

COMMITTEE AGENDA: 08/18/2022

ITEM: (D)I

FILE: CC22-169

ATTACHMENT A

FOURTH QUARTER FINANCIAL REPORT FOR FISCAL YEAR 2021-2022

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

**Prepared by the Finance Department
August 18, 2022**



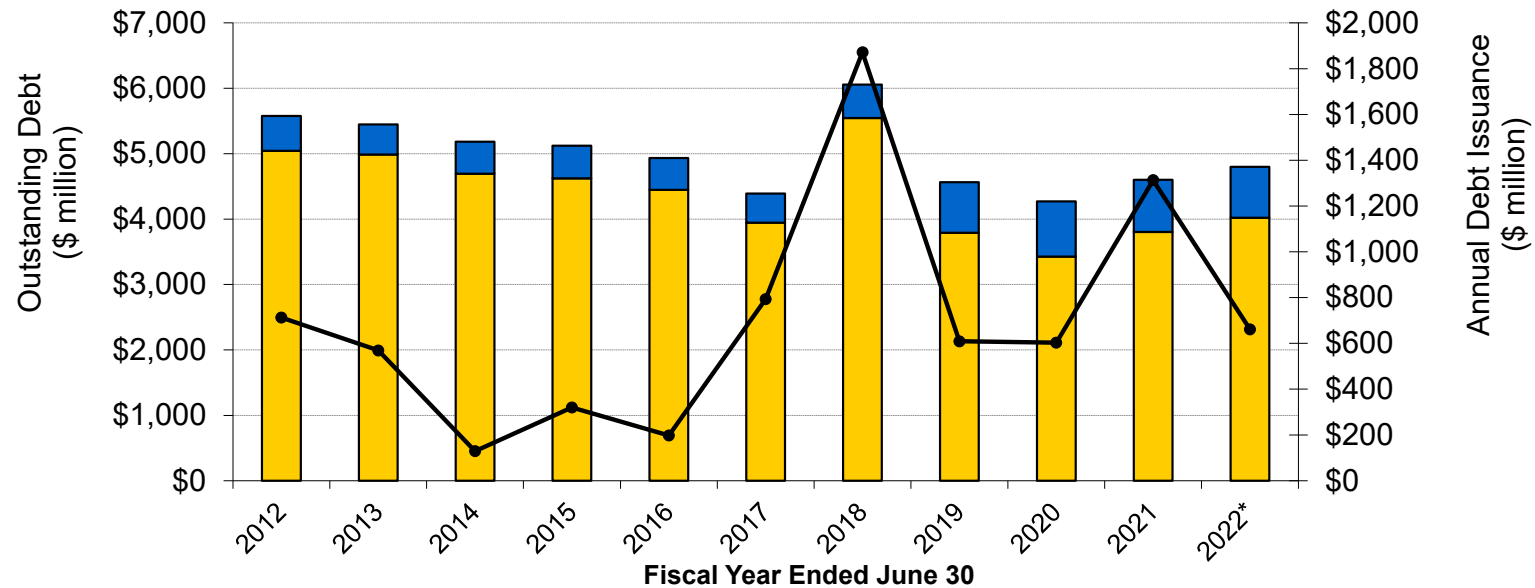
FOURTH QUARTER DEBT MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022



OUTSTANDING DEBT ISSUED

(CITY AND ALL AGENCIES)

Outstanding Debt as of June 30, 2022: \$4.7 Billion
FY 2021-22 Year to Date Debt Issuance: \$877 Million

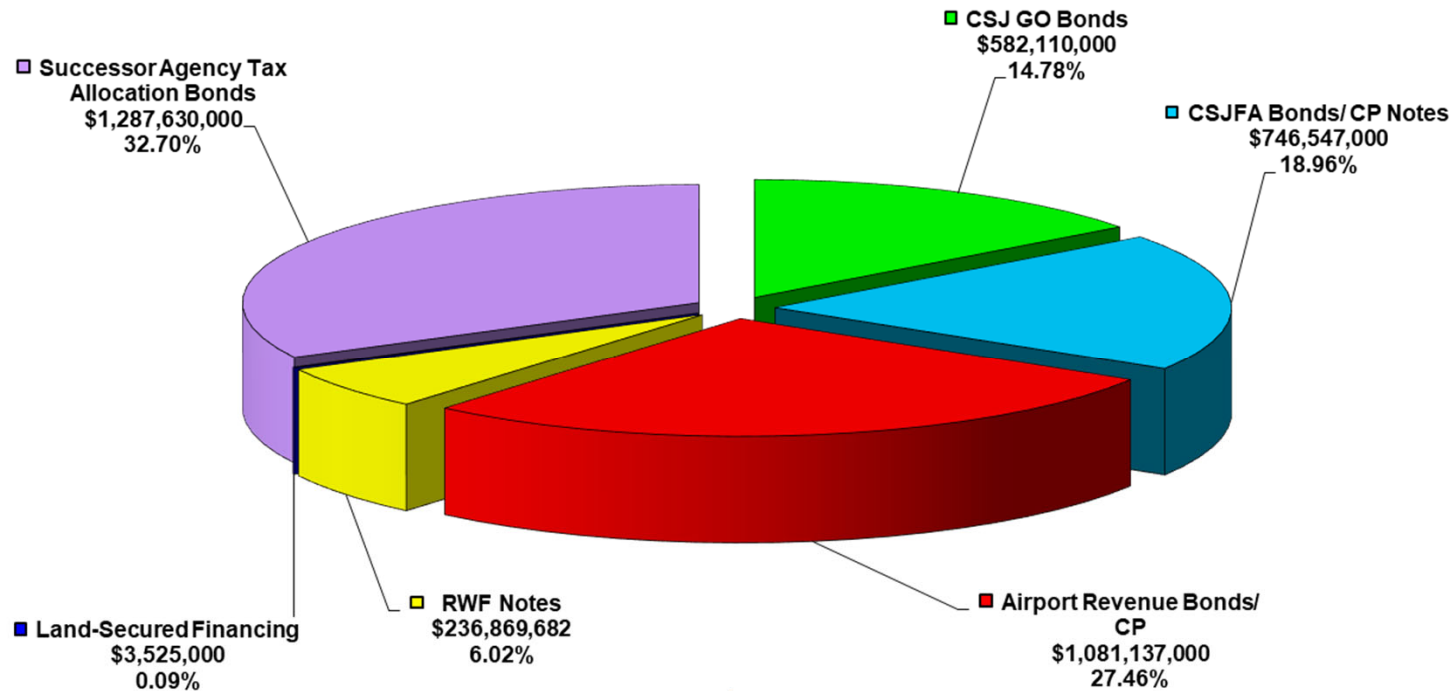


■ City and Related Entity Debt Outstanding
 ■ Conduit Debt Outstanding
 —●— Annual Debt Issuance



DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of June 30, 2022: **\$3.94 Billion**
(Excluding Multifamily Housing Revenue Bonds)



DEBT ISSUANCE ACTIVITIES

DURING FOURTH QUARTER (APRIL – JUNE 2022)

- CSJ Financing Authority Lease Revenue Bonds, Series 2022A – \$165.8 million
 - Convention Center Refunding Project – refunded Special Hotel Tax Bonds, Series 2011; CSJFA Lease Revenue Bonds, Series 2011A; and Exhibit Hall and South Hall Commercial Paper Notes in April
- Regional Wastewater Facility Revenue Tax-Exempt Notes
 - Issued \$40 million in May and \$10 million in June



SELECTED DEBT MANAGEMENT ACTIVITIES

DURING FOURTH QUARTER (APRIL – JUNE 2022)

- Debt Management

- Pre-Issuance Activities

- * 2022 Tax and Revenue Anticipation Notes (TRANs) – to facilitate the prefunding of certain employer retirement contributions in 2022-2023

- Payment of Commercial Paper (CP)

- * \$8.4 million (Exhibit Hall) and \$42.4 million (South Hall) outstanding CSJFA CP notes were refunded from Lease Revenue Bonds, Series 2022A proceeds in April
 - * \$380k (Floods) and \$725k (ESCO) CSJFA CP were retired in April
 - * \$17.8 million Airport CP was retired in June



SELECTED DEBT MANAGEMENT ACTIVITIES

DURING FOURTH QUARTER (APRIL – JUNE 2022)

- Reporting
 - Annual Debt Service Compliance Certificate
 - * CSJFA Commercial Paper (June)
 - Annual Compliance Budget Requirement
 - * Airport Commercial Paper (May)
 - * CSJFA Commercial Paper (June)
 - * CSJFA Lease Revenue Bonds, Series 2013B (June)
 - Material Event Notices Filed with Municipal Securities Rulemaking Board
 - * Standard & Poor's Rating Upgrade for Airport Revenue Bonds from A- to A



UPCOMING DEBT ISSUANCE AND MANAGEMENT THROUGH SEPTEMBER 30, 2022

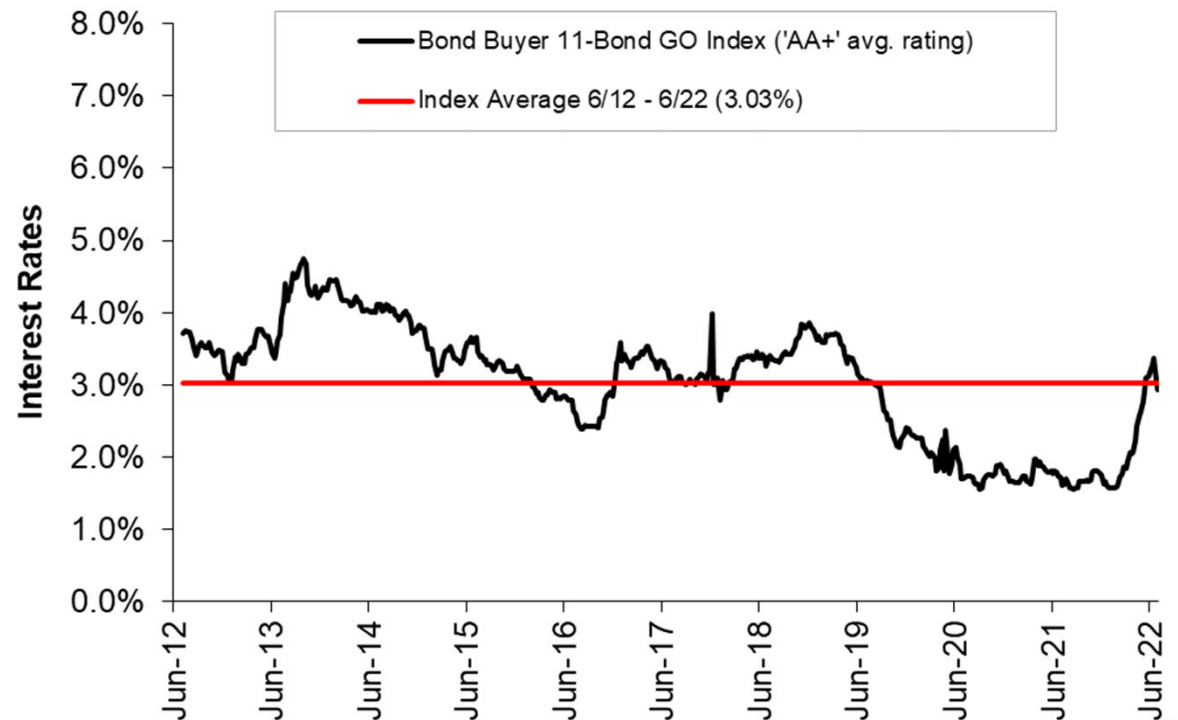
- Debt Issuance
 - \$275 million – 2022 Tax and Revenue Anticipation Notes (TRAN) issued July 1, 2022
 - Pre-Issuance Activity
 - * RWF Financing (Revenue Bonds) – Underwriters selected:
 - Wells Fargo as Senior Manager (book runner)
 - Morgan Stanley as Co-Senior Manager
- Debt Management
 - Issuance 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 pools for various credits
 - ROPS 23-24 Prior Period Adjustments (Due to County on October 1, 2022)



