

PSFSS COMMITTEE: 02/18/2021
ITEM: d (4)

Attachment A

Second Quarter Financial Report for Fiscal Year 2020-2021

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

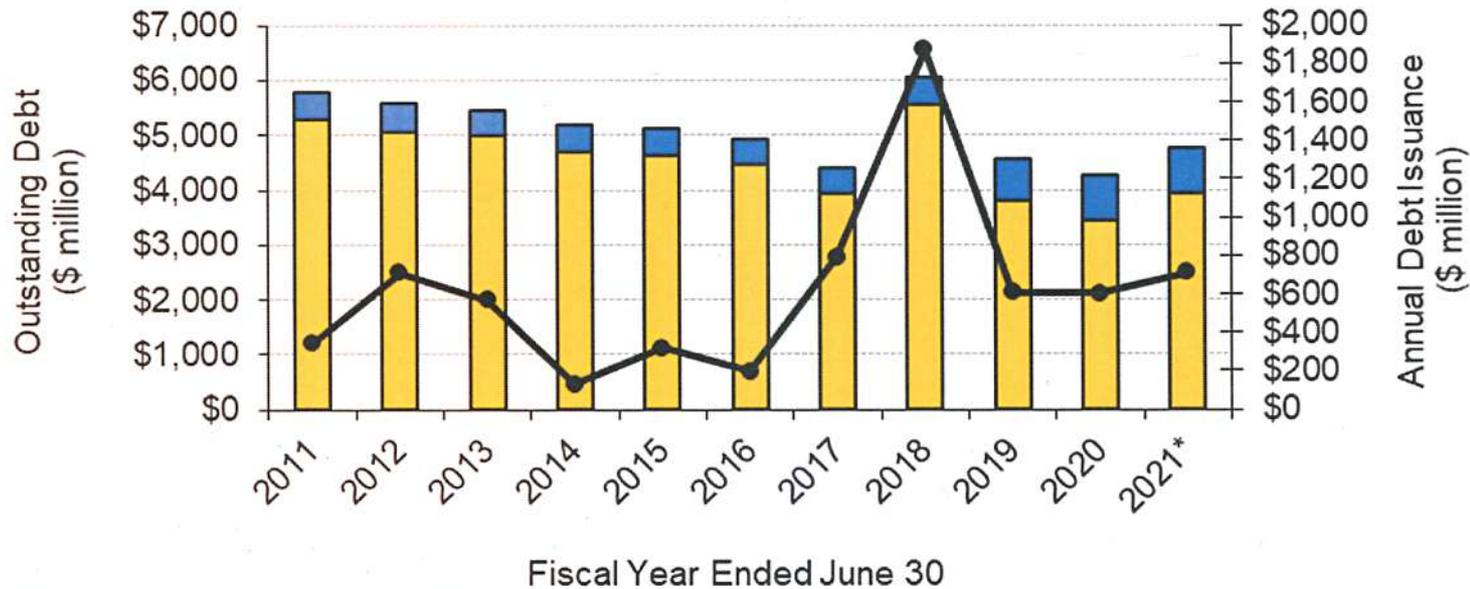
February 18, 2021

Prepared by the Finance Department

Second Quarter Debt Management Report for Fiscal Year 2020-2021

Outstanding Debt Issued by All Agencies

Outstanding Debt as of December 31, 2020: \$4.8 Billion
 FY 2020-21 Actual Debt Issuance: \$712.2 Million

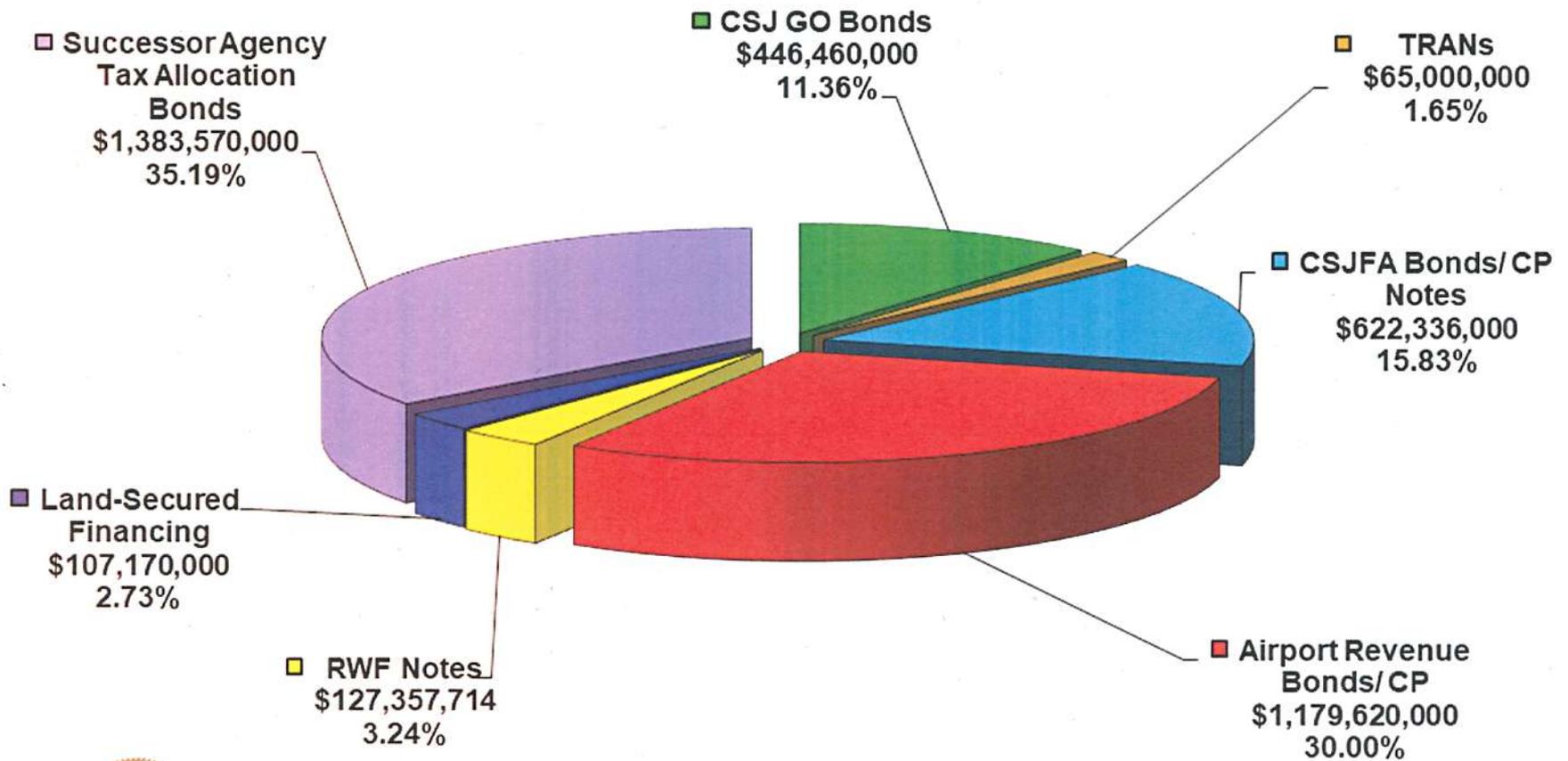


City and Related Entity Debt Outstanding
 Conduit Debt Outstanding
 Annual Debt Issuance

