

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

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

**Prepared by the Finance Department  
August 16, 2018**

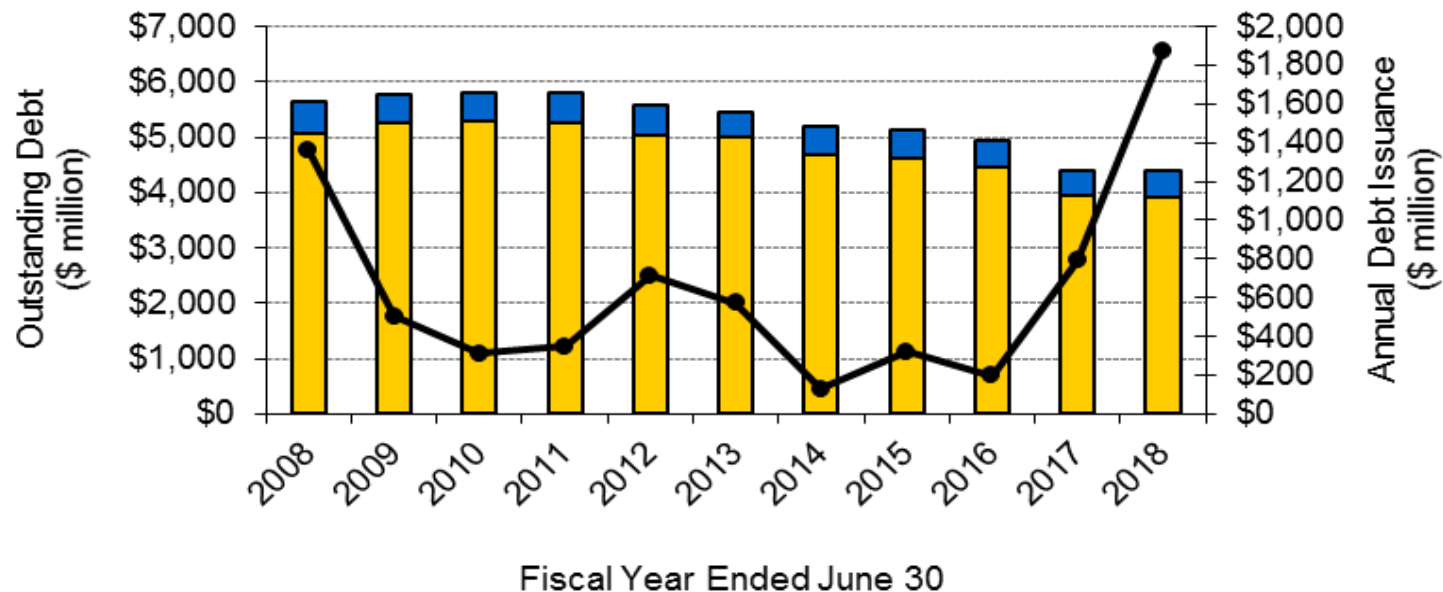
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# **Fourth Quarter Debt Management Report for Fiscal Year 2017-2018**

# Outstanding Debt Issued by All Agencies

Outstanding Debt as of June 30, 2018: \$4.4 Billion

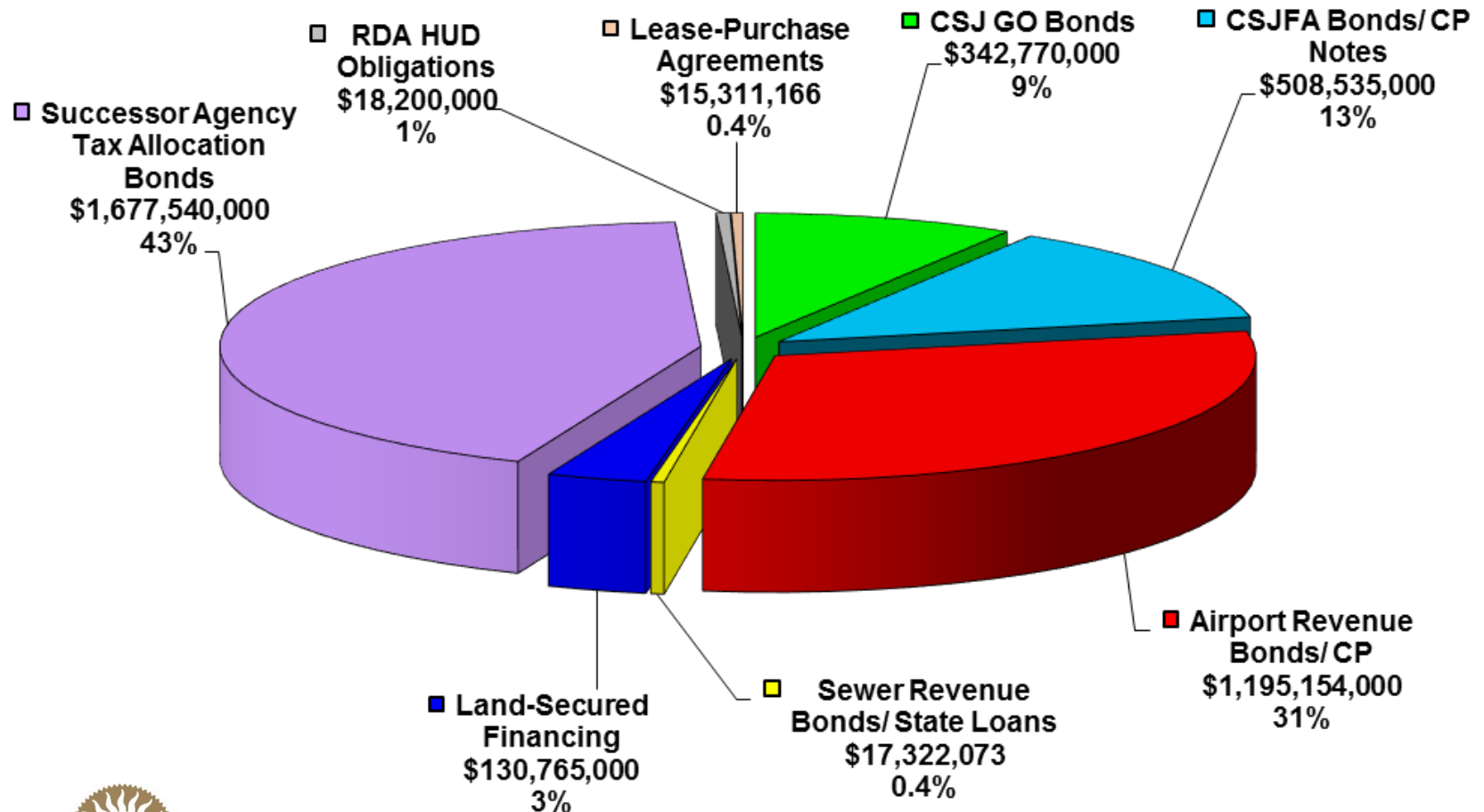
FY 2017-18 Actual Debt Issuance: \$1,871.3 Billion



