

Third Quarter Financial Report for Fiscal Year 2017-2018

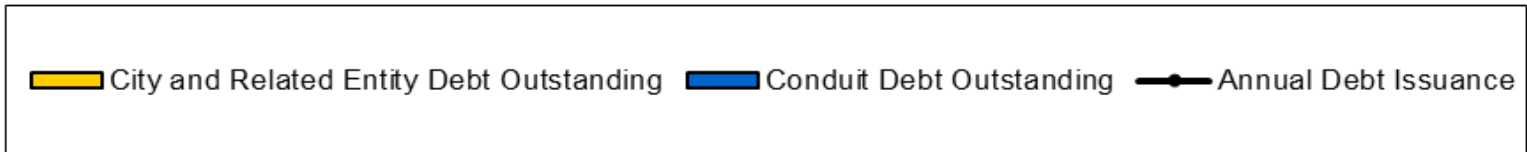
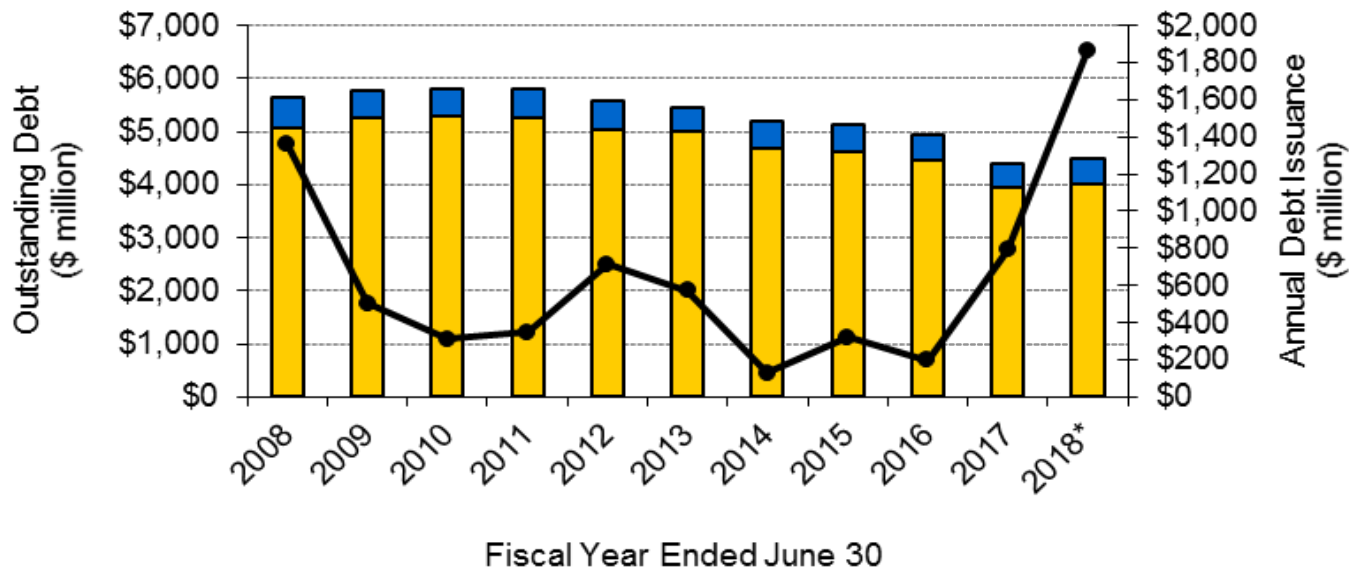
**Public Safety, Finance and
Strategic Support Committee**

