

# **First Quarter Financial Report for Fiscal Year 2017-2018**

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

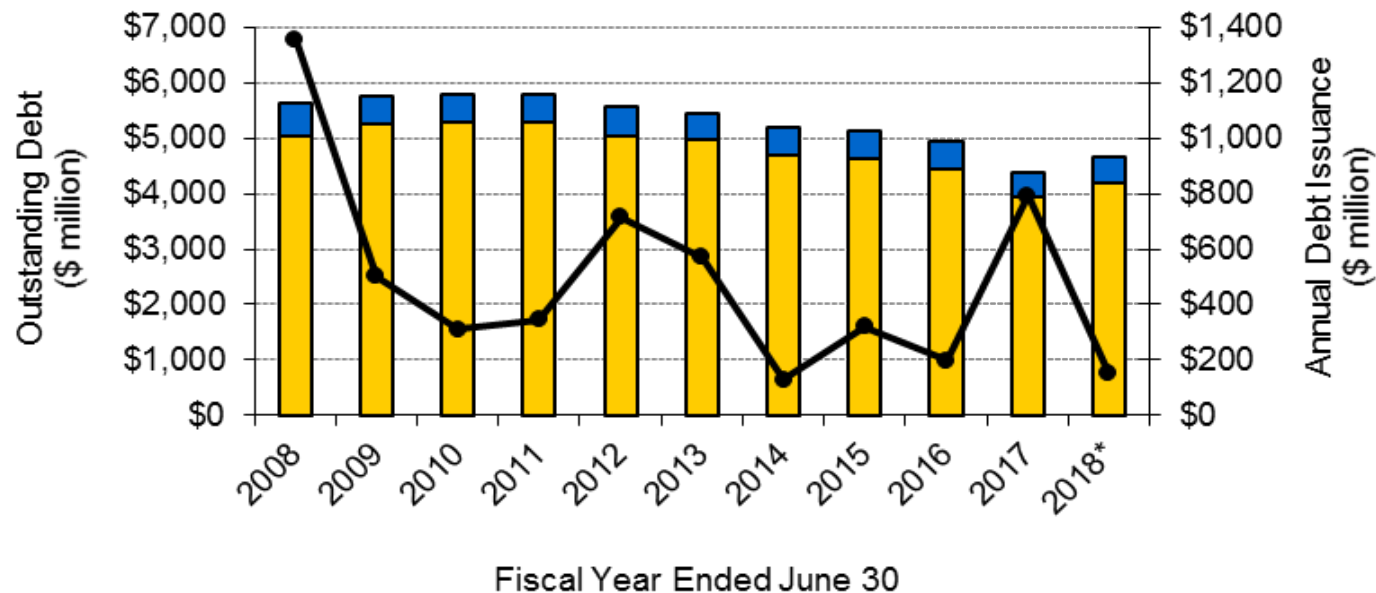
**Prepared by the Finance Department  
November 16, 2017**

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# **First Quarter Debt Management Report for Fiscal Year 2017-2018**

# Outstanding Debt Issued by All Agencies

Outstanding Debt as of September 30, 2017: \$4.6 Billion  
FY 2017-18 Actual Debt Issuance: \$150 Million