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, 2018: \$3,905,597,239\***



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

# Selected Debt Issuance and Debt Management Activities during 4<sup>th</sup> Quarter

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- Debt Issuance
  - CSJFA lease revenue commercial paper notes
    - \$2.1 million San José Flood improvements
    - \$10.0 million San José Clean Energy
  - Pre-Issuance activities
    - 2018 Tax and Revenue Anticipation Note (\$150 million)
- Debt Management
  - Sale of Airport West / FMC Property – proceeds paid off HUD 108 Loan (\$478,000) and CSJFA Series 2008F Bonds (\$37,050,000)
- Credit Support
  - Renewal of direct placement for CSJFA Series 2008CD (Hayes Mansion)
  - Selection of Bank Credit Facility providers - Clean Energy (Barclays - \$50 million) and Airport (Bank of America Merrill Lynch - \$75 million)
- Reporting – Bond Ratings
  - GO – May 21, 2018, Moody's affirmed the City's GO rating of Aa1 and Aa2/Aa3 Lease Revenue Bonds, Stable Outlook
  - SJC Airport – June 14, 2018, Standard & Poor's raised its long-term rating to "A" from "A-", Stable Outlook, on the City of San José outstanding Airport Revenue Bonds.

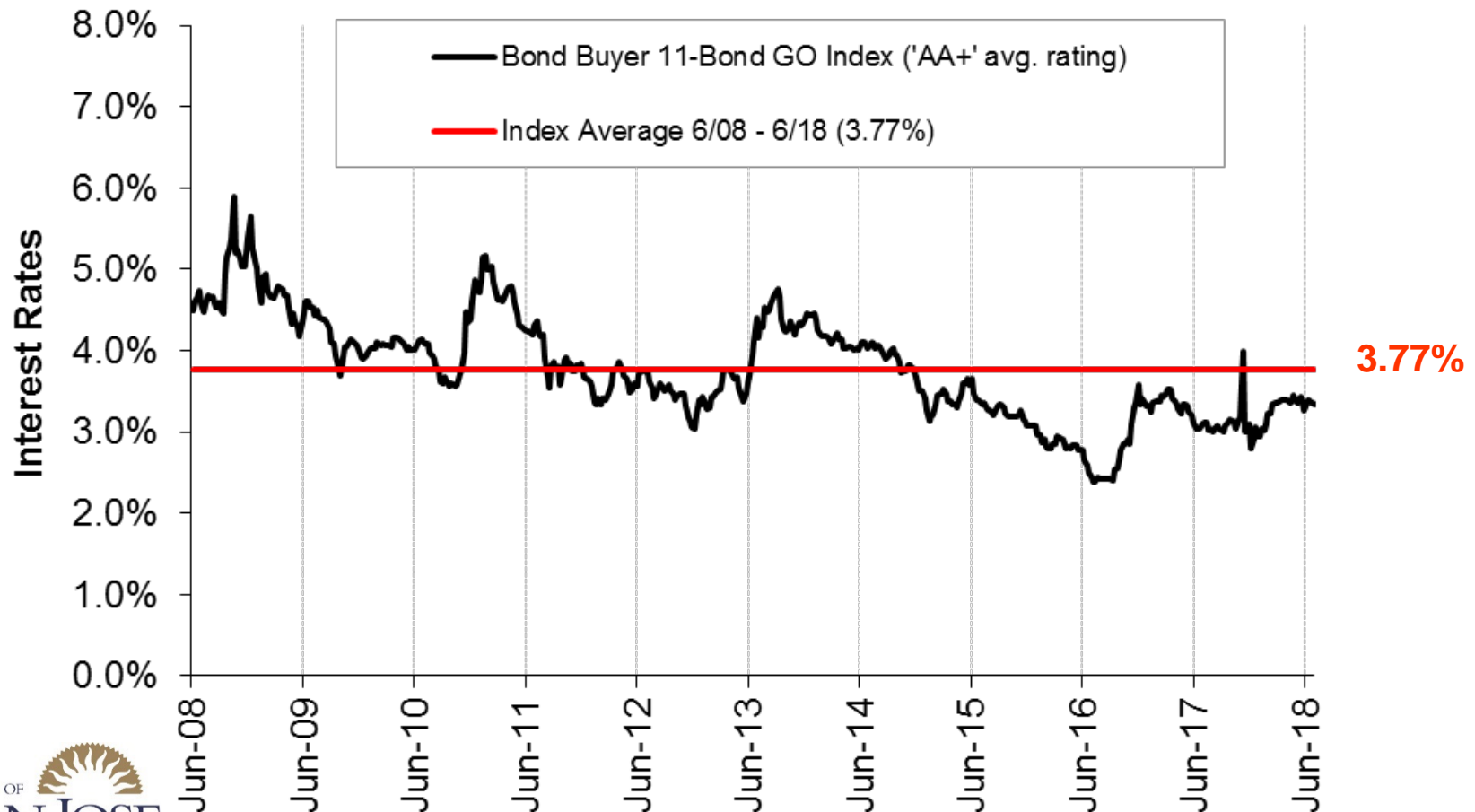
# Upcoming Debt Issuance and Management Through December 31, 2018

