
City of San José

Comprehensive Annual Debt Report

Fiscal Year 2020-21

City Council Meeting
December 7, 2021
Item: 3.6

Presenters:

Julia H. Cooper, Director of Finance

**Nikolai J. Sklaroff, Deputy Director of Finance,
Debt & Treasury Management**

Debt Management Program

DEBT
ISSUANCE

DEBT
ADMINISTRATION

FINANCIAL ADVISORY
SERVICES

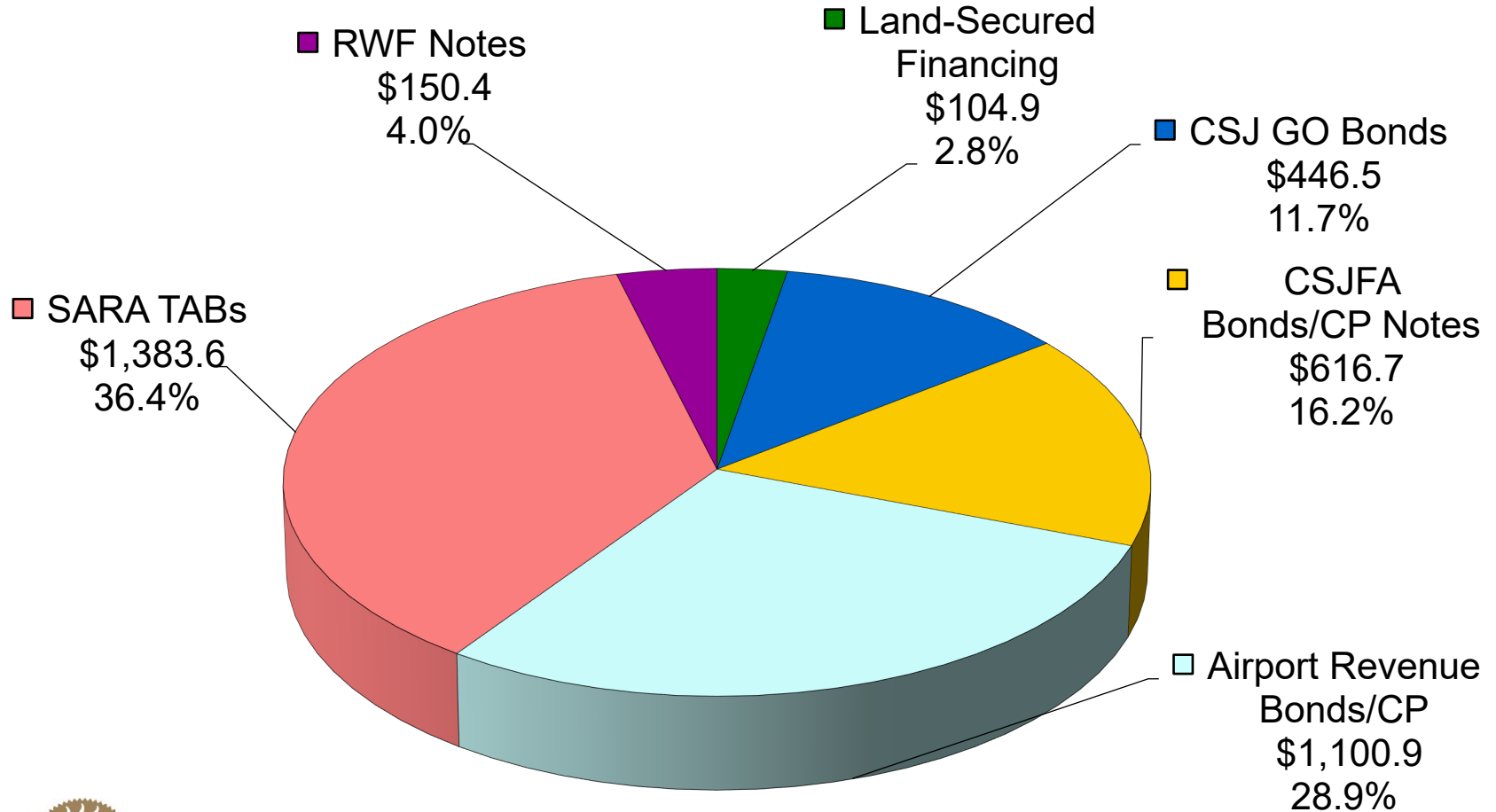
Policy Objectives

- 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

Outstanding Debt Issued by All Agencies

Excluding Multifamily Housing Revenue Bonds, and Pension, OPEB, and other City liabilities

Balance as of June 30, 2021: \$3,802,912,000



Debt Issuance

- **FY 2020-21 debt issued: \$1.31 billion**
 - Tax Revenue Anticipation Notes (TRANs)
 - Lease Revenue Bonds (Civic Center)
 - Lease Revenue Bonds Ice Centre)
 - Airport Revenue Refunding Bonds
 - Subordinate Wastewater Notes for RWF
 - Lease Revenue Commercial Paper Notes
 - Conduit Multi-family Housing Revenue Obligations (multiple)
- **FY 2021-22 completed/planned debt: estimated \$1.28 billion***
 - Tax Revenue Anticipation Notes (TRANs)
 - General Obligation Bonds
 - Lease Revenue Commercial Paper Notes (SJCE and Flood Control)
 - Lease Revenue Bonds (Fire Department Training Center/CSY)
 - Special Hotel Tax/CCFD Refunding Bonds
 - Conduit Multi-family Housing Revenue Obligations (multiple)