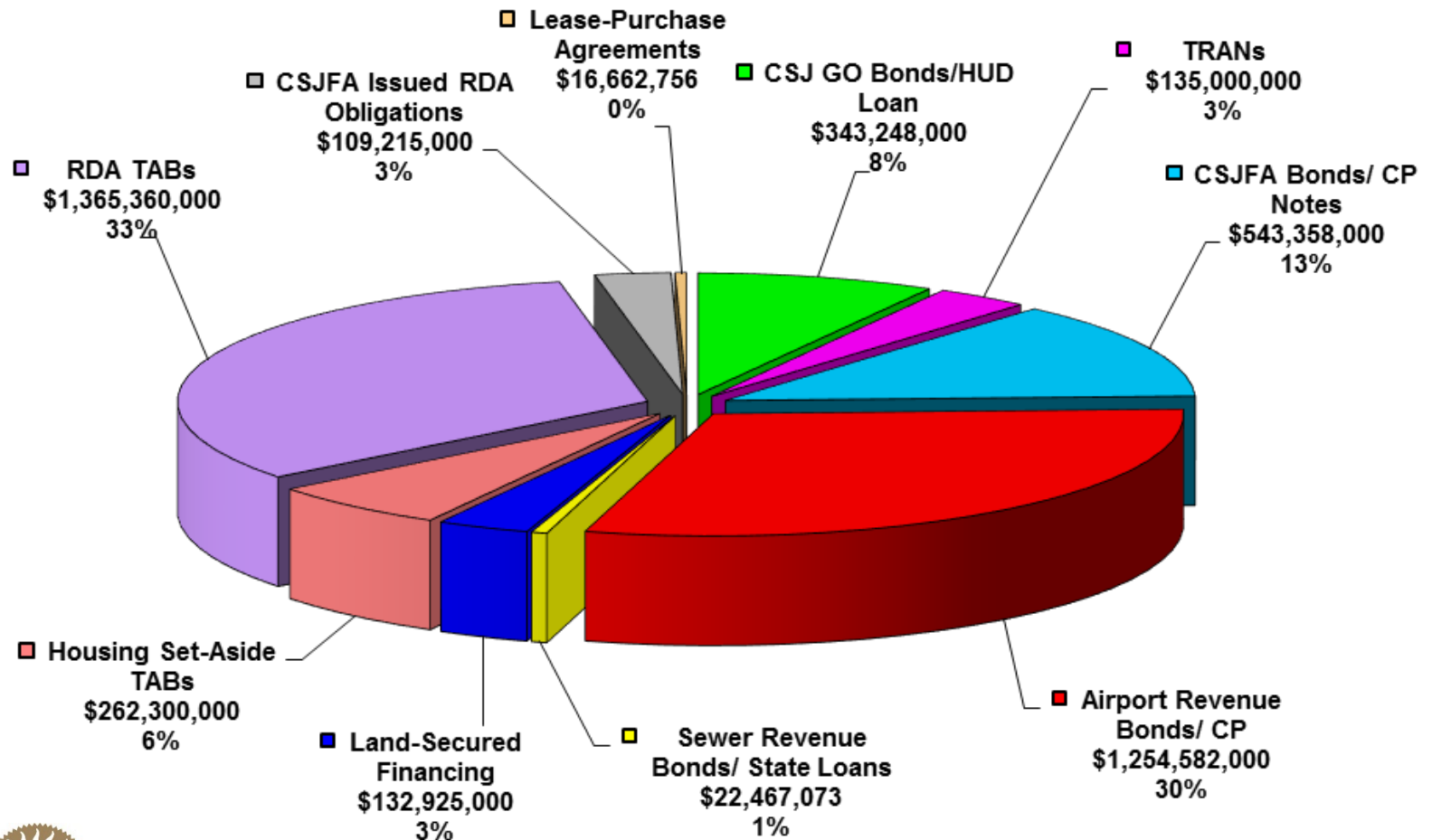


City and Related Entity Debt Outstanding    Conduit Debt Outstanding    Annual Debt Issuance

\* YTD Debt Issuance

# Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of September 30, 2017: \$4,185,117,829\*



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

# Selected Debt Issuance and Debt Management Activities during 1<sup>st</sup> Quarter

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- Debt Issuance

- \$150 million Tax and Revenue Anticipation Note (2017 TRAN issued July 3, 2017)
- Pre-issuance activities
  - Refinancing of Successor Agency of the Redevelopment Agency (SARA) debt
  - Short-term financing for Regional Wastewater Facility Capital Improvement Program

- Debt Management

- Selection and Execution of Municipal Advisors contracts for General City, Airport, Multifamily, Wastewater Facilities, SARA and Land-Secured

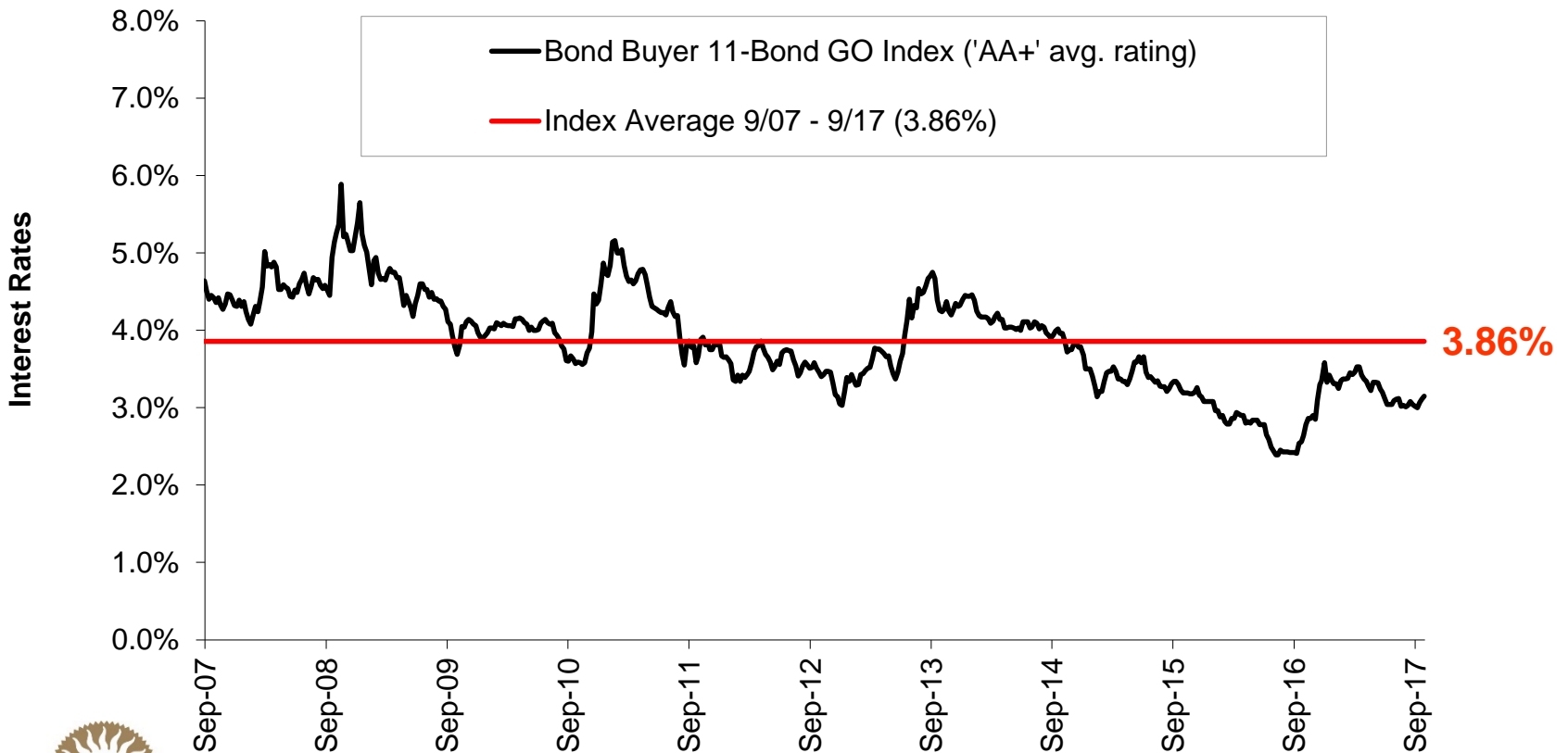
# Upcoming Debt Issuance and Management Through December 31, 2017