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- Debt Issuance
  - \$150 million Tax and Revenue Anticipation Note (issue date July 2, 2018)
  - Pre-issuance
    - General Obligation refinancings
  - Multi-Family Housing Revenue Notes
    - El Rancho Verde Apartments - \$318 million, issue anticipated August 2018
- Debt Management
  - Annual GO Bond Tax Levy
  - 2018 Comprehensive Annual Debt Report (CADR)
  - Annual Continuing Disclosure/Compliance Reporting to MSRB
- Credit Support
  - Extension of Letter of Credit for CSJFA CP program (Expires November 2018)

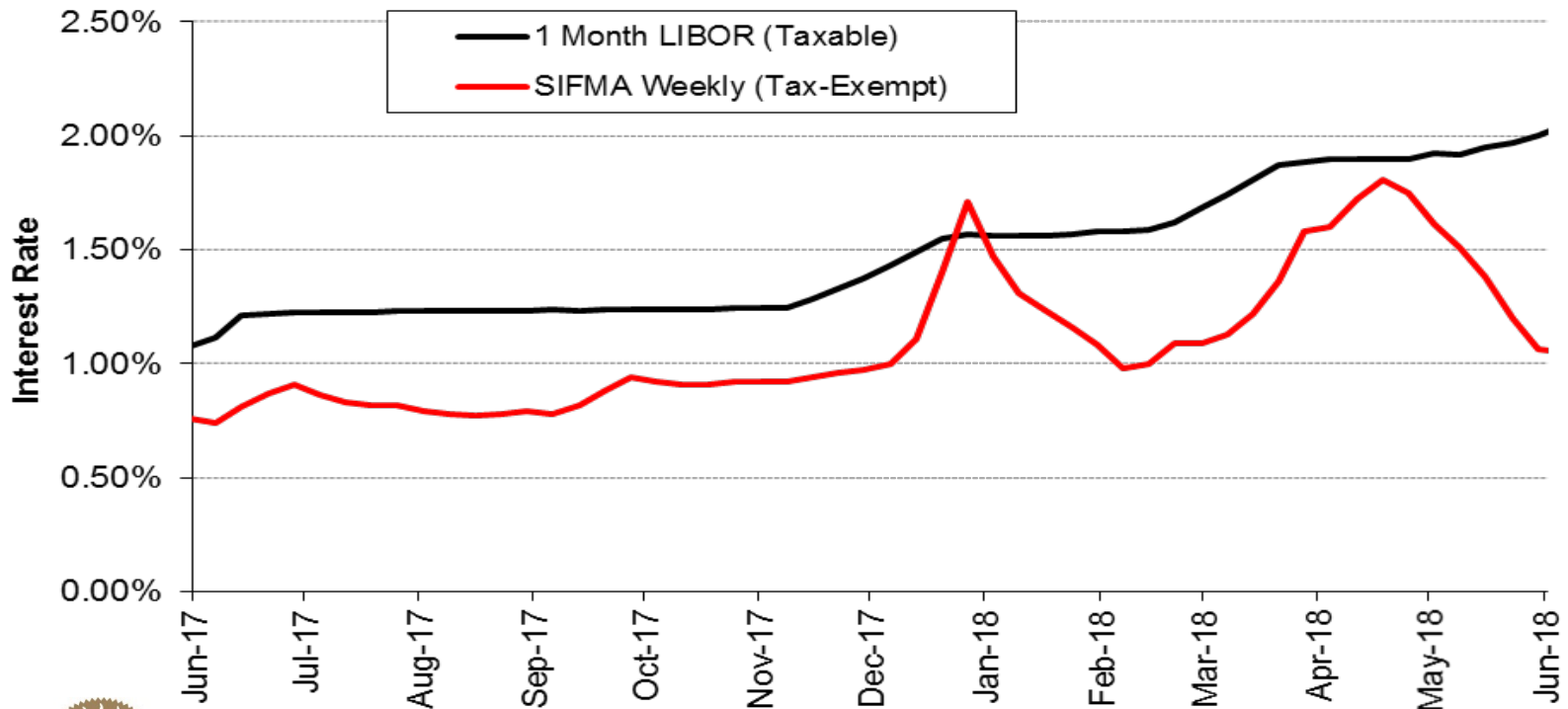
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.77% and are currently at 3.31% (as of 07/19/18)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.46% in Q4 and are currently at 0.94% (as of 07/19/2018)
- Taxable LIBOR monthly interest rates paid by the City averaged 1.97% in Q4 and are currently at 2.08% (as of 07/19/2018)





