

# **Third Quarter Financial Report for Fiscal Year 2020-2021**

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

**Prepared by the Finance Department  
May 6, 2021**

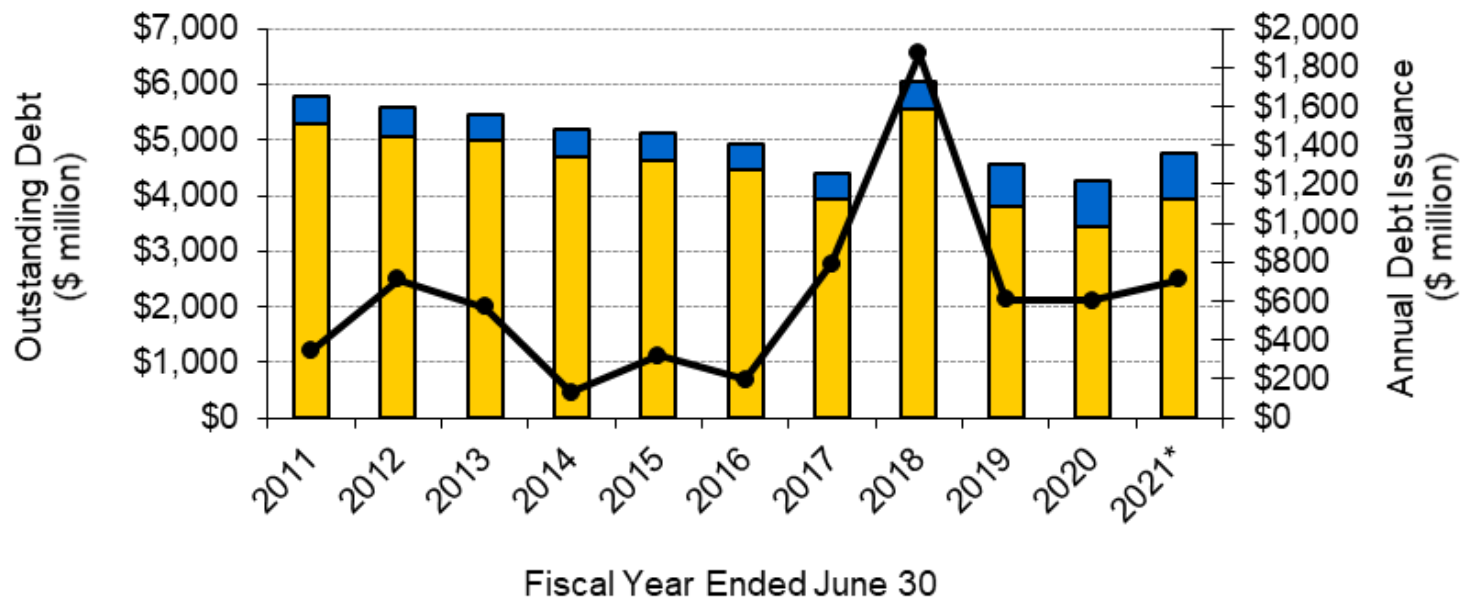
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# **Third Quarter Debt Management Report for Fiscal Year 2020-2021**

# Outstanding Debt Issued by All Agencies

Outstanding Debt as of March 31, 2021: \$4.6 Billion

FY 2020-21 Actual Debt Issuance: \$746.5 Million

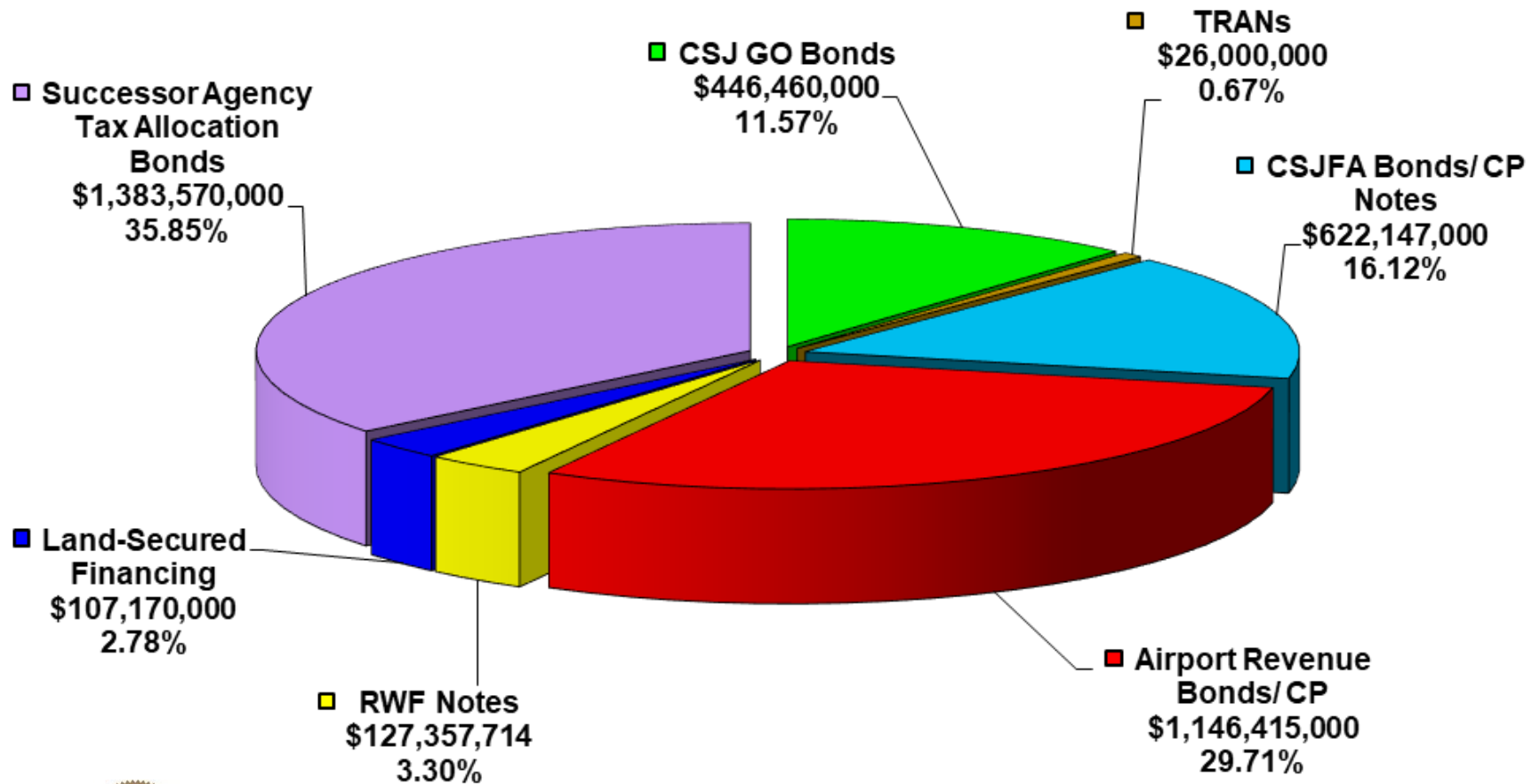


City and Related Entity Debt Outstanding    Conduit Debt Outstanding    Annual Debt Issuance

