



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE, AND STRATEGIC SUPPORT COMMITTEE      **FROM:** Julia H. Cooper

**SUBJECT:** **THIRD QUARTER FINANCIAL REPORTS FOR FISCAL YEAR 2021-2022**      **DATE:** May 4, 2022

Approved

Date

5/11/2022

## **RECOMMENDATION**

- (1) Accept the Third Quarter (period ended March 31, 2022) 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 Third Quarter Financial Reports for Fiscal Year 2021-2022 to the June 14, 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 Third Quarter Financial Reports for Fiscal Year 2021-2022 (quarter ended March 31, 2022) presents the quarterly activity for the City of San José (City) Finance Department Debt Management, Investment Management, Revenue Management and Purchasing and Risk Management programs (Attachment A). Additionally, the Third Quarter Investment Report has been distributed to the City Council via email and is available on the Finance Department web

page<sup>1</sup>. 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 referral to the City Council for 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 Third Quarter Debt Report focuses on the City's debt activities for the period ended March 31, 2022, 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 (April 1, 2022 through June 30, 2022); and
- Current interest rate environment 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 Investment 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

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

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 third quarter FY 2021-22 Return on Investment is 12.4 to 1.

### **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 expanded eligibility to include 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 Q2 and Q3 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 (~ 37,300 sent to date; ongoing monthly)
- Business Tax emails (total of 58,601 emails sent.)
- Informational fliers posted online and in City Public Libraries, in English, Spanish, Chinese, and Vietnamese.

In Q3 FY 2021-22, a backlog of 75 pending applications from the previous quarter and a total of 1,203 new exemption applications were processed by the end of the third quarter as follows:

- 75 carry over (pre-Q3 FY 2021-22 backlog)
- 1,203 submitted
- 406 approved
- 428 pending customer response
- 24 denied (did not meet program eligibility requirements)

The loss of revenue associated with exemptions for Q3 FY 2021-22 is approximately \$84,000.

Since the inception of the Amnesty Program which covered the tax period beginning October 1, 2016<sup>2</sup> through March 31, 2022, there has been a cumulative total of \$1.34 million in exemptions to date.

<b>Fiscal Year</b>	<b>Accounts</b>	<b>Base Business Rate</b>	<b>Total Foregone Revenue (Estimated)</b>
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	748	\$ 206.90	154,761
<b>Total</b>	<b>7,123</b>		<b>\$ 1,342,297</b>

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 further described in the attached report. Staff provided a summary of these recommendations to Smart Cities and Service Improvement Committee on April 7, 2022 and will present the same before the City Council on May 10, 2022.

### **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

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

Departments including enterprise departments such as the Airport Department and San José – Santa Clara Regional Wastewater Facility.

This quarter, the Risk Management Division implemented a second Owner-Controlled Insurance Program (OCIP) for the Regional Wastewater Facility, as summarized in the attached report.

### **CONCLUSION**

The Financial Reports provide information and transparency of the Finance Department's management of debt, investment, revenue, purchasing and risk management 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 answer questions on the Third Quarter Financial Reports for Fiscal Year 2021-2022 at the PSFSS Committee meeting on May 19, 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 May 19, 2022 PSFSS Committee meeting and on the June 14, 2022 City Council agenda.

### **COORDINATION**

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

May 4, 2022

**Subject: Third Quarter Financial Reports for Fiscal Year 2021-2022**

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**COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

/s/  
JULIA H. COOPER  
Director of Finance

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

*For questions please contact:*

<b>Program</b>	<b>Finance Contact</b>	<b>Finance Division</b>	<b>Phone</b>
Debt Management	Luz Cofresí-Howe	Assistant Director	(408) 535-7832
Investment Management	Luz Cofresí-Howe	Assistant Director	(408) 535-7832
Revenue Management	John Kachmanian	Deputy Director, Revenue Management	(408) 535-7034
Purchasing & Risk Management	Jennifer Cheng	Deputy Director, Purchasing and Risk Management	(408) 535-7059

COMMITTEE AGENDA: 05/19/2022

ITEM: (C)1

FILE: CC22-119

ATTACHMENT A

# **THIRD QUARTER FINANCIAL REPORT FOR FISCAL YEAR 2021-2022**

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

**Prepared by the Finance Department  
May 4, 2022**



# **THIRD QUARTER DEBT MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022**

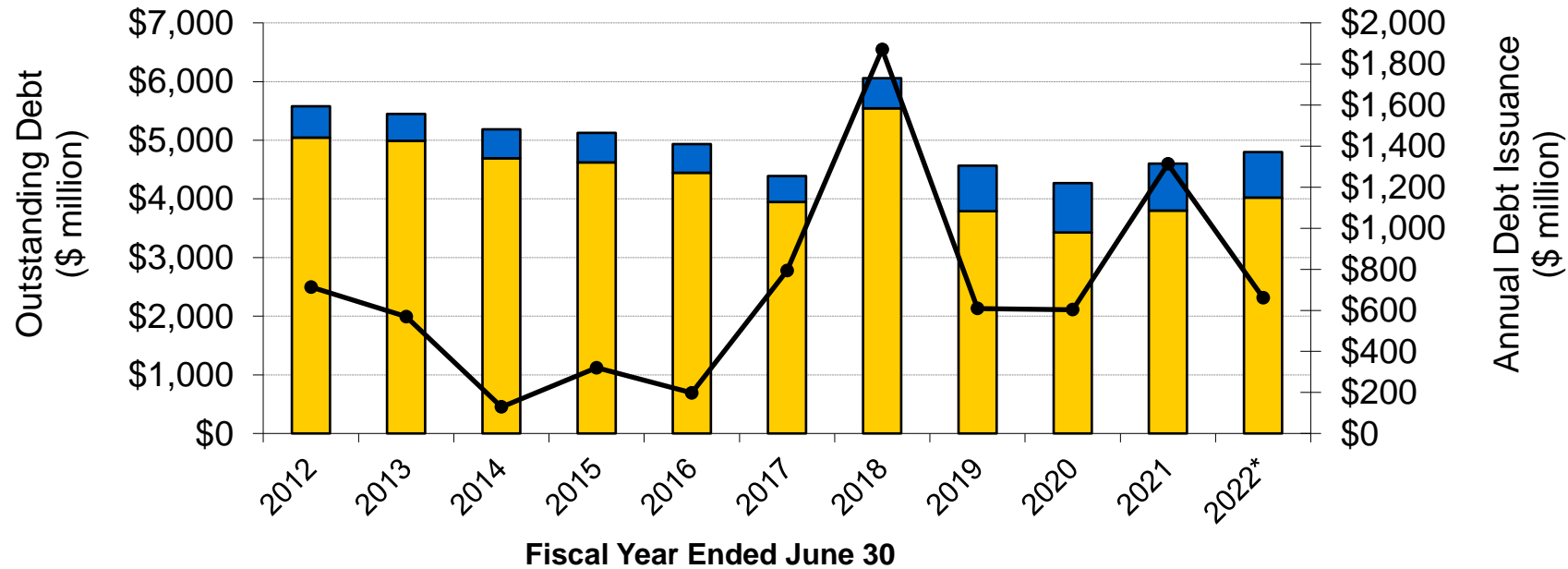




# OUTSTANDING DEBT ISSUED

## (CITY AND ALL AGENCIES)

Outstanding Debt as of March 31, 2022: \$4.8 Billion  
 FY 2021-22 Year to Date Debt Issuance: \$661.5 Million