# 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 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.

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# **Fourth 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, placed on PSFSS Committee agenda and separately agendized for City Council's acceptance

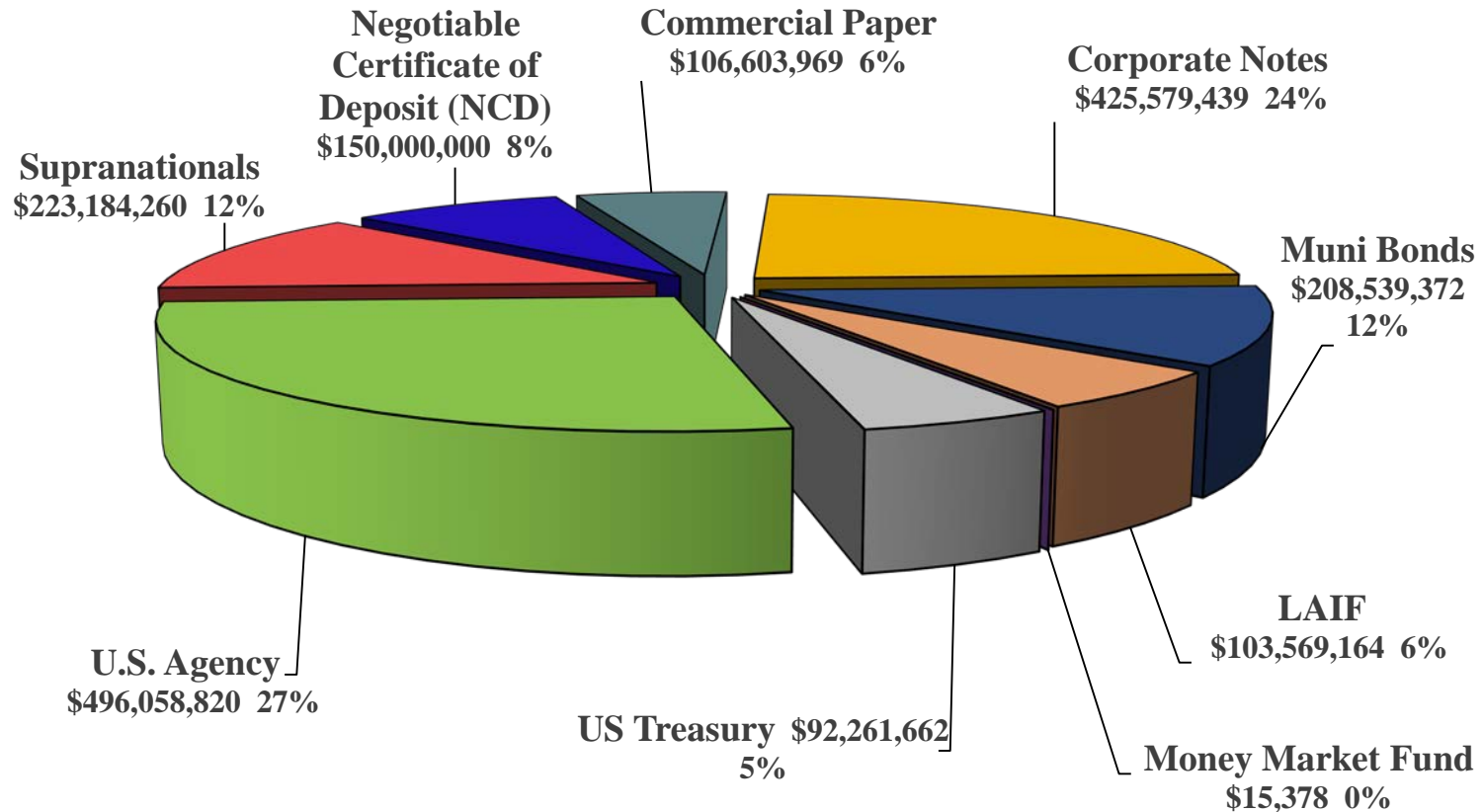
# Summary of Portfolio Performance

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- Size of total portfolio: \$1,805,812,065
- Earned interest yield: 1.659%
- Weighted average days to maturity: 520 days
- Fiscal year-to-date net interest earnings: \$23,392,668
- No exceptions to the City's Investment Policy during this quarter

