



COUNCIL AGENDA: 9/12/17
ITEM: 3.5 (17-039)

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: August 31, 2017

SUBJECT: FOURTH QUARTER FINANCIAL REPORTS FOR FISCAL YEAR 2016-2017.

RECOMMENDATION: As recommended by the Public Safety, Finance, and Strategic Support on August 17, 2017, accept the following Fourth Quarter (period ending June 30, 2017) Financial Reports for Fiscal Year 2016-2017 for the following programs:

- (a) Debt Management Report;
- (b) Investment Management Report;
- (c) Revenue Collection Report.



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: FOURTH QUARTER FINANCIAL
REPORTS FOR FISCAL YEAR
2016-2017

DATE: August 2, 2017

Approved

Date

8-7-17

RECOMMENDATION

- (1) Accept the following Fourth Quarter (period ending June 30, 2017) Financial Reports for Fiscal Year 2016-2017:
 - (a) Debt Management Report
 - (b) [Investment Management Report](#)
 - (c) Revenue Collection Report; and
- (2) Refer the Fourth Quarter Financial Reports for Fiscal Year 2016-2017 to the September 12, 2017, City Council meeting for full adoption.

OUTCOME

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

BACKGROUND

The attached Fourth Quarter Financial Reports for Fiscal Year 2016-2017 presents the Finance Department's quarterly activity for the City's Debt Management, Investment Management, and Revenue Collection programs (Attachment A). Additionally, the Fourth Quarter Investment Report has been distributed to the City Council via email and is available on the Finance Department web page at <http://www.sanjoseca.gov/index.aspx?NID=759>. As part of the ongoing effort to streamline work efforts within the Finance Department, these three reports are combined in one single report for submission to the Public Safety, Finance, and Strategic Support Committee (the "PSFSS Committee") for its review and acceptance. A brief narrative discussion is provided below for all three components of this quarterly report.

ANALYSIS

This section of the report is divided into the following sections: Debt Management Program, Investment Management Program, and Revenue Collection Program which includes Marijuana Business Tax.

Debt Management Program

This Fourth Quarter Debt Report focuses on the City's debt activities for the period ended June 30, 2017, 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 to fiscal year end
- Current interest rate environments and credit ratings

The City's current general obligation bonds are rated Aa1/AA+/AA+ and lease revenue bonds are rated Aa2-Aa3¹/AA/AA by the Moody's Investors Services Inc., Standard & Poor's Ratings Services, and Fitch Ratings, respectively. These ratings are based on the rating reviews through July 24, 2017.

Investment Management Program

A quarterly investment report for the period ended June 30, 2017, was distributed separately to the Mayor and City Council and is posted on the Finance Department website². Pursuant to the City's Investment Policy, verbal presentations in addition to the written reports are provided to the PSFSS Committee for the Second and Fourth Quarter Reports. The materials that are 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 Collection Program

The Revenue Collection report highlights the key aspects of the City's ongoing collection efforts. These efforts focus on reducing delinquent accounts receivable and enhanced revenue compliance in three primary collection programs: Business Tax, Accounts Receivable, and Revenue Compliance and Monitoring. This report provides the highlights of the Revenue Management Division's collection efforts and summarizes the progress towards meeting the annual collection target of \$7.5 million. Actual collections through the fourth quarter of fiscal year 2016-17 are approximately \$15.9 million which represents 212% of the annual collection target. Additionally, specific information is provided on Marijuana Business Tax collection and compliance efforts as well as the voter approved Business Tax ballot measure efforts.

¹ Moody's determines its lease revenue bond ratings in part based on "essentiality" of leased asset; bonds tied to an essential asset, like City Hall carries higher rating (Aa2) than bonds tied to a less essential asset such as Convention Center (Aa3)

² <http://www.sanjoseca.gov/index.aspx?NID=759>

Marijuana Business Tax ("MBT")

MBT Revenue Collection – The MBT revenue collected this fiscal year through May 2017 is approximately \$9.6 million. This is 33.82% higher than the revenues collected through the same period in the prior fiscal year that totaled \$7.18 million. The increase in revenue collected this fiscal year is a result of compliance from remaining collectives as they assume customers of closed dispensaries.

MBT Compliance – There are a total of 16 registered collectives in the City's Medical Marijuana regulatory program. All 16 are remitting MBT timely and are compliant with the MBT Code. As of June 30, 2017, there are seven non-registered MBT accounts which are delinquent and require further staff collection efforts. The summary of staff collection efforts related to the seven delinquent accounts are as follows:

- Five of the non-compliant store fronts have been closed through Code Enforcement action but two remain open.
- Four are actively being pursued by City staff for collection of taxes owed. One account remains with the City Attorney's Office for legal action. One account is currently in the settlement process with the City Attorney's Office and one newly identified non-registered store front is scheduled to be audited in the first quarter of FY 17-18 for non-compliance.

Business Tax Code Changes effective July 1, 2017

The City's Business Tax was first adopted on July 15, 1963. The methodology used for calculating the City's current Business Tax was adopted in 1984. The Business Tax Modernization Measure (Measure G) was approved by a majority of San José voters on November 8, 2016, and will be effective July 1, 2017, and represents the first increase since 1986.

The voter-approved Business Tax Modernization changes require outreach to the business community through a variety of mediums. Staff from the Finance Department, Office of Economic Development, and City Manager's Office have begun outreach efforts. Information regarding the changes to the tax will be found on the Finance Department's landing page (<http://www.sanjoseca.gov/index.aspx?nid=5378>).

Beginning July 1, 2017 taxpayers can access an online payment portal on the Finance Department's website to pay the Business Tax.

EVALUATION AND FOLLOW-UP

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. Finance Department staff will be available to answer questions on the Fourth Quarter Financial Reports for Fiscal Year 2016-2017 at the PSFSS Committee meeting on August 17, 2017.

