

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

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

**Prepared by the Finance Department  
February 15, 2018**

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# **Second 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 or higher)
- 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 online and placed on PSF&SS Committee agenda

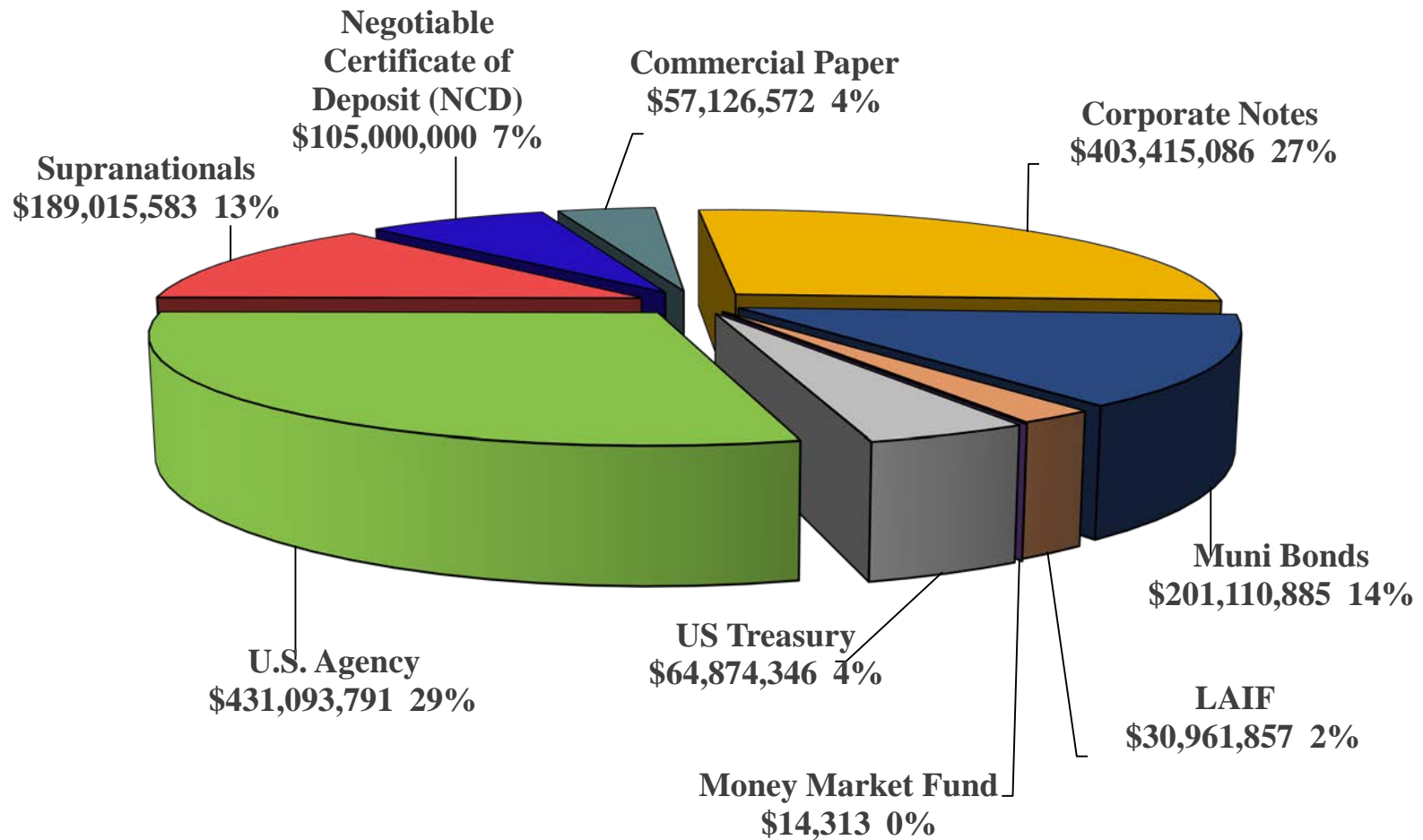
# Summary of Portfolio Performance

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- Size of total portfolio: \$1,482,612,432
- Earned interest yield: 1.417%
- Weighted average days to maturity: 562 days
- Fiscal year-to-date net interest earnings: \$10,360,199
- No exceptions to the City's Investment Policy during this quarter

