



COUNCIL AGENDA: 06/08/2021

ITEM: 2.14

FILE NO: 21-1310

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: June 8, 2021

SUBJECT: Third Quarter Financial Reports for Fiscal Year 2020-2021

Recommendation

As recommended by the Public Safety, Finance and Strategic Support Committee on May 20, 2021, accept the Third Quarter (period ended March 31, 2021) Financial Reports for Fiscal Year 2020-2021 for the following programs:

- (a) Dept Management.
- (b) Investment Management.
- (c) Revenue Management.

CEQA: Not a Project, File No. PP17-008, General Procedure and Policy Making resulting in no changes to the physical environment. (Finance)

[PSFSS Committee referral 5/20/2021 - Item (c) 1.]



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Julia H. Cooper

SUBJECT: THIRD QUARTER FINANCIAL
REPORTS FOR FISCAL YEAR
2020-2021

DATE: May 6, 2021

Approved

Date

5-11-21

RECOMMENDATION

- (1) Accept the Third Quarter (period ended March 31, 2021) Financial Reports for Fiscal Year 2020-2021 for the following programs:
 - (a) Debt Management
 - (b) Investment Management
 - (c) Revenue Management;
- (2) Refer the Third Quarter Financial Reports for Fiscal Year 2020-2021 to the June 8, 2021, City Council Meeting for full adoption.

OUTCOME

Provide the quarterly update on debt management, investment management, and revenue management work efforts.

BACKGROUND

The attached Third Quarter Financial Reports for Fiscal Year 2020-2021 presents the Finance Department's quarterly activity for the City of San José ("City") Debt Management, Investment Management, and Revenue Management programs (Attachment A). Additionally, the Third Quarter Investment Report has been distributed to the City Council via email and is available on the Finance Department web page¹. As part of the ongoing effort to streamline work efforts

¹ <https://www.sanjoseca.gov/your-government/departments/finance/reports/-folder-450>

within the Finance Department, these three reports are combined in one single report for submission to the Public Safety, Finance, and Strategic Support Committee ("PSFSS Committee") for its review and acceptance. A brief narrative discussion is provided below for all three components of this quarterly report.

ANALYSIS

This section of the report is divided into the following sections: Debt Management Program, Investment Management Program, and Revenue Management Program.

Debt Management Program

This Third Quarter Debt Report focuses on the City's debt activities for the period ended March 31, 2021, and relates to the following elements of the City's Debt Management Program:

- Completed financings and current debt portfolio
- Debt issuance and management activities completed and anticipated to fiscal year end
- Current interest rate environments and credit ratings

Completed financings and current debt portfolio

- **Completed financings:**

Airport Revenue Refunding Bonds, Series 2021A (AMT), Series 2021B (non-AMT) and Series 2021C (Taxable) (the "Series 2021 ABC Bonds") – On March 23 and 24, the City of San José was in the market pricing Airport Revenue Refunding Bonds, Series 2021ABC Bonds in the amount of \$428,080,000 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 (collectively, the "Refunded Bonds"). The Series 2021ABC Bonds were closed subsequent to the reporting period, on April 7, 2021. The Series 2021ABC Bonds were underwritten by two underwriting teams. As a result of the bond sale, the Airport achieved a net present value savings of \$148.7 million, or 31.4%, of the Refunded Bonds over the term of the bonds. The Bonds were priced with an all-in true interest cost ("TIC") of 1.93%. The final structure provided front-loaded relief to the City of San José Norman Y. Mineta International Airport ("Airport") in Fiscal Year 2021-2022 and Fiscal Year 2022-2023 to allow the Airport to gradually recover operations from the impact of COVID-19.

Multi-Family Housing Revenue Bonds -- Arya Apartments – In March 2021, the City served as a conduit issuer for \$34.3 million in a private placement of tax-exempt 501(c)(3) housing revenue notes for Arya Apartments to finance the construction by Satellite Affordable Housing Associates (a California nonprofit corporation) of an 87-unit affordable housing project for low/very low-income residents in San José.