**Prepared by the Finance Department
May 17, 2018**

Third Quarter Debt Management Report for Fiscal Year 2017-2018

Outstanding Debt Issued by All Agencies

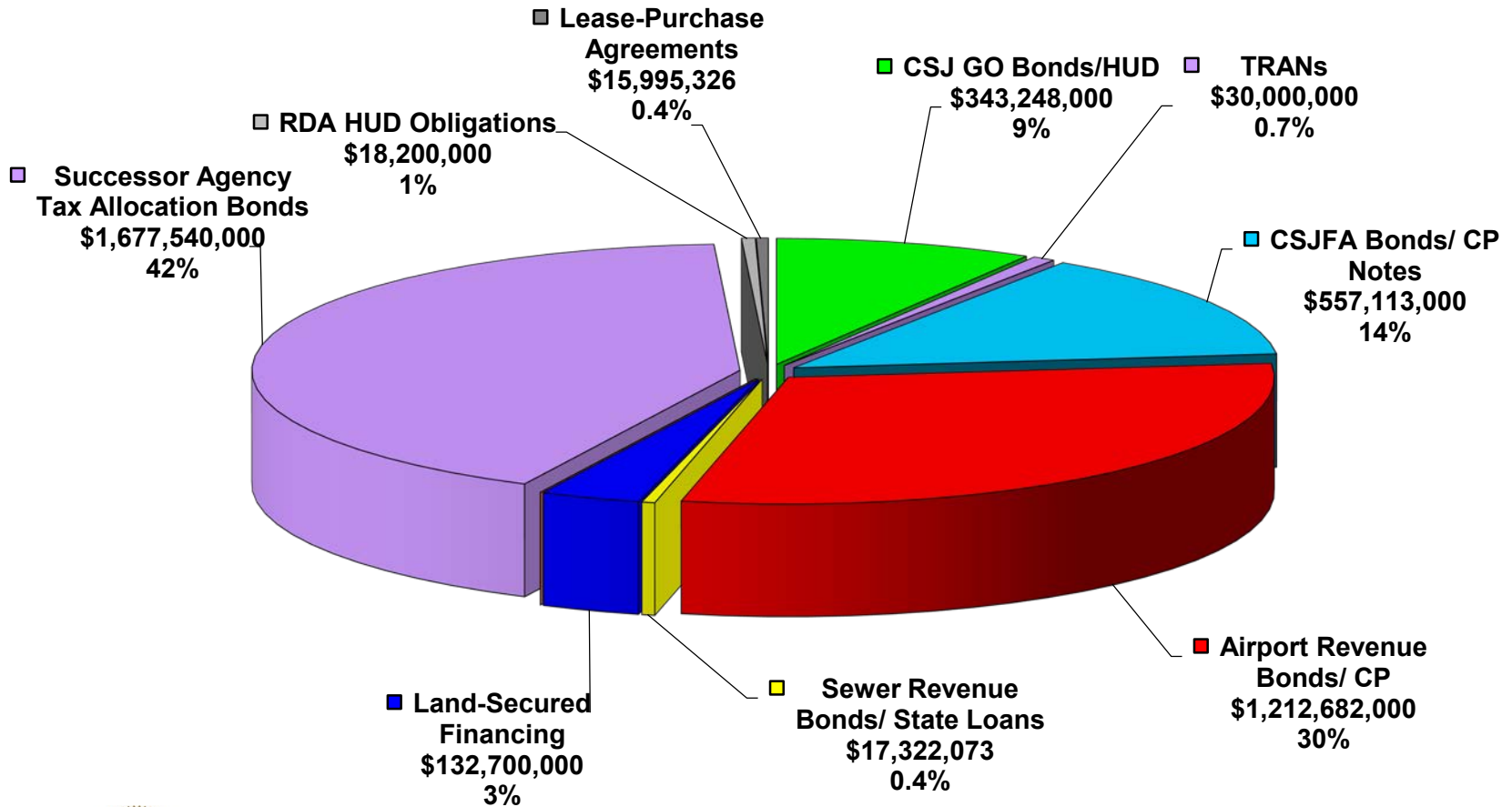
Outstanding Debt as of March 31, 2018: \$4.5 Billion
 FY 2017-18 Actual Debt Issuance: \$1,859.2 Billion



* YTD Debt Issuance

Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of March 31, 2018: \$4,004,800,399*



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

Selected Debt Issuance and Debt Management Activities during 3rd Quarter

- Debt Issuance
 - Council approved \$21 million in CP authorization for San José Flood Improvements
- Debt Management
 - Sale of Airport West / FMC Property – prepaid HUD 108 Loan (\$478,000) and redeemed CSJFA Series 2008F Bonds (\$37,050,000)
 - SARA 18-19 ROPS approved by Oversight Board (January 2018) and DOF (April 2018)
- Credit Support
 - Renewal of Letter of Credit Agreement (Barclay's) for the Airport's CP program that expired in February 2018 and renewed to February 2019
- Reporting
 - General Fund Debt Forecast FY2018-19 to FY2022-23
 - Completion of SB1029 Debt Transparency Report requirement due on January 31, 2018, as required by the State of California (CDIAC)

