



COUNCIL AGENDA: 3/15/2022

ITEM: 2.9

FILE NO: 22-302

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: March 8, 2022

SUBJECT: Second Quarter Financial Reports for Fiscal Year 2021-2022

Recommendation

As recommended by the Public Safety, Finance and Strategic Support Committee on February 17, 2022, accept the Second Quarter (period ending December 31, 2021) Financial Reports for Fiscal Year 2021-2022 for the following programs:

- (a) Debt Management;
- (b) Investment Management;
- (c) Revenue Management; and
- (d) Purchasing and Risk Management.

CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action. (Finance)

[Public Safety, Finance and Strategic Support Committee referral 2/17/2022 - Item (d)2]



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

**SUBJECT: SECOND QUARTER FINANCIAL
REPORTS FOR FISCAL YEAR
2021-2022**

DATE: February 3, 2022

Approved

Date

2/8/2022

RECOMMENDATION

- (1) Accept the Second Quarter (period ending December 31, 2021) Financial Reports for Fiscal Year 2021-2022 for the following programs:
 - (a) Debt Management
 - (b) Investment Management
 - (c) Revenue Management
 - (d) Purchasing & Risk Management; and
- (2) Refer and cross-reference the Second Quarter Financial Reports for Fiscal Year 2021-2022 to the March 15, 2022 City Council Meeting for full adoption.

OUTCOME

Provide the quarterly update on debt management, investment management, revenue management, purchasing and risk management work efforts.

BACKGROUND

The attached Second Quarter Financial Reports for Fiscal Year 2021-2022 (quarter ended December 31, 2021) presents the Finance Department's quarterly activity for the City of San José ("City") Debt Management, Investment Management, Revenue Management and Purchasing and Risk Management programs (Attachment A). Additionally, the Second Quarter Investment Report has been distributed to the City Council via email and is available on the

Finance Department web page¹. As part of the ongoing effort to streamline work efforts within the Finance Department, these reports on four programs are combined into a single report for submission to the Public Safety, Finance, and Strategic Support Committee (“PSFSS Committee”) for its review and acceptance.

ANALYSIS

A brief narrative discussion is provided below for all four components of this quarterly report:

- Debt Management
- Investment Management
- Revenue Management
- Purchasing & Risk Management

Debt Management Program

This Second Quarter Debt Report focuses on the City’s debt activities for the period ended December 31, 2021, and relates to the following elements of the City’s Debt Management Program:

- Completed financings and current debt portfolio;
- Debt issuance and management activities completed and anticipated during the next quarter (January 1, 2022 through March 31, 2022); and
- Current interest rate environments and credit ratings.

Investment Management Program

Pursuant to the City’s Investment Policy, verbal presentations in addition to the written reports are provided to the Public Safety Finance Strategic Services Committee for the Second and Fourth Quarter Reports. The materials presented in this consolidated report provide a “snapshot” of the investment portfolio. The report will be agendized for acceptance by the City Council pursuant to the Investment Policy.

Revenue Management Program

The Revenue Management report highlights key aspects of the City’s ongoing collection efforts. These efforts focus 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, Revenue Compliance and Monitoring, and Utility Billing. This report highlights the Revenue Management Division’s collection efforts and summarizes the progress towards maintaining a Return on Investment ratio of 5.5 to 1. The second quarter FY 2021-22 Return on Investment is 7.8 to 1.

¹ <https://www.sanjoseca.gov/your-government/departments/finance/reports/-folder-450>

Business Tax COVID-19 Assistance and Outreach

On September 28, 2021, the City Council voted to amend Chapter 4.76 of Title 4 of the San José Municipal Code to extend the current COVID-19 Business Tax Hardship Exemption Program to June 30, 2022, with eligibility now including all businesses where Gross Receipts do not exceed \$25,760 or where the combined Adjusted Gross Income of the business owner and their spouse/partner does not exceed \$51,520. Businesses may apply for this financial hardship exemption based upon anticipated 2021 income instead of actual 2020 tax returns. Verification of 2021 actual income, as reported to the IRS, is required to be reported by exempted businesses for the following (2022) business tax renewal period.

In the second quarter of FY 2021-22, the Finance Department partnered with the City Manager's Office and Office of Economic Development to perform and track outreach on the updated business tax exemption program, including:

- Flash Reports (#181, 10/6/21; #190, 12/8/21; ~ 14,000 subscribers)
- Social Media (Nextdoor, Facebook, Twitter, Instagram; ~ 8,000 total impressions)
- Media Advisory (12/2/21, sent to 12,331 recipients)
- Emails sent to Mayor and all City Council members
- Emails sent to various business associations (e.g., Business Owners Space, San Jose Downtown Association, Japantown Business Association)
- Business Tax invoice inserts (~ 24,000 sent to date; ongoing monthly)
- Business Tax emails (ongoing, will reach ~ 31,000 businesses in January)
- Informational fliers posted online and in City Public Libraries, in English, Spanish, Chinese, and Vietnamese.

In the second quarter of FY 2021-22, a backlog of 623 pending applications from the previous quarter and a total of 897 new exemption applications were processed by the end of the second quarter as follows:

- 623 carryover (pre-second quarter FY 2021-22 backlog)
- 488 submitted
- 212 approved
- 150 pending customer response
- 27 denied (did not meet program eligibility requirements)
- 19 duplicates
- 1 invalid account

The loss of revenue associated with exemptions for the second quarter of FY 2021-22 is approximately \$45,000.

Since its October 1, 2016 effective date², through December 31, 2021, the Business Tax Program has granted business tax hardship relief to 6,717 unique business accounts, for an estimated total of \$1.3 million in exemptions.

Fiscal Year	Accounts	Business Rate	Total Foregone Revenue (Estimated)
FY 2016-17	1,646	\$ 150.00	\$ 246,900
FY 2017-18	1,680	\$ 195.00	327,600
FY 2018-19	881	\$ 197.90	174,350
FY 2019-20	1,087	\$ 200.85	218,324
FY 2020-21	1,081	\$ 203.85	220,362
FY 2021-22	342	\$ 206.90	70,760
Total	6,717		\$ 1,258,296

It is estimated that up to 5,500 businesses may be eligible for the October 1, 2021 expanded/extended Business Tax Hardship Exemption Program. Given the anticipated participation, an estimated \$500,000 in general business tax revenues may be foregone over the nine (9) month program extension period (October 1, 2021 - June 30, 2022).

Purchasing Program

The Purchasing report highlights the key aspects of the City's purchasing operations. The Purchasing Division of the Finance Department is responsible for the centralized procurement of equipment, supplies, materials, information technology, and non-consulting services, pursuant to the Chapter 4.12 of Title 4 of the San José Municipal Code. The Purchasing Division's mission is to deliver procurement and contracting services pursuant to public procurement best practices.

This quarter, the Purchasing Division also continued to make headway on the detailed assessment of Purchasing Division's procurement processes ("Procurement Improvement"), in accordance with the City Roadmap workplan. As reported in the previous quarter, the scope of this work was expanded to also include the assessment of department-led procurements. The City's consulting firm, Guidehouse Inc. conducted 76 interviews with City stakeholders to understand strengths, weaknesses and pain points of current process, and completed significant work in reviewing, analyzing and documenting the current state of the City's procurement process. Next steps include completing visioning sessions with City leadership and stakeholders to envision the future of procurement at the City, by which to develop future state recommendations. Staff expects to bring recommendations to Smart Cities and Service Improvement Committee and the City Council in April 2022.

² <https://sanjose.legistar.com/View.ashx?M=F&ID=7570829&GUID=29D162EE-8731-4047-8B9A-BE045FED1FE9>

Risk Management Program

The Risk Management report highlights the key aspects of the City's risk management program. The Risk Management Program is responsible for procurement and oversight of the City's property and casualty insurance programs. The Program also provides contractual risk management services, property subrogation claims reporting and other key services to City Departments including enterprise departments such as the Airport Department and San José – Santa Clara Regional Wastewater Facility.

CONCLUSION

The Financial Reports provide information and transparency of the Finance Department's management of debt, investment, revenue, purchasing and risk activities for the quarter.