TAX-EXEMPT MARKET INDEX

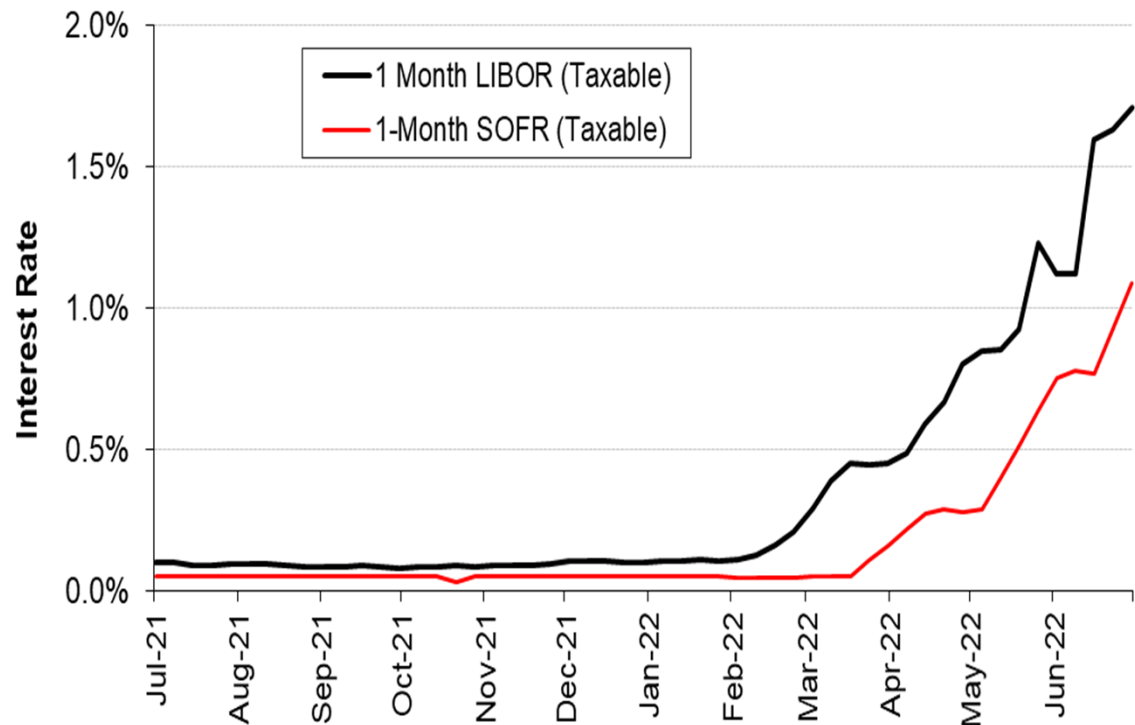
(20-YEAR FIXED RATE)

10-year history of tax-exempt long-term (20-year term) interest rates averaged 3.03% and are currently at 3.43% (as of 7/20/22)



VARIABLE INTEREST RATES (TAXABLE)

Taxable LIBOR monthly interest rates paid by the City averaged 1.05% in Q4. The Taxable LIBOR and SOFR monthly interest rates currently are at 1.97% and 1.42% (as of 7/12/2022)



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 shared by the City and County:

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
San José Airport Bonds	A2 (stable)	A* (stable)	A (stable)
SARA Senior Tax Allocation Bonds	Not Rated	AA (stable)	AA- (stable)

* In June 2022, S&P raised the credit rating of the Airport Bonds from A- to A.



FOURTH QUARTER INVESTMENT REPORT FOR FISCAL YEAR 2021-2022



INVESTMENT POLICY

(COUNCIL POLICY 4-42)

- Investments meet the requirements of the City's Investment Policy and conform with California Government Code section 53604
- 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 45, 2022
- 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
 - Online
 - In PSFSS Committee agenda packets
 - In City Council agenda packets (for acceptance)



SOCIALLY RESPONSIBLE INVESTMENT GOALS

- Articulated in Section 22 of the Investment Policy:
 - Support community well-being through:
 - * Safe and environmentally sound practices
 - * Fair labor practices
 - Support equality of rights
 - Serve all members of the local community
 - Promote community economic development



PORTFOLIO PERFORMANCE SUMMARY

Size of Total Portfolio	\$2,725,410,958
Earned Interest Yield	1.111%
Weighted Average Maturity	533 days
Fiscal Year-to-Date Net Income Recognized	\$21,189,153
Exceptions to the City Investment Policy this Quarter	1 [†]

[†] Pursuant to Section 20.0 (Reporting Policy Exceptions) of the City of San José Investment Policy, the Director of Finance reported a violation of the Policy to the City Manager within three business days of discovery, and reported to the City Council on June 30, within ten days of discovery. Additional details can be found in the following slide.



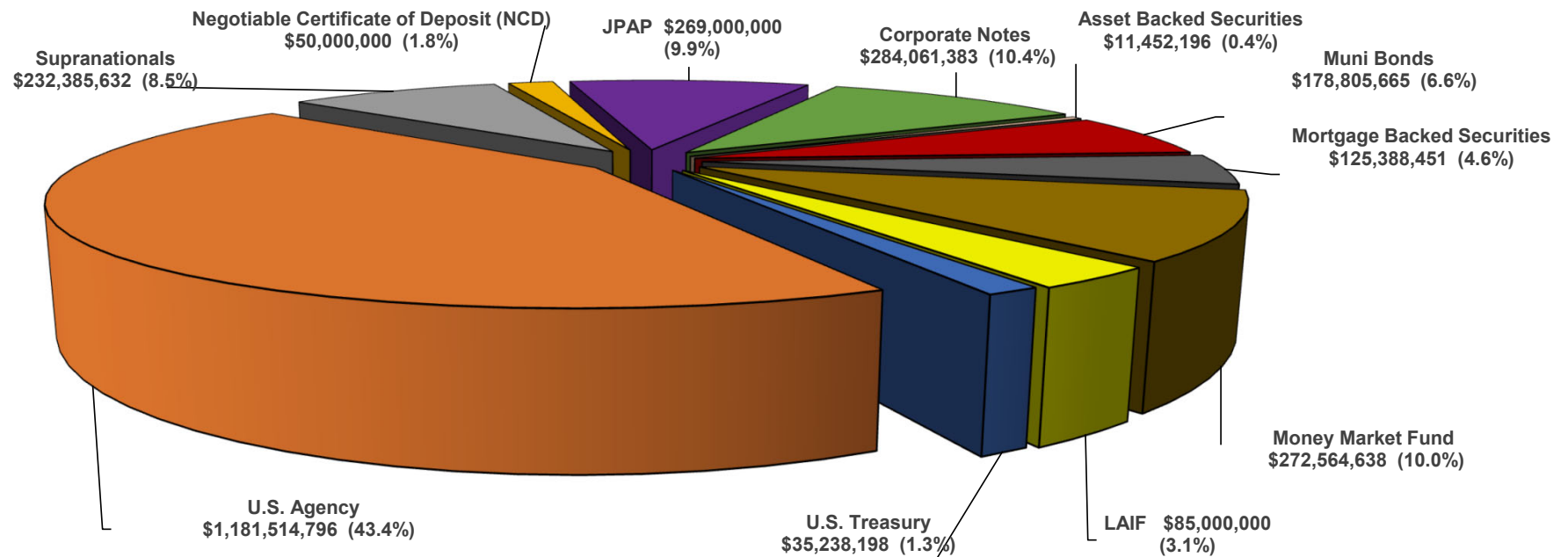
SUMMARY OF POLICY EXCEPTIONS

- On June 28, 2022, a review of the investment portfolio holdings identified a violation of the City of San José Investment Policy (Policy) with respect to the applicable limitations of investments in Joint Power Authority Pools (JPAPs) as outlined in Section 9.11 of the Policy.
 - Section 9.11(f) of the Policy states no more than 10% of the portfolio shall be invested in any single JPAP
- Following City Council approval of the addition of JPAPs as permitted investments, the City began its participation in the California Asset Management Program (CAMP), a JPAP investment option
- Initial CAMP investment of \$400 million on June 24, 2022, resulted in CAMP representing 14.38% of the portfolio, a violation under Section 9.11(f) of the Policy; subsequent investments in CAMP of \$79 million on June 28, 2022, and \$26 million on June 27, 2022, resulted in CAMP representing 16.78% and 17.49%, respectively
- As the corrective action, the Finance Department withdrew \$236 million from CAMP on June 30, 2022, and brought the portfolio into Policy compliance, with approximately 9.87% of the portfolio invested in CAMP; funds withdrawn from CAMP were reinvested in money market funds and used to make the final 2021 TRANs payment. No negative impact on the City's investment return



