

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

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

**Prepared by the Finance Department  
August 4, 2021**

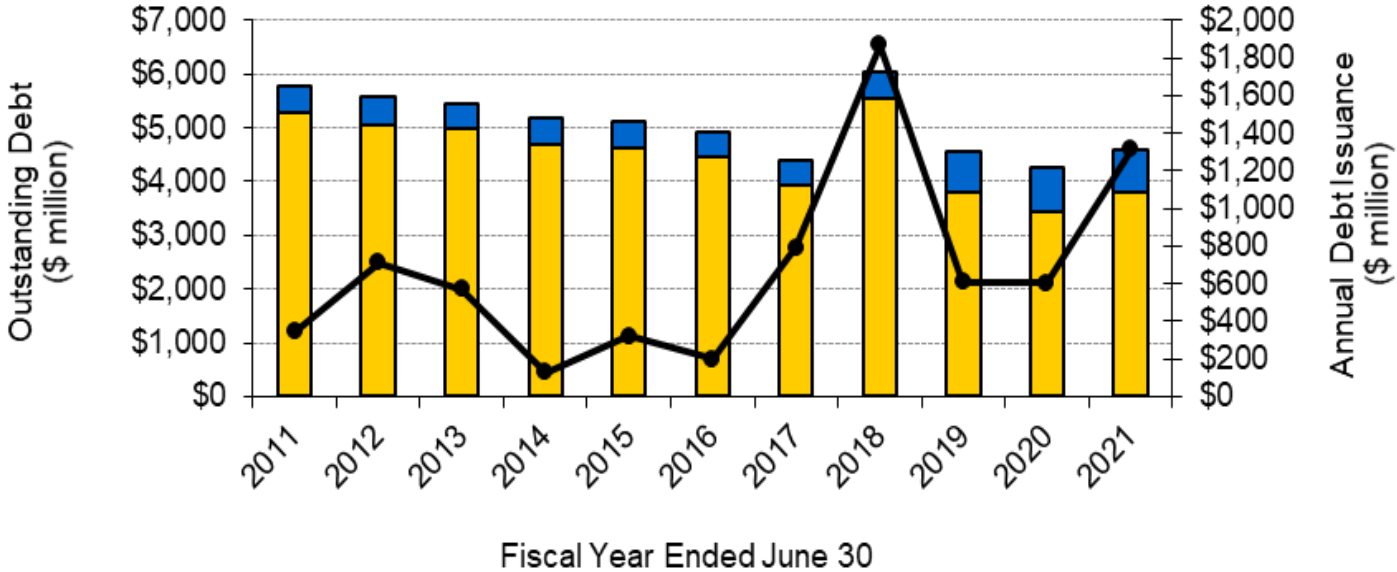
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# **Fourth Quarter Debt Management Report for Fiscal Year 2020-2021**

# Outstanding Debt Issued

## (City and All Agencies)

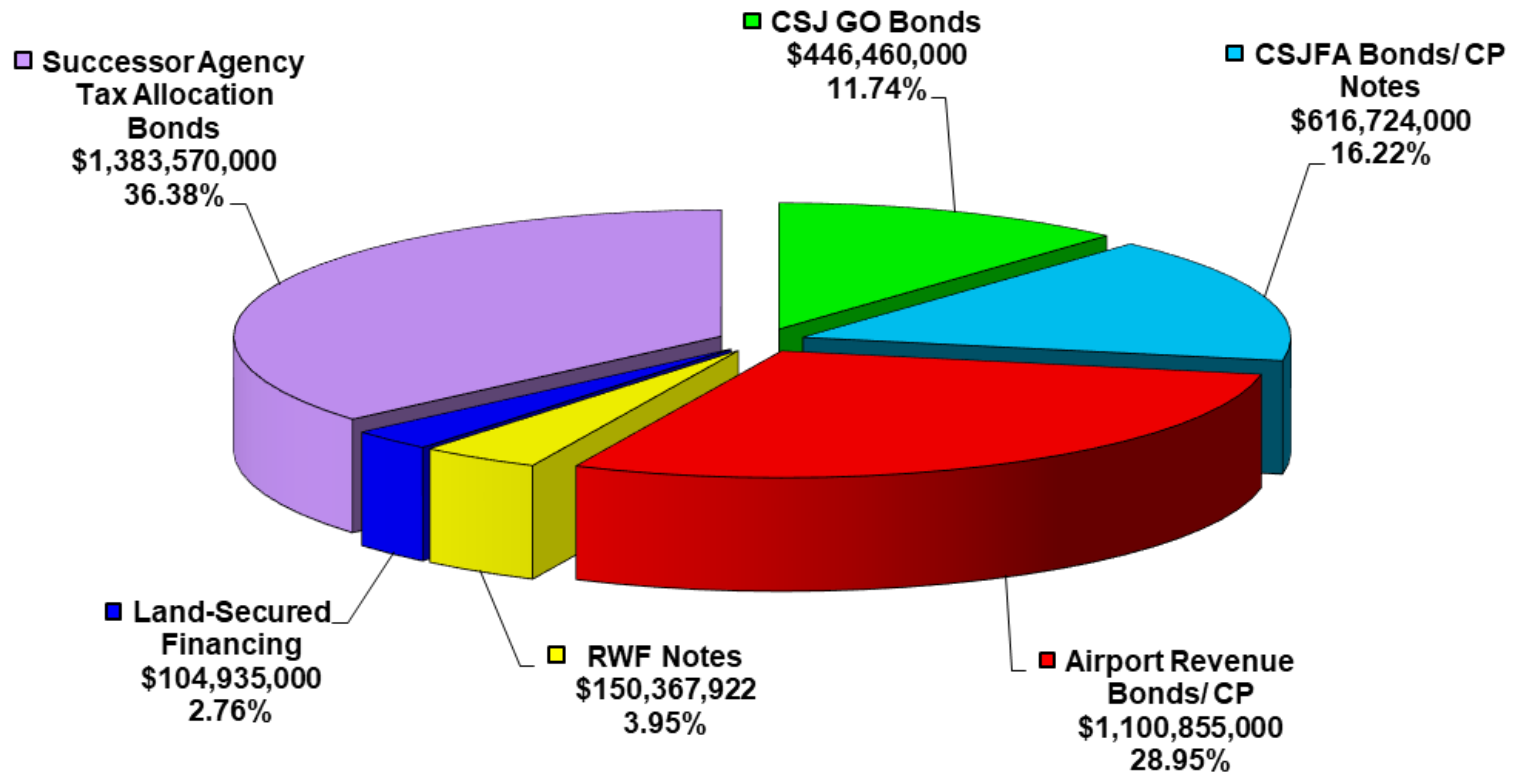
Outstanding Debt as of June 30, 2021: \$4.6 Billion  
 FY 2020-21 Actual Debt Issuance: \$1.3 Billion



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

# Direct Outstanding Debt (By City and Agencies)

**Outstanding Debt as of June 30, 2021: \$3,802,911,922  
(Excluding Multifamily Housing Revenue Bonds)**



\* Excludes conduit debt such as Multi Housing Revenue Bonds as well as other long-term obligations such as, pension, OPEB, and other long-term liabilities of the City.

