

First Quarter Financial Report for Fiscal Year 2021-2022

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

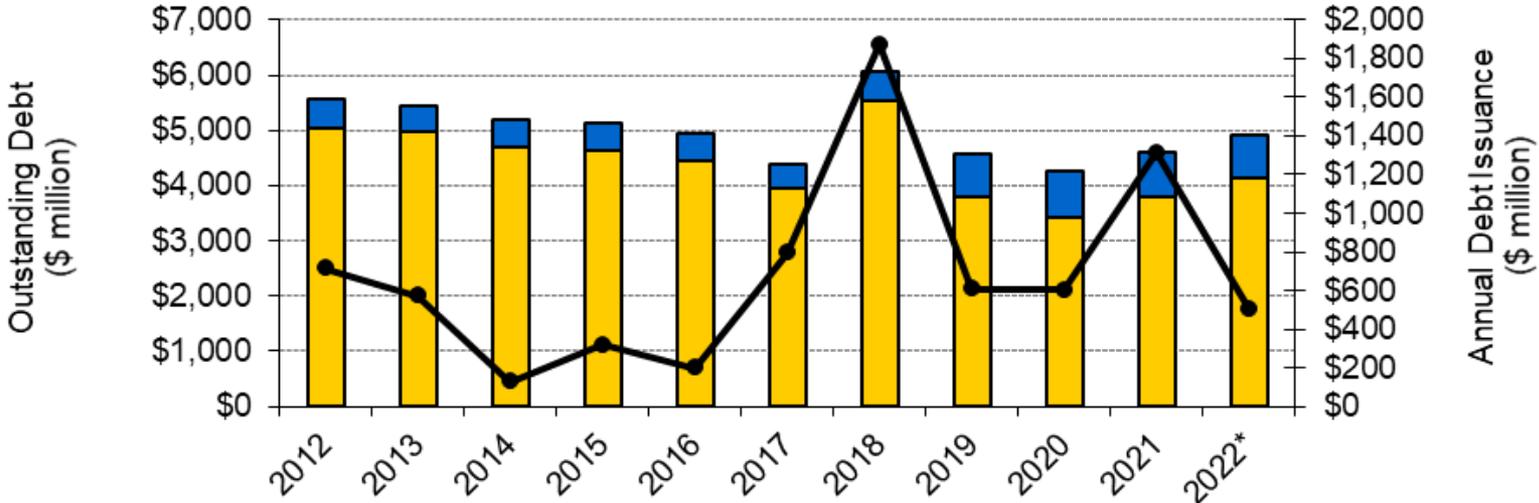
**Prepared by the Finance Department
November 3, 2021**

First Quarter Debt Management Report for Fiscal Year 2021-2022

Outstanding Debt Issued

(City and All Agencies)

Outstanding Debt as of September 30, 2021: \$4.9 Billion
 FY 2021-22 Actual Debt Issuance: \$506.7 Million



1st Quarter Ended September 30, 2021

City and Related Entity Debt Outstanding

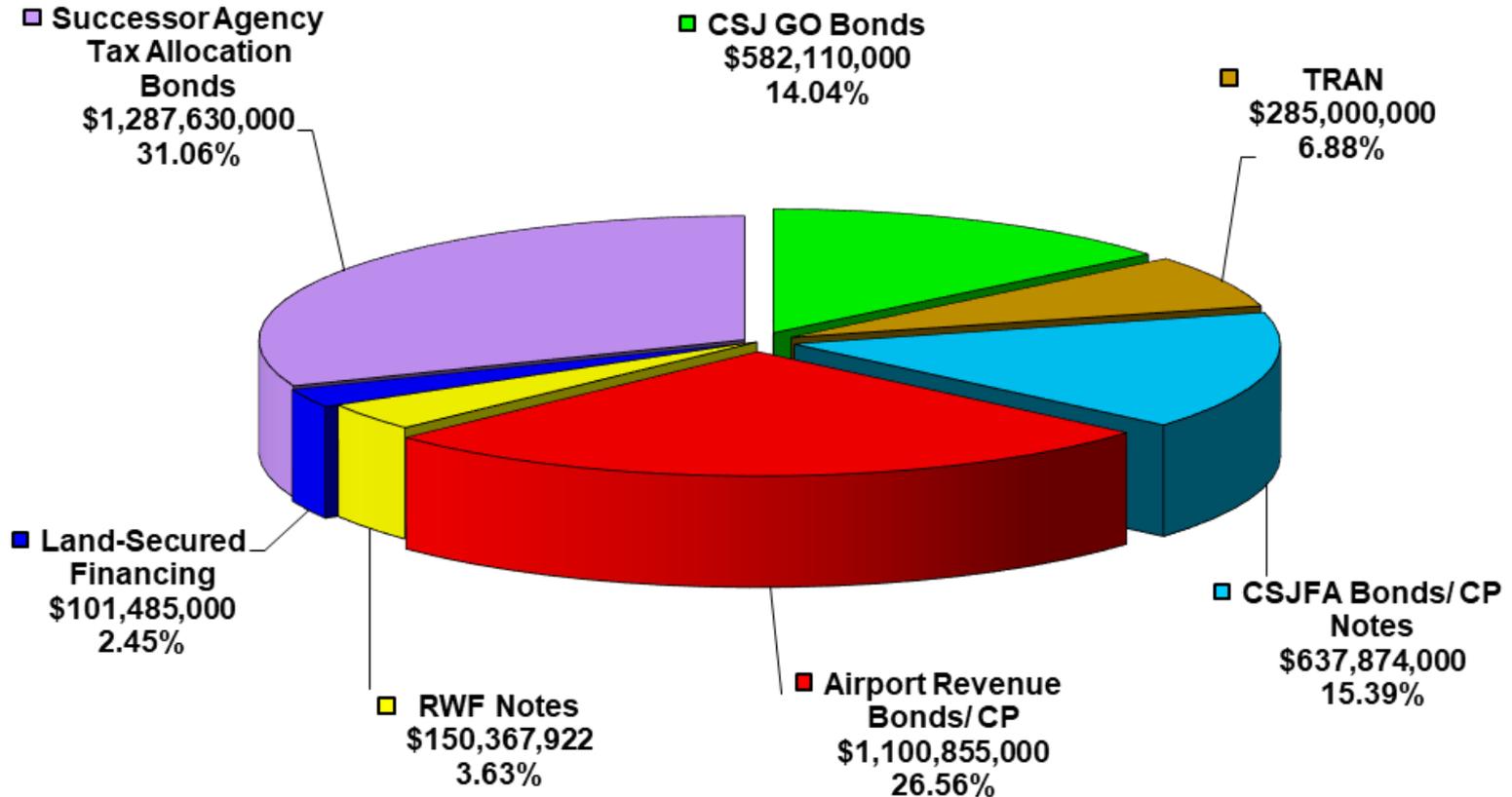
Conduit Debt Outstanding

Annual Debt Issuance

* YTD Debt Issuance

Direct Outstanding Debt (By City and Agencies)

**Outstanding Debt as of September 30, 2021: \$4,145,321,922
(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 First Quarter (July - September 2021)

- 2021 TRAN (Prefunding of employer retirement contributions in FY 2021-22)
 - \$285.0 million, July 1, 2021
- 2021 General Obligation Bonds (Second issuance authorized under Measure T)
 - 200.5 million, July 29, 2021
- CSJFA Lease Revenue Commercial Paper Notes
 - San José Clean Energy (SJCE) – (\$21.2 million, July and September)