\* YTD Debt Issuance

# Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds

Outstanding Debt as of March 31, 2021: \$3,859,119,714



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

# Selected Debt Issuance Activities during 3<sup>rd</sup> Quarter (Jan-Mar. 2021)

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- Debt Issuance

- Multi-Family Housing Revenue Bonds

- SAHA Arya (Balbach) Housing (\$34.3 million, Closed March 2021)

- Airport Revenue Refunding Bonds

- Priced \$428,080,000 of Series 2021ABC on March 23 and 24 to refund all of the outstanding Series 2011A-1, Series 2011A-2, Series 2011B and a portion of outstanding Series 2014A, 2017A and 2017B. (Bonds were closed subsequent to the reporting period, on April 7, 2021)

# Selected Debt Issuance and Debt Management Activities during 3<sup>rd</sup> Quarter (Jan-Mar. 2021)

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- Debt Management

- Selected Pension Obligation Funding Municipal Advisor

- Phase One (Evaluation of Funding Options activities): Urban Futures, Inc.
- Phase Two (Bond Issuance preparation activities): Final selection process underway to assist in preparation work for potential issuance of POBs

- Completed Request for Information (RFI) selection of Municipal Advisory Firms for the following projects:

- Public Resources Advisory Group (PRAG)
  - General Obligation Bonds (Measure T)
  - CSJFA Lease Revenue Bonds
- Public Financial Management (PFM)
  - 2021 Tax and Revenue Anticipation Note (TRAN)
  - CSJ Financing Authority Commercial Paper program
  - CSJ Airport Commercial Paper program
  - CSJ Community Energy

# **Selected 3<sup>rd</sup> Quarter Debt Management and Reporting Activities (January – March 2021)**

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- Debt Management

- Pre-issuance activities for the following:

- 2021 TRANs (Prefunding of employer retirement contributions in FY2021-22)
- General Obligation Bonds (Second issuance authorized under Measure T)
- CSJFA Lease Revenue Bonds (Fire Training Center and Central Service Yard Improvements)

- Countywide Oversight Board Approval of ROPS 21-22

- Reporting

- Continuing Disclosure posted to MSRB-EMMA website
- Compliance Requirements Delivered Under Various Transaction Requirements

# Upcoming Debt Issuance and Management Through June 30, 2021

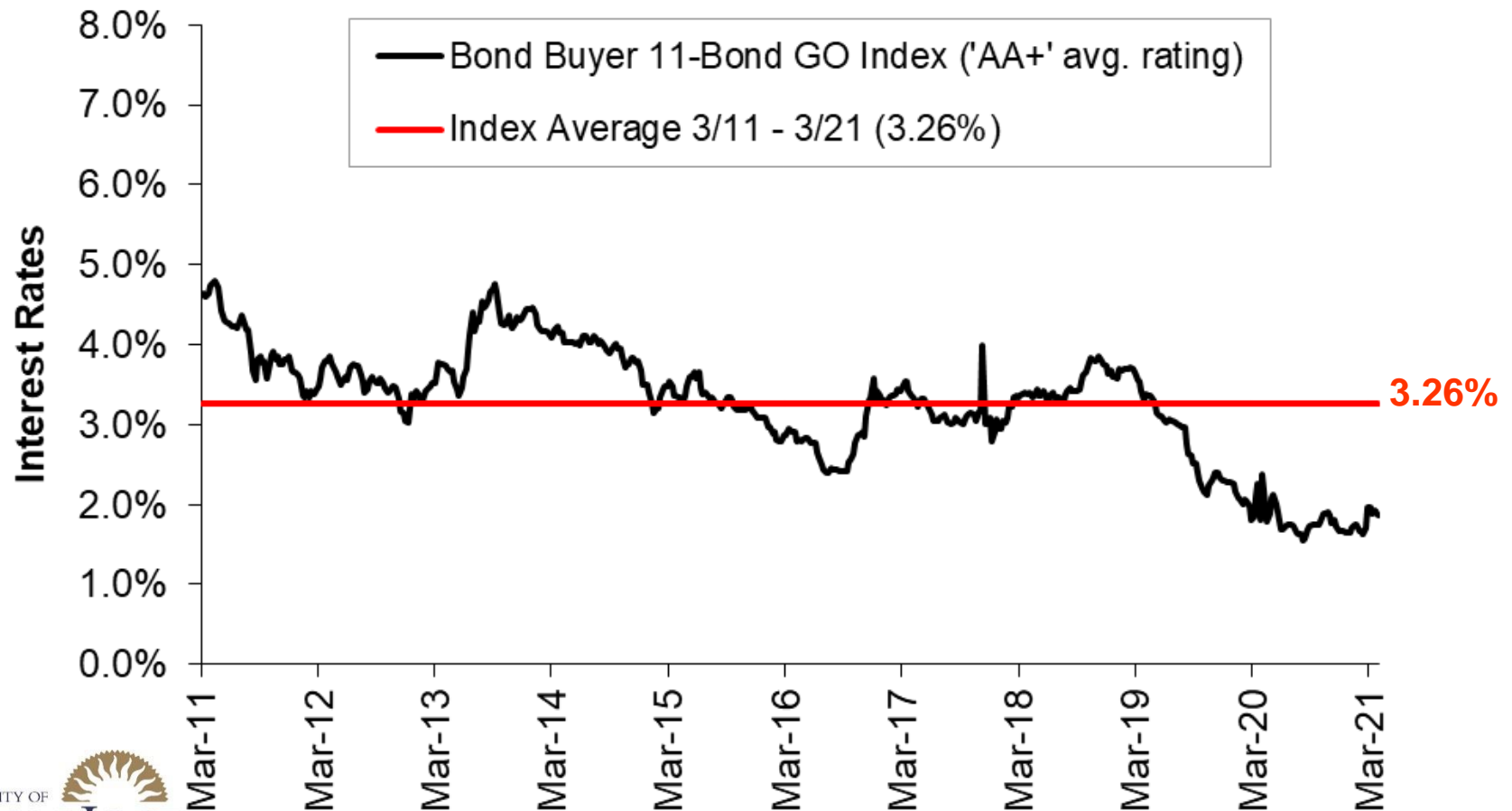
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- CSJ Airport Revenue Refunding Bonds, Series 2021ABC (\$428.08 million, Closed on April 7, 2021)
- Multi-Family Housing Revenue Bonds
  - Markham Plaza II (\$25 million, May 2021)
  - Blossom Hill Senior Apartments (\$39 million, May 2021)
  - Immanuel Sobrato Community Project (\$35 million, May 2021)
- Pre-issuance activities
  - Tax and Revenue Anticipation Notes (Bank Solicitation)
  - CSJFA Lease Revenue Bonds
  - General Obligation Bonds
  - CSJ Airport Commercial Paper program (Renew the LOC and Reimbursement Agreement)
  - CSJ Clean Energy (Expand/renew the Credit Facility)
  - Pension Obligation Bonds – Study Session with Council
  - CSJFA Commercial Paper Notes (Expand/renew the Notes)