EVALUATION AND FOLLOW-UP

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. The Finance Department staff will be available to make a presentation and answer questions on the Second Quarter Financial Reports for Fiscal Year 2021-2022 at the PSFSS Committee meeting on February 17, 2022.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH/INTEREST

This memorandum will be posted on the City's website for the February 17, 2022 PSFSS Committee meeting and on the March 15, 2022 City Council agenda.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

/s/

JULIA H. COOPER

Director of Finance

Attachment A: Second Quarter (period ended December 31, 2021) Financial Report for Fiscal Year 2021-2022

For questions please contact:

Program	Deputy Finance Director	Finance Division	Phone
Debt Management	Nikolai J. Sklaroff	Debt & Treasury Management	(408) 535-7832
Investment Management	Nikolai J. Sklaroff	Debt & Treasury Management	(408) 535-7832
Revenue Management	John Kachmanian	Revenue Management	(408) 535-7034
Purchasing	Jennifer Cheng	Purchasing and Risk Management	(408) 535-7059
Risk Management	Jennifer Cheng	Purchasing and Risk Management	(408) 535-7059

SECOND QUARTER FINANCIAL REPORT FOR FISCAL YEAR 2021-2022

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

**Prepared by the Finance Department
February 3, 2022**



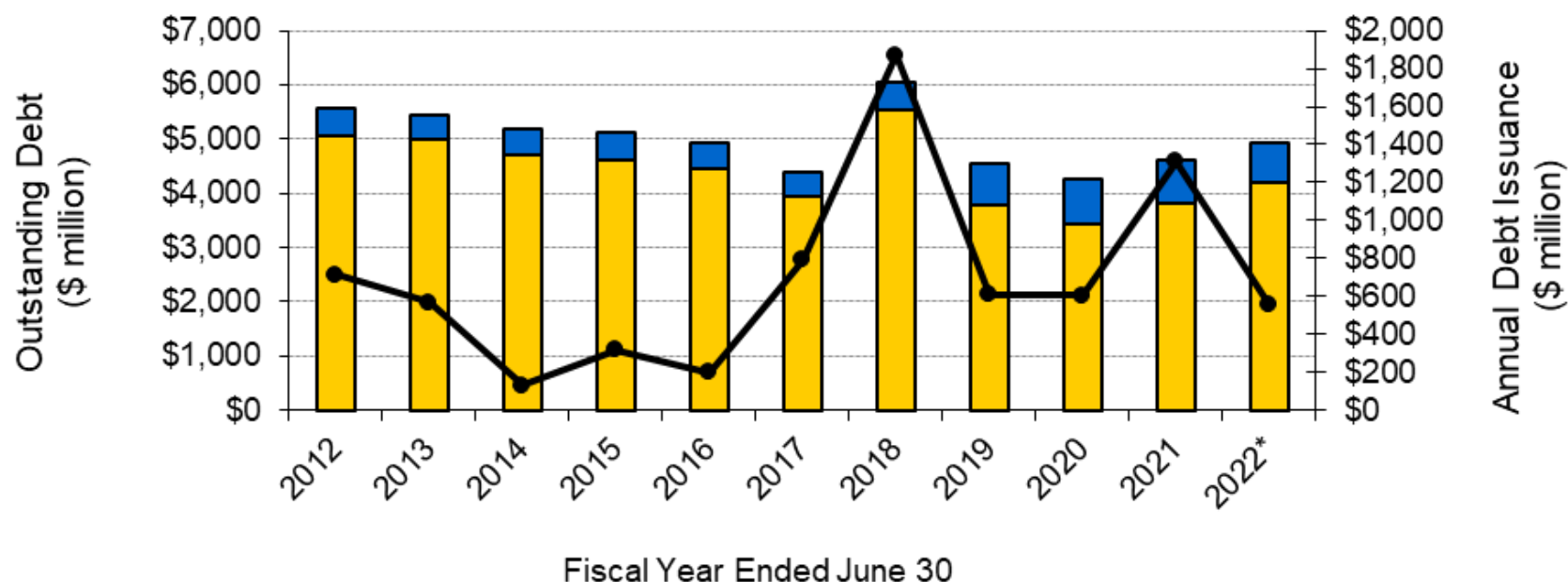
SECOND QUARTER DEBT MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022



OUTSTANDING DEBT ISSUED

(CITY AND ALL AGENCIES)

Outstanding Debt as of December 31, 2021: \$4.9 Billion
FY 2021-22 Year to Date Debt Issuance: \$553.4 Million



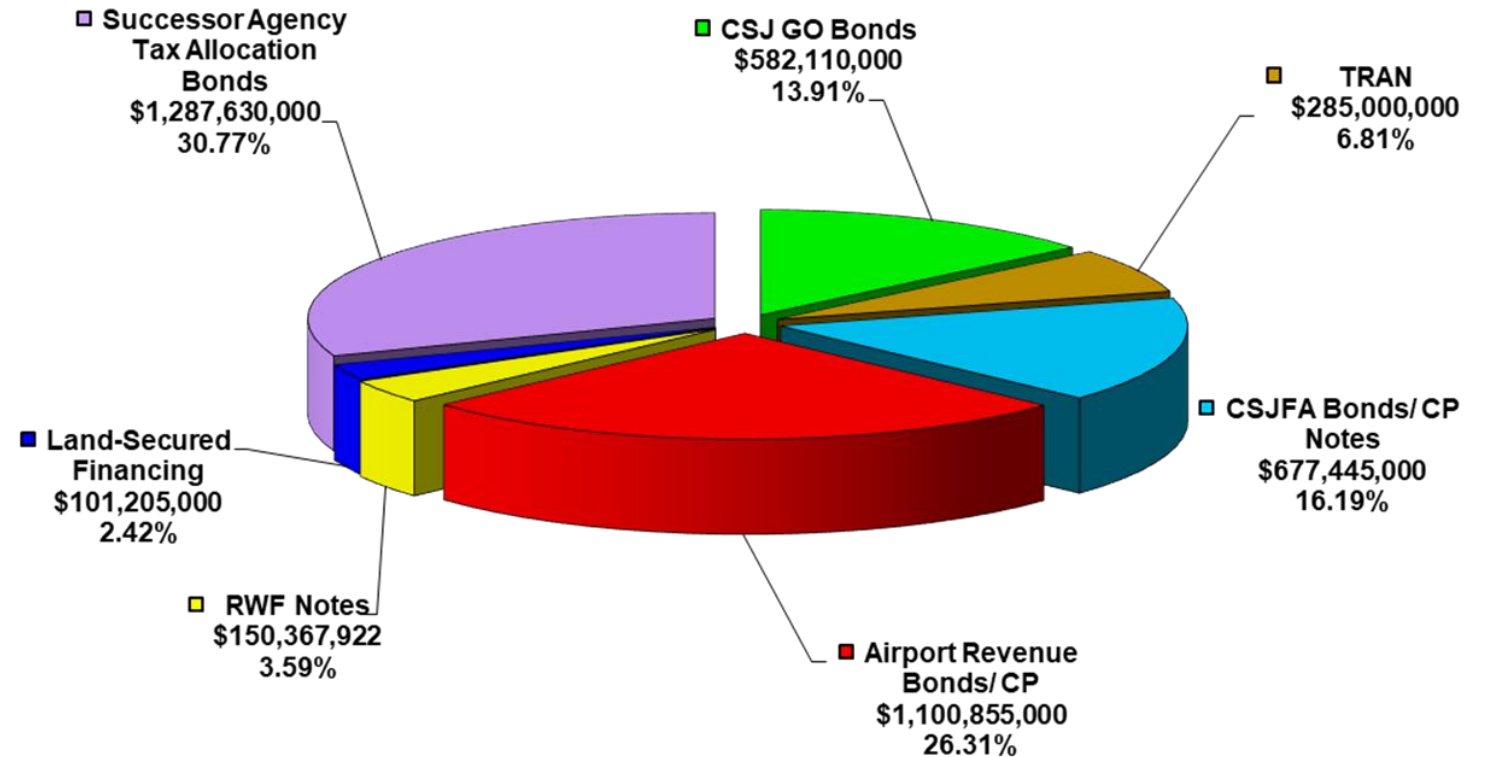
City and Related Entity Debt Outstanding Conduit Debt Outstanding Annual Debt Issuance

* YTD Debt Issuance



DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of
December 31, 2021: \$4.2 Billion
(Excluding Multifamily Housing
Revenue Bonds)



DEBT ISSUANCE ACTIVITIES

DURING SECOND QUARTER (OCTOBER - DECEMBER 2021)

