

Fourth Quarter Financial Report for Fiscal Year 2019-2020

Public Safety, Finance and Strategic Support Committee

Presenters:

Julia H. Cooper, Director of Finance

Luz Cofresí-Howe, Assistant Director of Finance

Nikolai Sklaroff, Deputy Director of Finance

Rick Bruneau, Deputy Director of Finance

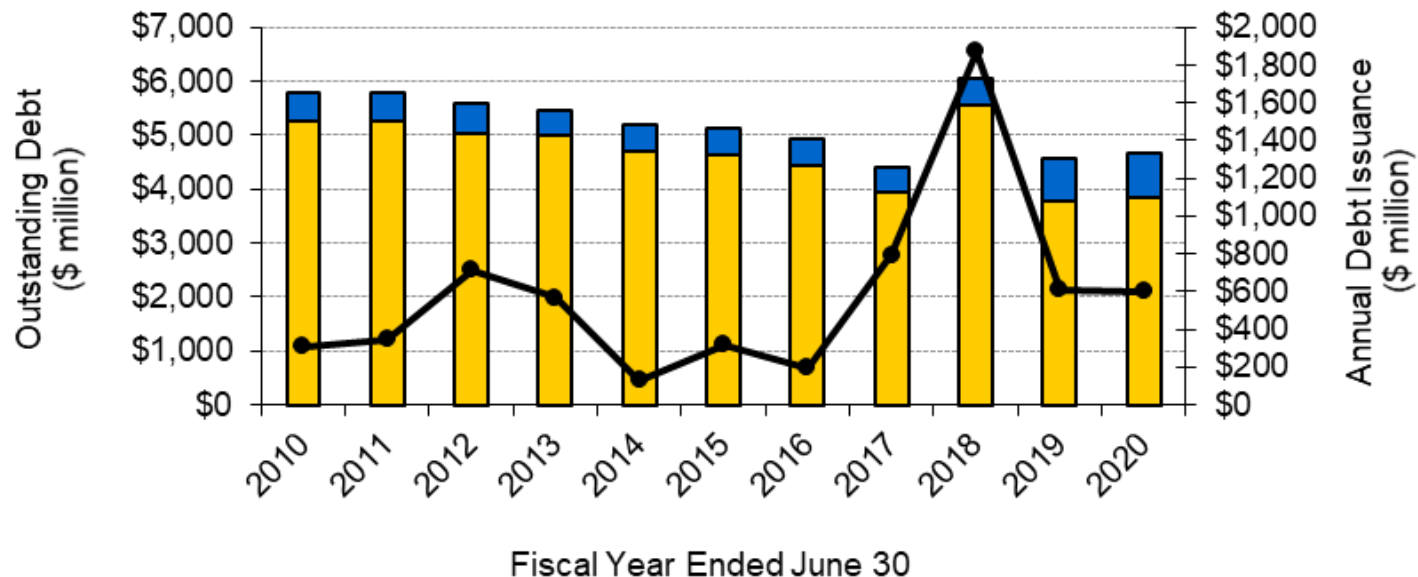
Qianyu Sun, Principal Investment Officer

Fourth Quarter Debt Management Report for Fiscal Year 2019-2020

Outstanding Debt Issued by All Agencies

Outstanding Debt as of June 30, 2020: \$4.7 Billion

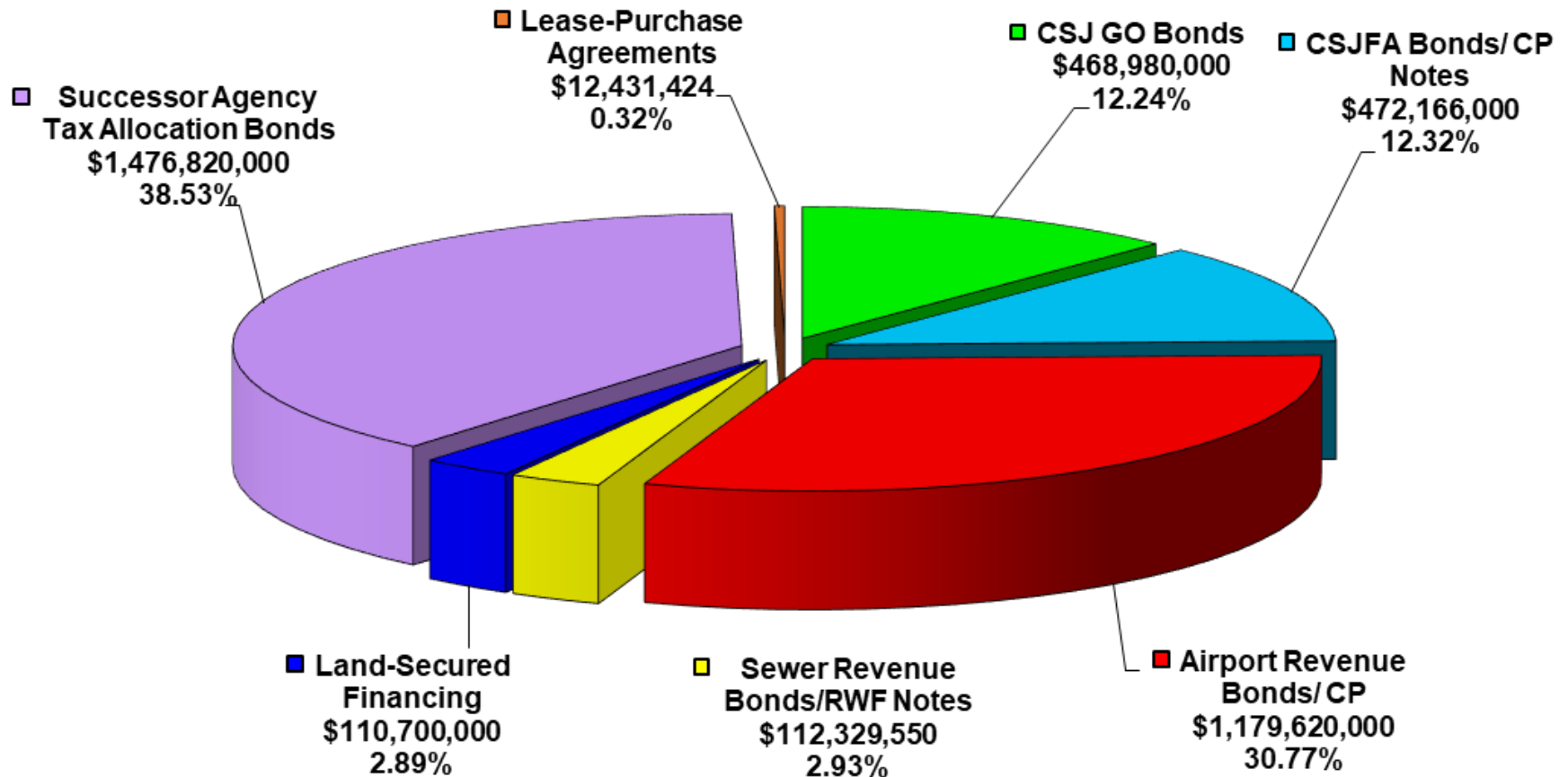
FY 2019-20 Actual Debt Issuance: \$603.1 Million