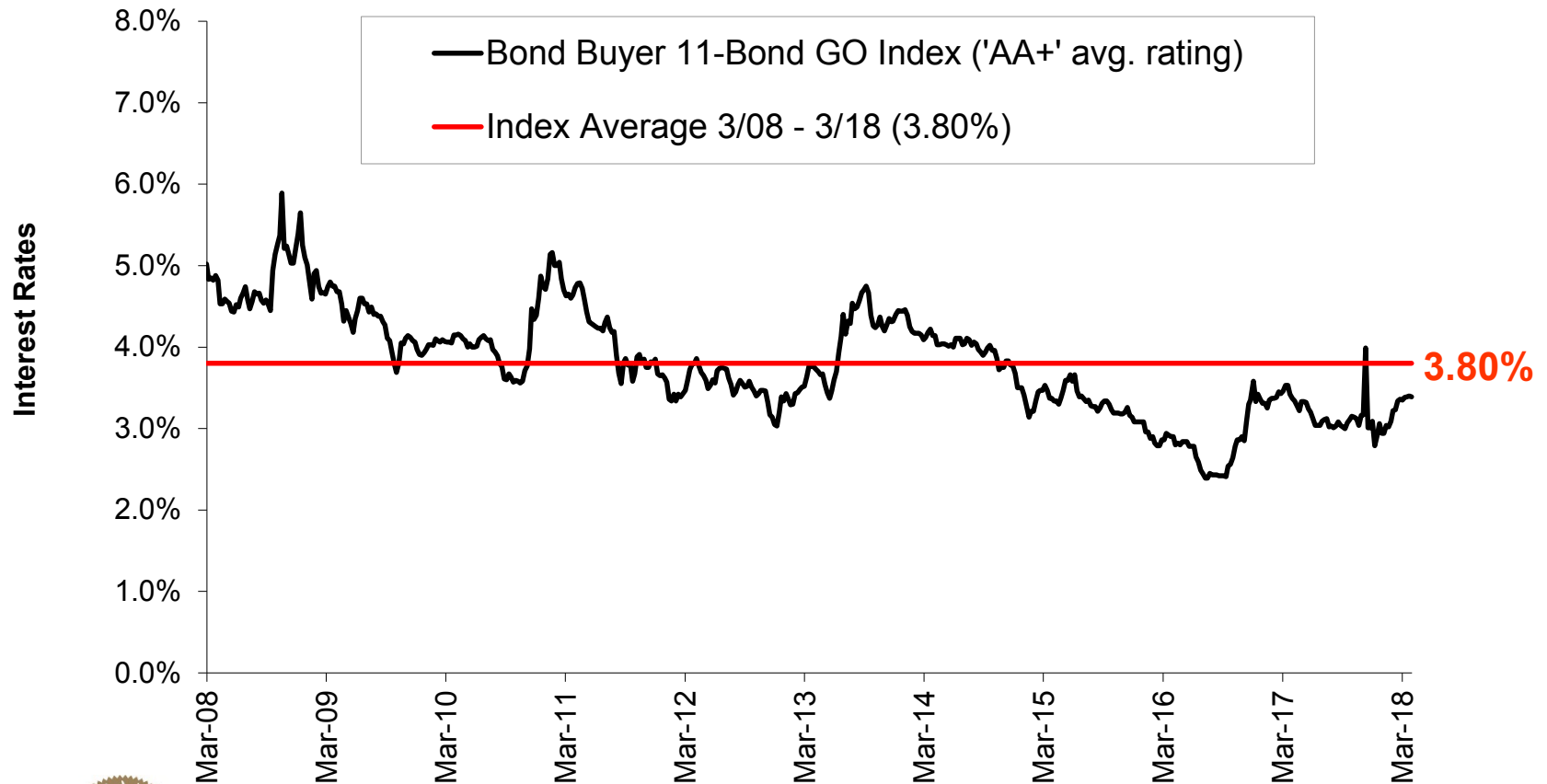
Upcoming Debt Issuance and Management

April 1 - June 30, 2018

- Debt Issuance
 - CSJFA lease revenue commercial paper notes for various projects include: San José Clean Energy startup costs - \$5 million (\$10 million authorized); Energy Conservation equipment (\$2.2 million remaining authorization); San José Flood improvements \$2.1 million (\$21 million authorized).
- Debt Management
 - RFP for Letter of Credit facilities for CSJFA CP program; the Airport's CP program; and the Clean Energy program
 - 2018 TRANs Issuance
- Credit Support