# Portfolio Investment

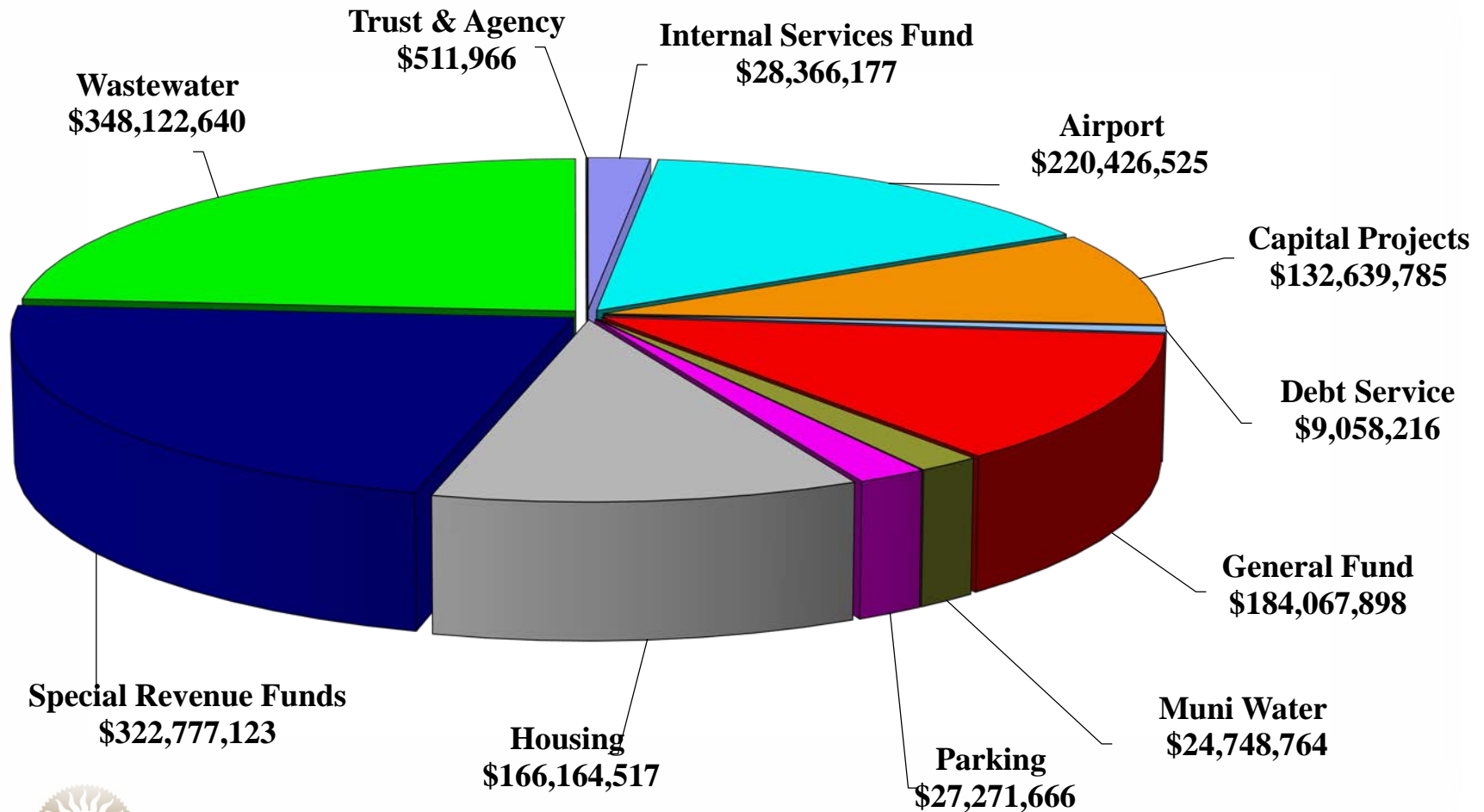
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Total Investment Portfolio = \$1,482,612,432

# Investment by Fund

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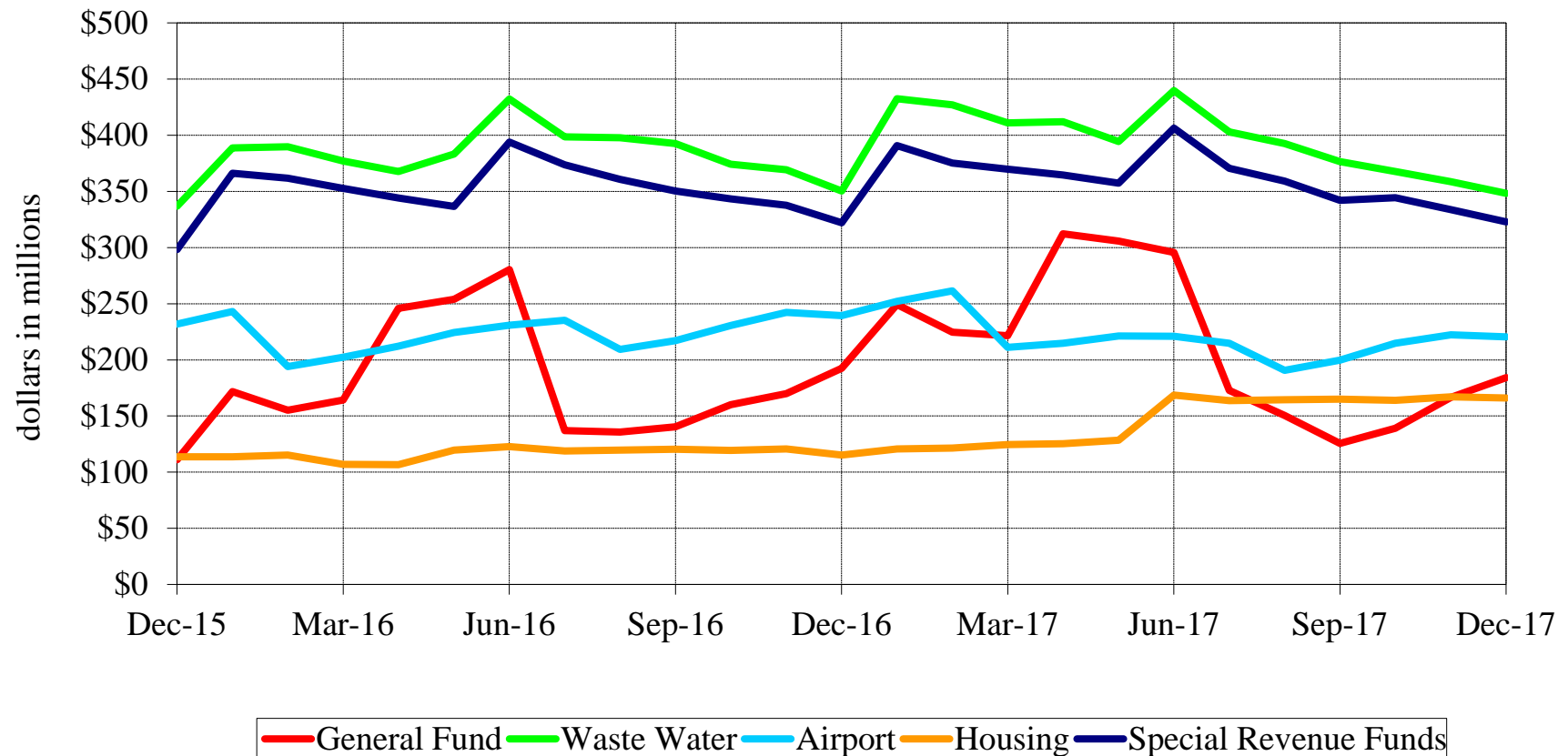
# General Fund Balances