* YTD Debt Issuance

Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of December 31, 2020: \$3,931,513,714



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

Selected Debt Issuance and Debt Management Activities during 2nd Quarter (Oct-Dec. 2020)

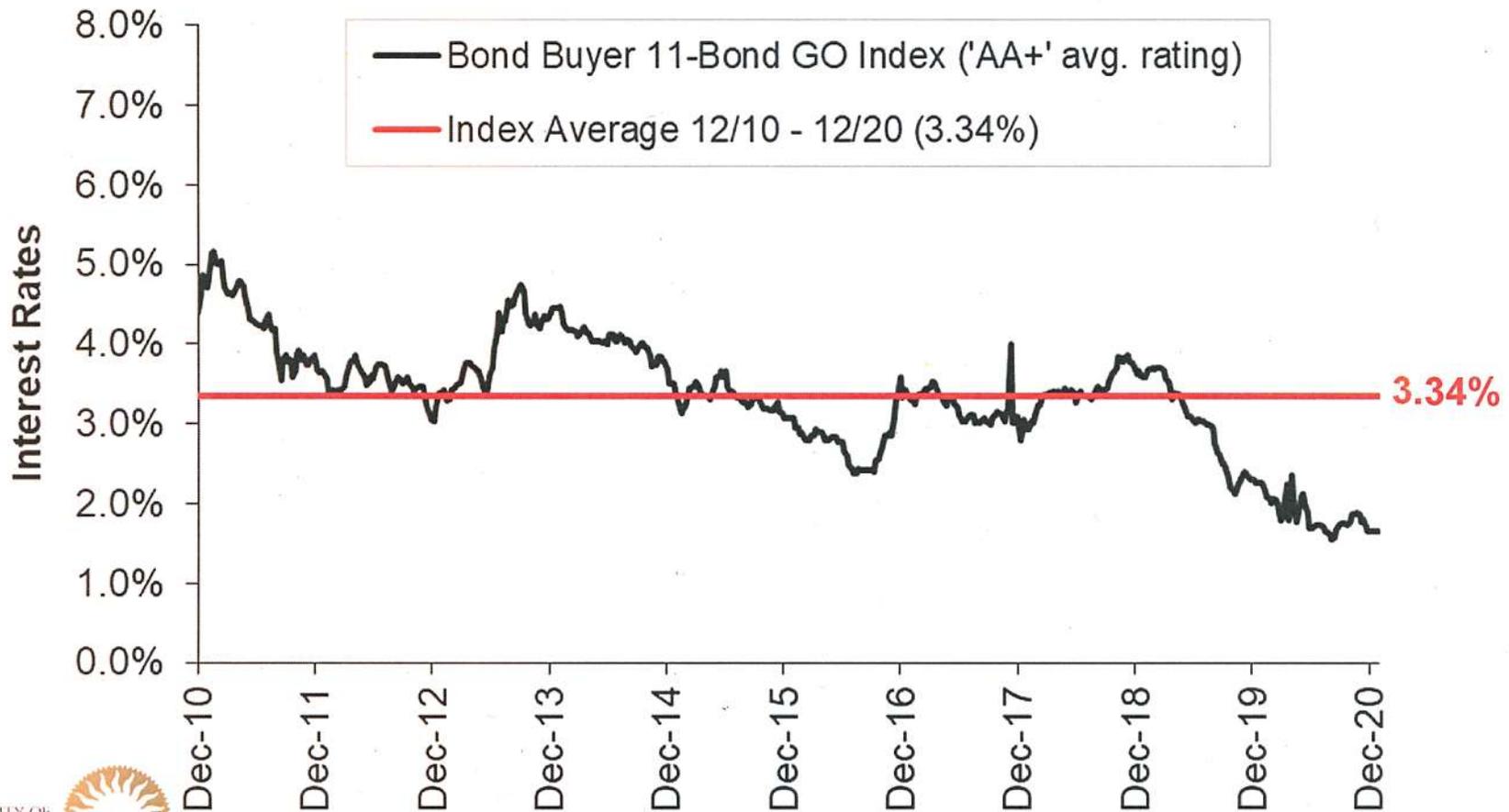
- Debt Issuance
 - CSJFA Taxable Lease Revenue Bonds
 - Ice Centre Expansion Project, Series 2020B Taxable (\$146.5 million, October 2020)
 - Multi-Family Housing Revenue Bonds
 - Page Street Studios (\$26.8 million, October 2020)
 - Alum Rock Family Housing (\$32.9 million, November 2020)
- Debt Management
 - Request for Proposals (RFP) – Municipal Advisory Firm for Pension Obligation Bonds
 - Pre-issuance activities for Airport Revenue Bonds
- Reporting
 - CDIAC – Mello-Roos annual report – October 2020
 - Annual Continuing Disclosure – Community Facility/Improvement Districts
 - 2020 Comprehensive Annual Debt Report (CADR)

Upcoming Debt Issuance and Management Through June 30, 2021

- Debt Issuance
 - Airport Refunding Bonds, Series 2021A
 - Multi-Family Housing Revenue Bonds
 - Arya (\$34.3 million, Winter 2021)
 - Blossom Hill (\$45 million, Winter 2021)
 - Immanuel-Sobrato Community (\$40 million, Winter 2021)
 - West San Carlos ((\$35 million, Winter 2021)
 - Pre-issuance activities
 - General Obligation Bonds (Measure T)
 - Fire Training Center/Emergency Operations Center/Central Service Yard -- Lease Revenue
 - Retirement system prepayment (TRANS)
- Debt Management
 - Selection of Municipal Advisor for Pension Obligation funding, Other Financings
 - Explore WIFIA loan option for Regional Wastewater Facility
- Reporting
 - Annual Continuing Disclosure (MSRB) – GO / Lease Revenue / Airport / SARA
 - Annual Debt Transparency Report to State Treasurer (January 2021)
 - Continuing Disclosure EMMA Notifications (as needed) – COVID 19 updates