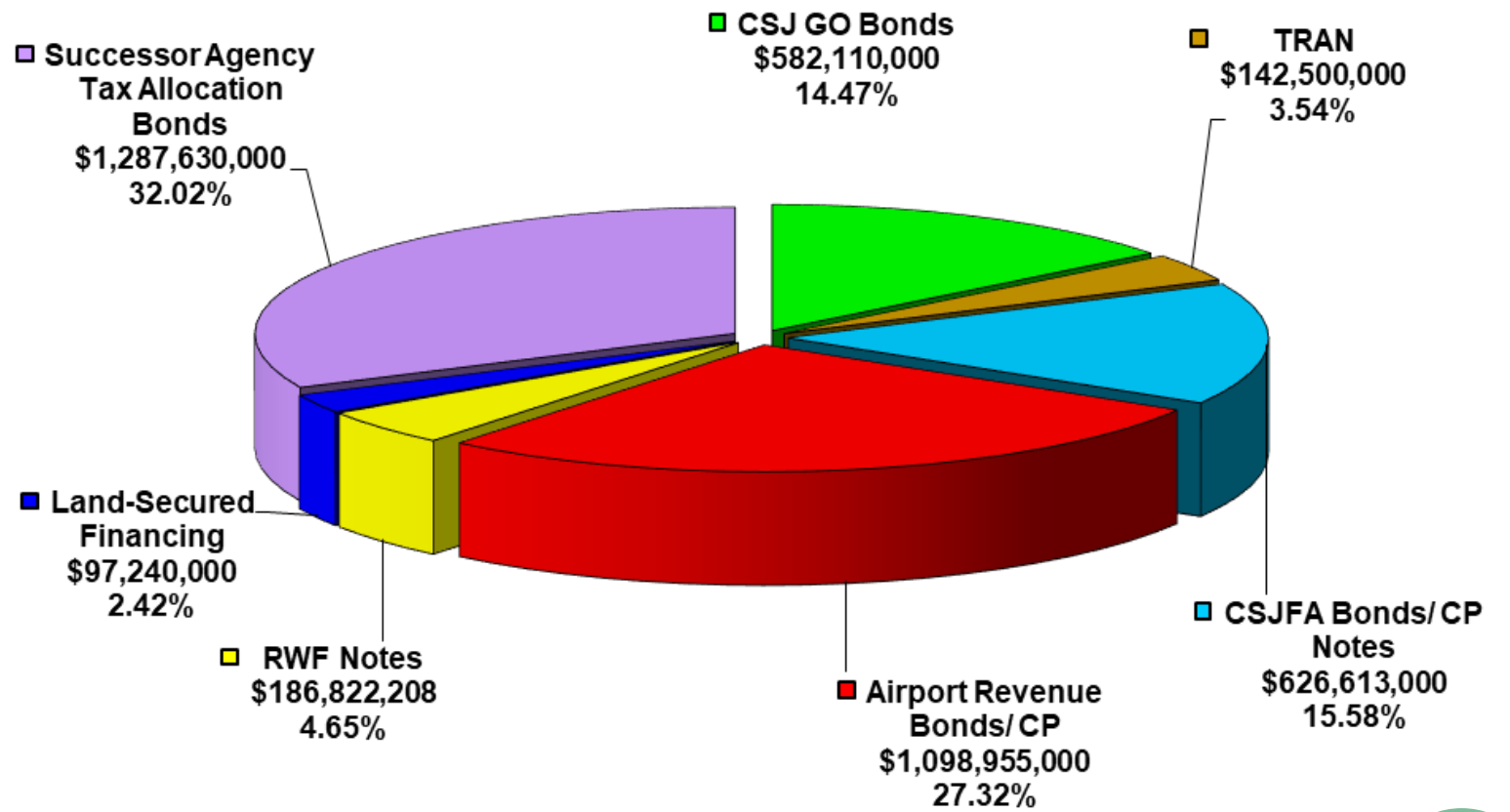
City and Related Entity Debt Outstanding
  Conduit Debt Outstanding
  Annual Debt Issuance

\* YTD Debt Issuance



# DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of  
March 31, 2022: \$4.0 Billion  
(Excluding Multifamily Housing  
Revenue Bonds)



# DEBT ISSUANCE ACTIVITIES

## DURING THIRD QUARTER (JANUARY – MARCH 2022)

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- Debt Issuance

- Regional Wastewater Facility (RWF) Credit Facility Draw – \$36.5 million
  - \* Provides interim financing in support of the long-range capital plan for the Regional Wastewater Facility
  - \* Initial Credit Capacity \$300 million
  - \* Remaining Capacity \$113.2 million (As of March 31, 2022)
- Multi-Family Housing Debt Issuance
  - \* Vitalia Apartments (formerly known as Bascom Apartments) – \$35.6 million notes were issued in January 2022.
  - \* Mariposa Place – \$36 million notes were issued in January 2022.



# SELECTED DEBT MANAGEMENT ACTIVITIES

## DURING THIRD QUARTER (JANUARY – MARCH 2022)

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- Debt Management
  - RFW Credit Facility Amendment
    - \* Negotiated amendment to existing Wells Fargo Bank credit facility, resulting in lower fees and lower interest costs on variable rate facility
  - Pre-issuance activities
    - \* CSJFA Taxable Lease Revenue Bonds, Series 2022A (Convention Center Refunding Project)
    - \* 2022 Tax and Revenue Anticipation Notes (TRANs) – to facilitate the prefunding of certain employer retirement contributions in 2022-2023



# SELECTED DEBT MANAGEMENT ACTIVITIES DURING THIRD QUARTER (JANUARY - MARCH 2022)

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- Reporting
  - CDIAC – Annual Debt Transparency Report (SB 1029) – January 2022
  - Annual Continuing Disclosure – SARA / CCFD (Convention Center Facility District) – March 2022
  - Annual Compliance Certificates – SARA (January 2022) / Airport (February 2022) / Clean Energy (March 2022) / TRAN (March 2022) / RWF Credit Agreement (March 2022) / Commercial Paper (March 2022)
  - Prepare Successor Agency Recognized Obligation Payment Schedule (ROPS) 22-23 for Santa Clara County review and State Department of Finance submission



# SELECTED DEBT MANAGEMENT ACTIVITIES

## DURING THIRD QUARTER (JANUARY - MARCH 2022)

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- On March 28, 2022, the City's Finance Department held a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing approving the issuance of Multi-Family Housing Revenue Bonds (MHRB):
  - Algarve in the amount of \$32.5 million; tentative closing June 2022
  - McEvoy in the amount of \$64.2 million; tentative closing June 2022