Outstanding Debt Issued by All Agencies

(Excluding Multifamily Housing Revenue Bonds)

Outstanding Debt as of June 30, 2020: \$3,833,046,974



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

Selected Debt Issuance and Debt Management Activities during 4th Quarter (Apr-June 2020)

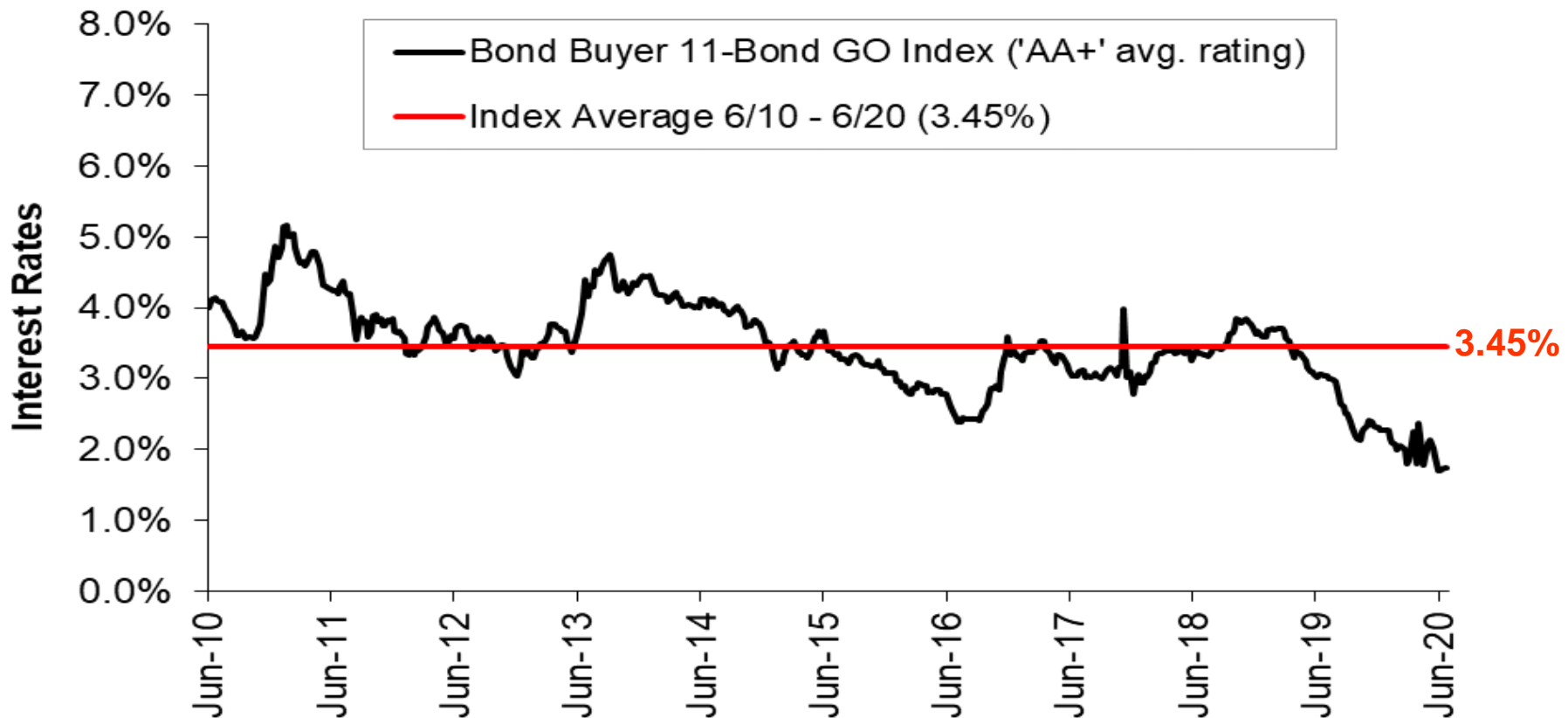
- Debt Issuance
 - ✓ CSJFA CP – ESCO Conservation Project (Reimbursement) - \$1.2 million (June 2020)
- Debt Management
 - ✓ CSJFA Series 2008E Bonds (Ice Centre) Direct Purchase Extension (June 2020)
 - ✓ Pre-issuance activities for CSJFA Lease Revenue Bonds, Series 2020A (City Hall Refinancing) and Series 2020B (Ice Centre Expansion)
 - ✓ Pre-issuance activities for 2020 TRAN Issuance (\$130 million issued on July 1, 2020)
- Rating Activity
 - ✓ Fitch Credit Presentation – General Fund/G.O Surveillance - (May 2020)
 - ✓ S&P - Special Hotel Tax Rating Surveillance – (May 2020)
- Reporting - Voluntary Statement Filing to EMMA – COVID-19 Impact
 - ✓ Norman Y. Mineta San José International Airport - (May 2020)
 - ✓ TOT Fund and Convention Center Facilities District Revenue Fund - (June 2020)
 - ✓ General Fund Operating Budget – (June 2020)
- MSRB – 15 Notifications
 - ✓ GO and CSJFA (Direct Purchase Extension – June 2020)

Upcoming Debt Issuance and Management Through December 31, 2020

- Debt Issuance
 - CSJFA Lease Revenue Bonds
 - City Hall Refunding, Series 2020A Tax-exempt (\$350 million, September 2020)
 - Ice Centre Expansion, Series 2020B Taxable (\$150 million, October 2020)
 - Multi-Family Housing Revenue Bonds
 - Alum Rock Family Housing (\$42 million, Fall 2020)
 - Page Street Studios (\$40 million, Fall 2020)
 - SAHA Arya (Balbach) Housing (\$45 million, Fall 2020)
 - Markham Plaza II (\$25 million, Fall 2020)
 - West San Carlos Supportive Housing (\$35 million, Winter 2020)
- Debt Management
 - GO Tax Levy for 2021
 - Pre-issuance and planning activities for CSJFA -- Fire Training Center and Central Service Yard CIP
 - RWF Credit Facility Extension – including exploration of additional borrowing options
 - RFP for Underwriter Services (Airport Refunding); Continuing Disclosure Audit; and Arbitrage Calculation Services