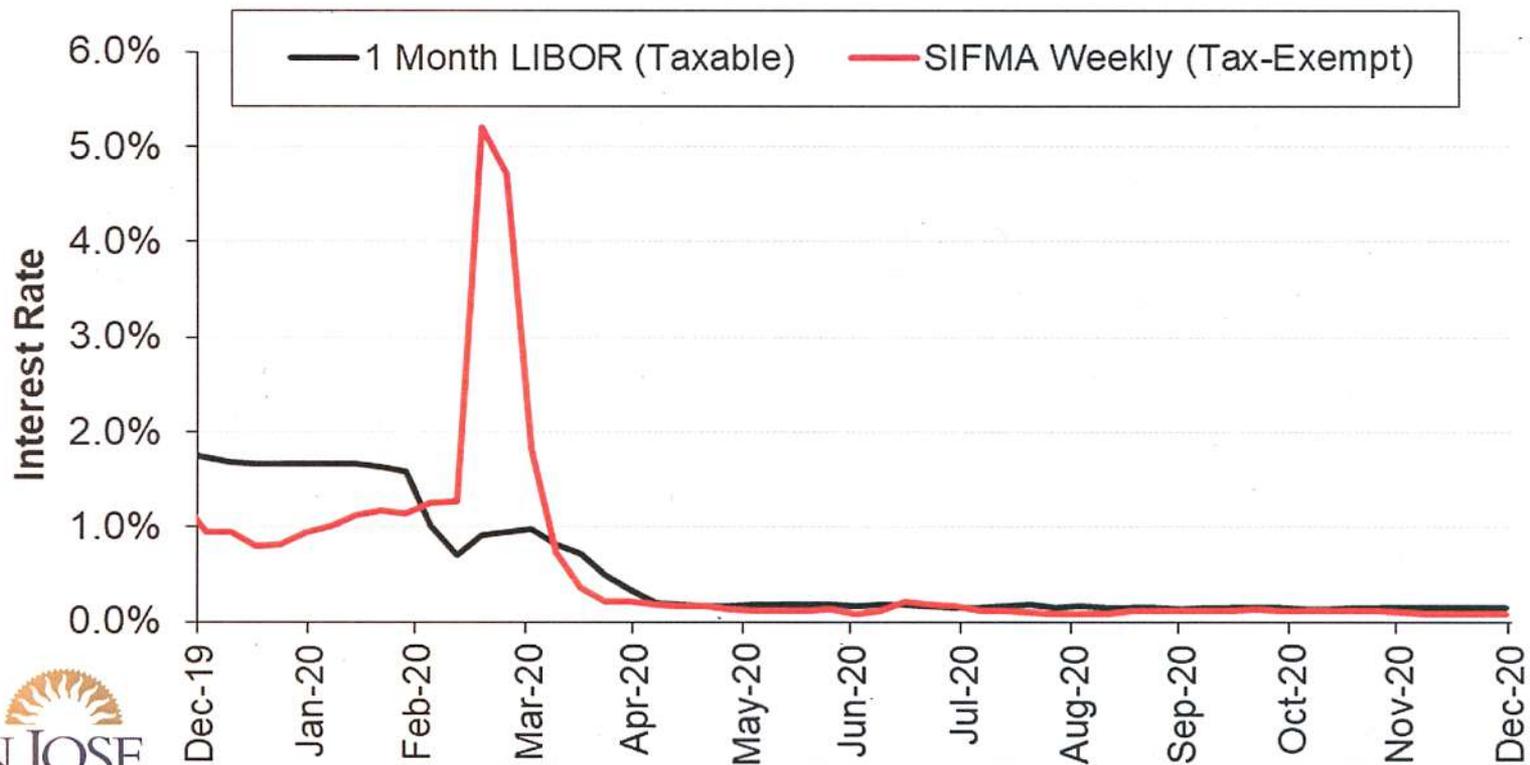
Ten-Year Tax-Exempt Market Index (Fixed Rate)

- Tax-exempt long-term (20-year maturity) interest rates averaged 3.34% over the past decade and currently is 1.74% (as of 1/21/21)



Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 0.11% in Q2 and are currently at 0.05% (as of 1/20/2021)
- Taxable LIBOR monthly interest rates paid by the City averaged 0.15% in Q2 and are currently at 0.13% (as of 1/21/2021)
- The SIFMA rates peaked at 5.20% on March 18, 2020, shortly after the Federal Reserve reduced its overnight lending rate to near zero as part of its effort to manage the risk of COVID-19. The SIFMA rate has since returned to levels more in line with the long-term norm.



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 and AA-²
 - City G.O. bonds continue to be rated higher than State of California (Aa2/AA-/AA).
 - **Moody's, S&P and Fitch reaffirmed the City's G.O. Bond ratings during the rating review of the City's Lease Revenue Bonds for the Civic Center Refunding (Series 2020A) and the Ice Centre Project (Series 2020B).**
 - 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
 - October 12, 2020, Standard & Poor's downgraded the long-term and underlying ratings to "A-" from "A", negative outlook, on the City's outstanding Airport Revenue Bonds.
 - October 22, 2020 Moody's completed a periodic review of ratings of the San José CA Airport Enterprise and affirmed its rating of A2.
 - City will be meeting with rating agencies in March on the Airport credit in anticipation of issuing airport refunding bonds
- SARA Senior Tax Allocation Bonds are rated AA and AA- by S&P and Fitch respectively.

¹ Ratings are listed in the following order by rating agency (unless noted otherwise): Moody's/S&P/Fitch.

² Moody's and Fitch determine 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) or Ice Centre (AA-).

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

Credit Ratings Sector Outlooks

- 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)
 - Fitch – Negative Outlook, April 2020 - **Airport** (Affirmed Ratings) and **State & Local Tax Supported**