- **Current Debt Portfolio**

The City's total outstanding debt portfolio as of March 31, 2021 is \$4.6 billion; of that amount, \$3.9 billion is direct debt issued by the City and agencies of the City and \$779 million is conduit debt for multi-family housing. The amount of debt issued (City, agency and conduit) for the first three quarters of FY 2020-21 is \$746.5 million, which does not include the \$428.02 million of airport bonds closed in the following fiscal quarter.

Debt issuance and management activities completed and anticipated to fiscal year end

- **Debt Issuance**

Pre-issuance activities – The City is currently engaged in pre-issuance activities for the 2021 TRANs (prefunding of retirement system obligations) and the General Obligation Bonds (second issuance of Measure T authorization). Both issuances are scheduled to receive Council consideration in June and issuance in July 2021. Lease Revenue Bonds are tentatively scheduled for Council approval and issuance in the first quarter of Fiscal Year 2021-2022 for the Fire Training Center/Central Service Yard improvements.

- **Debt Management**

Requests for Proposals (RFP)

Pension Obligation Funding Municipal Advisor. In January, the City selected a financial advisor, Urban Futures Inc. ("UFI"), based on a Request for Proposals issued in December 2020 and interviews conducted in January 2021, to assist the City in studying pension funding and financing options. UFI met with Finance, Budget, OER and CAO weekly for the balance of the quarter to prepare an in-depth report and modeling on pension funding strategies, including the issuance of Pension Obligation Bonds, and assisted staff in preparing a study session for the full Council held on April 23.

General Municipal Advisory Assignments. In January 2021, the City released a Request for Information to Municipal Advisory Firms in the City's Municipal Advisory Pool to advise the City on various assignments which included financing options for TRANs (prepayment of retirement system obligations); General Obligation Bonds (second issuance of Measure T authorization); Lease Revenue Bonds (Fire Training Center/Central Service Yard); renewal of the City's Lease Revenue Commercial Paper program; the Airport Commercial Paper program; and the Clean Energy credit facility. In March 2021, the City selected Public Resources Advisory Group ("PRAG") and PFM Financial Advisors, LLC ("PFM") to serve as municipal advisors. PRAG was selected to serve as the municipal advisor on the General Obligation and Lease Revenue Bond transactions. PFM was selected to serve as the municipal advisor to assist in the strategy and coordination of credit facilities requests, including those for the TRANs, Lease Revenue Commercial Paper, Airport Commercial Paper and the renewal and expansion of Clean Energy credit facilities.

- **Reporting**

During this period, debt management staff completed and submitted the required Annual Continuing Disclosures (as required by the Municipal Securities Rulemaking Board or “MSRB”) and various compliance reports required under specific bond documents.

Current interest rate environments and credit ratings

- **Current interest rate environment**

Fixed Rates – Over the last 10 years, the index of tax-exempt bond interest rates maturing in 20 years has averaged 3.26%; the index was 1.83% as of April 8, 2021.

Variable Taxable and Tax-Exempt Interest Rates – Tax-Exempt SIFMA weekly interest rates averaged 0.04% in Q3 and were 0.06% as of April 8, 2021. Taxable LIBOR monthly interest rates averaged 0.12% in Q3 and are currently at 0.11% as of April 8, 2021.

LIBOR Update –The London Interbank Offered Rate (LIBOR) has been used in the calculation of interest and other payments in banking and finance, commonly used by the City (1-month and 3-month LIBOR) for its projections of Commercial Paper interest cost calculation, for budgeting purposes and certain bank agreements. Because of the financial crisis of 2008 and LIBOR manipulation by several financial institutions in 2012, regulators grew wary of that particular benchmark and established a scheduled phase-out substituting LIBOR with an alternative reference rate, SOFR (Secured Overnight Financing Rate). On November 30, 2020, the Federal Reserve announced that LIBOR will be phased out and eventually replaced by June 2023; banks were instructed to stop writing contracts using LIBOR by the end of 2021 and all contracts using LIBOR are to wrap up by June 30, 2023.