August 2, 2017

Subject: Fourth Quarter Financial Reports for Fiscal Year 2016-2017

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PUBLIC OUTREACH/INTEREST

This memorandum will be posted on the City's website for the August 17, 2017, PSFSS Committee meeting and the September 12, 2017, City Council meeting.

COORDINATION

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



JULIA H. COOPER
Director of Finance

For questions, please contact Lisa Taitano, Assistant Director of Finance, at (408) 535-7041.

Attachment A: Fourth Quarter Financial Reports for Fiscal Year 2016-2017

Fourth Quarter Financial Report for Fiscal Year 2016-2017

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

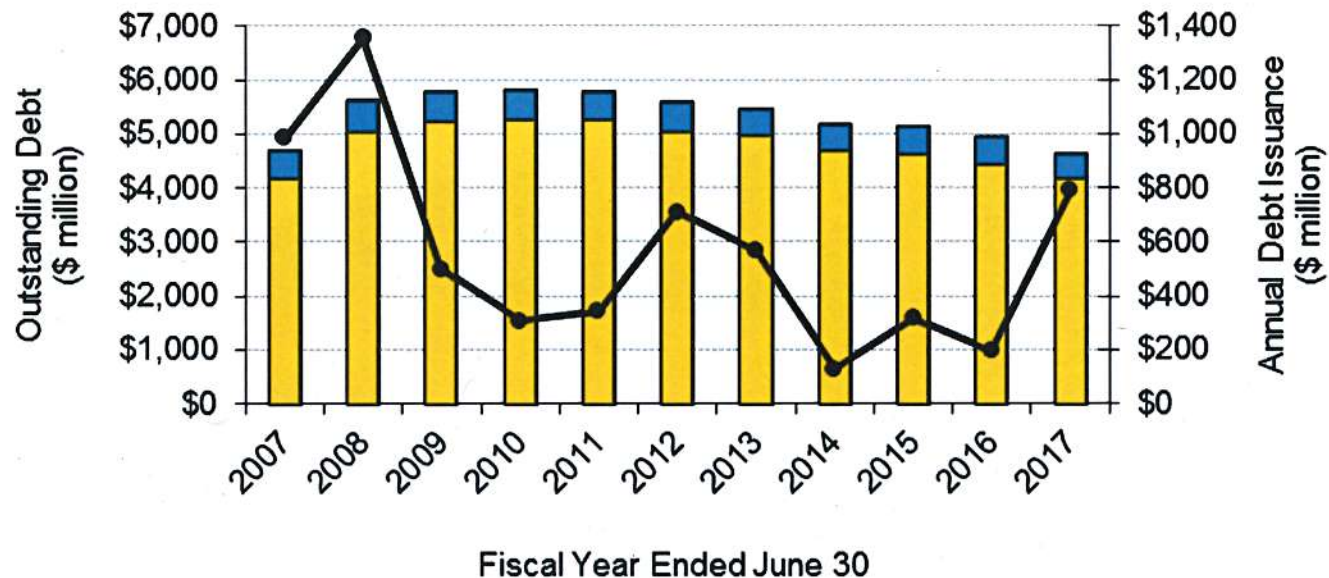
**Prepared by the Finance Department
August 17, 2017**

Fourth Quarter Debt Management Report for Fiscal Year 2016-2017

Outstanding Debt Issued by All Agencies

Outstanding Debt as of June 30, 2017: \$4.6 Billion

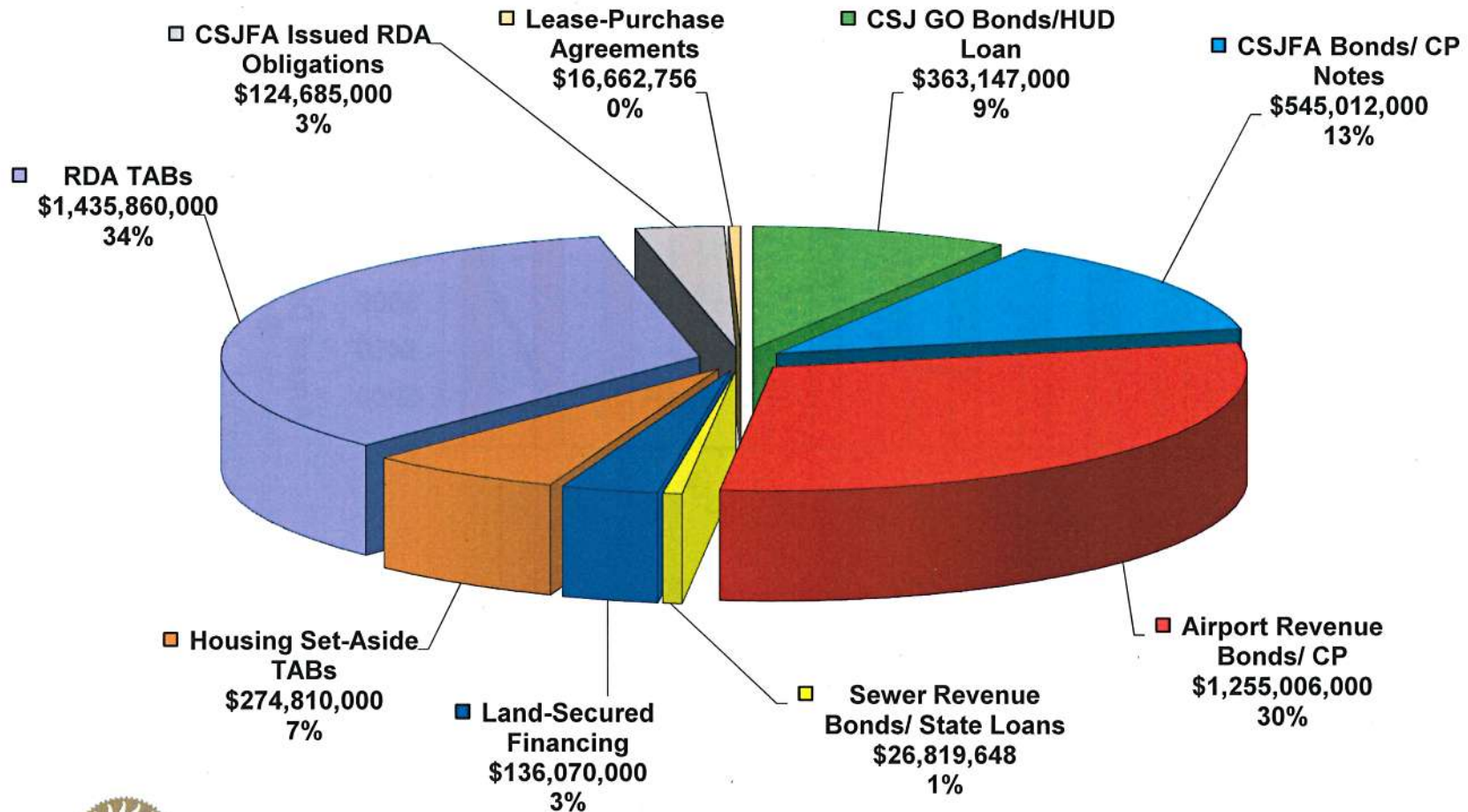
FY 2016-17 Actual Debt Issuance: \$793 Million