Second Quarter Investment Management Report for Fiscal Year 2020-2021

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

Socially Responsible Investment Goals

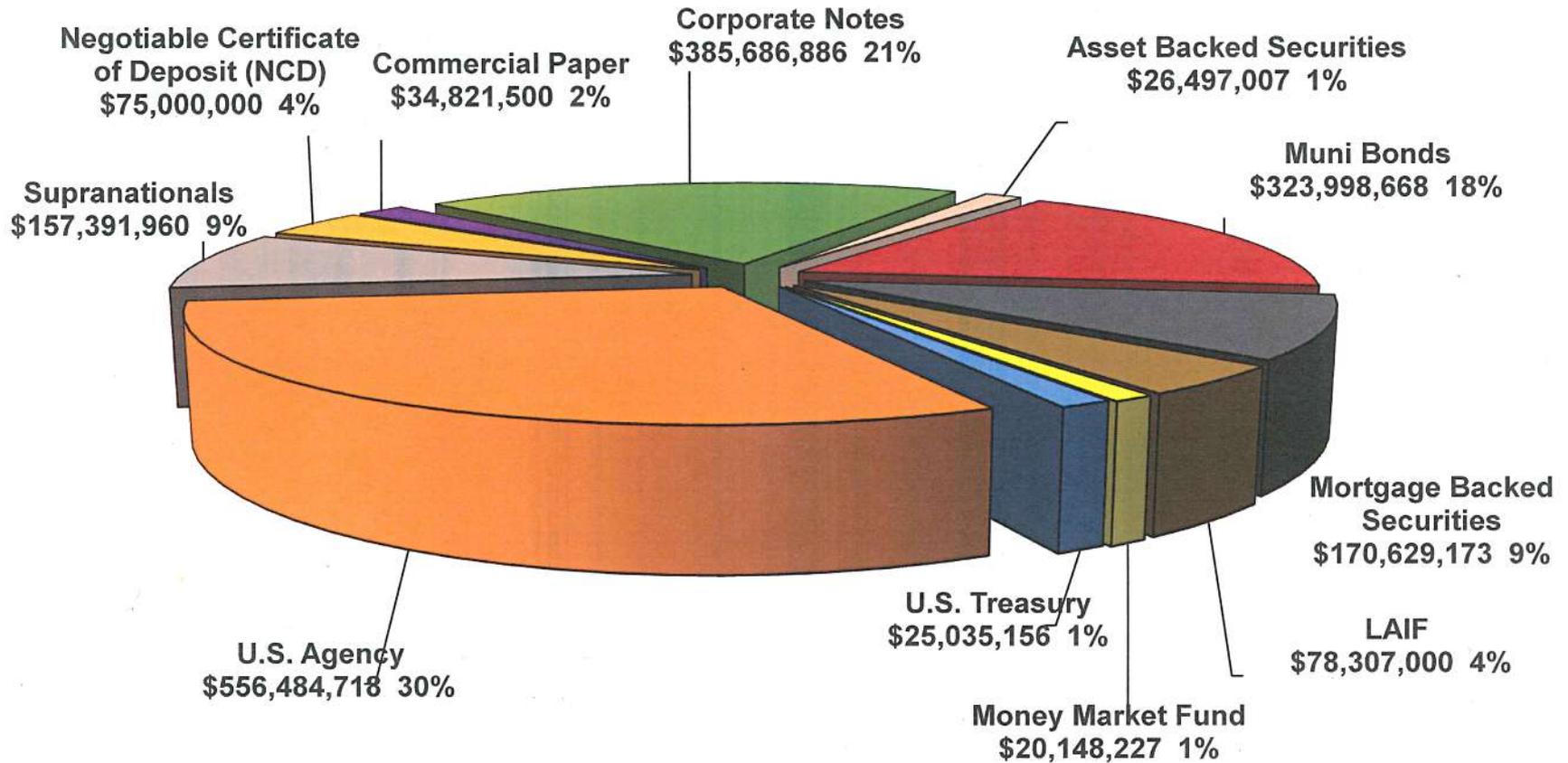
Section 22 of the Investment Policy articulates the Social Responsibility Investment Goals:

- Support safe and environmentally sound practices
- Support fair labor practices
- Support equality of rights
- Promote community economic development

Summary of Portfolio Performance

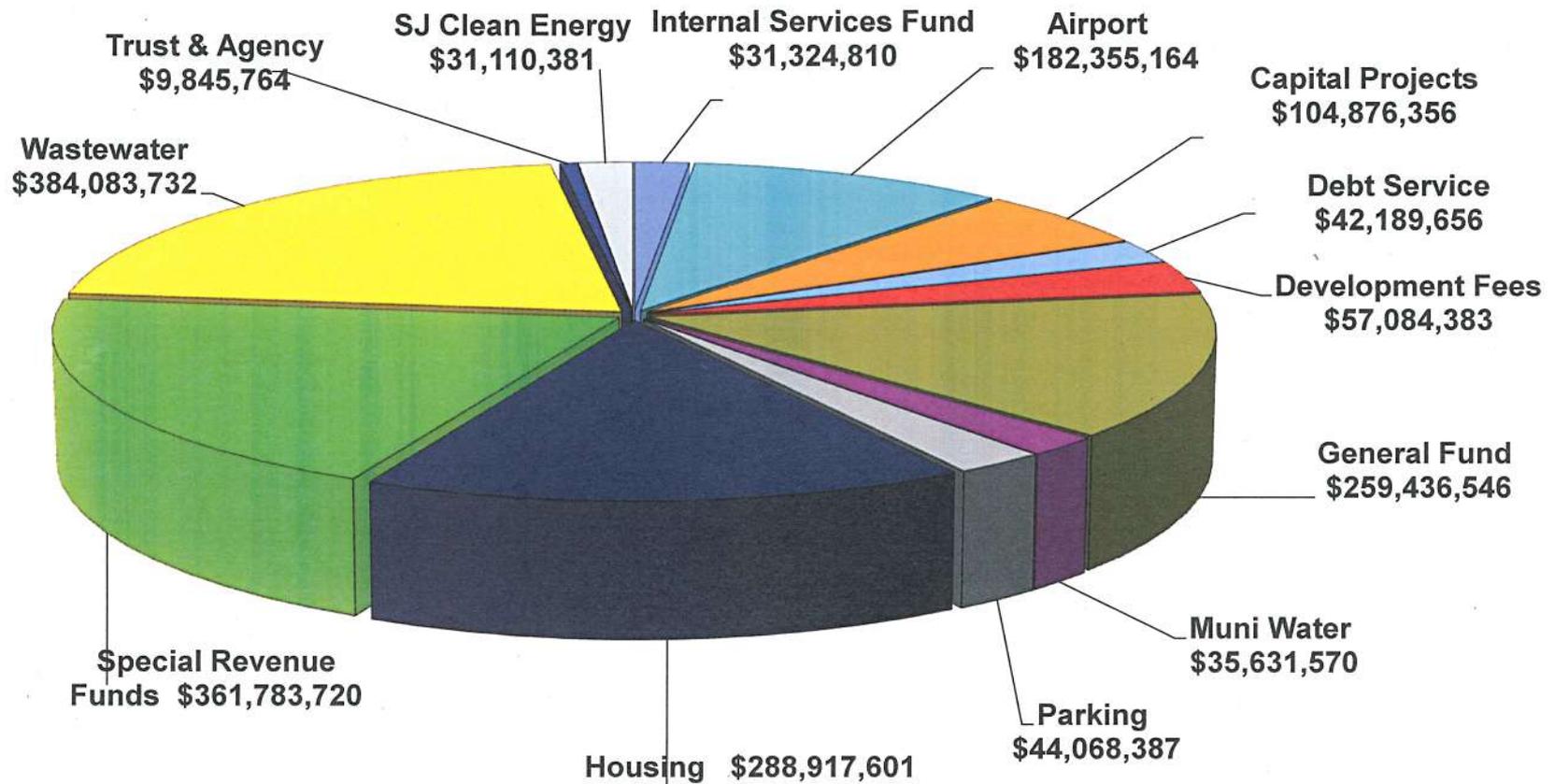
- Size of total portfolio: \$1,854,000,295
- Earned interest yield: 1.74%
- Weighted average days to maturity: 723 days
- Fiscal year-to-date net interest earnings: \$18,292,631
- No exceptions to the City's Investment Policy during this quarter.