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- Debt Issuance
  - \$1.8 billion SARA RDA debt refinancing, issue date – December 2017
  - Multi-Family Housing Revenue Notes
    - Catalonia Apartments - \$16.2 million, issued October 17, 2017
  - \$300 million in Subordinate Wastewater Net System Revenue Notes to finance capital improvements at the San Jose-Santa Clara Regional Wastewater Facility (October 2017)
  - CSJFA lease revenue commercial paper notes for various projects include: San José Clean Energy startup costs (\$10 million authorized); Convention Center exhibit hall (\$15 million authorized); Energy Conservation equipment (\$1,768,000 remaining authorization)
  - Pre-issuance
    - General Obligation and CSJFA lease revenue bond refinancings
- Debt Management
  - 2017 Comprehensive Annual Debt Report (CADR)
  - Annual Continuing Disclosure/Compliance Reporting

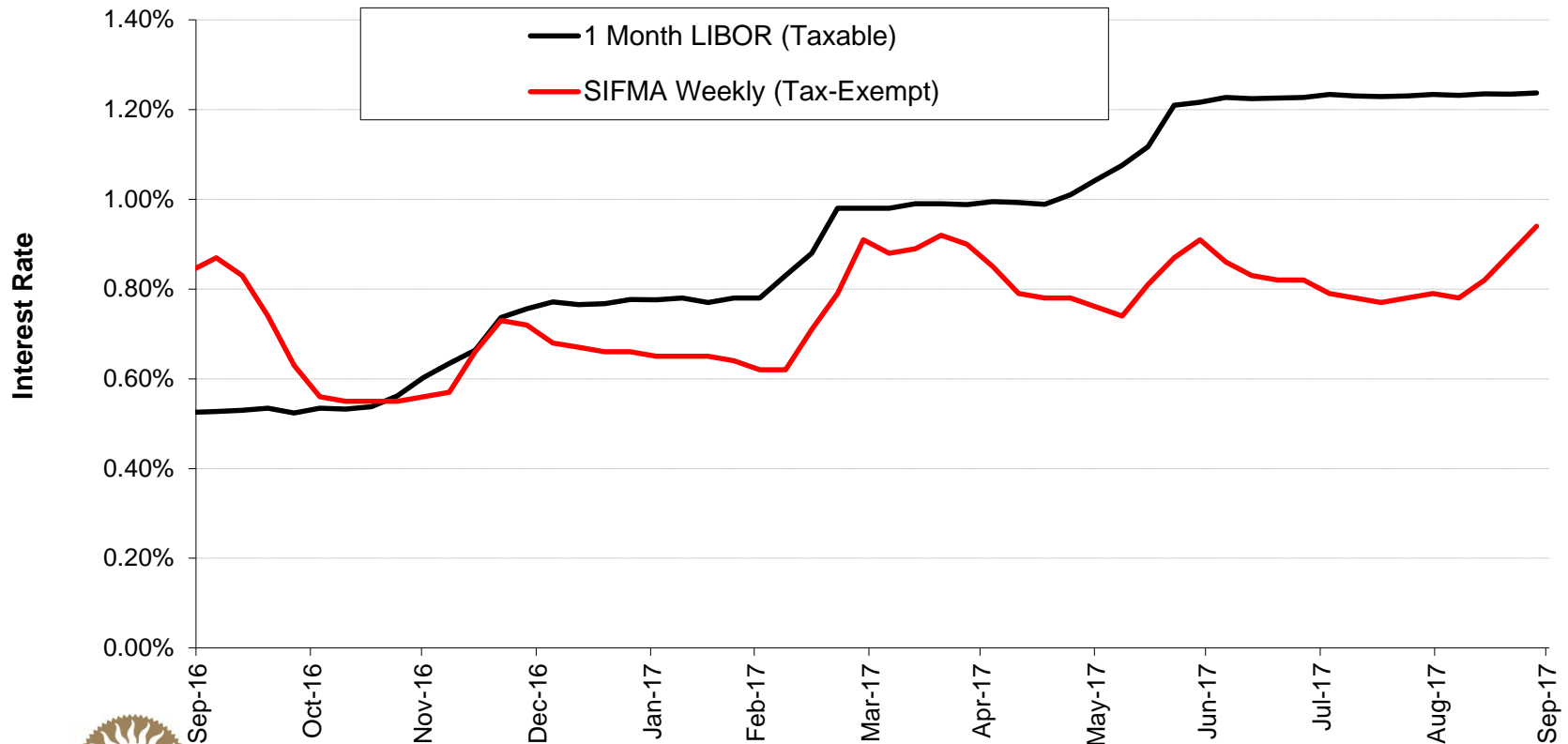
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged around 3.86% and are currently at 3.16% (as of 10/26/17)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 0.82% in Q1 and are currently at 0.92% (as of 10/25/2017)
- Taxable LIBOR monthly interest rates paid by the City averaged 1.23% in Q1 and are currently at 1.24% (as of 10/26/2017)





# City of San José – Credit Ratings<sup>1</sup>

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- City continues to maintain high general obligation (G.O.) credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3<sup>2</sup>/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

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

<sup>2</sup> 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).