- Debt Issuance
 - CSJFA Lease Revenue Bonds
 - * Fire Department Training Center and Central Service Yard Projects, Series 2021A
 - * \$22.8 million closed November 2, 2021
 - CSJFA Lease Revenue Commercial Paper Notes
 - San José Clean Energy (SJCE) - \$23.9 million
 - * \$5.0 million October
 - * \$9.8 million November
 - * \$9.1 million in December



SELECTED DEBT MANAGEMENT ACTIVITIES DURING SECOND QUARTER (OCTOBER - DECEMBER 2021)

- Debt Management - Pre-issuance activities for:
 - 2022A Convention Center Facility District Refinancing
 - Regional Wastewater Facility (RWVF) Financings
 - * Credit Facility repricing
 - * Revenue Bonds
- Debt Administrative Activities
 - Selection of Municipal Advisor for Convention Center Facilities District (CCFD) Refinancing Solutions
 - Early redemption proceedings for Community Facility District #1 (Capital Expressway Auto Mall) and Assessment District #24 (Hellyer-Piercy)



SELECTED DEBT MANAGEMENT ACTIVITIES DURING SECOND QUARTER (OCTOBER - DECEMBER 2021)

- Reporting
 - State Reports – Mello-Roos and Marks-Roos Annual Reports (October 2021)
 - Annual Continuing Disclosure (December 2021)
 - * Community Facility Districts
 - * General Obligation Bonds
 - * Lease Revenue Bonds
 - * Airport Bonds
 - 2021 Comprehensive Annual Debt Report (CADR)
- Tax Equity and Fiscal Responsibility Act (“TEFRA”) hearing approving the issuance of Multi-Family Housing Revenue Bonds:
 - Vitalia for \$35.7 million. Closing January 2022
 - Mariposa Place for \$31.3 million. Closing January 2022



UPCOMING DEBT ISSUANCE AND MANAGEMENT THROUGH JUNE 30, 2022

- Debt Issuance
 - CSJFA Commercial Paper issuance for SJCE (January-February)
 - CSJFA CCFD/Special Hotel Tax Refunding Bonds (Convention Center) (May)
 - TEFRA hearing – Multifamily Housing Revenue Bonds
 - * Algarve (\$36 million) and McEvoy (\$70.6 million) housing projects scheduled for issuance Summer 2022
 - Pre-Issuance Activity
 - * Regional Wastewater Facility - Credit Facility repricing/Revenue Bonds
 - * 2022 Tax and Revenue Anticipation Note (TRAN) – Retirement Prefunding



UPCOMING DEBT ISSUANCE AND MANAGEMENT THROUGH JUNE 30, 2022

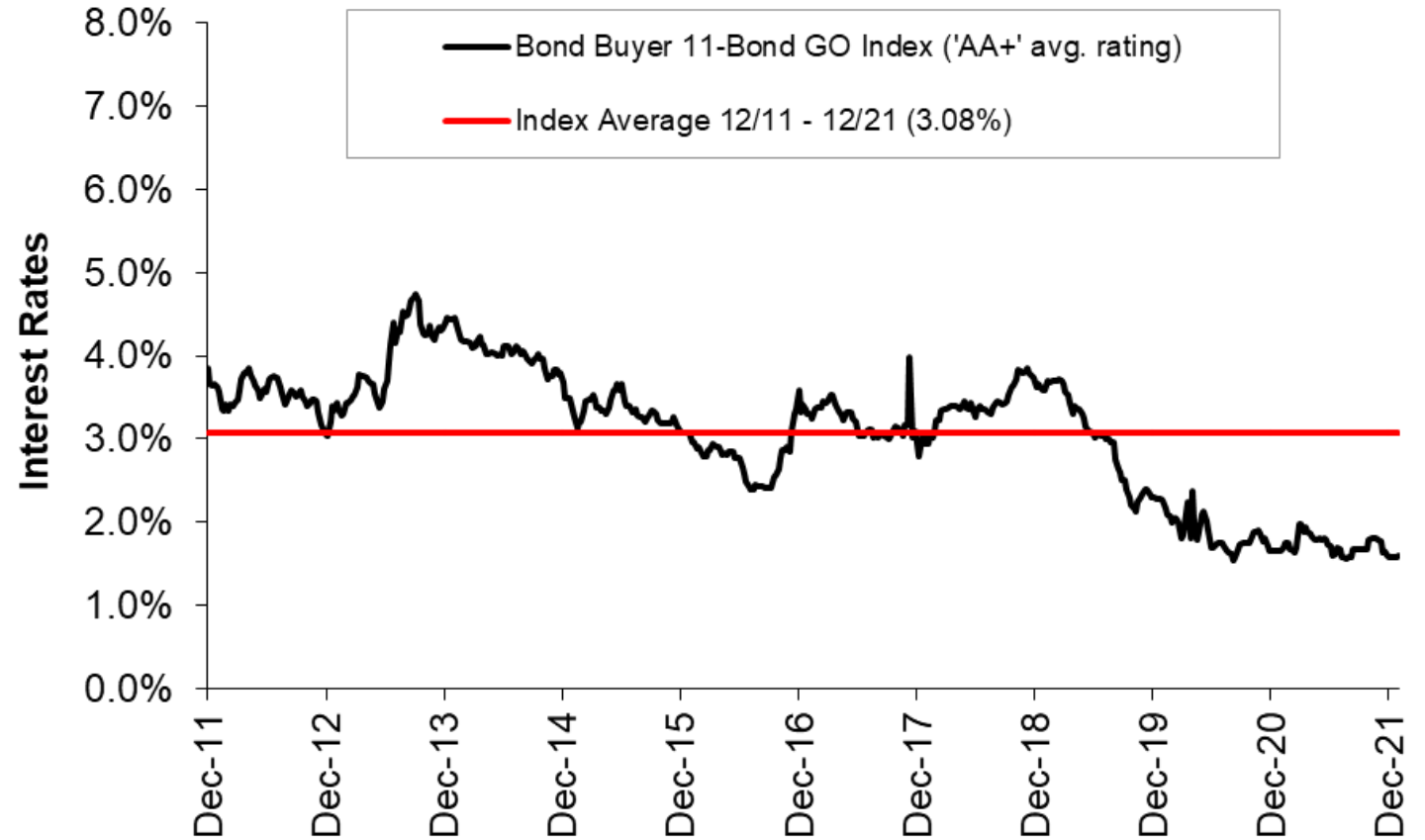
- Debt Management
 - Issue RFP and Select Firm(s) for Post-Issuance Compliance Services
 - Issue RFQ/RFP and Establish Underwriter Services Pool for various bond programs
 - Select underwriters for CCFD Refunding Bonds and RVWF Wastewater Revenue Bonds (RFP)
 - Issue RFP and Establish Municipal Advisor Pool for various services including selection of General Municipal Advisor(s)
 - Successor Agency ROPS Budget FY 2022-23 approval by Countywide Oversight Board and submission to State Department of Finance (January/February 2022)