# Debt Issuance Activities

## During Fourth Quarter (April - June 2021)

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- Debt Issuance
  - CSJ Airport Revenue Refunding Bonds, Series 2021ABC (\$428.08 million, April 2021)
  - Multi-Family Housing Revenue Bonds
    - Markham Plaza II (\$25 million, May 2021)
    - Blossom Hill (\$39.4 million, June 2021)
    - Immanuel Sobrato (\$35 million, June 2021)
  - CSJFA Lease Revenue Commercial Paper Notes
    - Flood Improvements - \$0.9 million
    - San José Clean Energy - \$15 million

# Selected Debt Management Activities

## During Fourth Quarter (April - June 2021)

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- Debt Management - Pre-issuance activities for:
  - 2021 TRANs (Prefunding of employer retirement contributions in FY 2021-22) (July 2021)
  - 2021 General Obligation Bonds (Second issuance authorized under Measure T) (July 2021)
  - 2021 CSJFA Lease Revenue Bonds (Fire Department Training Center and Central Service Yard Projects) (expected September 2021)
- Reporting – Bond Ratings
  - General Obligation Bonds – June 30, 2021, Fitch Ratings, Inc. raised its long-term and underlying ratings on the City’s General Obligation Bonds to “AAA” from “AA+” with stable outlook.

# Upcoming Debt Issuance and Management

## Through December 31, 2021

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- Debt Issuance
  - \$285.0 million – 2021 Tax and Revenue Anticipation Note (“TRAN”) issued July 1, 2021
  - \$200.5 million – General Obligation Bonds, Series 2021A, 2021B and 2021C – Second Issuance under Measure T authorization
    - Series 2021A Bonds \$151,200,000 – Tax Exempt
    - Series 2021B \$8,450,000 - Federally Taxable
    - Series 2021C \$40,870,000 – Federally Taxable
  - CSJFA Lease Revenue Bonds - Fire Department Training Center and Central Service Yard projects (approximately \$23 million; tentative September 2021)
  - Multi-Family Housing Revenue Bonds
    - Bascom Apartments (\$37 million, tentative October 2021)

# Upcoming Debt Issuance and Management

## Through December 31, 2021

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- Other Debt Management activities
  - CSJFA Commercial Paper Notes (Expand facility expiring in February 2022 by \$50 million and extend three years)
  - CSJ Airport Commercial Paper program (Extension of the \$75 million LOC Agreement by three years)
  - San Jose Clean Energy (Increase in Standby Letter of Credit to secure power purchases)
  - Pension Obligation Bonds – preparation and planning of judicial validation; presentations and study sessions with Federated Board, Police & Fire Board and Council; drafting pension obligation policy; further analysis in response to Council referrals



# Upcoming Debt Issuance and Management

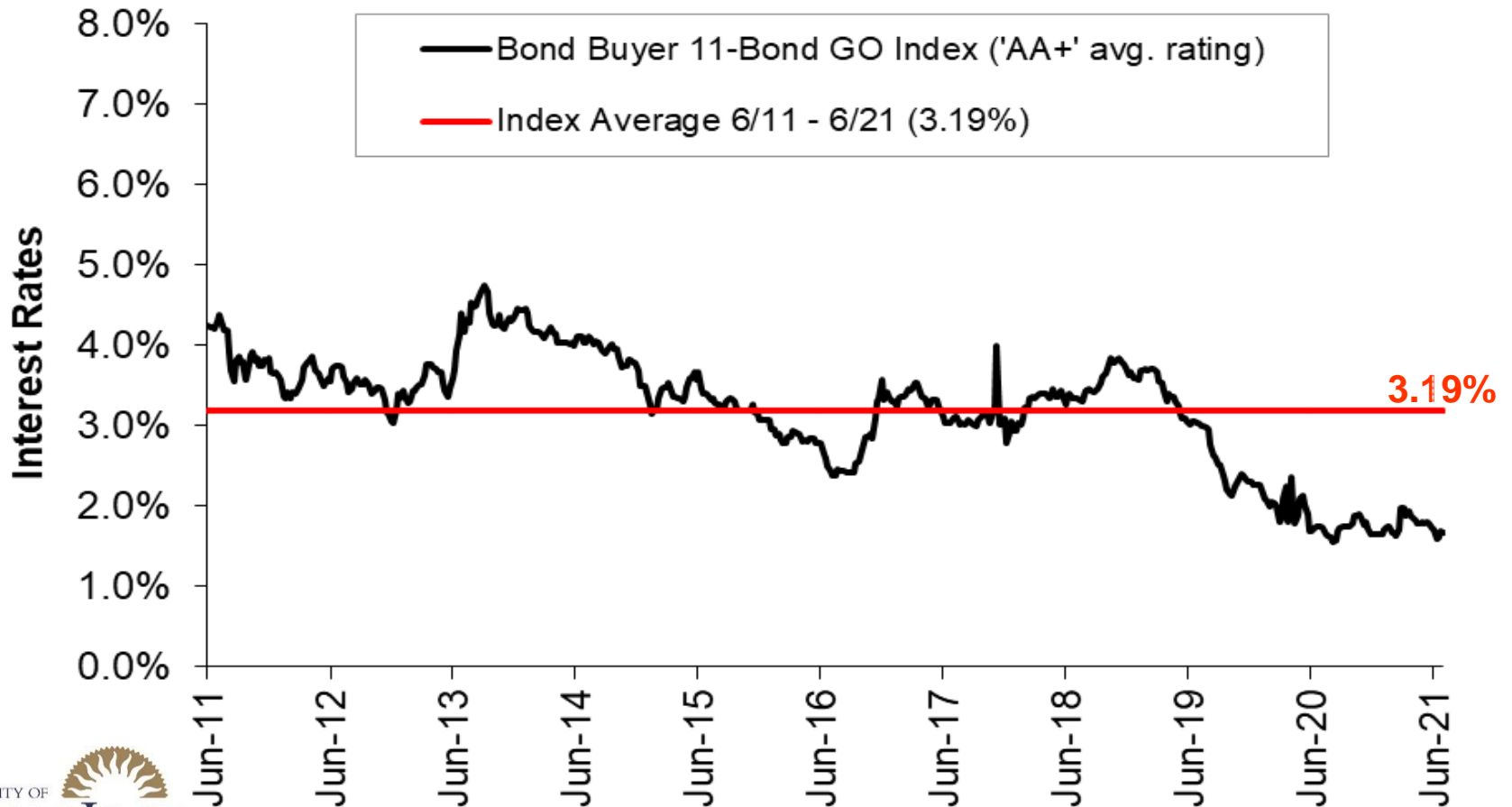
## Through December 31, 2021

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- Pre-Issuance Planning
  - Refunding of 2011 Special Hotel Tax Bonds and Lease Revenue Bonds (Convention Center Expansion Project) for debt service savings
    - August 2021: S&P Global Ratings lowered the rating of the Special Hotel Tax Bonds from A+ to A (Outlook: Negative) due to impact of COVID-19 on revenues
  - Planning for issuance of bonds for Regional Wastewater Facility improvements in 2022
- Debt Management
  - GO Tax Levy prepared for FY 2021-22 tax roll
  - Annual Continuing Disclosure/Compliance Reporting
  - 2021 Comprehensive Annual Debt Report (CADR)