- **Credit ratings**

The City’s current general obligation bonds are rated Aa1/AA+/AA+ and lease revenue bonds are rated Aa2-Aa3²/AA/AA, by Moody’s Investors Services Inc. (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”), and Fitch Ratings (“Fitch”), respectively.

The City met with each of the rating agencies to make presentations regarding the Airport credit in March 2021 in conjunction with the proposed refunding of the Airport’s Revenue Bonds for economic savings and short-term budget relief due to the pandemic. The Airport bonds were rated A2/A-/A. On March 12, S&P revised its outlook on the Airport bonds from “Negative” to “Stable”, thus becoming the first Airport to have its Outlook revised upward after S&P lowered all airport Outlooks to negative in August 2020.

² 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 carries higher rating (Aa2) than bonds tied to a less essential asset such as Convention Center (Aa3) and Ice Centre (AA-).

Investment Management Program

A quarterly investment report for the period ended March 31, 2021 is posted on the Finance Department website and provided to the PSFSS Committee. Pursuant to the City's Investment Policy, verbal presentations in addition to the written reports are provided to the PSFSS Committee for the Second and Fourth Quarter Reports. The materials presented in this consolidated report provide a "snapshot" of the investment portfolio. The report will be agendaized for acceptance by the City Council pursuant to the Investment Policy.

Revenue Management Program

The Revenue Management report highlights the key aspects of the City's ongoing collection efforts. These efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance through four primary collection programs: Accounts Receivable, Business Tax, Revenue Compliance and Monitoring, and Utility Billing. This report highlights the Revenue Management Division collection efforts and summarizes the progress towards maintaining a return on investment ratio of 5.5 to 1. Actual year-to-date return on investment through the third quarter of fiscal year 2020-21 is 6.7 to 1. This report also includes a status summary of the Business Tax COVID-19 Assistance Program.

Business Tax COVID-19 Assistance

The City of San José is offering a temporary expansion of business tax financial hardship exemptions. The expansion increases eligibility for existing financial hardship exemptions to any business, in addition to small business owners, that meet the income requirements. The income requirements are as follows:

- Businesses with gross receipts of \$25,520 or less in the 2020 calendar tax year are eligible for the financial hardship exemption for low revenue generating businesses.
- Business owners with adjusted gross income of \$51,040 or less in the 2020 calendar tax year are eligible for the financial hardship exemption for business owners with limited household incomes.

Additionally, the Finance Department will allow businesses to apply for a financial hardship exemption based on their anticipated 2020 income, rather than relying on income reported on 2019 tax returns. The expansion is in effect from October 1, 2020 through September 30, 2021.

Businesses and residential landlords with renewals due this quarter were notified about the expanded COVID-19 assistance. Between September 1, 2020 and December 31, 2020, over 8,626 emails were sent to business owners who may qualify for this special COVID-19 exemption. Information on the COVID-19 exemption is also posted on the City's website in the Business Tax portal. Through March 31, 2021, the City has received 1,049 exemption applications, of which 866 have been approved, 28 are duplicate requests and 155 are pending.

CONCLUSION

The Financial Reports provide information and transparency of the Finance Departments debt, investment, and revenue management activities for the quarter.

EVALUATION AND FOLLOW-UP

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. The Finance Department staff will be available to answer questions on the Third Quarter Financial Reports for Fiscal Year 2020-2021 at the PSFSS Committee meeting on May 20, 2021.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH/INTEREST

This memorandum will be posted on the City's website for the May 20, 2021 PSFSS Committee meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and City Manager's Budget Office.

May 6, 2021

Subject: Third Quarter Financial Reports for Fiscal Year 2020-2021

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COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

/s/

JULIA H. COOPER

Director of Finance

For Debt Management Program and Investment Management Program questions, please contact Nikolai J. Sklaroff, Deputy Director at (408) 535-7832. For Revenue Management Programs, please contact Luz Cofresí-Howe, Assistant Director of Finance at (408) 535-7041.

Attachment A: Third Quarter (period ended March 31, 2021) Financial Reports Presentation for Fiscal Year 2020-2021