Portfolio Investment



Total Investment Portfolio = \$1,854,000,295

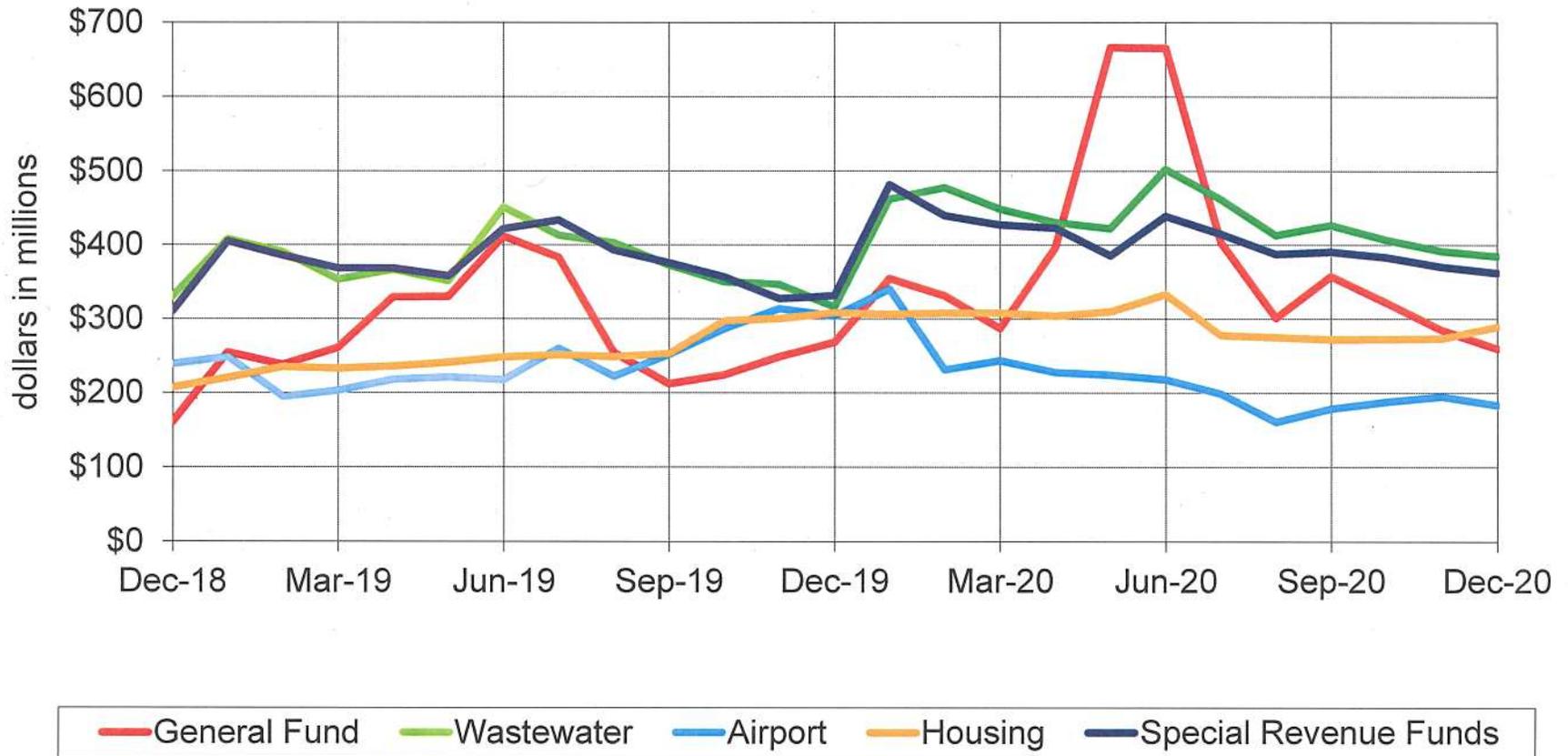
Investment by Fund



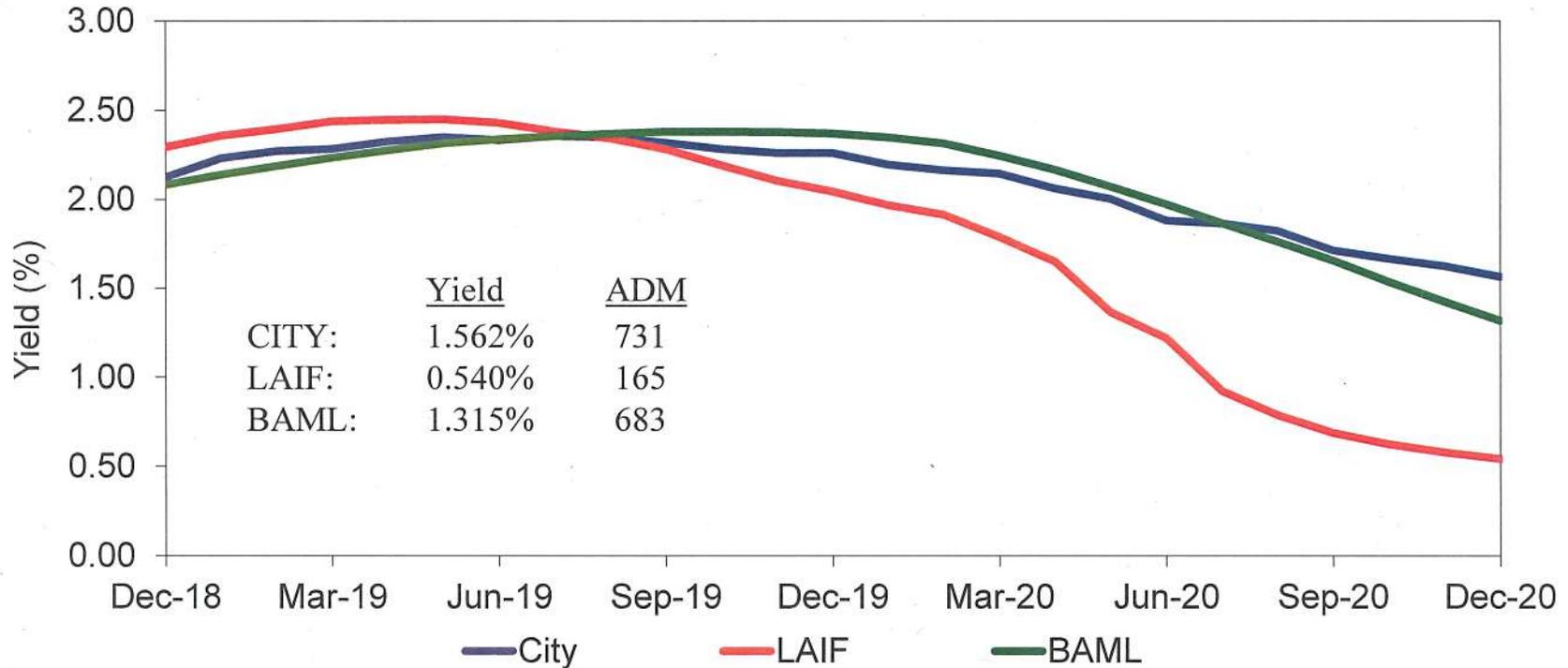
General Fund Balances

- General Fund investment balances decreased by \$98 million during the quarter. General Fund balance typically decreases from July to December when revenues received are less than 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 known expenditures with suitable investments 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

Proposed Investment Policy Revisions

- Increase the sector limit of municipal bonds from 20% to 30%
- Amend the social responsibility language to prohibit direct investment in fossil fuels
- Extend the temporary modification on weighted average maturity to July 1, 2022
 - Council approved a temporary policy change at its September 15, 2020 meeting increasing the weighted average maturity from 2 years to 2-1/2 years through July 1, 2021.

