

FIRST QUARTER FINANCIAL REPORT FOR FISCAL YEAR 2022-2023

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

**Prepared by the Finance Department
November 17, 2022**



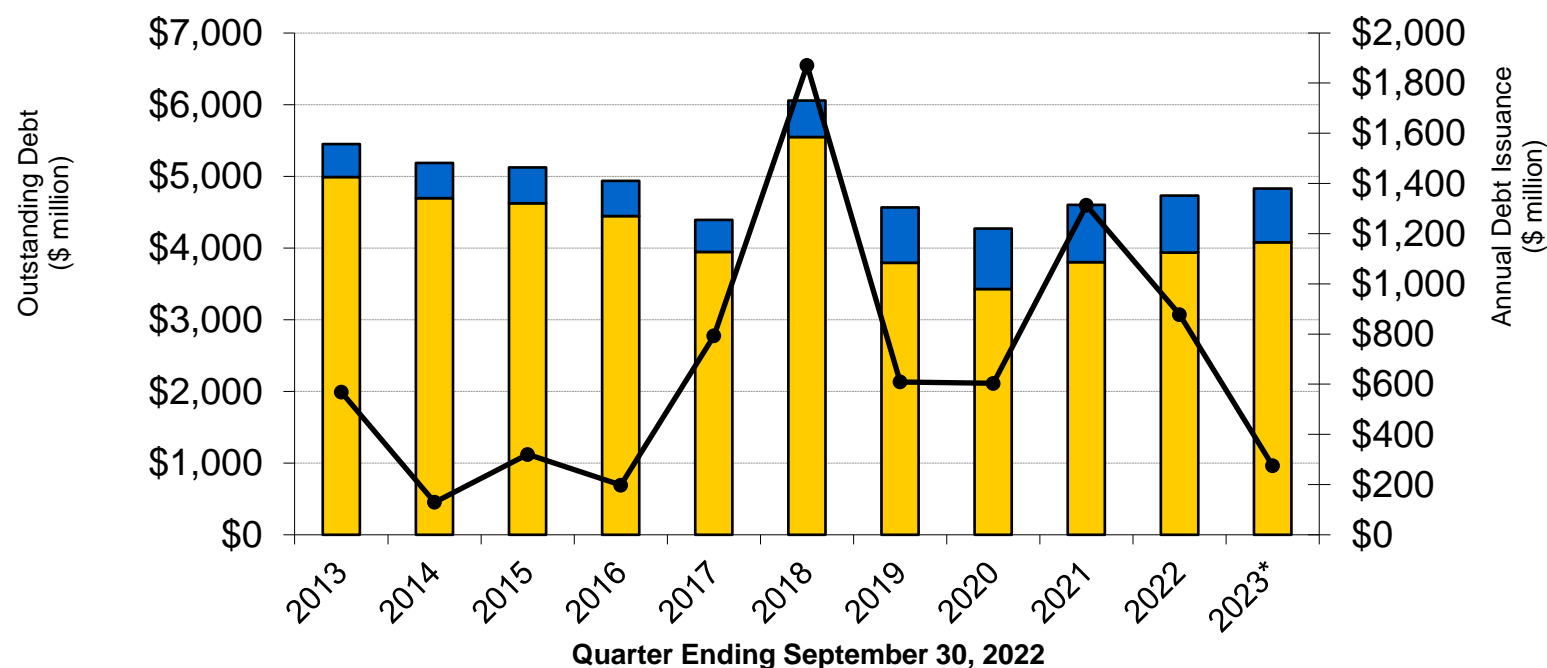
FIRST QUARTER DEBT MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



OUTSTANDING DEBT ISSUED

(CITY AND ALL AGENCIES)

Outstanding Debt as of September 30, 2022: \$4.83 Billion
FY 2022-23 Year to Date Debt Issuance: \$275 Million

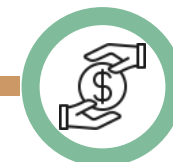


City and Related Entity Debt Outstanding

Conduit Debt Outstanding

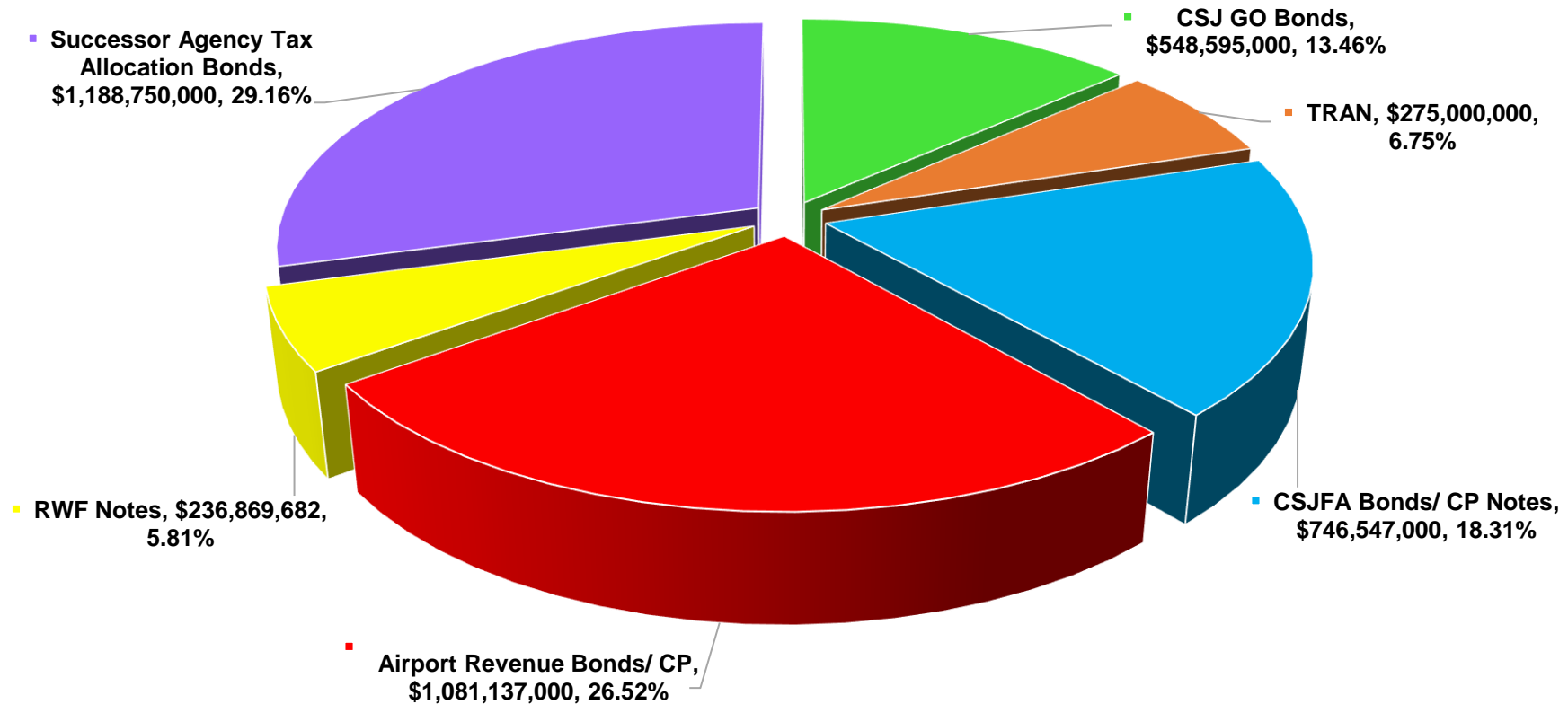
Annual Debt Issuance

*YTD Debt Issuance



DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of September 30, 2022: \$4.08 Billion
(Excluding Multifamily Housing Revenue Bonds)