# UPCOMING DEBT ISSUANCE AND MANAGEMENT THROUGH JUNE 30, 2022

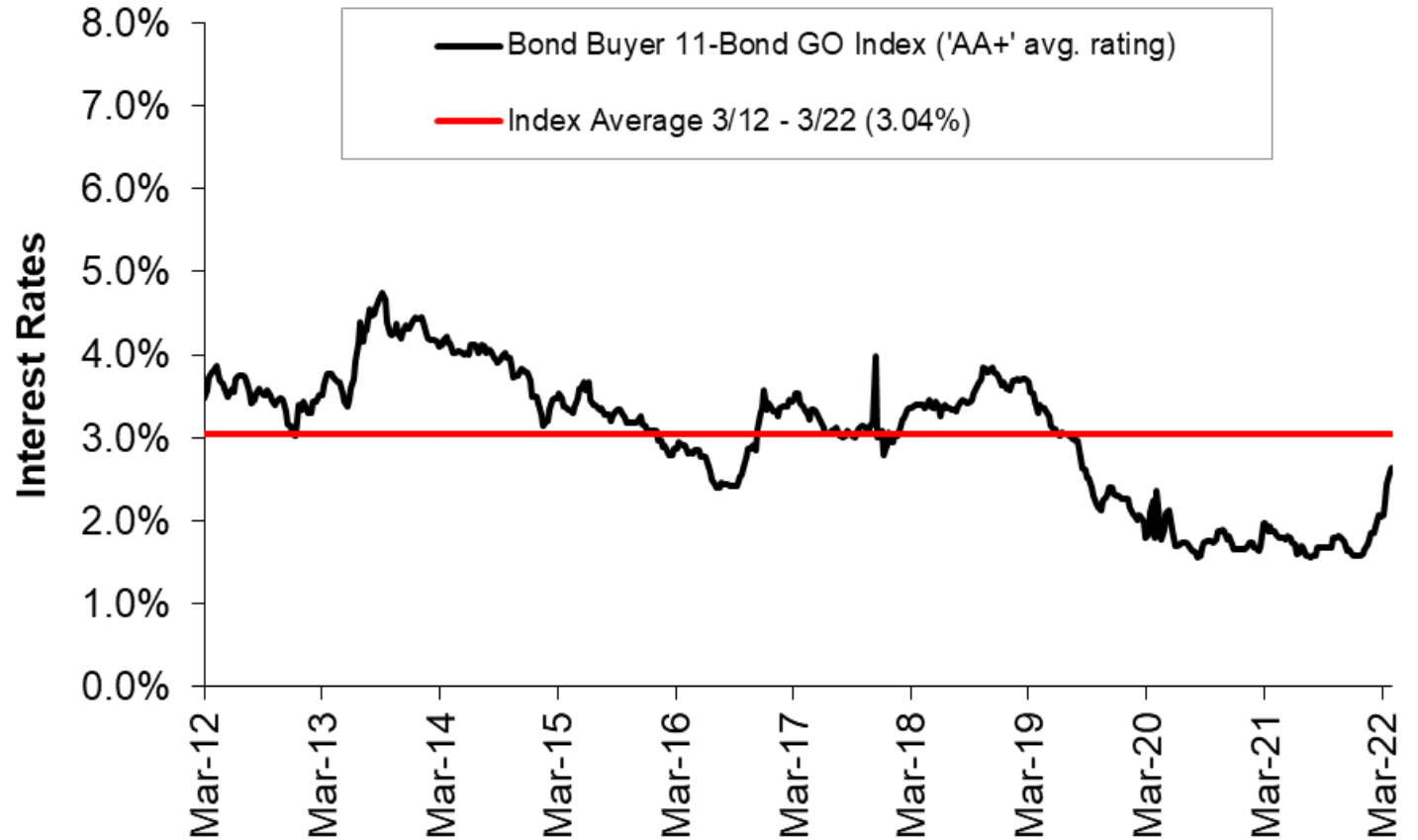
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- Debt Issuance
  - CSJFA Taxable Lease Revenue Bonds, Series 2022A (Convention Center Refunding Project), closed April 21, 2022
  - Pre-Issuance Activity
    - 2022 TRAN – Retirement Prefunding
    - RVF Financing (Revenue Bonds)
- Debt Management
  - Issuance of RFP for Arbitrage Rebate Services and Continuing Disclosure/Audit Compliance Services
  - Issuance of RFP for Municipal Advisory Services for various debt programs
  - Selection of Underwriter(s) for RVF Financing and pools for various credits
  - Successor Agency ROPS Budget FY22-23 approval from State Department of Finance



# TAX-EXEMPT MARKET INDEX (20-YEAR FIXED RATE)

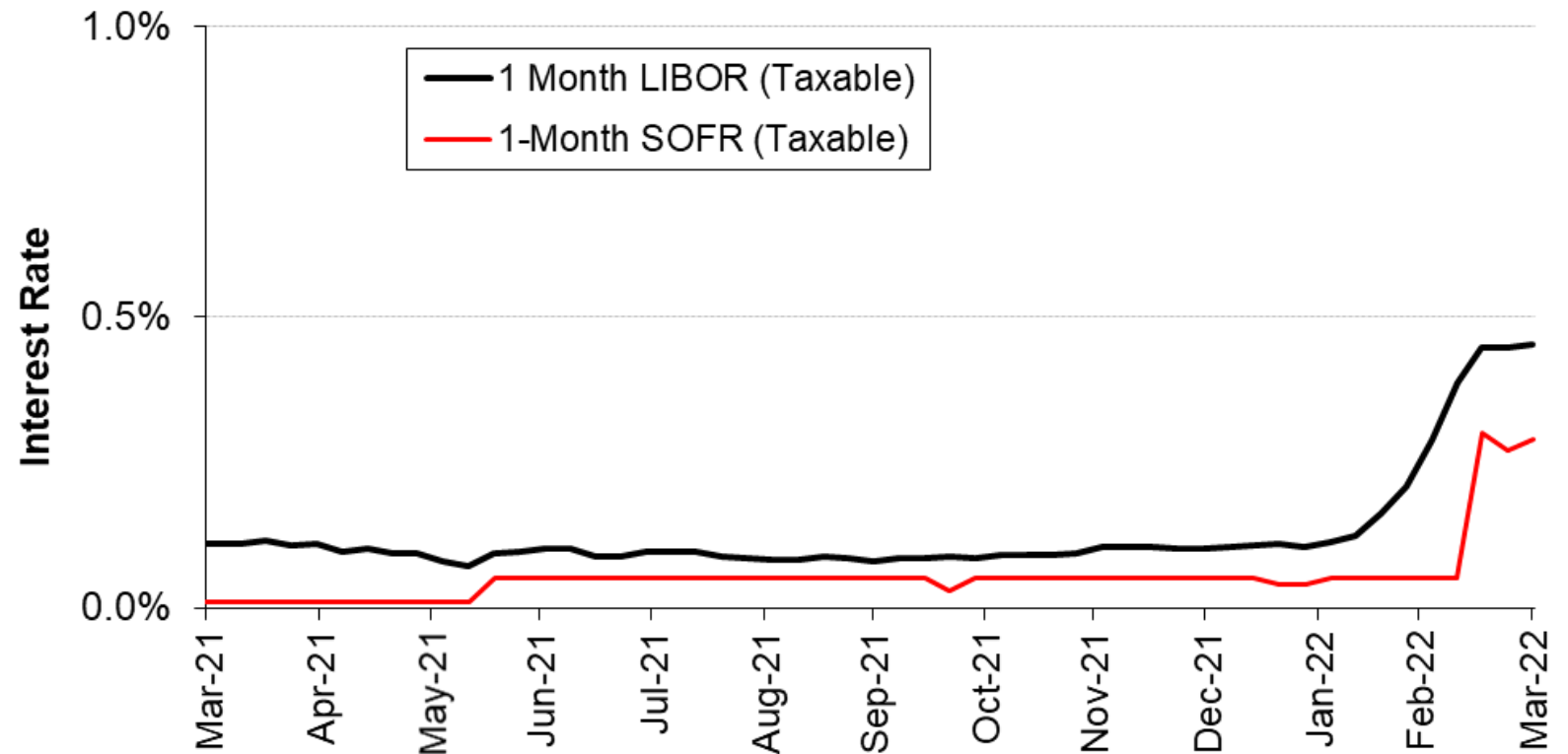
10-year history of tax-exempt long-term (20-year term) interest rates averaged 3.04% and are currently at 3.52% (as of 4/14/22)





# VARIABLE INTEREST RATES (TAXABLE)

Taxable LIBOR monthly interest rates paid by the City averaged 0.09% in Q3. The Taxable SOFR monthly interest rate is currently at 0.29% (as of 4/14/2022)



# GENERAL CREDIT RATINGS

## CITY OF SAN JOSÉ

- 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 OBLIGATION 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 the extent of the tax base and other credit fundamentals the City and County share:

Entity	Moody's	S&P	Fitch
City of San José	Aa1	AA+	AAA
State of California	Aa2	AA-	AA
Santa Clara County	[1]	AAA	AA+

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



# OTHER CITY CREDIT RATINGS

Type of Rating	Moody's	S&P	Fitch
<b>San José Airport Bonds</b>	A2 (stable)	A- (stable)	A (stable)
<b>SARA Senior Tax Allocation Bonds</b>	Not Rated N/A	AA (stable)	AA- (stable)



# **THIRD QUARTER INVESTMENT REPORT FOR FISCAL YEAR 2021-2022**



# 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 15, 2022
- Investment Program is audited semi-annually for compliance purposes
  - Audit for period ended December 31, 2021 is included with the Third Quarter Investment Report