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

Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of June 30, 2017: \$4,178,072,405*



* Excludes conduit debt, pension, OPEB, and other long-term liabilities of the City.

Selected Debt Issuance and Debt Management Activities during 4th Quarter

- Debt Issuance
 - \$624.3 million in Airport Revenue Refunding Bonds, Series 2017AB
 - Multi-Family Housing Revenue Notes
 - Villa De Guadalupe - \$42.3 million
 - Pre-issuance activities
 - Refinancing of SARA debt
 - Short-term financing for Regional Wastewater Facility Capital Improvement Program
- Debt Management
 - RFP for financial advisors and financial advisory pools
- Bond Ratings
 - Upgrades to RDA TABs and HSA TABs by Moody's, S&P, and Fitch
- Credit Support renewal/replacement:
 - Renewal of Direct Placement for SARA Housing Set-Aside TABs, Series 2010C
 - Renewal of Direct Placements for CSJFA Series 2008CD (Hayes Mansion), Series 2008E (Ice Centre) and Series 2008F (Land Acquisition)

Upcoming Debt Issuance and Management Through December 31, 2017

- Debt Issuance
 - \$150 million Tax and Revenue Anticipation Note (2017 TRAN issue date July 3, 2017)
 - \$1.8 billion SARA RDA debt refinancing
 - \$300 million short-term financing program for RWF CIP
 - CSJFA lease revenue commercial paper notes for various projects including San José Clean Energy (SJCE) startup, parks' flood improvements, Convention Center exhibit hall, energy conservation equipment
 - Pre-Bond Issuance work efforts
 - General Obligation and CSJFA lease revenue bonds' refinancings
- Debt Management
 - 2017 Comprehensive Annual Debt Report (CADR)
 - Annual Continuing Disclosure/Compliance Reporting to Municipal Securities Rulemaking Board (MSRB)
 - Selection of Financial Advisors (General, Airport, Housing, Wastewater, SARA, Land-Secured, SJCE) - current agreements expire on August 31, 2017

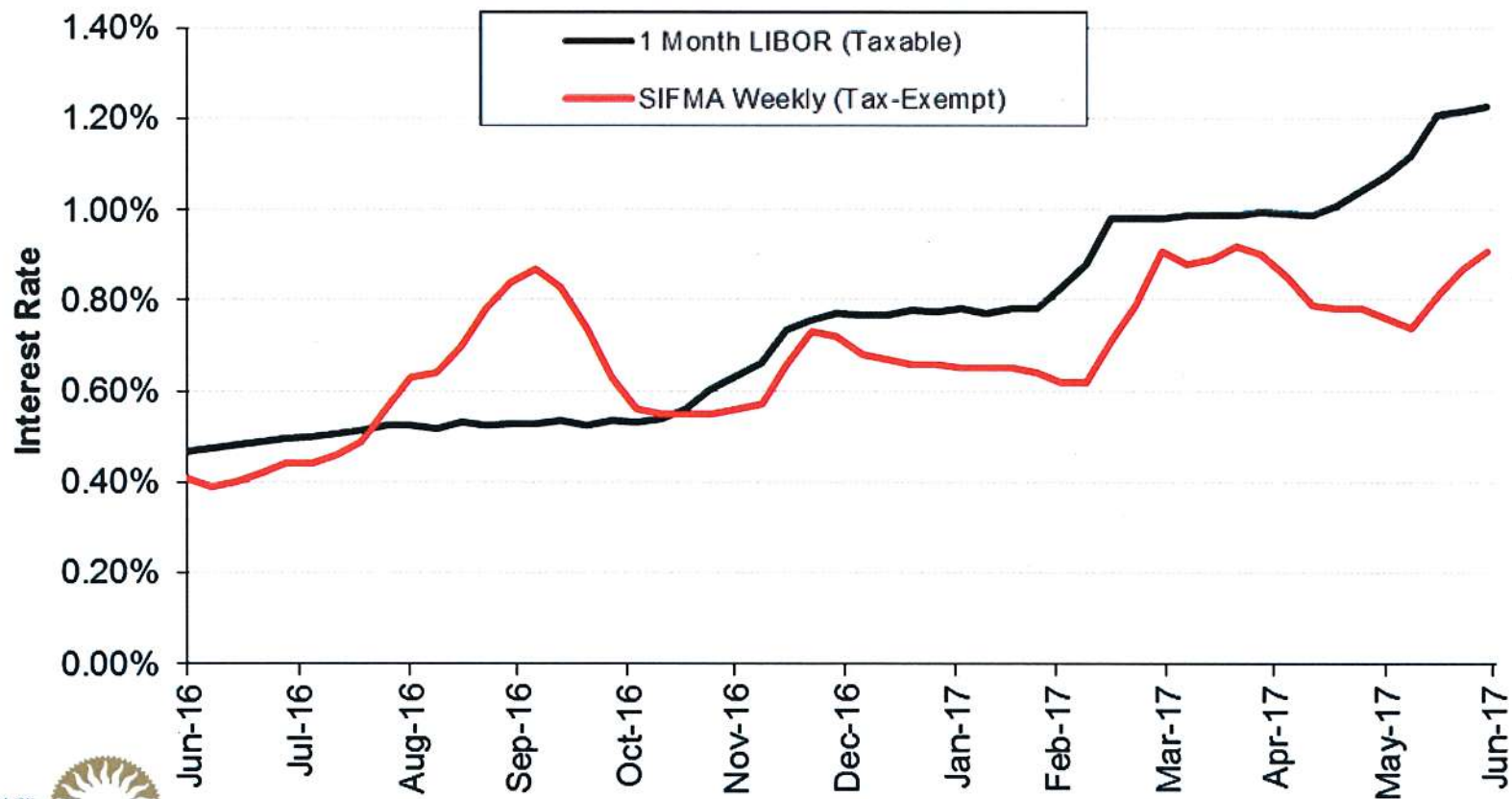
Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged around 3.89% and are currently at 3.12% (as of 7/13/17)



Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 0.84% in Q4 and are currently at 0.82% (as of 07/19/2017)
- Taxable LIBOR monthly interest rates paid by the City averaged 1.06% in Q4 and are currently at 1.23% (as of 07/19/2017)



City of San José – Credit Ratings¹

- City continues to maintain high general obligation (G.O.) credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3²/AA/AA
 - City G.O. bonds continue to be rated higher than State of California (Aa3/AA-/AA-)
 - Santa Clara County G.O. bonds are rated lower by Moody's (Aa2), higher by S&P (AAA), and the same by Fitch
- SJC Airport bonds are rated A2/A-/A-
- RDA non-Housing Tax Allocation Bonds are rated A2/AA-/A+
- RDA Housing Set-Aside Tax Allocation Bonds are rated A1/A/AA

¹ Ratings are listed in the following order by rating agency (unless noted otherwise): Moody's/S&P/Fitch.

² Moody's 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 (Aa3).

Fourth Quarter Investment Management Report for Fiscal Year 2016-2017

Investment Policy (Council Policy 1-12)

- Conforms to the California Government Code Sections 53600 et seq.
- Authorized investments only include high grade fixed income securities. (Long-term rating A or higher; Short-term rating A1/P1/F1)
- Policy is reviewed annually and shall be adopted by resolution of the City Council
- Investment Program is audited semiannually for compliance purposes

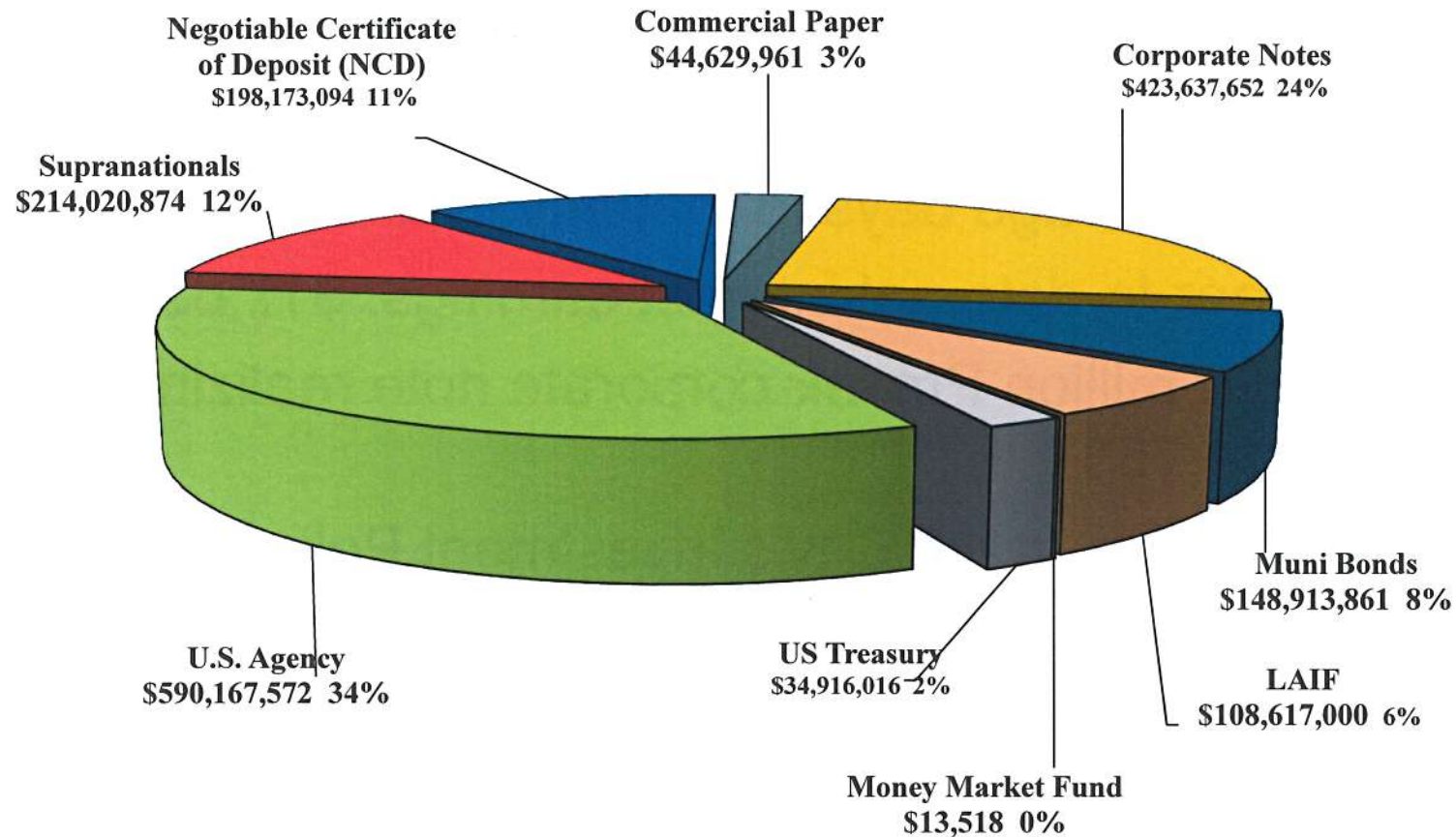
Investment Objectives & Reporting

- Manage investments to meet the City's objectives:
 - Safety
 - Liquidity
 - Yield
- Quarterly reports on-line and placed on PSF&SS Committee agenda