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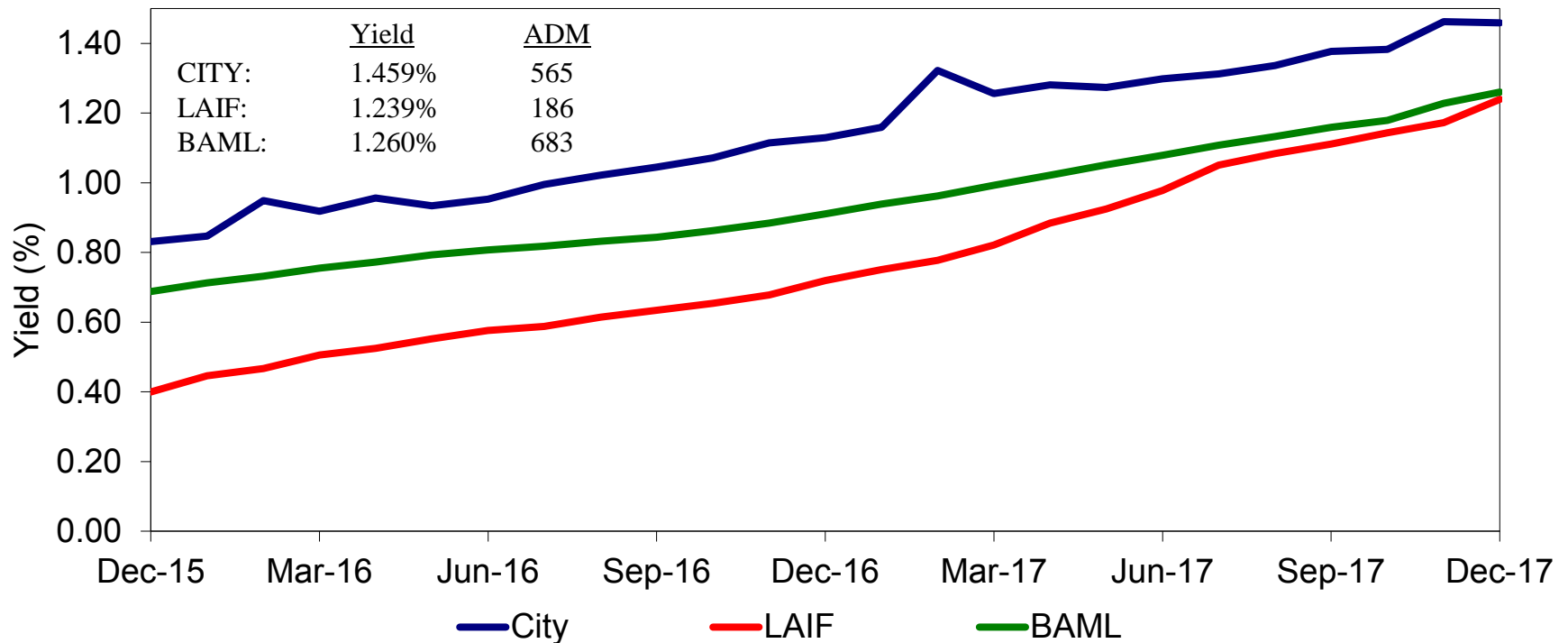
- General Fund balances increased by approximately \$58.5 million to \$184.1 million this quarter, as overall revenues exceeded expenditures
- Projected investment maturities and revenues are sufficient to cover anticipated expenditures for the next six months



# 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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# **Second 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 – Prior Year Comparison

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## Collection Programs

	<u>Q2 FY 2017-18</u>	<u>Q2 FY 2016-17</u>
Business Tax	\$ 831,455	\$ 677,824
Accounts Receivable	1,147,315	1,263,237 *
Revenue Compliance/Monitoring	1,048,855	454,211
	<hr/>	<hr/>
<b>Total Program Collections</b>	<b>\$ 3,027,625</b>	<b>\$ 2,395,272</b>

\* There was a \$6.1 million large dollar collection in Q2 FY 2016-17. With this collection included Accounts Receivable Q2 FY 2016-17 collections would total \$7,363,237. Total Q2 FY 2016-17 would total \$8,495,272.