DEBT ISSUANCE ACTIVITIES

DURING FIRST QUARTER (JULY – SEPTEMBER 2022)

- 2022 Tax and Revenue Anticipation Note (TRAN) – \$275 million
 - Issued to facilitate the prefunding of Tier I retirement contributions and certain Other Post-Employment Benefits (OPEB) in FY 2022-2023



SELECTED DEBT MANAGEMENT ACTIVITIES

DURING FIRST QUARTER (JULY – SEPTEMBER 2022)

- Pre-issuance activities for CSJFA Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified)
 - Underwriters selected:
 - Wells Fargo as Senior Manager (book runner);
 - Morgan Stanley as Co-Senior Manager;
 - Academy Securities, Ramirez & Co. and Stifel Nicolaus & Co. as Co-Managers
 - Kestrel Verifiers selected to provide Second Party Opinion (Green Bonds Designation)
 - Wilmington Trust, N.A. selected as Trustee
- Redemption of Community Facilities Districts 6 and 10 Bonds
 - Community Facilities District 6 (Great Oaks Route 85) Principal Redemption - \$1.70 million
 - Community Facilities District 10 (Hassler-Silver Creek) Principal Redemption - \$1.83 million
- Successor Agency Prior Period Adjustments Report for FY 2020-21



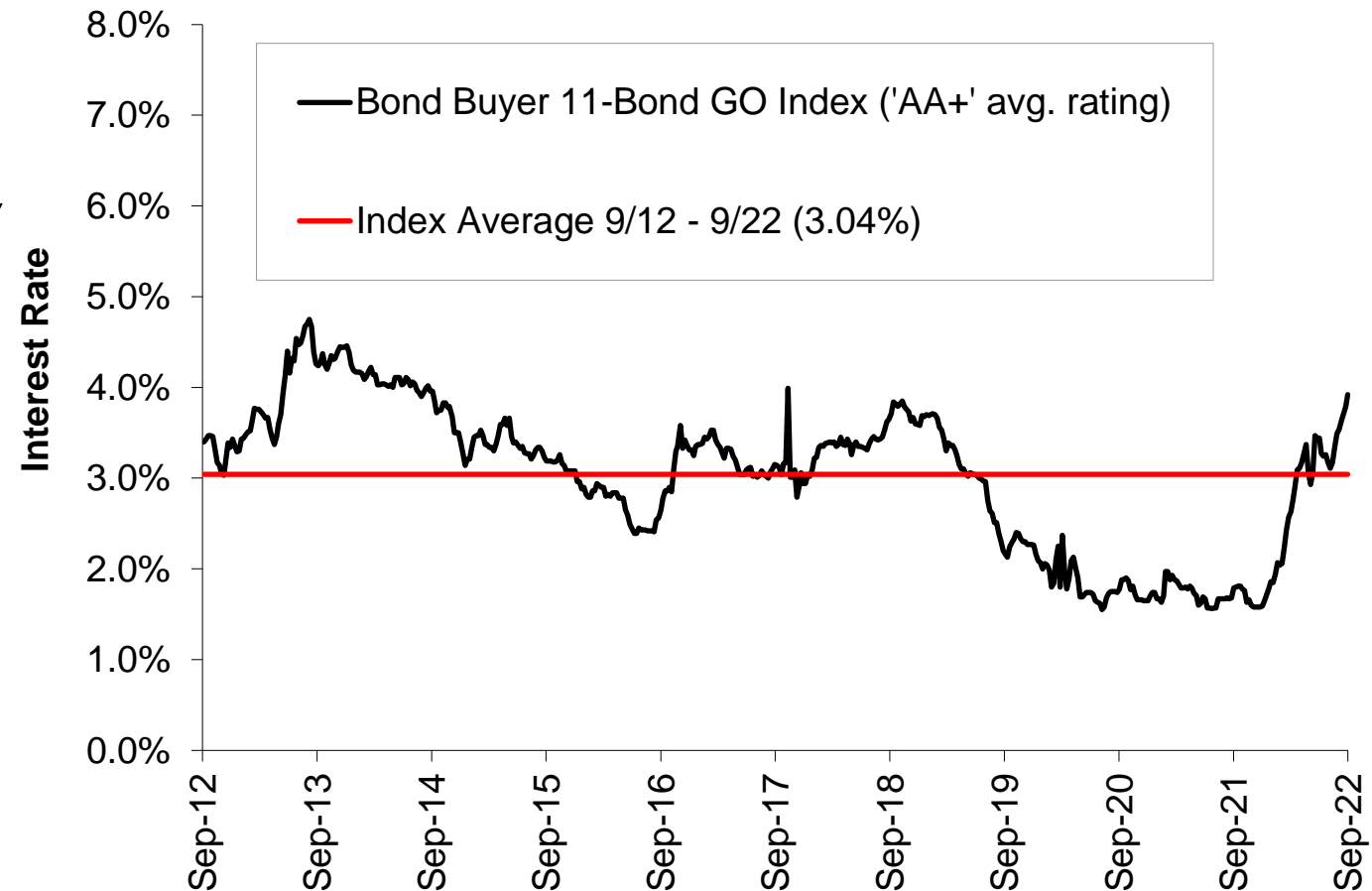
UPCOMING DEBT ISSUANCE AND MANAGEMENT THROUGH DECEMBER 31, 2022

- Debt Issuance
 - CSJFA Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified) is expected to close on December 15, 2022
- Debt Management
 - Annual Mello-Roos and Marks-Roos Reporting in October 2022
 - 2022 Comprehensive Annual Debt Report
 - Annual Continuing Disclosure/Compliance Reporting