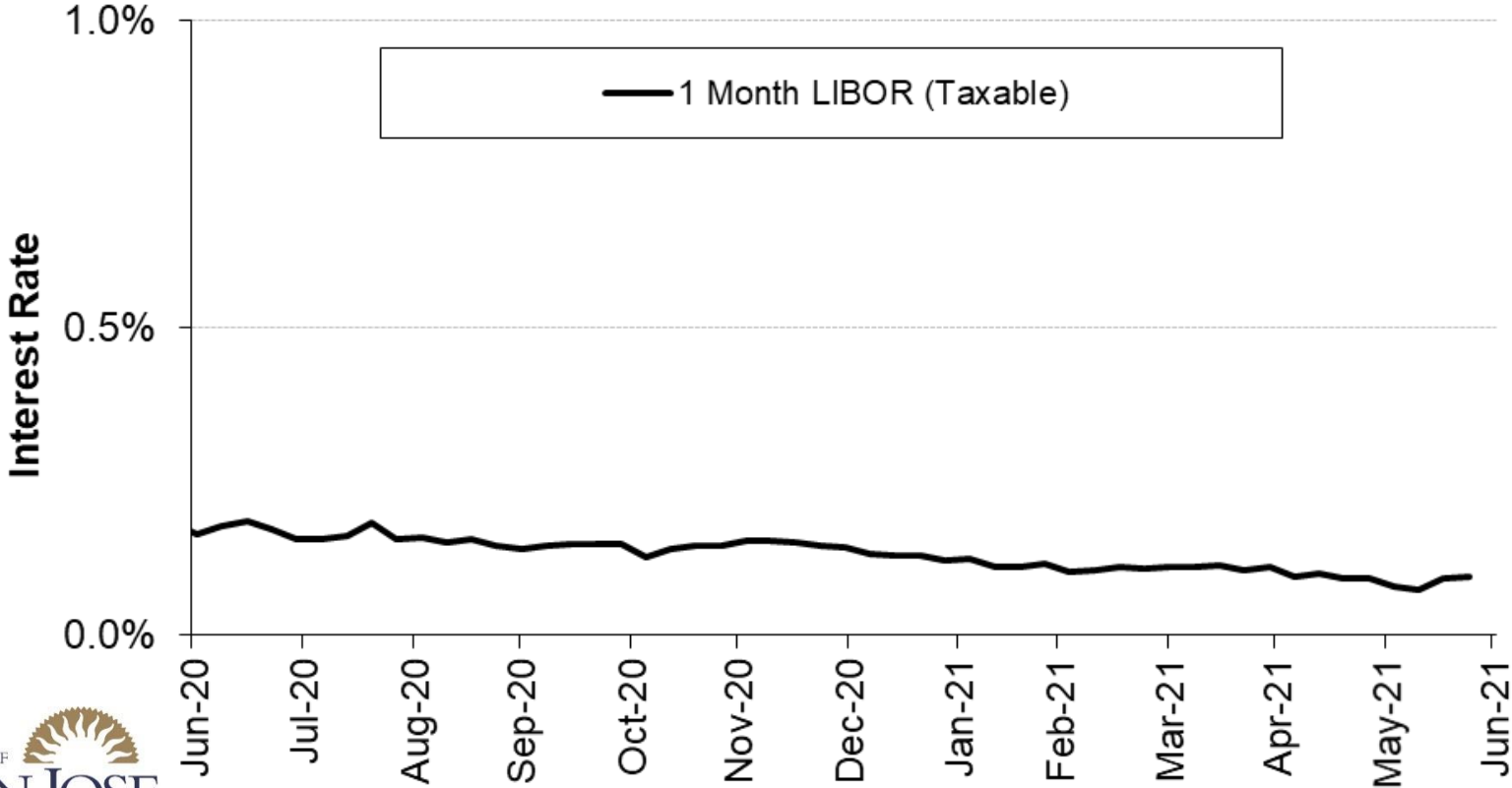
# Tax-Exempt Market Index (20 Year Fixed Rate)

10-year history of tax-exempt long-term (20-year term) interest rates averaged 3.19% and are currently at 1.57% (as of 7/15/21)



# Variable Interest Rates (Taxable)

Taxable LIBOR monthly interest rates paid by the City averaged 0.10% in Q4 and are currently at 0.09% (as of 7/20/2021)



# General Credit Ratings

## City of San José

- City continues to maintain very high credit ratings
- Fitch Assigned a AAA rating to the 2021 G.O. Bonds, raising the City's G.O. Bond Rating to AAA from AA+, (Stable Outlook, June 2021). Moody's and S&P reaffirmed the City's rating at Aa1 and AA+, respectively, both with stable outlooks

Type of Rating	Moody's	S&P	Fitch
Issuer Rating	Aa1 (stable)	AA+ (stable)	AA+ (stable)
General Obligation Bonds	Aa1 (stable)	AA+ (stable)	AAA (stable)
Lease Revenue Bonds (Essential Assets)	Aa2 (stable)	AA (stable)	AA (stable)
Lease Revenue Bonds (Less Essential Assets)	Aa3 (stable)	AA (stable)	AA- (stable)

# General Obligation Ratings in Context

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- City's G.O. Ratings are higher than the State of California's ratings and similar to Santa Clara County's ratings, which is not surprising given their shared tax base and other credit fundamentals:

Type of Rating	Moody's	S&P	Fitch
City of San José G.O. Bonds	Aa1	AA+	AAA
State of California	Aa2	AA-	AA
Santa Clara County	Aa1	AAA	AA+

# Other Credit Ratings

## City of San José

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- San José Airport bonds:

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Rating</b>	A2	A-	A
<b>Outlook</b>	Stable	Stable	Stable

- April 2021: S&P revised its outlook from “Negative” to “Stable”, in conjunction with issuance of the Series 2021 ABC Airport Revenue Refunding Bonds
  - August 2021: Fitch revised its outlook from Negative to “Stable”.
- SARA Senior Tax Allocation Bonds:

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Rating</b>	Not Rated	AA	AA-
<b>Outlook</b>	--	Stable	Stable

# Other Credit Ratings

## City of San José

City of San José Special Hotel Tax Revenue Bonds, Series 2011:

	Moody's	S&P	Fitch
<b>Rating</b>	A2	A	Not Rated
<b>Outlook</b>	Stable	Negative	--

- In April 2021, Moody's published a Special Tax Debt Payment Update noting that while the City's hotel tax revenues were not sufficient to pay May 1 debt service, the City planned to (and subsequently did) pay debt service on the 2011 Bonds from funds on hand
- In August 2021 S&P Global Ratings lowered the rating of the Special Hotel Tax Bonds from A+ to A (Outlook: Negative) due to impact of COVID-19 on revenues

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# **RESULTS OF FY 2020-21 BOND SALES**



# CSJFA Lease Revenue Bonds

## Series 2020A (City Hall Refunding)

- Issued \$355,620,000 of taxable 2020A Bonds on September 24, 2020. All-in true interest cost (“TIC”) of 2.38%. Underwriting led by J.P. Morgan.
- Refinanced Series 2006A (Civic Center Project), Series 2007A (Recreational Facilities Refunding Project), advance refunding Series 2013A (Civic Center Project) Bonds; also prepaid rental obligations under a Master Equipment Lease/Purchase Agreement, financed public improvements benefiting the Community Energy Department and other City Departments
- Generated net present value **savings of \$47 million.**
- Bonds received ratings of:

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Rating</b>	Aa2	AA	AA
<b>Outlook</b>	Stable	Stable	Stable

# CSJFA Lease Revenue Bonds

## Series 2020B (Ice Centre Project)

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- Issued \$146,535,000 of taxable 2020B Bonds on October 15, 2020. All-in TIC of 3.32%. Underwriting led by BofA Securities.
- Proceeds fund the construction of two additional ice rinks at the Solar4America Ice Centre at San Jose and refunded variable rate Series 2008E Lease Revenue Bonds with fixed rate bonds
- City executed the Second Amended and Restated Ice Centre Lease and Management Agreement and the Agreement for the Fourth Expansion of the Ice Centre of San Jose, both between the City of San José and Sharks Ice, LLC.
- Bonds received ratings of:

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Rating</b>	Aa3	AA	AA-
<b>Outlook</b>	Stable	Stable	Stable