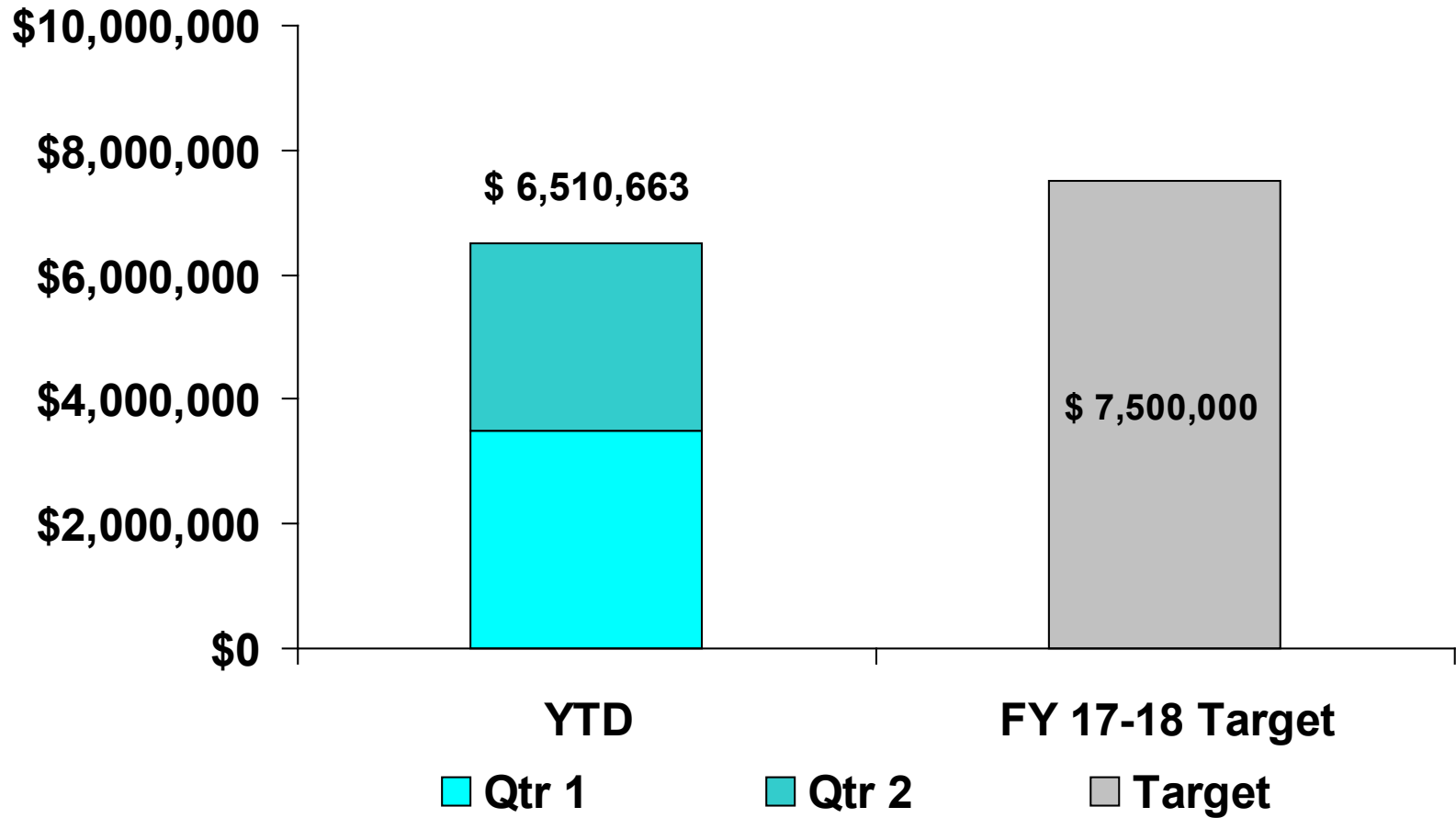
# Return on Investment (ROI) – Prior Year Comparison

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	<u>Q2 FY 2017-18</u>	<u>Q2 FY 2016-17</u>
<b>Total Return on Investment</b>	<b>6.00</b>	<b>5.21</b>
<b>Return on Investment by Program</b>		
Business Tax Delinquencies	5.40	3.85
Accounts Receivable Delinquencies	7.09	6.61 *
Revenue Compliance/Monitoring	5.55	4.92

\* There was a \$6.1 million large dollar collection in the 2<sup>nd</sup> quarter of FY 2016-17 that is excluded from this calculation. Had it been included, the total ROI for the 2<sup>nd</sup> quarter FY 2016-17 would be 18.48.

