

Attachment A

COMMITTEE AGENDA: AUGUST 15, 2024

ITEM: (d)I.

FILE: CC 24-374

ATTACHMENT A

# **FOURTH QUARTER FINANCIAL REPORT FISCAL YEAR 2023-2024**

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

**Prepared by the Finance Department  
July 31, 2024**

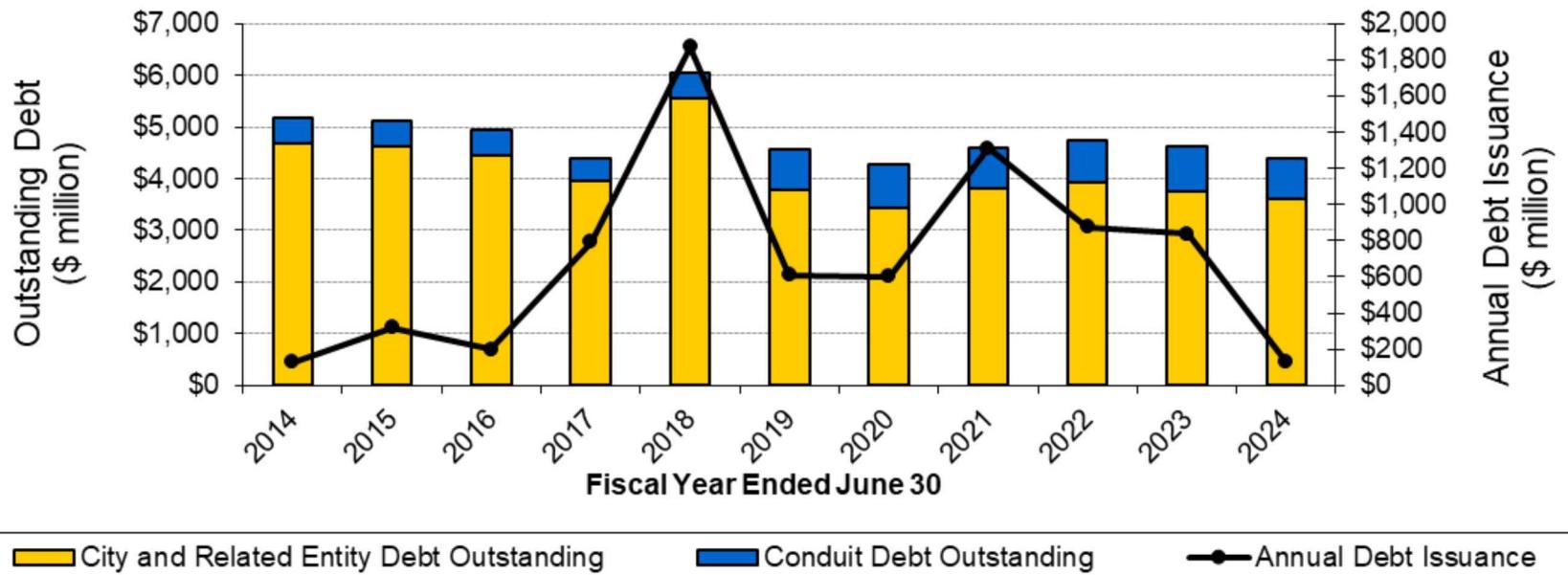


# FOURTH QUARTER DEBT MANAGEMENT REPORT FISCAL YEAR 2023-2024



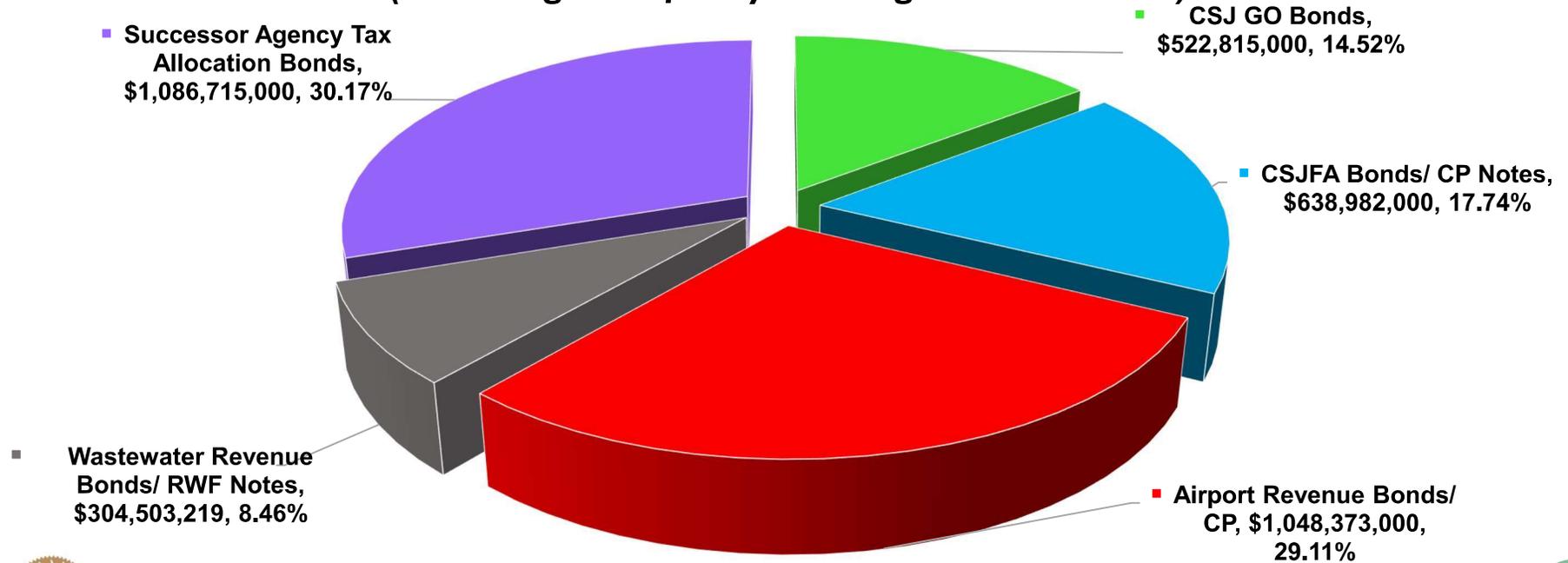
# OUTSTANDING DEBT ISSUED (CITY AND ALL AGENCIES)

Outstanding Debt as of June 30, 2024: \$4.39 Billion  
 FY2023-24 Debt Issuance: \$145.3 Million



# DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of June 30, 2024: \$3.60 Billion  
(Excluding Multifamily Housing Revenue Bonds)



# DEBT ISSUANCE ACTIVITIES (APRIL– JUNE 2024)

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- Regional Wastewater Facility (RWF) Credit Facility Draw, \$40.0 million in April 2024
- City of San José Financing Authority (CSJFA) Commercial Paper issuance for \$952.0 thousand in June 2024 for Parks and Recreation Neighborhood Services Floods project
- Issued \$6.1 million in Airport Commercial Paper
- California Community Choice Financing Authority (CCCFA) Clean Energy Project Revenue Bonds (for San José Clean Energy)
  - Completed solicitation of Commodity Swap Services Request for Proposal (RFP)
    - Natixis and Royal Bank of Canada were selected



# DEBT MANAGEMENT ACTIVITIES (APRIL– JUNE 2024)

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- Debt Administration
  - Completed RFP solicitations related to the formation of a Community Facilities District (Berryessa)
    - Special Tax Consultant – Selected Goodwin Consulting Group, Inc. (June 2024)
    - Market Absorption – Selected RCLCO Real Estate Consulting (June 2024)
  - Issuer Ratings and Rating Surveillance
    - SJCE received A2/A ratings from Moody’s and S&P with stable outlooks
    - S&P and Fitch affirmed Airport ratings of “A” (senior debt) and “A-” (subordinate debt)



# DEBT MANAGEMENT ACTIVITIES (CONT.) (APRIL– JUNE 2024)

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- Debt Administration

- Executed the following Consultant Agreements:

- BLX Group LLC shall provide services related to Arbitrage Rebate, Private Activity and Senate Bill SBI029. The contract is set for an initial term of three years with two one-year optional extensions through June 30, 2029.
    - Fieldman, Rolapp & Associates shall provide Municipal Advisory Services related to the formation of the Berryessa Community Facilities District. The contract is set for an initial term of three years with two one-year optional extensions through June 30, 2029.



