



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT:** **THIRD QUARTER FINANCIAL  
REPORTS FOR FISCAL YEAR  
2019-2020**

**DATE:** May 20, 2020

Approved

Date

5/21/2020

## INFORMATION

The Third Quarter (period ending March 31, 2020) Financial Reports for Fiscal Year 2019-2020 are typically provided to the Public Safety, Finance, Strategic Support Committee (PSFSS). Since City Council Committee meetings have been canceled due to the COVID-19 pandemic, this report is being provided as an information memorandum to the City Council. This report highlights the Debt, Investment, and Revenue Management efforts completed during the reporting period, January 1 through March 31, 2020.

## BACKGROUND

The attached Third Quarter Financial Reports for Fiscal Year 2019-2020 presents the Finance Department's quarterly activity for the City's Debt Management, Investment Management, and Revenue Management programs (Attachment A). The City's Investment Policy requires that the Quarterly Investment Report (Investment Report) portion of the financial reports be presented not only to the PSFSS Committee, but also be cross referenced to the full City Council for approval, the Investment Report is being provided directly to the City Council absent the May 2020 PSFSS Meeting. The Investment Report was on the May 19, 2020 Council agenda. The Investment Report is also available on the Finance Department web page<sup>1</sup>. As part of the ongoing effort to streamline work efforts within the Finance Department, these three reports are combined in one single report. A brief narrative is provided below for all three components of this quarterly report.

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

## **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, 2020, 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

The City's current general obligation bonds are rated Aa1/AA+/AA+ and lease revenue bonds are rated Aa2-Aa3<sup>[1]</sup>/AA/AA by the Moody's Investors Services Inc., Standard & Poor's Ratings Services, and Fitch Ratings, respectively. These ratings are based on the rating reviews through March 31, 2020. All three rating agencies have changed their respective Sector Outlooks on various credit sectors from Stable to Negative, including the City's tax-supported obligations and airport obligations, as a result of the economic impacts of the COVID-19 pandemic. Outlooks indicate rating agencies' view regarding the potential for a rating change and the direction of the change, so a negative outlook indicates a rating may be lowered. The timeframe for an outlook is generally around two years.

### **Investment Management Program**

A quarterly investment report for the period ended March 31, 2020 is posted on the Finance Department website<sup>1</sup>. 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 that are presented in this consolidated report provide a "snapshot" of the investment portfolio. Given the absence of the May PSFSS Committee meeting, the Investment Report was on the City Council Agenda for May 19, 2020 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 provides the highlights of the Revenue Management Division's collection efforts and summarizes the progress towards maintaining a return on investment ratio of 5.5 to 1. Actual return on investment through the

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<sup>[1]</sup> Moody's determines its 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)

third quarter of fiscal year 2019-20 is 6.7 to 1. This report also includes a status summary of the Business Tax Amnesty Program (“Amnesty Program”).

### **Business Tax Amnesty Program**

The Amnesty Program commenced on October 1, 2019 and was planned to conclude on March 27, 2020. On March 24, 2020 City Council approved an extension of the Amnesty Program through June 30, 2020. This limited-time program forgives penalties and interest on past-due business taxes when the business pays the principal amount owed. To date, outreach efforts have included direct mailing more than 55,000 notices, distributing program flyers to business organizations and associations, running paid advertisements in newspapers, radio stations, VTA buses, and a series of press releases and social media posts. The outreach efforts have focused on providing information across the City’s diverse communities and organizations. We achieved this by placing advertisements regarding the Amnesty Program in the El Observador and Thang Mo newspapers, translated into Spanish and Vietnamese, respectively. Additionally, we provided informational flyers to many business organizations and associations represented on the Small Business Advisory Task Force for distribution through their network.

Between October 1, 2019 and March 31, 2020, nearly 4,000 businesses have registered, updated tax parameters, or paid delinquent taxes. The program has yielded \$2,000,000 in revenue through March 31, 2020, with nearly \$900,000 representing new and on-going revenue. These revenues have been accounted for in the current year budget.

### **EVALUATION AND FOLLOW-UP**

In the next report to the PSFSS Committee, staff will provide updates to the activities between April 1 and June 30, 2020. The next report to the Committee is scheduled for August 2020.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website.

HONORABLE MAYOR AND CITY COUNCIL

May 20, 2020

**Subject: Third Quarter Financial Reports for Fiscal Year 2019-2020**

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**COORDINATION**

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

/s/  
JULIA H. COOPER  
Director of Finance

For questions, please contact Luz Cofresi-Howe, Assistant Director, at (408) 535-7041.

Attachment A: Third Quarter Financial Reports for Fiscal Year 2019-2020

Honorable Mayor and City Council  
May 6, 2020

Attachment A

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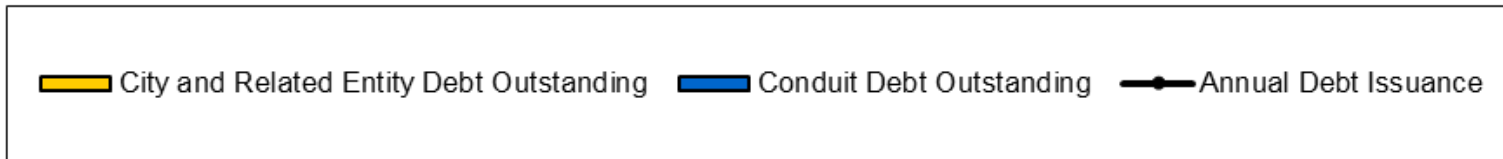
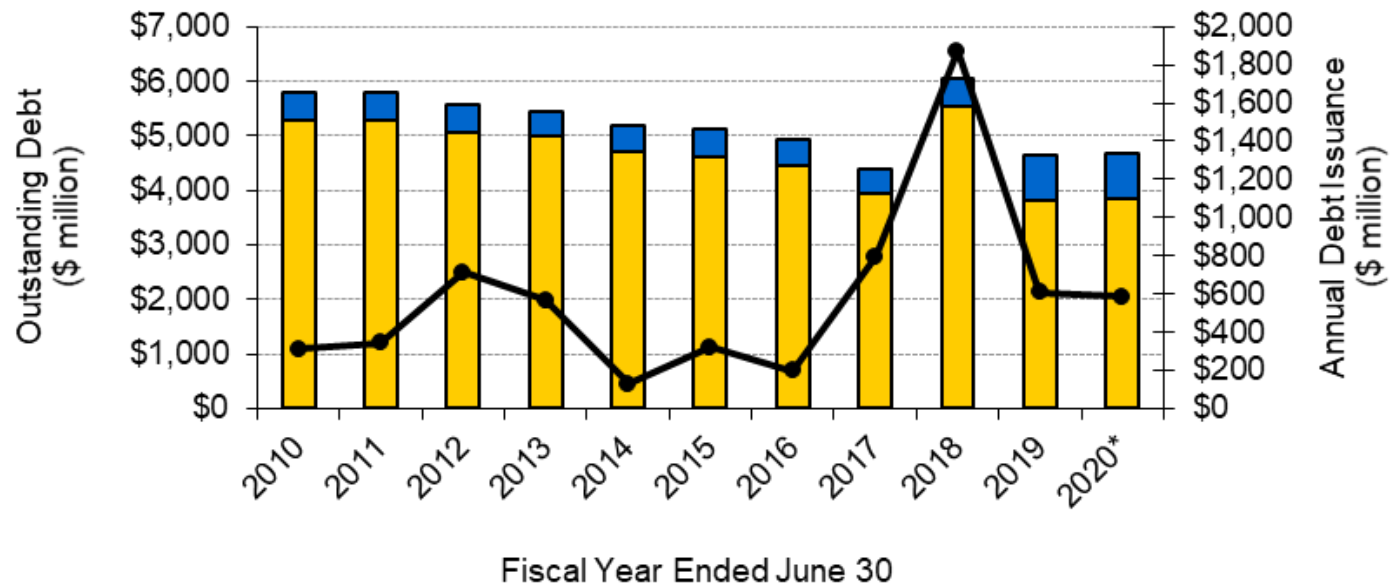
# Third Quarter Financial Report for Fiscal Year 2019-2020