# INVESTMENT OBJECTIVES & REPORTING

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- Manage investments to meet the City's Investment Policy objectives:
  - Safety
  - Liquidity
  - Yield
- Meet Socially Responsible Investment Goals per Section 22 of the Investment Policy
- Quarterly reports are available to the public
  - On-line
  - In PSFSS Committee agenda packets
  - In City Council agenda packets (for acceptance)



# PORTFOLIO PERFORMANCE SUMMARY

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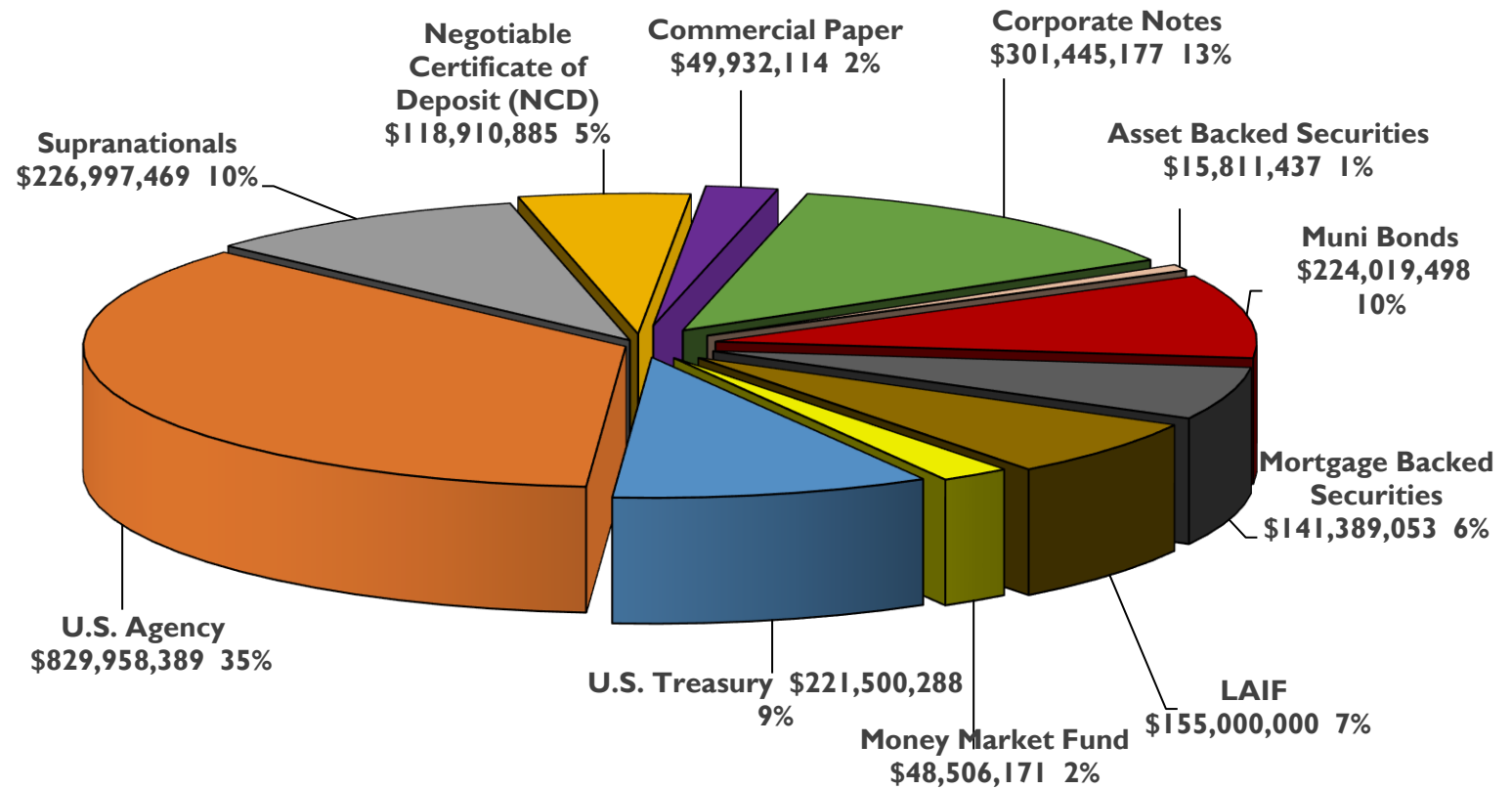
Size of total portfolio	\$2,333,470,481
Earned interest yield	0.876%
Weighted average maturity	562 days
Fiscal year-to-date net income recognized	\$14,323,223
Exceptions to the City Investment Policy during this quarter	None





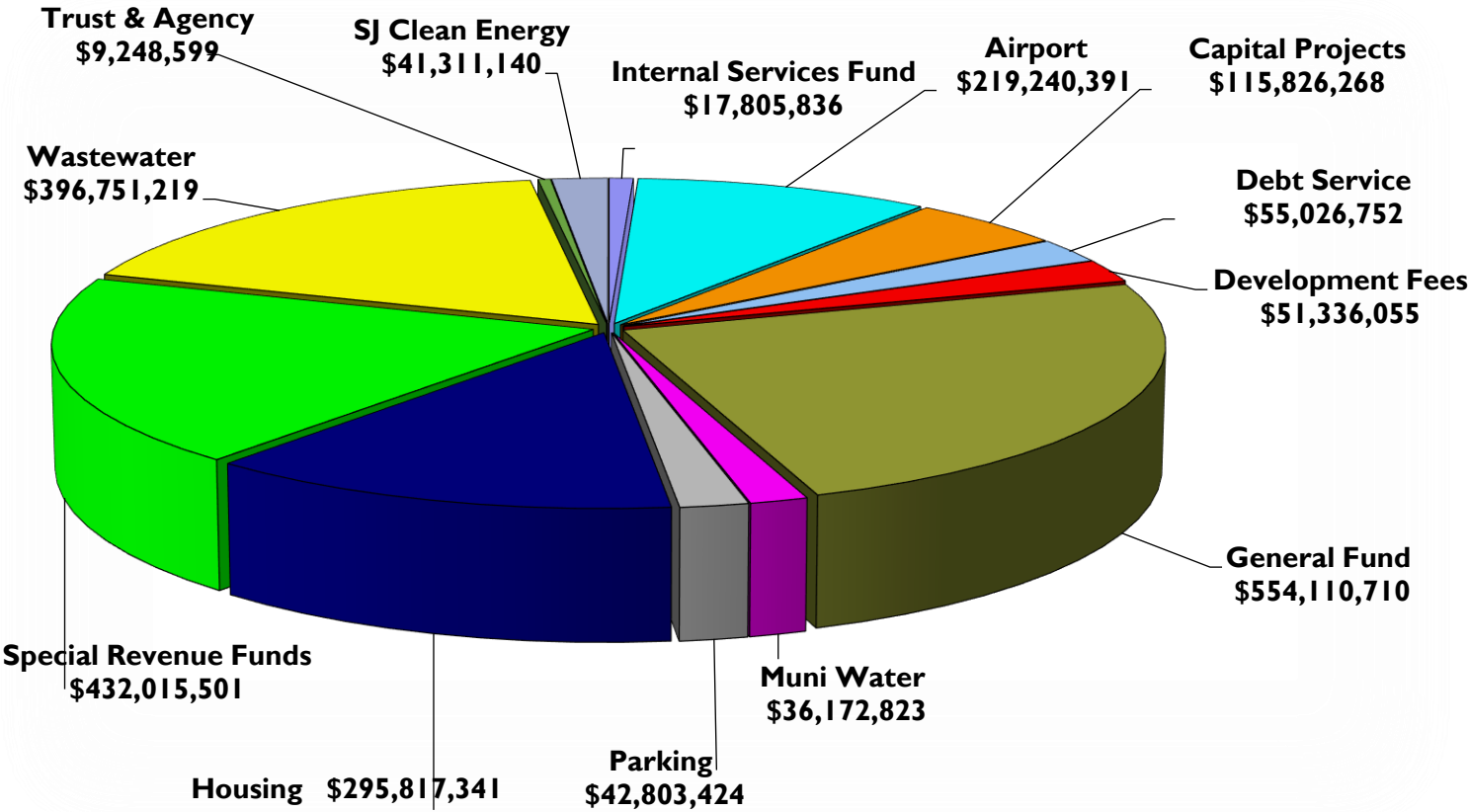
# PORTFOLIO INVESTMENTS

Total Investment Portfolio:  
\$2,333,470,481



# INVESTMENTS BY FUND

The \$554.1 million in the General Fund presented includes \$508,488,547 of General Fund monies, as well as \$45,622,163 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