TAX-EXEMPT MARKET INDEX

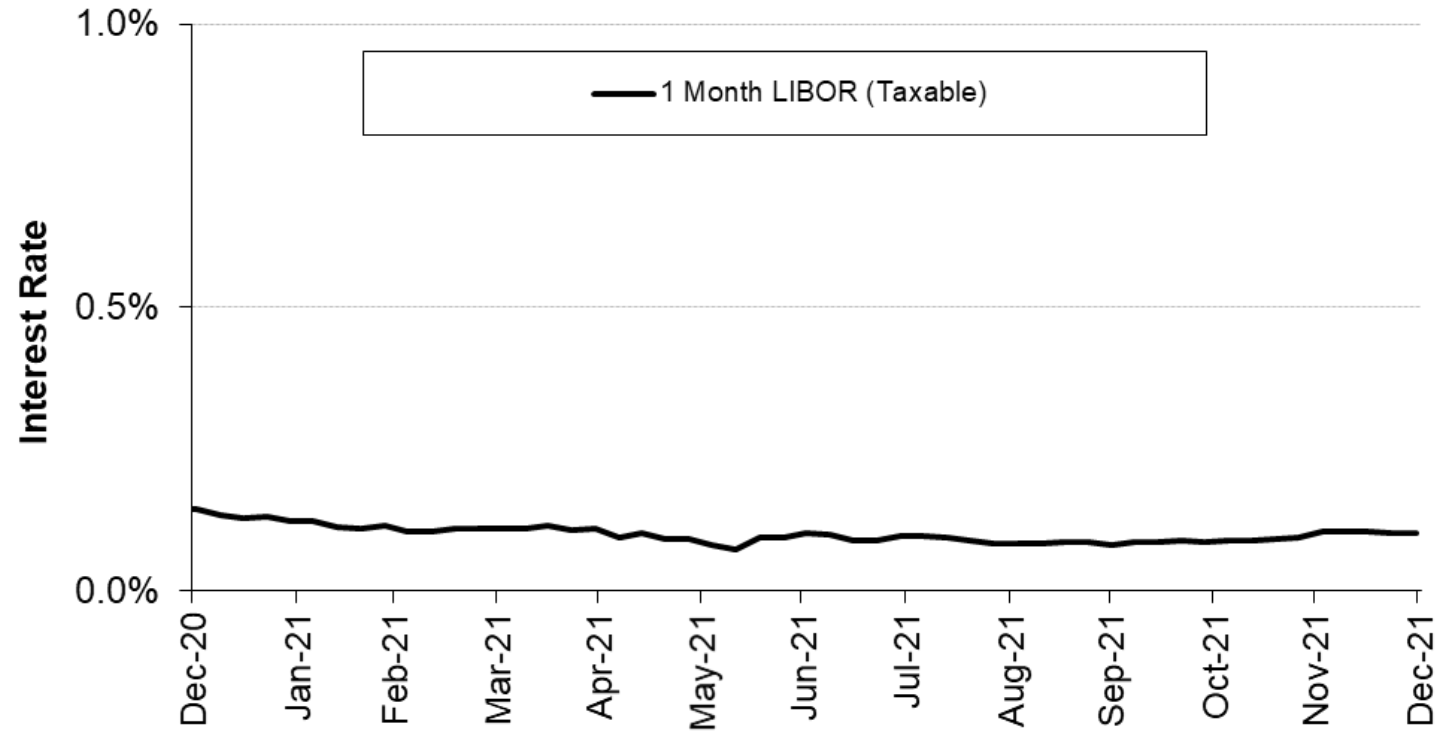
(20-YEAR FIXED RATE)

10-year history averaged 3.08%
and, as of January 13, 2022, at
1.72%



VARIABLE INTEREST RATES (TAXABLE)

Taxable LIBOR monthly interest rates paid by the City averaged 0.09% in Q2 and as of January 13, 2022, at 0.11%



GENERAL CREDIT RATINGS

- City 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 (stable)	AA (stable)	AA- (stable)



GENERAL CREDIT RATINGS

- City GO Ratings are higher than the State of California's ratings and similar to Santa Clara County's ratings, which is not surprising given their shared tax base and other credit fundamentals:

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



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	Not Rated N/A	AA (stable)	AA- (stable)
Special Hotel Tax Revenue Bonds, Series 2011	A2 (stable)	A (stable)	Not Rated N/A



RESULTS OF FY 2021-22 BOND SALE



CSJFA LEASE REVENUE BONDS SERIES 2021A

FIRE DEPARTMENT TRAINING CENTER & CENTRAL SERVICE YARD

- Issued \$22,825,000 tax-exempt Lease Revenue Bonds
- Series 2021A Bonds closed on November 2, 2021:
 - Fixed rate bonds with an All-in True Interest Cost (“TIC”) of 1.57%
 - Refunded Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project), freeing up debt service capacity to borrow new funds
 - Refinanced Central Service Yard Commercial Paper Notes
 - Provided funds to acquire, construct, and equip a portion of the City’s Fire Department Training Center and improvements to the Central Service Yard
 - Funded issuance costs of the Series 2021A Bonds
- RBC Capital Markets underwrote the bonds after being selected through a competitive procurement process.
- Series 2021A Bonds received ratings of:

	Moody’s	S&P	Fitch
Rating	Aa2	AA	AA
Outlook	Stable	Stable	Stable



SECOND QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022



INVESTMENT POLICY

(COUNCIL POLICY I-12)

- Investments in the portfolio meet the requirements of the City's Investment Policy and conform with California Government Code section 53601
- Authorized investments only include highly-rated fixed income securities (long-term rating A category or better; short-term rating A1 category or equivalent only)
- Policy is reviewed annually and shall be adopted by resolution of the City Council
 - Policy is reviewed during this February PSFSS Meeting
- 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, placed on PSFSS Committee agenda and separately agendized for City Council's acceptance



SOCIALLY RESPONSIBLE INVESTMENT GOALS

Section 22 of the Investment Policy articulates the Social Responsibility Investment Goals:

- Support community well-being through:
 - safe and environmentally sound practices
 - fair labor practices
- Support equality of rights
- Serve all members of local community and promote community economic development



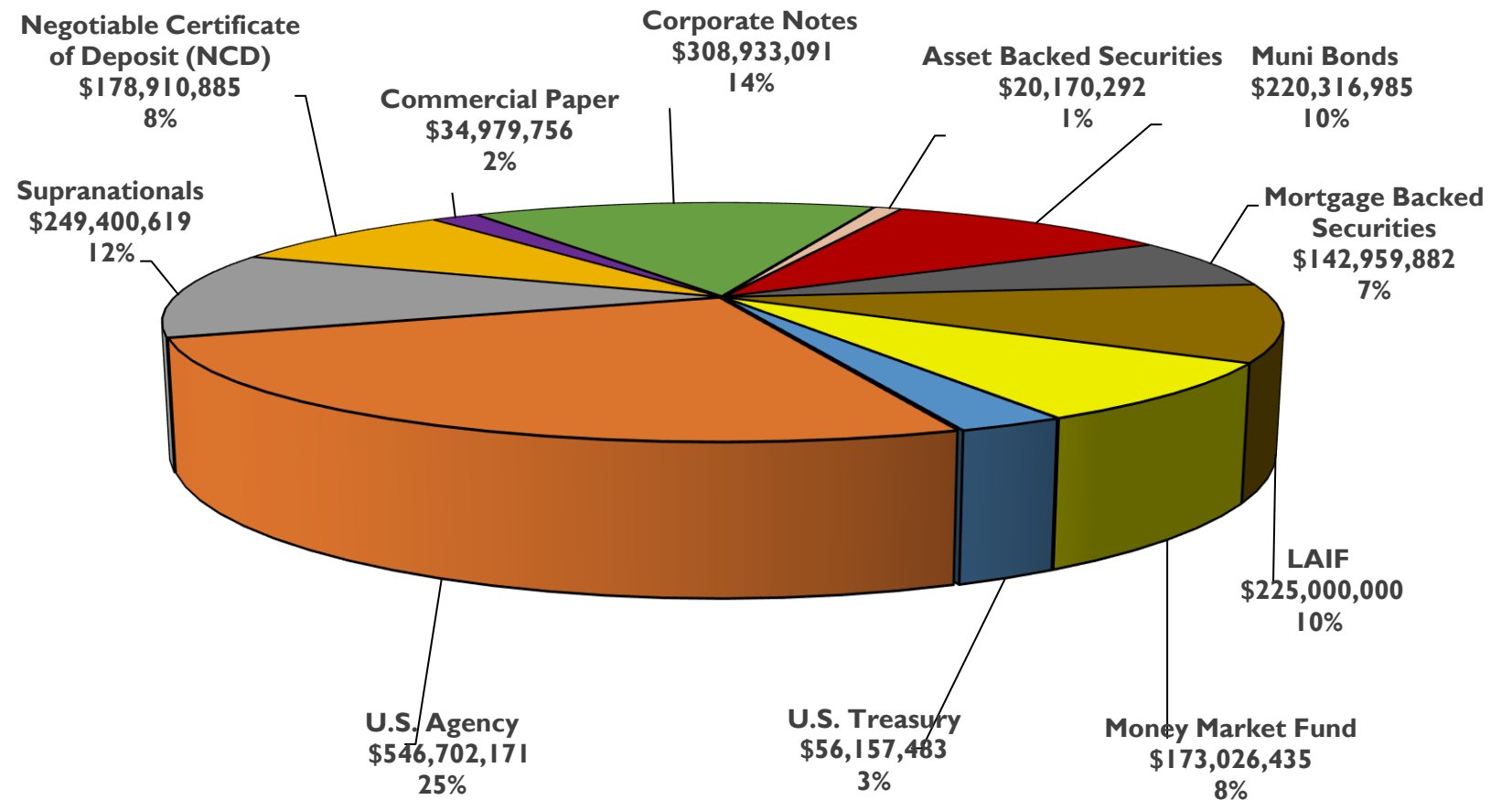
PORTFOLIO PERFORMANCE SUMMARY

Size of total portfolio	\$2,156,557,599
Earned interest yield	0.859%
Weighted average maturity	520 days
Fiscal year-to-date net income recognized	\$9,310,538
Exceptions to the City Investment Policy during this quarter	None