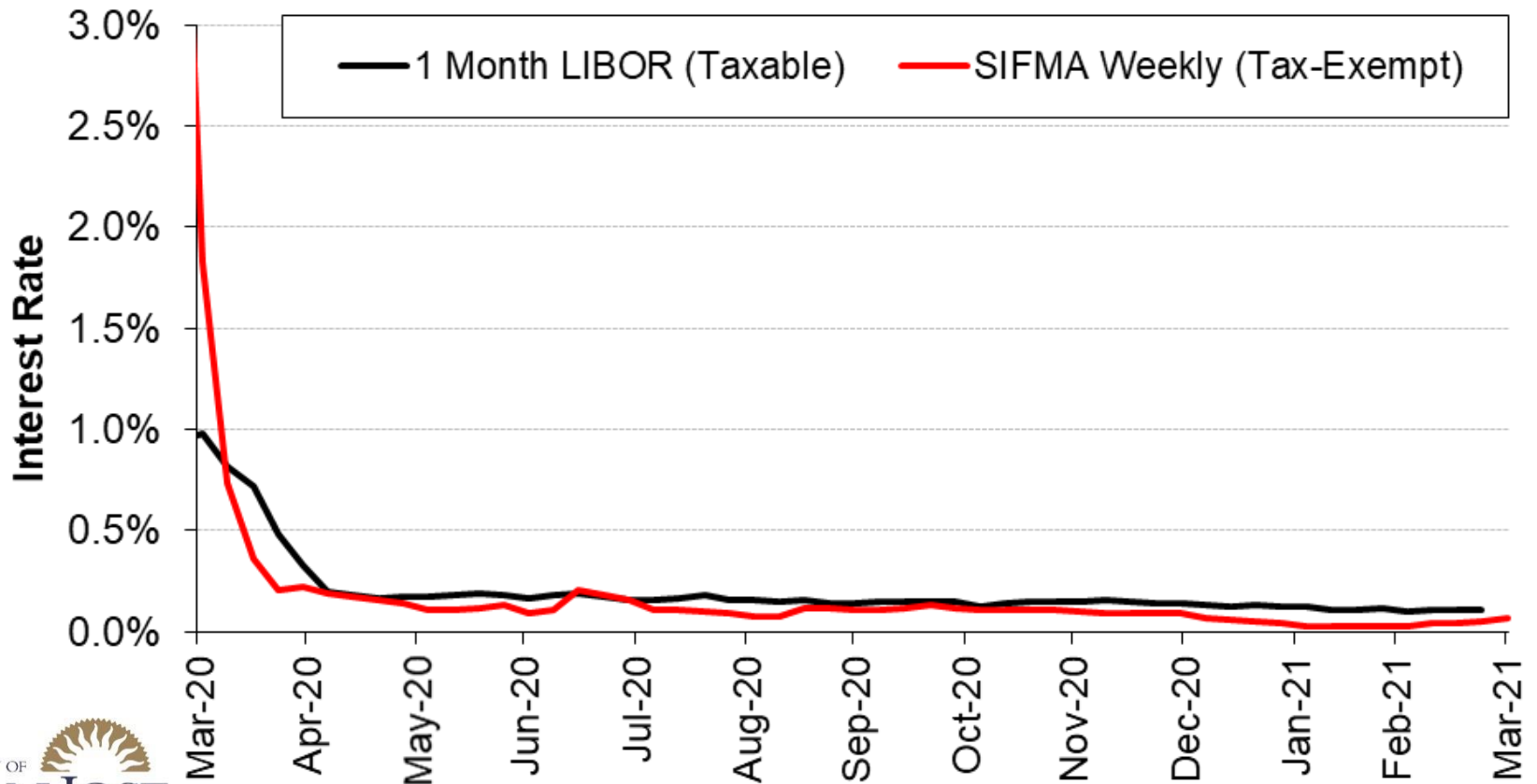
# Tax-Exempt Market Index (20 Year Fixed Rate)

- 10-year history of tax-exempt long-term (20-year term) interest rates averaged 3.26% and are currently at 1.83% (as of 4/8/21)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 0.04% in Q3 and are currently at 0.06% (as of 4/7/2021)
- Taxable LIBOR monthly interest rates paid by the City averaged 0.12% in Q3 and are currently at 0.11% (as of 4/8/2021)



# 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 and AA-<sup>2</sup>
  - 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

<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 and Fitch determine 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-).

# City of San José – Credit Ratings<sup>1</sup>

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- SJC Airport bonds are rated A2/A-/A and were reaffirmed by all three rating agencies in March 2020
  - March 12, 2021, Standard & Poor's revised its outlook from "Negative" to "Stable", in conjunction with the City of San José Series 2021 ABC Airport Revenue Refunding Bonds, and affects all of the outstanding Airport Revenue Bonds.
- SARA Senior Tax Allocation Bonds are rated AA and AA- by S&P and Fitch respectively<sup>3</sup>.
- Sector Outlook Changes due to the economic and budgetary impacts from COVID-19
  - Moody's - Negative Outlook, December 2020 - **Airport Sector**,
  - S&P - Negative Outlook, August 2020 - **US Public Finance Sector** (Local Governments); March 2020 - **Transportation Sector** (Airports)
  - Fitch – Negative Outlook, April 2020 - **Airport** and **State & Local Tax Supported**

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# **Third Quarter Investment Management Report for Fiscal Year 2020-2021**

# 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 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 Policy Revisions During Quarter

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- On March 9, 2021, Council reviewed and approved the Investment Policy with the following changes:
  - Amend the social responsibility language to prohibit direct investment in fossil fuels
  - Increase sector limit of municipal bonds from 20% to 30%
  - 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.
- By Policy, the Investment Policy is reviewed at least annually.