Summary of Portfolio Performance

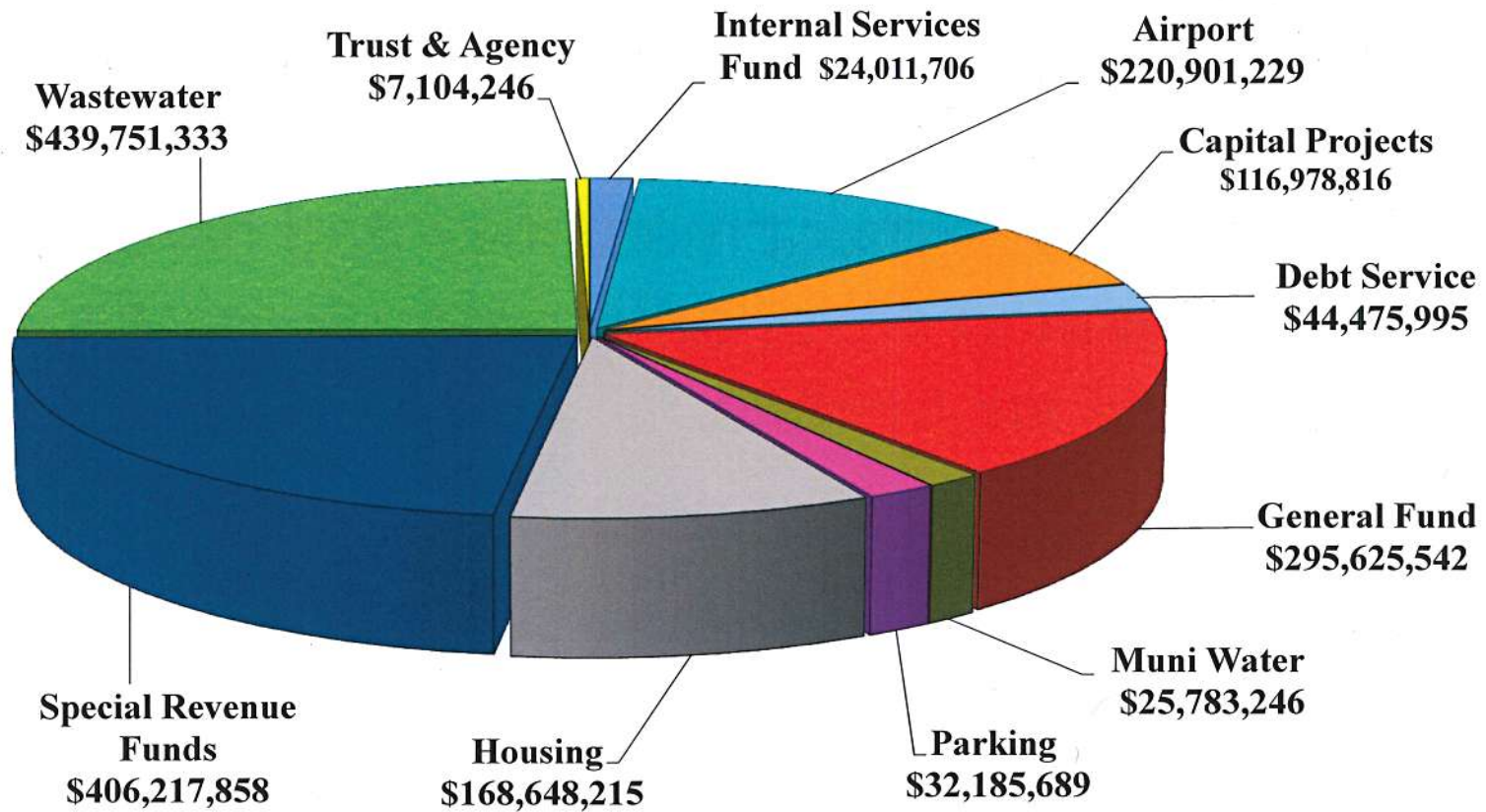
- Size of total portfolio: \$1,763,089,548
- Earned interest yield: 1.283%
- Weighted average days to maturity: 513 days
- Fiscal year-to-date net interest earnings: \$17,631,471
- Sale of \$5 million Praxair corporate note realizing a gain of \$1,950
- No exceptions to the City's Investment Policy during this quarter