# Portfolio Investment

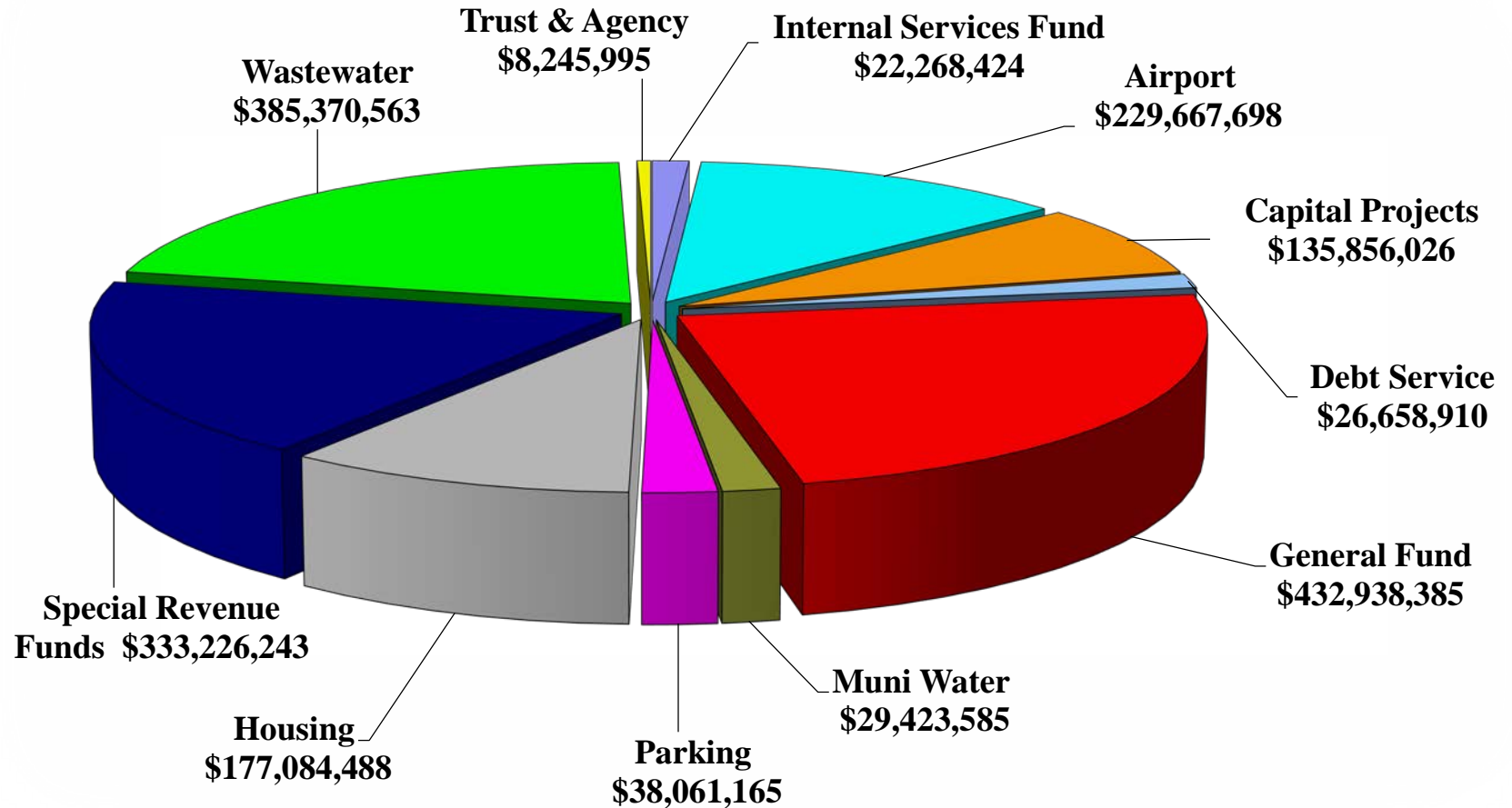
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Total Investment Portfolio = \$1,805,812,065

