

City of San José

*Comprehensive Annual Debt Report
Fiscal Year 2017-2018*

*City Council
December 11, 2018
Item 3.7*

Debt Management Program

Policy Objectives

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with Federal and State laws
- Assess financial impacts of significant City projects

Debt Issuance

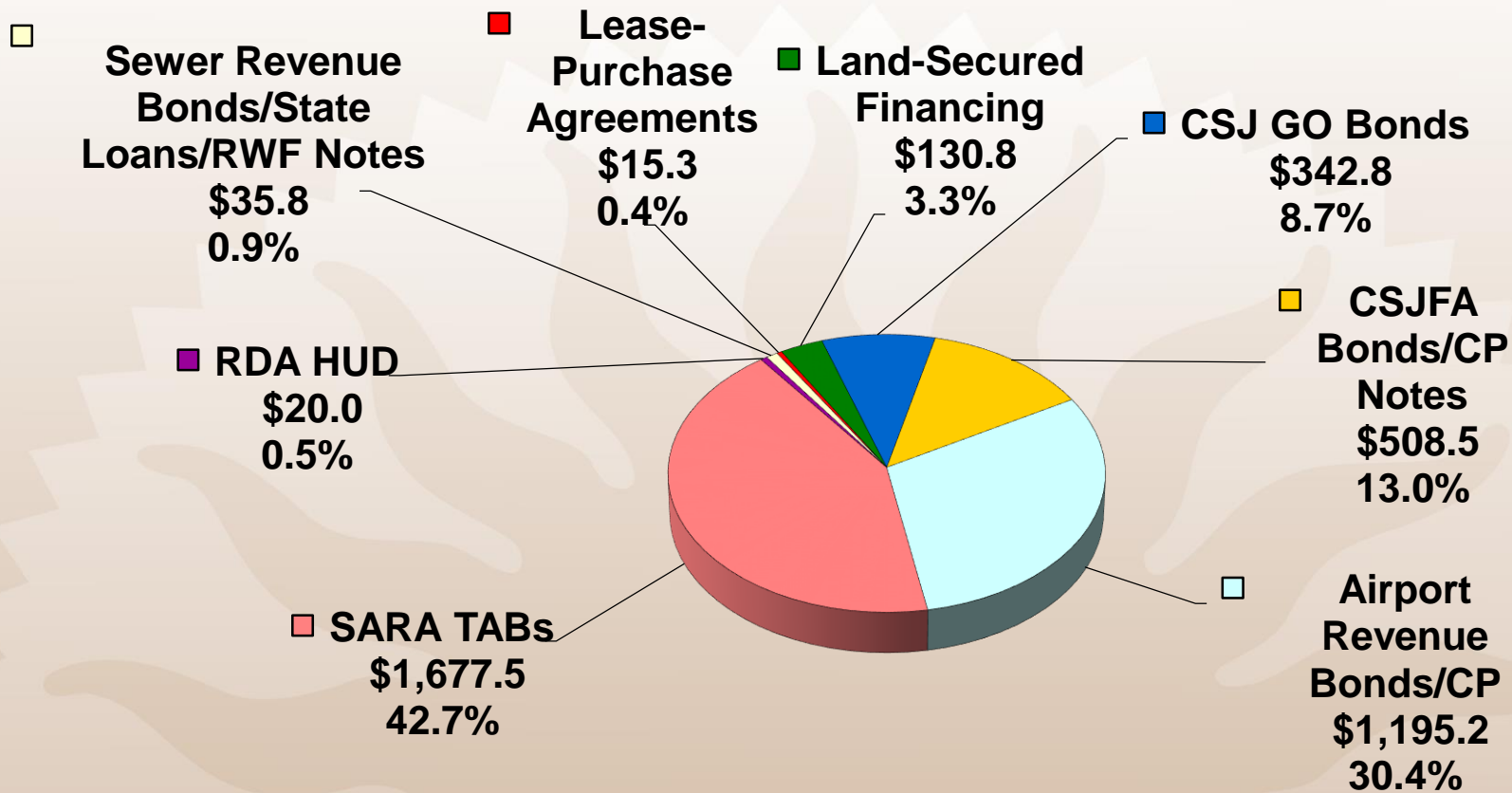
Debt Administration

**Financial Advisory
Services**

Outstanding Debt Issued by All Agencies

Excluding Multifamily Housing Revenue Bonds (i.e., Conduit Debt), and Pension, OPEB, and other City liabilities

Balance as of June 30, 2018: \$3,925,887,000
 (\$s shown below in millions)



Debt Issuance

- FY 2017-18 debt: \$2.17 billion
 - Tax Revenue Anticipation Note (retirement prefunding)
 - SARA Refunding Bonds
 - Subordinate Wastewater Notes for RWF
 - Lease Revenue Commercial Paper
 - Conduit Multi-family Housing Revenue Obligations
- FY 2018-19 completed/planned debt: \$1.0 billion
 - Tax Revenue Anticipation Note (retirement prefunding)
 - GO and Lease Revenue Bond Refundings and New Money (Measure T and prior GO Authorization)
 - Commercial paper for Convention Center South Hall
 - Conduit Multi-family Housing Revenue Obligations

Debt Administration – Variable Rate Program

- Variable rate exposure reduced in recent years
- Interest rates low since 2008, but increasing
- City's/CSJFA's commercial paper LOC program support extended
 - 3.5-year term agreement through February 2022
 - Fee rate reduced to 0.42% from 0.52%
- Commercial paper notes issued or to be issued for:
 - Convention Center Exhibit Hall – \$15 million issued
 - Clean Energy - \$10 million issued for start up costs
 - Energy Conservation Equipment - \$460,000 issued
 - Flood Improvement projects - \$19 million remaining of \$21 million authorized

Financial Advisory Services – Major Projects

- Financial management of Successor Agency final transition
- Extension of Direct Placements for Hayes Mansion and Ice Center through May 2019
- Extension and increase of CSJFA LOC/CP from \$85m to \$125m through February 2022
- Extension of Airport LOC/CP to February 2019; a May 2018 RFP process provided replacement LOC/CP provider and increased LOC/CP amount from \$38m to \$75m
- Financial analyses associated with the prepayment of annual employer retirement contribution; RWF CIP Funding; Energy Conservation and Flood Improvement projects
- Airport West Property Sale – proceeds redeemed the CSJFA 2008F Bonds
- Request for Proposal solicitations for Bank Support for Airport and Clean Energy

Credit Ratings

- City continues to maintain high general obligation credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3¹/AA/AA from all three national rating agencies (Moody's/S&P/Fitch).
 - 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-
- In connection with refunding of Successor Agency debt and development of new credit structure ratings on 2017 Bonds upgraded to AA/AA for senior bonds and AA-/AA- for subordinate bonds, Standard & Poor's and Fitch, respectively

Summary

- Debt Management program continues to be highly active in the areas of issuance, administration and financial advisory services.
- Maintaining a strong and dedicated program protects the City's financial interests, credit ratings, and long term management of debt compliance to minimize financial penalties.
- Failure to comply with regulatory requirements can result in significant penalties.

Recommendation

Accept the Comprehensive Annual Debt Report for the City of San José for Fiscal Year 2017-2018