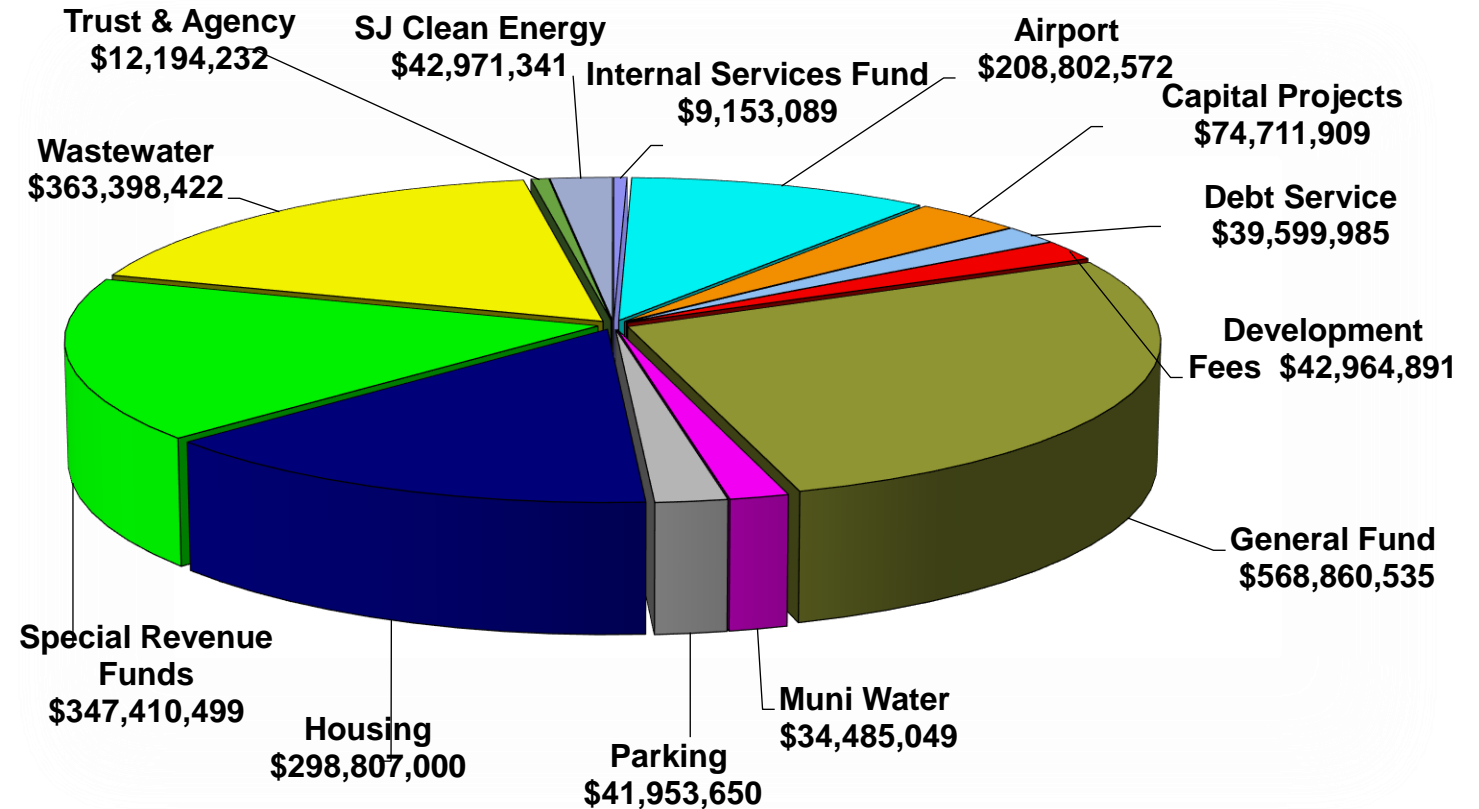
PORTFOLIO INVESTMENTS

Total Investment Portfolio:
\$2,156,557,599



INVESTMENTS BY FUND

The \$568.9 million in the General Fund presented includes \$437,194,188 of General Fund monies, as well as \$131,666,347 in other, separately tracked general funds, such as the Emergency Reserve Fund, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, the American Rescue Plan (“ARP”) Act of 2021 and other smaller funds and reserves.



GENERAL FUND BALANCE

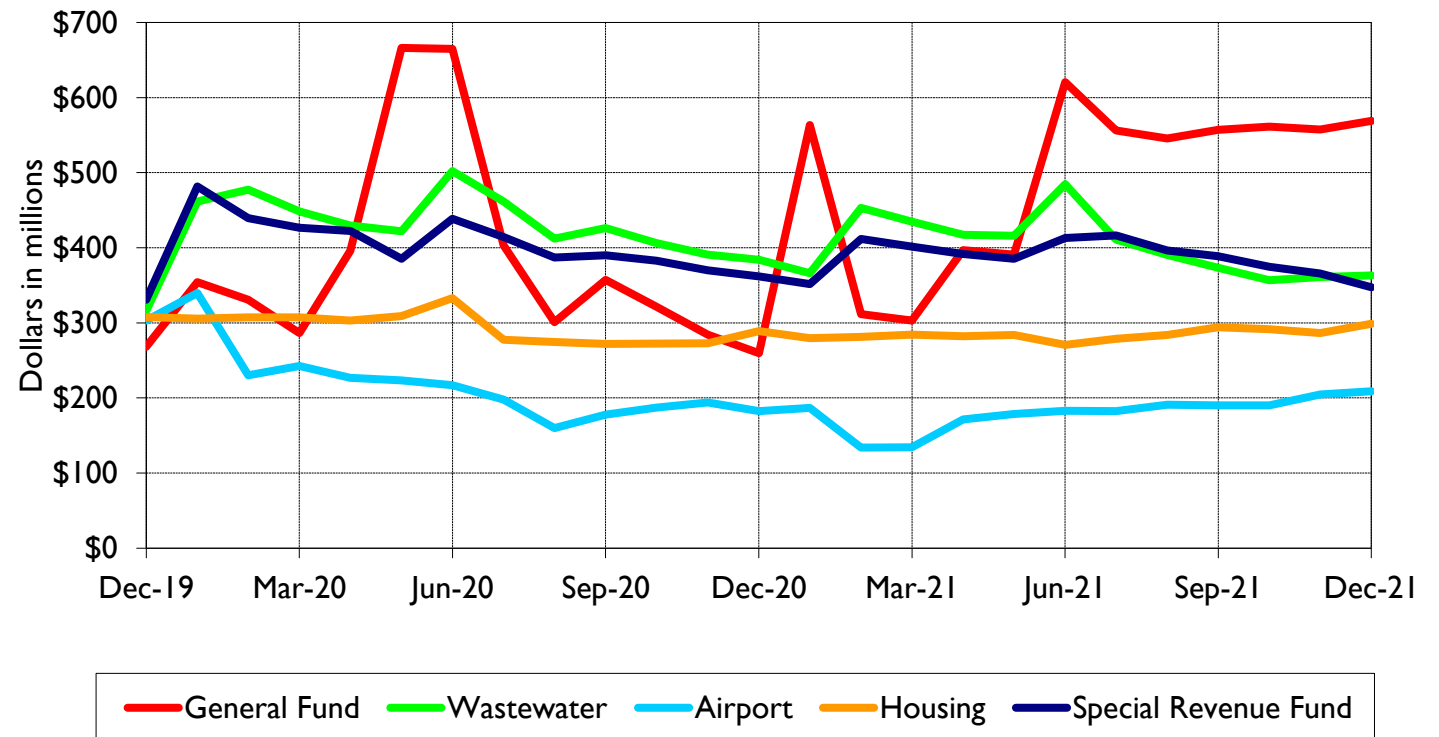
- General Fund balance increased by \$11.9 million during the quarter and ended at \$568.9 million as of December 31, 2021
 - General Fund balance usually peaks during the months of January and June, when the bulk of property taxes are received, and declines in the summer months due to retirement prefunding, debt service payments, and operational expenditures
- Projected investment maturities and revenues are sufficient to cover anticipated expenditures for the next six months