Selected Debt Management Activities

During First Quarter (July - September 2021)

- Debt Management - Pre-issuance activities for:
 - 2021 CSJFA Lease Revenue Bonds (Fire Department Training Center and Central Service Yard Projects) (priced on Oct 19 and expected to close Nov 2021)
 - Meetings with Federated Board, Police & Fire Board, Federated Unions, Police & Fire Unions and a joint City Council and Retirement Boards Study Session to discuss Pension Obligation Bonds (“POBs”) prior to Second Quarter Council consideration of Judicial Validation of POBs)

Selected Debt Management Activities

During First Quarter (July - September 2021)

- On August 19, 2021, the City extended the Bank of America Letter of Credit securing the Airport Commercial Paper (“CP”) from September 20, 2021 to September 10, 2024.
- On August 31, 2021, the City held a Tax Equity and Fiscal Responsibility Act (“TEFRA”) hearing for Airport approving the issuance of Series B CP Notes.
- On August 31, 2021, the CSJFA CP program capacity was expanded from \$125 million to \$175 million and expiration date was extended to March 2025. The State Street LOC was terminated and the full amount is now provided by U.S. Bank National Association.
- Annual General Obligation Bond Tax Levy
- Reporting – Bond Ratings

Upcoming Debt Issuance and Management

Through December 31, 2021

➤ Debt Issuance

- CSJFA Lease Revenue Bonds - Fire Department Training Center and Central Service Yard projects (\$22.825 million; closing on November 2, 2021)
- Multi-Family Housing Revenue Bonds
 - ✓ Vitalia (formerly known as Bascom Apartments) (~\$36 million, tentative bond sale December 2021)
 - ✓ Mariposa Place (~\$31 million, tentative bond sale December 2021)
- CSJFA CP issuance for \$5 million for SJCE for Oct 2021 and as yet unknown amounts possible for November and December. Issuance projected to continue through February 2022.

Upcoming Debt Issuance and Management

Through December 31, 2021

- Other Debt Management activities
 - Pension Obligation Bonds (“POBs”) – preparation and planning of judicial validation; presentations and study sessions with Federated Board, Police & Fire Board and Council; drafting pension obligation funding policy; further analysis in response to Council referrals

Upcoming Debt Issuance and Management

Through December 31, 2021

➤ Pre-Issuance Planning

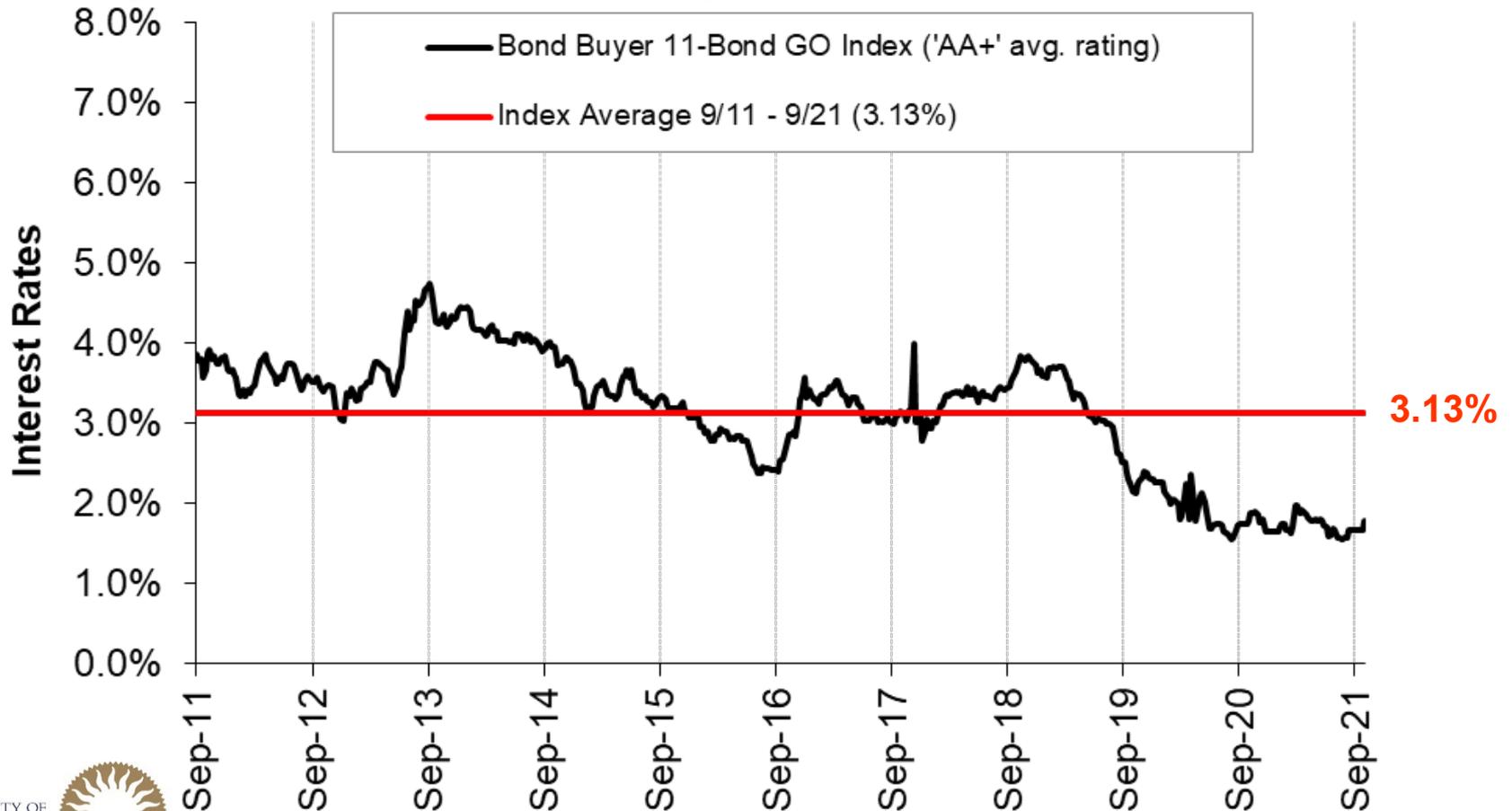
- Planning for Refunding of 2011 Special Hotel Tax Bonds and Lease Revenue Bonds (Convention Center Expansion Project) for debt service savings
- Planning for issuance of bonds for Regional Wastewater Facility improvements in 2022
- Planning for issuance of potential POBs

➤ Debt Management

- Annual Continuing Disclosure/Compliance Reporting
- 2021 Comprehensive Annual Debt Report (CADR)
- Annual CDIAC Mello Roos and Marks Roos Reports in October
- TEFRA Hearing for multiple Housing Revenue Bonds