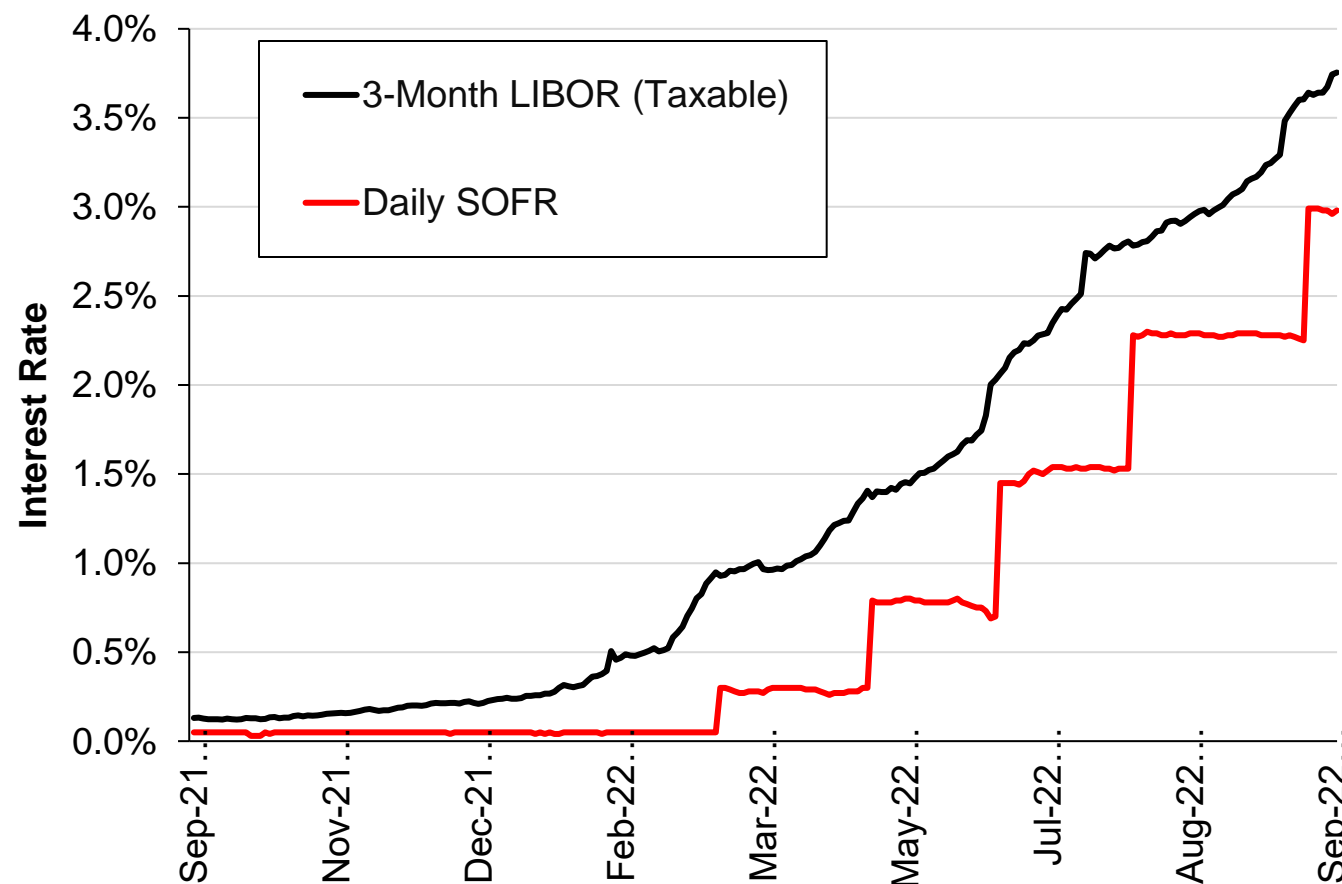
BOND BUYER GO BOND YIELD INDEX

- 10-year history of higher-rated (“AA+”) General Obligation debt (20-year term) yield averaged 3.04% and is currently at 4.59% (as of 10/24/2022)



VARIABLE INTEREST RATES (TAXABLE)

- Taxable 3-Month LIBOR interest rates paid by the City averaged 3.06% in Q1. The Taxable 3-Month LIBOR and Daily SOFR interest rates are currently 4.36% and 3.02%, respectively (as of 10/24/2022)



GENERAL CREDIT RATINGS

CITY OF SAN JOSÉ

- The City of San José 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

- The City of San José's GO Ratings are higher than the State of California's ratings and analogous to Santa Clara County's ratings, given the extent of the tax base and other credit fundamentals that 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
San José Airport Bonds	A2 (stable)	A (stable)	A (stable)
SARA Senior Tax Allocation Bonds	Not Rated	AA (stable)	AA- (stable)



FIRST QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



INVESTMENT POLICY

(COUNCIL POLICY 1-12)

- 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



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



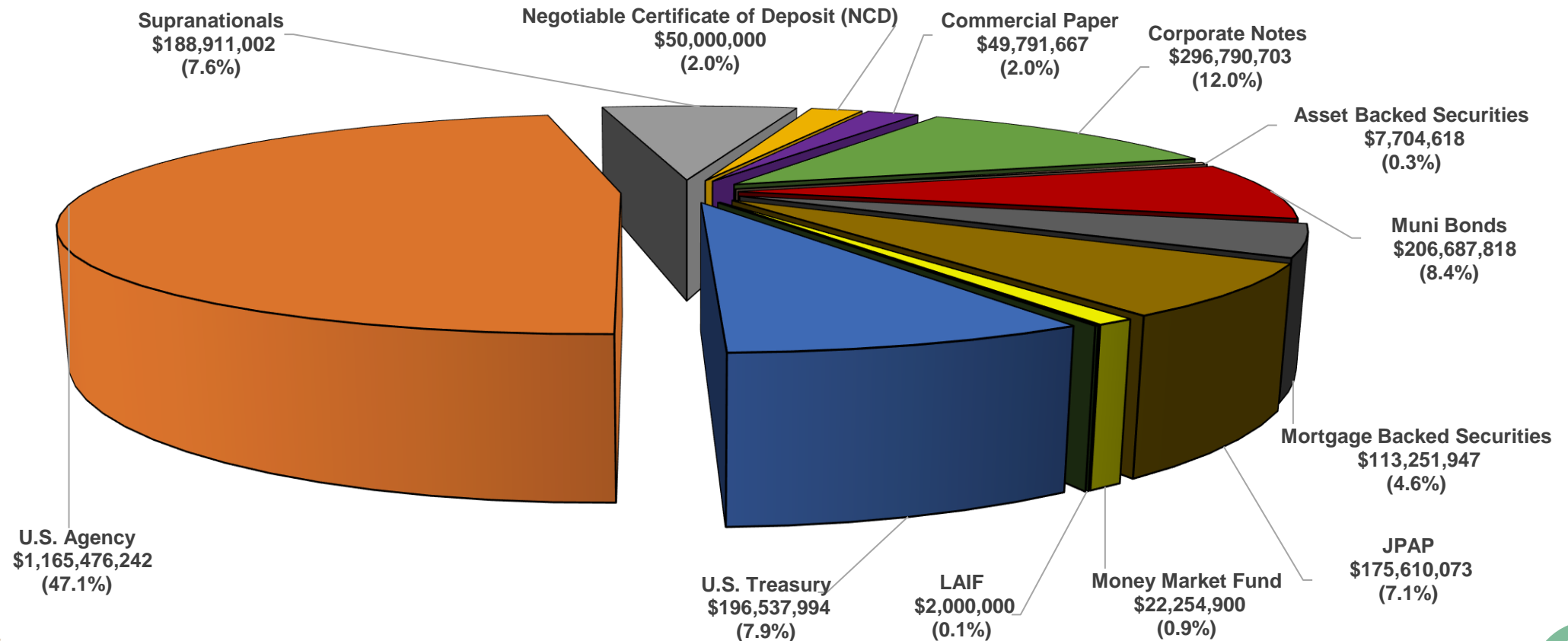
PORTFOLIO PERFORMANCE SUMMARY

Size of Total Portfolio	\$2,475,016,963
Earned Interest Yield	1.619%
Weighted Average Maturity	597 days
Fiscal Year-to-Date Net Income Recognized	\$10,280,845
Exceptions to the City Investment Policy this Quarter	None