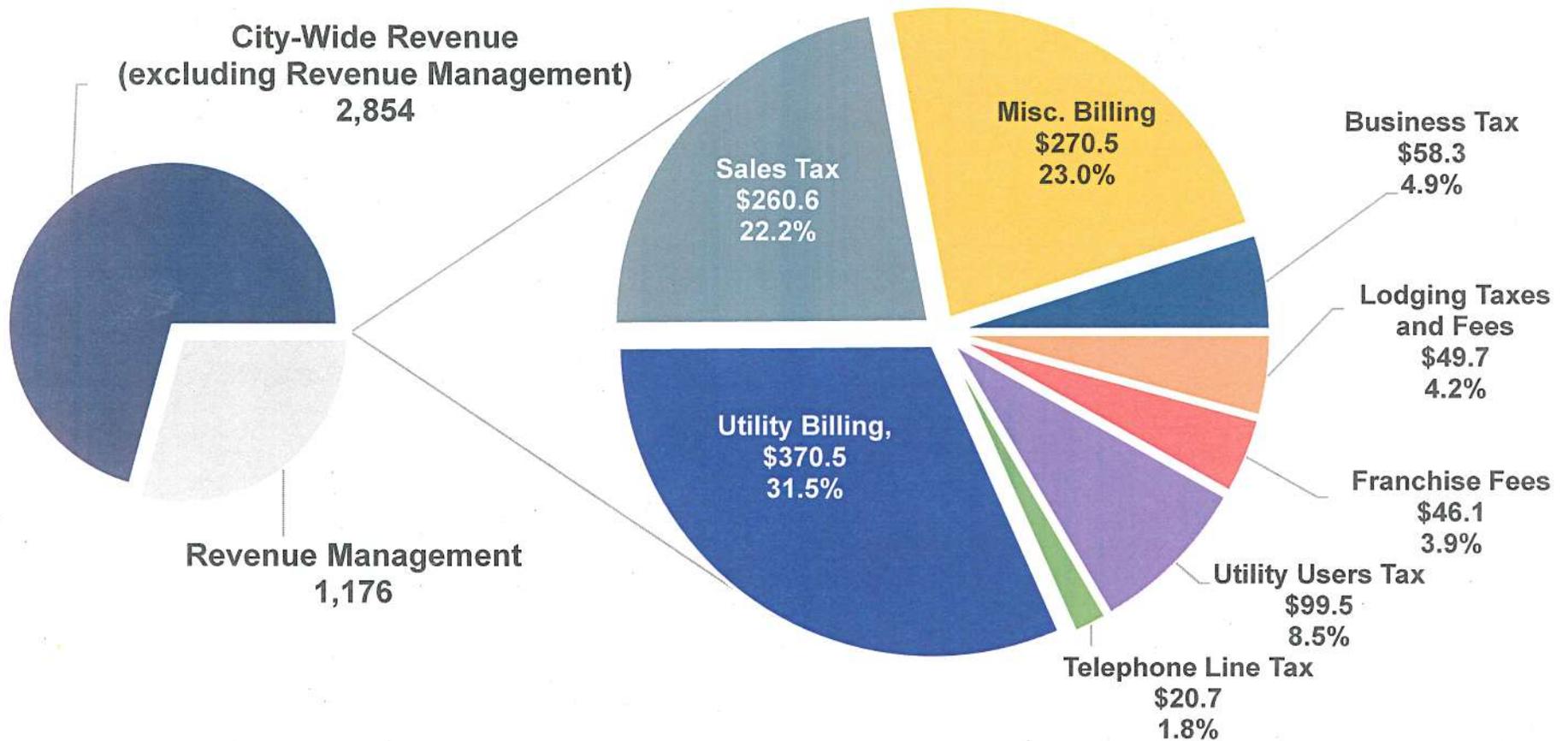
Second Quarter Revenue Management Report for Fiscal Year 2020-2021

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

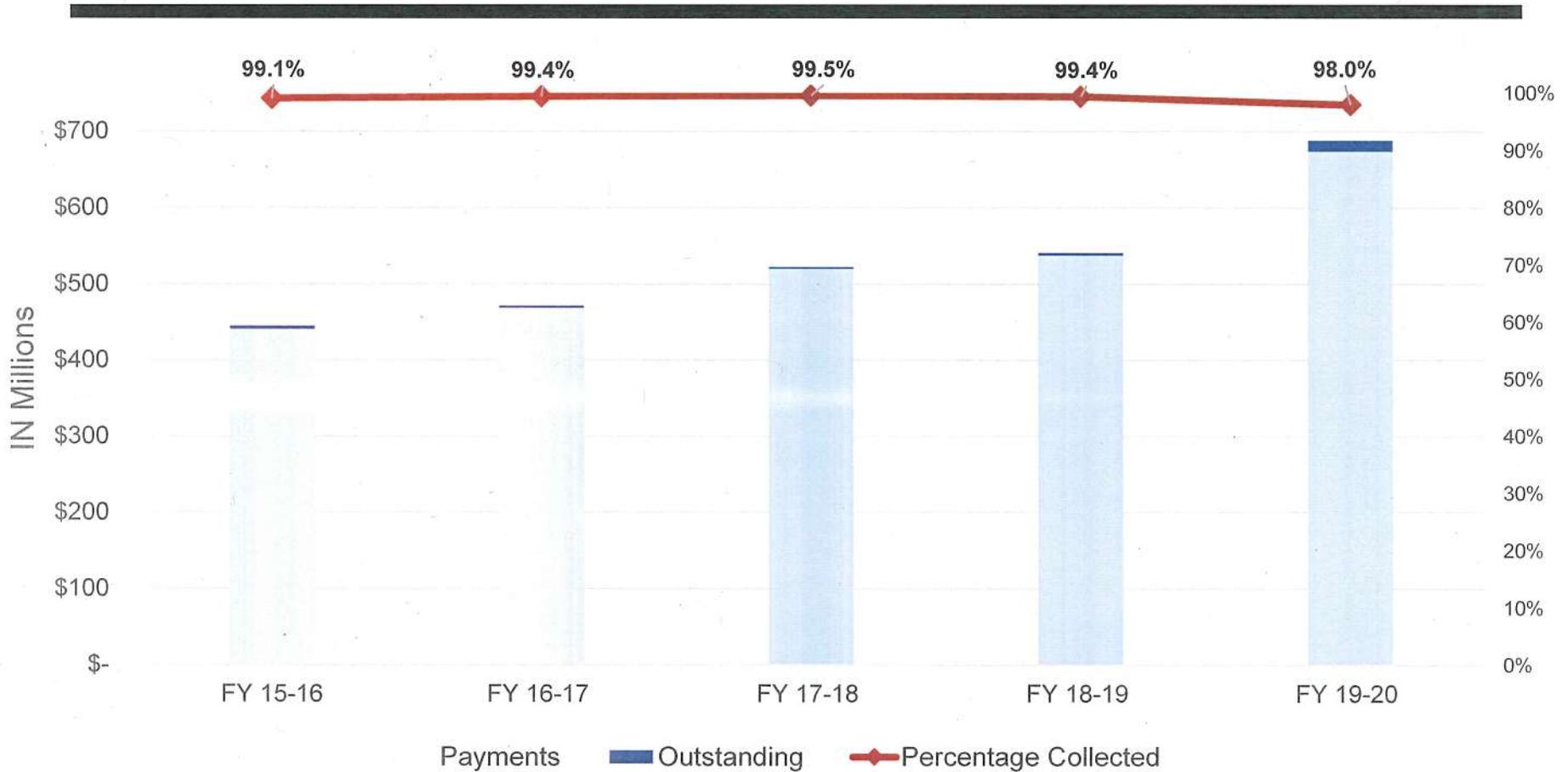
FY 2019-20 Revenue (\$ in millions)