# Investment by Fund

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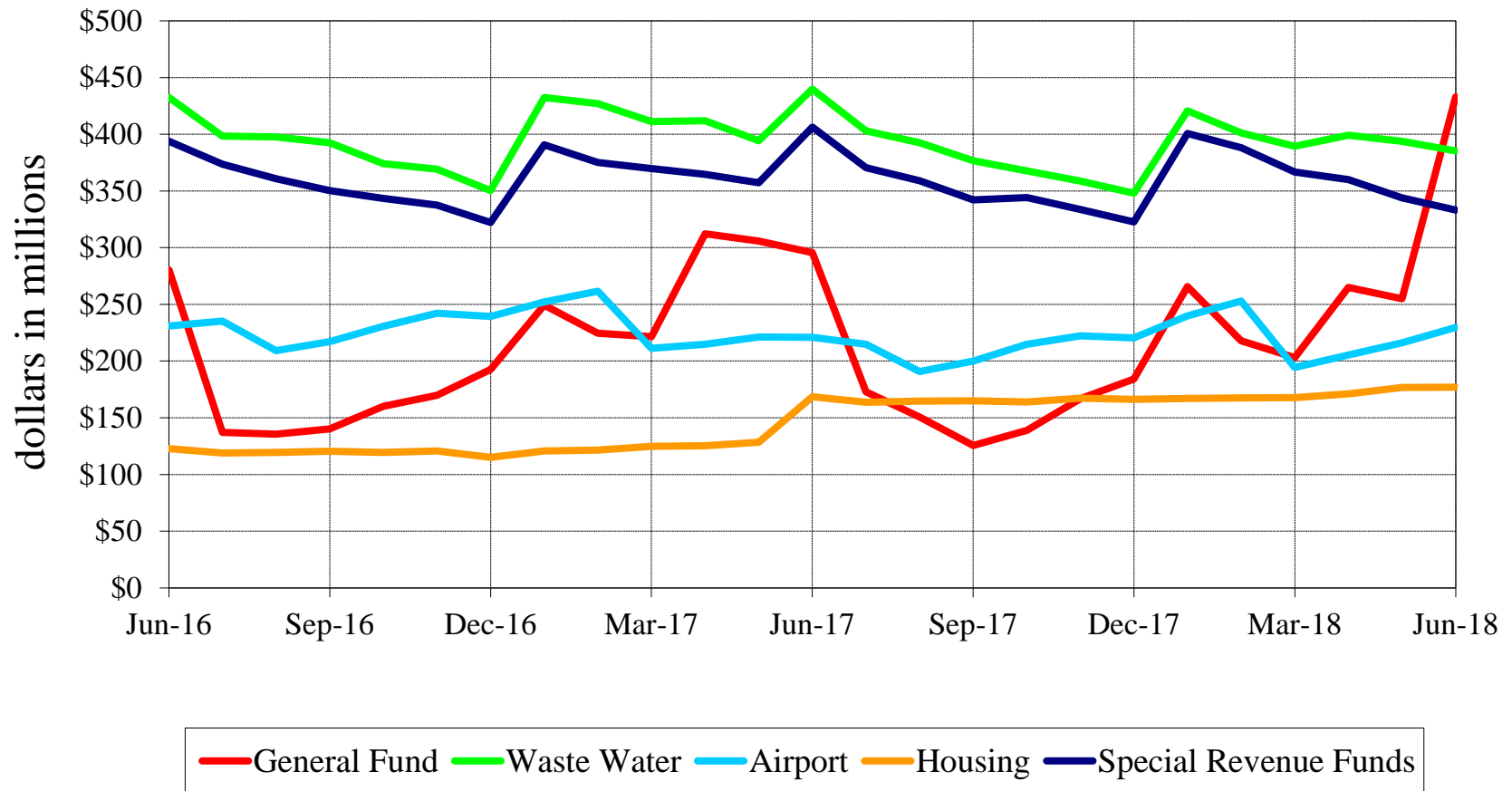
# General Fund Balances

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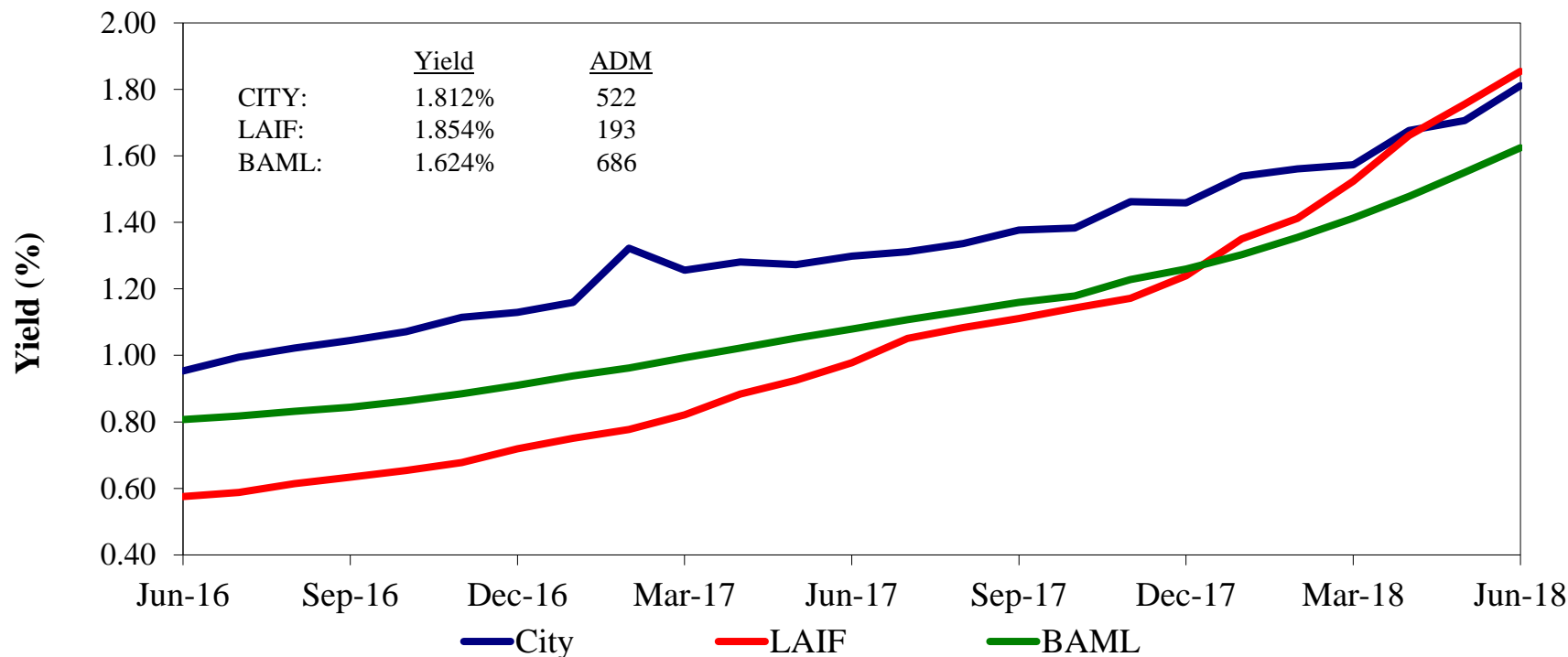
- General Fund balances increased by approximated \$229.98 million to \$433 million this quarter, as overall revenues exceeded expenditures
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months