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# **Third Quarter Debt Management Report for Fiscal Year 2019-2020**

# Outstanding Debt Issued by All Agencies

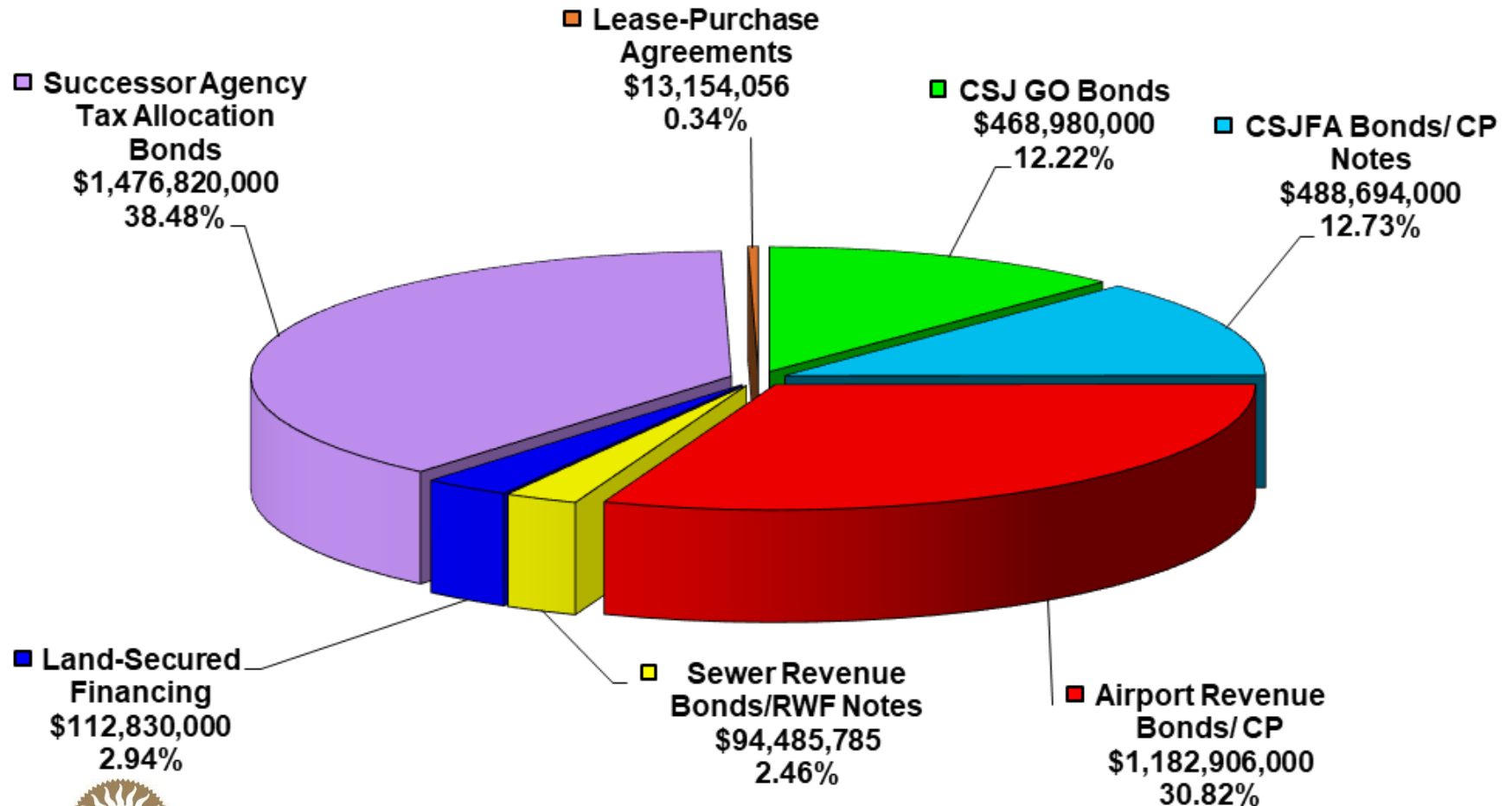
Outstanding Debt as of March 31, 2020: \$4.7 Billion  
 FY 2019-20 Actual Debt Issuance: \$584.1 Million\*



\* YTD Debt Issuance

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

Outstanding Debt as of March 31, 2020: \$3,837,869,841



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



# Selected Debt Issuance and Debt Management Activities during 3<sup>rd</sup> Quarter (Jan-Mar 2020)

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- Debt Management
  - Pre-issuance activities for CSJFA Lease Revenue Bonds, Series 2020A (City Hall Refinancing) and Series 2020B (Ice Centre Expansion)
  - TEFRA Hearings - SAHA Arya (Balbach) Housing Project (January 2020)
  - County Oversight Board Approval of Successor Agency ROPS 20-21 (January 2020)
  - Redeemed \$8.14 million in CSJFA 2007A Bonds (February 2020)
- Reporting
  - Annual Debt Transparency Report to State Treasurer (January 2020)