 - Renewal of direct placement for CSJFA Series 2008CD (Hayes Mansion)

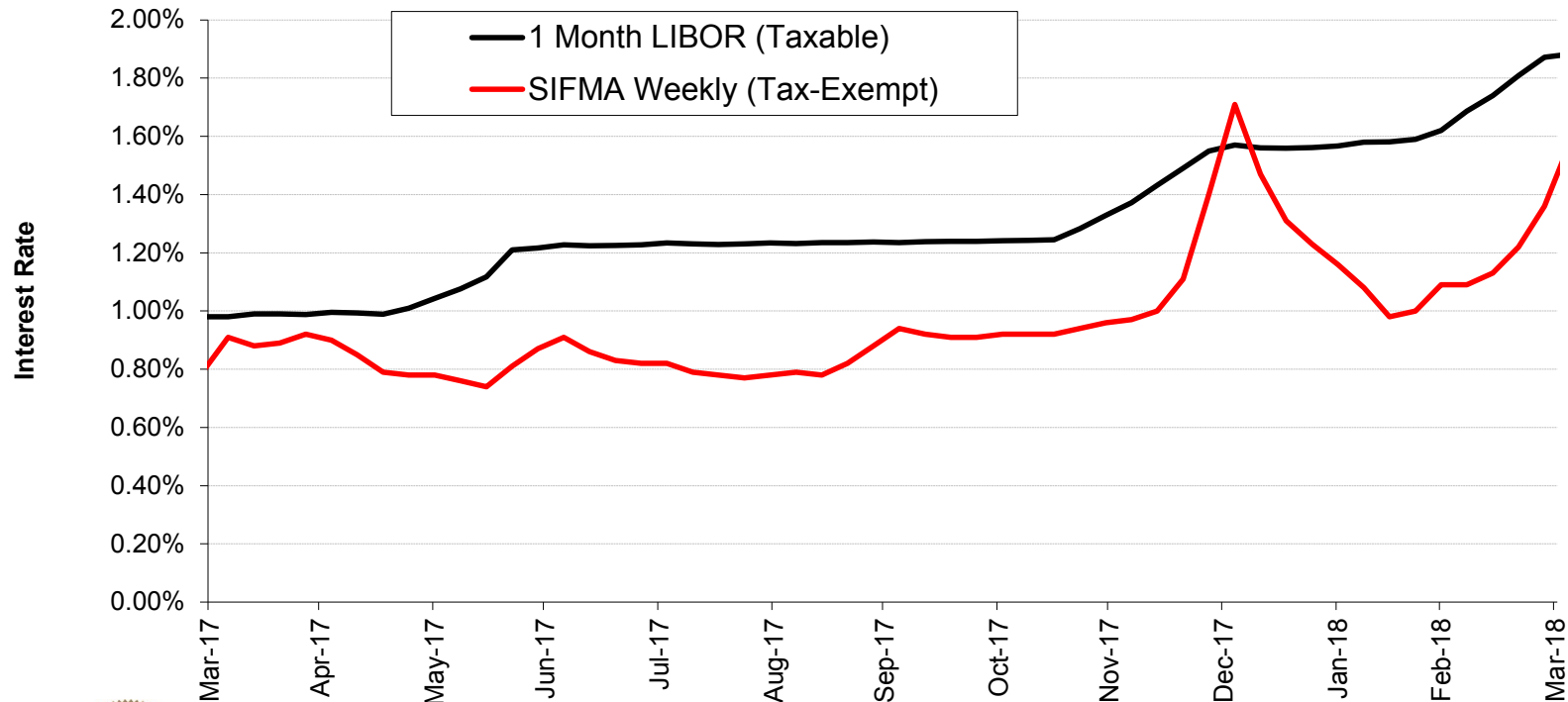
Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.80% and are currently at 3.35% (as of 04/12/18)



Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.21% in Q3 and are currently at 1.72% (as of 04/11/2018)
- Taxable LIBOR monthly interest rates paid by the City averaged 1.66% in Q3 and are currently at 1.90% (as of 04/11/2018)



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 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 Fitch³

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).