Portfolio Investment



Total Investment Portfolio = \$1,763,089,548

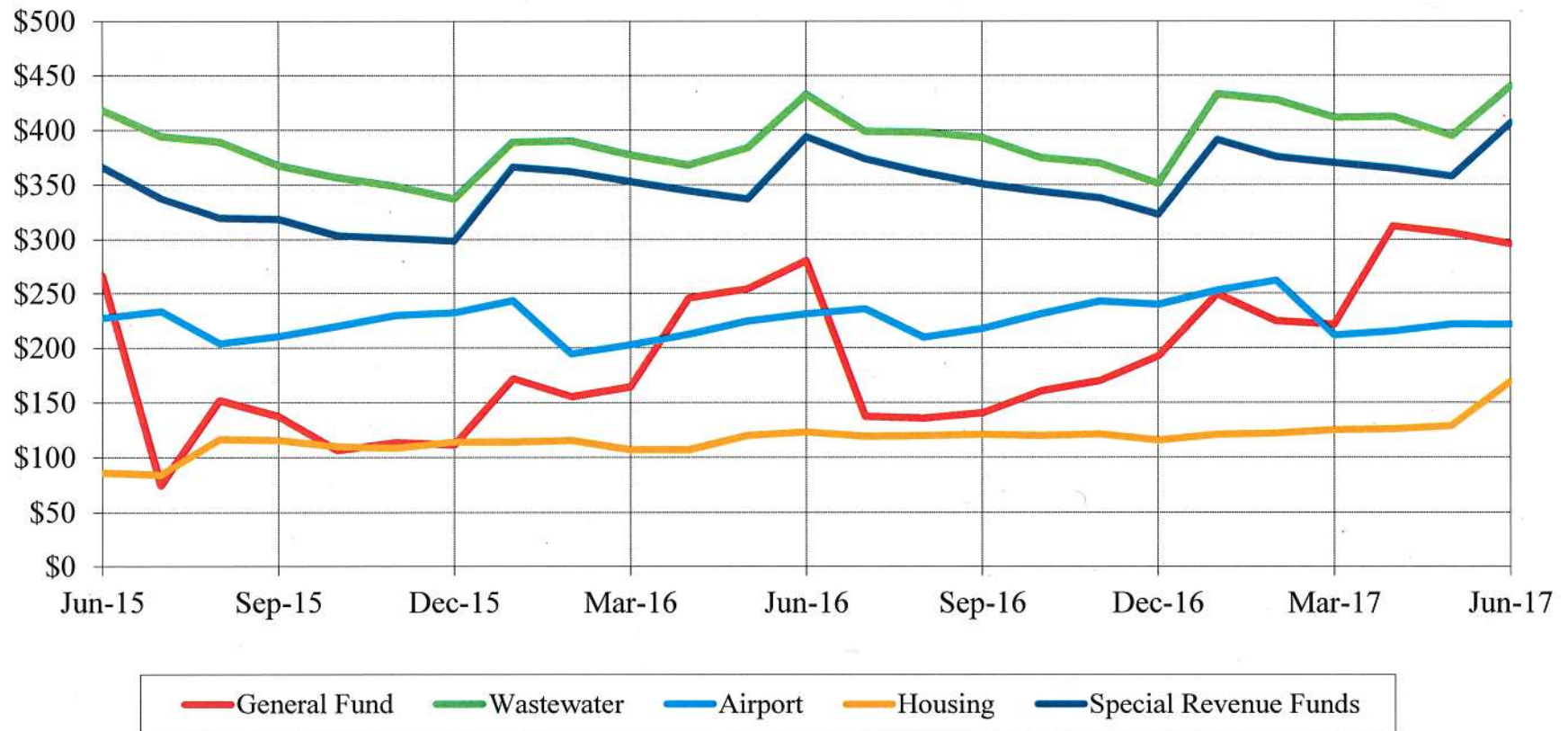
Investment by Fund



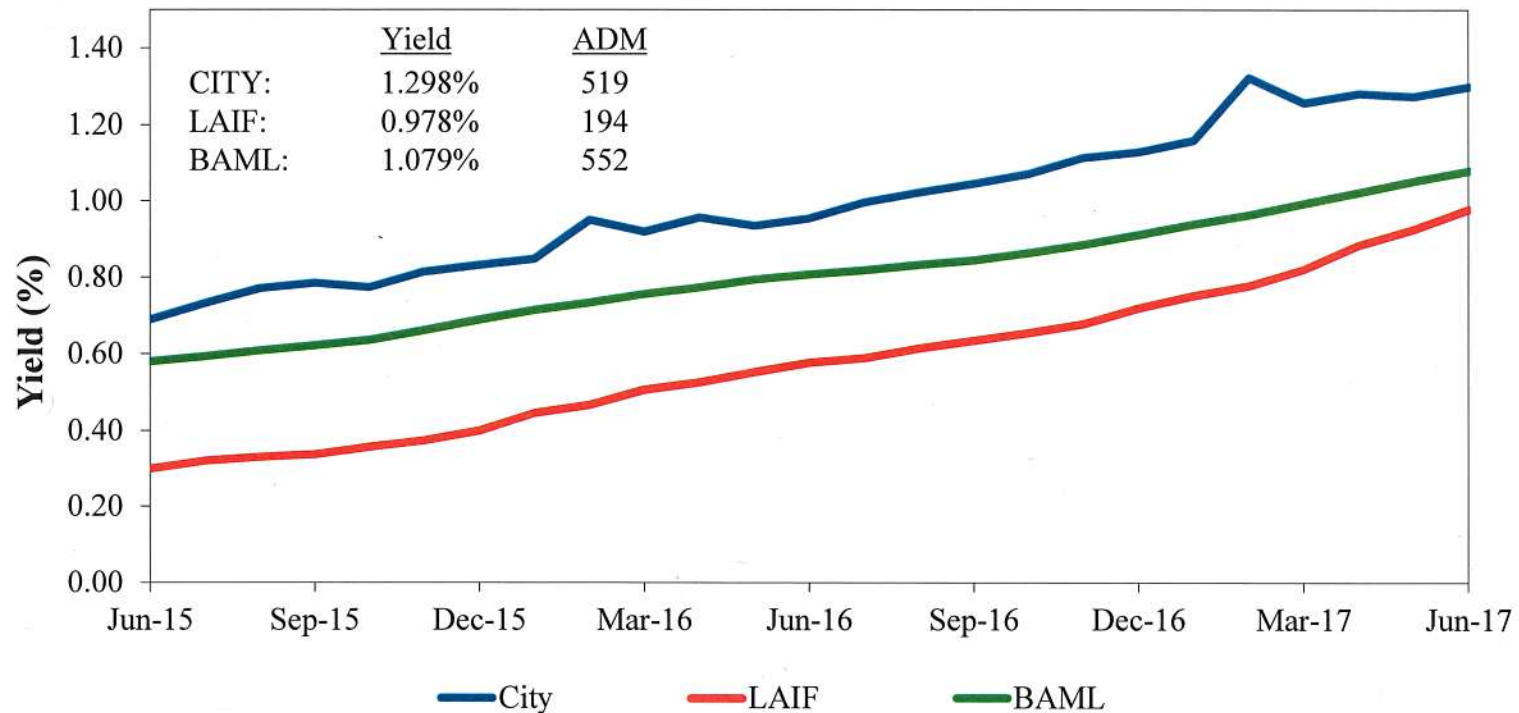
General Fund Balances

- General Fund balances increased by \$74.2 million to \$295.6 million.
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months