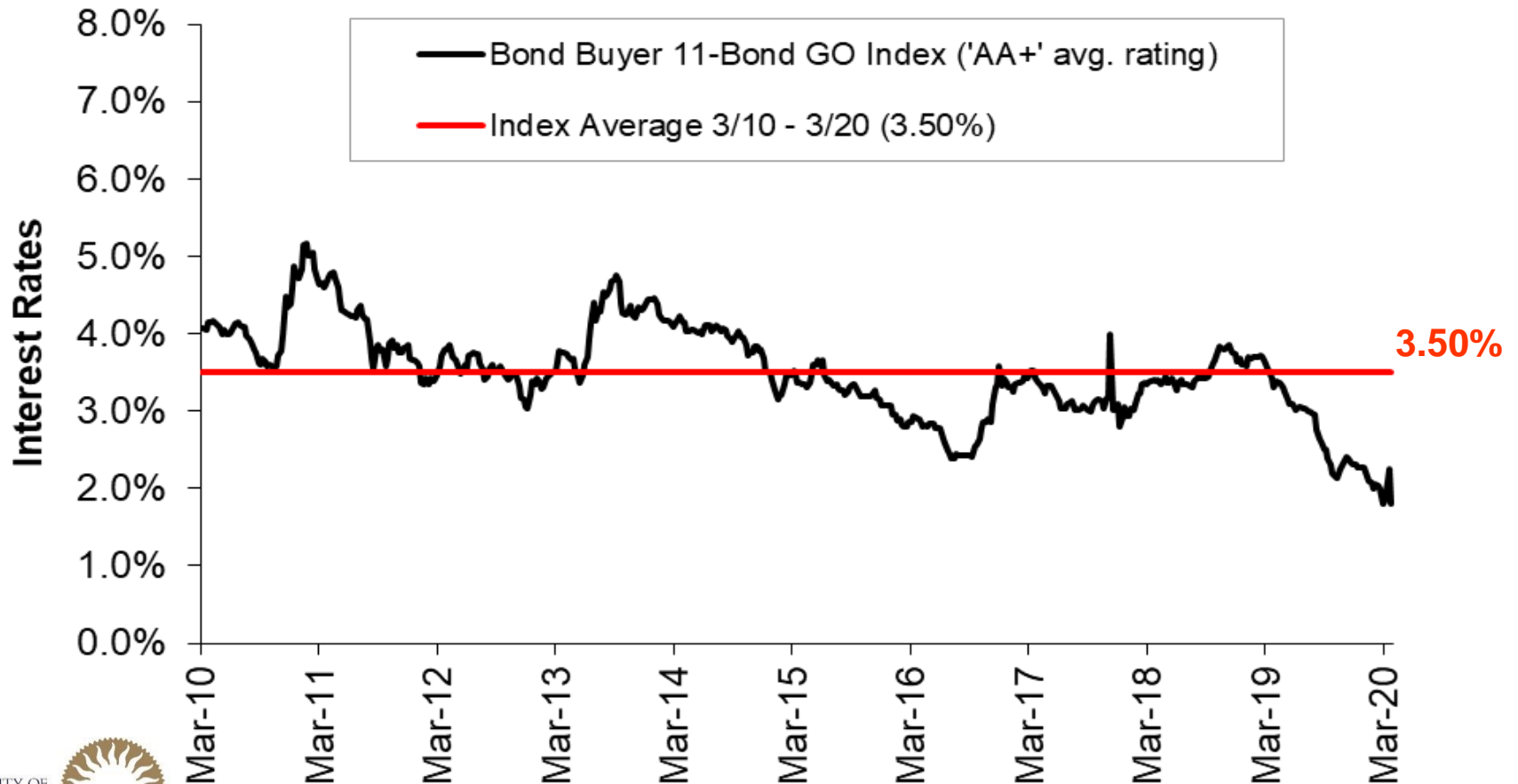
# Upcoming Debt Issuance and Management Through December 31, 2020

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- Debt Issuance
  - CSJFA Lease Revenue Bonds
    - City Hall Refunding, Series 2020A Tax-exempt (\$350 million, Summer 2020)
    - Ice Centre Expansion, Series 2020B Taxable (\$145 million, Summer 2020)
  - Multi-Family Housing Revenue Bonds
    - Alum Rock Family Housing (\$42 million, Fall 2020)
    - Page Street Studios (\$40 million, Fall 2020)
    - SAHA Arya (Balbach) Housing (\$45 million, Fall 2020)
    - Markham Plaza II (\$28 million, Fall 2020)
    - West San Carlos Supportive Housing (\$35 million, Winter 2020)
- Debt Management
  - Pre-issuance activities for CSJFA Lease Revenue Bonds, Series 2020B (Ice Centre Expansion)
  - RWF Credit Facility Extension
  - RFP for Continuing Disclosure Audit and Arbitrage Calculation Services
  - Continuing Disclosure EMMA Notifications (as needed) – COVID-19

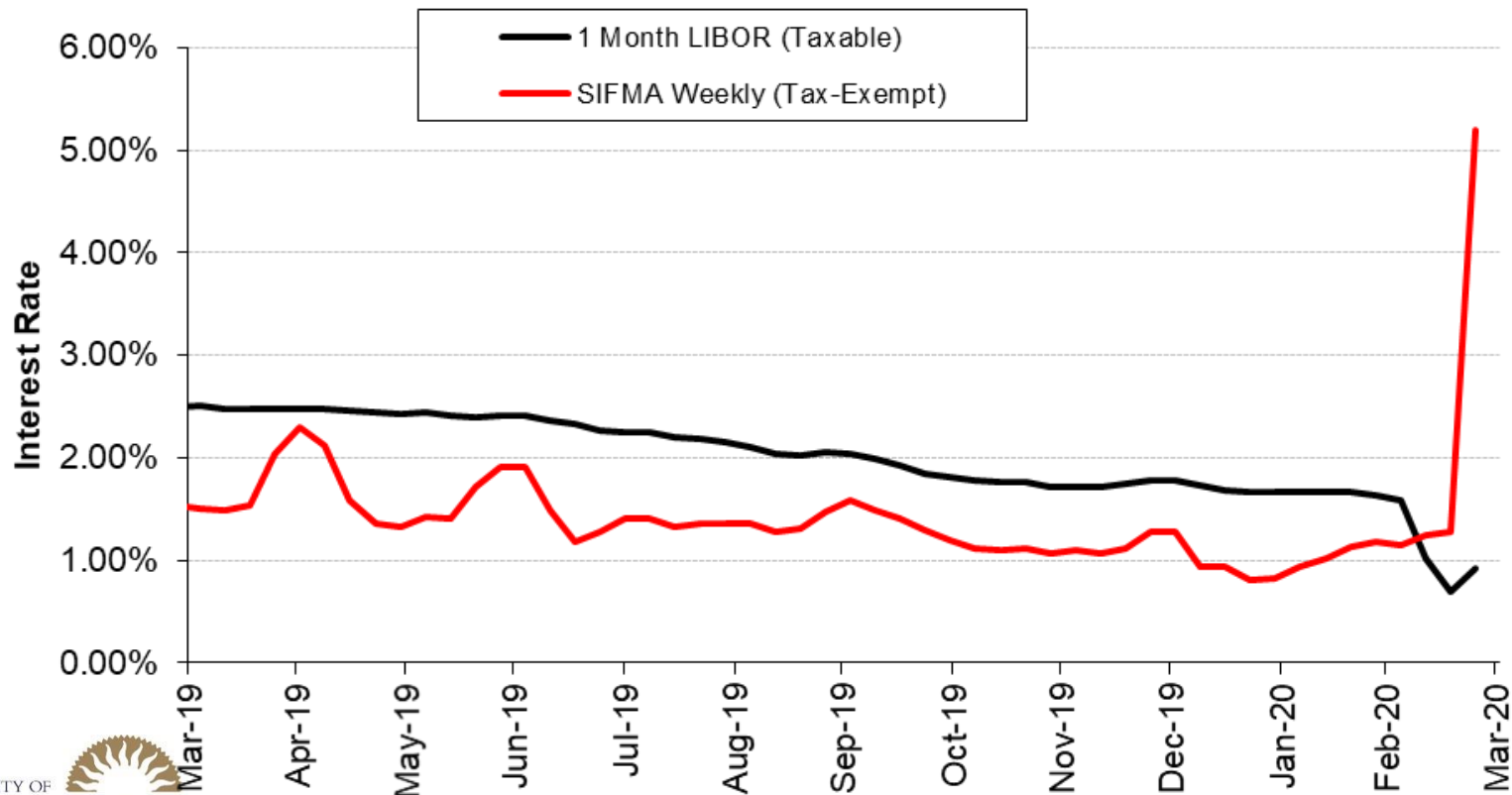
# Ten-Year Tax-Exempt Market Index (Fixed Rate)

- 10-year historic tax-exempt long-term interest rates averaged 3.50% and are currently at 1.78% (as of 4/16/20)



# Variable Taxable and Tax-Exempt Interest Rates

- Tax-Exempt SIFMA weekly interest rates paid by the City averaged 1.64% in Q3 and are currently at 0.36% (as of 4/15/2020); spike in tax-exempt weekly rates result of market disruption due to the COVID-19 pandemic
- Taxable LIBOR monthly interest rates paid by the City averaged 1.42% in Q3 and are currently at 0.72% (as of 4/16/2020)



# 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
  - City G.O. bonds continue to be rated higher than State of California (Aa2/AA-/AA)
  - 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
- SARA Senior Tax Allocation Bonds are rated AA and the Subordinate Tax Allocation Bonds are rated AA- by both S&P and Fitch<sup>3</sup>
- 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**

<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 determines 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).