³ Successor Agency to the San Jose Redevelopment Agency Bonds are not rated by Moody's rating agency.

Third Quarter Investment Management Report for Fiscal Year 2017-2018

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

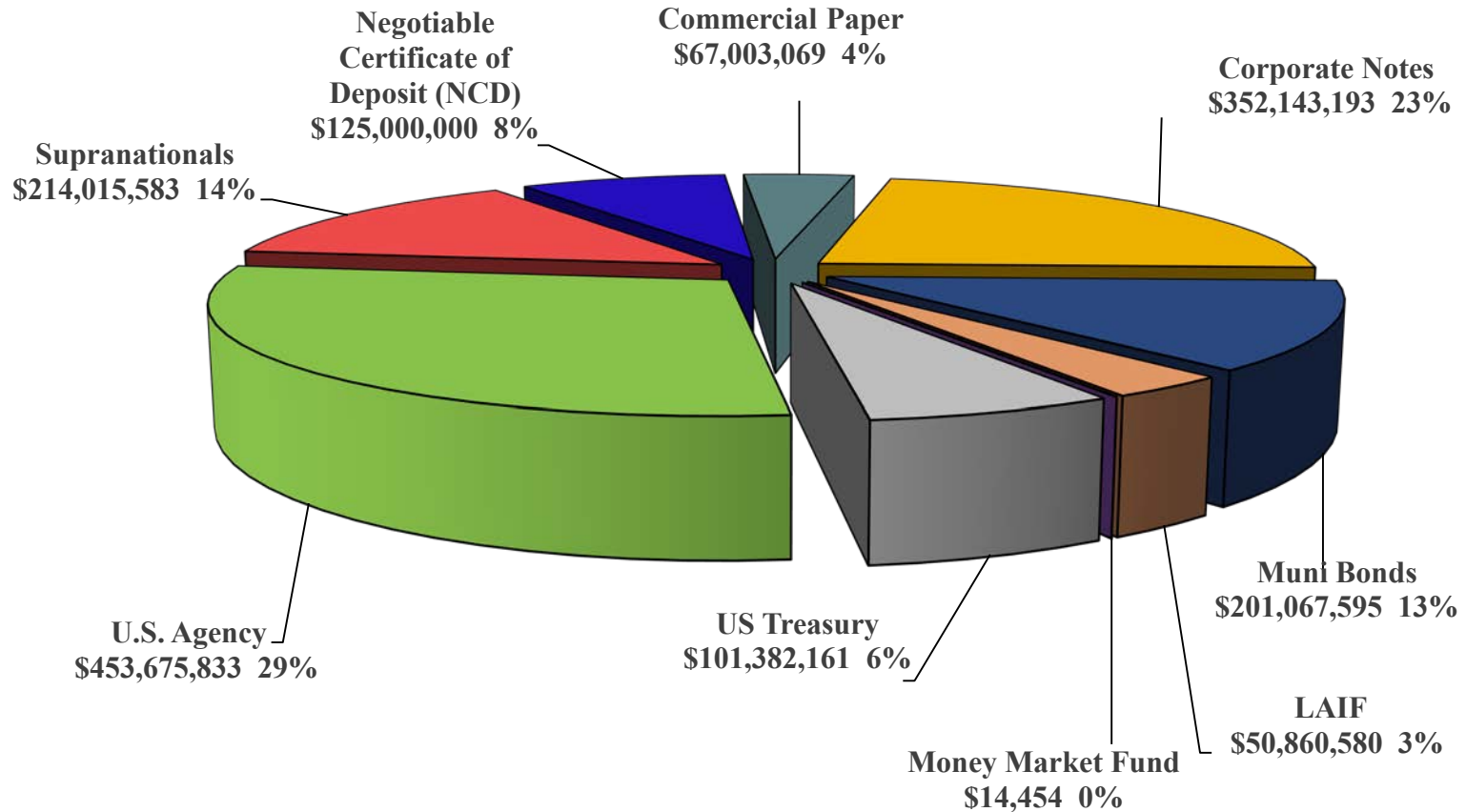
Investment Objectives & Reporting

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

Summary of Portfolio Performance

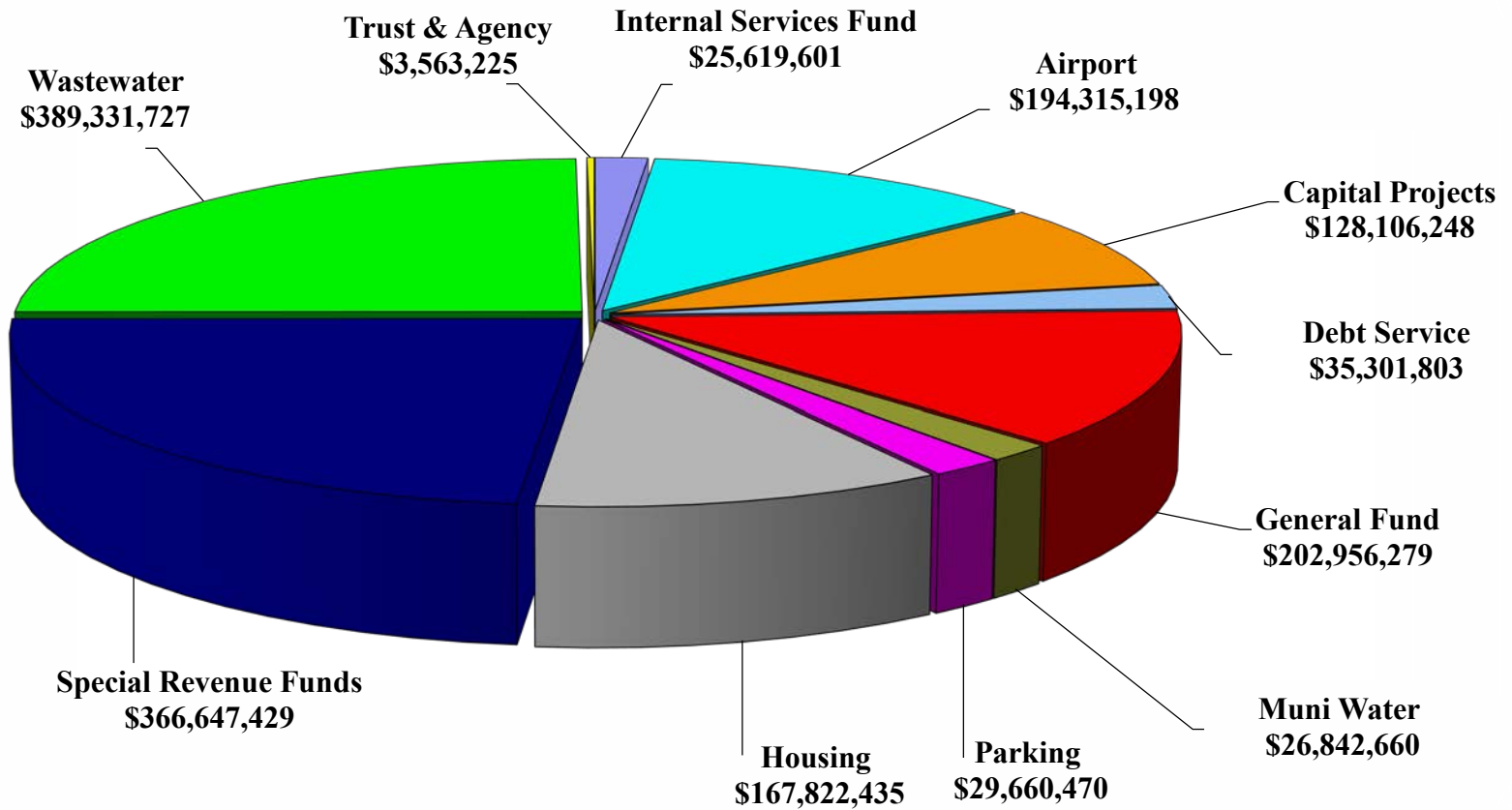
- Size of total portfolio: \$1,565,162,468
- Earned interest yield: 1.566%
- Weighted average days to maturity: 524 days
- Fiscal year-to-date net interest earnings: \$16,555,339
- No exceptions to the City's Investment Policy during this quarter
- The City's external auditor, Macias, Gini, & O'Connell LLP, evaluated the City's investment program for the six-month period ended December 30, 2017. The report noted two findings and no exceptions to the Investment Policy.