# Airport Revenue Refunding Bonds

## Series 2021A, Series 2021B and Series 2021C

- Issued \$428.1 million of Airport Refunding Bonds, Series 2021ABC on April 7, 2021. All-in true interest cost (“TIC”) of 2.68%. Negotiated underwriting led by Citigroup Global Markets and Morgan Stanley.
- Bonds refunded Series 2011A-1, 2011A-2, 2011B, and a portion of outstanding Series 2014A, 2017A, and 2017B Bonds for savings.
- Savings total **\$188.2 million** over life of the bonds or \$148,746,394 in today’s dollars (Net Present Value), or 31.4%, of the Refunded Bonds.
- Underwriters received bond orders totaling about \$2.6 billion for \$428.1 million of Bonds – six times more orders than bonds.
- SJC’s bonds were the first revised from Negative to Stable after S&P placed the entire industry under a Negative Outlook in August 2020:

	Moody’s	S&P	Fitch
<b>Rating</b>	A2	A-	A
<b>Outlook</b>	Stable	Stable	Negative <sup>1</sup>

<sup>1</sup>Revised to “Stable” in August 2021

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# **Fourth 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 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 Invest Goals:

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

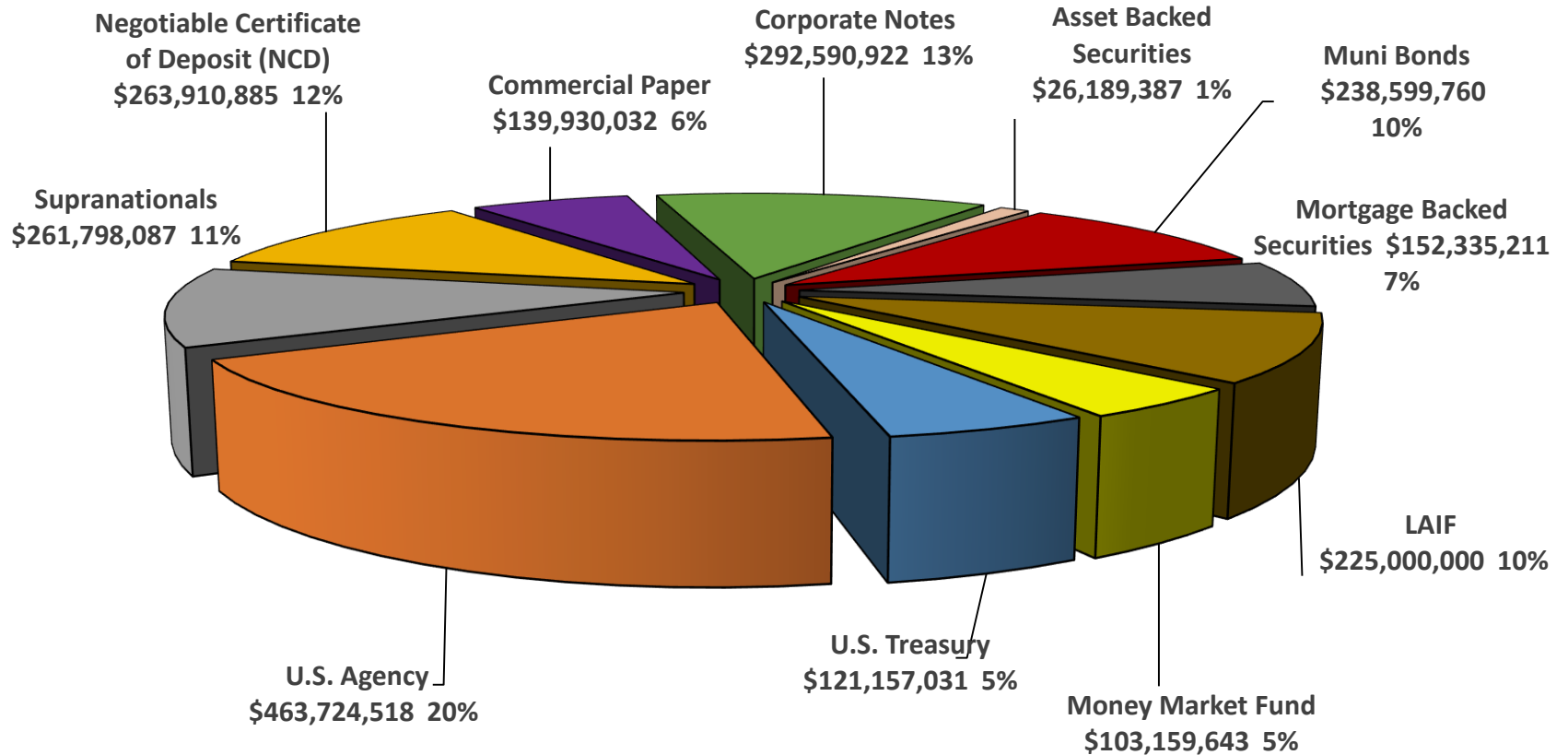
# Summary of Portfolio Performance

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- **Size of total portfolio:** \$2,288,395,476
- **Earned interest yield:** 1.076%
- **Weighted average maturity:** 565 days
- **Fiscal year net interest earnings:** \$30,599,022
- No exceptions to the City's Investment Policy during this quarter.