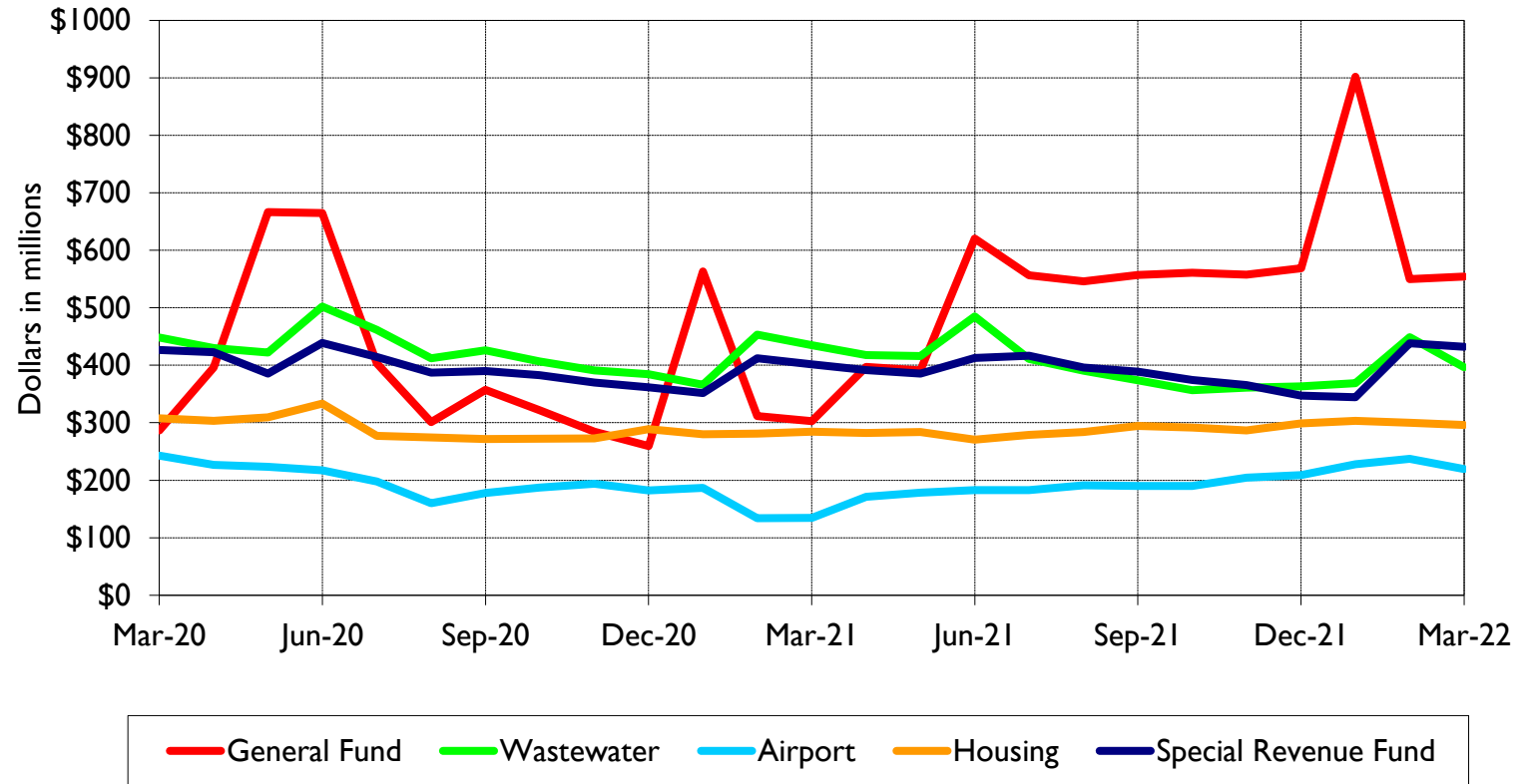
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- General Fund balance decreased by \$14.7 million during the quarter, ending at \$554.1 million as of March 31, 2022
  - General Fund balance usually peaks during the months of January and June, when the bulk of property taxes are received; declines in the summer due to retirement prefunding; and declines throughout the rest of the year due to debt service payments and operational expenditures
  - This quarter included prepayment of half the 2021 TRANs for \$142.5 million
  - Remaining half will be paid as due on June 30, 2022
- Projected investment maturities and revenues are sufficient to cover anticipated expenditures for the next six months



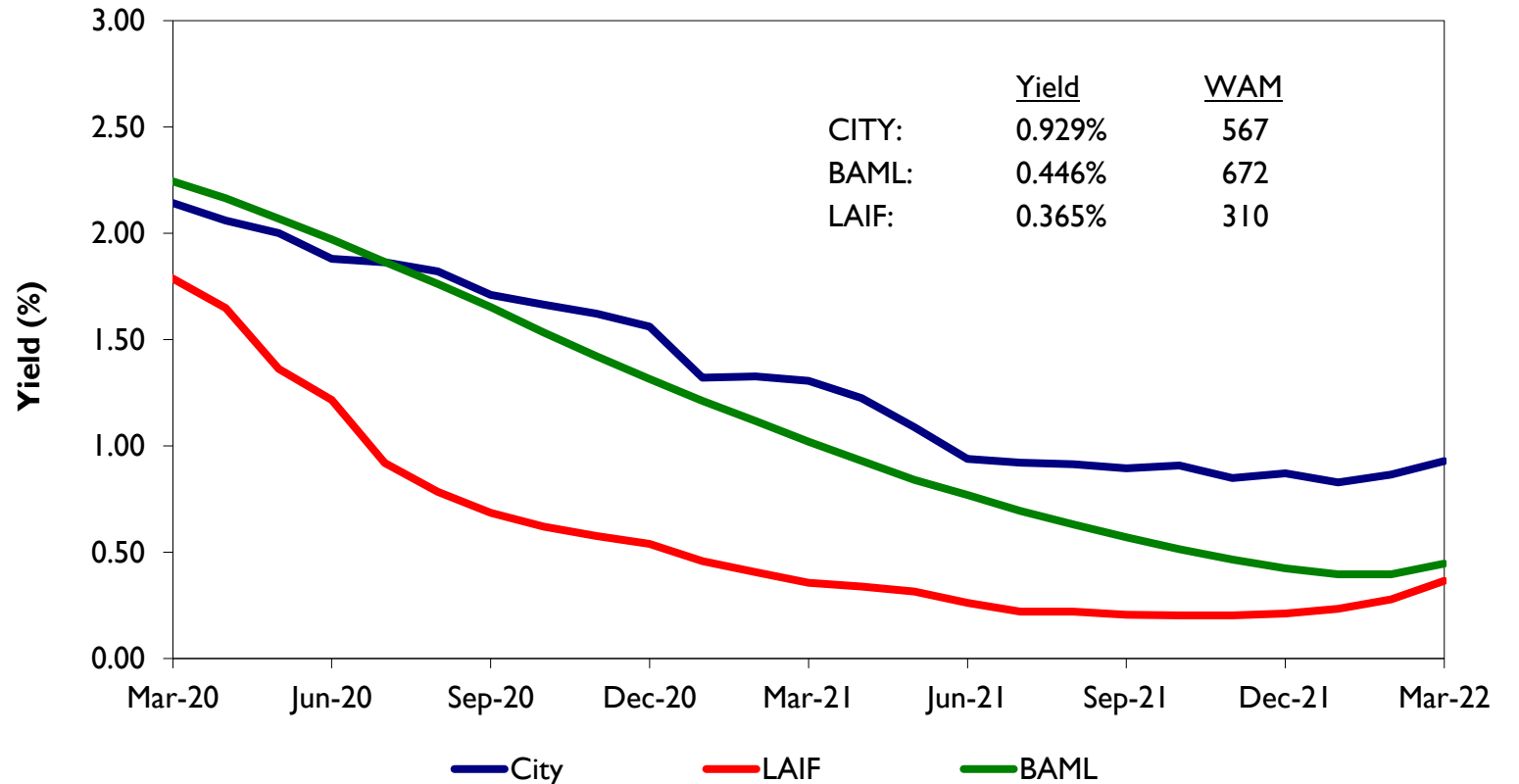
# COMPARISON OF CASH BALANCES (BY SELECT FUNDS)