# 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



# Socially Responsible Investment Goals

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Section 22 of the Investment Policy articulates the Social Responsibility Investment Goals for new investments:

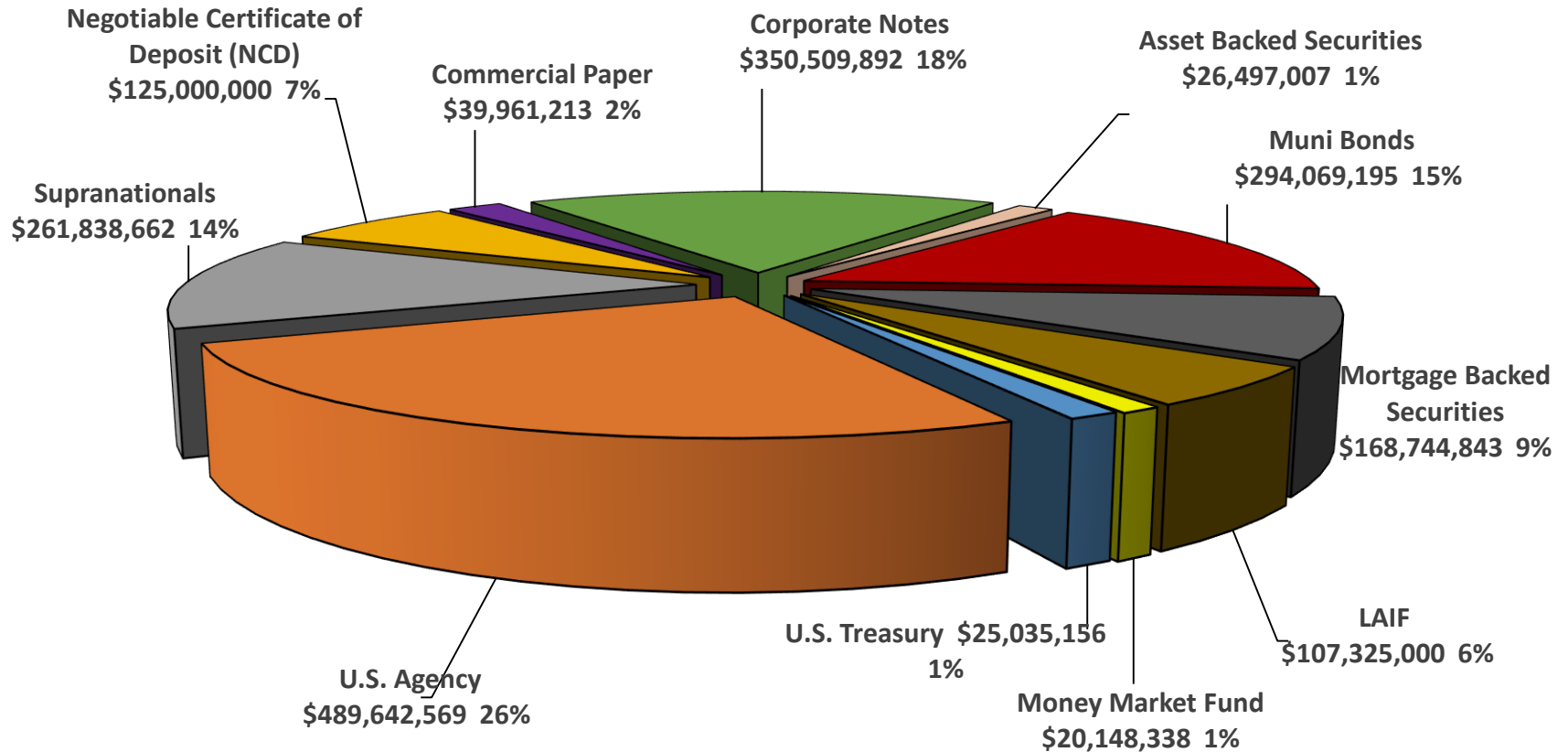
- Support safe and environmentally sound practices
- Support fair labor practices
- Support equality of rights
- Promote community economic development
- Make no direct investments in entities that directly engage in exploration, production, refining or marketing of fossil fuels

# Summary of Portfolio Performance: 3<sup>rd</sup> Quarter

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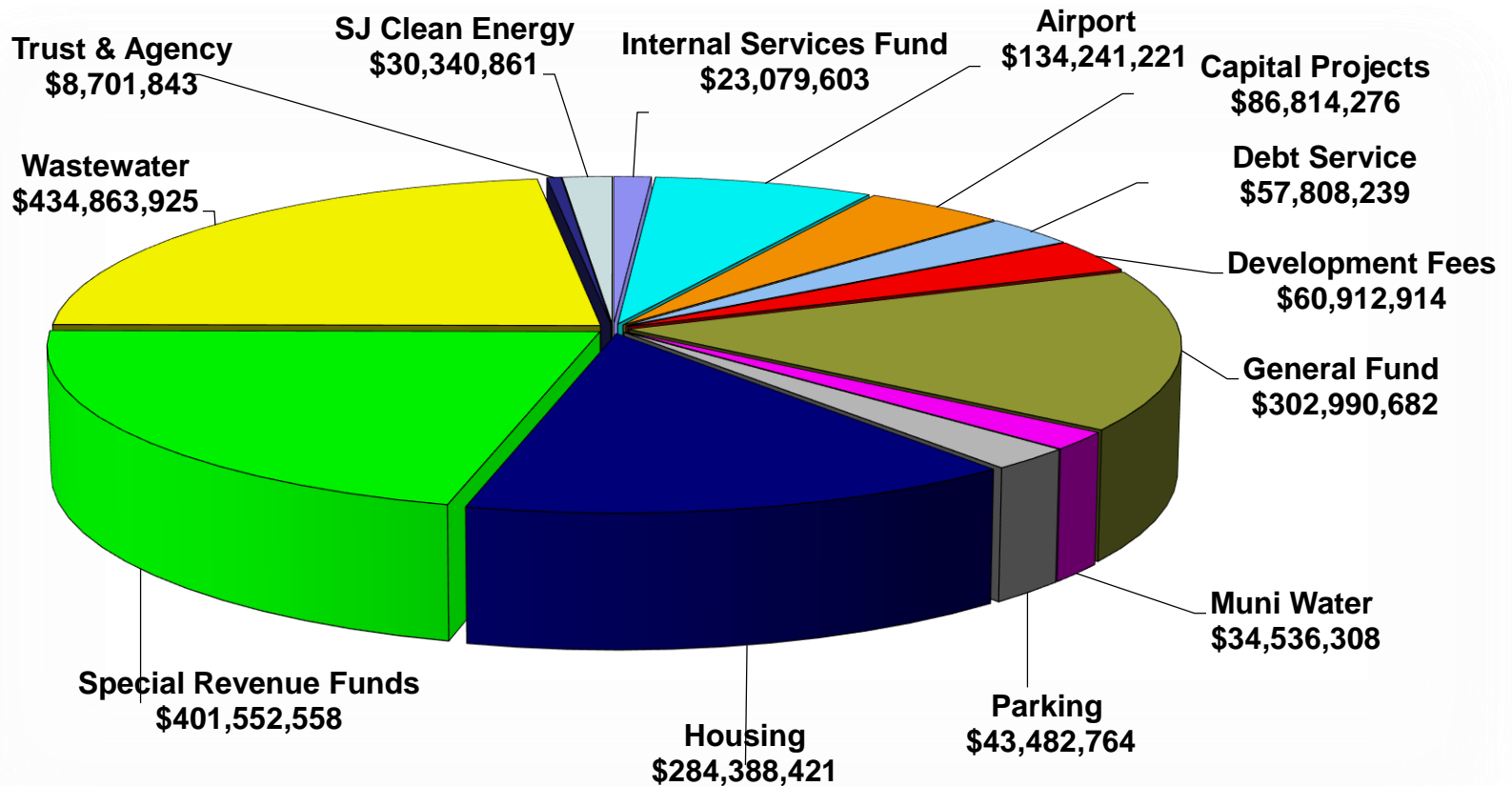
- **Size of total portfolio:** \$1,908,771,873
- **Earned interest yield:** 1.407%
- **Weighted average maturity:** 756 days
- **Fiscal year-to-date net interest earnings:**  
\$25,214,506
- No exceptions to the City's Investment Policy during this quarter.