COMPARISON OF CASH BALANCES

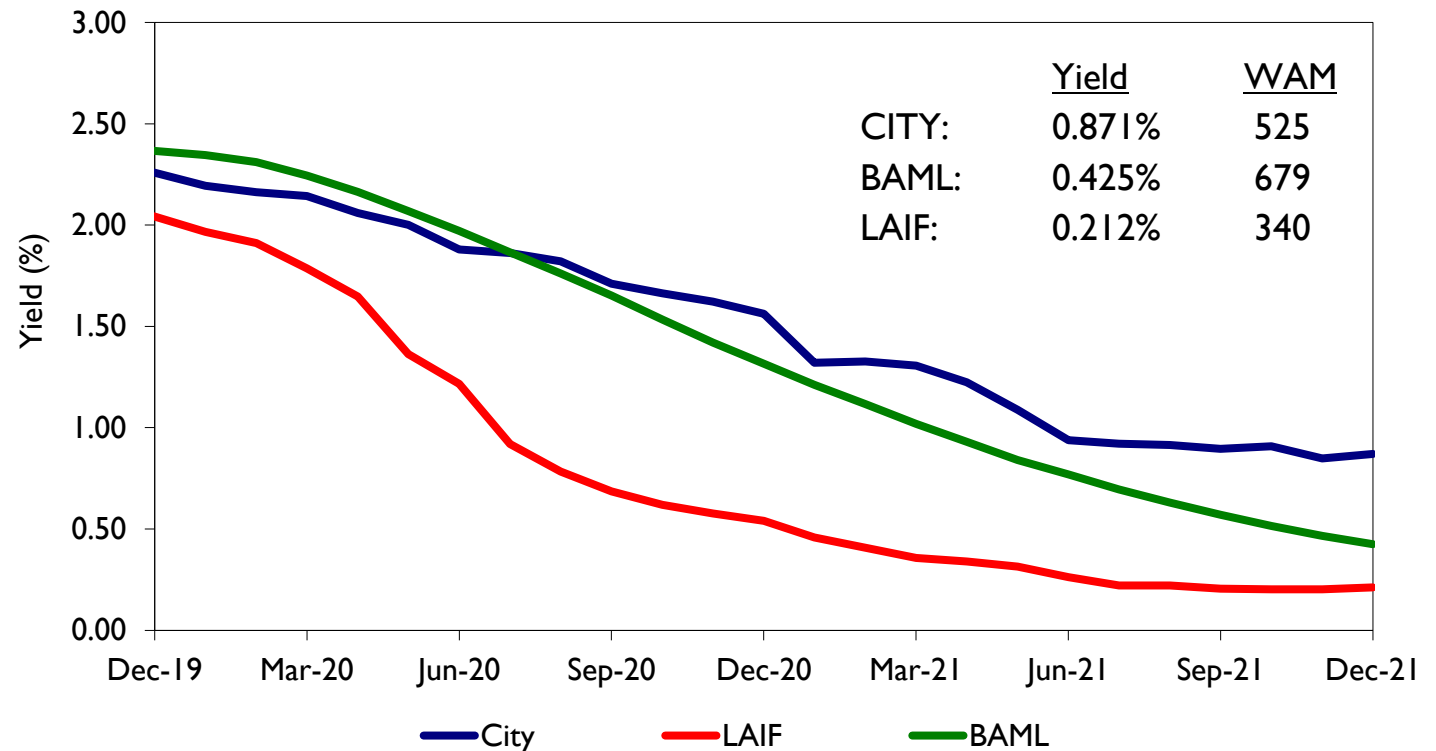
(BY SELECT FUNDS)

The City's receipt of advanced federal relief and recovery assistance over the past two fiscal years has altered the pattern of cash receipts.



BENCHMARK COMPARISONS

- City refers to City's Fund I 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 2021-2022