Comparison of Cash Balances by Select Funds



Benchmark Comparisons



Notes:

1. City refers to City's Fund 1 Portfolio, and the yield data are month end weighted average yields.
2. LAIF refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
3. 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 investment maturities with known expenditures 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 mandate of safety, liquidity, and yield

Fourth Quarter Revenue Collection Report for Fiscal Year 2016-2017

Revenue Collection Program

- Finance Department revenue collection efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance in three primary collection programs:
 - Business Tax
 - Accounts Receivable
 - Revenue Compliance and Monitoring
- Efforts may span several reporting periods, and actual collections are reported when funds are received by the City
- Revenue and compliance activities related to Marijuana Business Tax are reported separately

Revenue Collection Results – Quarter to Quarter Comparison

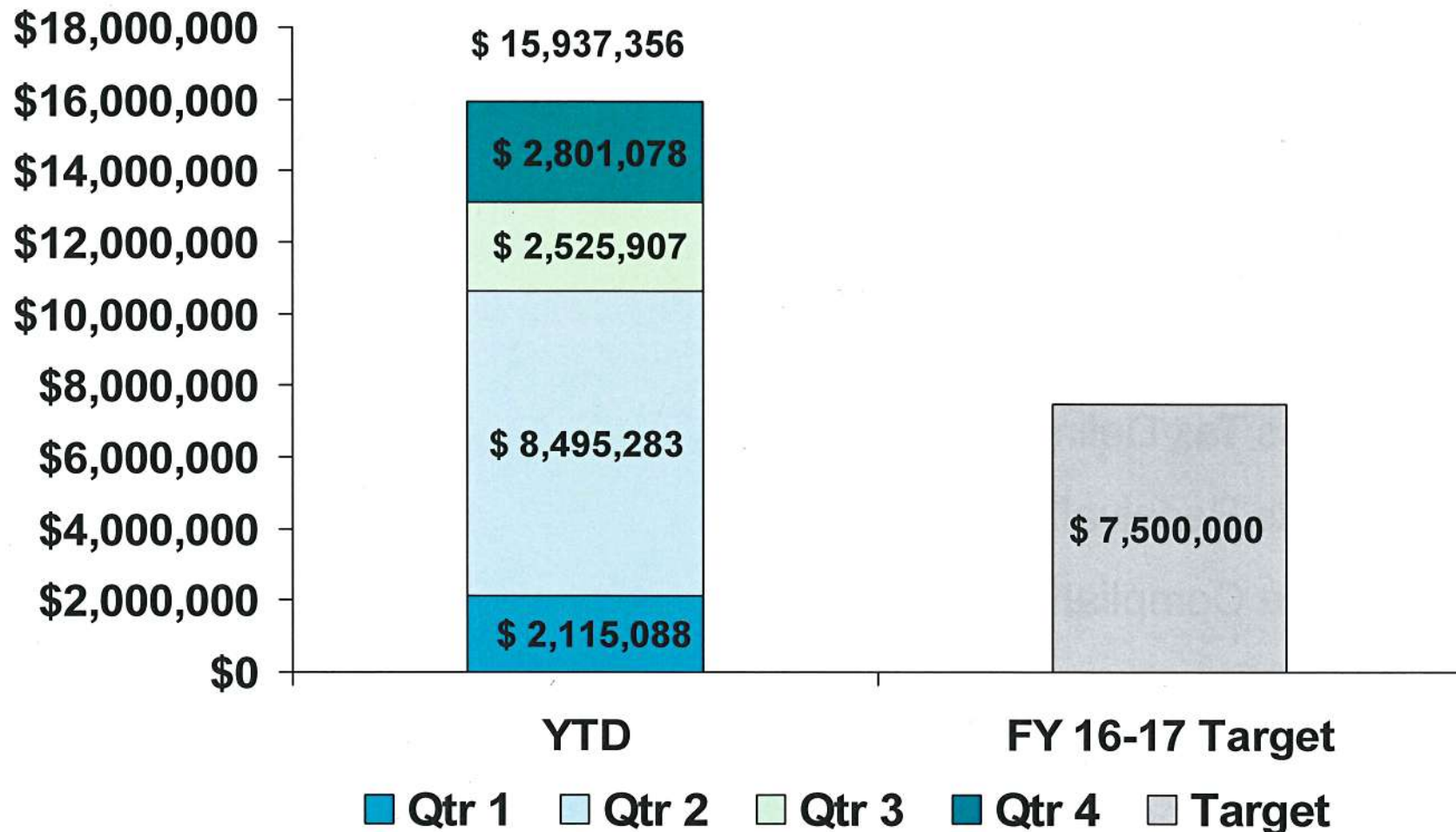
<u>Collection Programs</u>	<u>FY 2016-17 4th Quarter</u>	<u>FY 2015-16 4th Quarter</u>
Business Tax	\$ 705,843	\$ 706,443
Accounts Receivable	1,354,599	1,302,331
Revenue Compliance/Monitoring	740,636	438,562
Total Program Collections	\$ 2,801,078	\$ 2,447,336

Return on Investment (ROI)

Quarter to Quarter Comparison

	<u>FY 2016-17 4th Quarter</u>	<u>FY 2015-16 4th Quarter</u>
Total Return on Investment	5.91	6.25
Return on Investment by Program		
Business Tax Delinquencies	3.53	4.25
Accounts Receivable Delinquencies	10.22	9.18
Revenue Compliance/Monitoring	5.24	5.37

FY 2016-17 YTD Revenue Collection Results: 212% of Annual Target



- AR revenues significantly increased in the 2nd quarter due to one-time large collections from two government agencies; if removed, collections would be 91% of annual target.