# Portfolio Investment



Total Investment Portfolio = \$1,908,771,873

# Investment by Fund



General Fund includes \$200,717,737 of General Fund (Fund 001) as well as \$102,272,946 of other General Fund funds which are separately tracked including the Emergency Reserve Fund, CARES Act, Developer Fees, Depositor Funds, and other smaller funds and reserves.

# General Fund Balances

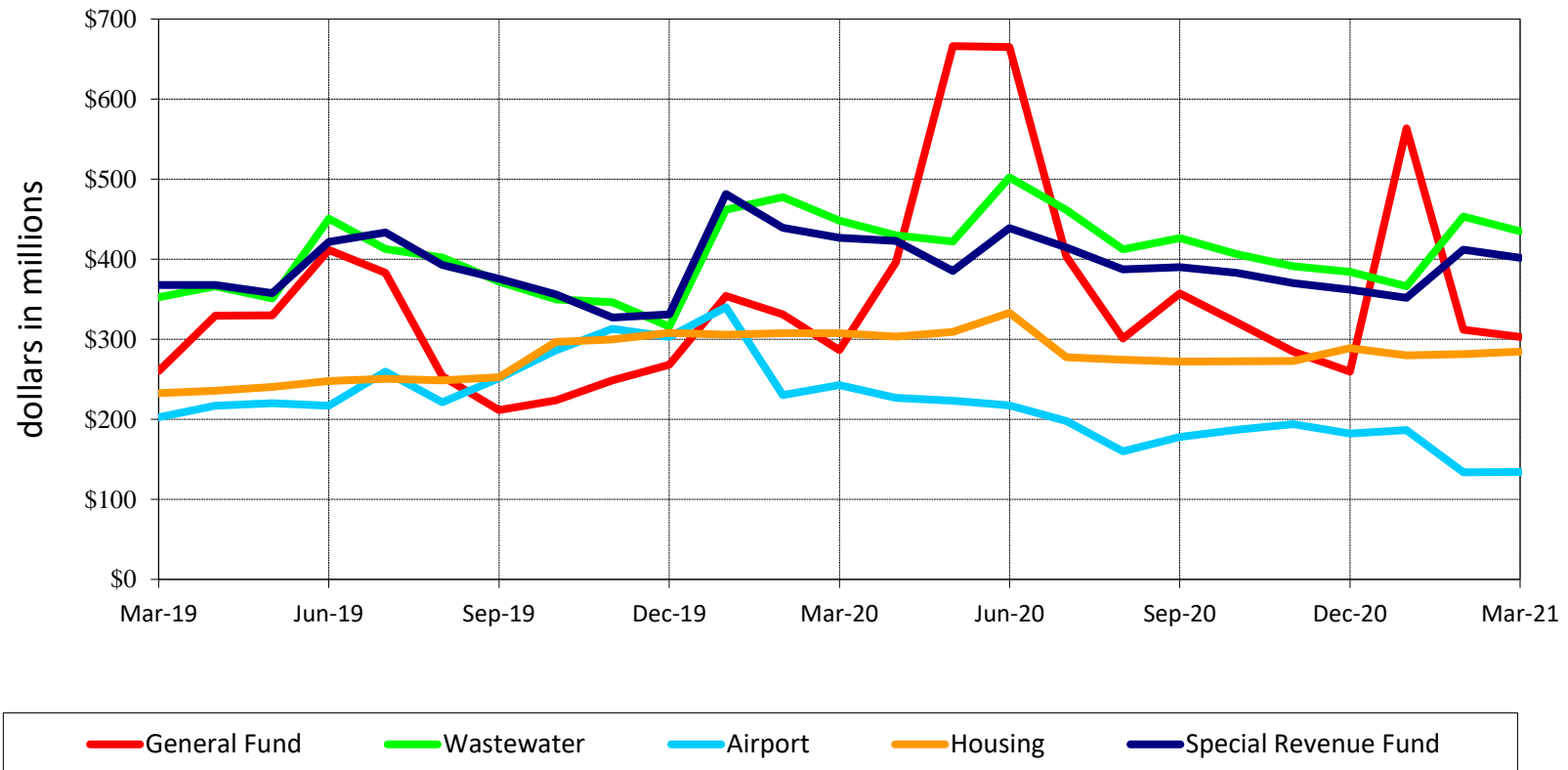
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- General Fund investment balances increased by \$44 million during the quarter. The City received over \$311 million of property tax payments in January. This is a normal pattern based on the County's disbursements of property taxes to the City.
- Projected investment maturities and revenue are projected to be sufficient to cover anticipated expenditures for the next six months

# Comparison of Cash Balances by Select Funds

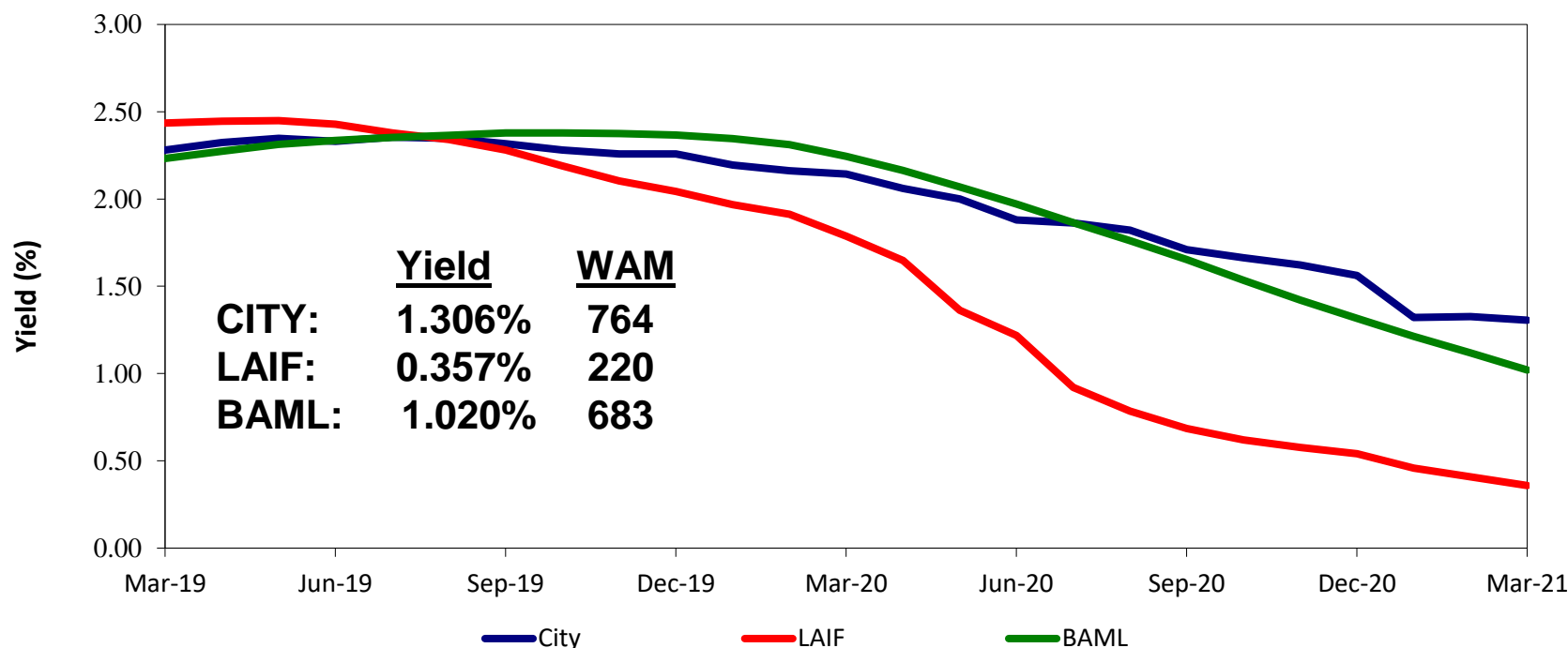
- Monthly cash balances of five largest City funds as reported by the City's Financial Management System ("FMS").