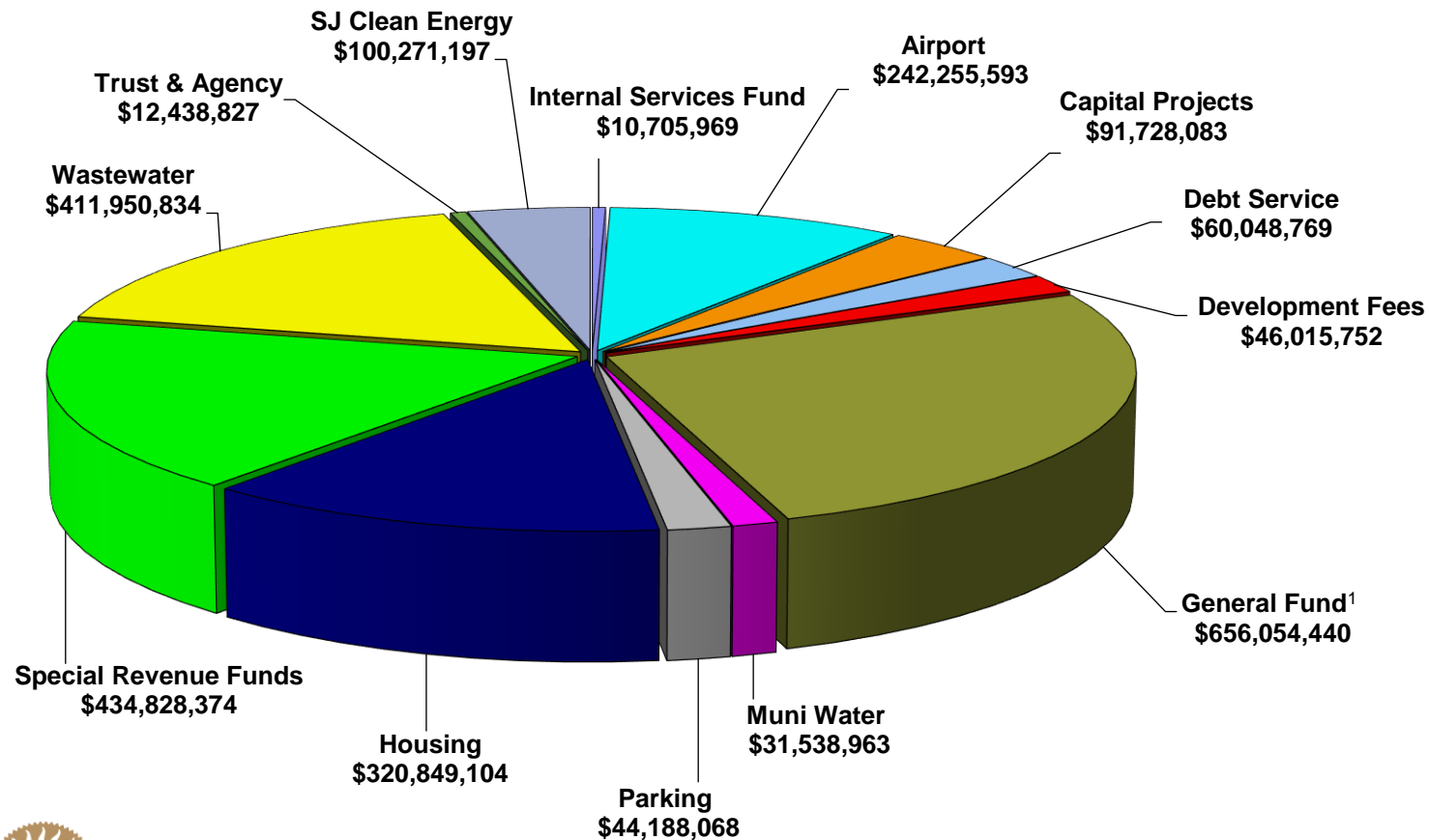


PORTFOLIO INVESTMENTS

Total Investment Portfolio: \$2,475,016,963



INVESTMENTS BY FUND



The \$656.1 million in the General Fund presented includes \$542.1 million of General Fund monies, as well as \$114.0 million in other, separately tracked general funds, such as:

- Emergency Reserve Fund
- Coronavirus Aid, Relief, and Economic Security (CARES) Act
- American Rescue Plan (ARP) Act of 2021
- Other smaller funds and reserves



GENERAL FUND BALANCE

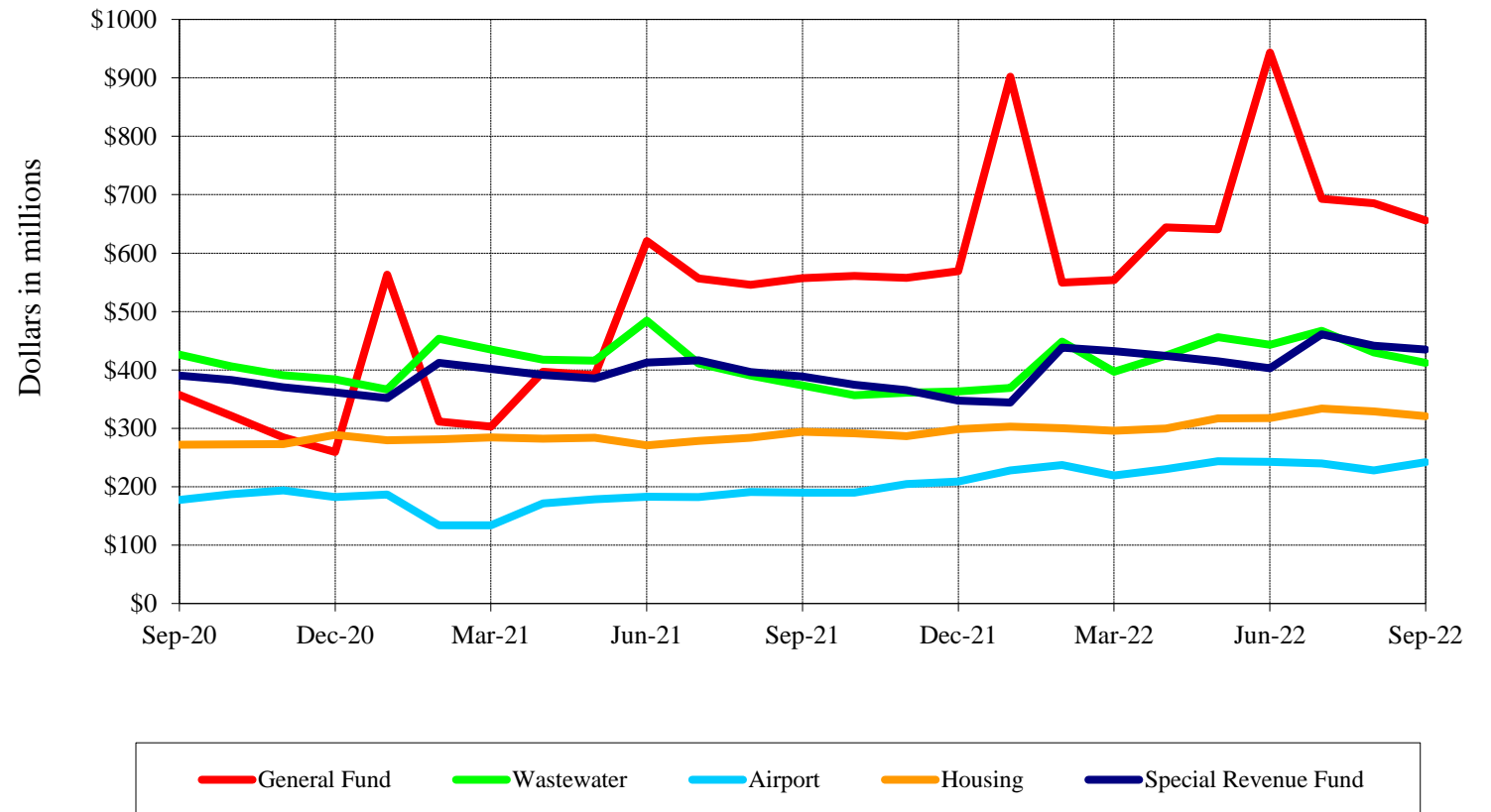
- General Fund* balance decreased by \$287.3 million during the quarter and ended at \$656.1 million as of September 30, 2022
 - This decrease is attributed to prefunding of employer retirement contributions in July 2022, and debt service payments in August 2022
 - General Fund balance usually (i) peaks during the months of January and June, when the bulk of property taxes are received; (ii) declines in the summer due to retirement prefunding; and (iii) declines throughout the rest of the year due to debt service payments and operational expenditures
- Projected investment maturities, cash, and revenues are sufficient to cover anticipated expenditures for the next six months