Portfolio Investment



Total Investment Portfolio = \$1,565,162,468

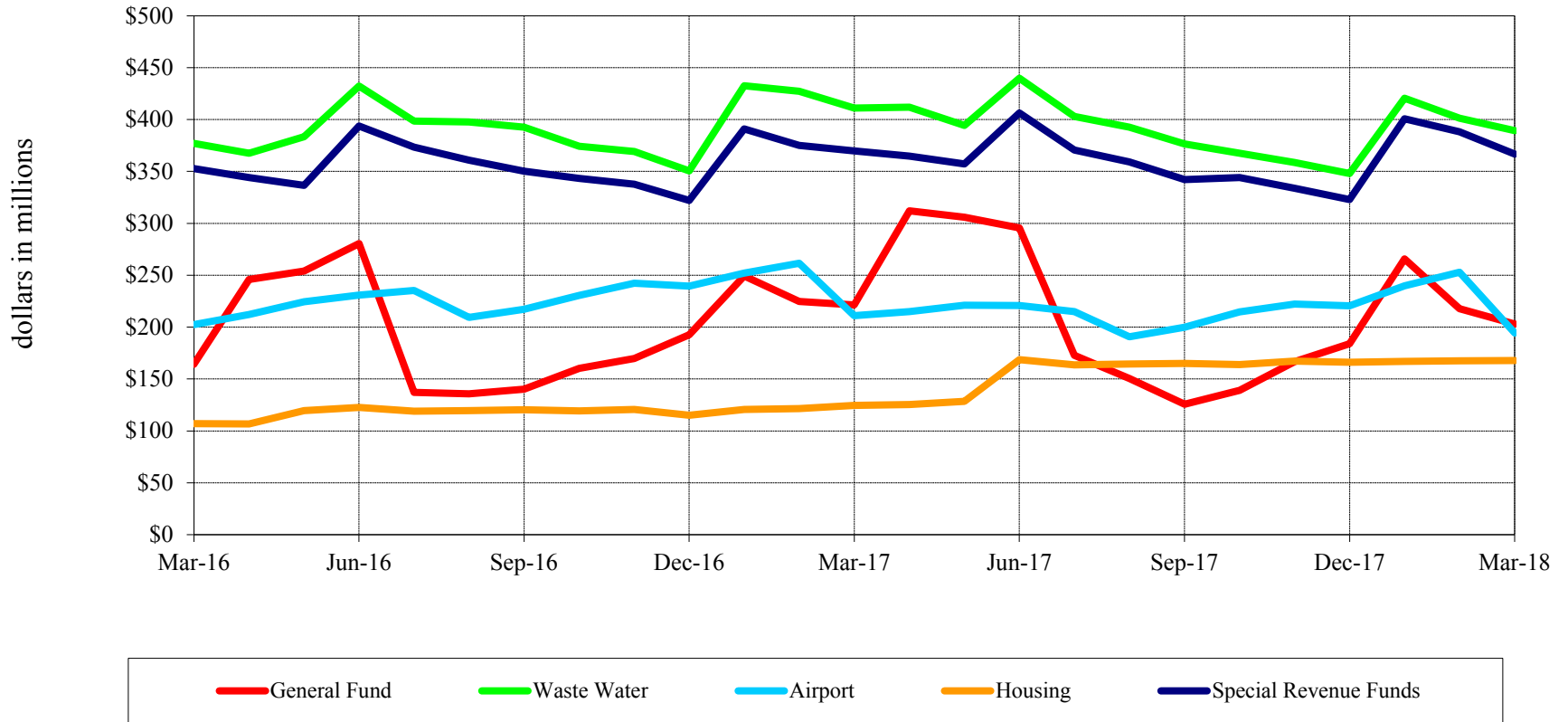
Investment by Fund



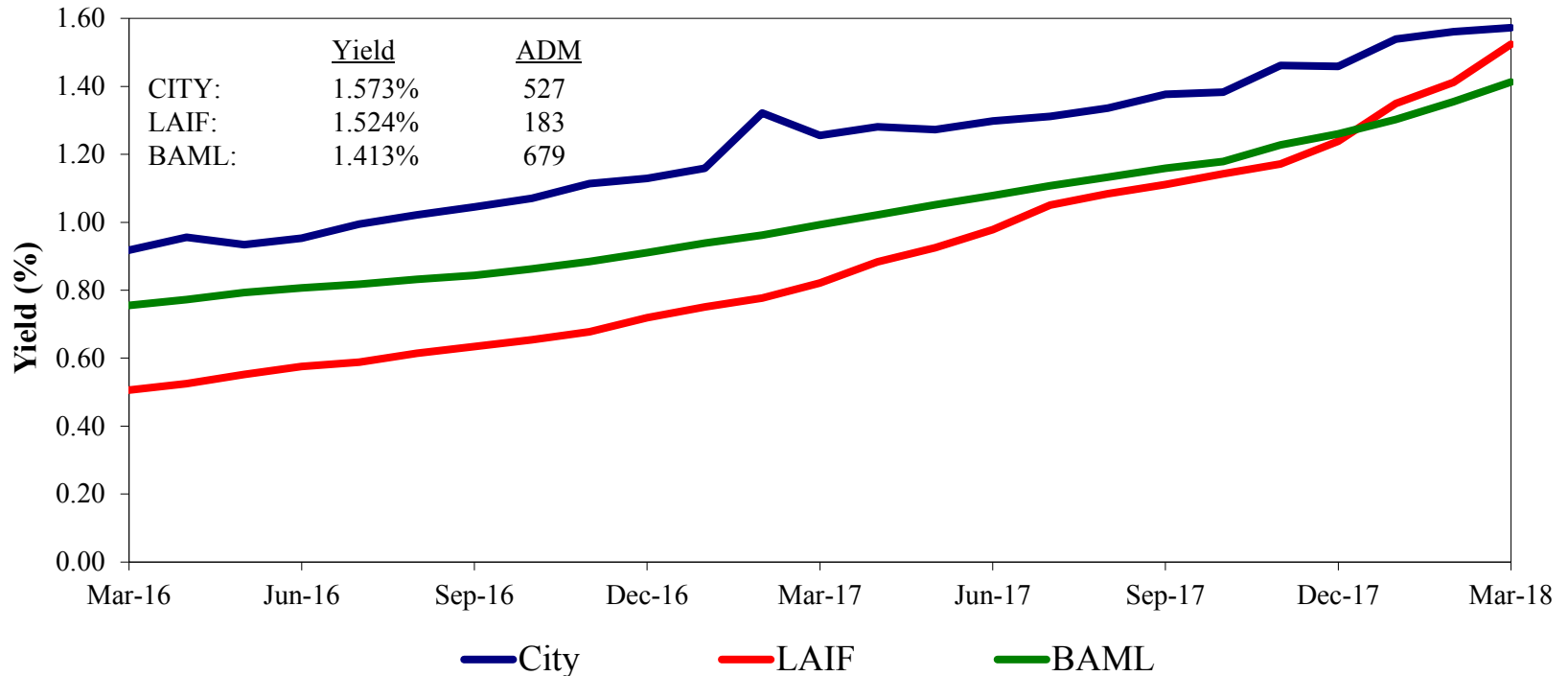
General Fund Balances

- General Fund balances increased by approximated \$18.9 million to \$203 million this quarter, as overall revenues exceeded expenditures
- 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

