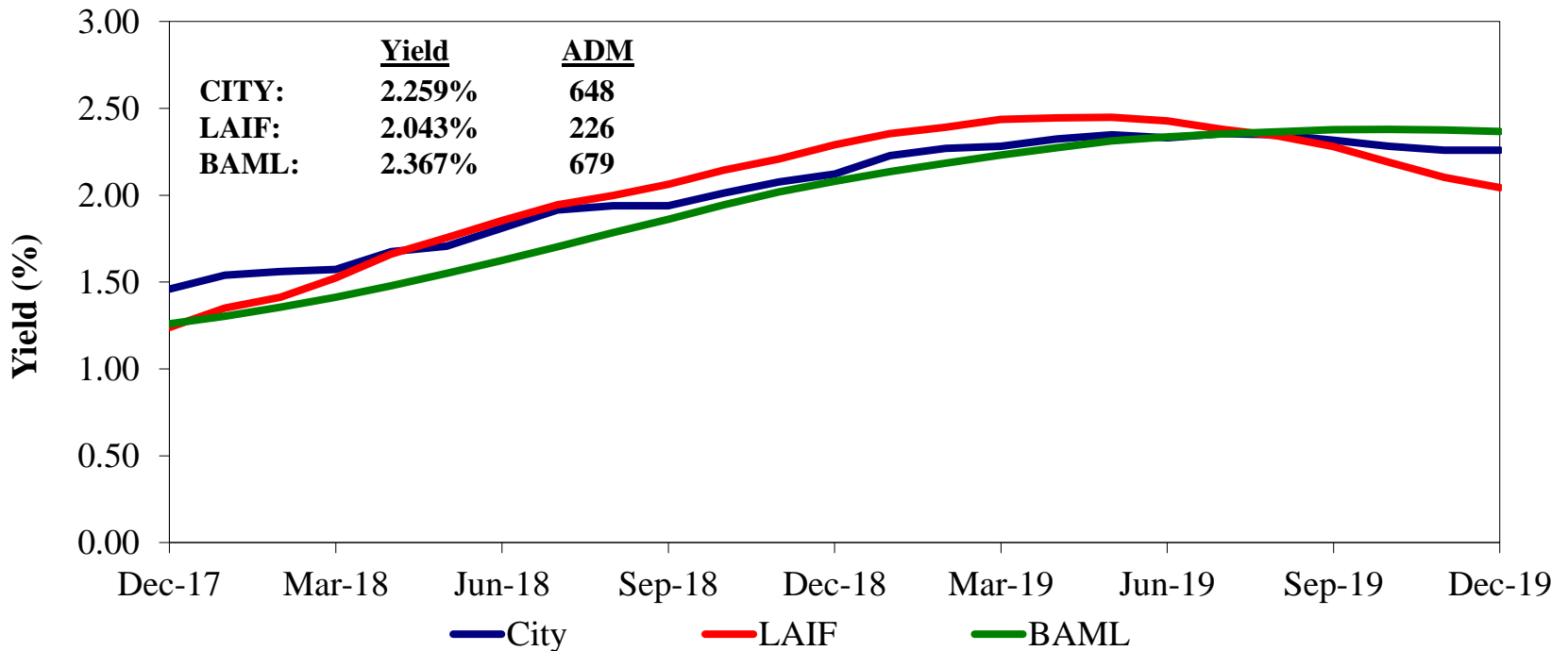
General Fund Balances

- General Fund balances increased by approximately \$56.3 million to \$268 million this quarter due to ad valorem tax advancements
- 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

Fossil Fuel Exposure

Company	Rating	Settlement Date	Maturity Date	Par Amount	Yield to Maturity
Chevron	AA	3/5/19	5/16/21	\$6,192,000	2.71%
Chevron	AA	5/13/19	5/16/21	\$10,000,000	2.50%

- Portfolio only has exposure to one fossil fuel company, Chevron Corp.
- Staff has made no new investments in fossil fuel companies since adoption of Resolution 79251 on September 17, 2019