# UPCOMING DEBT ISSUANCE THROUGH SEPTEMBER 30, 2024

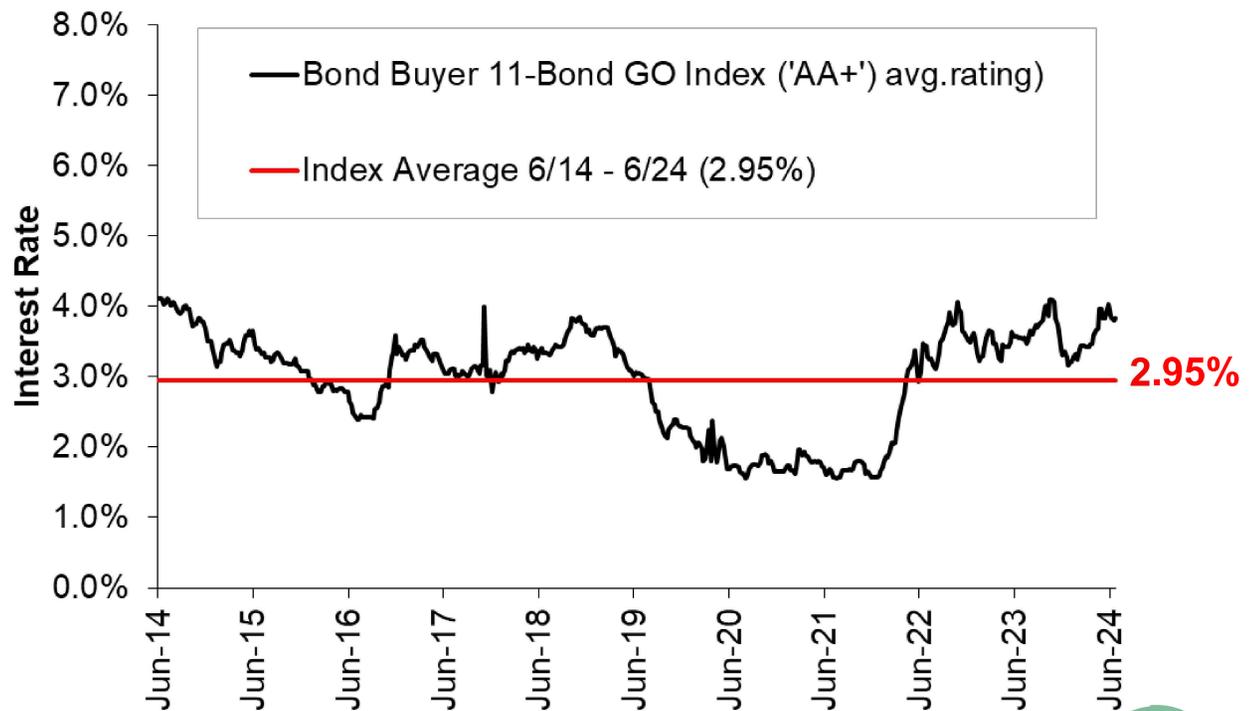
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- On July 15, 2024, the City extended the Airport Commercial Paper Bank of America Letter of Credit Reimbursement Agreement through September 10, 2026.
- Close the issuance of 2024A Airport Revenue Refunding Bonds
  - On July 16, 2024, the City locked the rate with TD securities.
  - Net present value saving of ~3.30% or ~\$2.5 million.
  - Closing on July 30, 2024.
- Commercial paper issuance and remarketing for the Airport
- CCCFA Project Revenue Bonds
  - Trustee RFP – selected U.S. Bank (July 2024)
  - Green Bonds Second Party Opinion RFP (expected July/August 2024)
  - Investment Agreement Bidding Agent RFP (expected July/August 2024)