Third Quarter Revenue Collection Report for Fiscal Year 2017-2018

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 – Prior Year Comparison

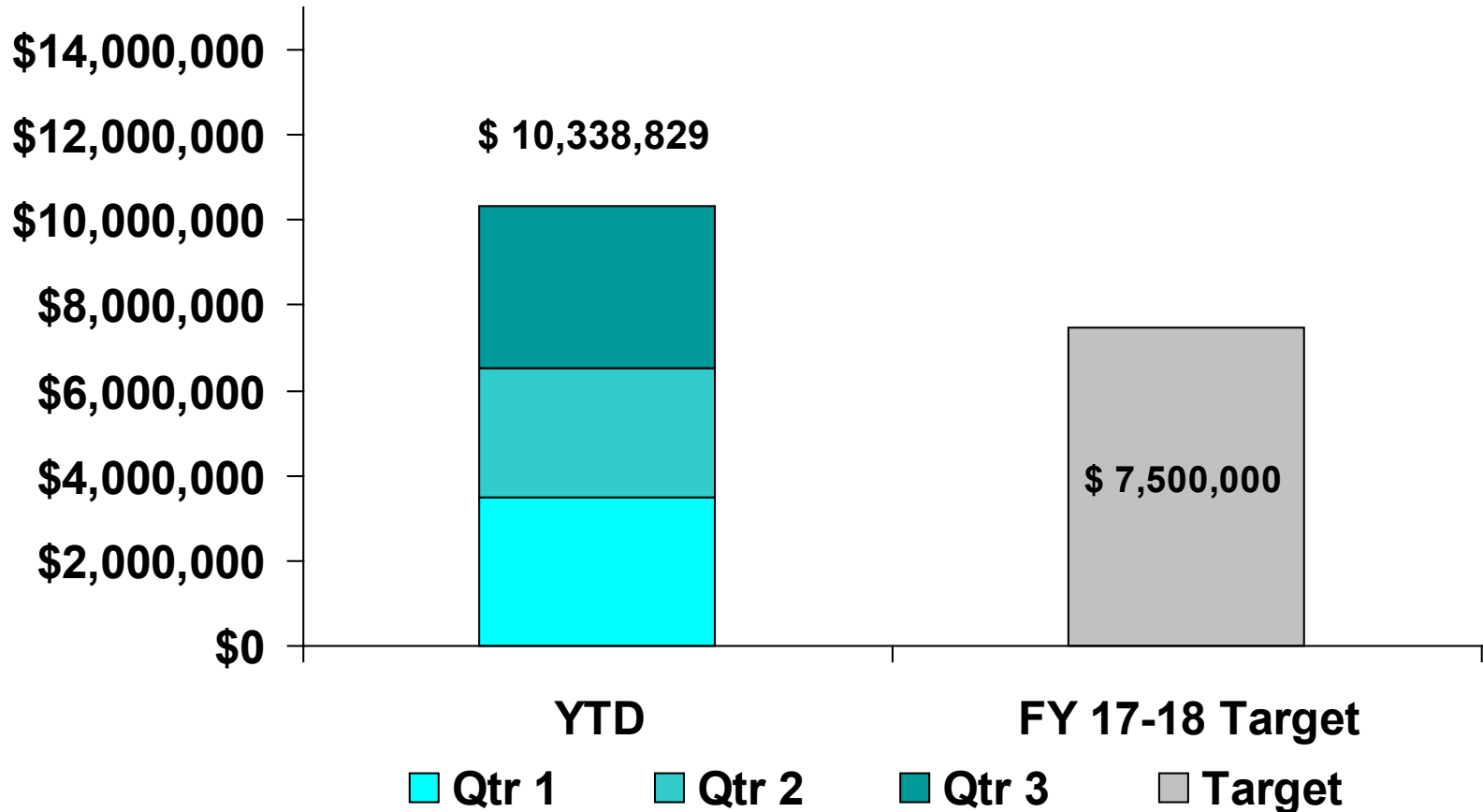
Collection Programs

	<u>Q3 FY 2017-18</u>	<u>Q3 FY 2016-17</u>
Business Tax	\$ 1,024,199	\$ 770,450
Accounts Receivable	1,129,390	1,178,344
Revenue Compliance & Monitoring	1,674,577	577,113
Total Program Collections	\$ 3,828,166	\$ 2,525,907

Return on Investment (ROI) – Prior Year Comparison

	<u>Q3 FY 2017-18</u>	<u>Q3 FY 2016-17</u>
Total Return on Investment	7.66	6.30
Return on Investment by Program		
Business Tax Delinquencies	5.73	5.53
Accounts Receivable Delinquencies	6.96	7.34
Revenue Compliance & Monitoring	10.56	5.72