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

Second Quarter Revenue Management Report for Fiscal Year 2019-2020

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

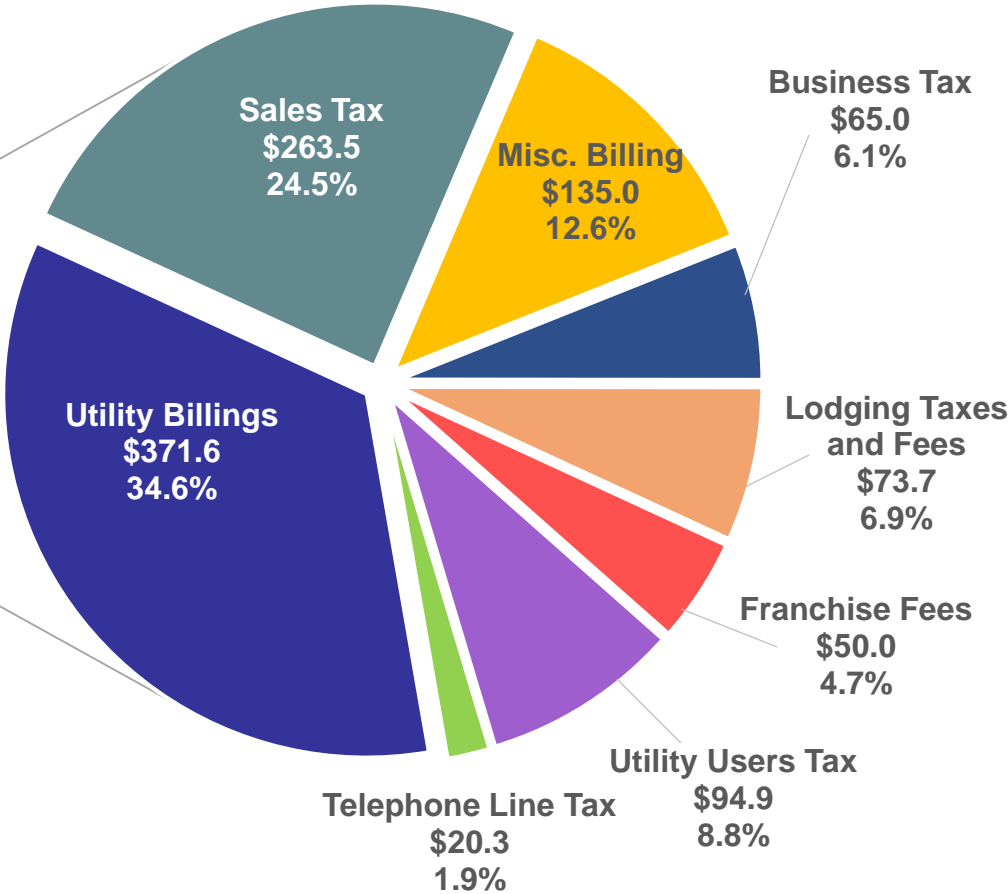
Revenue Management Portfolio

FY 2018-19 Revenue (\$ in millions)