# FY17-18 YTD Collections: 86.8% of Target



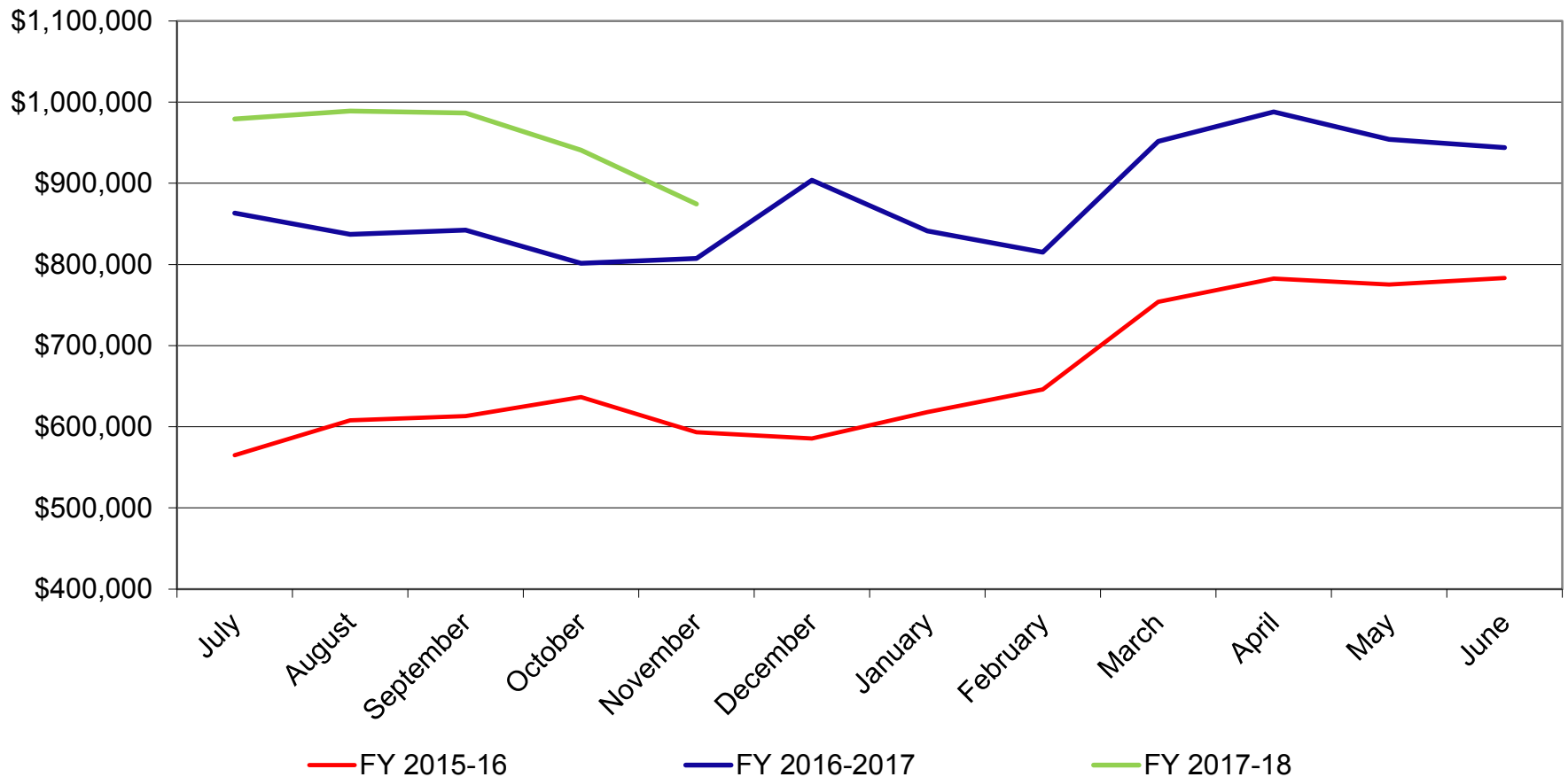


# Accounts Receivable – All Funds

	As of 12/31/17	As of 12/31/16
<u>Current Receivables</u>		
0-60 Days	\$ 3,400,633	\$ 2,431,277
61-90 Days	594,983	1,344,197
Total Current Receivables	\$ 3,995,616	\$ 3,775,474
<u>Delinquent Receivables</u>		
91-365 Days	\$ 6,008,459	\$ 8,110,902
Over 1 Year	19,335,236 *	11,758,262
Total Delinquent Receivables	\$ 25,343,695	\$ 19,869,164
<b>Total Accounts Receivable</b>	<b>\$ 29,339,311</b>	<b>\$ 23,644,638</b>

\* Delinquent Receivables include \$4.7M in reserved MBT assessments under litigation/collections

# Marijuana Business Tax (MBT) Revenues



# Billing System Online Functionality

Revenue Management is currently implementing two new billing systems

	Take Payments & Provide Receipt	Update Contact Information	Accept New Account Applications
<b>Revenue Results</b> Implemented October 2017	★	n/a	n/a
<b>Business Tax System</b> Implementation to be complete Summer 2018	★	★	★

- Revenue Results is the City's invoicing and revenue collection application, not a registration/billing application.
- 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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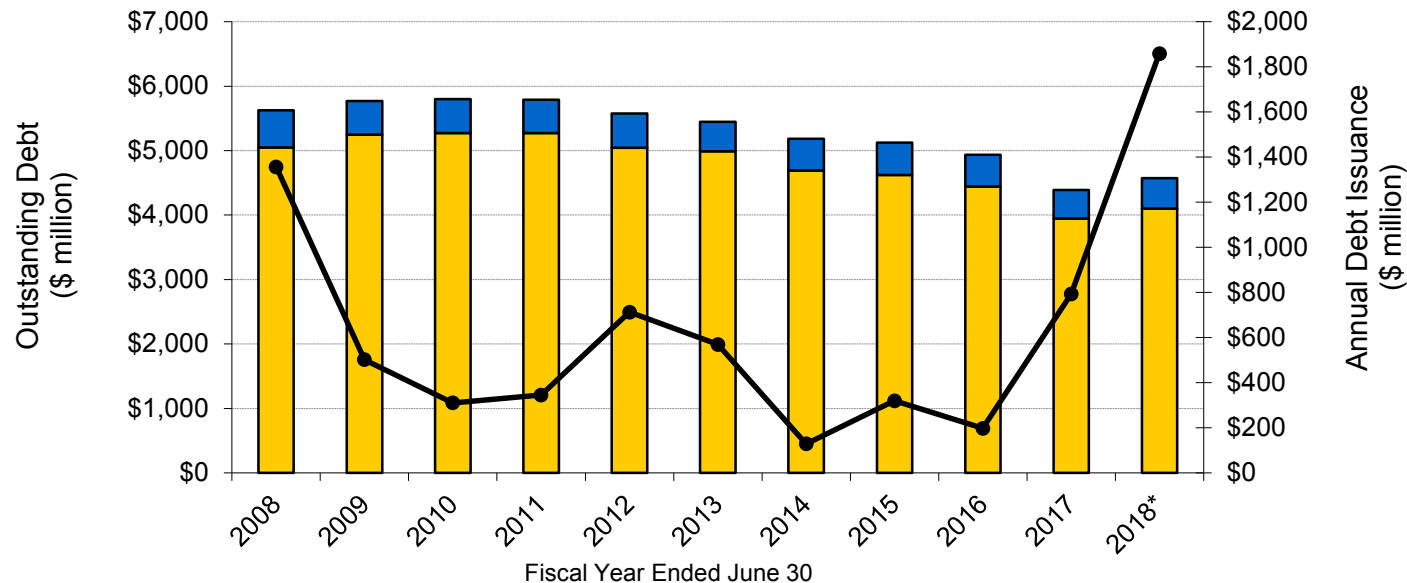
- Changes effective July 1, 2017
- Advertisements to the public were placed with:
  - The Silicon Valley Organization
  - Radio KRTY/KLIV
  - The San Jose Mercury News
  - The Metro Silicon Valley
  - Valley Transit Authority (VTA)
- The Finance Department has mailed out approximately 23,400 letters to businesses
  - Ongoing outreach extended from February to April 2018.
  - The grace period for newly required residential landlords to register has been extended to June 30, 2018.