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# **First Quarter Investment Management Report for Fiscal Year 2017-2018**

# Investment Policy (Council Policy 1-12)

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- 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

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

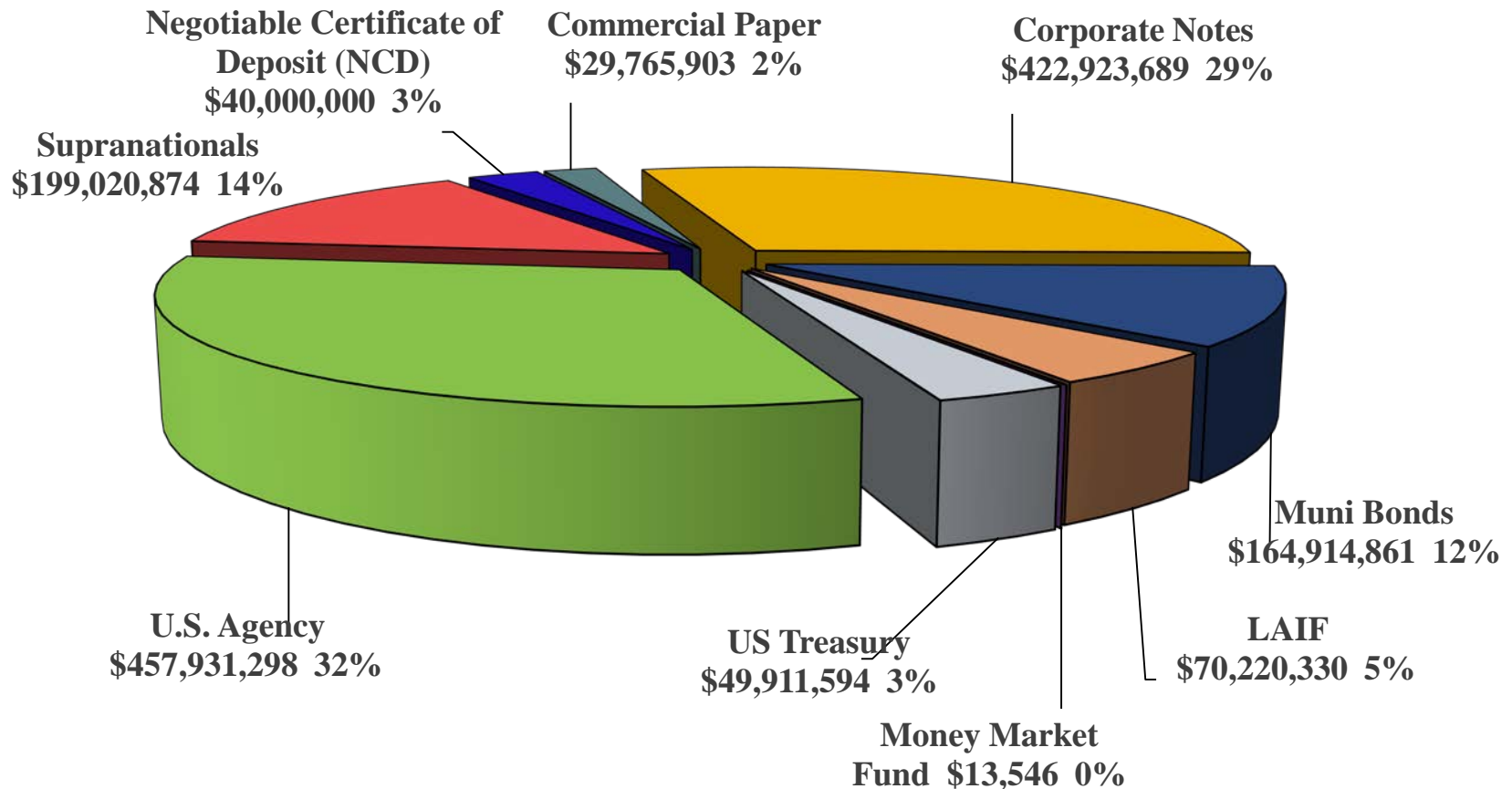
# Summary of Portfolio Performance

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- Size of total portfolio: \$1,434,702,095
- Earned interest yield: 1.349%
- Weighted average days to maturity: 590 days
- Fiscal year-to-date net interest earnings: \$5,150,061
- No exceptions to the City's Investment Policy during this quarter
- The City's external auditor, Grant Thornton LLP, evaluated the City's investment program for the year ended June 30, 2017. The report noted no exceptions to the Investment Policy.