City-Wide Revenue
(excluding Revenue Management)
\$2,424



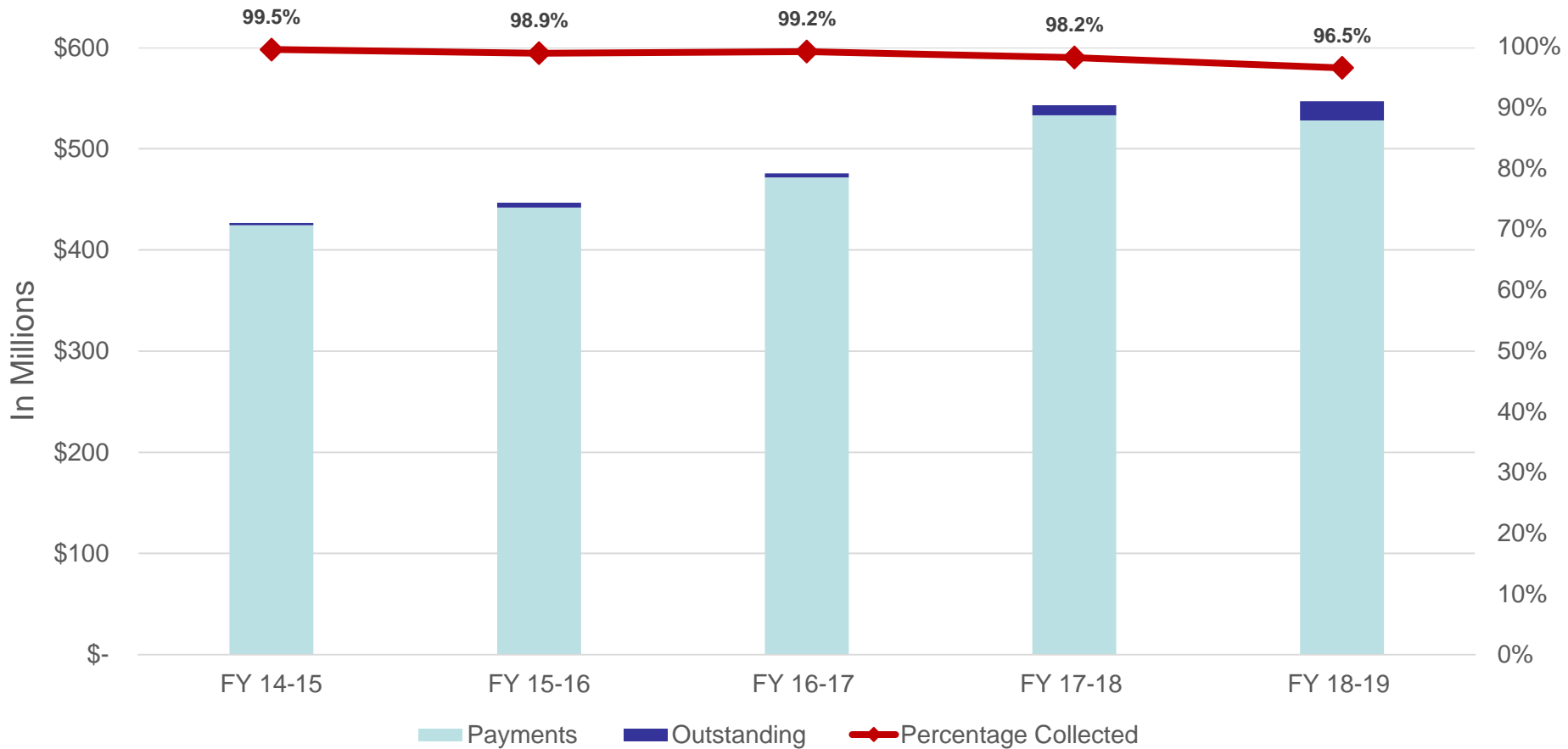
Revenue Management
\$1,074



Source: Total Revenue (\$3.498B) figures from 2018-19 City Manager’s Budget Office Annual Report
(Graph will be updated on an annual basis)