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

# Outstanding Debt Issued by All Agencies

Outstanding Debt as of December 31, 2017: \$4.5 Billion  
FY 2017-18 Actual Debt Issuance: \$1,859.1 Billion

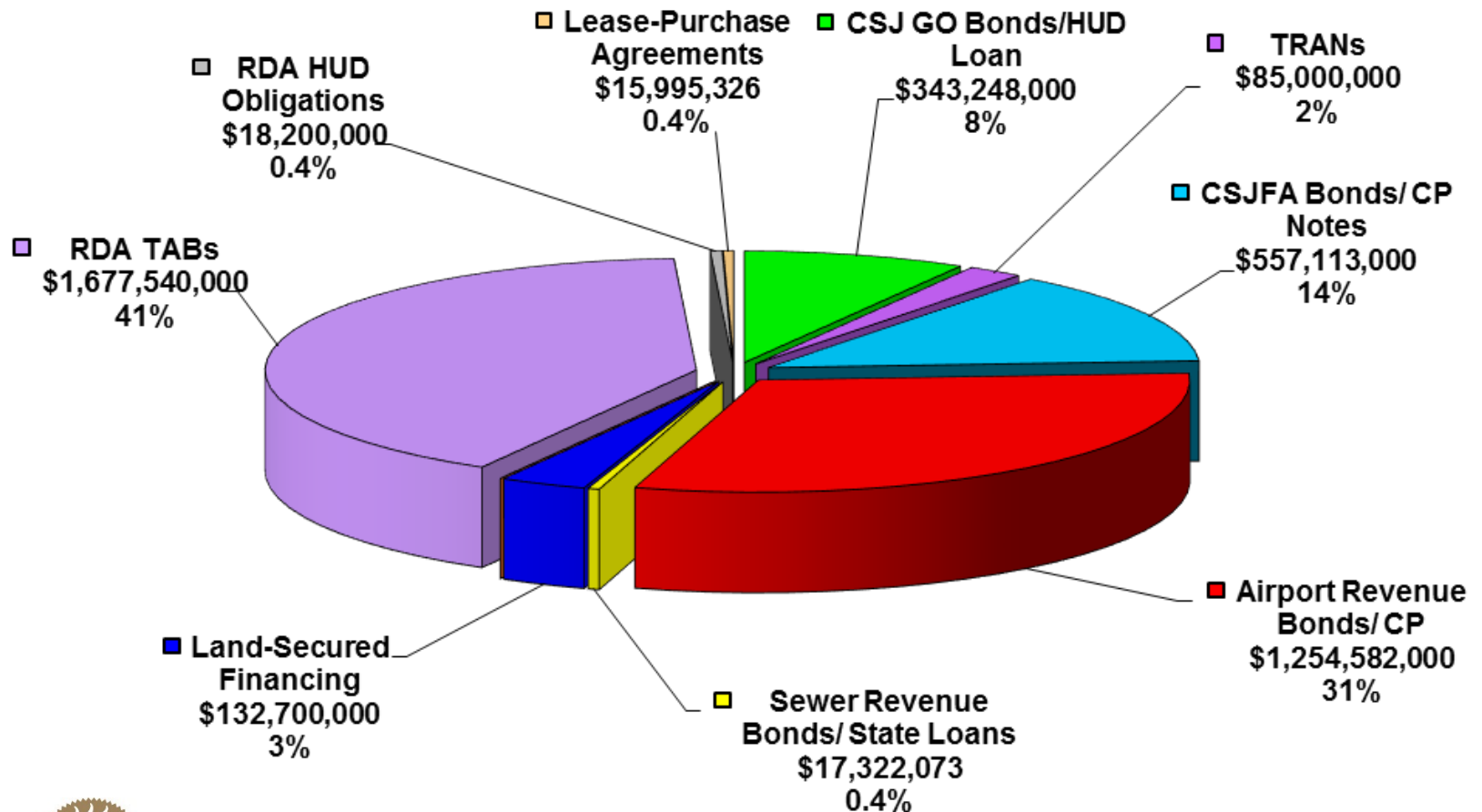


City and Related Entity Debt Outstanding    Conduit Debt Outstanding    Annual Debt Issuance