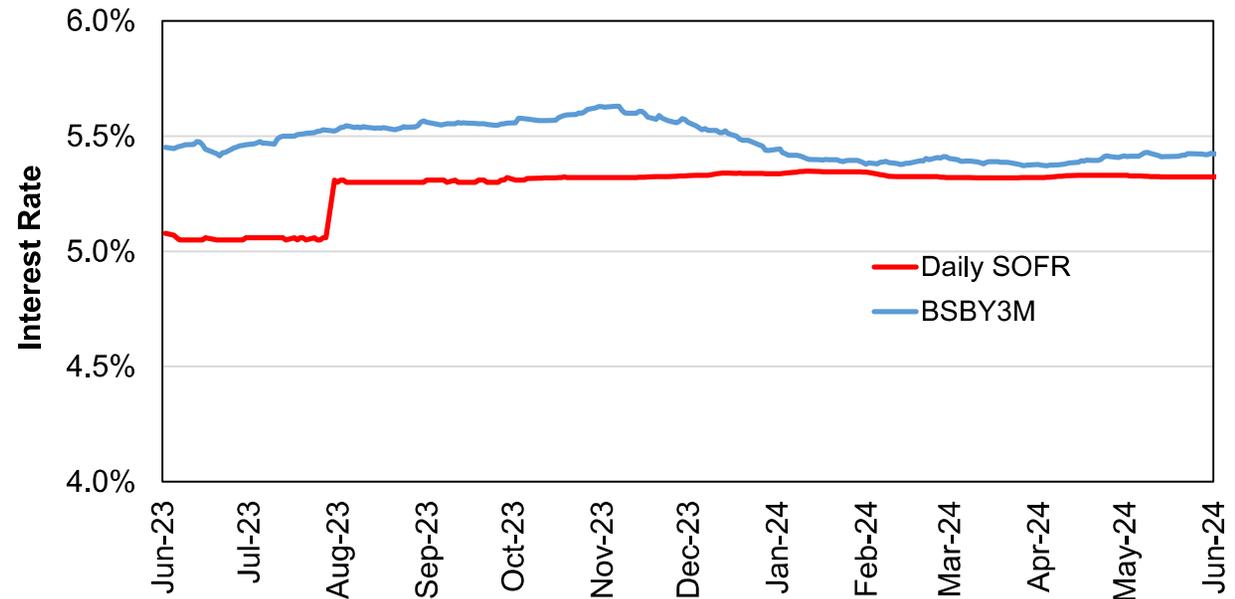
# BOND BUYER GO BOND YIELD INDEX

10-year history of higher rated (“AA+”) General Obligation debt (20-year term) yield averaged 2.95% and is currently at 3.84% (as of 7/11/2024).



# SHORT-TERM RATES FOR FY23-24

- The Daily Secured Overnight Financing Rate (SOFR) interest rate is currently 5.34% (as of 7/12/2024)
- The Bloomberg 3-Month Short Term Bank Yield (BSBY3M) interest rate is currently at 5.40% (as of 7/12/2024)
- The City uses SOFR as a proxy for forecasting interest rates for RWF and BSBY3M for CSJFA CP interest rates.



# GENERAL OBLIGATION CREDIT RATINGS

The City's GO Ratings are higher than the State of California's ratings and analogous to Santa Clara County's ratings, which is to be expected given the extent of the tax base and other credit fundamentals that the City and the County share:

| Entity              | Moody's | S&P | Fitch |
|---------------------|---------|-----|-------|
| City of San José    | Aa1     | AA+ | AAA   |
| State of California | Aa2     | AA- | AA    |
| Santa Clara County  | N/A     | AAA | AA+   |

[1] Moody's does not currently rate Santa Clara County's General Obligation Bonds but maintains an Issuer rating of Aa1.