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

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# **Third Quarter Investment Management Report for Fiscal Year 2019-2020**

# 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 acceptance, given cancellation of May PSFSS meeting, report agendized for May 19, 2020 Council meeting

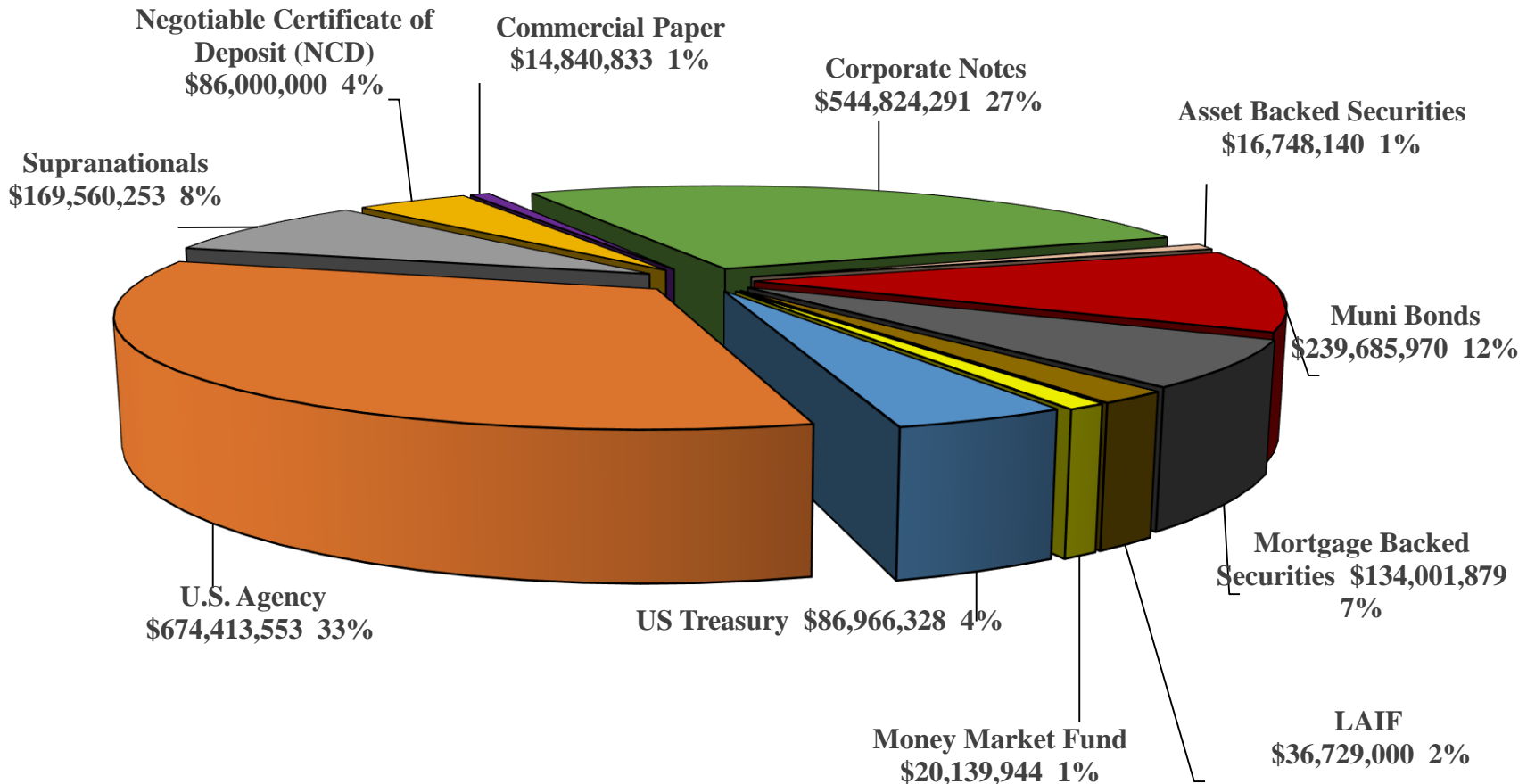


# Summary of Portfolio Performance

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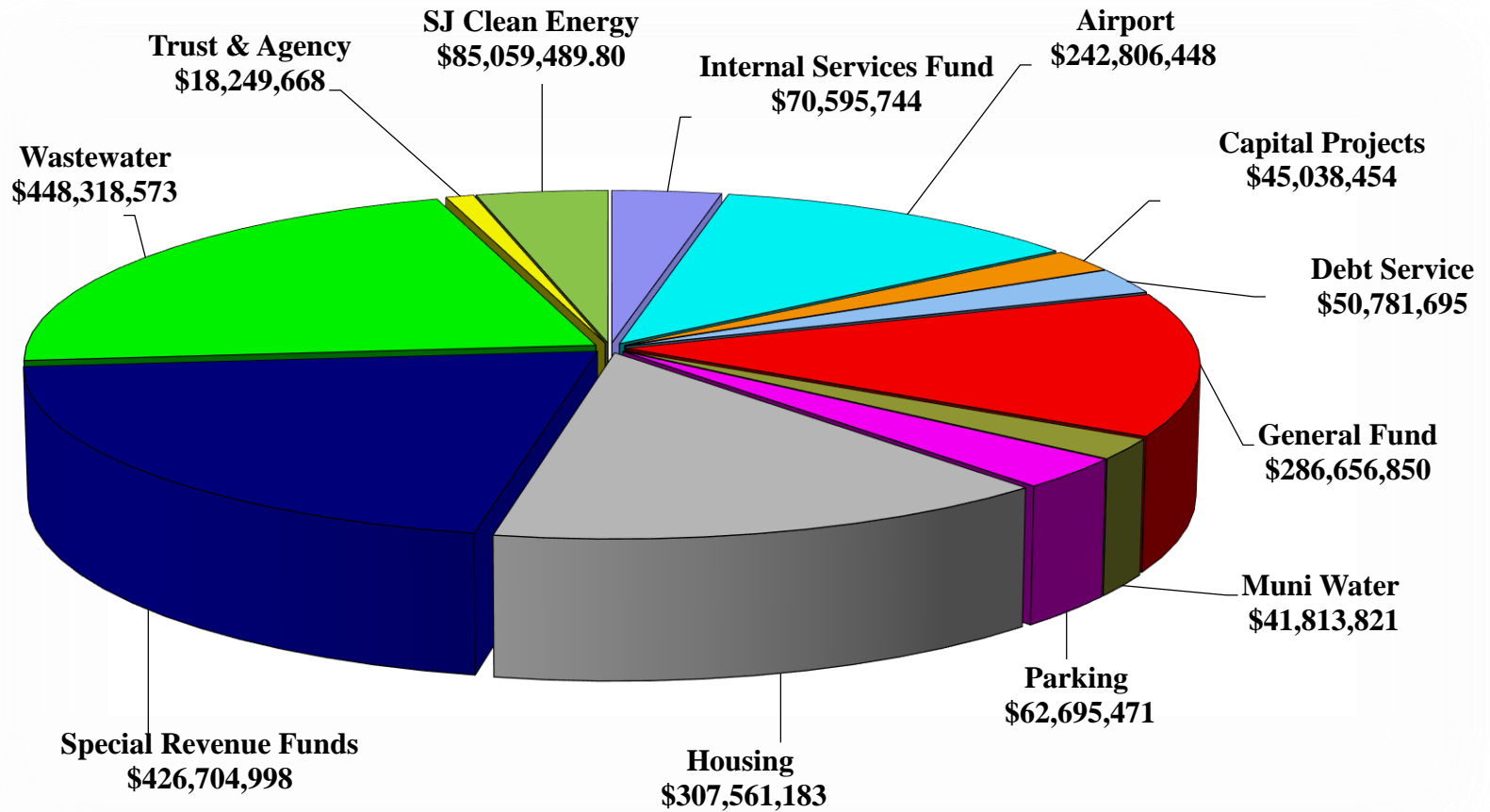
- Size of total portfolio: \$2,023,910,192
- Earned interest yield: 2.32%
- Weighted average days to maturity: 685 days
- Fiscal year-to-date net interest earnings: \$35,084,378
- No exceptions to the City's Investment Policy during this quarter.
- The City's external auditor, Macias, Gini, & O'Connell LLP, evaluated the City investment program for the quarter ended December 31, 2019. The report noted no exceptions to the Investment Policy.