\* YTD Debt Issuance

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

Outstanding Debt as of December 31, 2017: \$4,101,700,399\*



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

# Debt Issuance and Management Q2 FY 2017-18

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- Debt Issuance
  - \$1.68 billion SARA RDA Refunding Bonds, Series 2017A, 2017A-T and 2017B, issued December 2017
  - CSJFA Lease Revenue Commercial Paper Notes
    - \$15 million Convention Center Exhibit Hall (November 2017)
  - Multi-Family Housing Revenue Obligations
    - Catalonia Apartments - \$16.2 million (October 2017)
  - \$300 million in Subordinate Wastewater Net System Revenue Notes to finance capital improvements at the San Jose-Santa Clara Regional Wastewater Facility
- Debt Management
  - Execution of Municipal Advisors contracts for General City, Airport, Multifamily, Wastewater Facilities, SARA and Land-Secured
- Reporting
  - 2017 Comprehensive Annual Debt Report prepared (CADR)
  - Annual Continuing Disclosure/Compliance Reporting to Municipal Securities Rulemaking Board (MSRB)



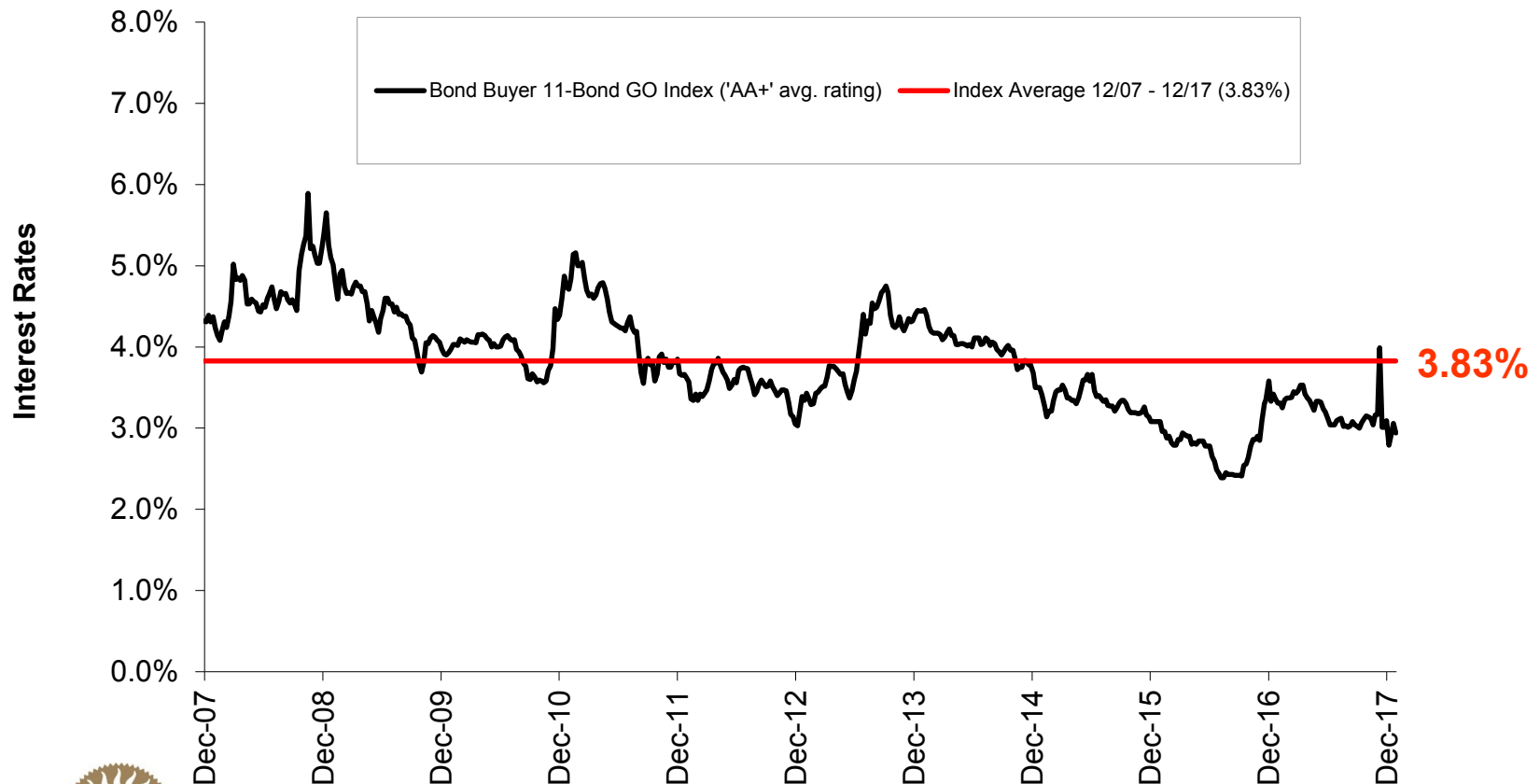
# Upcoming Debt Issuance and Management Through June 30, 2018

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- Debt Issuance
  - CSJFA Lease Revenue Commercial Paper Notes for various projects include: San José Clean Energy startup costs (\$10 million authorized); Energy Conservation equipment (\$2.2 million remaining authorization); San José Flood improvements \$21 million; GO new money issuance for previously voter approved capital improvement projects (Parks and Public Safety) \$9.2 million.
- Debt Management
  - Refunding Analysis
    - General Obligation and CSJFA Lease Revenue Bonds
  - Sale of Airport West property to prepay Lease Revenue Bonds Series, 2008F
  - CDIAAC Annual Debt Transparency Report (January 2018)
  - SARA Annual ROPS to California Department of Finance (February 2018)
- Credit Support
  - Renewal of the Letter of Credit securing the Airport CP program
  - Renewal of direct Placement for CSJFA Series 2008CD (Hayes Mansion)