Source: Total Revenue (\$4.030B) figures from 2019-20 City Manager's Budget Office Annual Report (Graph updated annually)

Invoicing and Payments

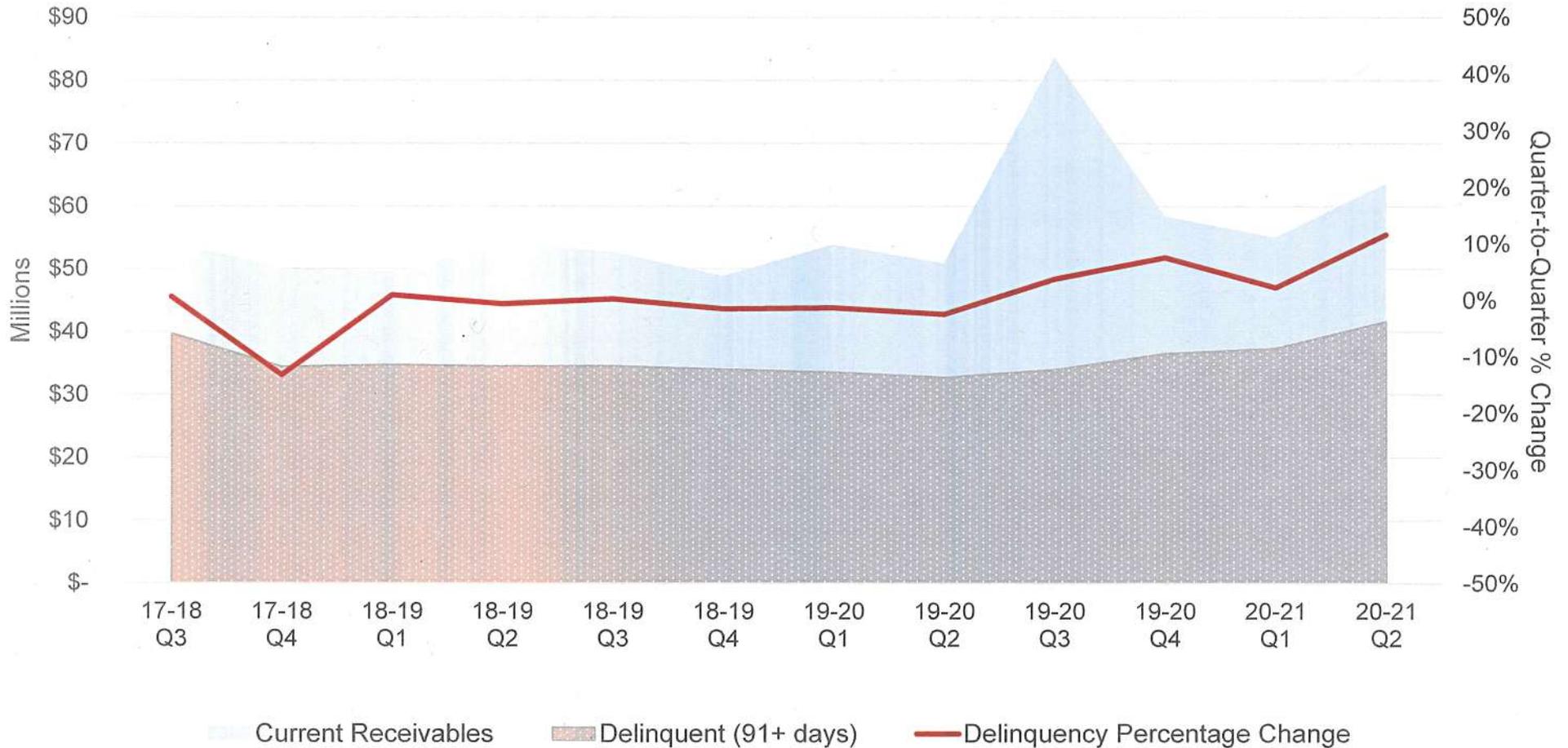
5 Years History (FY 2015-16 to FY 2019-20)



Invoices billed through Business Tax System, the centralized accounts receivable system (RevQ), and the Utility Billing System. (Graph updated annually)