# Portfolio Investment



Total Investment Portfolio = \$2,023,910,192

# Investment by Fund

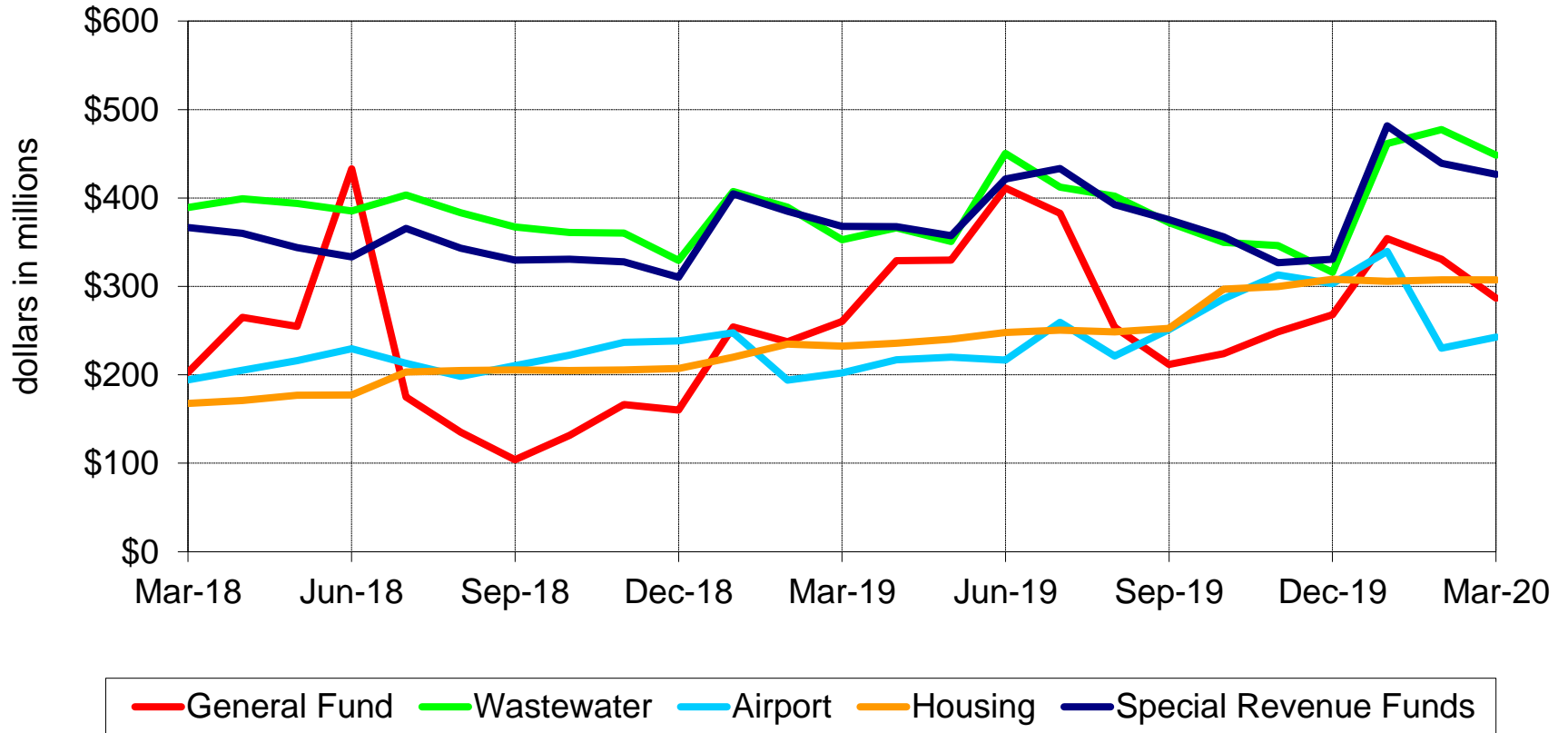


# General Fund Balances

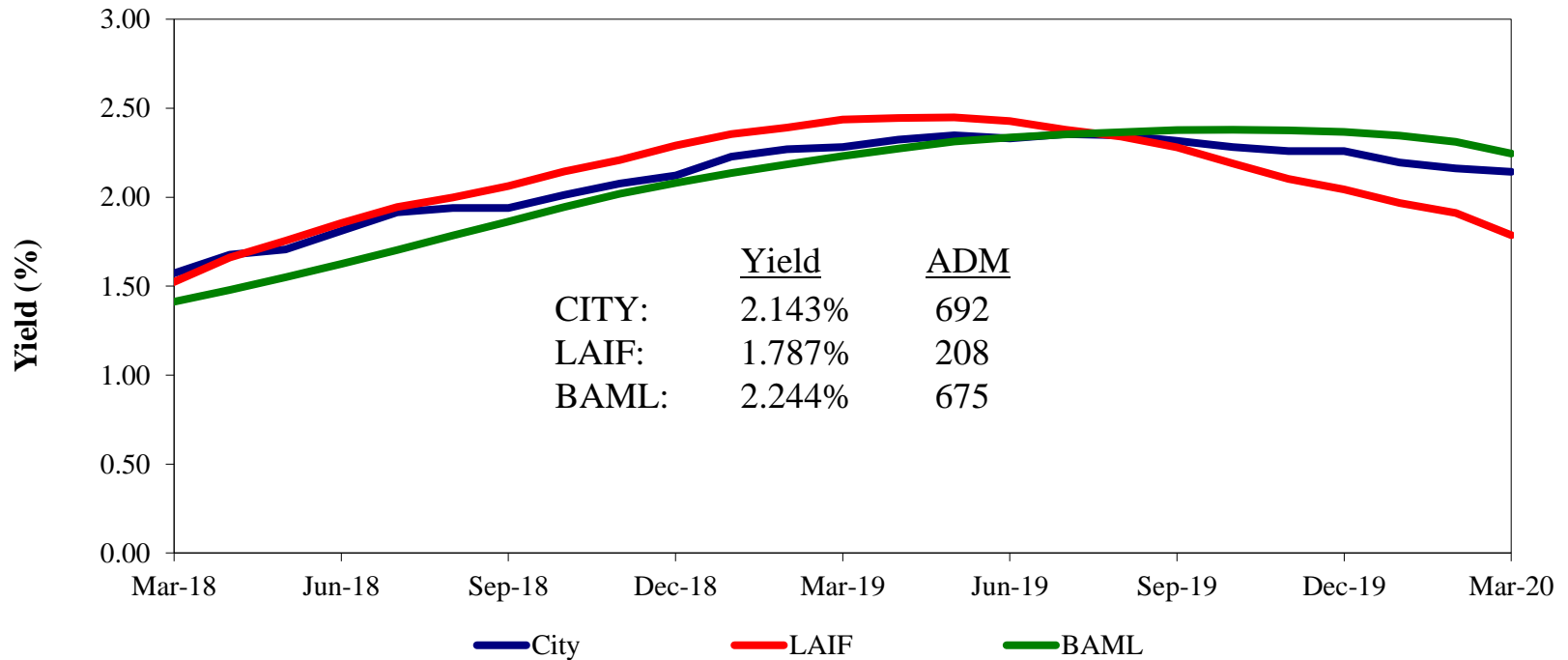
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- General Fund balances increased by approximately \$18.6 million to \$286.6 million this quarter, with the receipts of property taxes in January.
- Projected investment maturities and revenue are sufficient to cover anticipated expenditures for the 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

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- Continue matching investment maturities with known expenditures 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 2019-2020**