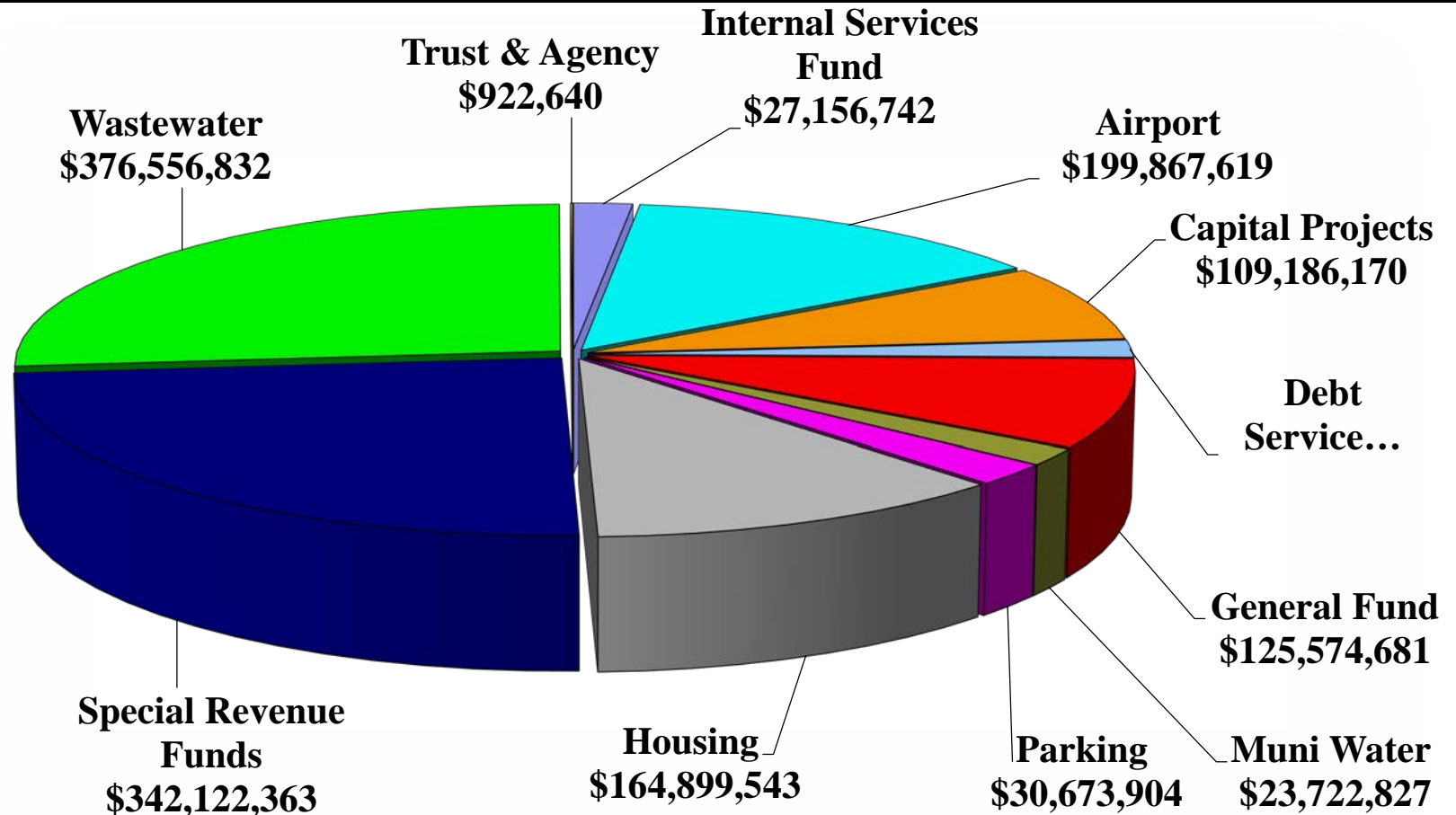
# Portfolio Investment

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Total Investment Portfolio = \$1,434,702,095