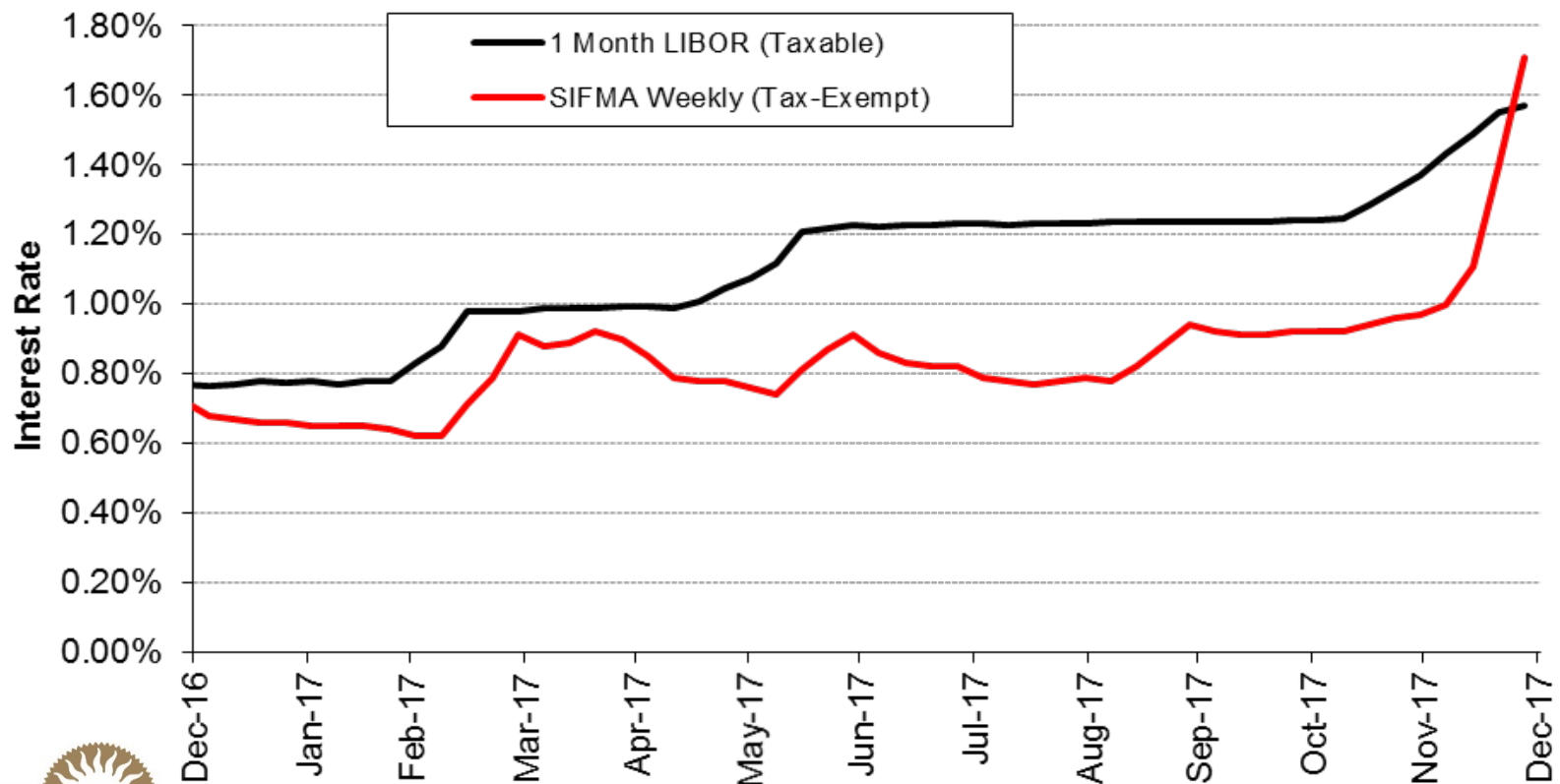
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged around 3.83% and are currently at 3.02% (as of 01/18/18)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.05% in Q2 and are currently at 1.23% (as of 01/17/2018)
- Taxable LIBOR monthly interest rates paid by the City averaged 1.34% in Q2 and are currently at 1.56% (as of 01/18/2018)



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

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- City continues to maintain high general obligation (GO) credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3<sup>2</sup>/AA/AA
  - City GO bonds continue to be rated higher than State of California (Aa3/AA-/AA-)
  - Santa Clara County GO bonds are rated lower by Moody's (Aa2), higher by S&P (AAA), and AA+ by Fitch
- SJC Airport bonds are rated A2/A-/A-
- SARA Senior Tax Allocation Bonds are rated AA by both S&P and Fitch and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch<sup>3</sup>

<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).

<sup>3</sup> Successor Agency to the San Jose Redevelopment Agency Bonds are not rated by Moody's

# Recommendation

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1. Accept the Second Quarter Financial Reports for Fiscal Year 2017-2018 for the following programs:
  - Debt Management
  - Investment Management
  - Revenue Collection
2. Refer the Second Quarter Financial Reports for Fiscal Year 2017-2018 to the March 6, 2018 City Council meeting for full adoption