REVENUE MANAGEMENT PROGRAMS

- 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



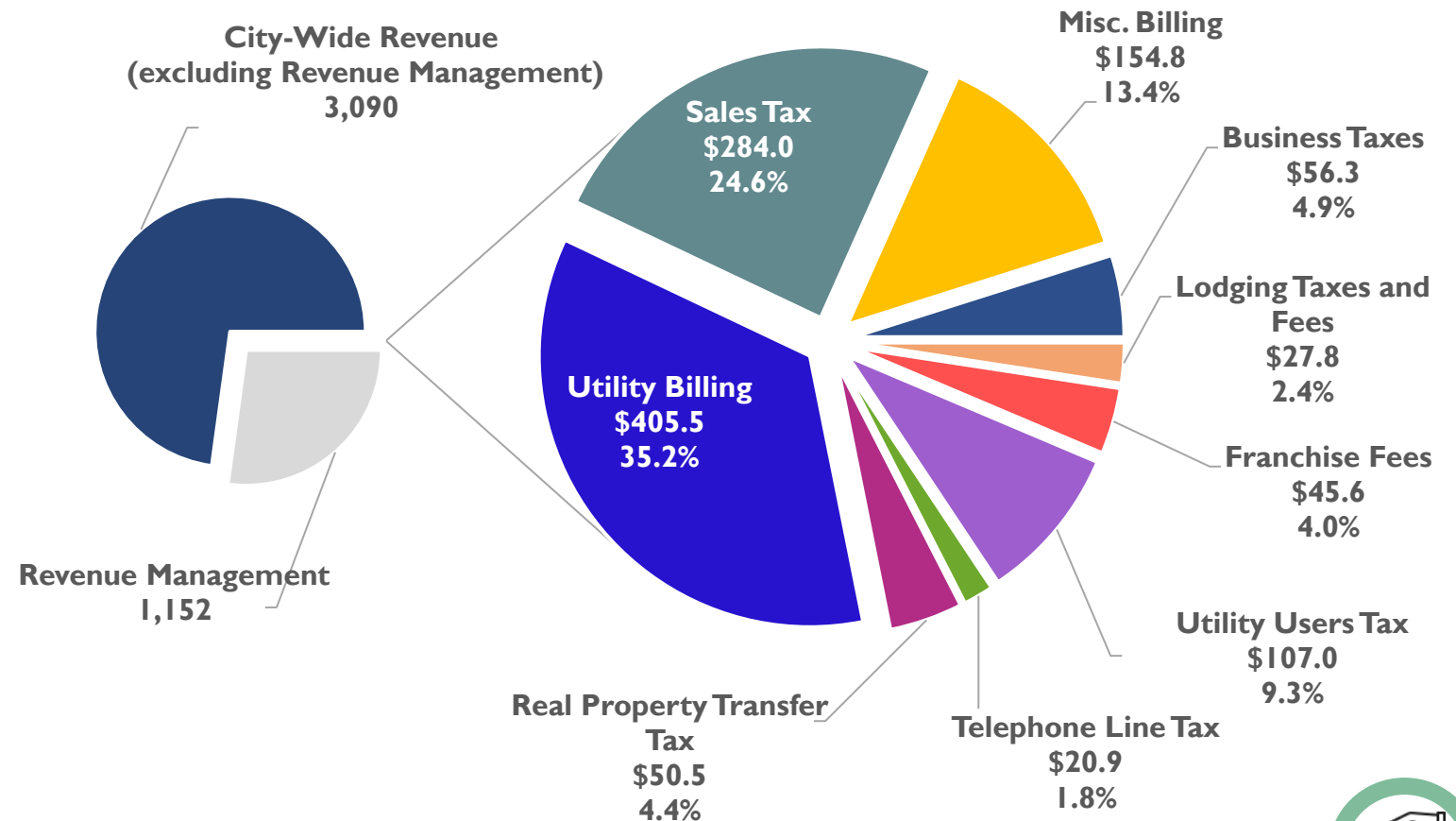
REVENUE MANAGEMENT PORTFOLIO

FY 2020-21 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.242B

Source: 2020-21 City Manager's
Budget Office Annual Report

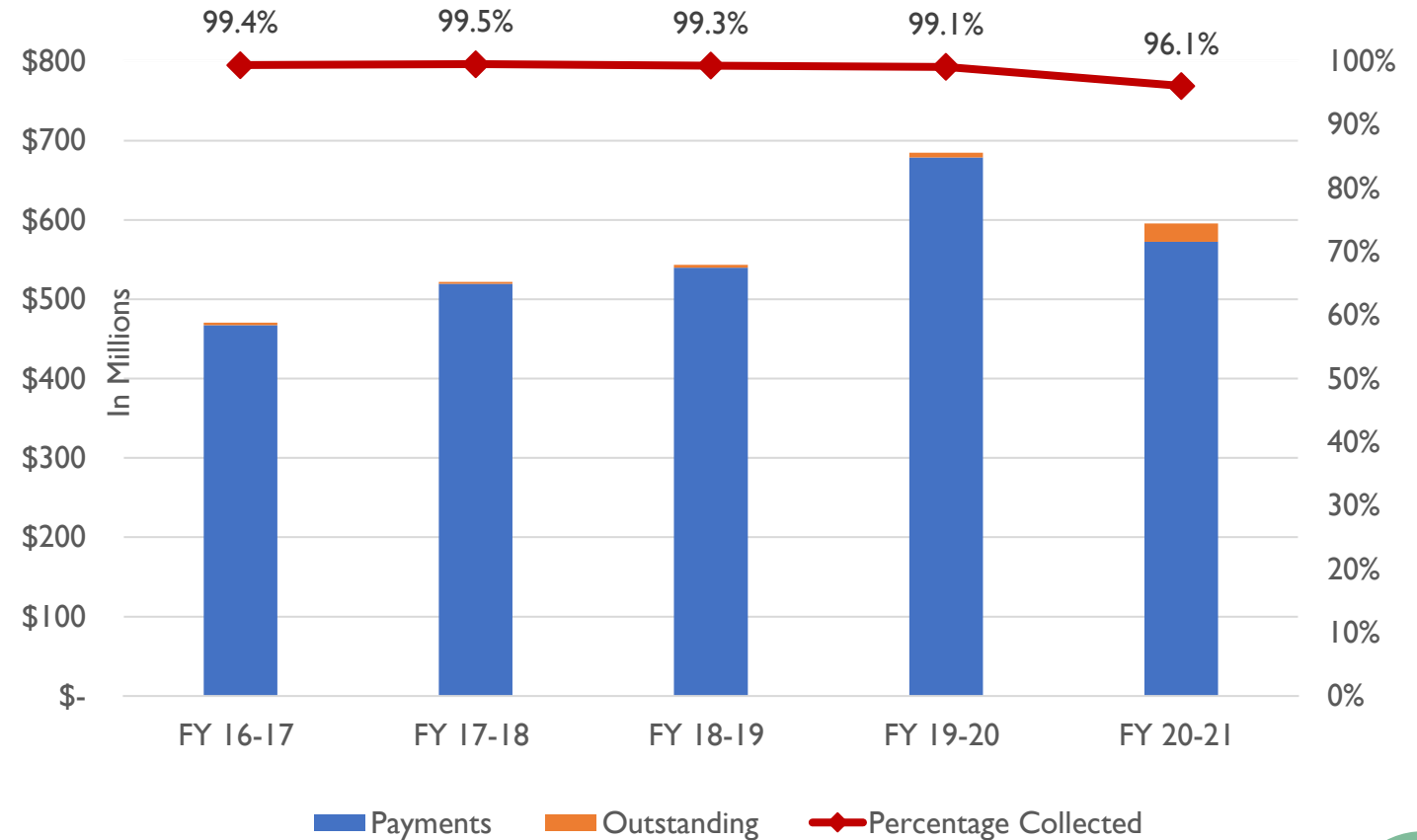
(Graph is updated annually)



INVOICING AND PAYMENTS (5-YEAR HISTORY)

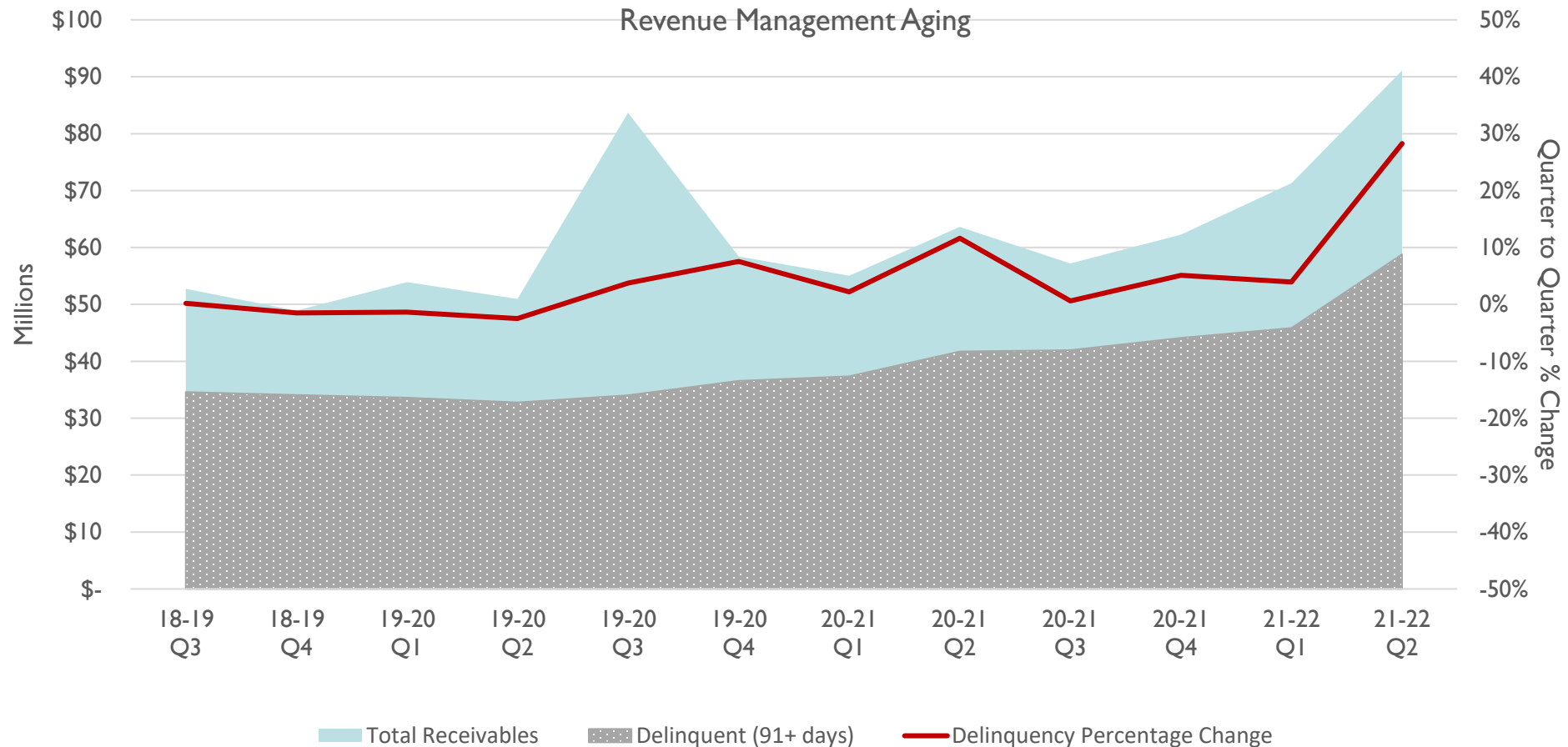
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System.