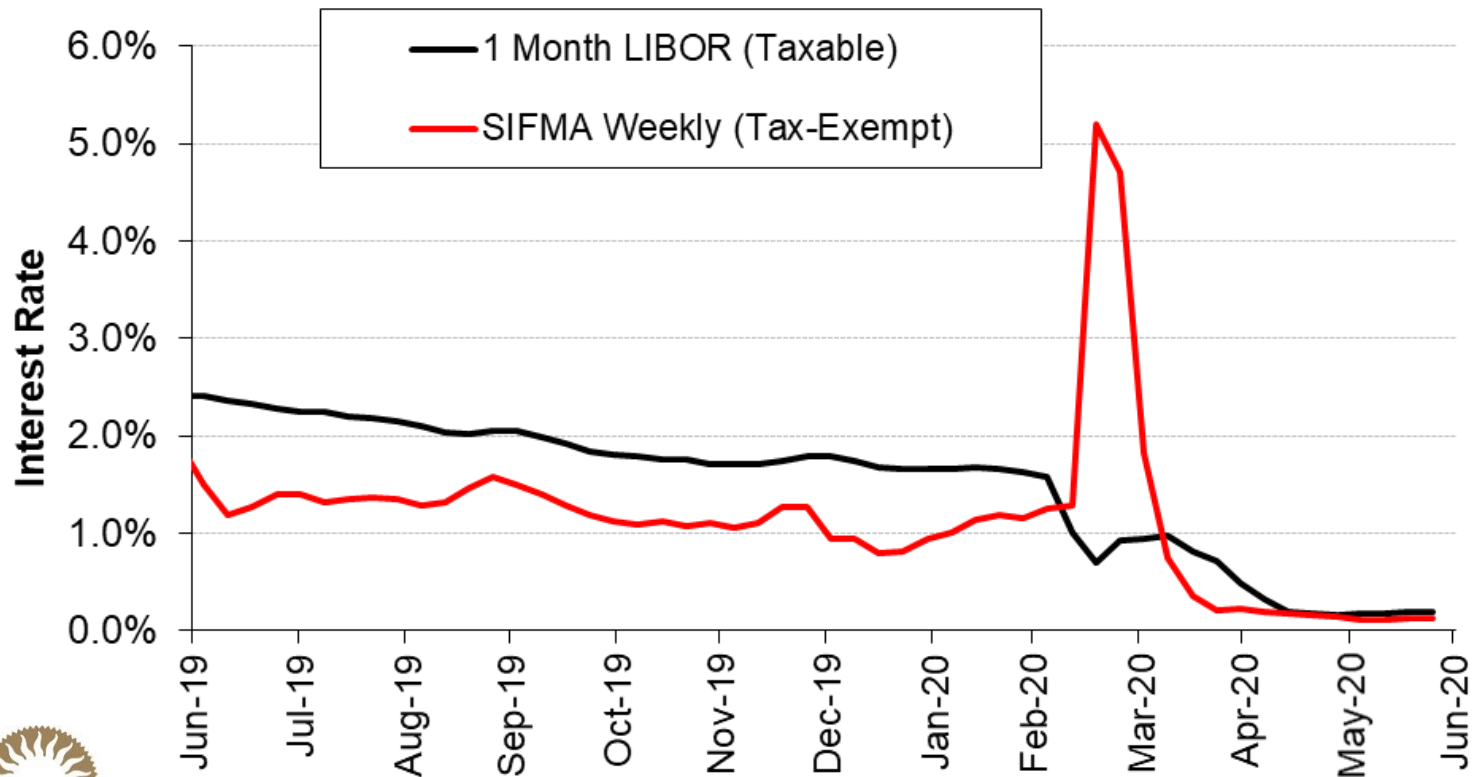
History of Tax-Exempt Fixed Rate Bond Yields

- Over the past 10 years, the interest rate for 20-year tax-exempt General Obligation bonds nationally has averaged 3.45% and are currently at about 1.65% (as of 7/16/20)



Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 0.35% in Q4 and are currently at 0.21% (as of 7/15/2020)
- Taxable LIBOR monthly interest rates paid by the City averaged 0.37% in Q4 and are currently at 0.19% (as of 7/16/2020)



City of San José – Credit Ratings¹

- City continues to maintain high general obligation (GO) credit ratings of Aa1/AA+/AA+ and lease revenue bond ratings of Aa2-Aa3²/AA/AA
 - City GO bonds continue to be rated higher than State of California (Aa2/AA-/AA).
 - ***Fitch Affirmed the City's GO Bond Rating of AA+, with a Stable Outlook (June 2020)***
 - Santa Clara County GO 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 Fitch³
- Sector Outlook Changes due to the economic and budgetary impacts from COVID-19
 - Moody's - Negative Outlook, March 2020 - **Airport Sector**,
 - S&P - Negative Outlook, April 2020 - **US Public Finance Sector** (Local Governments); March 2020 - **Transportation Sector** (Airports) and CreditWatch with Negative Implications on August 7, 2020
 - Fitch – Negative Outlook, April 2020 - **Airport** (Affirmed Ratings) and **State & Local Tax Supported**,

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.

Fourth Quarter Investment Management Report for Fiscal Year 2019-2020

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 semi-annually for compliance purposes

* A1, P1, F1 are high quality ratings for short-term securities issued by S&P, Moody's and Fitch respectively.