# Investment by Fund



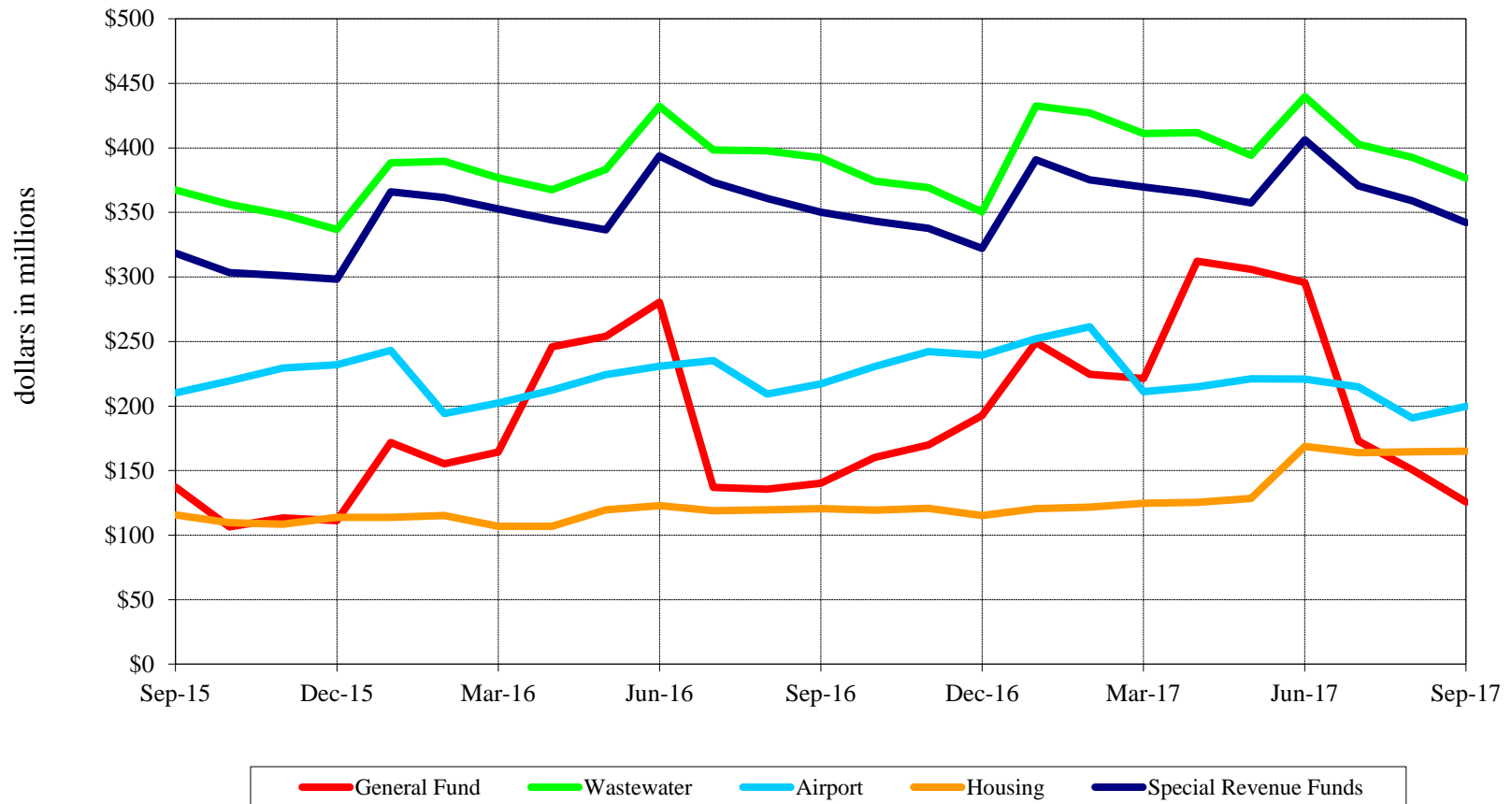
# General Fund Balances

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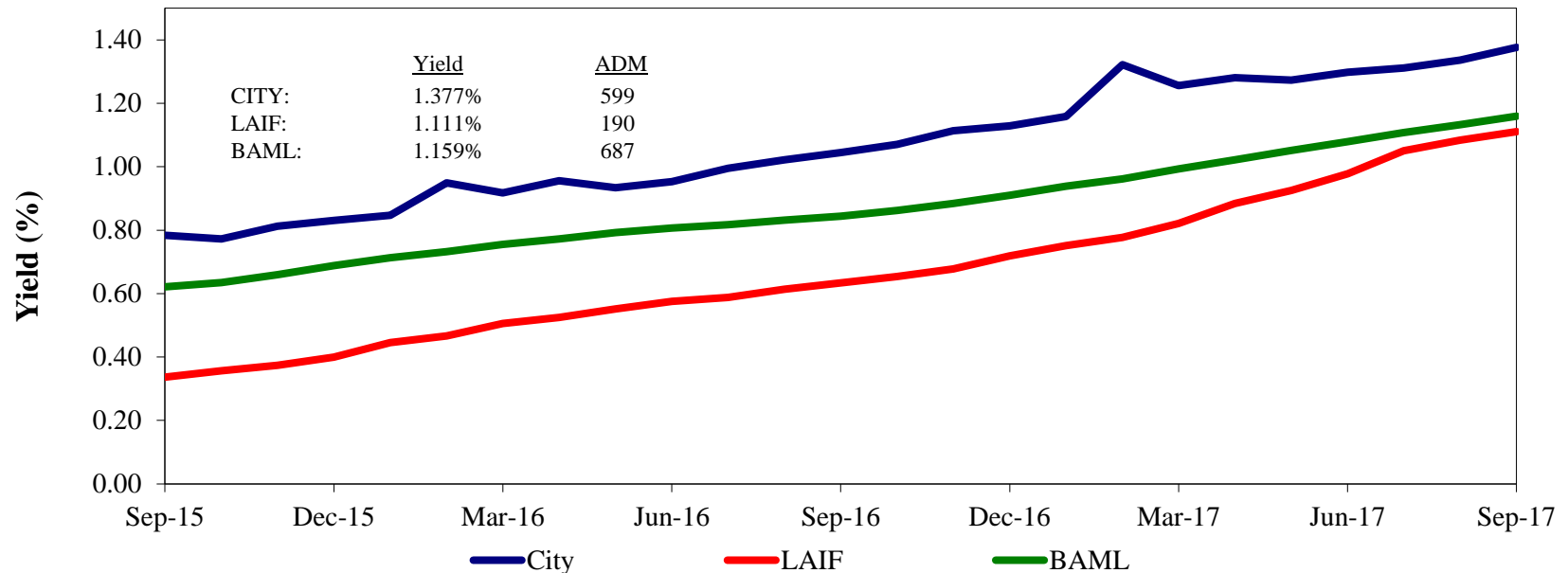
- General Fund balances decreased by approximated \$170.1 million to \$125.6 million this quarter, primarily due to retirement prefunding
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months