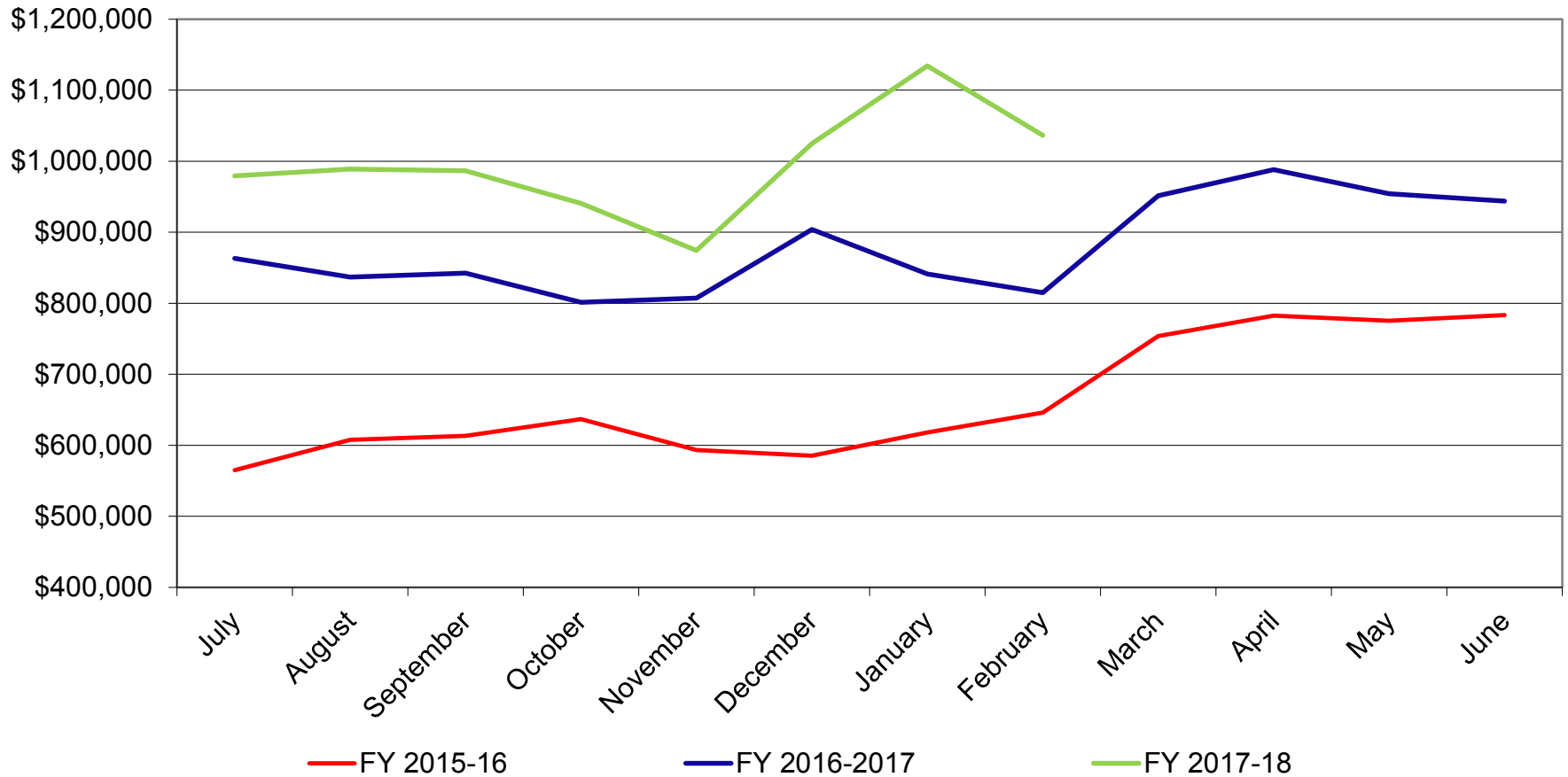
FY17-18 YTD Collections: 137.9% of Target



Accounts Receivable Balance

	<u>As of 3/31/18</u>	<u>As of 3/31/17</u>
<u>Current Receivables</u>		
0-60 Days	\$ 6,315,728	\$ 4,658,878
61-90 Days	635,624	602,811
Total Current Receivables	\$ 6,951,352	\$ 5,261,689
<u>Delinquent Receivables</u>		
91-365 Days	\$ 5,232,516	\$ 3,449,401
Over 1 Year	16,386,105	17,030,068
Total Delinquent Receivables	\$ 21,618,621	\$ 20,479,469
Total Accounts Receivable	\$ 28,569,973	\$ 25,741,158

Marijuana Business Tax (MBT) Revenues



Collection Efforts and Write-Off Process

Delinquency Notifications Sent to Debtor

- 30 Day Notice, 60 Day Notice, Final Notice

Collection Agency Referral Analysis

- Cost Benefit Analysis of Staff Time vs. Debt Value
- City's Ability to Collect Through Alternate Means
- Type of Services Billed or Debt Value

Analysis for Write-Off

- All Collection Efforts Exhausted
- Debtor: has no Assets, filed Bankruptcy, Expiration of Statute, deceased, incarcerated, or "skipped"

Billing System Online Functionality

Revenue Management is preparing to implement a new business tax billing systems

	Take Payments & Provide Receipt	Update Contact Information	Accept New Account Applications
Business Tax System Implementation to be completed in 2018	★	★	★

Business Tax Code Change Outreach Efforts

- Changes effective July 1, 2017; outreach and grace period extended to June 30, 2018 for residential landlords.
- Two rounds of direct mailings were distributed to residential landlords
 - Initial outreach campaign completed in November 2017 included 23,400 letters to potential residential landlords
 - Extended outreach between March and May includes an additional 18,000 mailings; covering potential landlords that have not responded
- Advertisements to the public were extended:
 - The Silicon Valley Organization
 - Radio KRTY/KLIV
 - The San Jose Mercury News
- Additional outreach to community groups through circulation of flyers to local business organizations and associations as well as presentations at community meetings was completed