The City's advance receipt of 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 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



# **THIRD QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022**



# 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.





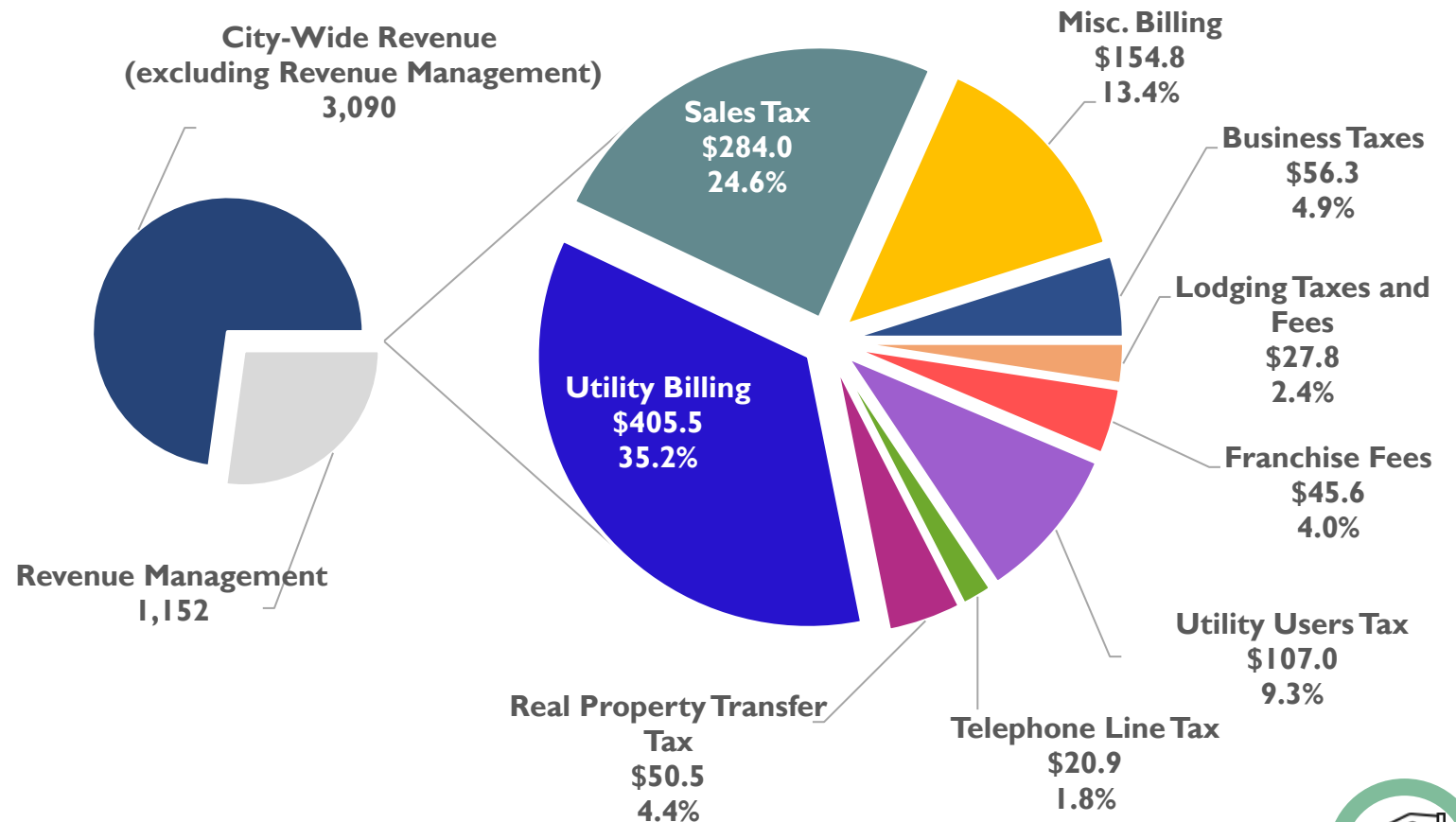
# REVENUE MANAGEMENT PORTFOLIO

## FY 2020-21 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.242B

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

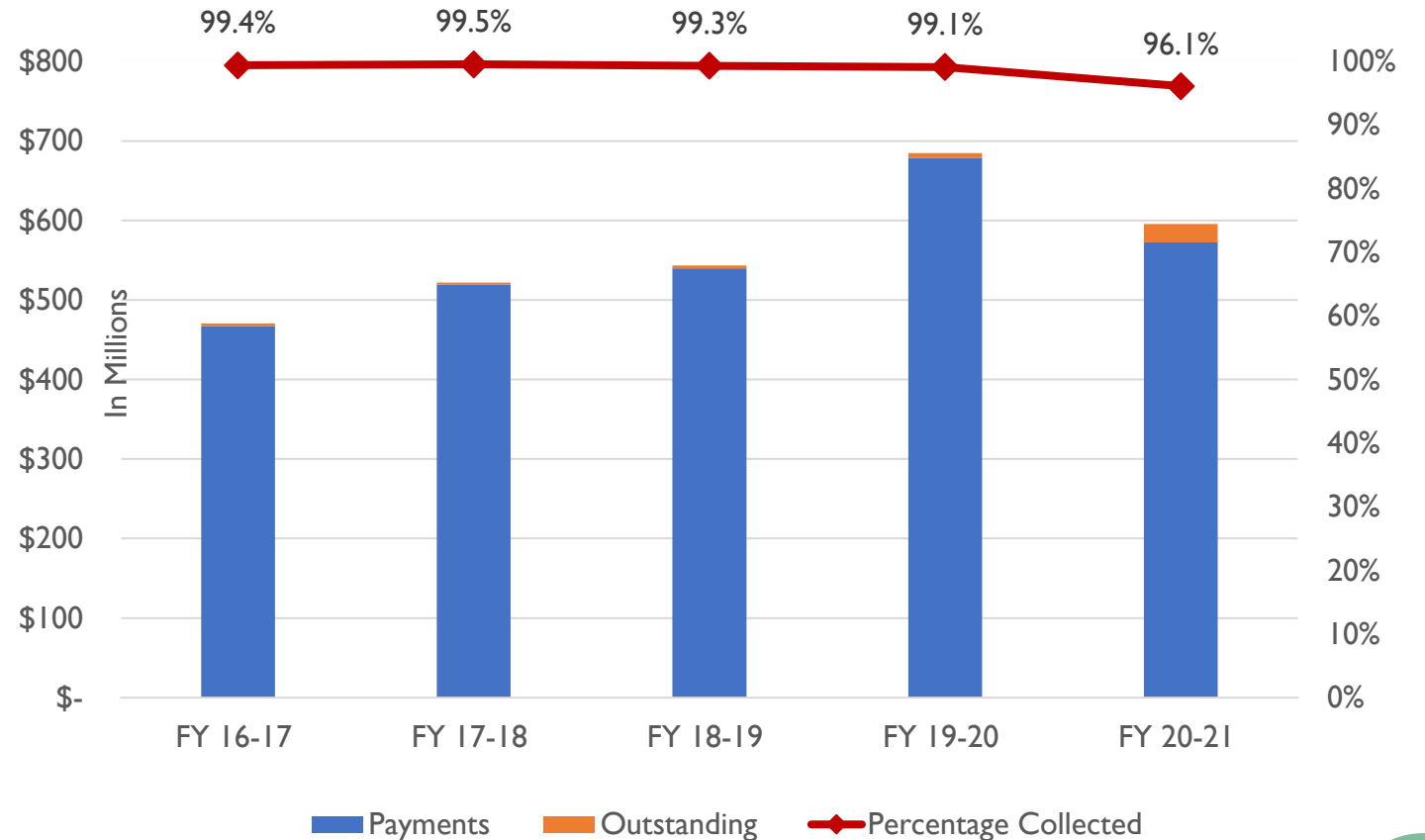
(Graph is updated annually)