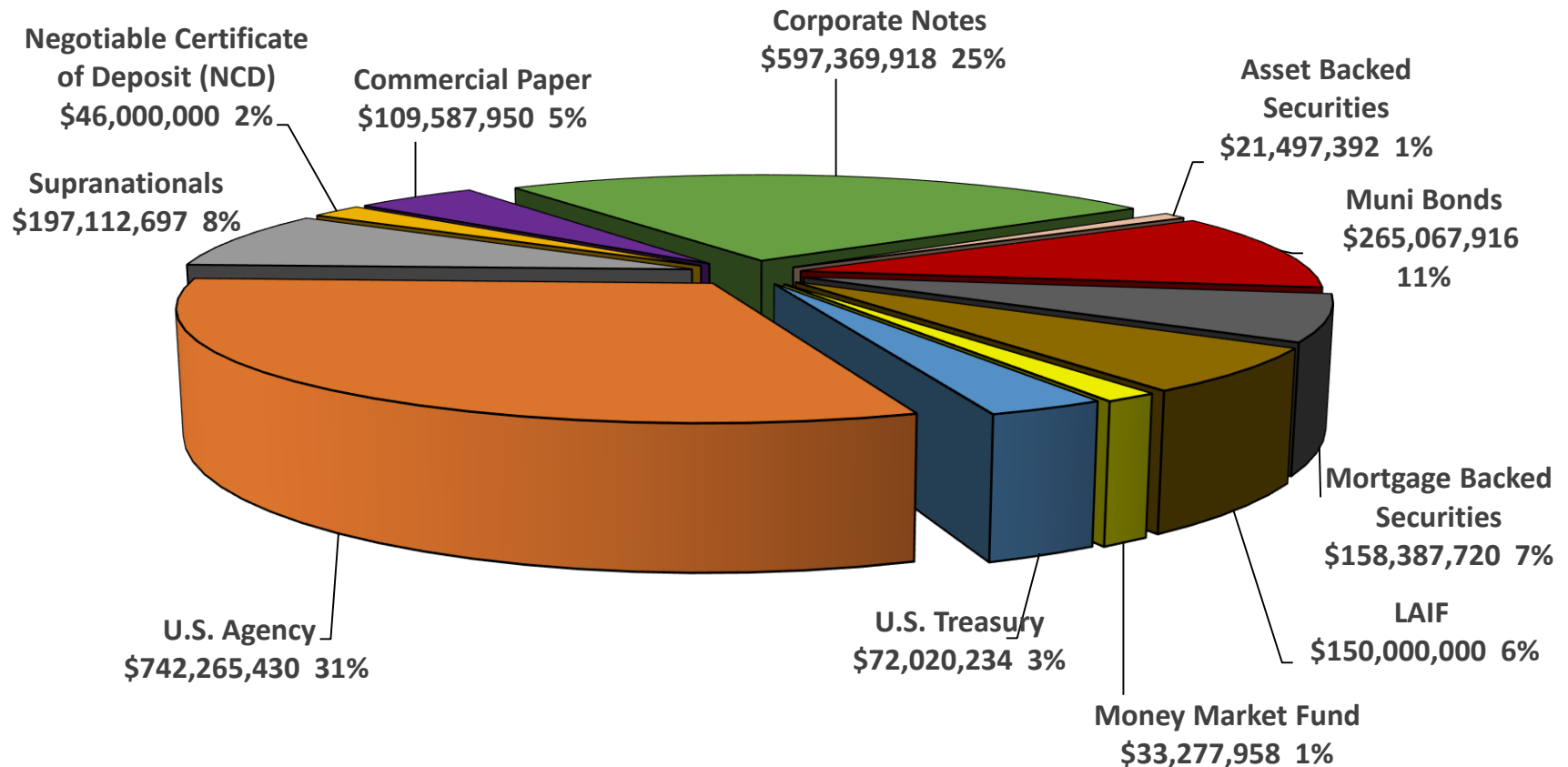
Investment Objectives & Reporting

- 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

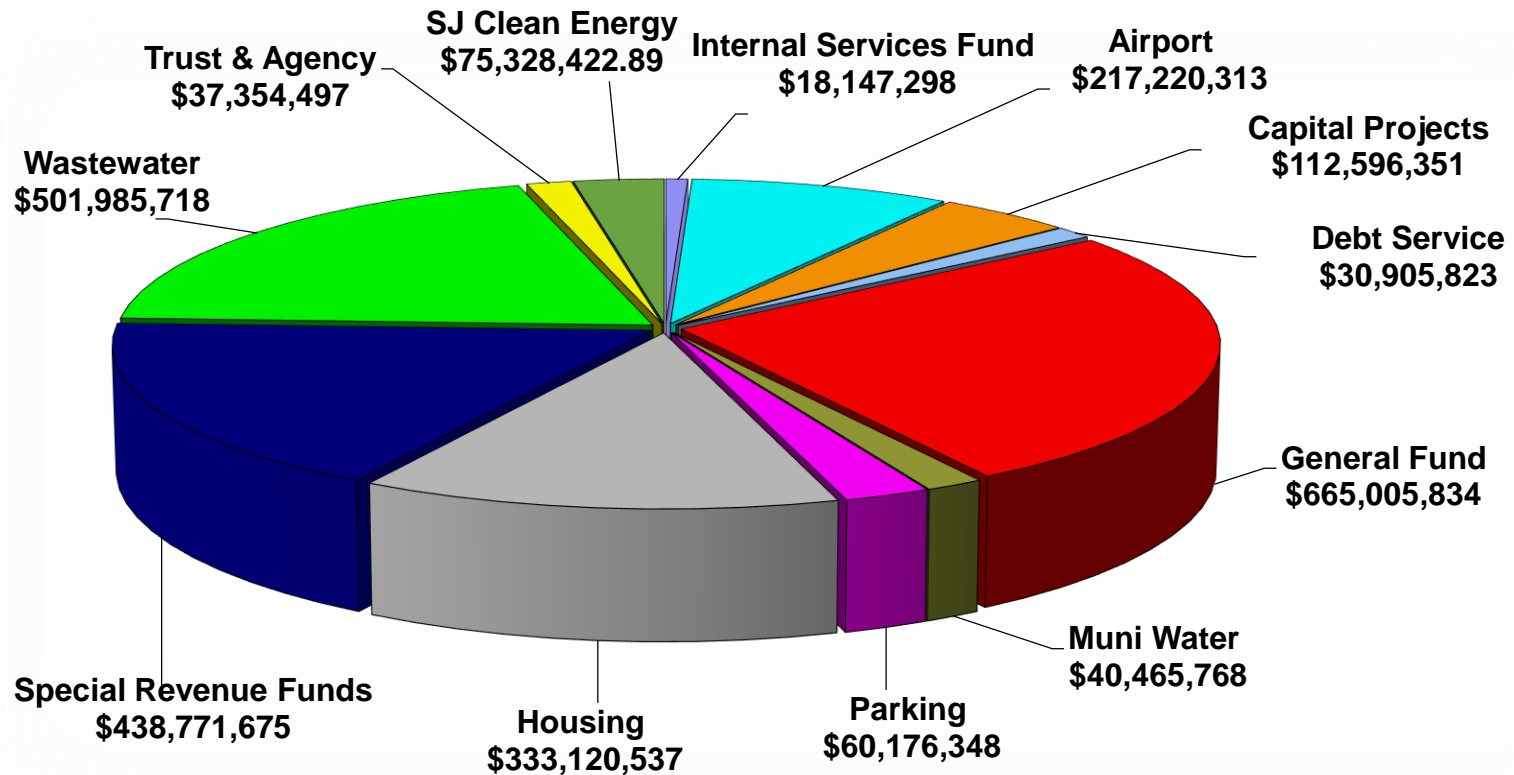
- Size of total portfolio: \$2,392,587,214
- Earned interest yield: 1.974%
- Weighted average days to maturity: 672 days
- Fiscal year-to-date net interest earnings: \$45,887,089
- No exceptions to the City's Investment Policy during this quarter.