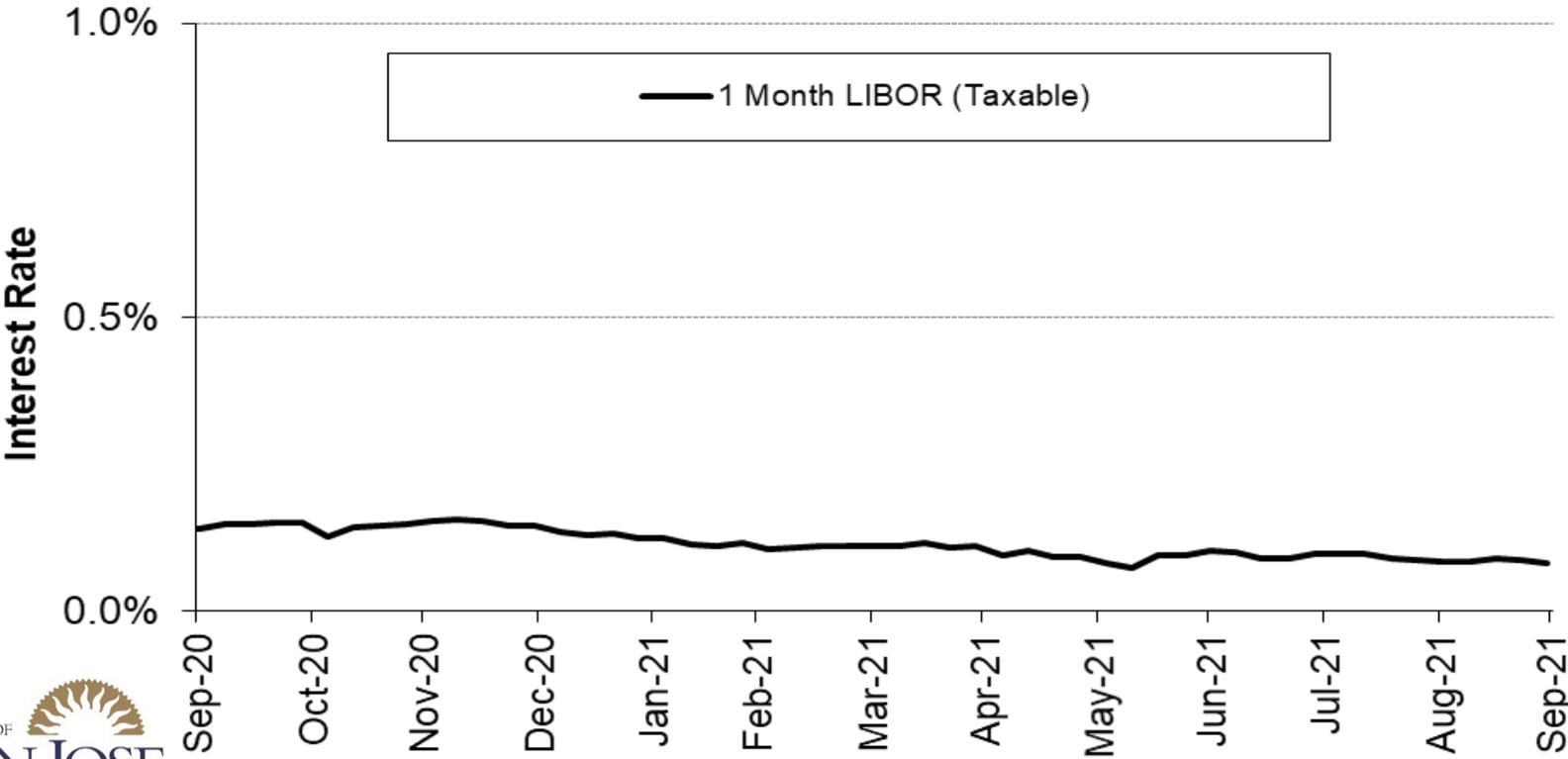
Tax-Exempt Market Index (20 Year Fixed Rate)

10-year history of tax-exempt long-term (20-year term) interest rates averaged 3.13% and are currently at 2.06% (as of 10/21/2021)



Variable Interest Rates (Taxable)

Taxable LIBOR monthly interest rates paid by the City averaged 0.09% in Q1 FY 2021-22 and are currently at 0.09% (as of 10/21/2021)



General Credit Ratings

City of San José

- City continues to maintain very high credit ratings
- The credit ratings from Moody's and Fitch were both reaffirmed with Stable outlooks on October 5, 2021, respectively. S&P reaffirmed City's credit rating on October 11, 2021 with Stable outlook.

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

- City’s General Obligation Bonds (“G.O.”) Ratings are higher than the State of California’s G.O. ratings, and similar to Santa Clara County’s G.O. 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

- San José Airport bonds:

	Moody's	S&P	Fitch
Rating	A2	A-	A
Outlook	Stable	Stable	Stable

- SARA Senior Tax Allocation Bonds:

	Moody's	S&P	Fitch
Rating	Not Rated	AA	AA-
Outlook	--	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
Rating	A2	A	Not Rated
Outlook	Stable	Negative	--

- 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

RESULTS OF FY 2021-22 BOND SALES

2021 Tax and Revenue Anticipation Note

(2021 Note)

- Issued \$285,000,000 short-term note on July 1, 2021 to facilitate the prefunding of employer retirement contributions in FY 2022.
 - \$142,500,000 in principal bear interest at a fixed rate of 0.370% per annum
 - \$142,500,000 in principal bears interest at a variable rate of one-month LIBOR (0.095% as of 10/27/21) plus a credit spread of 0.185%.
- 2021 Note sold in a direct placement to Bank of America, N.A.
- Security for repayment of the 2021 Note is a pledge of the City's FY 2022 secured property tax plus all other legally available General Fund revenues available to the City, if required
- The 2021 Note matures and is payable in full on June 30, 2022.

CSJ General Obligation Bonds

Series 2021A-C

- Issued \$200,530,000 on July 29, 2021, which constitute the second round of issuance under the Measure T authorization of \$650,000,000 for Disaster Preparedness, Public Safety, and Infrastructure, approved by the voters in November 2018.
- The 2021 GO Bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount (except certain personal property which is taxable at limited rates).
- All-In True Interest Cost of 2.72%; weighted average maturity of 19.4 years.
- Bonds received ratings of:

	Moody's	S&P	Fitch
Rating	Aa1	AA+	AAA
Outlook	Stable	Stable	Stable

First Quarter Investment Management Report for Fiscal Year 2022

Investment Policy

(Council Policy 1-12)

- The investment portfolio meets the requirements of the City's Investment Policy and California Government Code section 53601.
- 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