**Monthly Comparison of Balances by Fund Type  
March 2019 – March 2021**



# Benchmark Comparisons

## Portfolio vs. Benchmarks March 2019 – March 2021



### 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

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- 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



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# **Third Quarter Revenue Management Report for Fiscal Year 2020-2021**

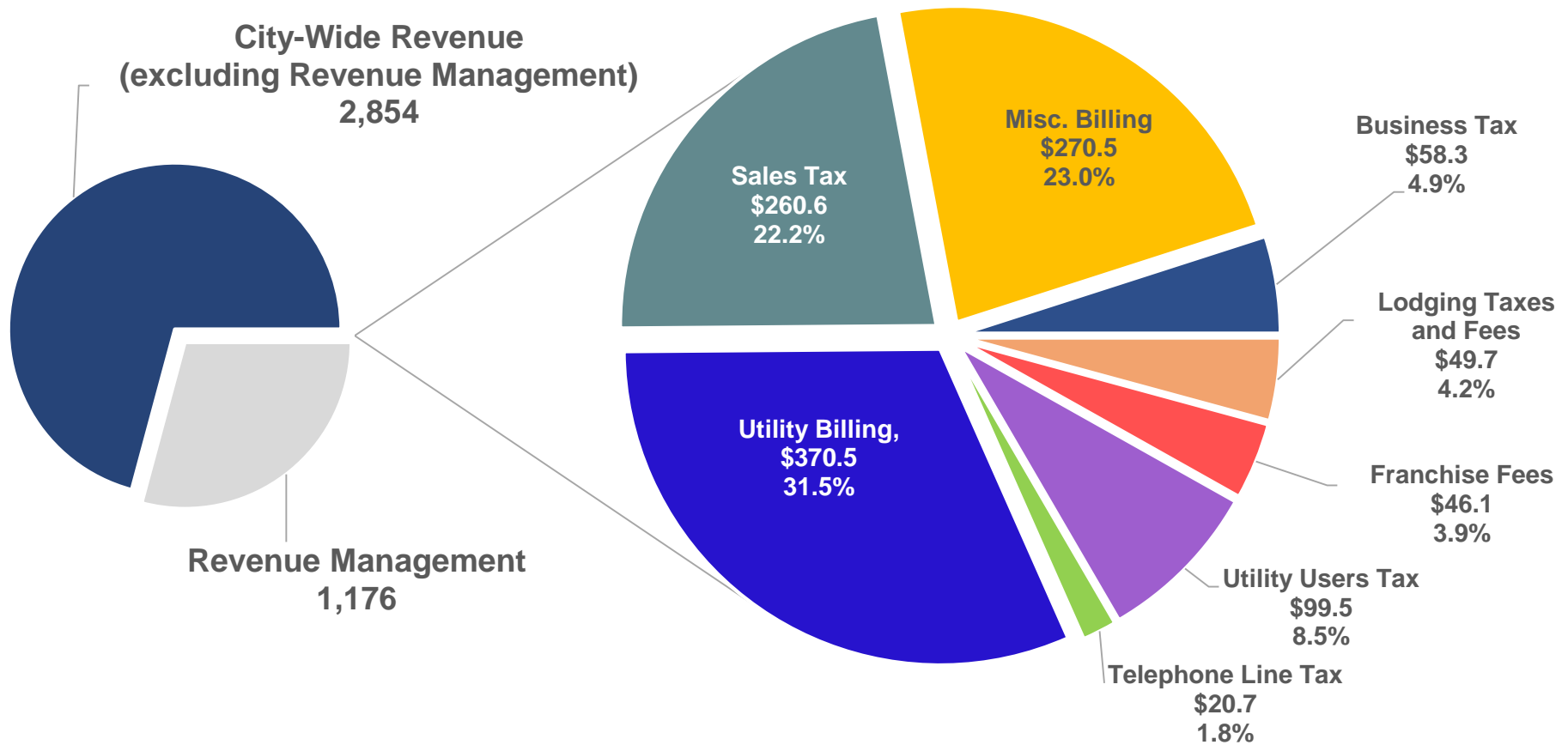
# Revenue Management Programs

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- 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