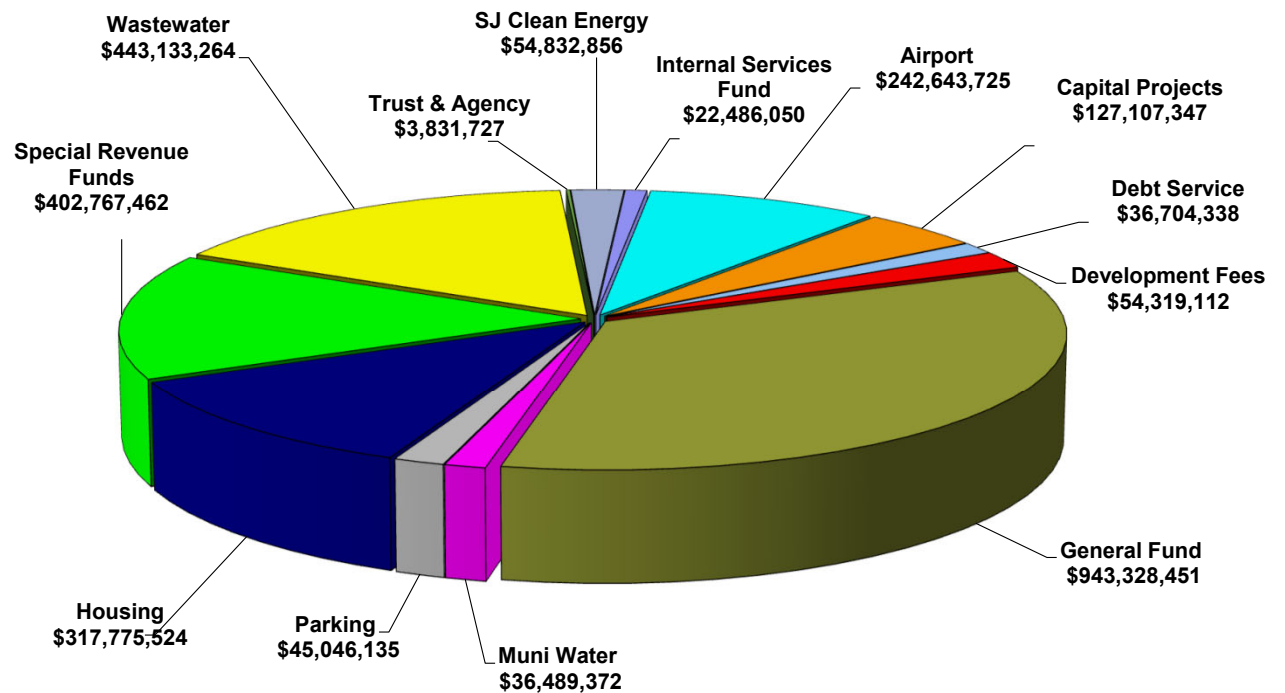
PORTFOLIO INVESTMENTS

Total Investment Portfolio: \$2,725,410,958



INVESTMENTS BY FUND

The \$943.3 million in the General Fund presented includes \$610,528,367 of General Fund monies, as well as \$332,800,084 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



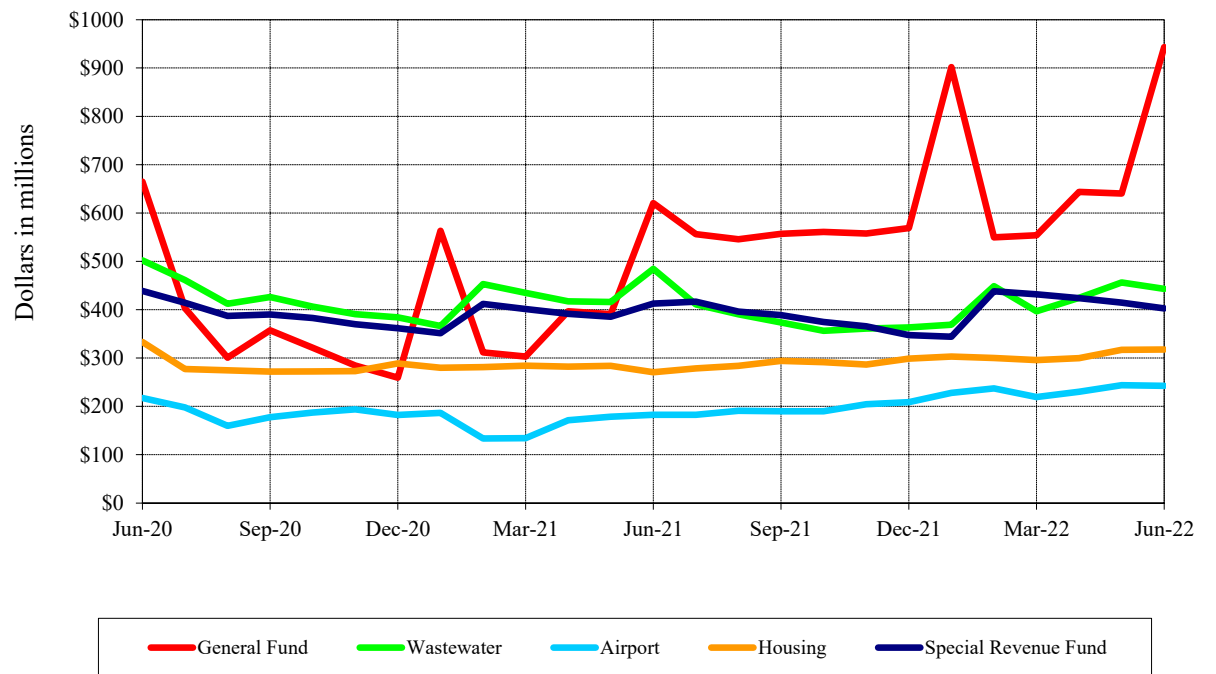
GENERAL FUND BALANCE

- General Fund balance increased by \$389.2 million during the quarter and ended at \$943.3 million as of June 30, 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 repayment of the remaining balance of the 2021 TRANs for \$142.5 million
- Projected investment maturities and revenues are sufficient to cover anticipated expenditures for the next six months