# Comparison of Cash Balances by Select Funds



# Benchmark Comparisons



## Notes:

1. City refers to City's Fund 3 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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# **Fourth 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

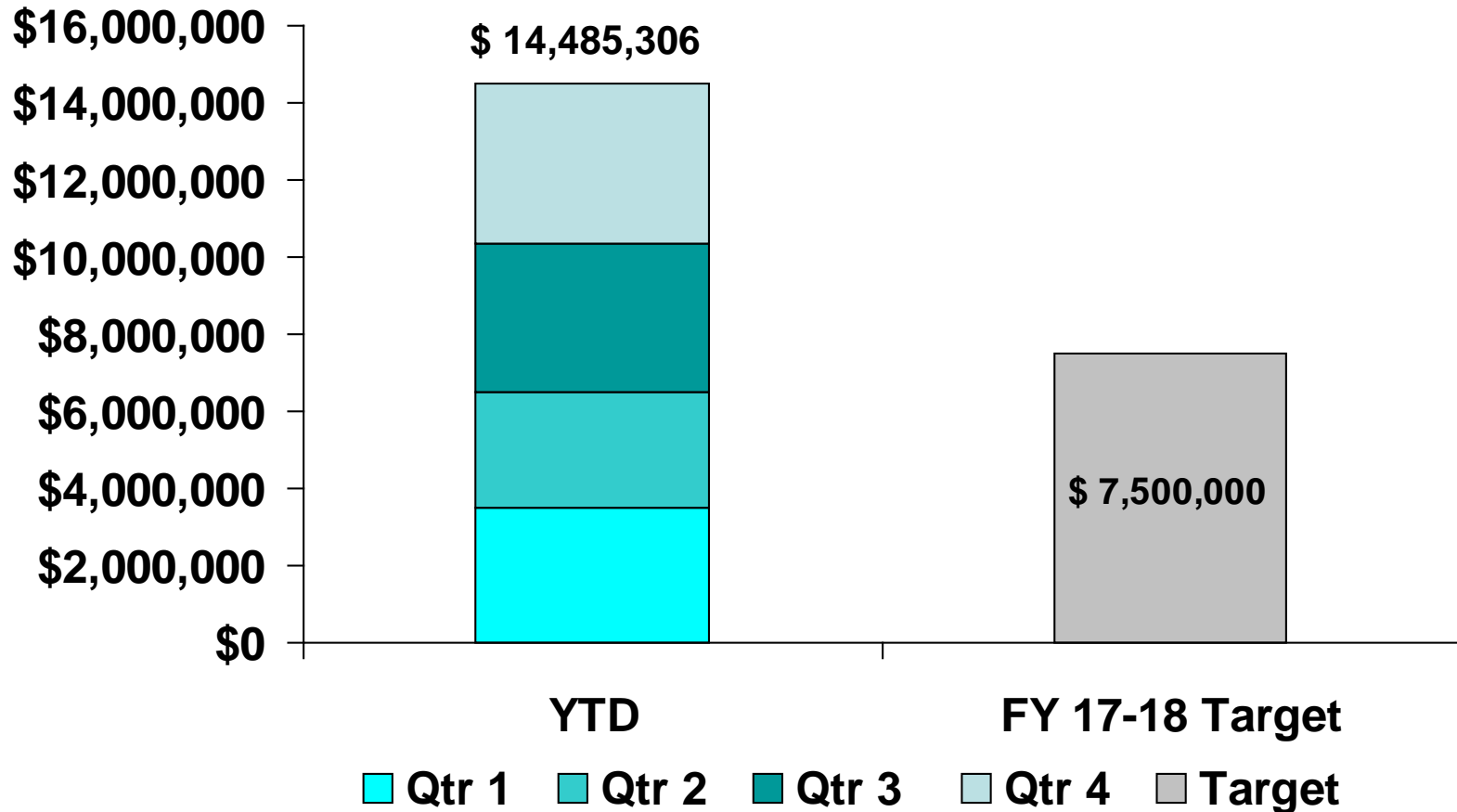
	<u>Q4 FY 2017-18</u>	<u>Q4 FY 2016-17</u>
Business Tax	\$ 919,133	\$ 705,843
Accounts Receivable	2,127,095	1,354,599
Revenue Compliance & Monitoring	1,100,248	740,636
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<b>Total Program Collections</b>	<b>\$ 4,146,476</b>	<b>\$ 2,801,078</b>

# Return on Investment (ROI) – Prior Year Comparison

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	<u>Q4 FY 2017-18</u>	<u>Q4 FY 2016-17</u>
<b>Total Return on Investment</b>	<b>7.08</b>	<b>5.91</b>
<b>Return on Investment by Program</b>		
Business Tax Delinquencies	4.70	3.53
Accounts Receivable Delinquencies	10.68	10.22
Revenue Compliance & Monitoring	5.75	5.24