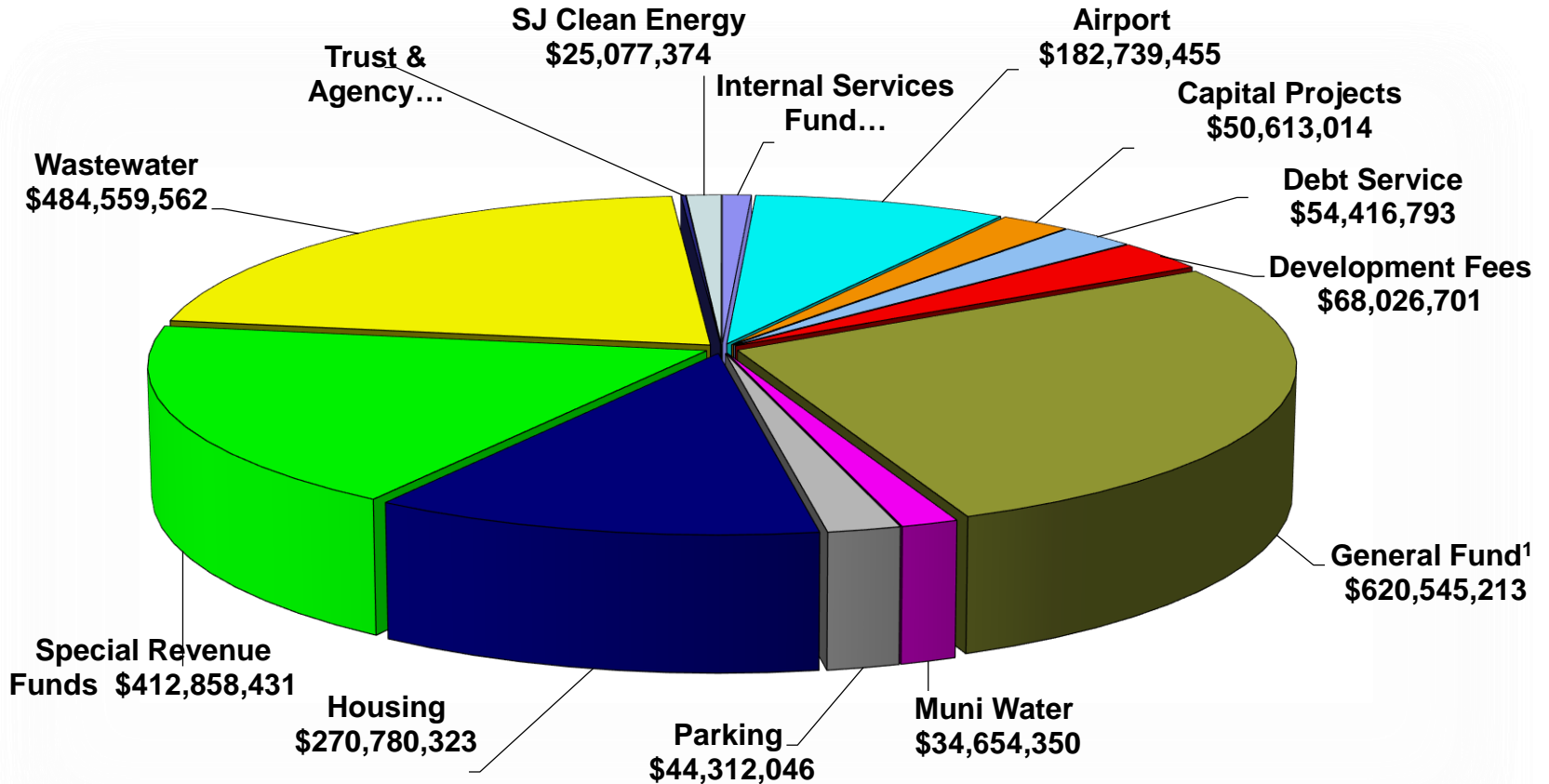


# Portfolio Investment



Total Investment Portfolio = \$2,288,395,476

# Investment by Fund



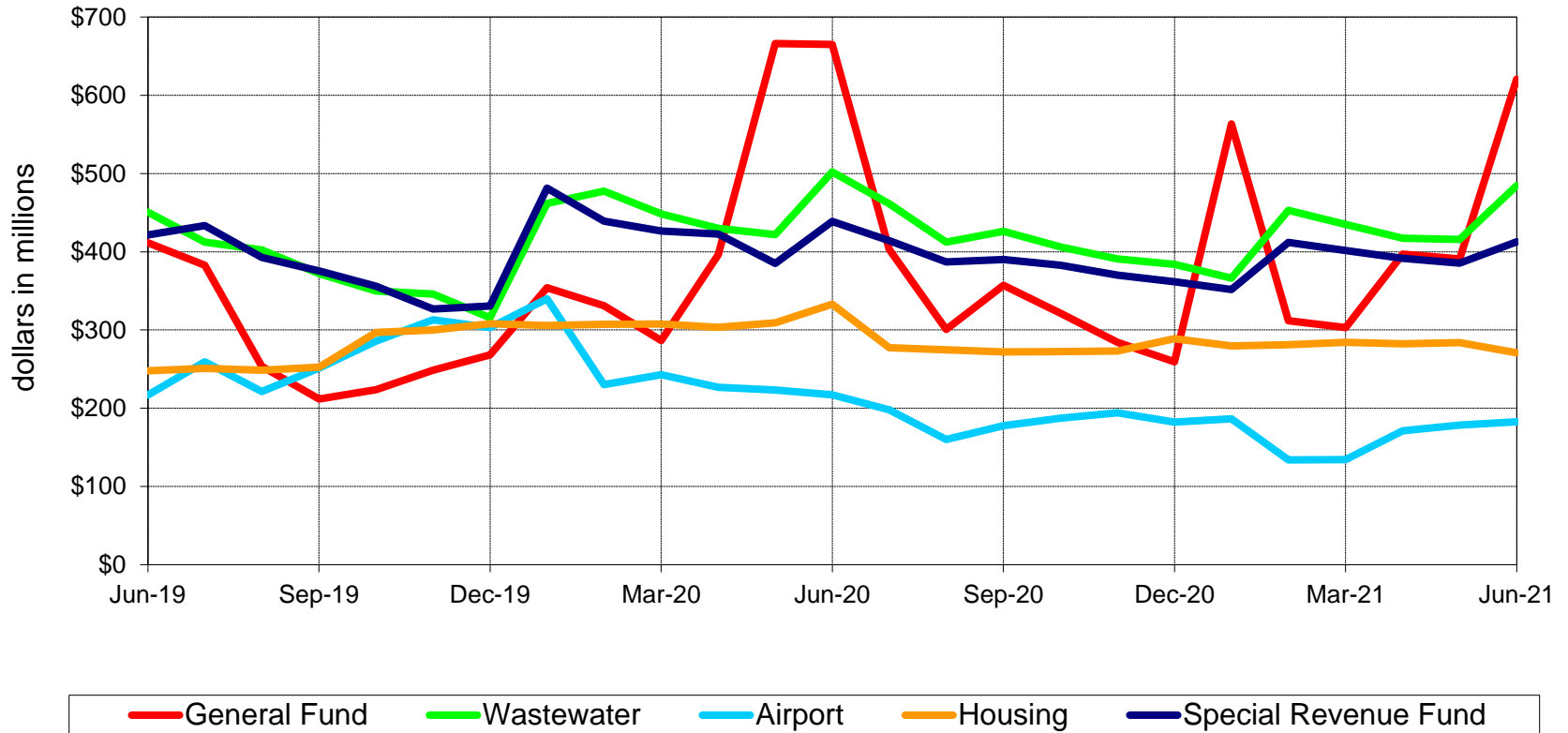
<sup>1</sup>General Fund includes \$365,121,590 of General Fund (Fund 001) as well as \$255,423,623 of other General Fund funds which are separately tracked including the Emergency Reserve Fund, Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), American Rescue Plan Act of 2021 (“ARPA”) including Emergency Rental Assistance funds established by ARPA, Developer Fees, Depositor Funds, and other smaller funds and reserves.

# General Fund Balances

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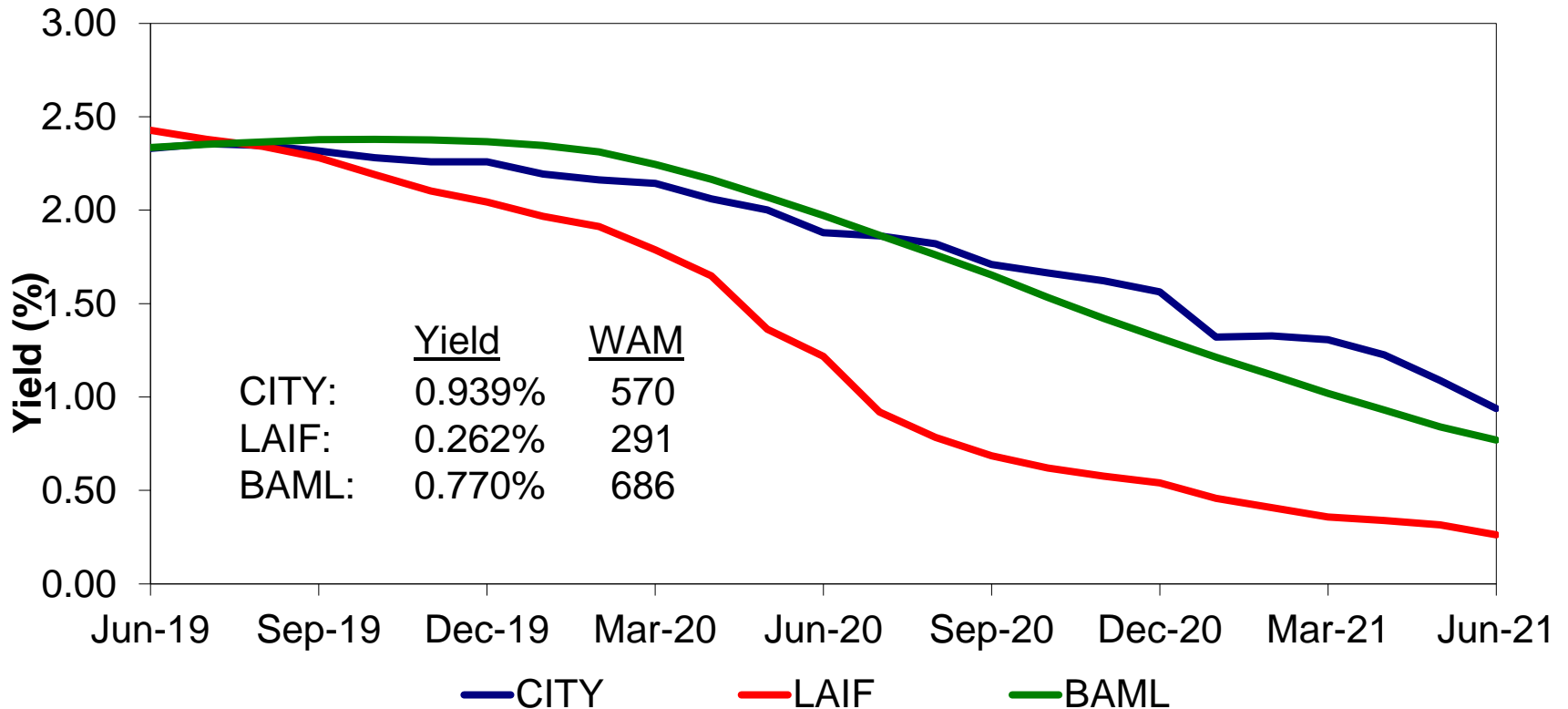
- General Fund investment balances increased by \$317 million during Q4 with an ending balance of \$620.5 million as of June 30, 2021.
- Cash normally increases as the City receives a large portion of the County's disbursement of property taxes to the City in June.
- Balances also increased due to receipt of federal relief and recovery assistance funds.
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the next six months