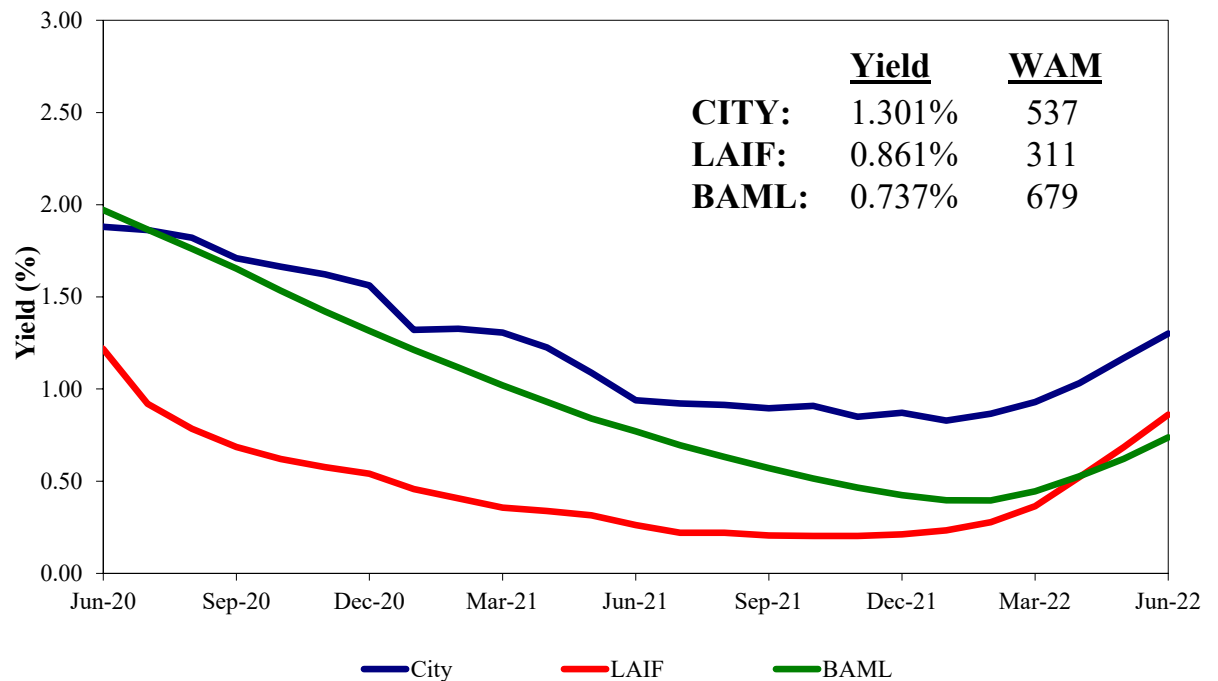
COMPARISON OF CASH BALANCES (BY SELECT FUNDS)

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



FY2021-22 INTEREST RATE COMPARISONS

	1FQ22 9/30/2021	2FQ22 12/31/2021	3FQ22 3/31/2022	4FQ22 6/30/2022	Current 8/5/2022
Portfolio (Fund 3)	0.89%	0.86%	0.92%	1.30%	1.56%
Fed Funds Rate	0.08%	0.08%	0.33%	1.58%	2.33%
Money Market	0.03%	0.03%	0.14%	1.36%	2.06%
LAIF	0.21%	0.22%	0.40%	0.92%	1.21%
Treasury Notes/Bills					
90 Day	0.04%	0.04%	0.50%	1.67%	2.50%
1 Year	0.07%	0.38%	1.61%	2.78%	3.24%
3 Year	0.51%	0.96%	2.51%	3.01%	3.17%
5 Year	0.97%	1.26%	2.46%	3.04%	2.96%