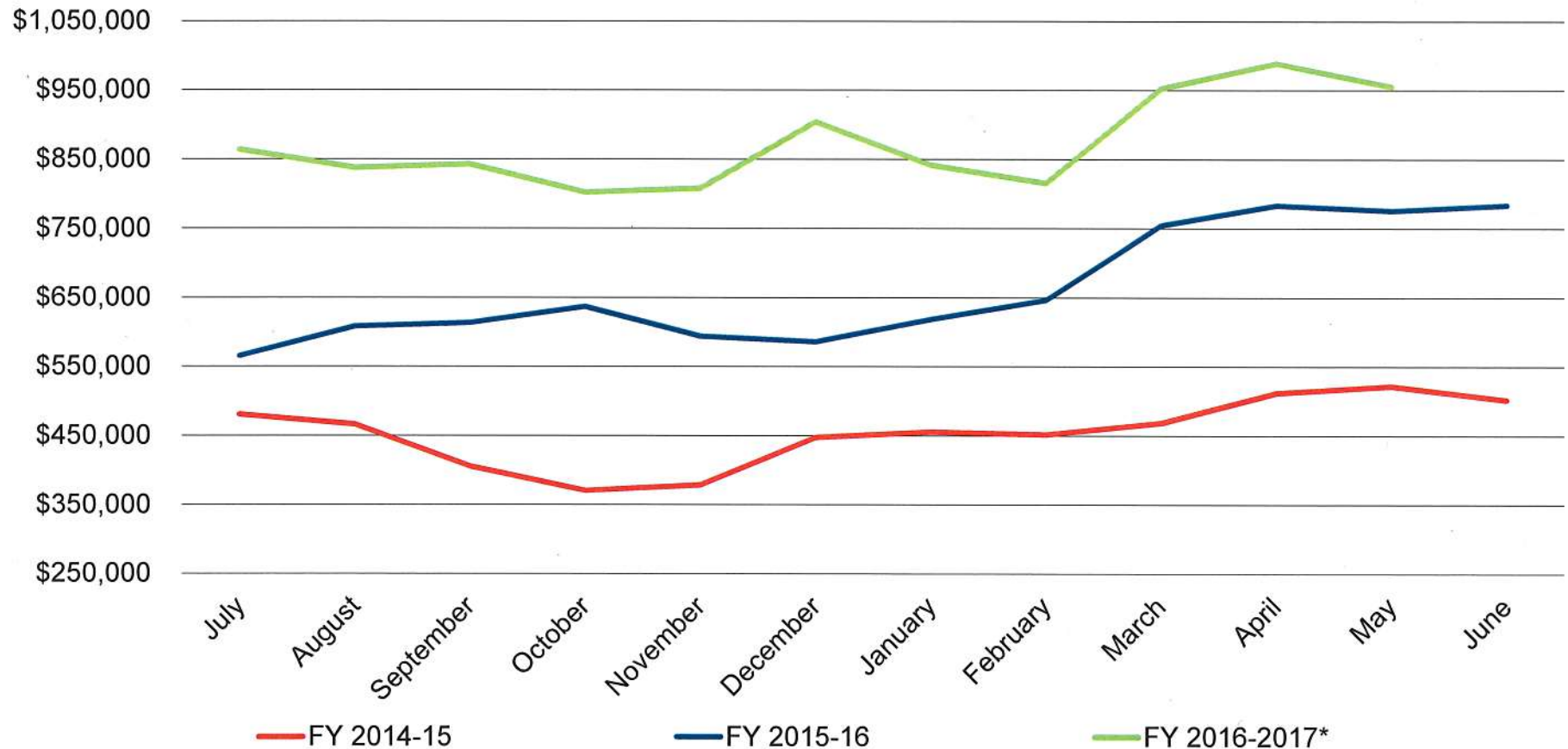
Accounts Receivable Balance

	As of Jun. 30, 2017	As of Jun. 30, 2016
<u>Current Receivables</u>		
0-60 Days	\$ 4,820,499	\$ 3,571,470
61-90 Days	1,090,031	2,529,852
Total Current Receivables	\$ 5,910,530	\$ 6,101,322
<u>Delinquent Receivables</u>		
91-365 Days	\$ 3,893,369	\$ 7,690,442
Over 1 Year	17,865,488	15,940,949
Total Delinquent Receivables	\$ 21,758,857	\$ 23,631,390
Total Accounts Receivable	\$ 27,669,387	\$ 29,732,713

- Delinquent Receivables include \$5.0M in reserved MBT assessments under litigation/collections
- 80% of the receivable balance ending June 30, 2017 is General Fund
- 74% of the receivable balance ending June 30, 2016 is General Fund

Marijuana Business Tax (MBT) Revenues

Marijuana Business Tax: Revenue Collected



- Revenue in FY 16-17 has increased over FY 15-16 revenue as the collectives that remain open are taking in customers from non-tax remitting dispensaries that were closed due to Code Enforcement actions.

Billing System Online Functionality

Revenue Management is currently upgrading/implementing two new billing systems

	Take Payments & Provide Receipt	Update Contact Information	Accept New Account Applications
Business Tax System Implementation to be complete Spring 2018	★	★	★
Revenue Results* Upgrade to be complete Winter 2017	★	n/a	n/a

- Revenue Results is a delinquent invoice/tax collection system, not a registration/billing system.
- Beginning July 1, 2017 taxpayers can access an online payment portal on the Finance Department's website to pay the Business Tax.