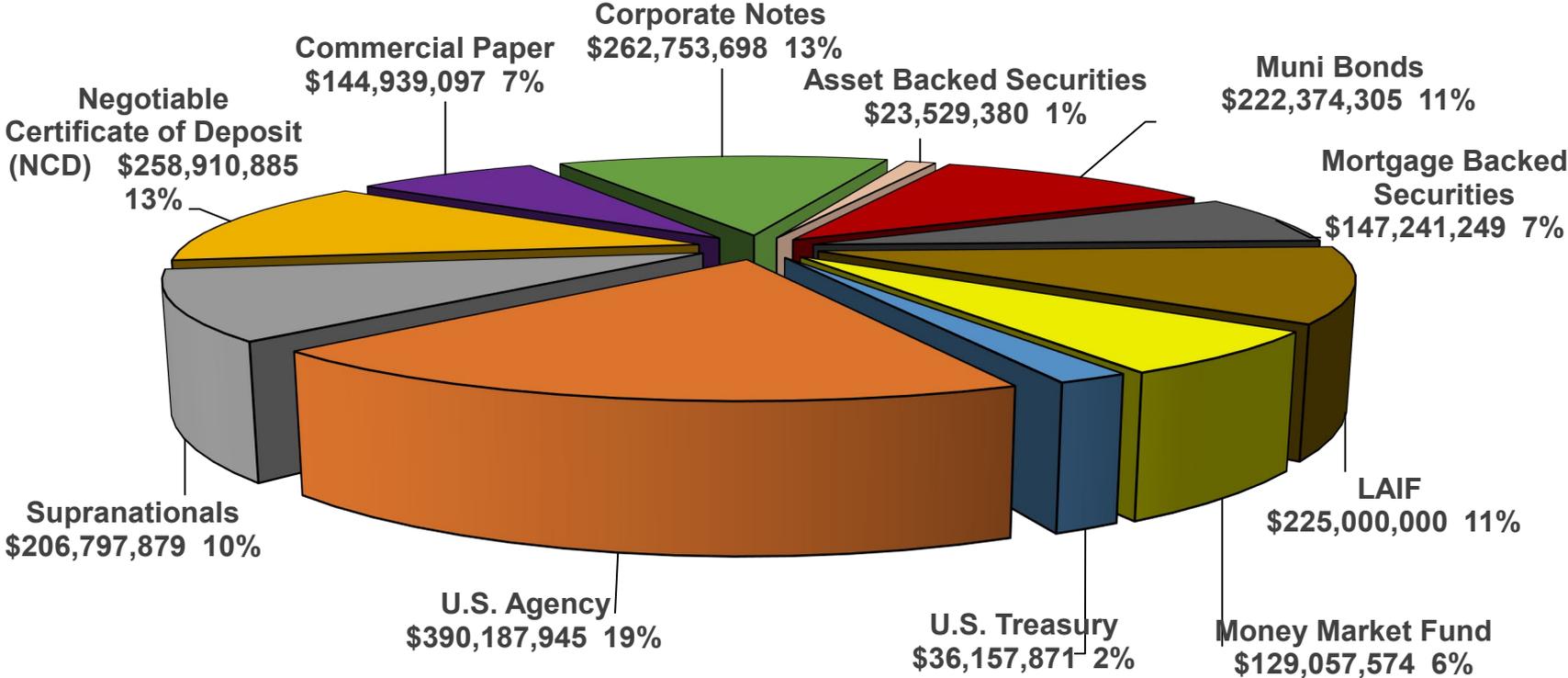
Section 22 of the Investment Policy articulates the Social Responsibility Investment Goals:

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

Summary of Portfolio Performance

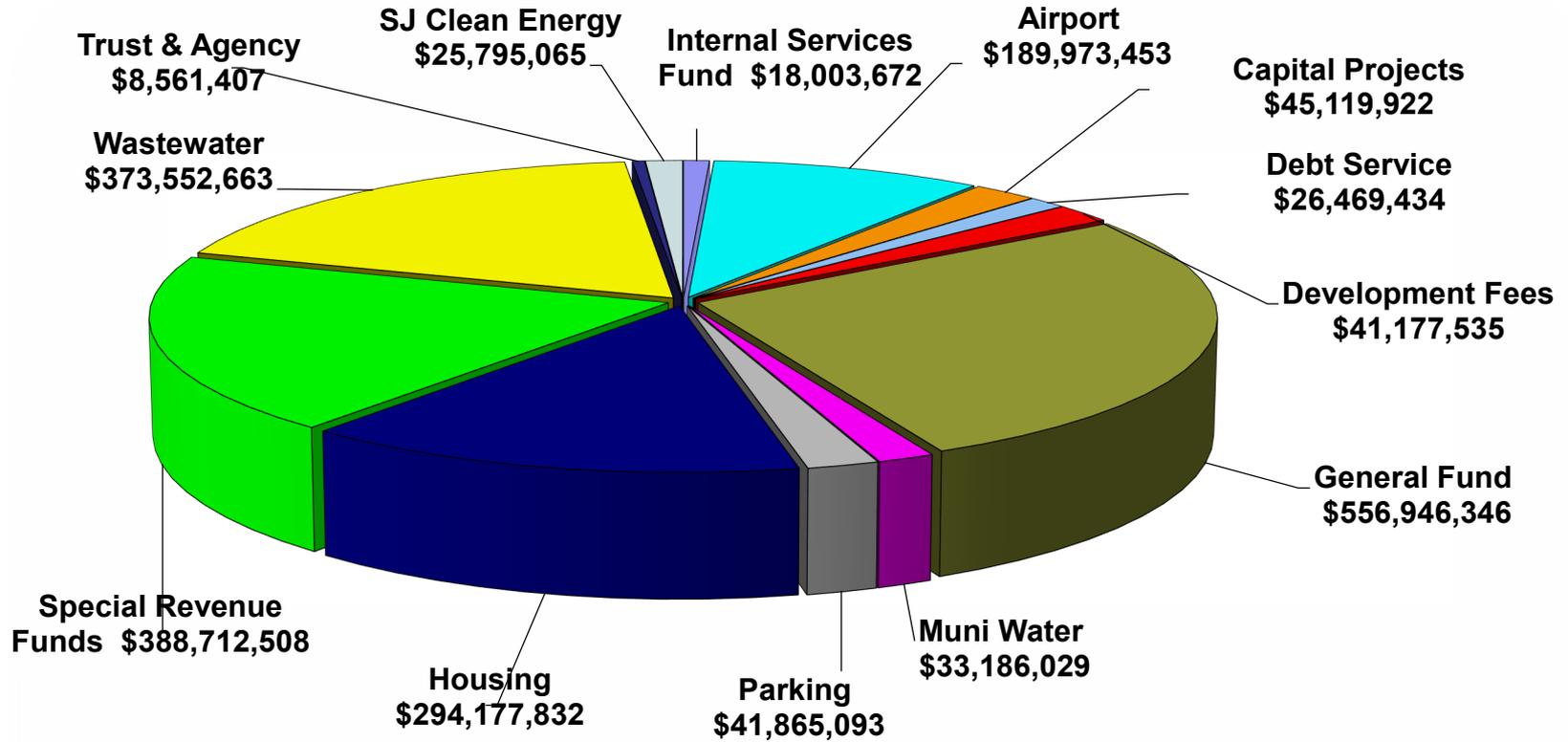
- **Size of total portfolio:** \$2,046,949,882
- **Earned interest yield:** 0.918%
- **Weighted average maturity:** 552 days
- **Fiscal year-to-date net interest earnings:** \$4,826,950
- **Exceptions to the City Investment Policy during this quarter:** None