# 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

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- 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

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# **First Quarter Revenue Collection Report for Fiscal Year 2017-2018**

# Revenue Collection Program

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- 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

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## Collection Programs

**FY 2017-18**  
**1<sup>st</sup> Quarter**

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**FY 2016-17**  
**1<sup>st</sup> Quarter**

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Business Tax

\$ 870,933

\$ 746,699

Accounts Receivable

1,633,257

978,792

Revenue Compliance/Monitoring

978,848

389,597

**Total Program Collections**

**\$ 3,483,038**

**\$ 2,115,088**

# Return on Investment (ROI)

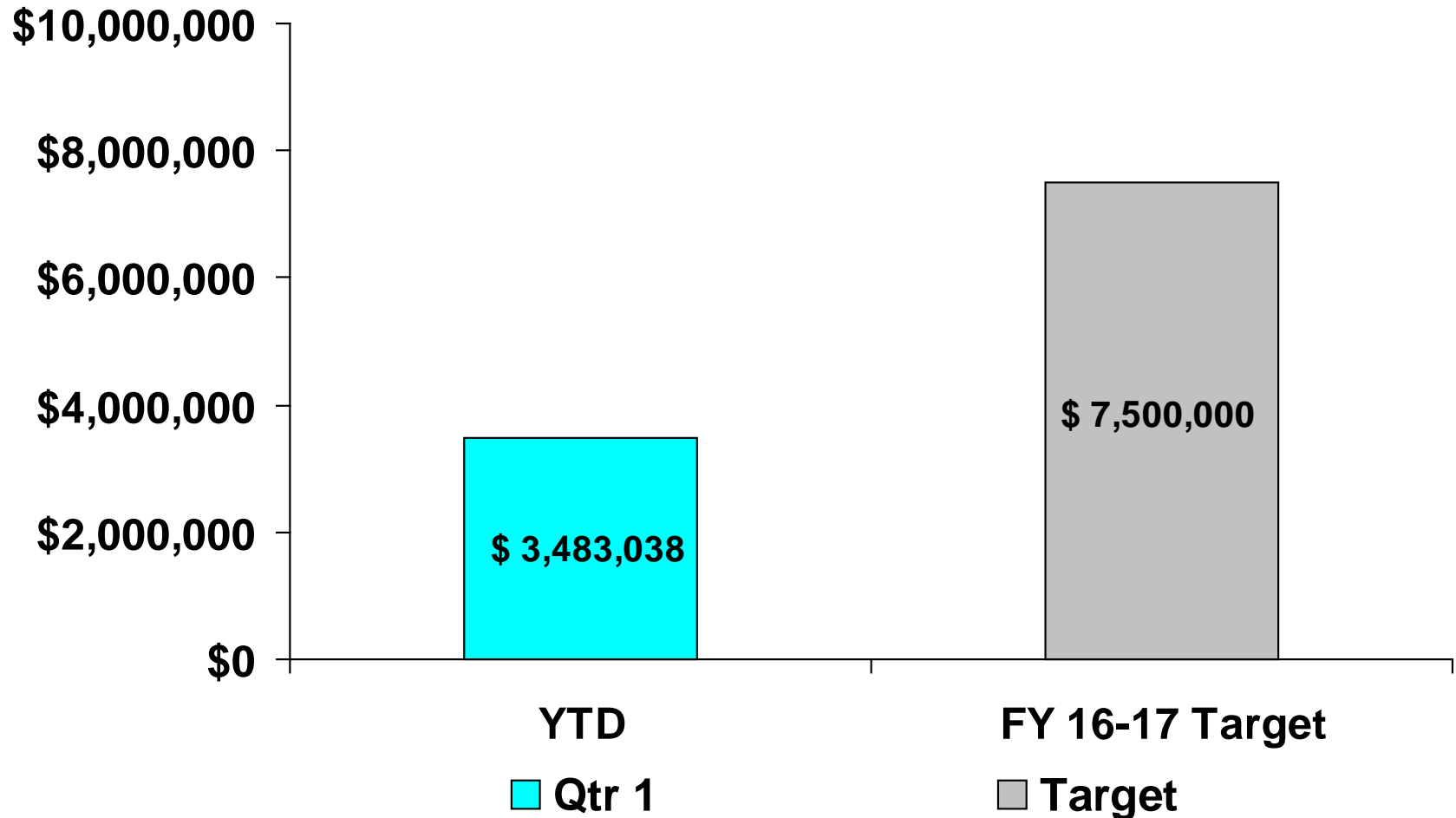
## Quarter to Quarter Comparison

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	<b>FY 2017-18</b> <b>1<sup>st</sup> Quarter</b>	<b>FY 2016-17</b> <b>1<sup>st</sup> Quarter</b>
<b>Total Return on Investment</b>	<b>7.28</b>	<b>5.36</b>
<b>Return on Investment by Program</b>		
Business Tax Delinquencies	6.31	5.31
Accounts Receivable Delinquencies	9.12	7.45
Revenue Compliance/Monitoring	6.08	3.17

