

# *City of San José*

## *Comprehensive Annual Debt Report Fiscal Year 2018-2019*

*City Council Meeting  
December 10, 2019  
Item: 3.9*

**Presenters:**

Julia Cooper, Director of Finance

Lisa Taitano, Assistant Director of Finance

Joe Gray, Debt Administrator

# 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**

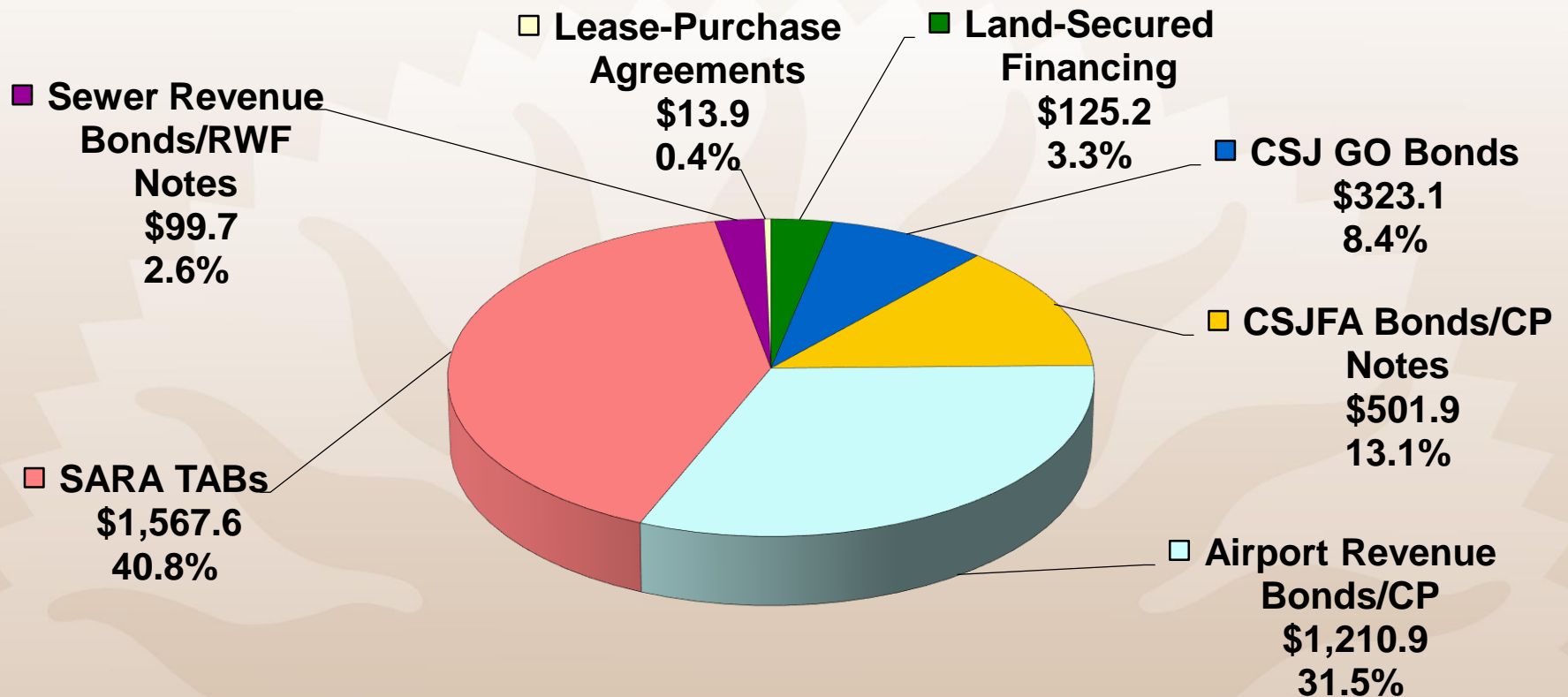
**Debt Administration**

**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, 2019: \$3,842,287,000  
(\$ shown below in millions)



# Debt Issuance

- FY 2018-19 debt: \$640 million
  - Tax Revenue Anticipation Note (retirement prefunding)
  - Subordinate Wastewater Notes for RWF
  - Lease Revenue Commercial Paper Notes
  - San Jose Airport Commercial Paper Notes
  - Conduit Multi-family Housing Revenue Obligations
- FY 2019-20 completed/planned debt: \$815 million
  - GO and Lease Revenue Bond Refundings and New Money (Measure T and prior GO Authorization)
  - Revenue Bonds Related to Ice Centre Expansion Project
  - Lease Revenue Commercial Paper Notes
  - 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 and expanded
  - 3.5-year term agreement through February 2022
  - Expanded CP program from \$85 million to \$125 million
- Commercial paper notes issued or to be issued for:
  - Convention Center South Hall – \$42.4 million issued
  - Flood Issuance - \$3.8 million issued
  - City Hall Campus Expansion - \$6.5 million (Spring 2020)

# Financial Advisory Services – Major Projects

- 2019 General Obligation Bonds – Series A - D
- Sale of Hayes Mansion Property – Proceeds redeemed the CSJFA 2008C&D Bonds
- Purchase of San Jose Convention Center South Hall Property
- Request for Proposal solicitation for feasibility consultant related to the Ice Centre Expansion Project
- Clean Energy entered into a separate standby letter of credit with four power providers

# Credit Ratings

- City continues to maintain high general obligation credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3<sup>1</sup>/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 (Aa2/AA-/AA)
  - Santa Clara County G.O. bonds are rated Aa1 by Moody's, slightly 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 and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch<sup>2</sup>

<sup>1</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>2</sup> Successor Agency to the San Jose Redevelopment Agency Bonds are not rated by Moody's.

# General Obligation Credit Ratings – 10 Largest US Cities

Population Rank <sup>1</sup>	Ratings Rank <sup>2</sup>	City	Moody's	S&P	Fitch
1	4	New York	Aa1	AA	AA
2	5/6	Los Angeles	Aa2	AA	AA
3	10	Chicago	NR	BBB+	BBB-
4	8	Houston	Aa3	NR	AA
5	2	Phoenix	Aa1	AA+	AAA
6	9	Philadelphia	A2	A	A-
7	1	San Antonio	Aaa	AAA	AA+
8	5/6	San Diego	Aa2	AA	AA
9	7	Dallas	A1	AA-	AA
<b>10</b>	<b>3</b>	<b>San Jose</b>	<b>Aa1</b>	<b>AA+</b>	<b>AA+</b>

<sup>1</sup> US Census as of July 1, 2018

<sup>2</sup> General Obligation Ratings as of December 3, 2019

# 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

Acceptance of Comprehensive Annual Debt Report for FY 2018-19.

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