Portfolio Investments



Total Investment Portfolio = \$2,046,949,882

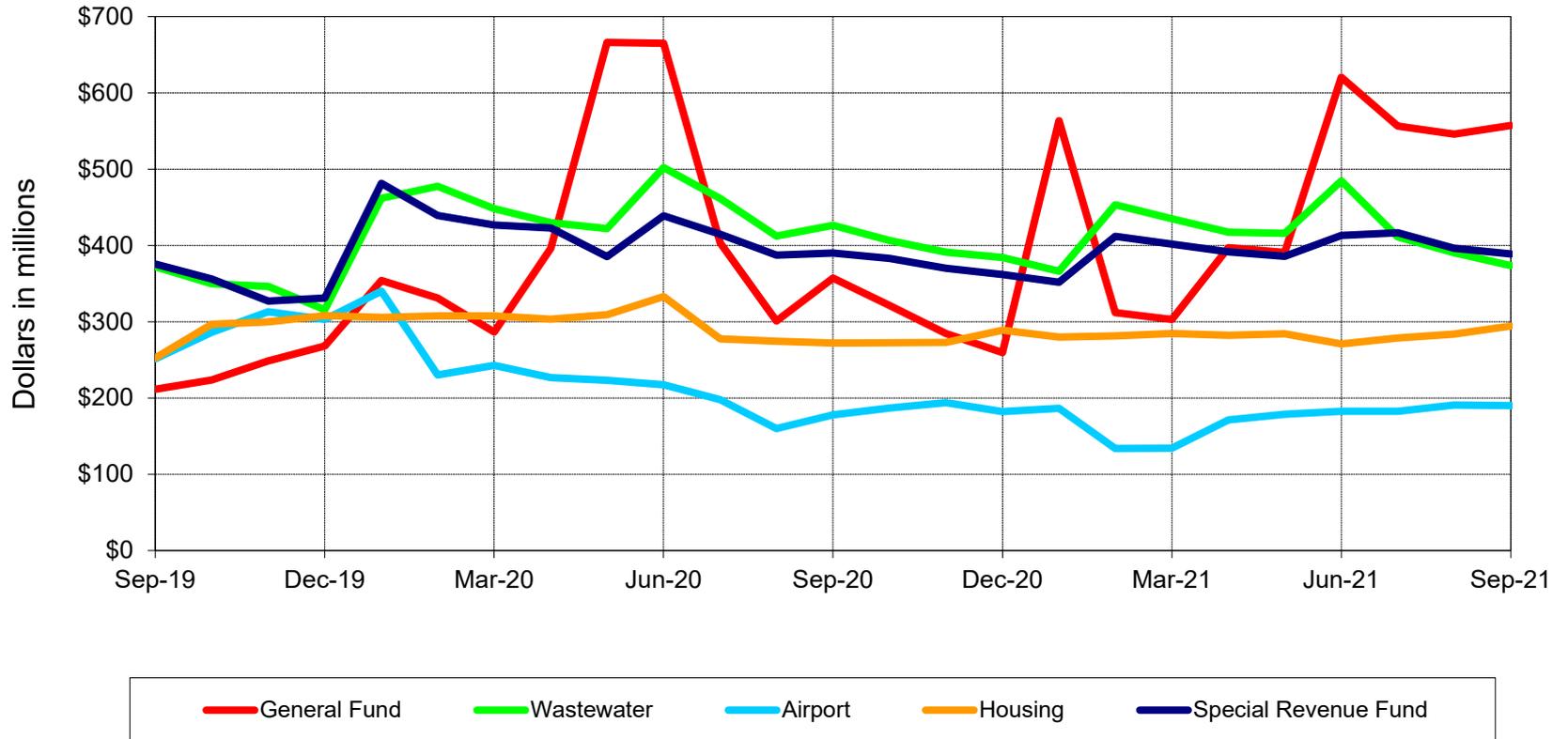
Investments by Fund



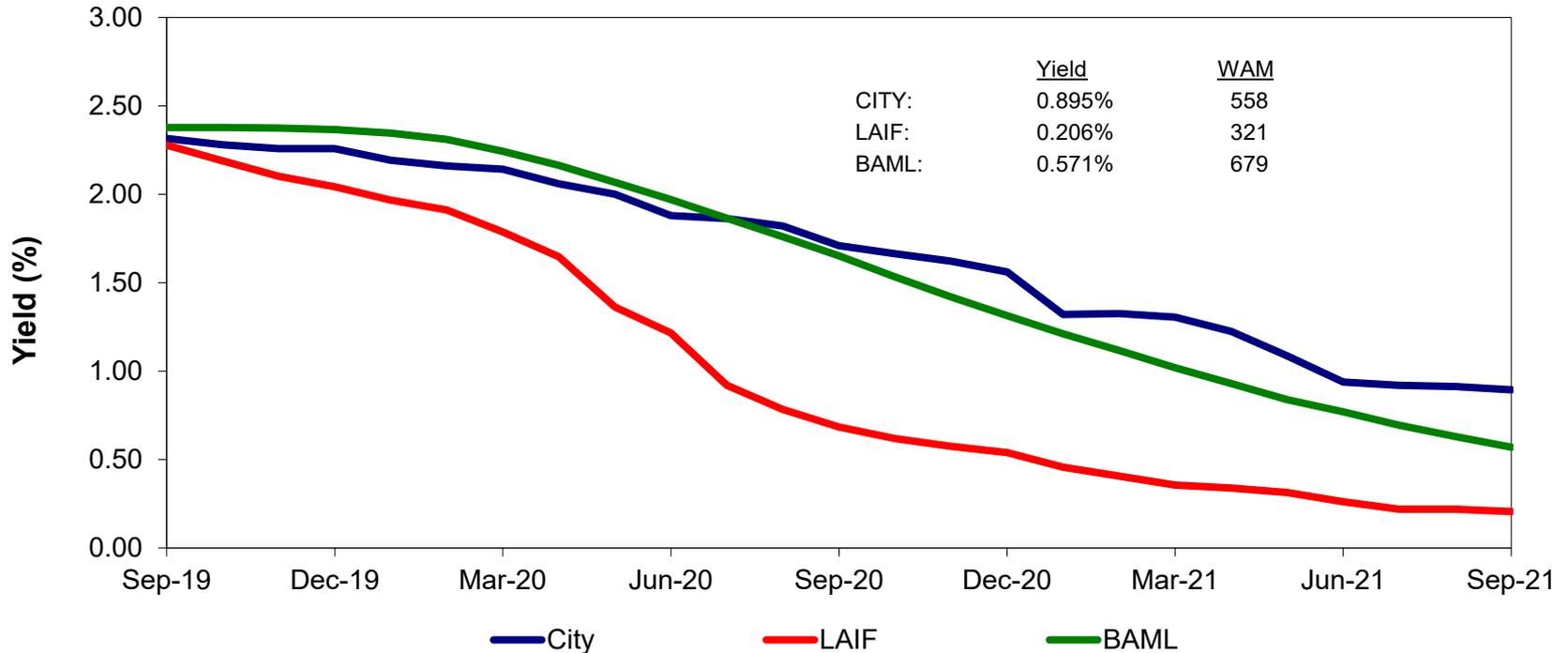
General Fund Balances

- The General Fund balances decreased by \$63.6 million during the quarter and ended with a balance of \$556.9 million as of September 30, 2021.
- General Fund cash balances usually peak during the months of January and June when the bulk of property taxes are received and decline in the summer months due to retirement prefunding, debt service payments and operational 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 3 Portfolio, and the yield data are month-end weighted average yields.
2. LAIF refers to the State of California 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