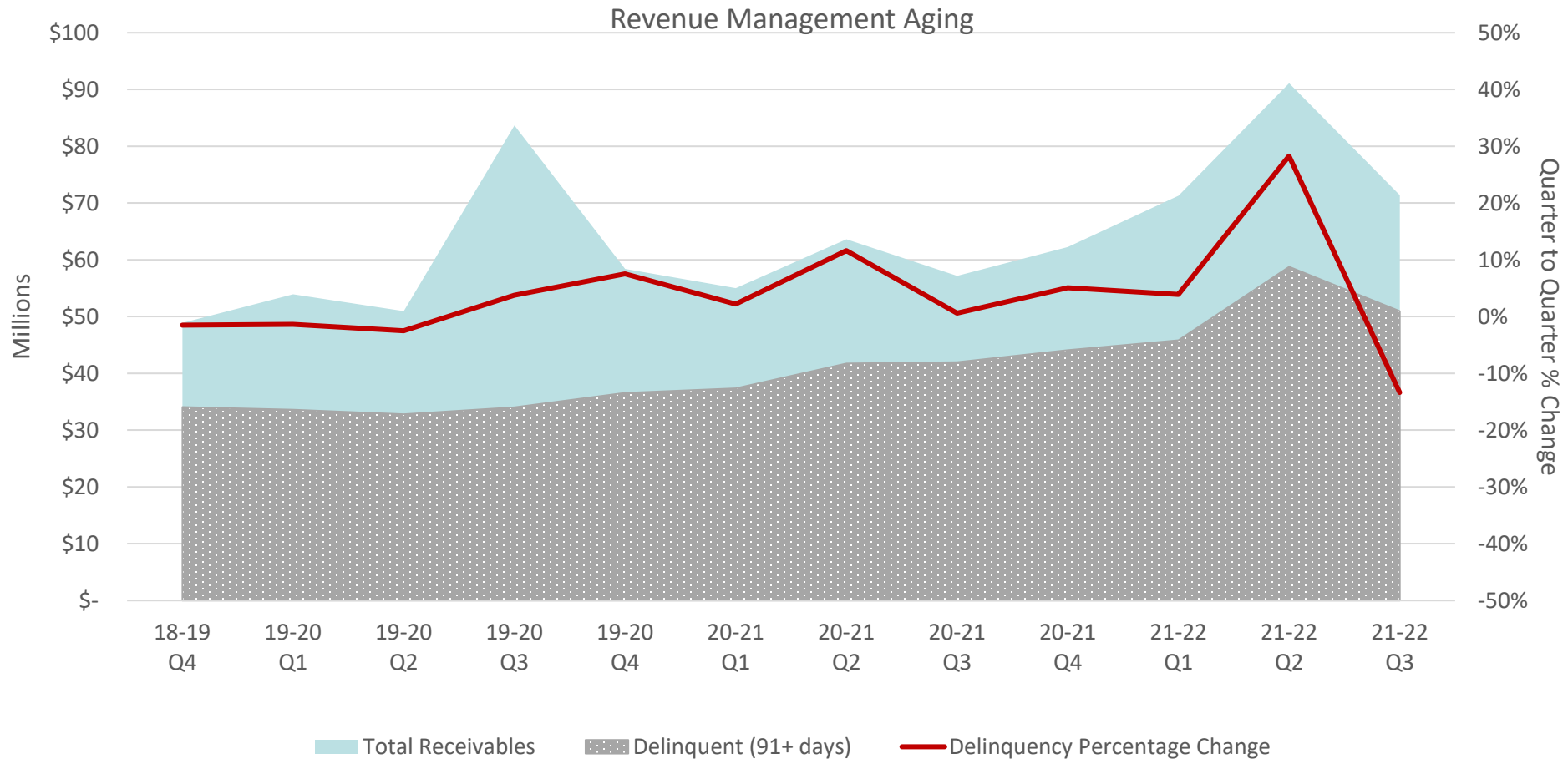
# INVOICING AND PAYMENTS (5-YEAR HISTORY)

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

(Graph is updated annually)