Portfolio Investment



Total Investment Portfolio = \$2,392,587,214

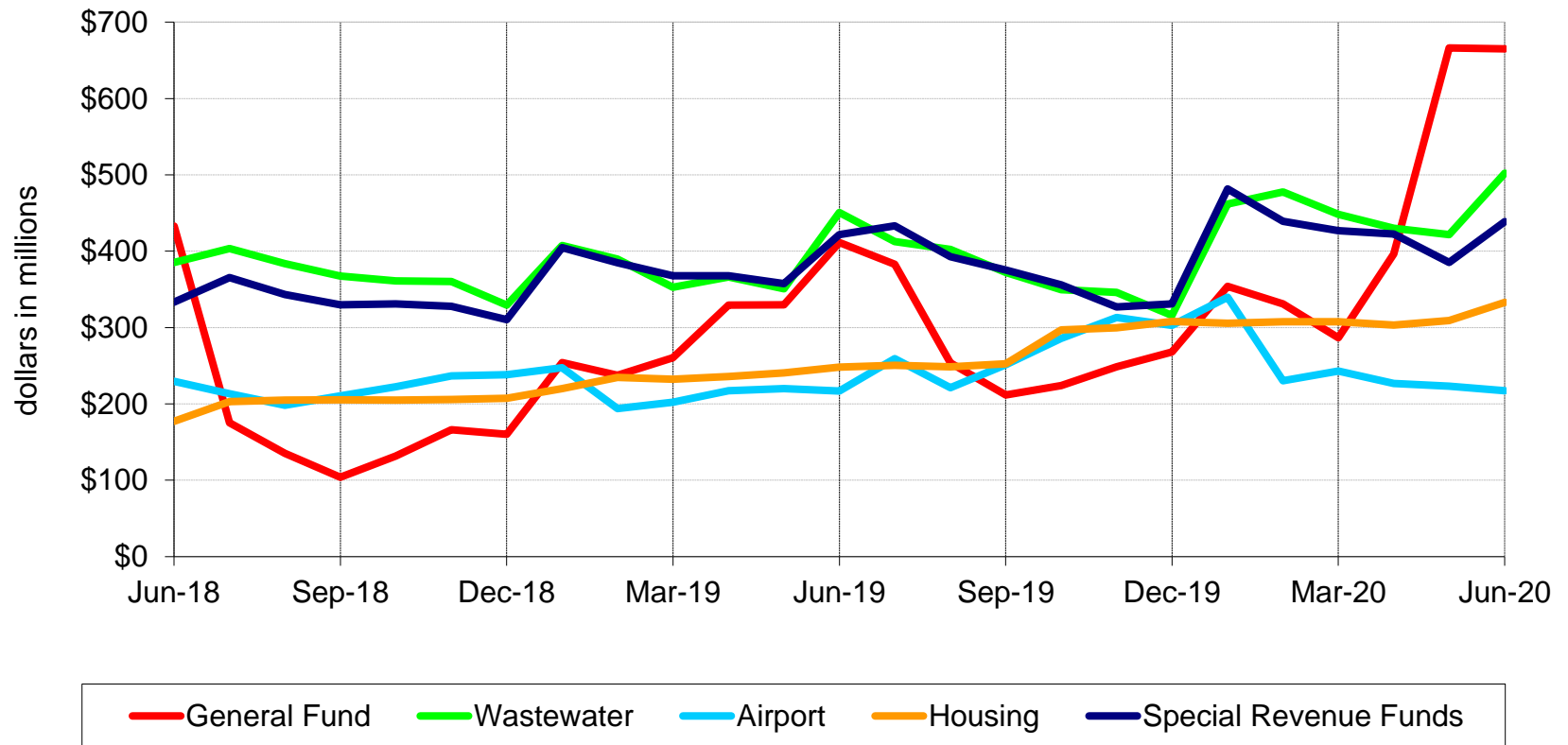
Investment by Fund



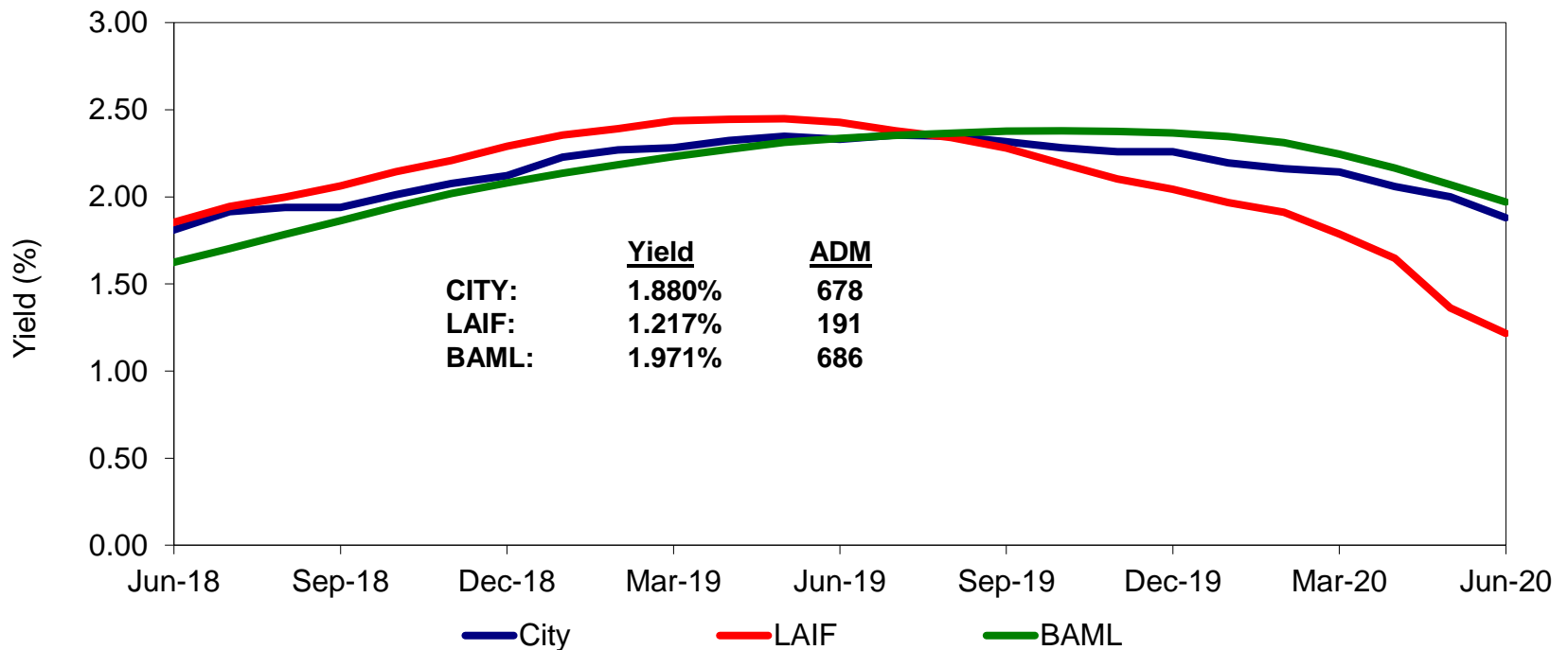
General Fund Balances

- General Fund balances increased by approximately \$378.3 million to \$665 million this quarter, with the receipt of the Coronavirus Aid, Relief and Economic Security (CARES) Act funding in April and the property tax in June.
- 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 a 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