# 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

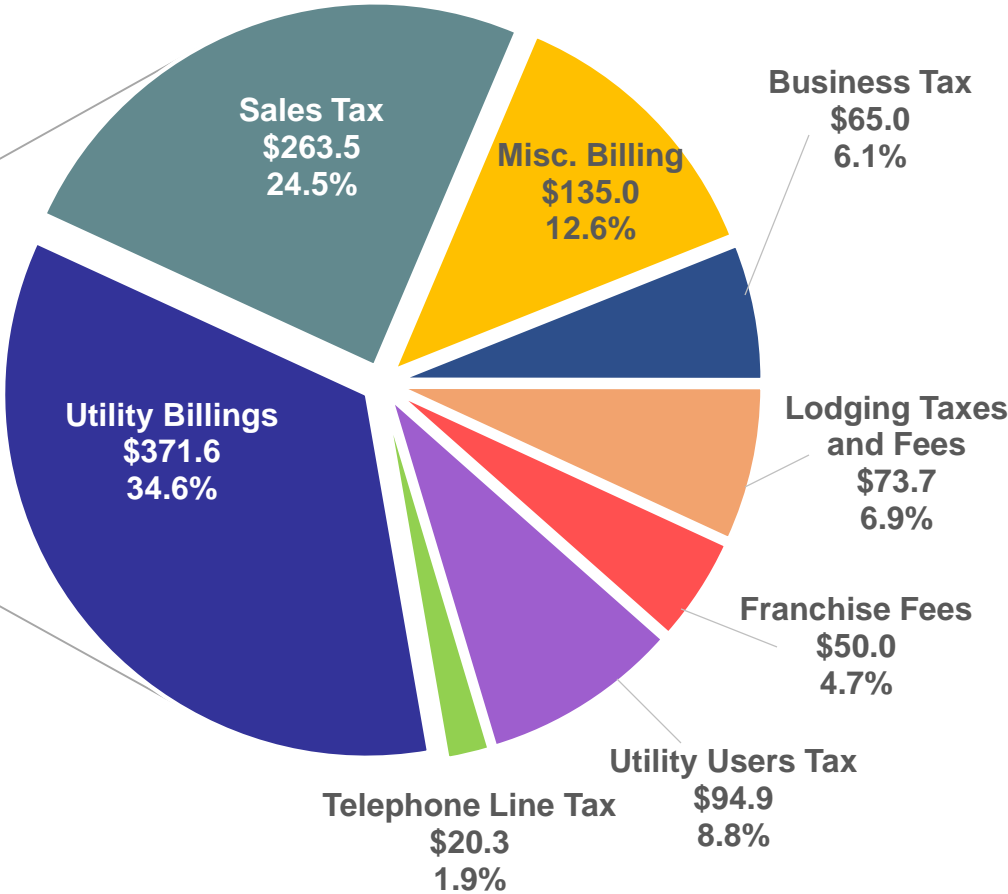
# Revenue Management Portfolio

## FY 2018-19 Revenue (\$ in millions)

City-Wide Revenue  
(excluding Revenue Management)  
\$2,424



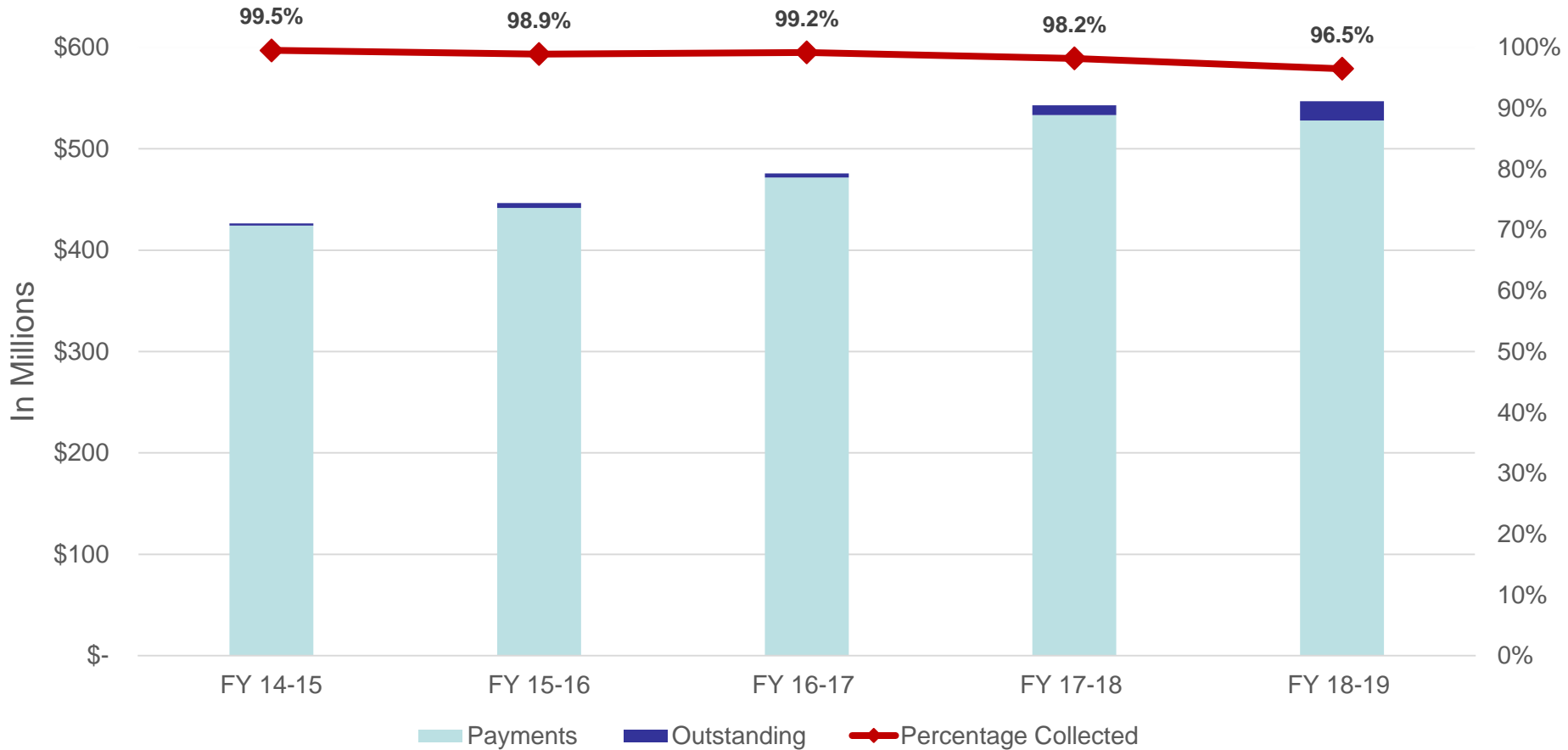
Revenue Management  
\$1,074