# FY 2017-18 YTD Revenue Collection Results: 46.4% of Annual Target

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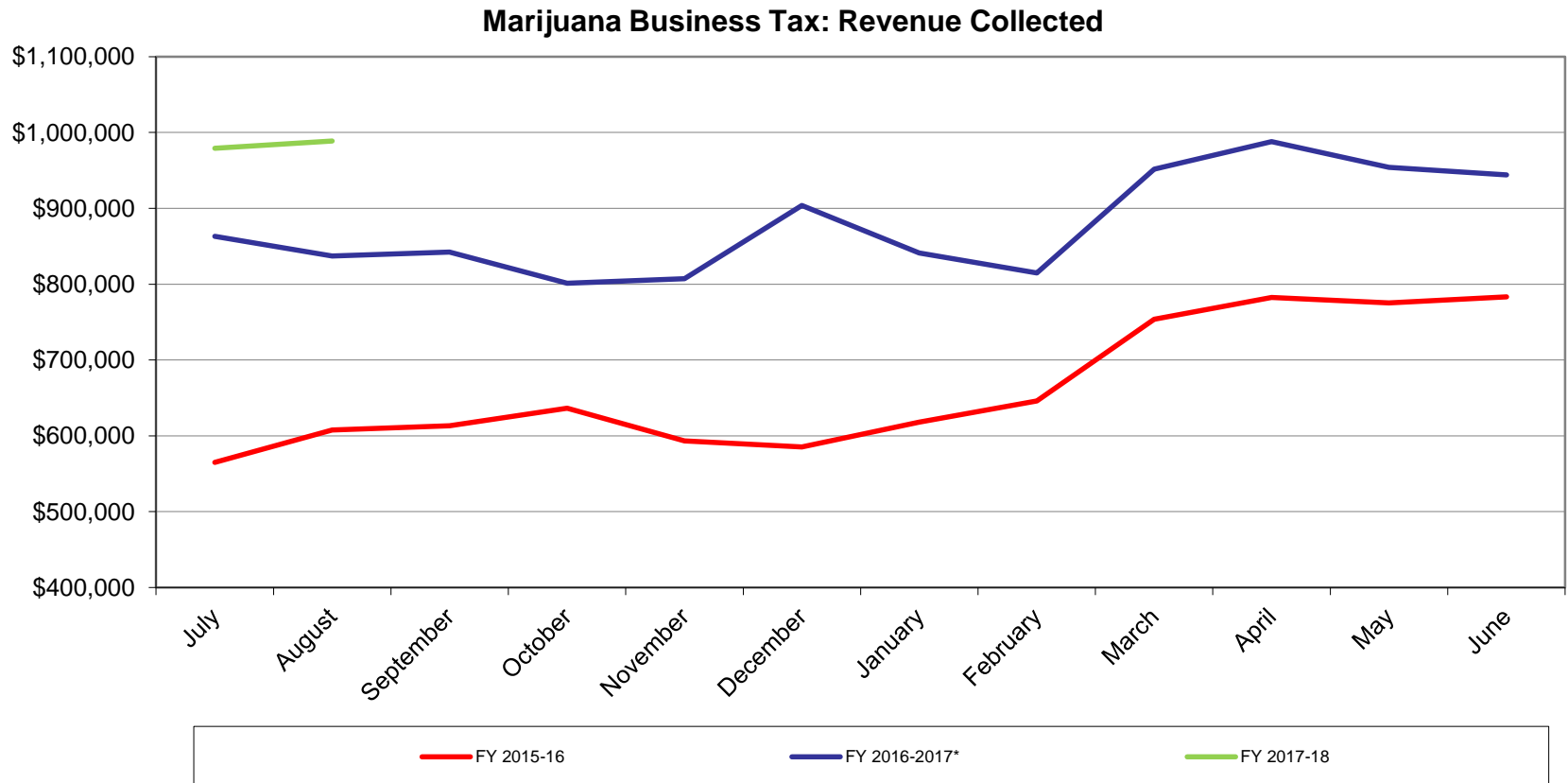


# Accounts Receivable Balance

	As of Sept. 30, 2017	As of Sept. 30, 2016
<u>Current Receivables</u>		
0-60 Days	\$ 4,964,532	\$ 2,687,916
61-90 Days	1,269,193	8,837,713
Total Current Receivables	\$ 6,233,725	\$ 11,525,629
<u>Delinquent Receivables</u>		
91-365 Days	\$ 5,245,425	\$ 10,012,945
Over 1 Year	18,405,114	16,441,544
Total Delinquent Receivables	\$ 23,650,539	\$ 26,454,489
<b>Total Accounts Receivable</b>	<b>\$ 29,884,264</b>	<b>\$ 37,980,119</b>

- Delinquent Receivables include \$5.0M in reserved MBT assessments under litigation/collections
- 77% of the receivable balance ending September 30, 2017 is General Fund
- 68% of the receivable balance ending September 30, 2016 is General Fund

# Marijuana Business Tax (MBT) Revenues



- Revenue in FY 17-18 has increased over FY 16-17 revenue as the collectives that remain open are taking in customers from non-tax remitting dispensaries that were closed due to Code Enforcement actions.

\* Cash collected July through August 2017

# 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
<b>Business Tax System</b> Implementation to be complete Spring 2018	★	★	★
<b>Revenue Results</b> Implemented October 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.

# Business Tax Code Change Outreach Efforts

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- Changes effective July 1, 2017
- Advertisements to the public were placed with:
  - Silicon Valley Organization
  - KRTY & KLIV (Radio Stations)
  - San Jose Mercury News
  - Metro Silicon Valley
  - Valley Transit Authority (VTA)
- The Finance Department has mailed out approximately 8,400 letters to residential landlords now required to register and remit the Business Tax