COMPARISON OF CASH BALANCES

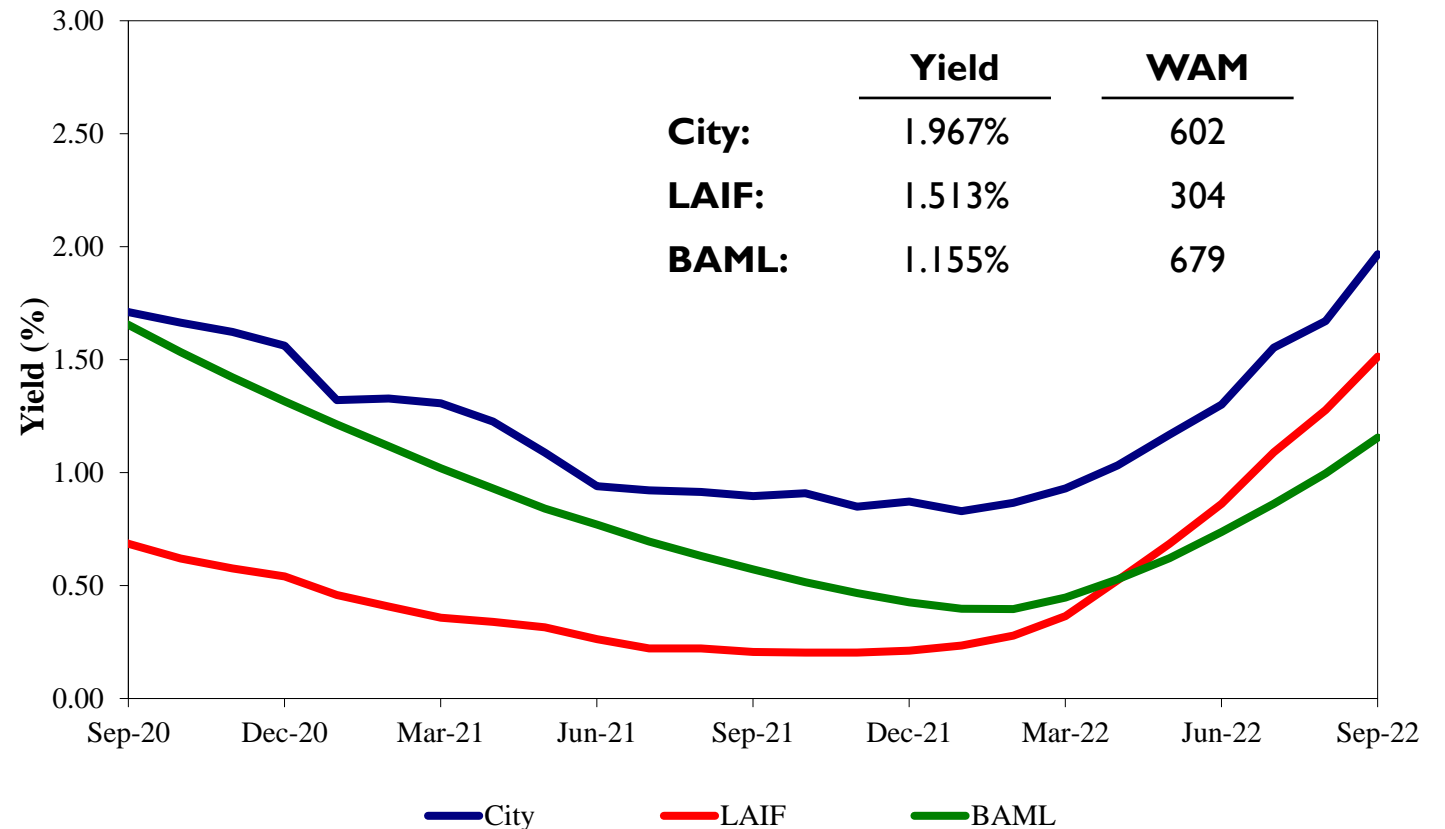
(BY SELECT FUNDS)

- The following graph compares monthly balances of the five largest City funds as reported by FMS



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



FY 2022-23 INTEREST RATE COMPARISONS

	2FQ22 12/31/2021	3FQ22 3/31/2022	4FQ22 6/30/2022	1FQ23 9/30/2022	Current 10/25/2022
Portfolio (Fund 3)	0.86%	0.92%	1.30%	1.88%	2.15%
Fed Funds Rate	0.08%	0.33%	1.58%	3.08%	3.08%
Money Market	0.03%	0.14%	1.36%	2.81%	2.88%
LAIF	0.22%	0.40%	0.92%	1.60%	1.80%
Treasury Notes/Bills					
90 Day	0.04%	0.50%	1.67%	3.27%	4.03%
1 Year	0.38%	1.61%	2.78%	3.99%	4.58%
3 Year	0.96%	2.51%	3.01%	4.29%	4.46%
5 Year	1.26%	2.46%	3.04%	4.09%	4.26%



INVESTMENT STRATEGY

- Continue matching known expenditures with suitable investments within the 24-month horizon
- Extend a portion of the portfolio beyond a 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