# GENERAL CREDIT RATINGS

## CITY OF SAN JOSE

- The City of San José continues to maintain very high credit ratings.

| Type of Rating   | Moody's                        | S&P             | Fitch                          |
|--|--------------------------------|-----------------|--------------------------------|
| <b>Issuer Rating</b>                                   | Aa1<br>(stable)                | AA+<br>(stable) | AA+<br>(stable)                |
| <b>General Obligation Bonds</b>                        | Aa1<br>(stable)                | AA+<br>(stable) | AAA<br>(stable)                |
| <b>Lease Revenue Bonds<br/>(Essential Assets)</b>      | Aa2<br>(stable)                | AA<br>(stable)  | AA<br>(stable)                 |
| <b>Lease Revenue Bonds<br/>(Less Essential Assets)</b> | Aa3 <sup>[1]</sup><br>(stable) | AA<br>(stable)  | AA- <sup>[2]</sup><br>(stable) |

[1] Moody's assigns a rating of Aa3 to CSJFA 2020B and 2022A bonds which the rating agency considers less essential assets.

[2] Fitch assigns a rating of AA- to CSJFA 2020B bonds which the rating agency considers less essential assets.



# OTHER CITY CREDIT RATINGS

| Type of Rating                                       | Moody's        | S&P             | Fitch           | KBRA (Kroll)                   |
|--|----------------|-----------------|-----------------|--------------------------------|
| <b>San José Airport Bonds</b>                        | A2<br>(stable) | A<br>(stable)   | A<br>(stable)   | N/A                            |
| <b>Wastewater Revenue Bonds</b>                      | N/A            | AAA<br>(stable) | AAA<br>(stable) | AAA <sup>[1]</sup><br>(stable) |
| <b>SARA Senior Tax Allocation Bonds</b>              | N/A            | AA<br>(stable)  | AA+<br>(stable) | N/A                            |
| <b>SARA Subordinate Tax Allocation Bonds</b>         | N/A            | AA-<br>(stable) | AA<br>(stable)  | N/A                            |
| <b>San José Clean Energy (Issuer) <sup>[2]</sup></b> | A2<br>(stable) | A<br>(stable)   | N/A             | N/A                            |

[1] KBRA (Kroll) has assigned a rating to the CSJFA Wastewater Revenue Bonds exclusively.

[2] SJCE was rated by Moody's in May and S&P in June 2024.



# FOURTH QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2023-2024



# INVESTMENT POLICY

## (COUNCIL POLICY 1-12)

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- Investments meet the requirements of the City's Investment Policy and conform with California Government Code section 53601
- Authorized investments are only highly-rated fixed income securities
- Investment Policy is reviewed annually and was last adopted by resolution of the City Council on March 5, 2024
- Investment Program is audited semi-annually for compliance purposes



# INVESTMENT OBJECTIVES & REPORTING

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- Manage investments to meet the City's Investment Policy objectives:
  - Safety
  - Liquidity
  - Yield
- Quarterly reports are available to the public
  - On-line
  - In PSFSS Committee agenda packets
  - In City Council agenda packets (for acceptance)