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



FOURTH 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



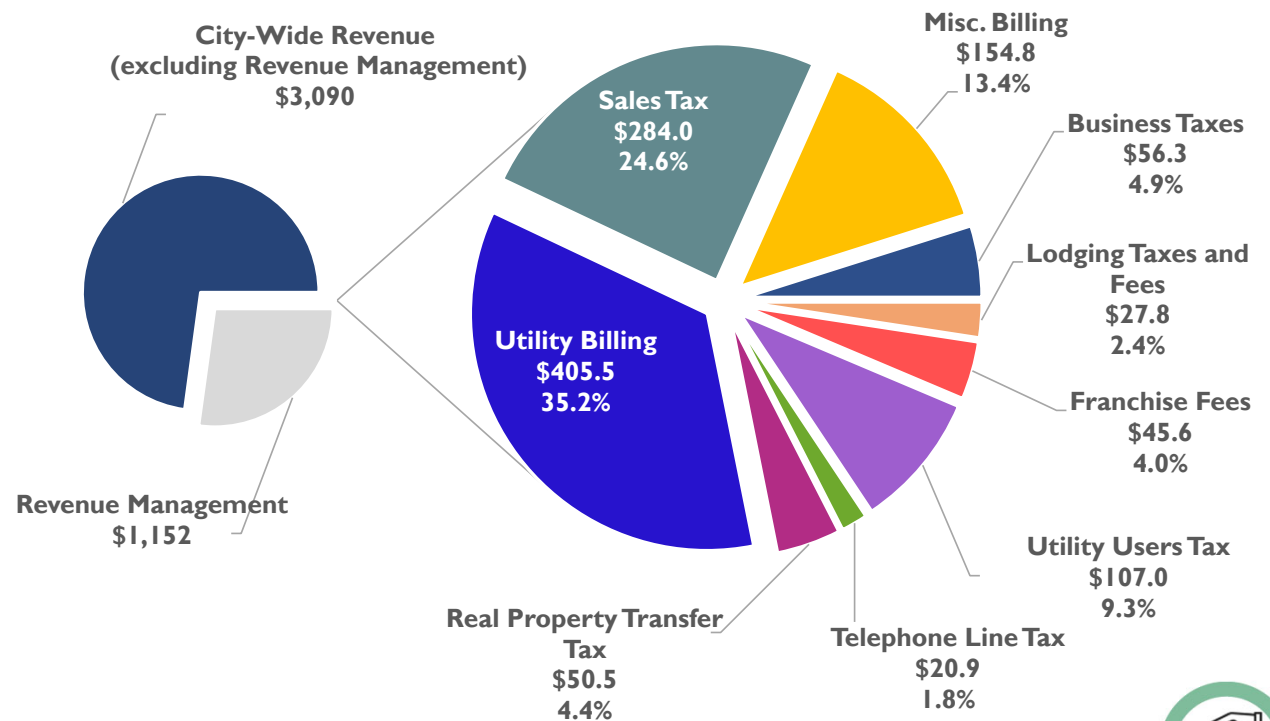
REVENUE MANAGEMENT PORTFOLIO

FY 2020-21 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.242B

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

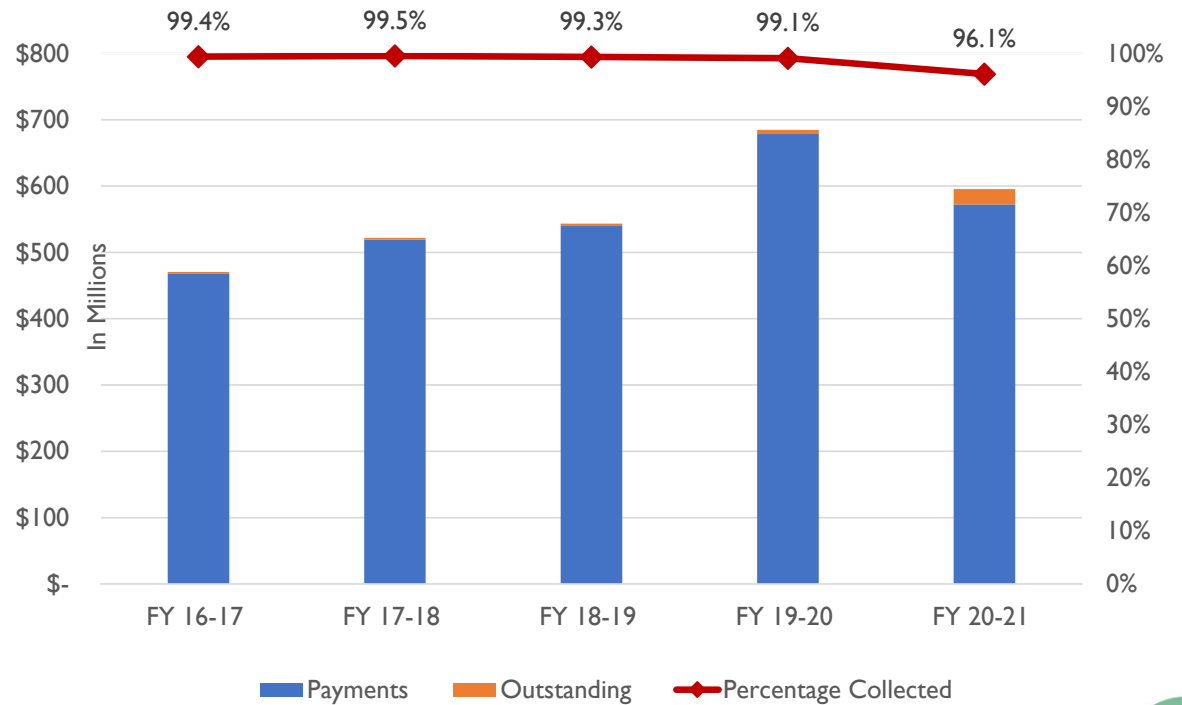
(Graph is updated annually)



INVOICING AND PAYMENTS (5 YEAR HISTORY)

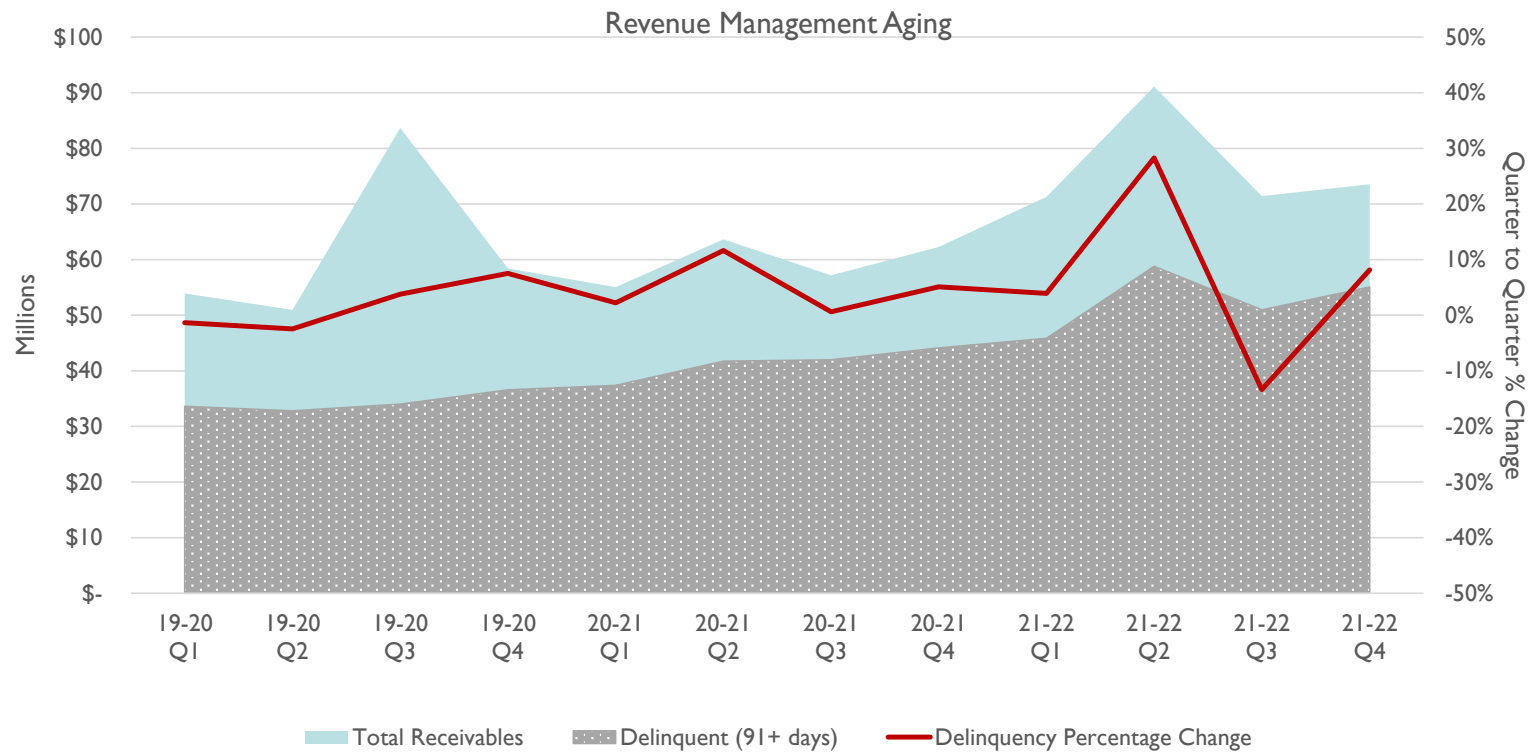
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System.