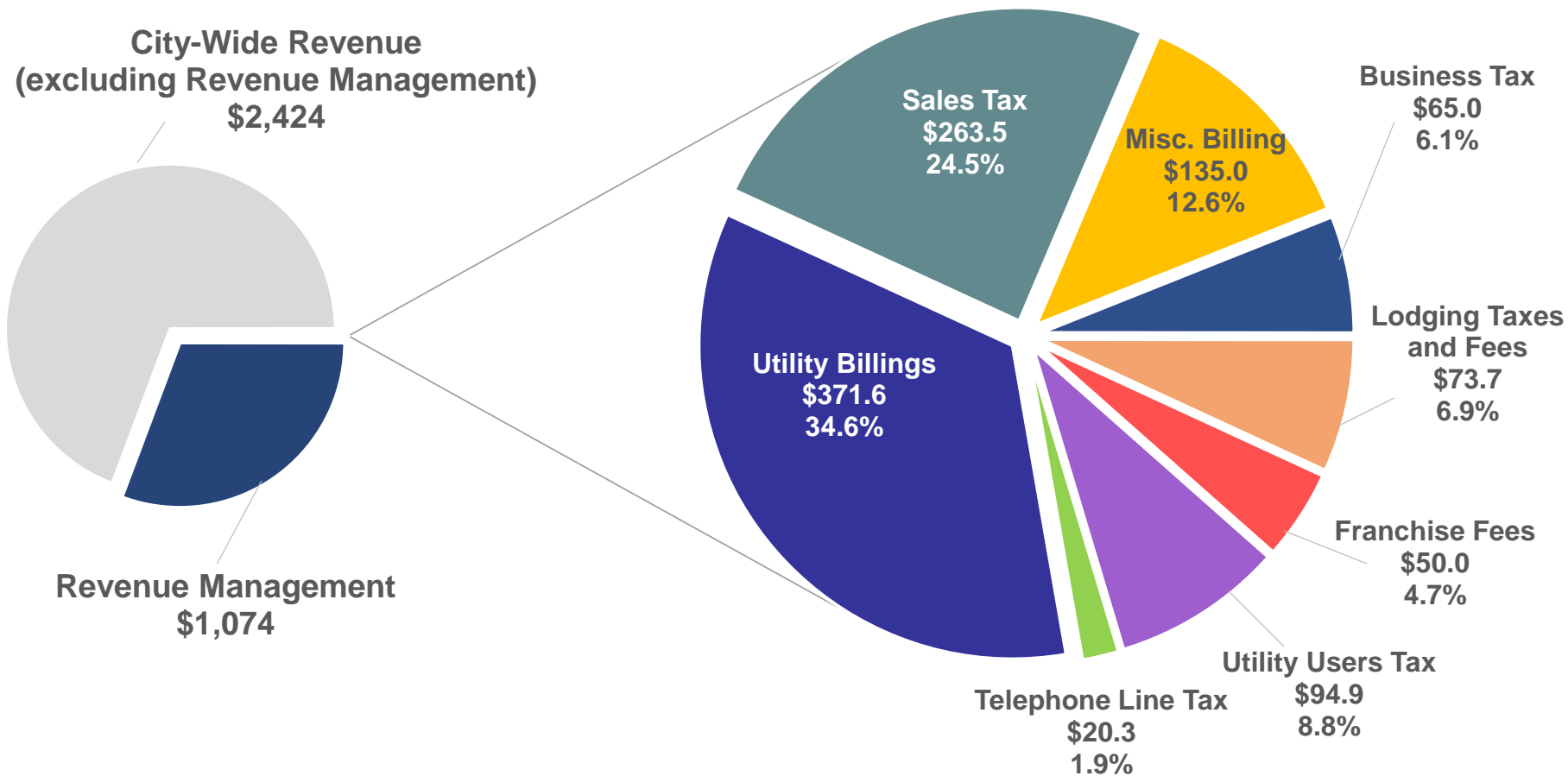
Fourth Quarter Revenue Management Report for Fiscal Year 2019-2020

Revenue Management Programs

- Finance Department revenue collection efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance in four primary collection programs:
 - Accounts Receivable
 - Business Tax
 - Compliance and Monitoring
 - Utility Billing
- Efforts may span several reporting periods and actual collections are reported when funds are received by the City

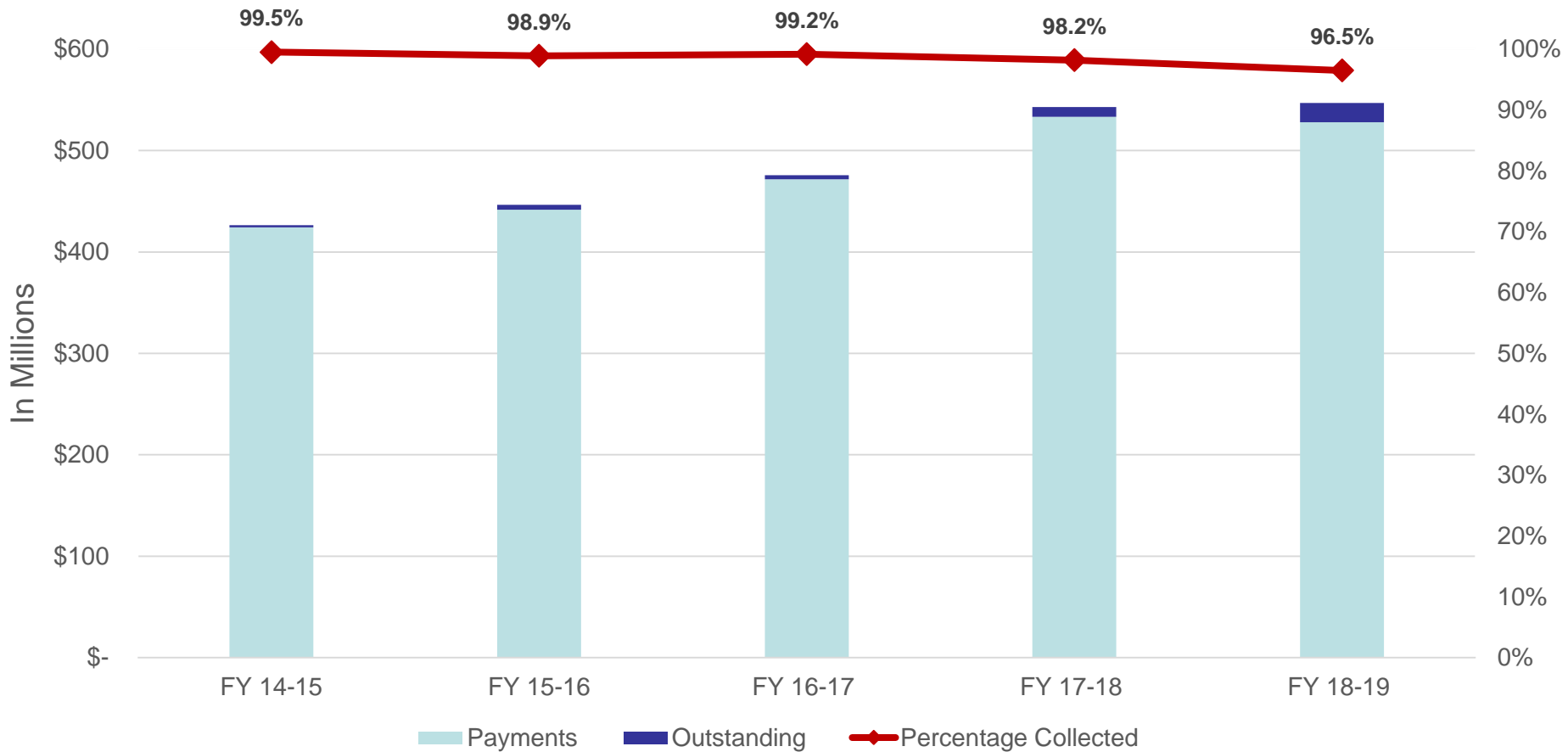
Revenue Management Portfolio

FY 2018-19 Revenue (\$ in millions)