FIRST QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



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



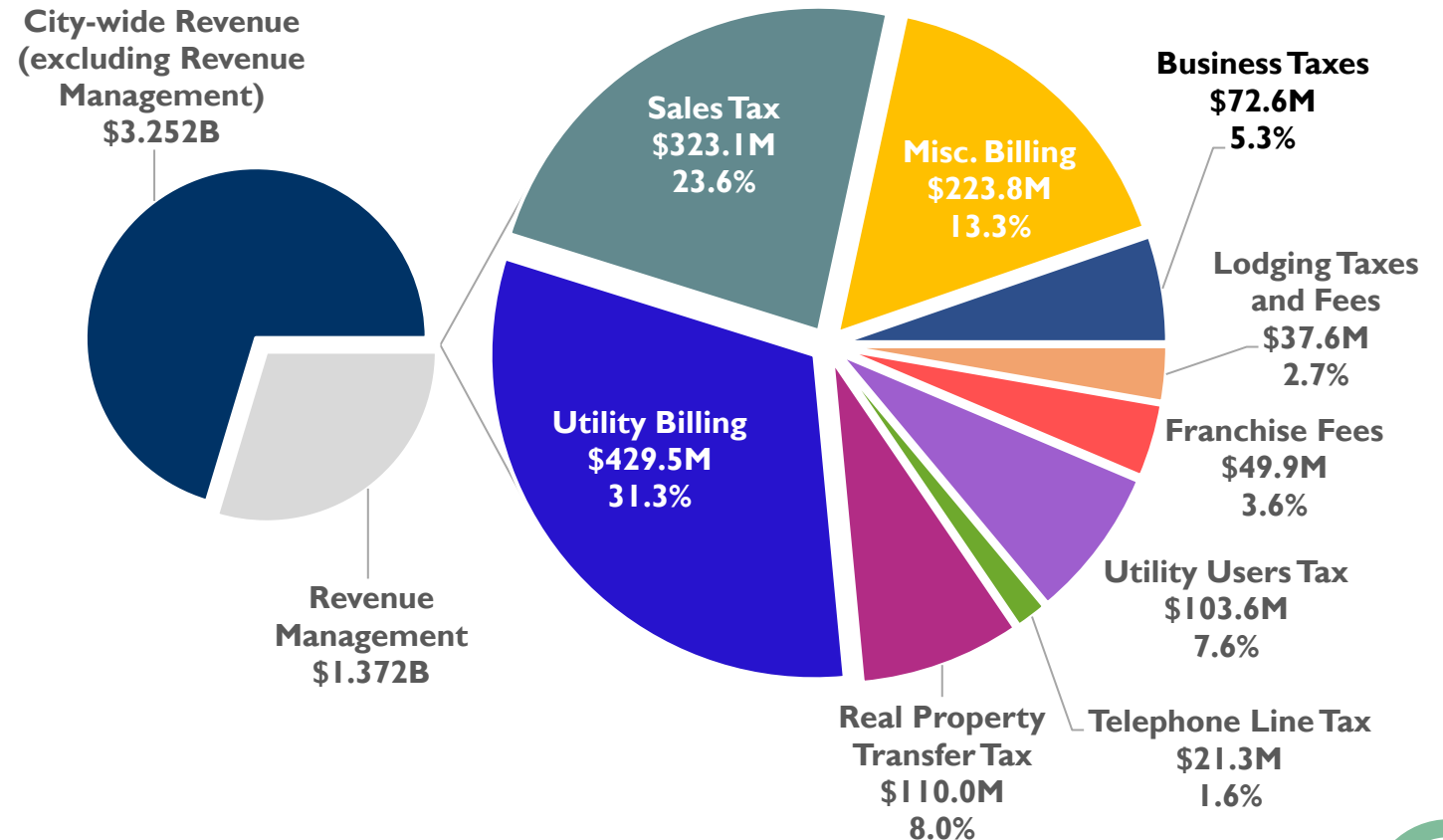
REVENUE MANAGEMENT PORTFOLIO

FY 2021-22 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.624 billion

Source: 2021-22 City Manager's
Budget Office Annual Report

(Graph is updated annually)

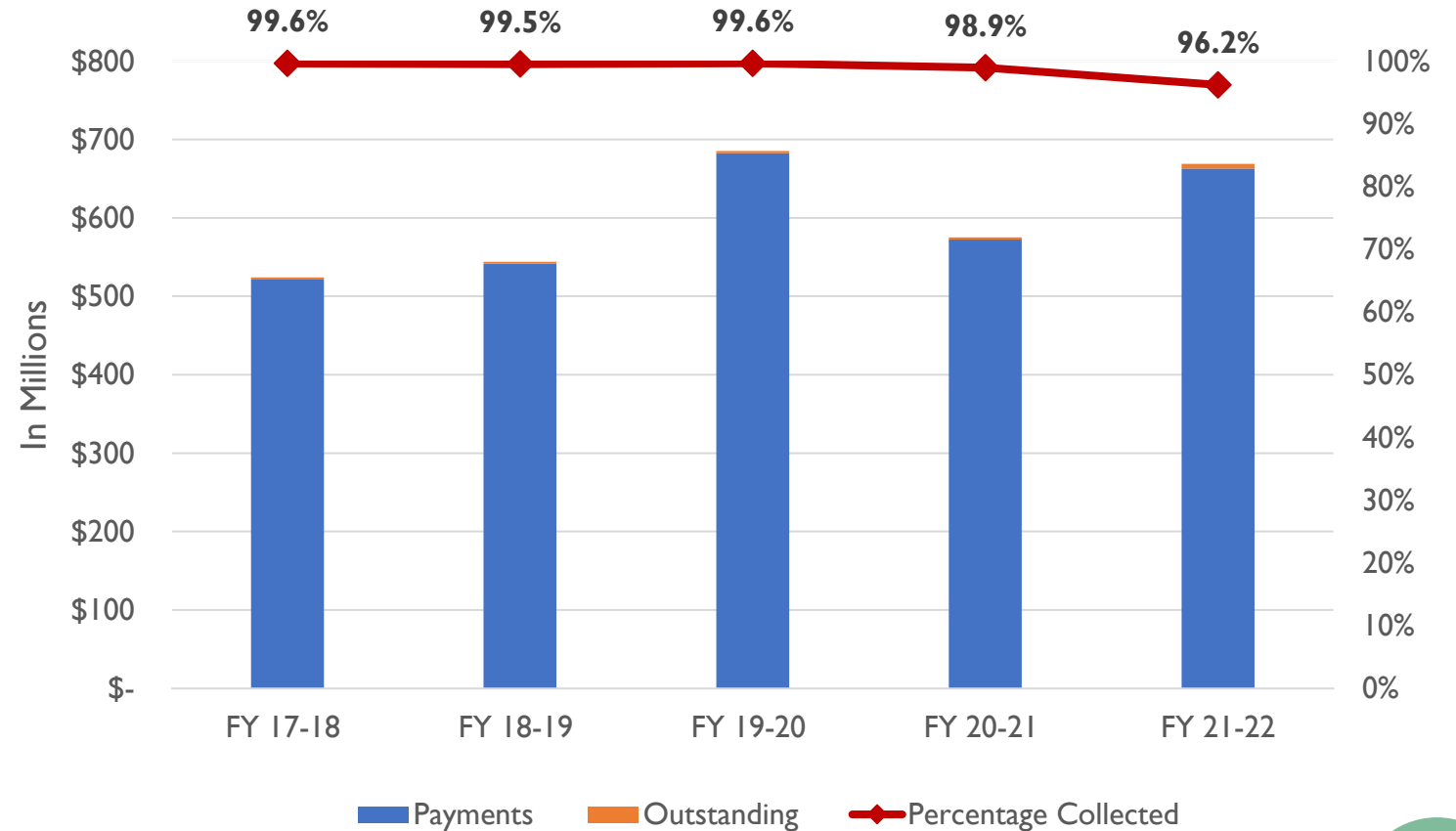


INVOICING AND PAYMENTS

FIVE-YEAR HISTORY (FY 2017-18 TO FY 2021-22)