# Comparison of Cash Balances by Select Funds



- Substantial Federal Funds received in last two fiscal years have interrupted historic patterns

# Benchmark Comparisons



Notes:

1. City refers to City's Fund 1 Portfolio, and the yield data are month-end weighted average yields.
2. LAIF - 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

# Proposed Investment Policy Change

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- Finance expects to return to Council in September with a proposed policy change to authorize investment in the California Asset Management Program (CAMP), to supplement the City's short term investment options.
- Very low interest rates have constrained liquid investment options and the City's holdings in LAIF have maxed out.
- Staff continues to explore opportunities to increase portfolio earnings while maintaining the Policy objectives of safety, liquidity and yield.

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



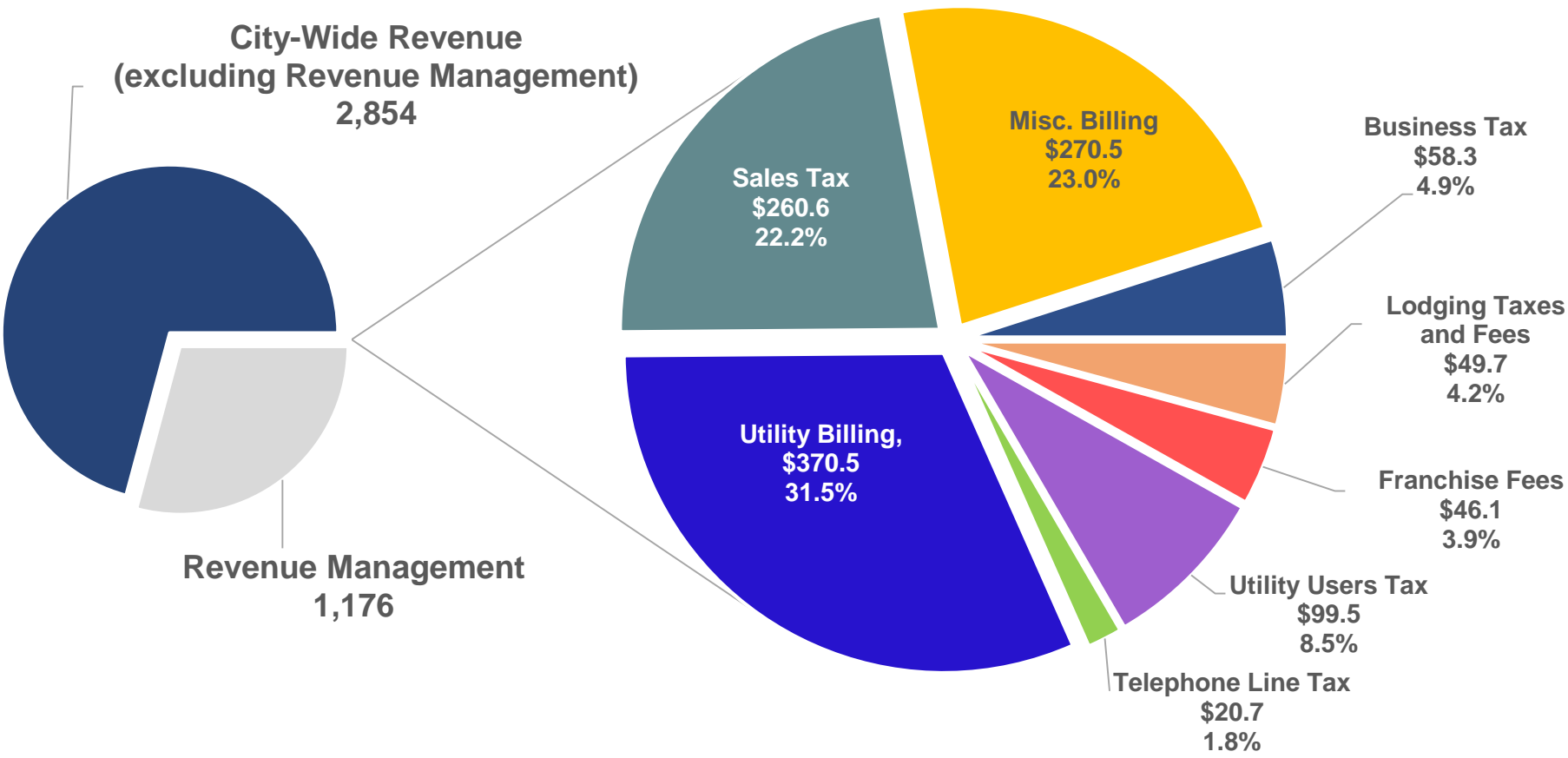
# Revenue Management Programs

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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