(Graph is updated annually)



OUTSTANDING RECEIVABLES

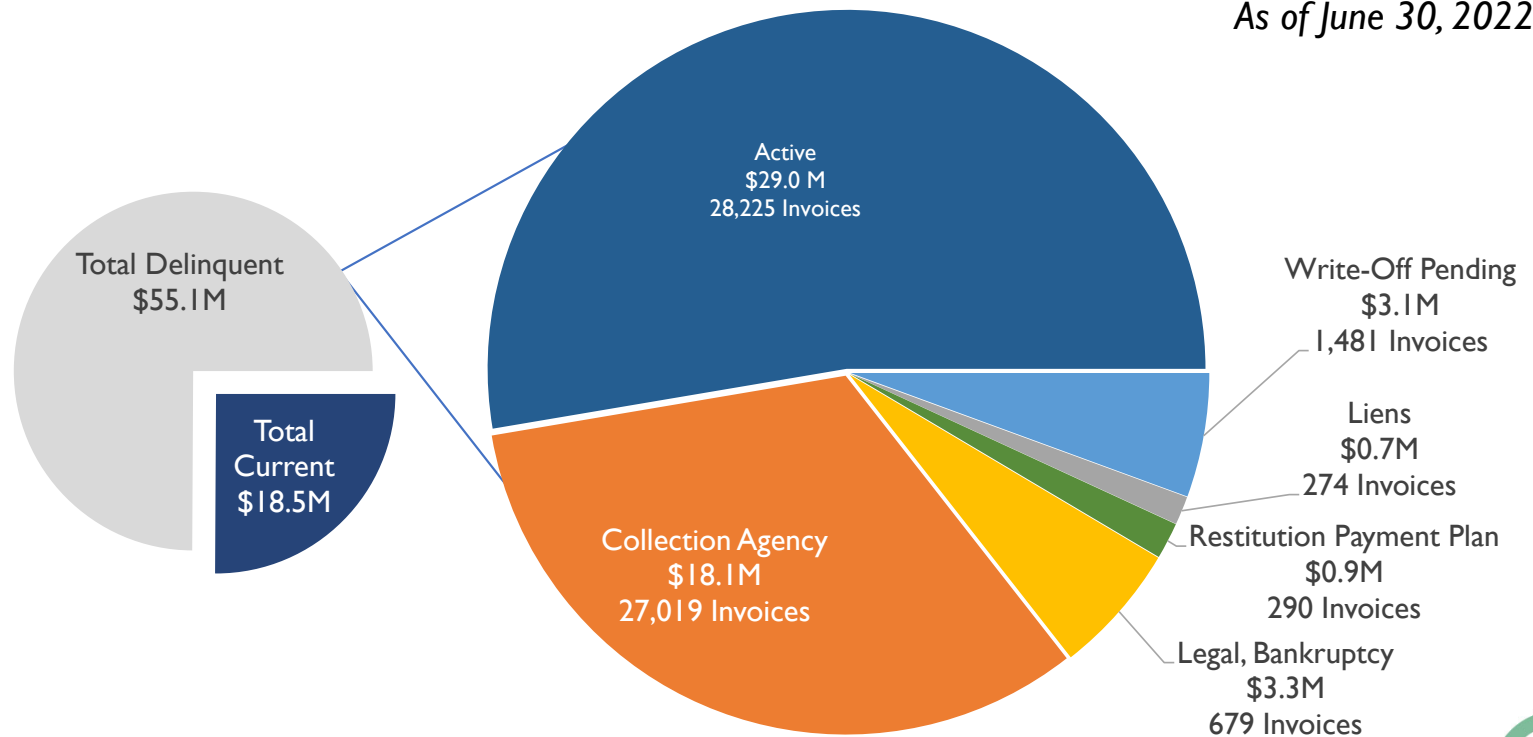
(3 YEAR HISTORY)



DELINQUENT RECEIVABLES

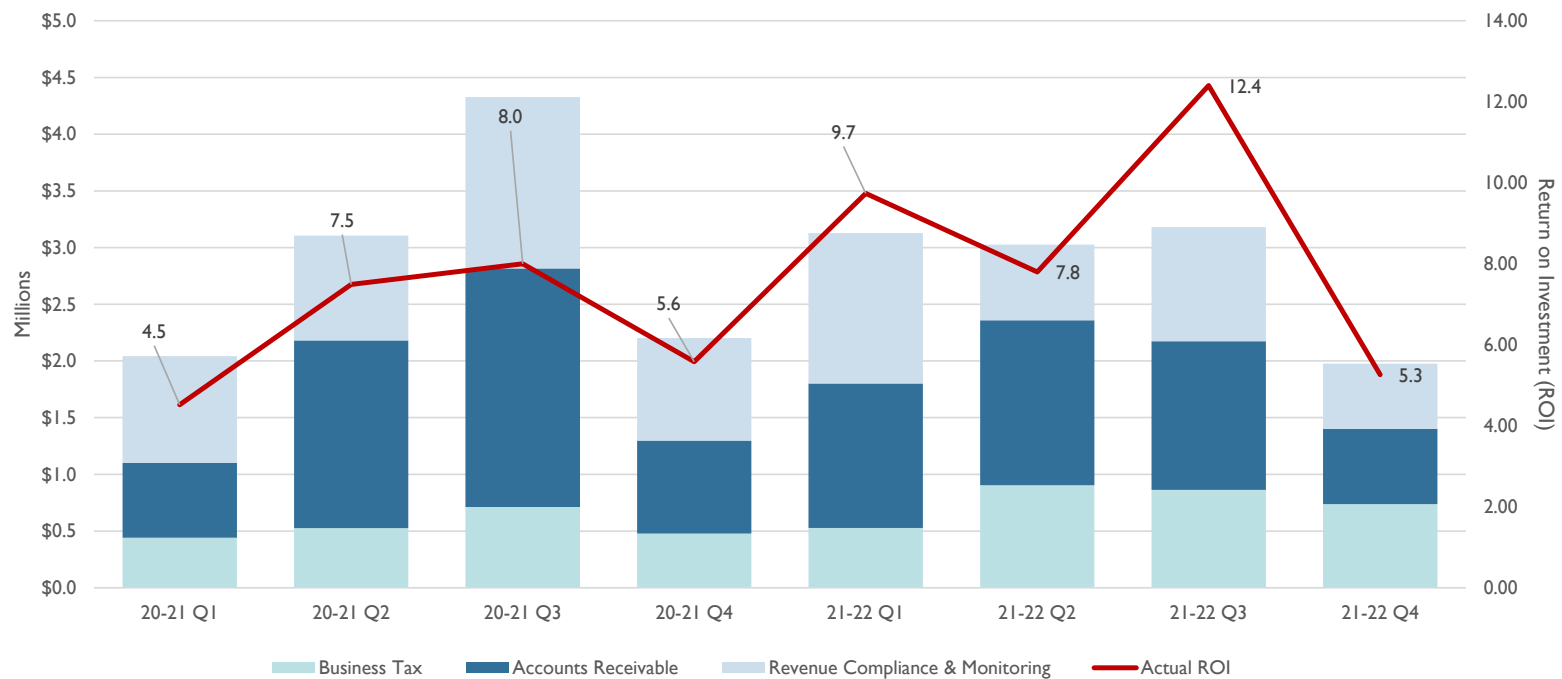
COLLECTION STATUS SUMMARY (\$ IN MILLIONS)