# PORTFOLIO PERFORMANCE SUMMARY

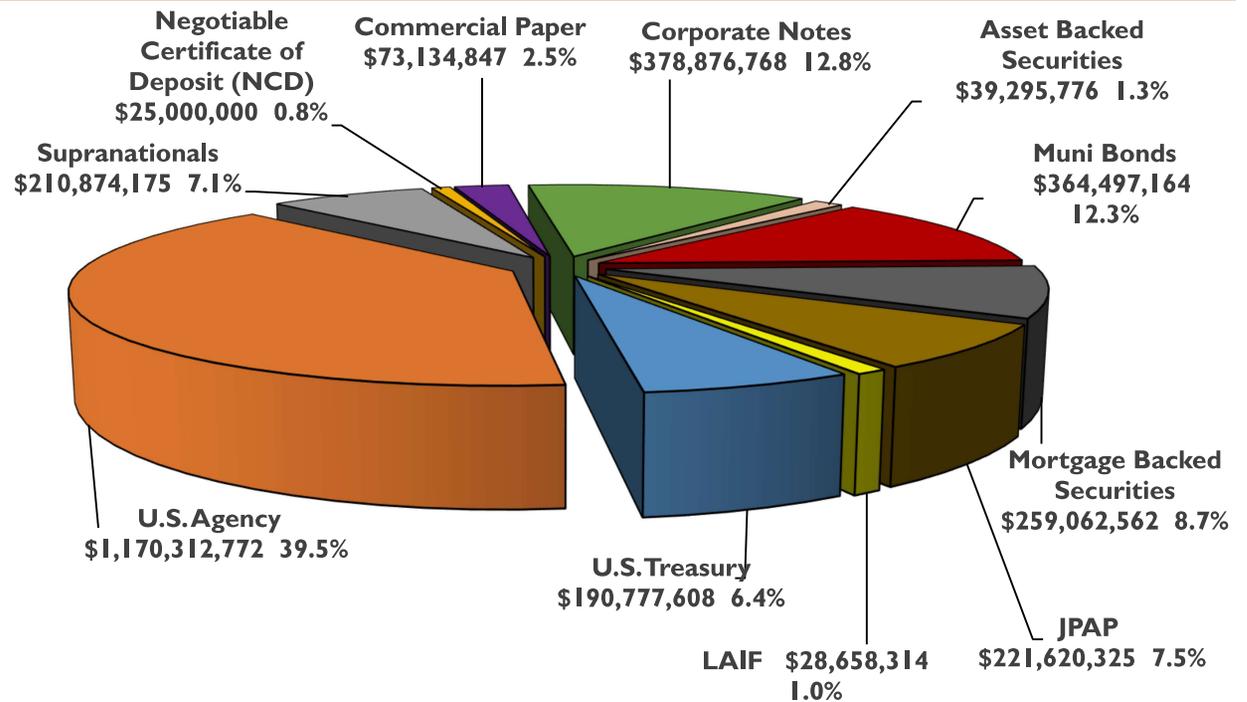
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|   |                 |
|---|-----------------|
| Size of Total Portfolio                               | \$2,962,110,309 |
| Earned Interest Yield                                 | 3.631%          |
| Weighted Average Maturity                             | 581 days        |
| Fiscal Year-to-Date Net Income Recognized             | \$86,651,974    |
| Exceptions to the City Investment Policy this Quarter | None            |