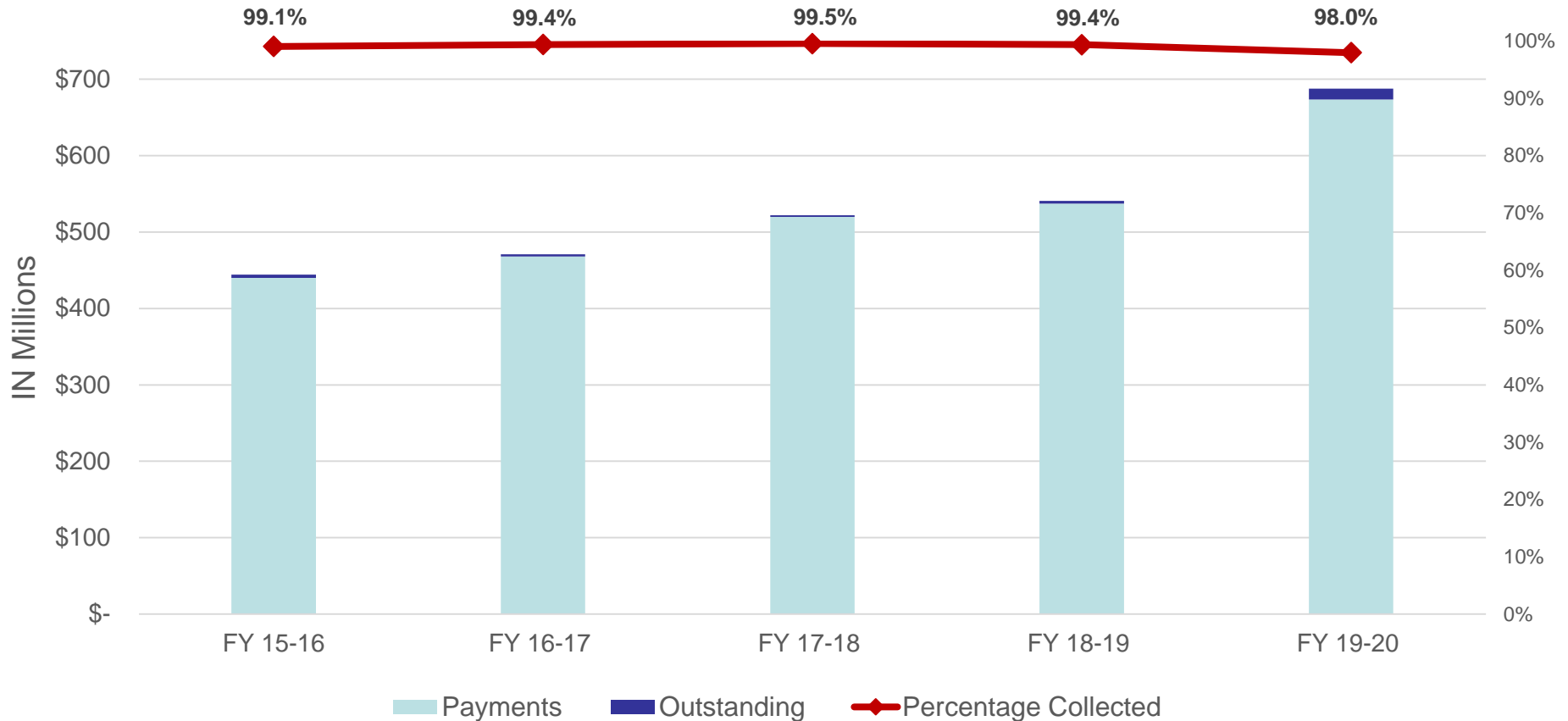
## FY 2019-20 Revenue (\$ in millions)



Source: Total Revenue (\$4.030B) figures from 2019-20 City Manager's Budget Office Annual Report (Graph will be updated on an annual basis)

# Invoicing and Payments

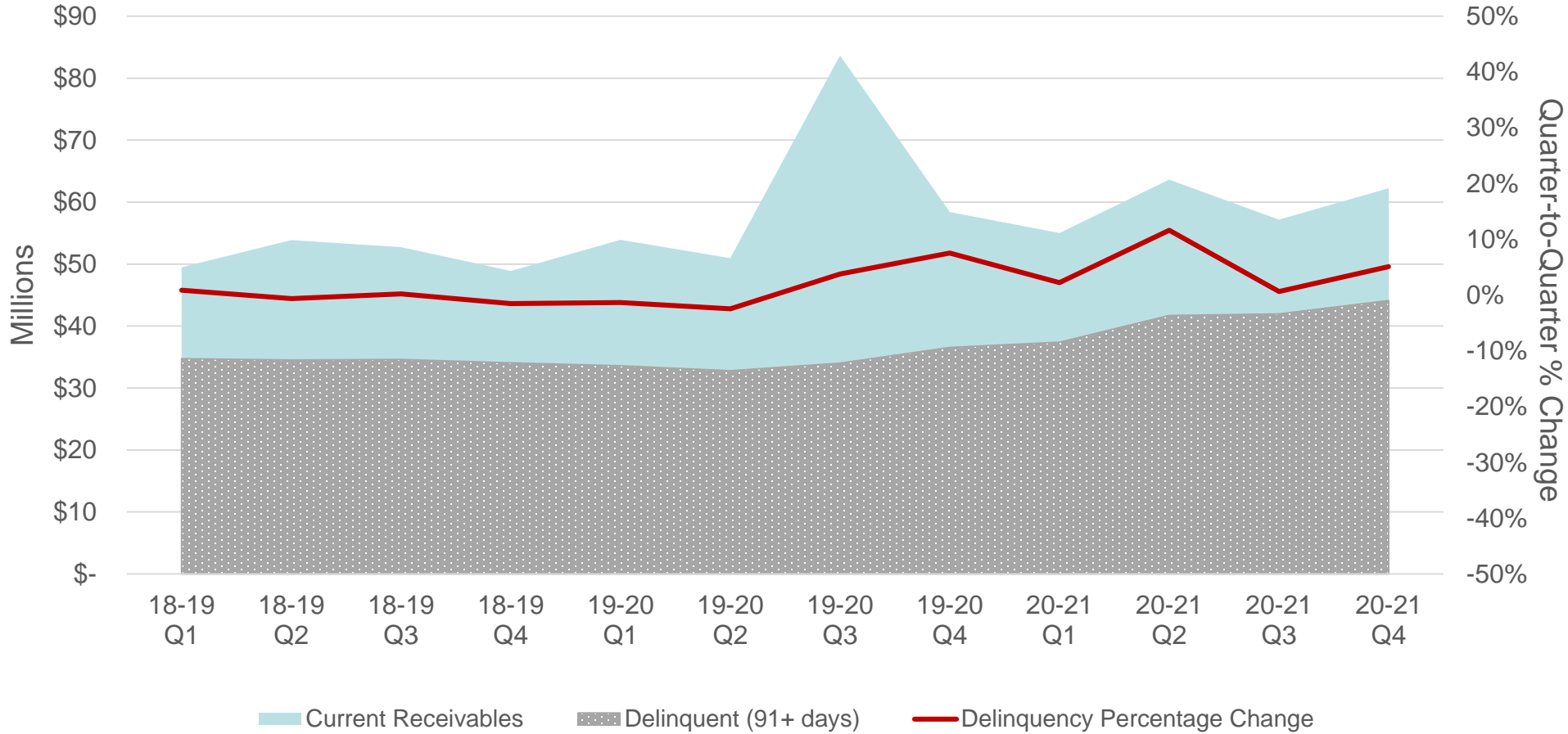
## 5 Years History (FY 2015-16 to FY 2019-20)



Invoices billed through Business Tax System, the centralized accounts receivable system (RevQ), and the Utility Billing System. (Graph will be updated on an annual basis)