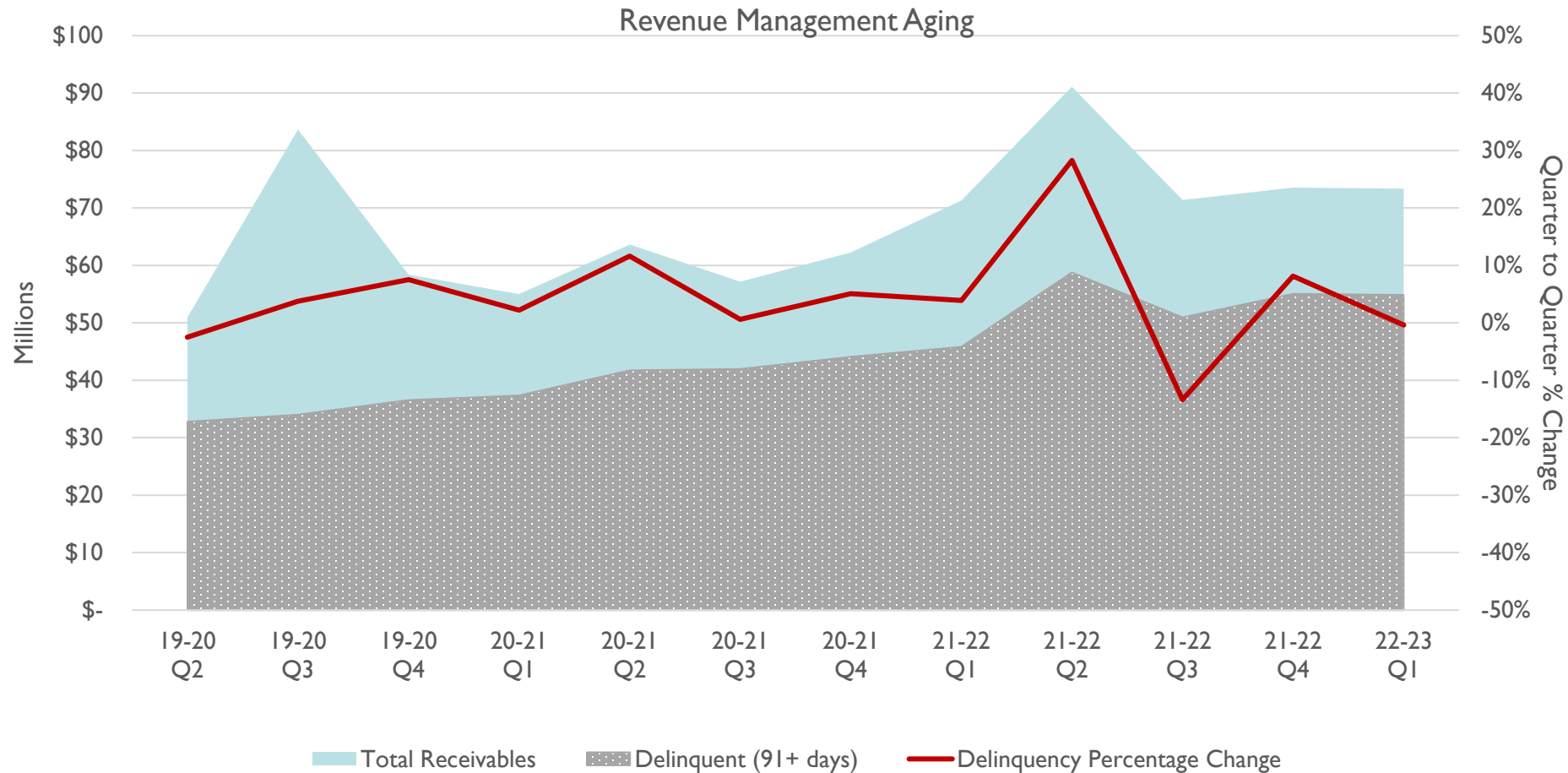
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System

(Graph is updated annually)



OUTSTANDING RECEIVABLES

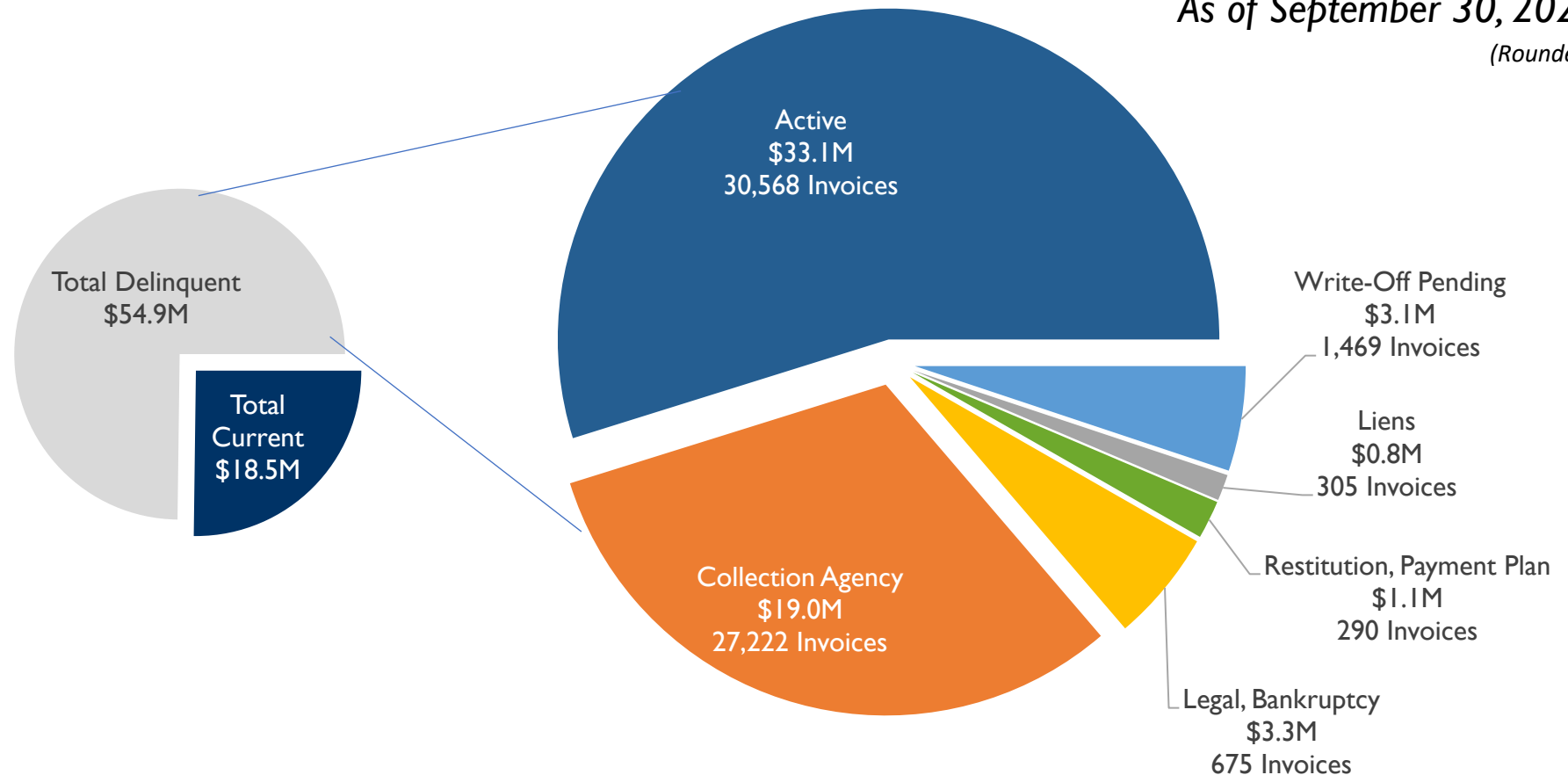
THREE-YEAR HISTORY (Q2 FY 2019-20 TO Q1 FY 2022-23)