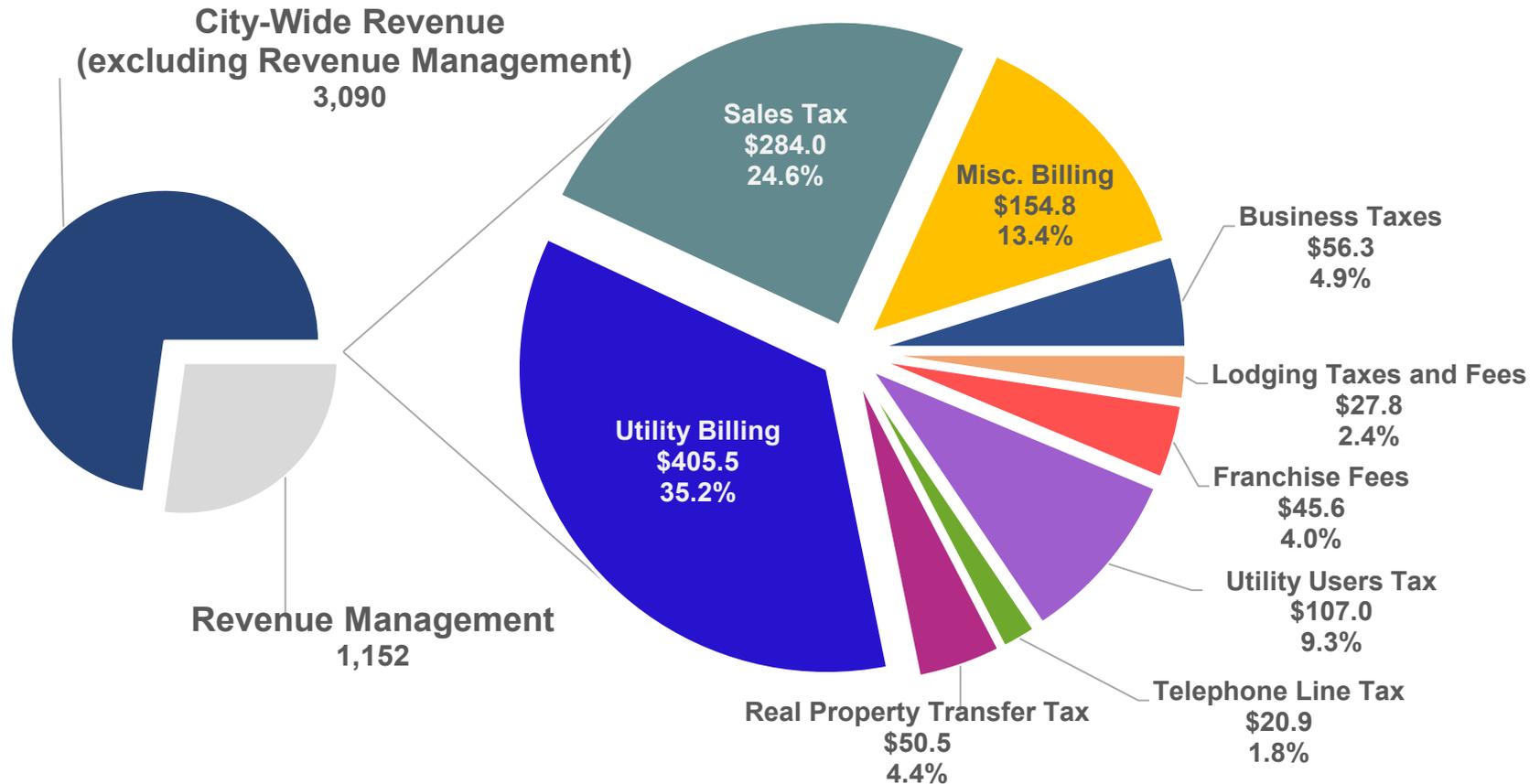
First Quarter Revenue Management Report for Fiscal Year 2021-2022

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

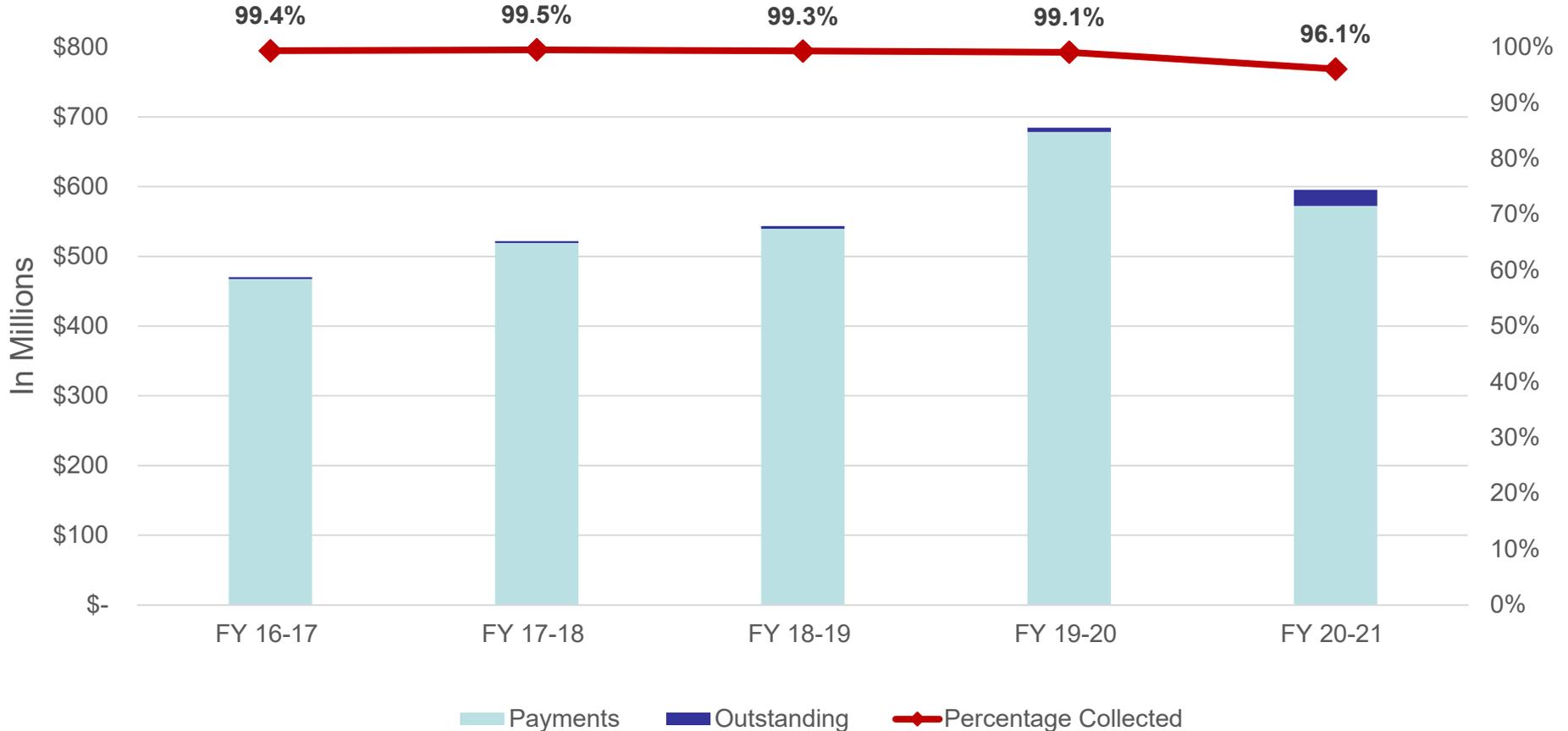
FY 2020-21 Revenue (\$ in millions)