Variable Rate Programs

Summary of Credit Facilities*

| | Project Description | Bank | Authorized Amount ⁽¹⁾ | Expiration Date |
|---|--|------------------------|----------------------------------|-----------------|
| <u>Letters of Credit</u> | | | | |
| Airport Commercial Paper Series ABC | Airport Terminal Area Improvement Program | Bank of America | \$75,000,000 ⁽²⁾ | 9/10/2024 |
| City of San José Financing Authority Commercial Paper | Various City projects | State Street/US Bank | 125,000,000 ⁽³⁾ | 2/23/2022 |
| <u>Revolving Line of Credit</u> | | | | |
| San José-Santa Clara Regional Wastewater Facility | Wastewater System and Treatment Plant Projects | Wells Fargo Bank, N.A. | 300,000,000 ⁽⁴⁾⁽⁵⁾ | 10/18/2023 |
| <u>Revolving Credit Facility</u> | | | | |
| San Jose Clean Energy Letter of Credit | Energy Power Provider Contracts | Barclays Bank PLC | 30,000,000 ⁽⁵⁾ | 11/26/2021 |
| San Jose Clean Energy Letter of Credit | Energy Power Provider Contracts | Barclays Bank PLC | 65,000,000 ⁽⁵⁾ | 11/27/2023 |
| Total | | | \$580,000,000 | |

⁽¹⁾ Commercial Paper principal or Credit Facility capacity.

⁽²⁾ Airport CP outstanding as of June 30, 2021 was \$51.9 million.

⁽³⁾ CSJFA CP outstanding as of June 30, 2021 was \$76.4 million. As of September 23, 2021, State Street LOC was terminated, and the amount of the LOC increased to \$175 million with an extension until March 24, 2025.

⁽⁴⁾ The amount drawn on the Revolving Line of Credit during FY 2020-21 was \$43.4 million; total amount drawn as of June 30, 2021 was \$150.4 million.

⁽⁵⁾ Debt Service calculated using a LIBOR based formula and total amount outstanding between two facilities cannot exceed \$80 million.

Financial Advisory Services

Major Projects Completed – FY 2020-21

- Amendment and Extension of RWF Credit Agreement
- Amendment of Clean Energy Revolving Credit Agreement
- RFPs for Airport Refunding (Underwriter); POB Analysis (Municipal Advisor); Various Assignments (TRAN, GO Bonds, Lease Revenue Financing, Commercial Paper programs)
- Request for Bank Commitments (TRAN funding increase capacity)
- Request for Qualifications (utilizing existing Lease Revenue Pool for underwriter)

General Obligation Bond Ratings

(as of November 2021)

- City continues to maintain high general obligation credit ratings of Aa1, AA+, and AAA respectively from Moody's, S&P and Fitch
 - Fitch G.O. bond rating upgraded to highest rating category (AAA) in June 2021
 - City's GO ratings higher than State of California (Aa2, AA- and AA)
 - County of Santa Clara G.O. bonds are rated (Aa1, AAA, AA+)

General Obligation Credit Ratings

(10 Largest Cities as of October 28, 2021)

Of Top 10 cities, only San Antonio is ranked higher

Ratings Population

| <u>Rank</u> | <u>Rank</u> | <u>City</u> | <u>Moody's</u> | <u>S&P</u> | <u>Fitch</u> |
|-------------|-------------|-----------------|----------------|----------------|--------------|
| 1 | 7 | San Antonio | Aaa | AAA | AA+ |
| 2 | 10 | San José | Aa1 | AA+ | AAA |
| 2 | 5 | Phoenix | Aa1 | AA+ | AAA |
| 4 | 2 | Los Angeles | Aa2 | AA | AAA |
| 5 | 8 | San Diego | Aa2 | AA | AA |
| 6 | 1 | New York | Aa2 | AA | AA- |
| 6 | 4 | Houston | Aa3 | AA | AA |
| 8 | 9 | Dallas | A1 | AA- | AA |
| 9 | 6 | Philadelphia | A2 | A | A- |
| 10 | 3 | Chicago | NR | BBB+ | BBB- |

Credit Ratings

(as of November 2021)

- Lease revenue bond ratings of one to two rating notches lower than the GO Rating based on assets leased and respective rating policies of the rating agencies (Aa2 or Aa3¹ from Moody's, AA from S&P and AA or AA-¹ from Fitch.
- SJC Airport bonds are rated A2, A-² and A by Moody's, S&P and Fitch
- SARA Senior Tax Allocation Bonds are rated AA by S&P and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch³
- San José Special Hotel Tax Bonds, Series 2011 rated A (lowered from A+ in July 2021 by S&P)

¹ Moody's and Fitch 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 and Ice Centre (Aa3, AA-).

² SJC Airport was downgraded from A to A- in October 2020 from S&P and revised its outlook from Negative to Stable in March 2021.

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

Debt Planned for Calendar 2022

(With Significant Work Effort in FY 2021-22)

- CCFD Lease Revenue Bonds, Series 2022A (2011 Special Hotel Tax and 2011A Lease Revenue Refunding)
- Sewer Revenue Bonds for Regional Wastewater Facility Improvements
- Moderate Income and Low-Income Housing Projects
- Monthly Commercial Paper Issuance for San Jose Clean Energy
- Potential Pension Obligation Bonds
 - pending judicial validation by the Santa Clara Superior Court
 - pending Council approval of individual transaction documents

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

Acceptance of Comprehensive Annual Debt Report for FY 2020-21.

Questions

Presenters:

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