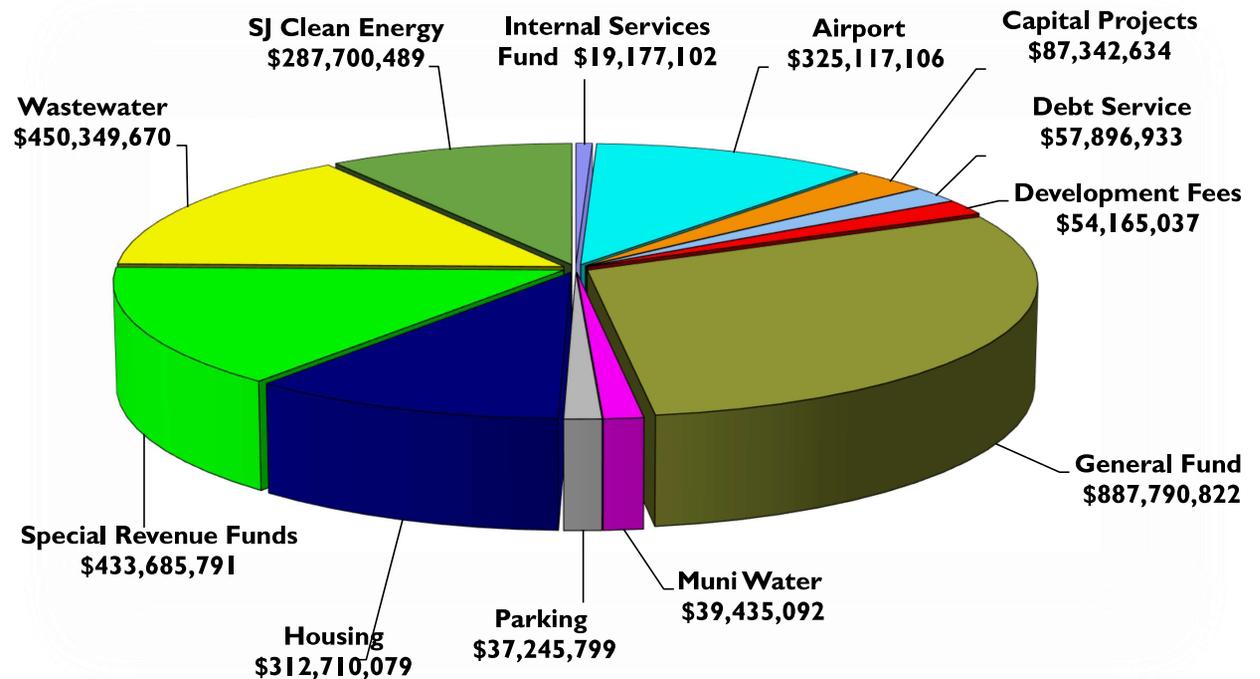
# PORTFOLIO INVESTMENTS

Total Investment Portfolio:  
\$2,962,110,309



# INVESTMENTS BY FUND

The \$888 million in the General Fund presented includes \$623,853,760 of General Fund monies, as well as \$263,937,062 in other, separately tracked general funds, such as the Depositor Fund, Developer Fees and other smaller funds and reserves.



# GENERAL FUND BALANCE

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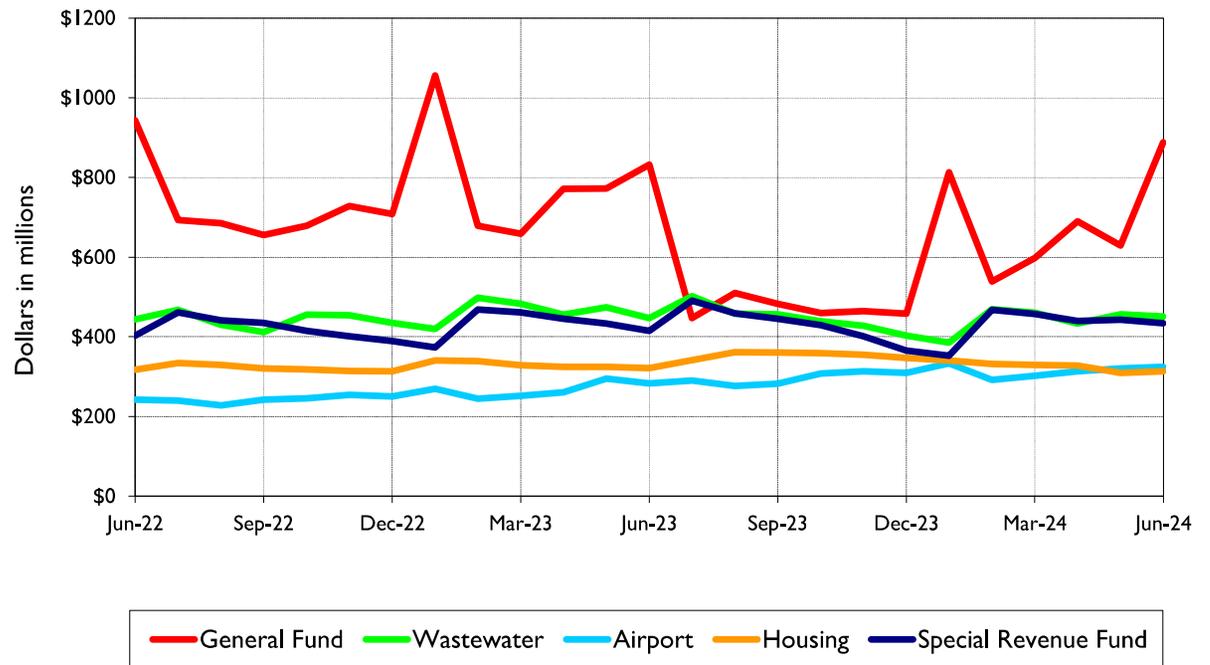
- General Fund balances increased by \$290 million with the receipt of property tax in June and ended with a balance of \$888 million as of June 30, 2024. General Fund balances usually peaks during the months of January and June, when the bulk of property taxes are received; declines in the summer due to retirement prefunding; and declines throughout the rest of the year due to debt service payments and operational expenditures
- Projected investment maturities, cash and revenues are sufficient to cover anticipated expenditures for the next six months