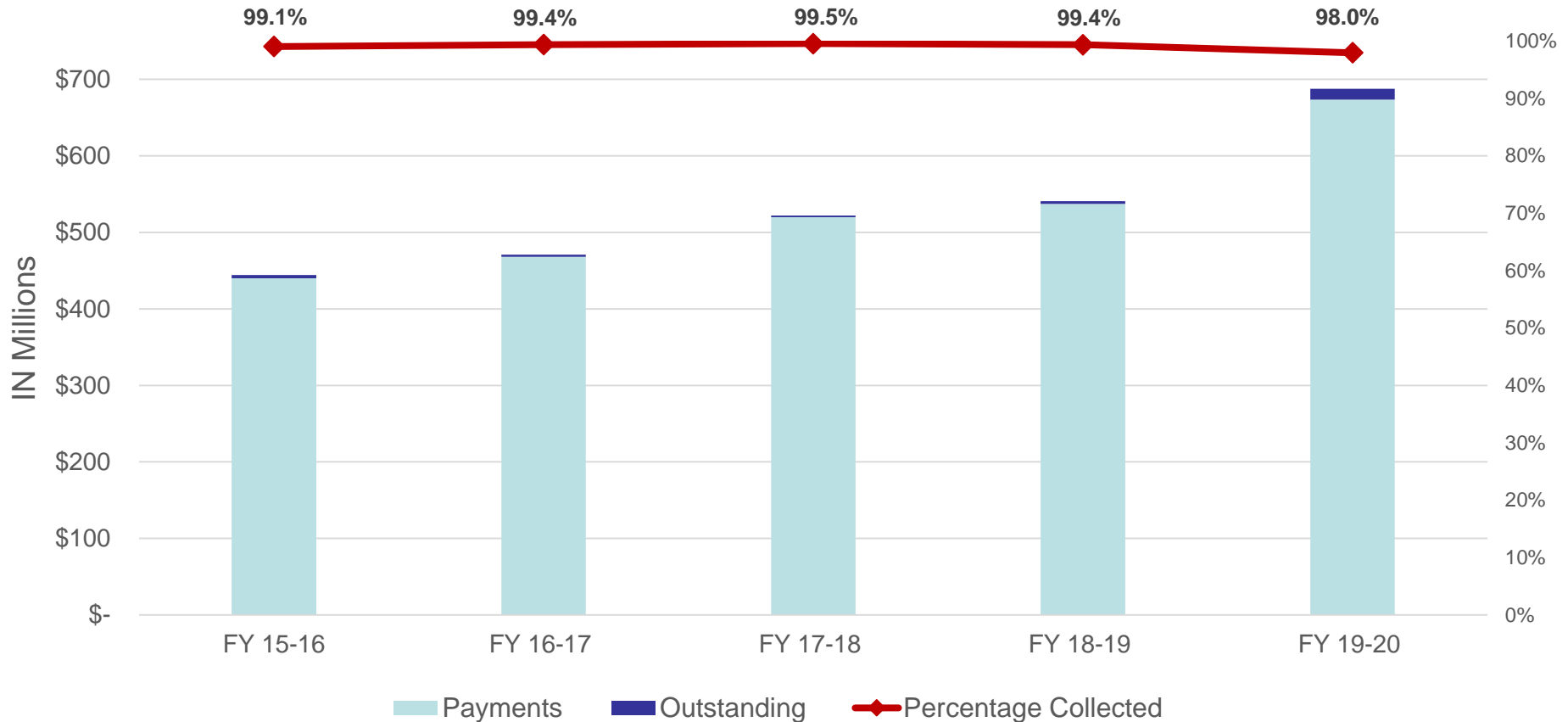
# Revenue Management Portfolio

## FY 2019-20 Revenue (\$ in millions)



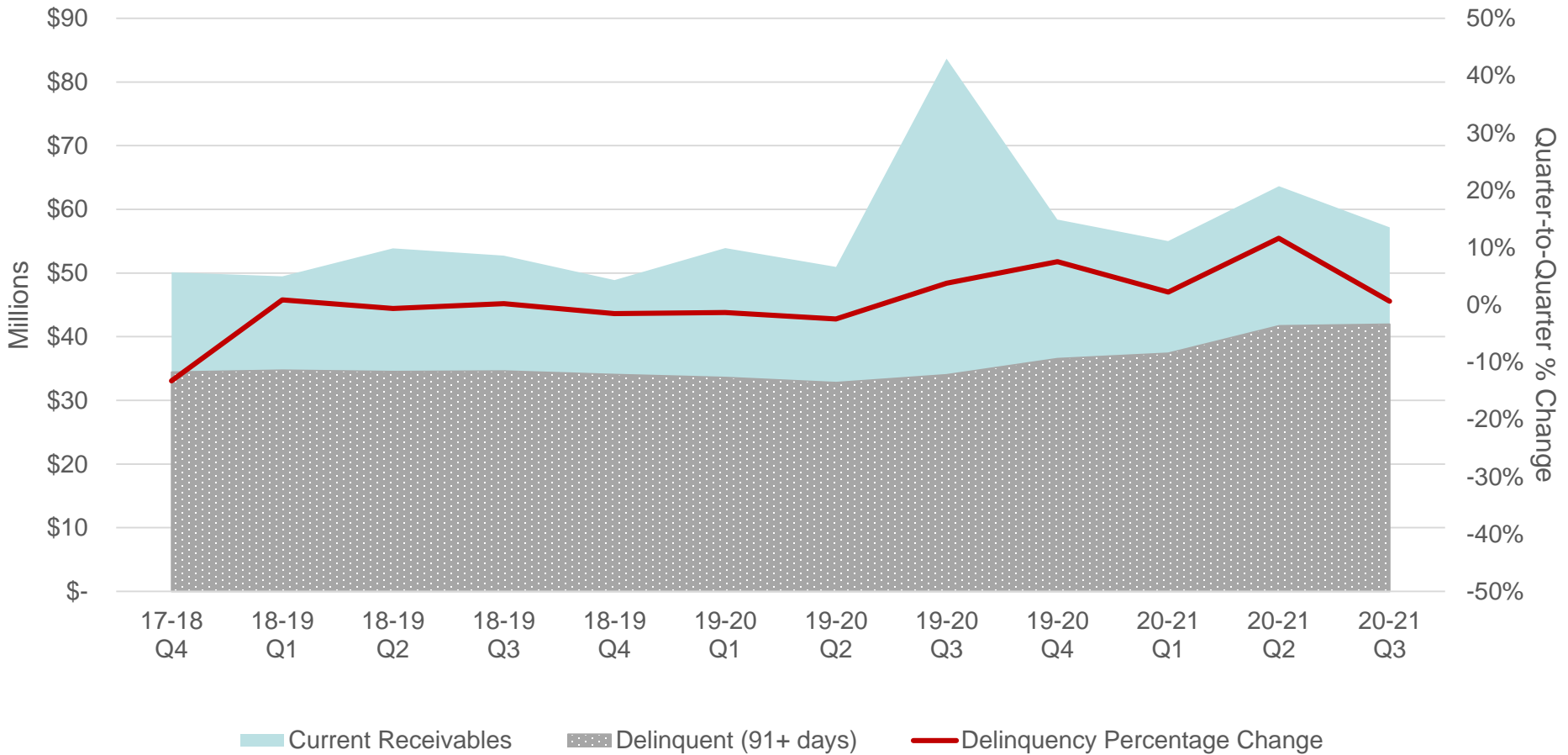
# Invoicing and Payments

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



# Outstanding Receivables

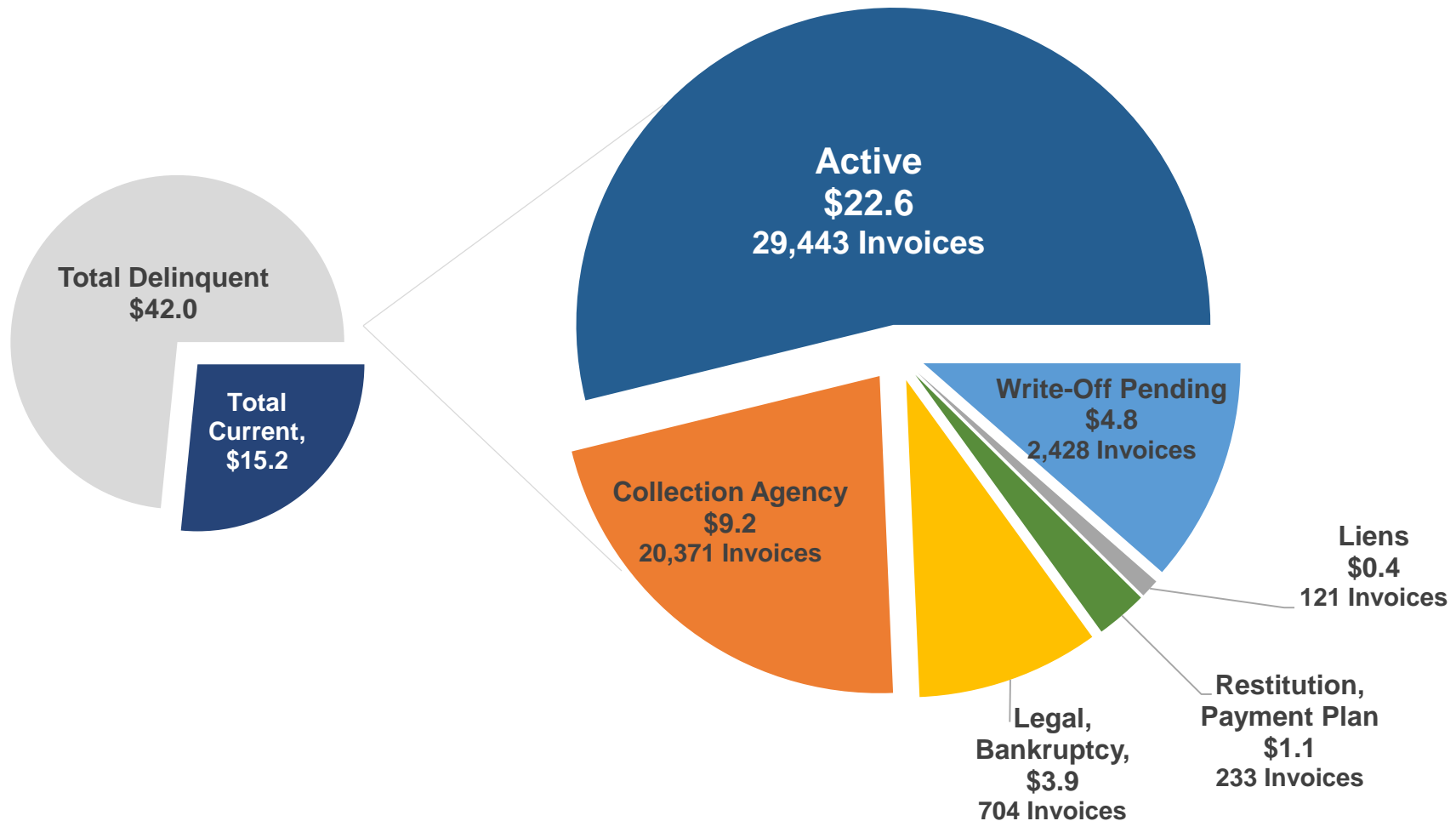
## Three Year History



# Delinquent Receivables

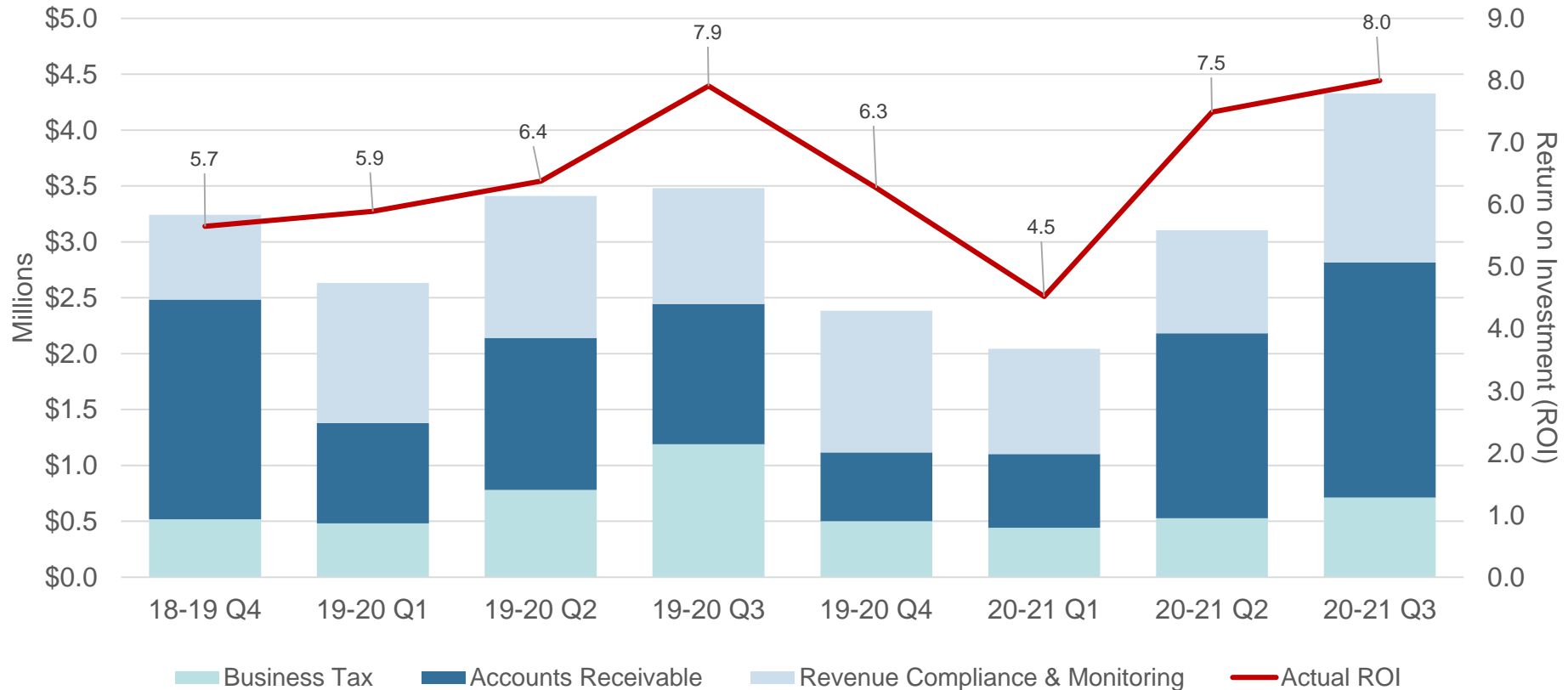
## Collection Status Summary (\$ in millions)

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As of March 31, 2021

# Collections & Return on Investment



Target ROI: 5.5

# Business Tax COVID-19 Assistance

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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

Over 8600 businesses and residential landlords with renewals due this quarter were notified about the expanded COVID-19 assistance and 1,049 have applied for the exemption, of which 866 have been approved, 28 are duplicate requests and 155 are pending.