Source: Total Revenue (\$4.242B) figures from 2020-21 City Manager's Budget Office Annual Report (Graph will be updated on an annual basis)

Invoicing and Payments

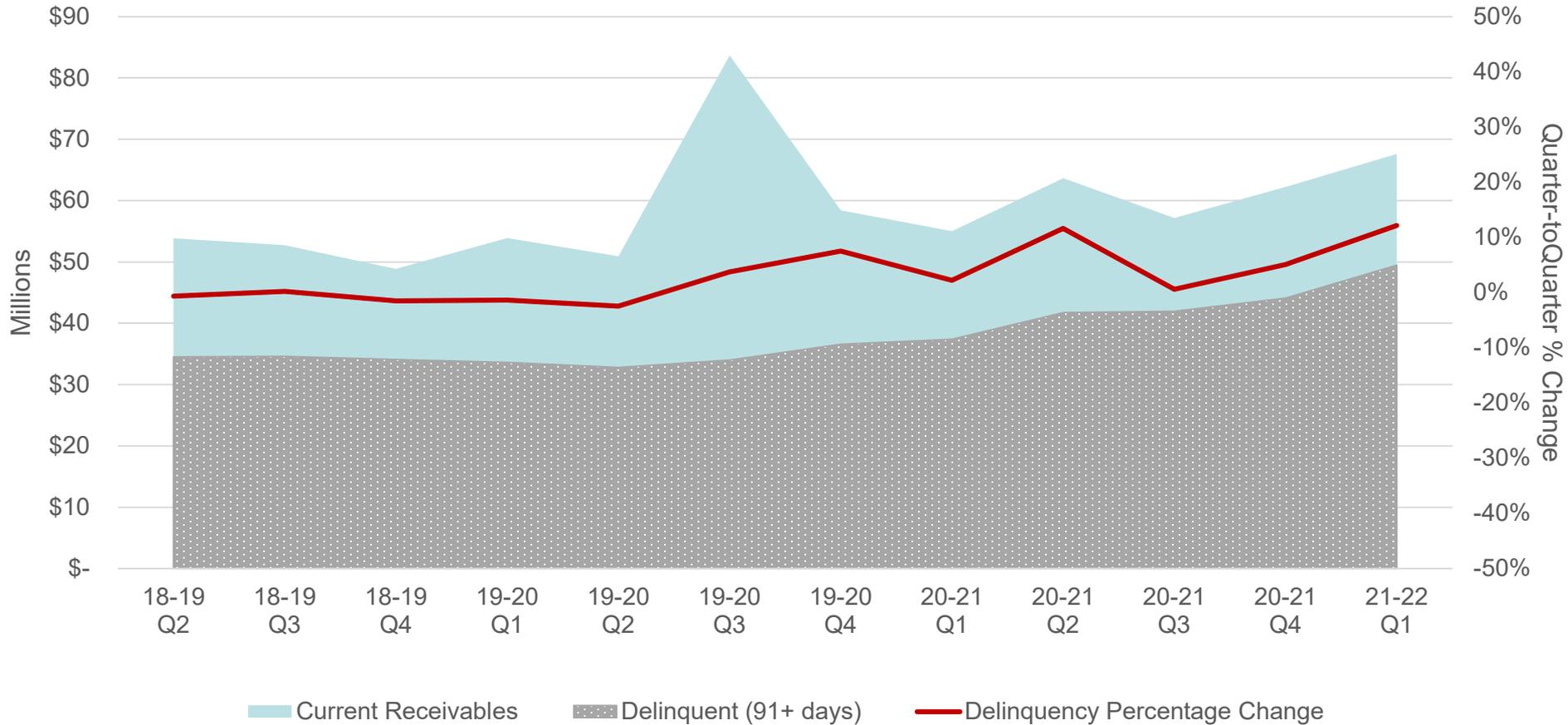
5 Years History (FY 2016-17 to FY 2020-21)



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)