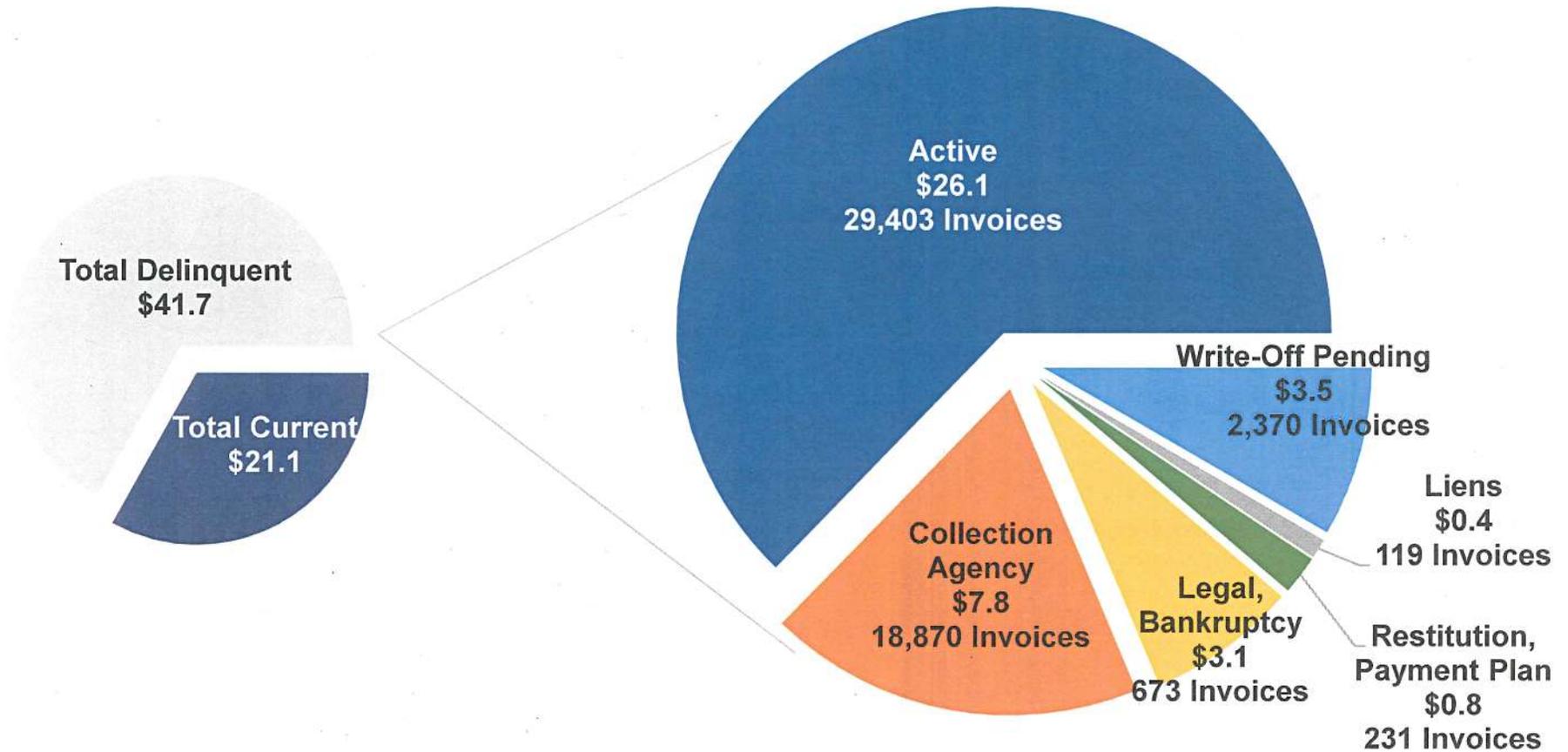
Outstanding Receivables

Three Year History



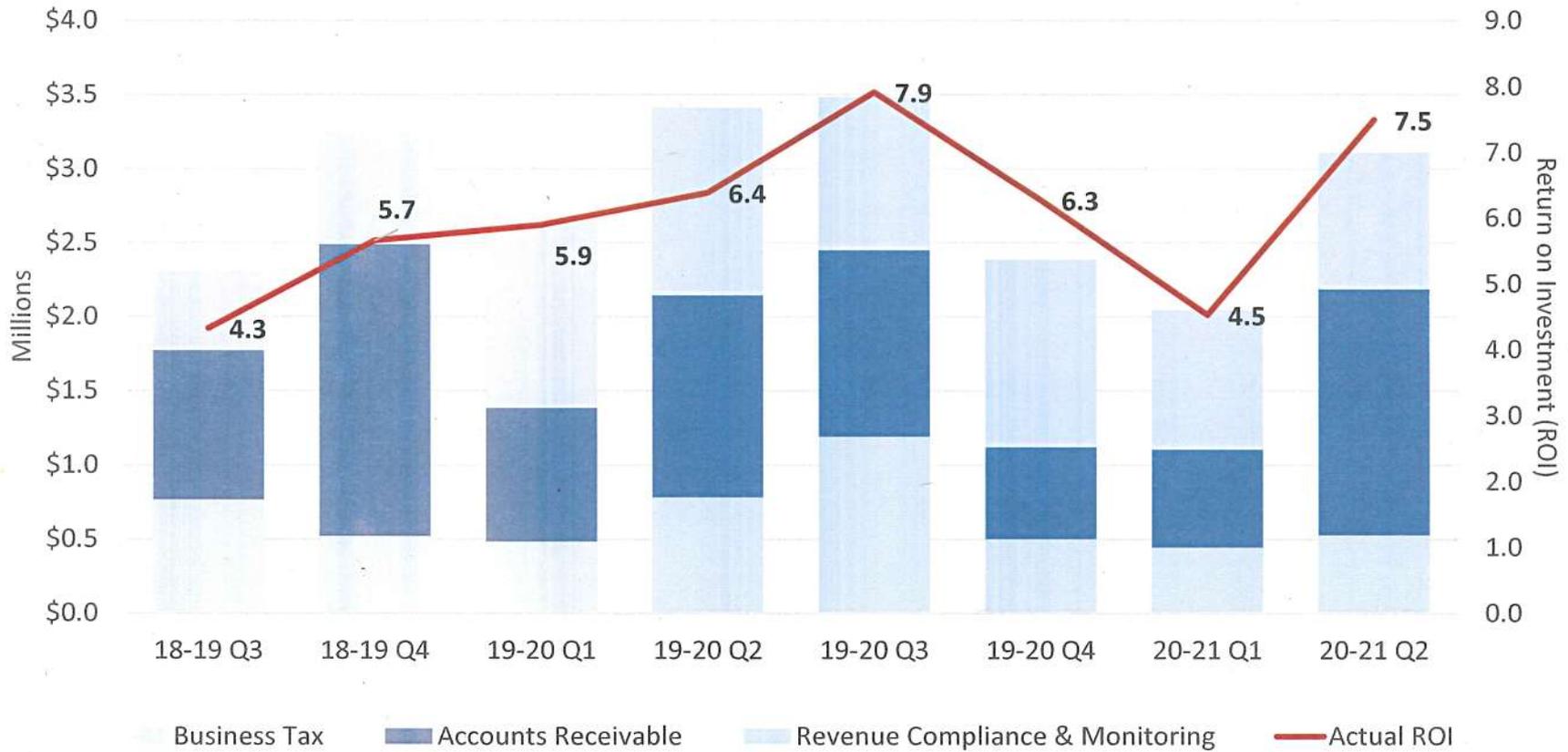
Delinquent Receivables

Collection Status Summary (\$ in millions)



As of December 31, 2020

Collections & Return on Investment



Target ROI: 5.5

Business Tax COVID-19 Assistance

On October 13, 2020, City Council approved an expansion of the business tax financial hardship exemptions; aimed at assisting businesses impacted by COVID-19. Eligible businesses must meet the following income requirements:

- Businesses with gross receipts of \$25,520 or less
- Business owners with adjusted gross income of \$51,040 or less

Businesses and residential landlords with renewals due this quarter were notified about the expanded COVID-19 assistance and nearly 350 have applied for the exemption.

Recommendation

1. Accept the Second Quarter Financial Reports for Fiscal Year 2020-2021 for the following programs:
 - Debt Management
 - Investment Management
 - Revenue Management

2. Refer the Second Quarter Financial Reports for Fiscal Year 2020-2021 to the March 9, 2021 City Council meeting for full adoption