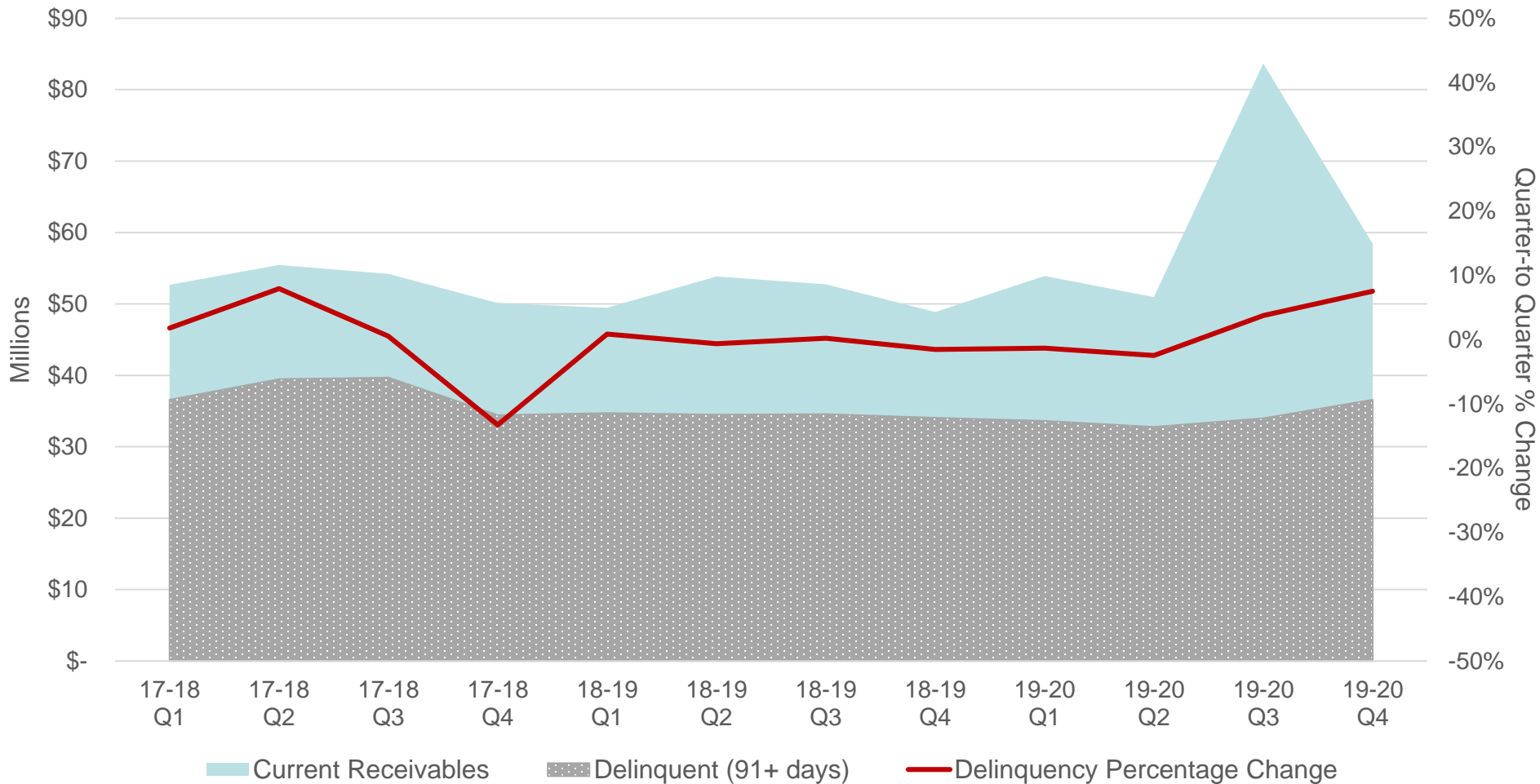
Invoicing and Payments

5 Years History (FY 2014-15 to FY 2018-19)



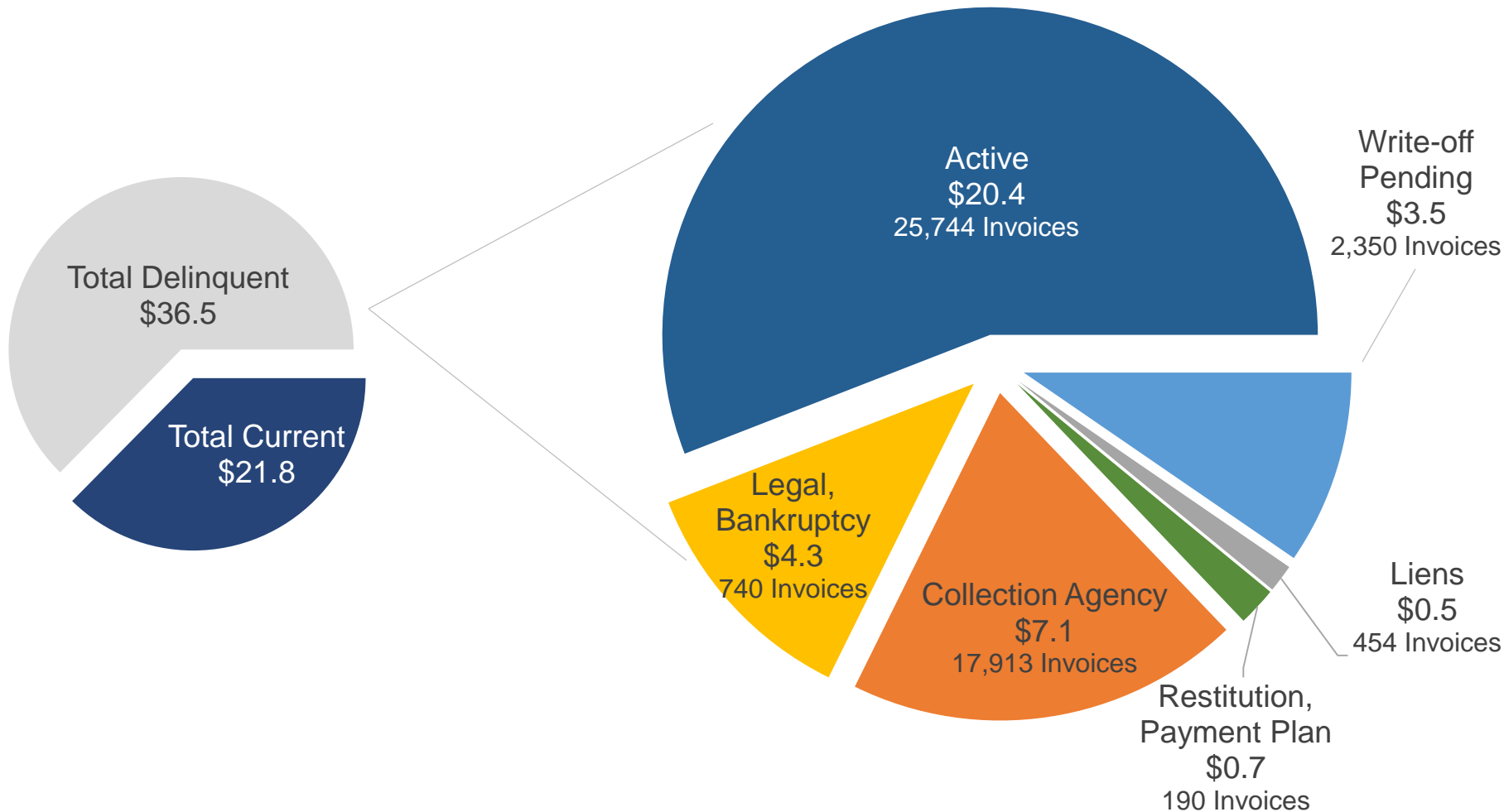
Outstanding Receivables

Three Year History



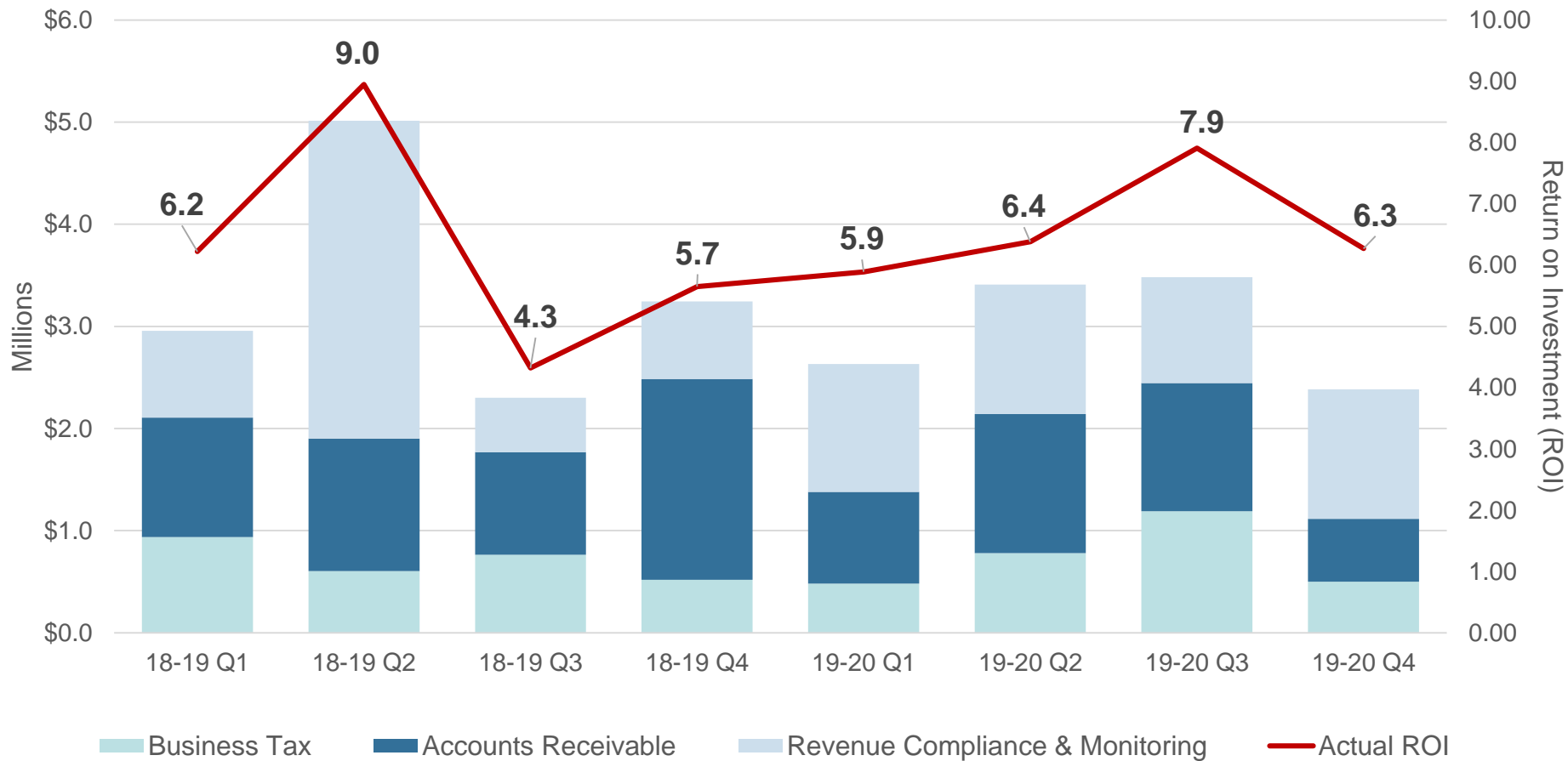
Delinquent Receivables

Collection Status Summary (\$ in millions)



As of June 30, 2020

Collections & Return on Investment



Business Tax Amnesty Program

- Recap: Amnesty Program is a limited-time opportunity for individuals and entities to pay the principal amount owed in exchange for forgiveness of associated penalties and interest
- Began October 1, 2019; extended twice by Council with current expiration September 30, 2020
- Outreach-Advertisement efforts include:
 - Direct Mailing: over 55,000 letters sent
 - VTA bus advertisements
 - Newspapers: San José Mercury, San José Metro, El Observador, Thang Mo
 - Radio: KRTY/KLIV
 - Flyers for business organizations and associations
 - Social media posts
- Through June 30, 2020, over 4,750 businesses have benefitted.
- Revenue generation is \$2.6M, with nearly \$1.2M new and on-going.

Recommendation

1. Accept the Fourth Quarter Financial Reports for Fiscal Year 2019-2020 for the following programs:
 - Debt Management
 - Investment Management
 - Revenue Management
2. Refer the Fourth Quarter Financial Reports for Fiscal Year 2019-2020 to the September 15, 2020 City Council meeting for full adoption