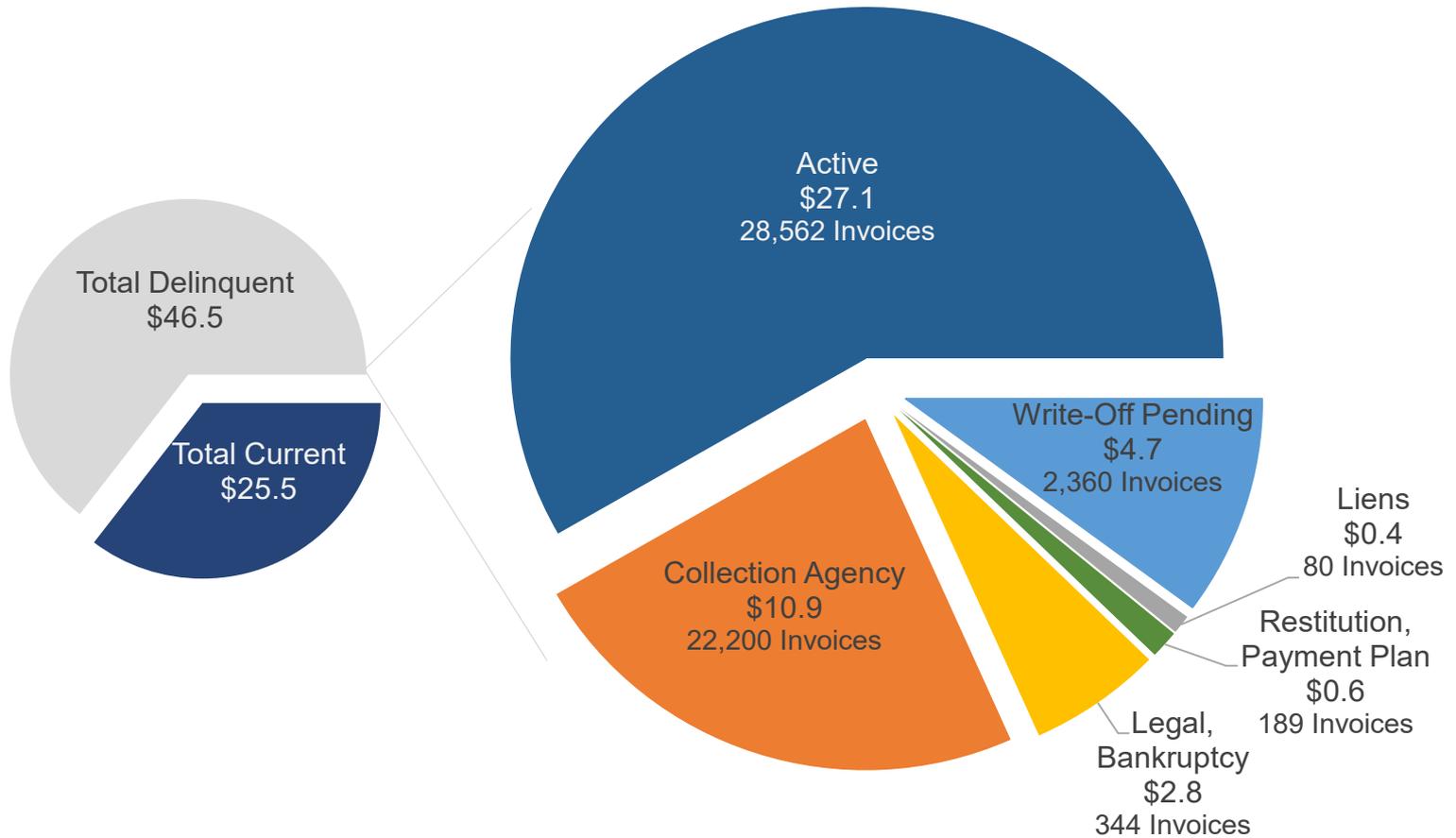
Outstanding Receivables

Three Year History



Delinquent Receivables

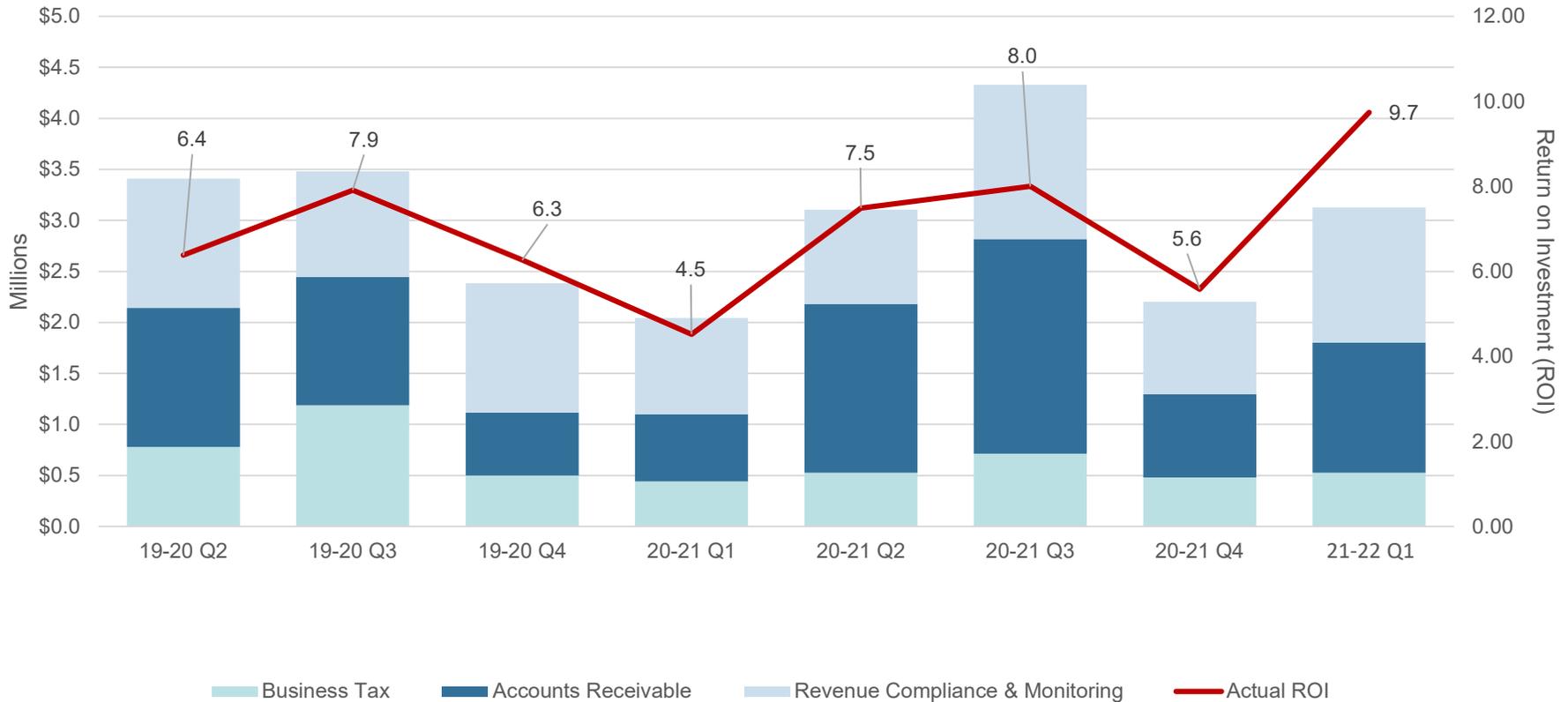
Collection Status Summary (\$ in millions)



As of September 30, 2021

Collections & Return on Investment

Revenue Management Collections



Target ROI: 5.5

Collection and Write-Off Process

Delinquency Notifications Sent to Debtor

- 30 Day Notice, 60 Day Notice, Final Notice

Collection Agency Referral Analysis

- Cost-benefit analysis of staff time vs. receivable amount
- City's ability to collect through alternative means
- Type of service billed or receivable amount

Analysis for Write-Off

- Collection efforts exhausted
- Debtor has no assets, filed bankruptcy, expiration of statute, deceased, incarcerated, or "skipped"

Business Tax COVID-19 Assistance

- On September 28, 2021, City Council voted to extend the COVID-19 Business Tax Hardship Exemption Program and to expand its eligibility requirements.
 - Program will continue from October 1, 2021 - June 30, 2022.
 - Eligibility now includes all businesses with gross receipts of \$25,760 OR adjusted gross income less than or equal to \$51,520.
 - Eligibility can be based upon anticipated 2021 income instead of actual 2020 tax returns.

First Quarter Purchasing and Risk Management Report for Fiscal Year 2021-2022

Purchasing Program

The Purchasing Division of the Finance Department is responsible for the centralized procurement of equipment, supplies, materials, Information Technology (IT), and non-consulting services, pursuant to the City of San José Municipal Code Title 4, Chapter 4.12.



Purchasing Accomplishments

First Quarter FY 2021-2022

Request for Quotes: **15 awarded**
Request for Bids: **6 awarded**
Request for Proposals: **1 completed**
Request for Information: **1 completed**



Purchase Orders and Purchase Orders Adjustments Issued: **756**
New Agreements: **5 negotiated and executed**
Amendments, Change Orders, Options: **26 executed**
Council Memos: **7**

Dollars Procured: **\$121,776,162**



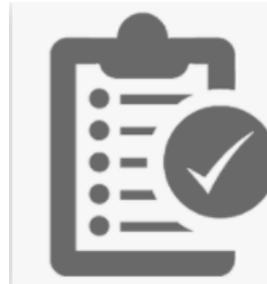
Procurement Improvement Update

Procurement Improvement is Strategic Support initiative under the City Roadmap:

- Finance re-engagement discussions with Procurement Consultant (Guidehouse) in September 2021
- Finance and the City Manager's Office are collaborating to expand scope of work to include assessment of Finance/Purchasing-managed *and* department-led procurements.
- Guidehouse initiated comprehensive stakeholder interviews in October 2021. Expected completion by November 2021.

Risk Management Program

The Division is responsible for the procurement and oversight of the City's property and casualty insurance programs and providing contractual risk management services, property subrogation claims reporting and other key services to City Departments.



Risk Management Program

- Successfully completed the City's major annual insurance renewal process and brought forward recommendations to Council on September 21, 2021 to select and purchase **10** of the City's insurance policies for the October 1, 2021 to October 1, 2022 policy period.
- ✓ Request for Contract Insurance Specifications: **171**
- ✓ Request for Insurance Contracts Compliance Review: **139**
- ✓ Request for Letter of Self Insurance: **27**
- ✓ Subrogation: Billed **\$208,377** to responsible third parties