As of June 30, 2022



COLLECTIONS & RETURN ON INVESTMENT

REVENUE MANAGEMENT COLLECTIONS



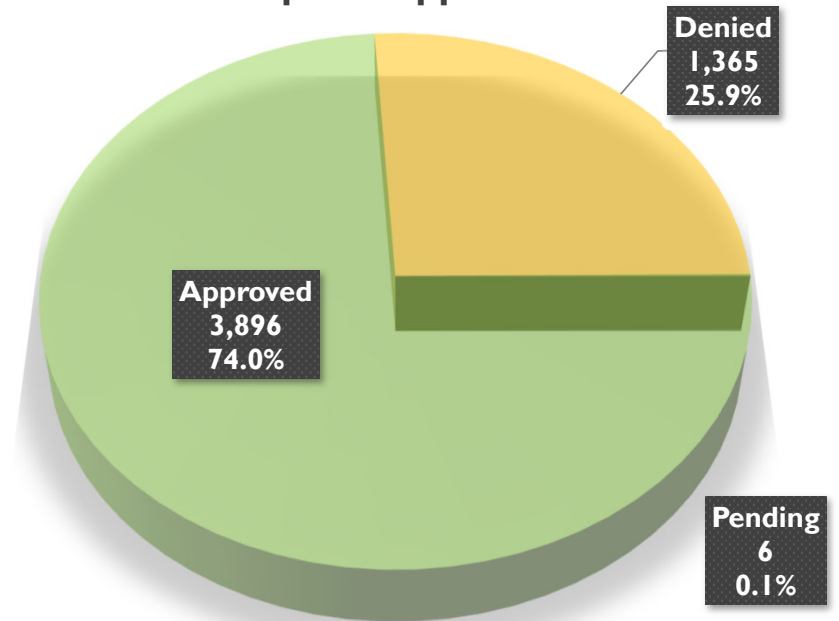
Target ROI: 5.5



COVID-19 BUSINESS TAX HARDSHIP EXEMPTION PROGRAM

- COVID-19 Business Tax Hardship Exemption Program was available for City businesses from October 1, 2020, through June 30, 2022, a 21-month span
- Finance Department and Office of Economic Development partnered with the Communications Office to reach the approximately 60,000 businesses potentially eligible for the Program, utilizing social media, business chambers, direct emails and invoice inserts, with collateral materials transcreated from English into Spanish, Chinese and Vietnamese and distributed online and in City Libraries
- 5,267 COVID-19 Business Tax Hardship Exemption applications were received, with 99.9% processed to date
- Current estimated business tax revenue loss for approved exemptions is \$800,452 vs. the original forecast of \$1.9 million

COVID-19 Business Tax Hardship
Exemption Applications



ACCOUNTS RECEIVABLE AMNESTY PROGRAM PILOT (EQUITY LENS)

- On June 21, 2022, as part of the adoption of the 2022-2023 Operating Budget, the City Council approved Manager's Budget Addendum (MBA) #38, *Accounts Receivable Amnesty Program Pilot (Equity Lens)*, directing the Administration to pilot an Accounts Receivable Amnesty Program
- This program will address unpaid penalties and interest accruing to the City of San José General Fund and select fees within other funds for certain accounts billed from April 2020 through August 2021, with an estimated gross accounts receivable of \$4.7 million, up to an estimated \$1.3 million in waived unpaid penalties and interest, and an estimated Accounts Receivable Amnesty Program implementation expense of \$192,000
- Finance Department will bring forward the Program for Council approval in September 2022 and the Department will implement and report on this pilot program in quarterly reports to the PSFSS Committee during FY 2022-23

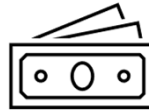


FOURTH QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2021-2022



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, FOURTH QUARTER

Procurement Type	Transactions
Request for Quote Awarded	16
Request for Bids Awarded	11
Request for Information Completed	1
Request for Proposals Completed	5
Purchase Orders and Purchase Orders Adjustments Issued	416
New Agreements Negotiated and Executed	7
Amendments, Change Orders, Service Orders, Options Executed	63
Council Memoranda Issued	21
Purchase Order & Contract Dollars Procured	\$84,212,327



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 included both Finance/Purchasing-managed and department-led procurements
 - Guidehouse drafted Current State Assessment Report, completed 5 visioning sessions with City leadership, and produced the Future State Assessment Report
- Completed Activities
 - Presented key recommendations from to Smart Cities and Services Improvement Committee on April 7, 2022 and City Council on May 10, 2022
- Staff evaluating recommendations and are working on prioritizing and implementing key recommendations
 - November 2022 Report to PSFSS Committee on Proposed Municipal Code Changes



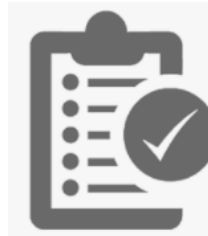
DISPARITY STUDY UPDATE

- On January 12, 2021, the City Council directed the Administration to explore options for implementing a Citywide Disparity Study to evaluate and potentially determine the need for new procurement policies that facilitate participation of Minority-, Women-, and Other-Owned Business Enterprises (MWOBE)
- Budgetary actions were taken on June 22, 2021 and additionally on June 21, 2022 resulting in fully funding the consulting services as described in FY 2020-21 Manager's Budget Addendum #14, *Disparity Study*
- Completed Activities this Quarter
 - Negotiated and executed a contract with MGT of America Consulting, LLC for this Disparity Study and related services as authorized by City Council at its June 14, 2022 meeting
 - Initial Kick-Off Meeting held and Data Collection Commenced



RISK MANAGEMENT PROGRAM

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, FOURTH QUARTER

Type	Transactions
Request for Contract Insurance Specifications	221
Request for Insurance Compliance Review	154
Request for Letters of Self-Insurance	20
Subrogation dollars bills to responsible third parties	\$322,323



RISK MANAGEMENT BUSINESS PROCESS AUTOMATIONS (BPAs) IMPLEMENTED

- Risk Management, in collaboration with ITD and departmental City stakeholders, implemented two Business Process Automations (BPAs) to replace manual processes and improve response times in the following two areas:
 - 1) Request for Contract Insurance Specifications
 - 2) Insurance Certificate Review for Insurance Compliance
- As result, Risk Management average response times for each request is 1-2 business days, well below the departmental key performance metric target of 5 business days