Invoicing and Payments

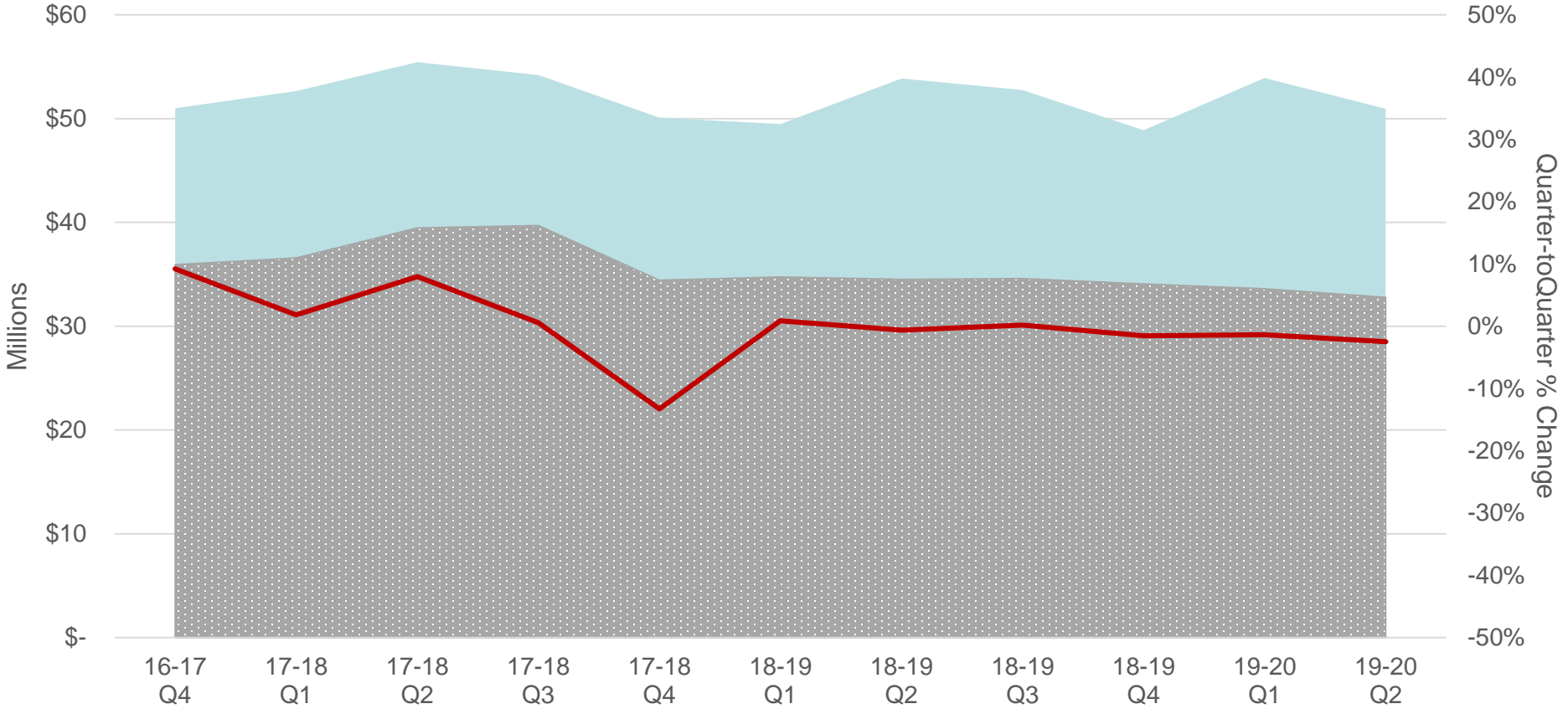
5 Years History (FY 2014-15 to FY 2018-19)



Invoices billed through Business Tax System, the centralized accounts receivable system (RevQ), and the Utility Billing System. (Graph will be updated on an annual basis)