Source: Total Revenue (\$3.498B) figures from 2018-19 City Manager's Budget Office Annual Report  
(Graph will be updated on an annual basis)

# Invoicing and Payments

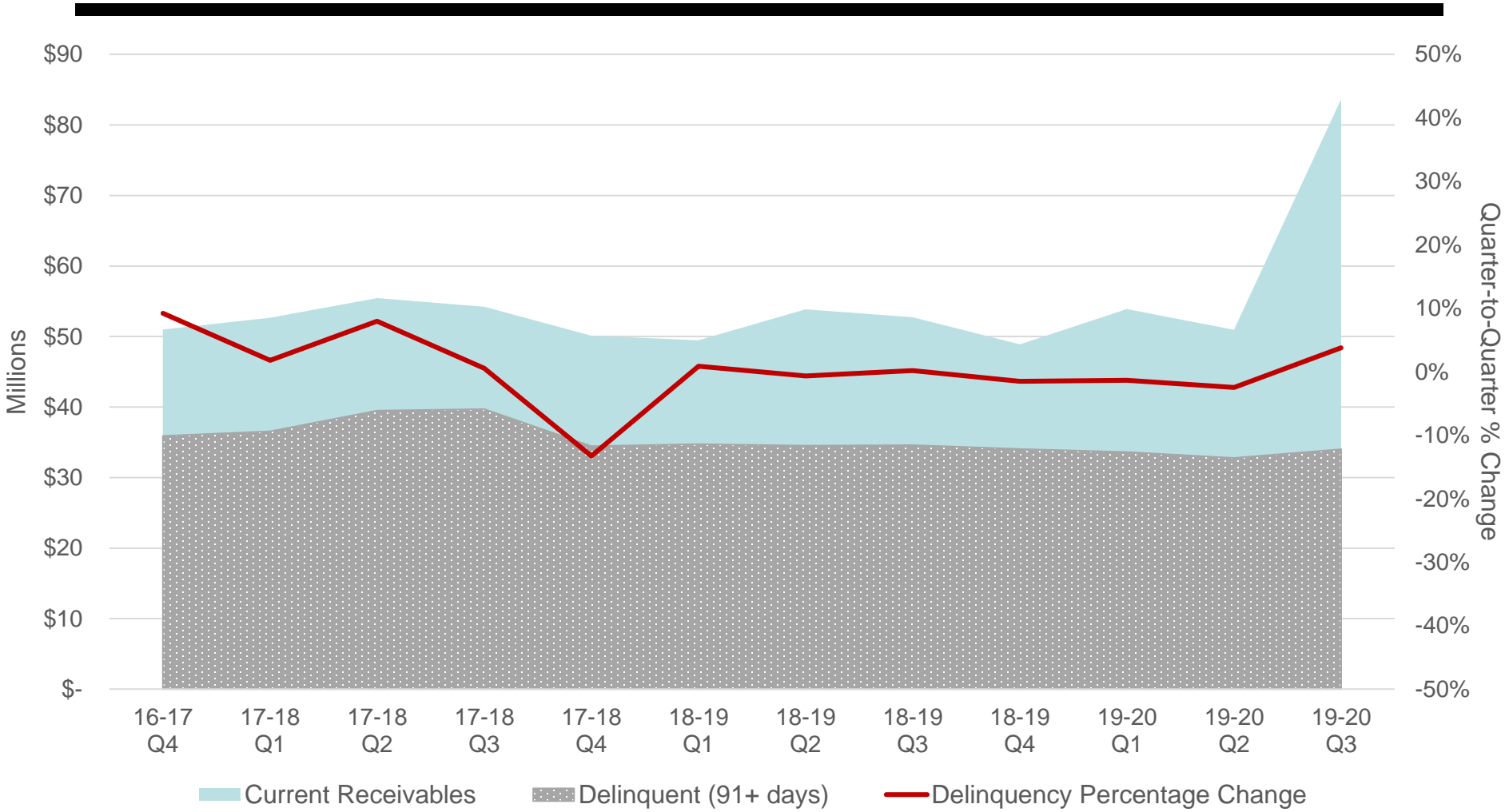
## 5 Years History (FY 2014-15 to FY 2018-19)



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)