# FY17-18 YTD Collections: 193% of Target



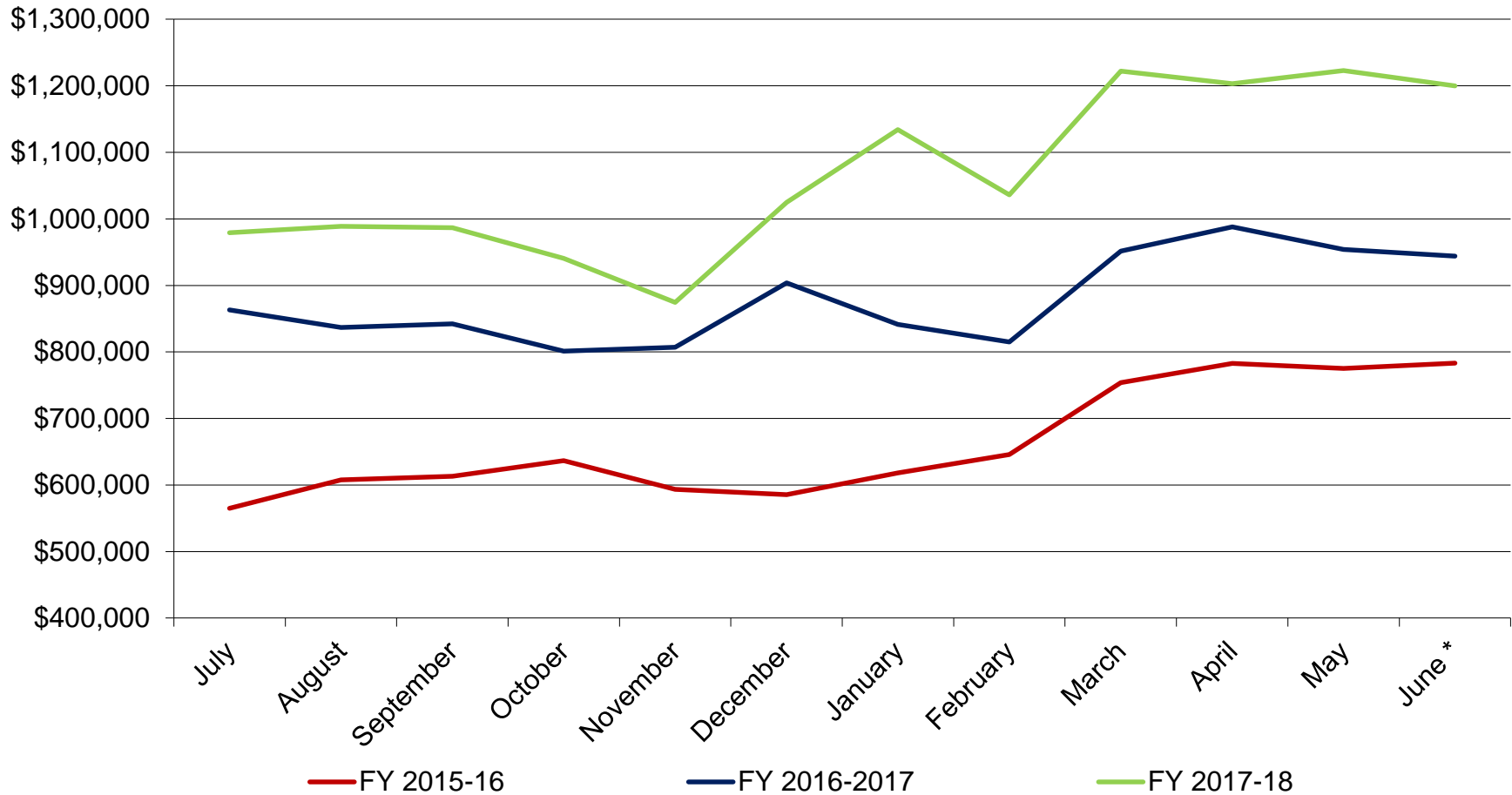


# Accounts Receivable Balance

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	<u>As of 6/30/18</u>	<u>As of 6/30/17</u>
<u>Current Receivables</u>		
0-60 Days	\$ 5,901,280	\$ 4,820,499
61-90 Days	876,730	1,090,031
Total Current Receivables	\$ 6,778,010	\$ 5,910,530
<u>Delinquent Receivables</u>		
91-365 Days	\$ 3,364,162	\$ 3,893,369
Over 1 Year	21,254,704	17,865,488
Total Delinquent Receivables	\$ 24,618,866	\$ 21,758,857
<b>Total Accounts Receivable</b>	<b>\$ 31,396,876</b>	<b>\$ 27,669,387</b>

# Marijuana Business Tax (MBT) Revenues



\* June is based on a estimate of the accrual of \$1.2M

# Billing System Online Functionality

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

	Take Payments & Provide Receipt	Update Contact Information	Accept New Account Applications
<b>Business Tax System</b> Implementation to be completed by Fall 2018	★	★	★

# Business Tax Code Change Outreach Efforts

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- Changes effective July 1, 2017; outreach and grace period extended to June 30, 2018
- Two rounds of direct mailings were distributed to businesses
  - Initial outreach campaign completed in November 2017 included 23,400 letters to potential residential landlords
  - Extended outreach completed between March and May included an additional 18,000 mailings to potential unregistered landlords
- 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 were completed
- **7,700 new residential landlords were registered with annual revenue totaling approximately \$1.5 million.**

# Recommendation

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1. Accept the Fourth Quarter Financial Reports for Fiscal Year 2017-2018 for the following programs:
  - Debt Management
  - Investment Management
  - Revenue Collection
2. Refer the Fourth Quarter Financial Reports for Fiscal Year 2017-2018 to the September 11, 2018 City Council meeting for full adoption