Outstanding Receivables

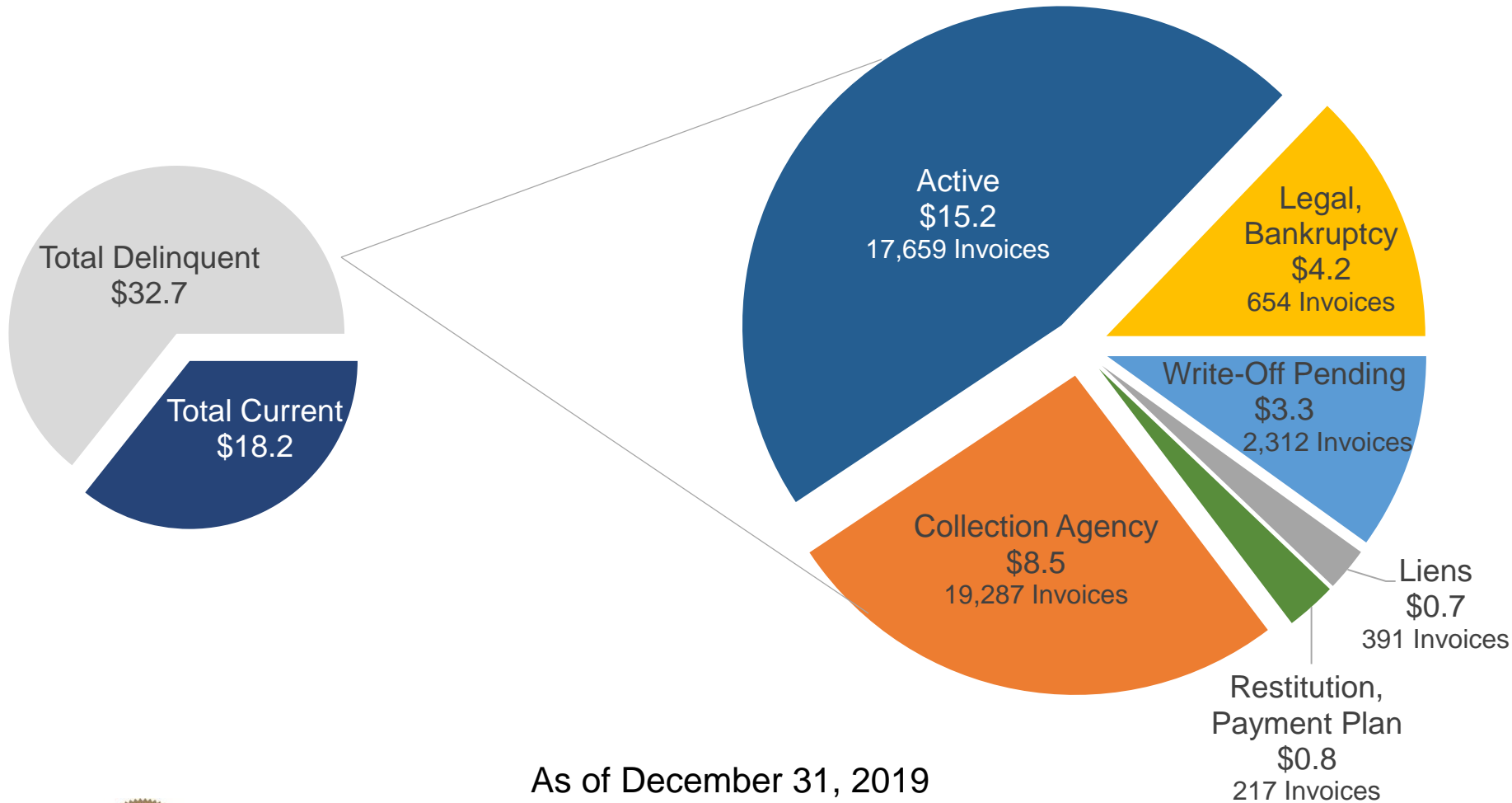
Three Year History



■ Current Receivables
 Delinquent (91+ days)
 — Delinquency Percentage Change

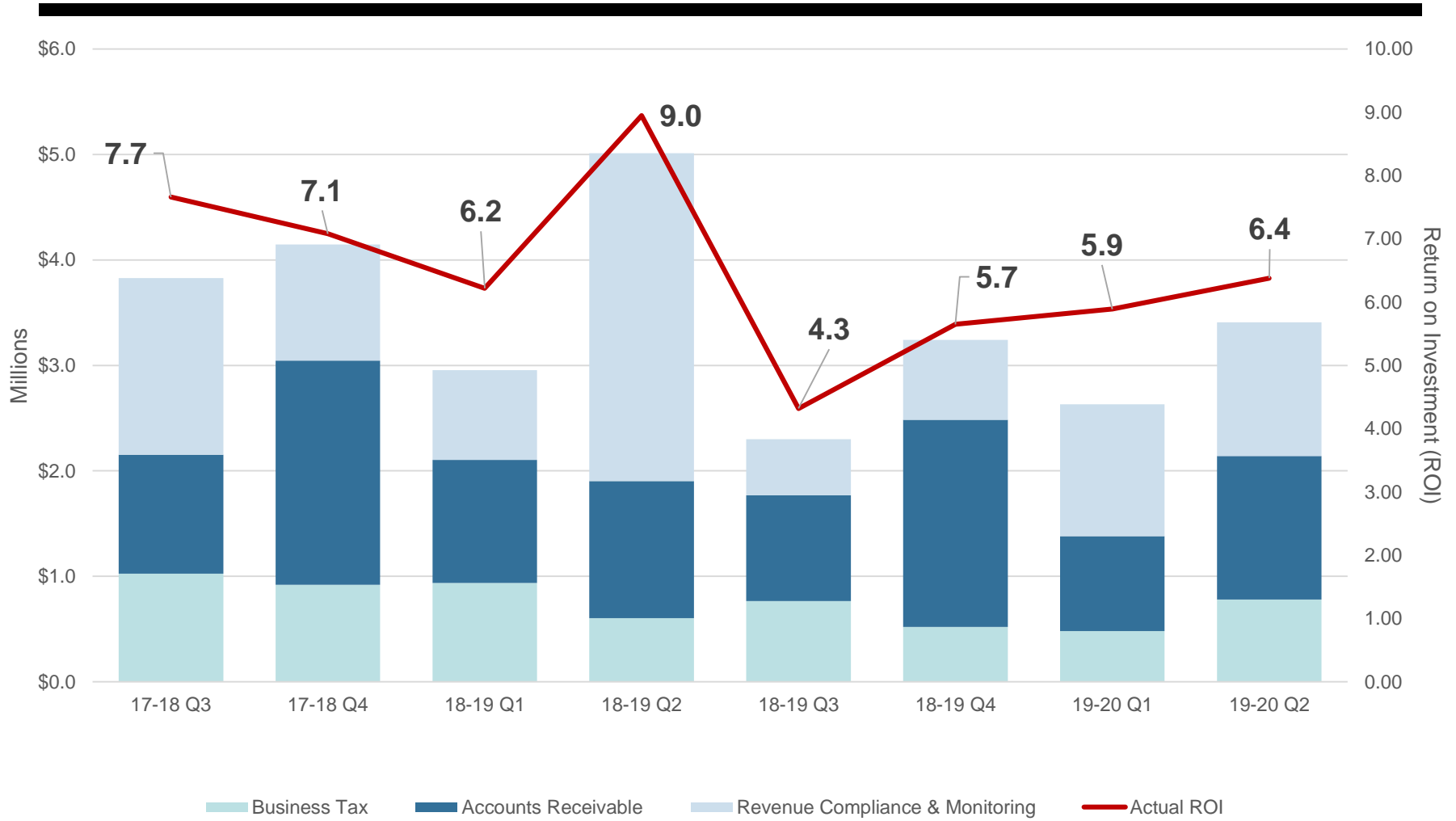
Delinquent Receivables

Collection Status Summary (\$ in millions)



As of December 31, 2019

Collections & Return on Investment



Business Tax Amnesty Program

- Recap: Amnesty Program is a limited-time opportunity for individuals and entities to pay the principal amount owed in exchange for forgiveness of associated penalties and interest
- Began October 1, 2019 and ends March 27, 2020
- Outreach-Advertisement efforts include:
 - Direct mailing: 30,000 letters
 - VTA bus advertisements
 - Newspapers: San Jose Mercury, San Jose Metro, El Observador, Thang Mo
 - Radio: KRTY/KLIV
 - Flyers for business organizations and associations
 - Social media posts
- Through December 31, 2019, over 1,250 businesses have benefitted
- Revenue generation is near \$700k, with over \$300k new and on-going

Recommendation

1. Accept the Second Quarter Financial Reports for Fiscal Year 2019-2020 for the following programs:
 - Debt Management
 - Investment Management
 - Revenue Management

2. Refer the Second Quarter Financial Reports for Fiscal Year 2019-2020 to the March 10, 2020 City Council meeting for full adoption