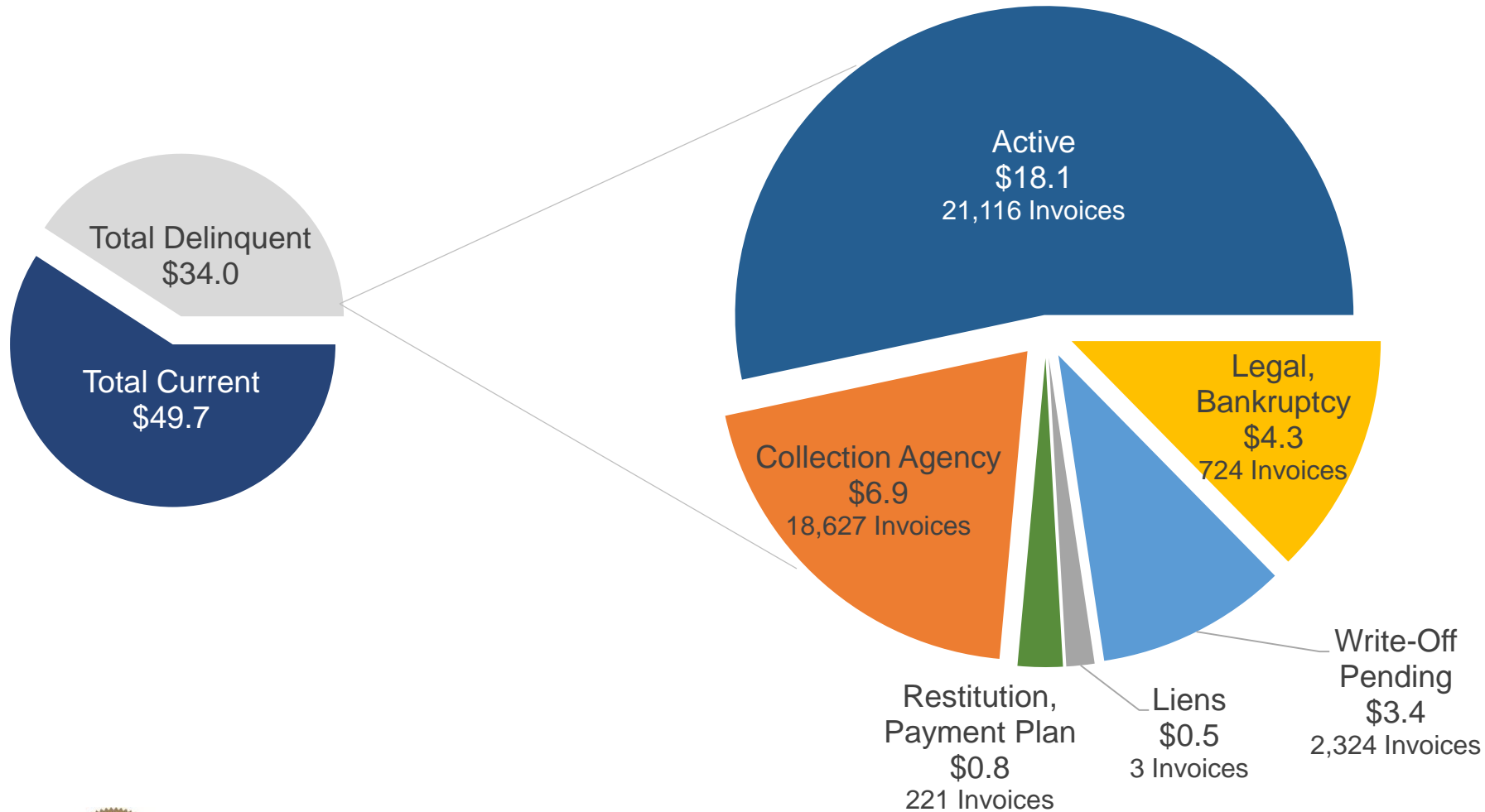
# Outstanding Receivables

## Three Year History



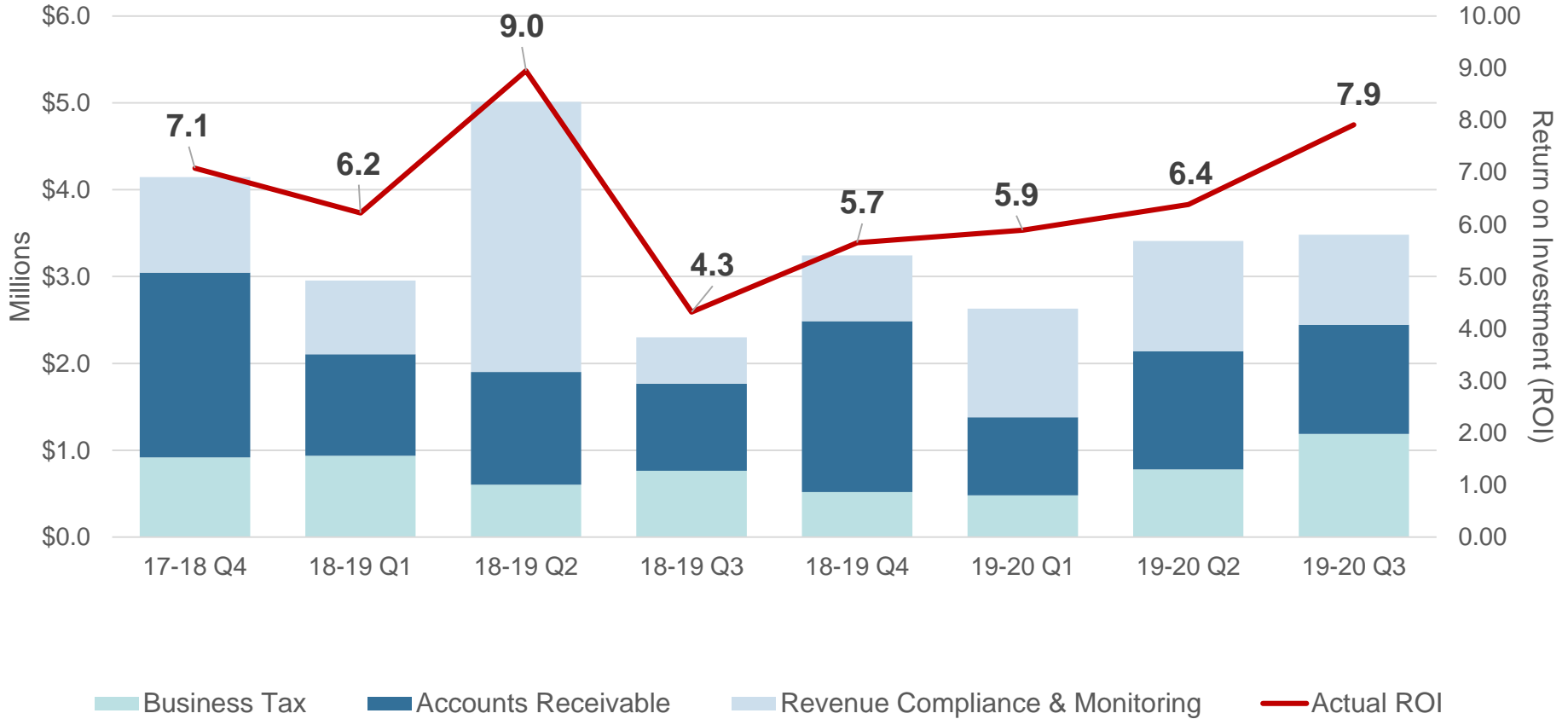
# Delinquent Receivables

## Collection Status Summary (\$ in millions)



As of March 31, 2020

# Collections & Return on Investment



# Business Tax Amnesty Program

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- Recap: Amnesty Program is a limited-time opportunity for individuals and entities to pay the principal amount owed in exchange for forgiveness of associated penalties and interest
- Began October 1, 2019; extended through June 30, 2020
- Outreach-Advertisement efforts include:
  - Direct Mailing: over 55,000 letters sent
  - VTA bus advertisements
  - Newspapers: San Jose Mercury, San Jose Metro, El Observador, Thang Mo
  - Radio: KRTY/KLIV
  - Flyers for business organizations and associations
  - Social media posts
- Through March 31, 2020, nearly 4,000 businesses have benefitted.
- Revenue generation is \$2.0M, with nearly \$900k new and on-going.