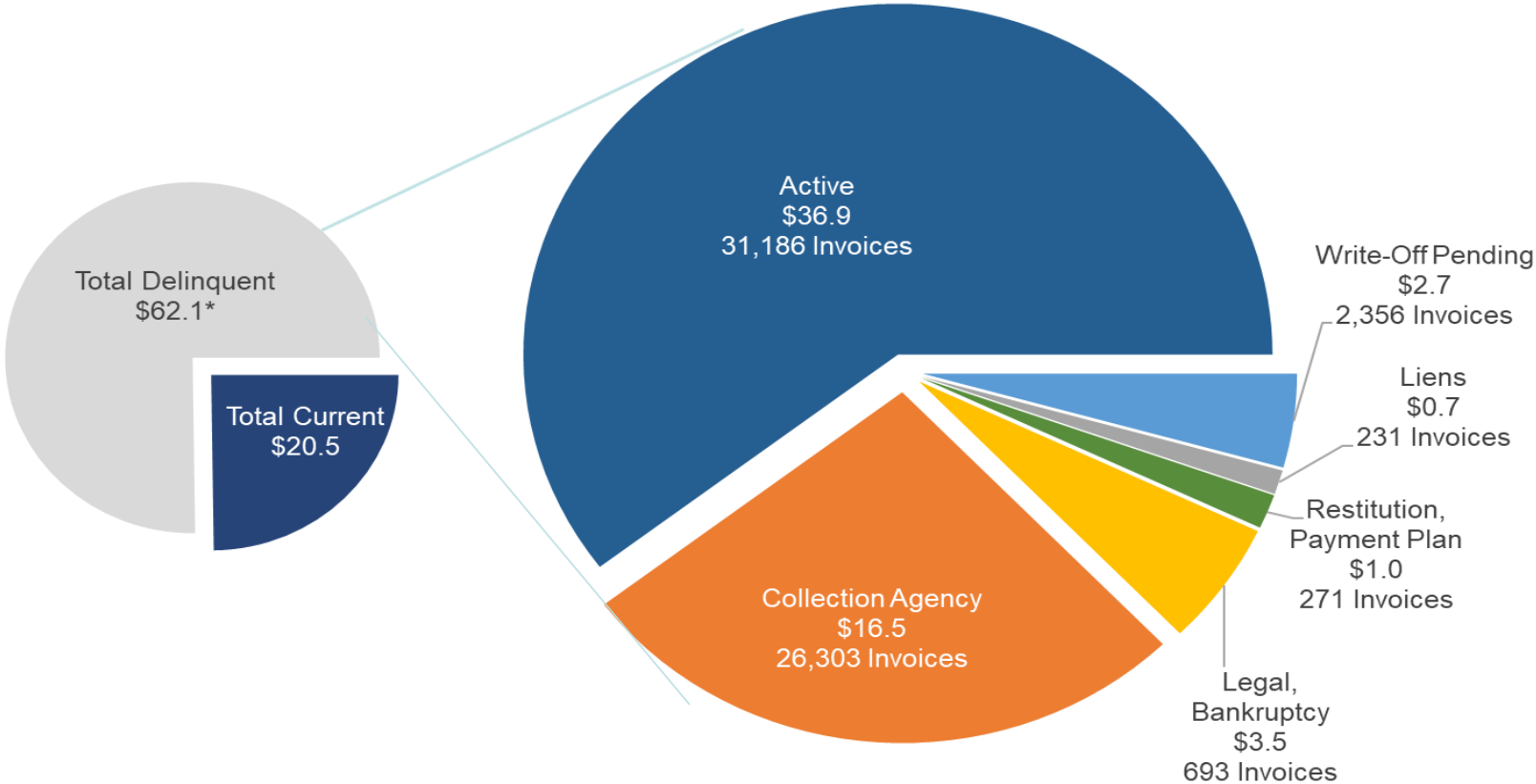


# OUTSTANDING RECEIVABLES (3-YEAR HISTORY)



# DELINQUENT RECEIVABLES

## COLLECTION STATUS SUMMARY (\$ IN MILLIONS)



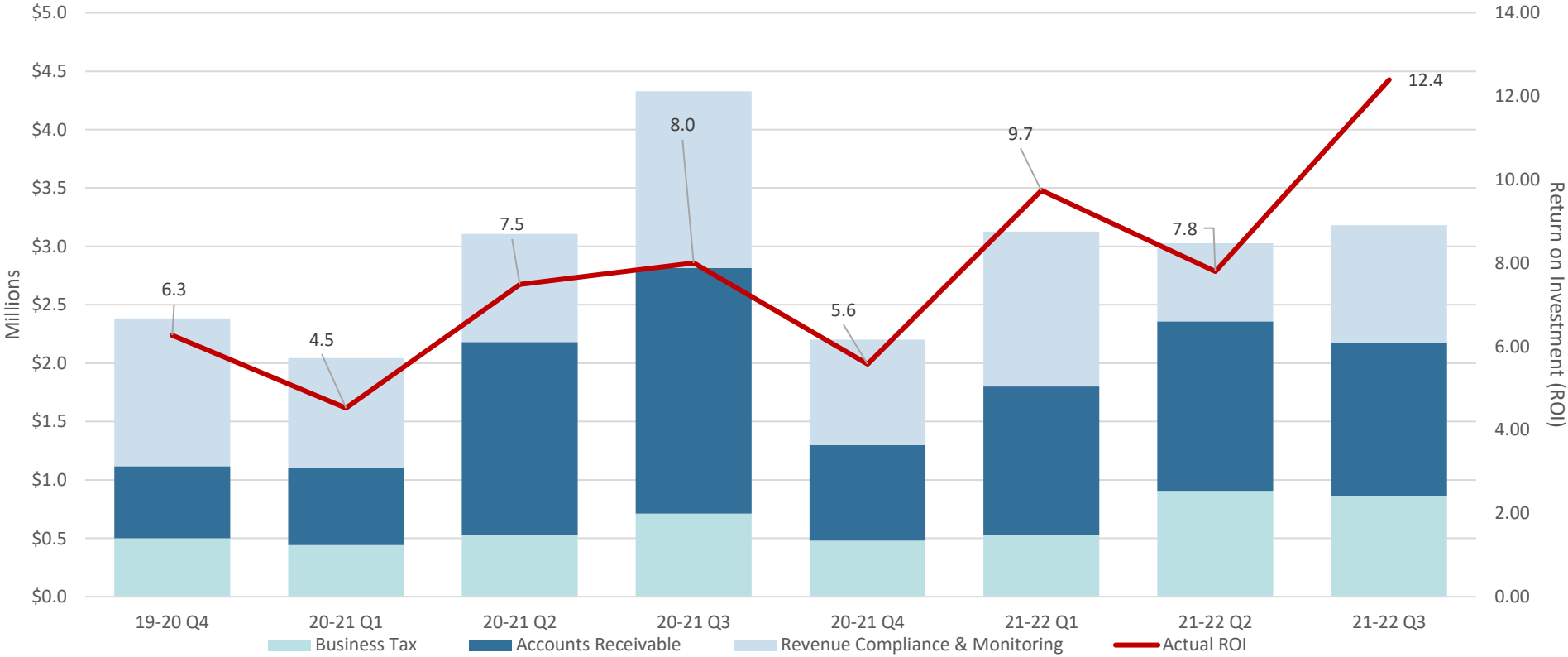
As of March 31, 2022

\*Rounded



# COLLECTIONS & RETURN ON INVESTMENT

## REVENUE MANAGEMENT COLLECTIONS



Target ROI: 5.5



# BUSINESS TAX COVID-19 HARDSHIP EXEMPTION OUTREACH

- On September 28, 2021, the City Council extended/expanded the COVID-19 Business Tax Hardship Exemption Program.
- During the third quarter of FY 2021-22, Finance performed outreach and hardship exemption application processing as follows:
  - Hardship Exemption Outreach
    - \* Business Tax invoice inserts sent: 31,581 (~37,300 sent to date; ongoing monthly)
    - \* Business Tax emails: 58,601 sent
  - Hardship Exemption Application Processing
    - \* A total of 1,278 new exemption applications were processed (1,203 new applications and 75 carryover from FY 21-22 Q2)



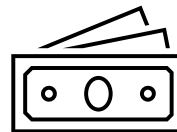
# **THIRD QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022**



# 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

## FY2021-22, THIRD QUARTER

Procurement Type	Transactions
Request for Quote Awarded	17
Request for Bids Awarded	21
Request for Proposals Completed	2
Purchase Orders and Purchase Orders Adjustments Issued	493
New Agreements Negotiated and Executed	7
Amendments, Change Orders, Service Orders, Options Executed	35
Council Memoranda Issued	14
Purchase Order Dollars Procured	\$80,075,215



# PROCUREMENT IMPROVEMENT UPDATE

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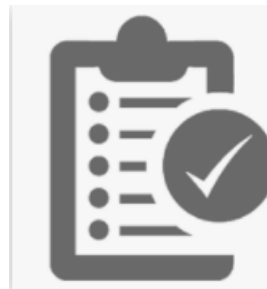
- Procurement Improvement is a City Roadmap Strategic Support initiative
  - Finance re-engaged with Procurement Consultant (Guidehouse) in September 2021
  - Assessment includes both Finance/Purchasing-managed and department-led procurements.
- This Quarter:
  - Guidehouse drafted Current State Assessment Report, completed 5 visioning sessions with City leadership, and produced the Future State Assessment Report
  - Presented initial recommendations to City Senior Leadership Team on March 16, 2022
- 4<sup>th</sup> Quarter Activities
  - Report to Smart Cities and Services Improvement Committee on April 7, 2022 and City Council on May 10, 2022.
- Staff evaluating recommendations and will commence discussions across City on feasibility of implementing the recommendations.



# 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

## FY2021-22, THIRD QUARTER

Type	Transactions
Request for Contract Insurance Specifications	132
Request for Insurance Compliance Review	109
Request for Letters of Self-Insurance	23
Subrogation dollars bills to responsible third parties	\$201,759



# OWNER CONTROLLED INSURANCE PROGRAM FOR REGIONAL WASTEWATER FACILITY, PHASE 2

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- An OCIP is a master insurance program arranged by the City to insure the interests of contractors and subcontractors while working on capital improvement projects at the Regional Wastewater Facility (RWF).
  - Generates cost savings, improves claims delivery, and provides loss control and safety management resources to the City
- In 2016, City Council approved an OCIP for RWF projects through March 2023
- Finance-Risk Management works with stakeholders to administer the program
- This Quarter:
  - In January 2022, City Council approved implementation of a second OCIP at RWF for CIP projects through January 2028
  - Second OCIP involves 9 insurers, and 5 insurance product lines