FY 2022-23 Q1 DELINQUENT RECEIVABLES

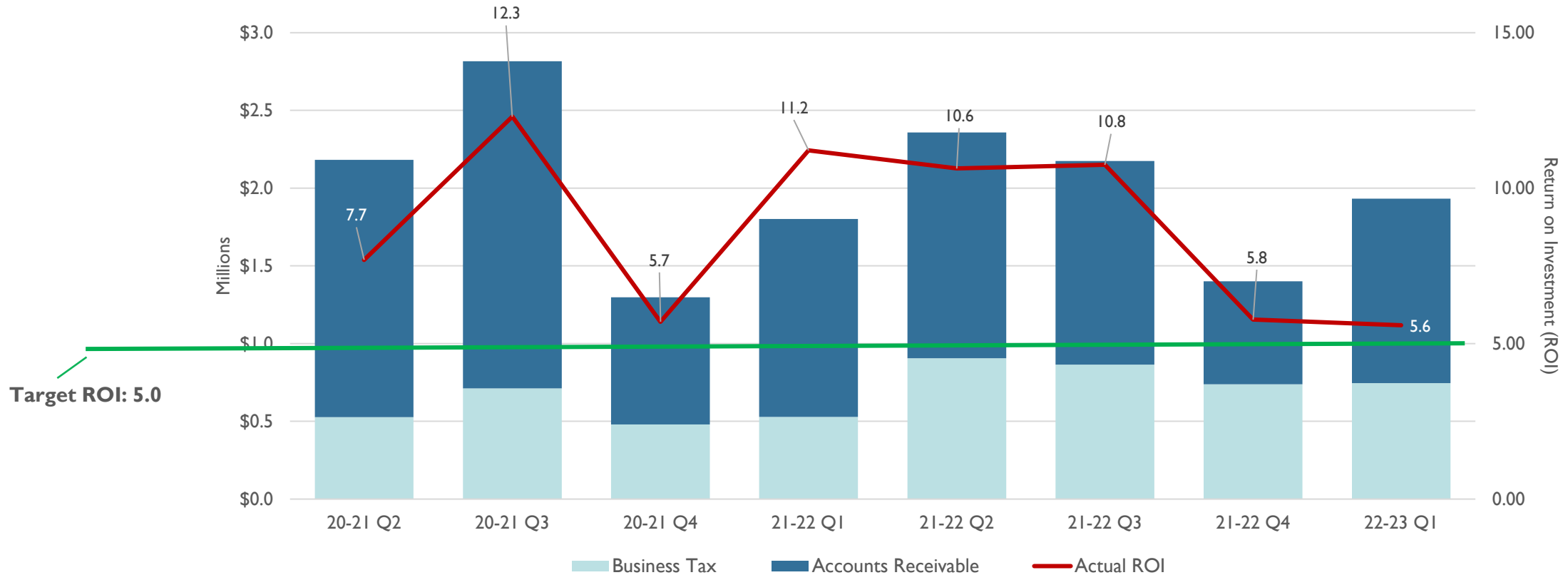
COLLECTION STATUS SUMMARY (\$ IN MILLIONS)

As of September 30, 2022
(Rounded)



COLLECTIONS & RETURN ON INVESTMENT

REVENUE MANAGEMENT COLLECTIONS (Q2 FY 2019-20 TO Q1 FY 2022-23)

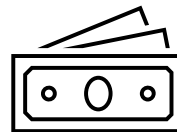


FIRST QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



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

FY2022-23, FIRST QUARTER

Procurement Type	Transactions
Request for Quotes Awarded	12
Request for Bids Awarded	8
Request for Information Completed	3
Request for Proposals Completed	1
Purchase Orders and Purchase Order Adjustments Issued	781
New Agreements Negotiated and Executed	6
Amendments, Change Orders, Service Orders, Options Executed	29
Council Memoranda Issued	12
Purchase Order Dollars Procured	\$97,047,249
Contract Dollars Procured	\$34,867,125



PROCUREMENT IMPROVEMENT UPDATE

- Procurement Improvement is a Strategic Support initiative under the City Roadmap
 - Finance is working with Guidehouse on implementing incremental updates to the Purchasing website
- Staff evaluating and prioritizing the implementation of key recommendations
 - The Deputy Director of Purchasing & Risk Management left City employment as of September 30
 - Staff currently is targeting the February 2023 PSFSS Committee to present proposed Municipal Code changes



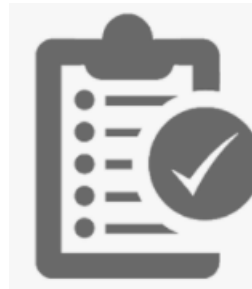
DISPARITY STUDY UPDATE

- A Citywide Disparity Study is underway to evaluate any need for new procurement policies to facilitate participation of Minority-, Women-, and Other-Owned Business Enterprises (MWOBE) in City contracting.
- Finance-Purchasing, in collaboration with the City Manager's Office of Communications and Racial Equity, and the Economic Development Department, is working with MGT of America Consulting, LLC to carry out this scope of work.
- Completed Activities this Quarter
 - City contractor and, where available, subcontractor data collection for contracts from FY2017-18 to FY2021-22 complete, and data analysis has begun
- Upcoming Activities for Next Quarter
 - City Disparity Study multi-lingual website went live on October 25, 2022
<https://www.sanjoseca.gov/your-government/departments-offices/finance/disparity-study>
 - First Business Engagement Meeting scheduled for November 14, 2022



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

FY2022-23, FIRST QUARTER

Type	Transactions
Request for Contract Insurance Specifications	259
Request for Insurance Compliance Review	132
Request for Letters of Self-Insurance	26
Subrogation Dollars Billed to Responsible Third Parties	\$289,285
Council and Committee Memorandums Issued	3



RISK MANAGEMENT COMPLETED THE CITYWIDE INSURANCE RENEWALS

- Other highlights include:
 - Completed the Citywide Insurance Renewals
 - Resolved two property losses totaling ~\$1.2 million in recoveries for City Departments
 - Recovered \$447K from property damage claim arising from broken sprinkler main at SAP Center that occurred in October 2021
 - Recovered \$752K from property damage claim arising from damage to a forced main pipe during construction of at the Regional Wastewater Facility in January 2022
 - Facilitated eight (8) loss prevention engineering visits by the City's property insurer (SAP Center, Ice Centre, Tech Museum, and five Community Centers)