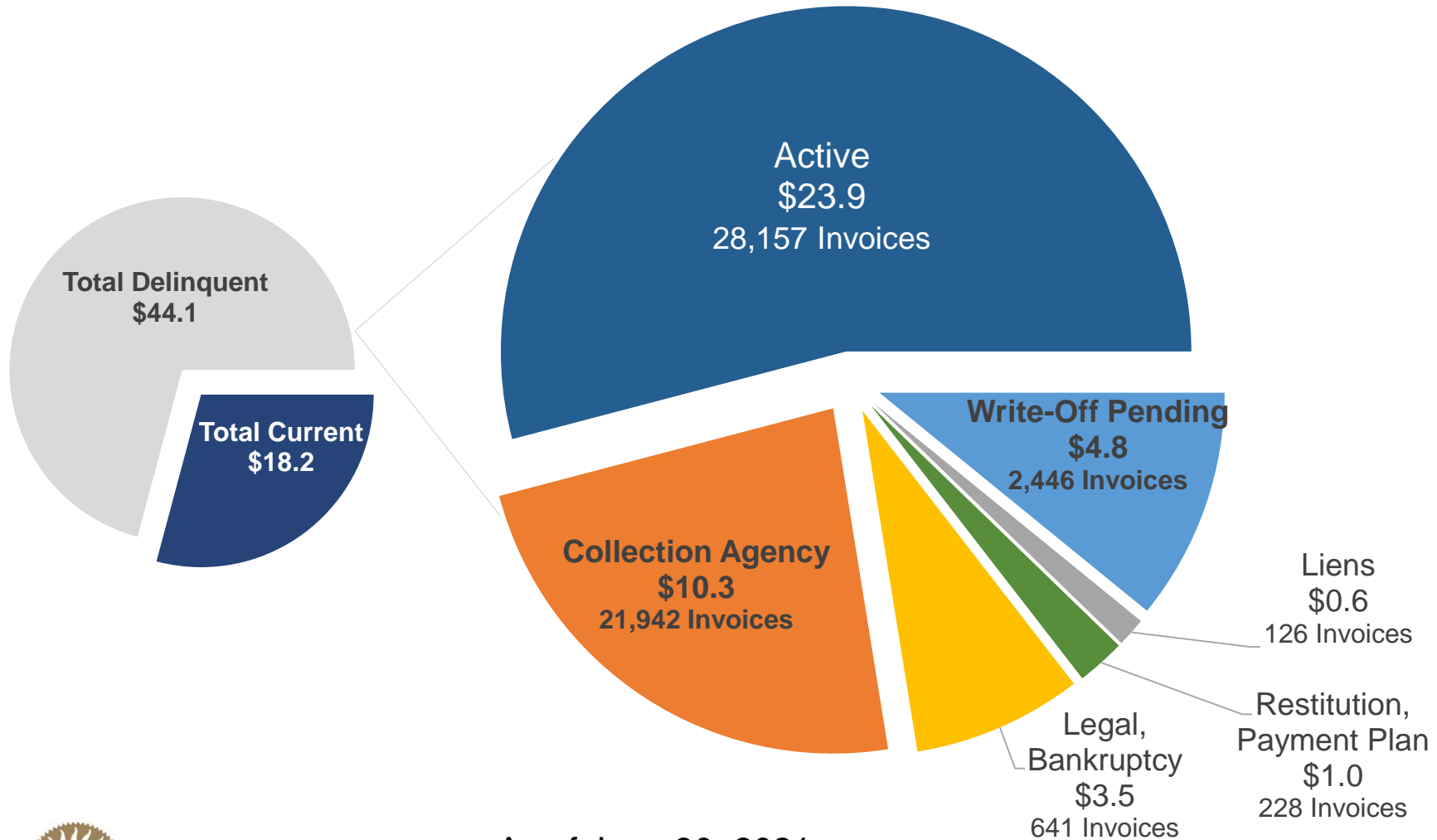
# Outstanding Receivables

## Three Year History



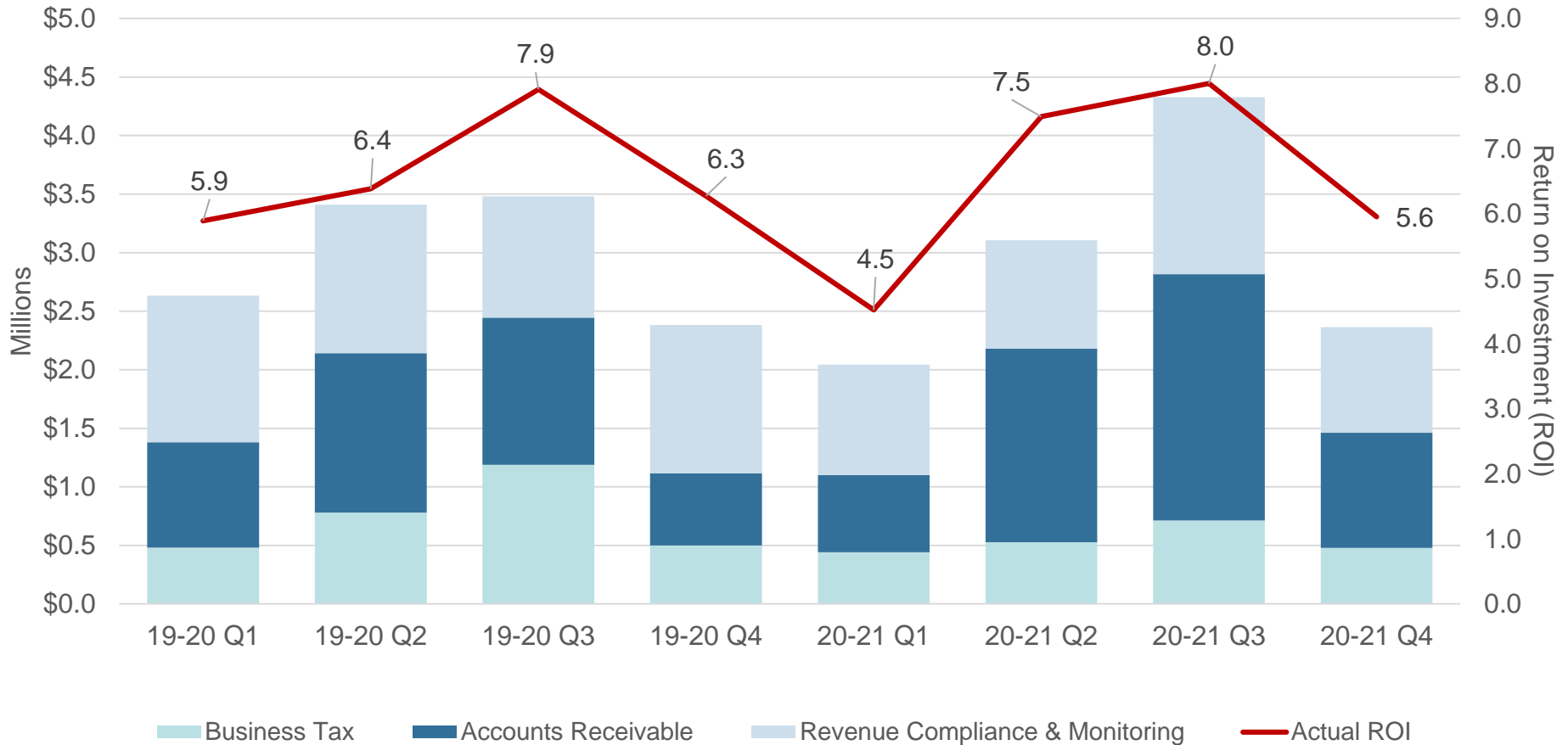
# Delinquent Receivables

## Collection Status Summary (\$ in millions)



As of June 30, 2021

# Collections & Return on Investment



Target ROI: 5.5

# Business Tax COVID-19 Assistance

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On September 29, 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

For the fourth quarter, 7,800 businesses and residential landlords with renewals due were notified about the expanded COVID-19 assistance. Of those over 7,800 businesses, 727 applied for an exemption, with 306 approved, 33 denied, 352 pending and 36 duplicate requests. Estimated loss of revenue associated with exemptions for the fourth quarter is \$128,221.

# Business Tax COVID-19 Assistance

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From October 1, 2020 through June 30, 2021, 19,544 business and residential landlords with renewals due have been contacted about the COVID-19 assistance. Of those 19,544, 2,290 applied for an exemption, with 1,430 approved, 195 denied, 577 pending, 78 duplicate requests and 10 invalid accounts. For all COVID-19 Business Tax Assistance financial hardship exemptions through June 30, 2021, there is an estimated loss of revenue of \$409,127.

Staff is reviewing the need for continued relief beyond September 30, 2021 and may return to City Council with an extension of the temporary expansion of business tax financial hardship exemption prior to its expiration.



# Recommendation

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1. Accept the Fourth Quarter Financial Reports for Fiscal Year 2020-2021 for the following programs:
  - Debt Management
  - Investment Management
  - Revenue Management
2. Refer the Fourth Quarter Financial Reports for Fiscal Year 2020-2021 to the September 14, 2021 City Council meeting for full adoption