(Graph is updated annually)



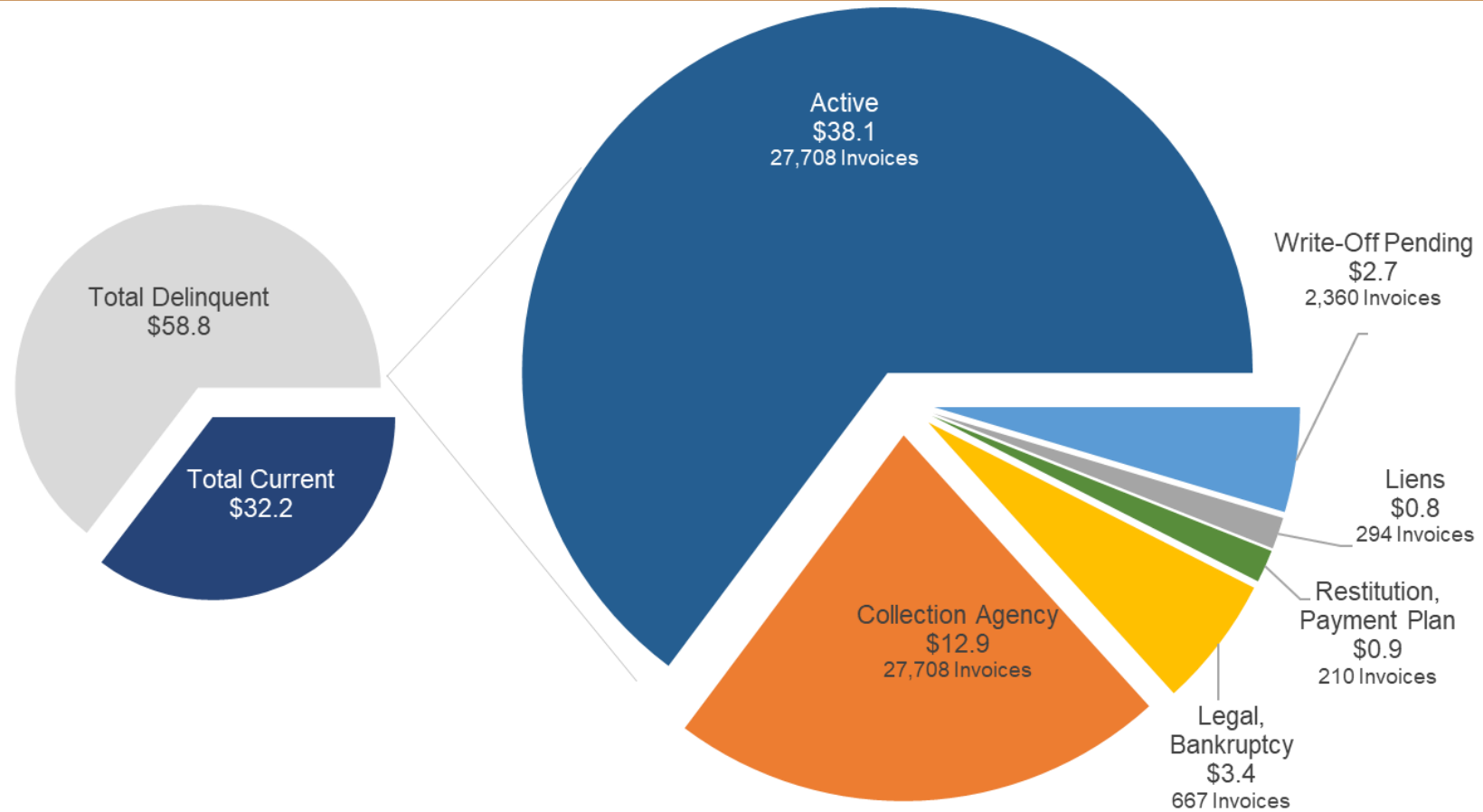
OUTSTANDING RECEIVABLES

(3-YEAR HISTORY)

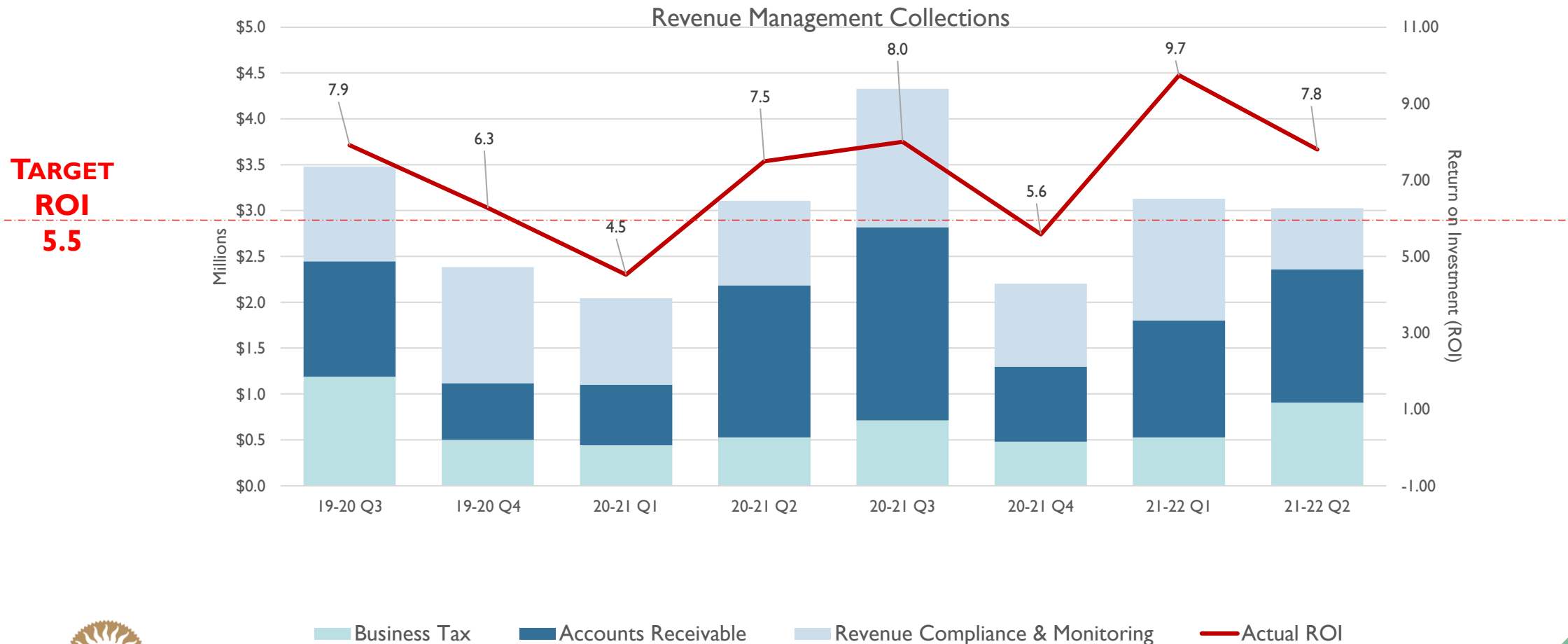


DELINQUENT RECEIVABLES COLLECTION STATUS

(\$ IN MILLIONS) AS OF DECEMBER 31, 2021



COLLECTIONS & RETURN ON INVESTMENT



BUSINESS TAX COVID-19 OUTREACH

- On September 28, 2021, the City Council extended/expanded the COVID-19 Business Tax Hardship Exemption Program.
- During the second quarter of FY 2021-22, Finance, the City Manager's Office, and Economic Development collaborated on related outreach:
 - Flash Reports (#181, 10/6/21; #190, 12/8/21; ~14,000 subscribers)
 - Social Media (Nextdoor, Facebook, Twitter, Instagram; ~8,000 total impressions)
 - Media Advisory (12/2/21, sent to 12,331 recipients)
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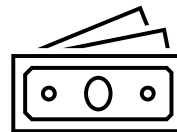


SECOND QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022



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

FY2021-22, SECOND QUARTER

Procurement Type	Transactions
Request for Quote Awarded	7
Request for Bids Awarded	21
Request for Proposals Completed	1
Purchase Orders and Purchase Orders Adjustments Issued	463
New Agreements Negotiated and Executed	6
Amendments, Change Orders, Service Orders, Options Executed	37
Council Memoranda Issued	11
Purchase Order Dollars Procured	\$77,917,893



PROCUREMENT IMPROVEMENT UPDATE

- Procurement Improvement is a Strategic Support initiative under the City Roadmap
 - Finance re-engaged with Procurement Consultant (Guidehouse) in September 2021
 - Assessment includes both Finance/Purchasing-managed and department-led procurements.
- This Quarter:
 - Guidehouse completed 76 City stakeholder interviews and made significant headway in the current state assessment of City's procurement process
 - Next steps include visioning sessions and developing future state recommendations
- Report to Smart Cities and Services Improvement Committee – April 2022