# COMPARISON OF CASH BALANCES

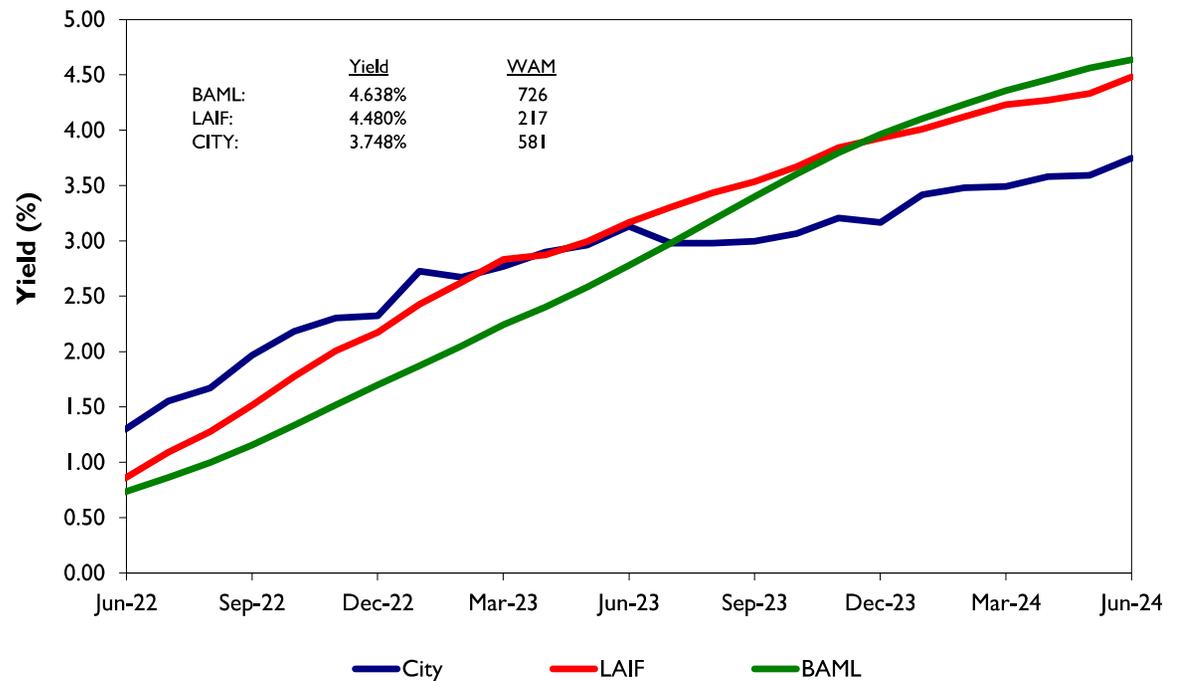
## (BY SELECT FUNDS)

The following graph compares monthly balances of the five largest City funds as reported by FMS.



# BENCHMARK COMPARISONS

- City refers to City's Portfolio, and the yield data are month-end weighted average yields.
- LAIF refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
- 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.
- City Portfolio exceeding assumed 2.75% rate of return included in FY 23-24 budget.



# 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 objectives of safety, liquidity, and yield



# FOURTH QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2023-2024



# REVENUE MANAGEMENT PROGRAMS

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- Finance Department Revenue Management focuses on collecting outstanding receivables, with an emphasis on reducing delinquent accounts and enhancing revenue compliance, through four primary collection programs:
  - Accounts Receivable
  - Business Tax
  - Compliance and Monitoring
  - Utility Billing
- Efforts may span several reporting periods, and actual collections are reported as funds are received by the City.



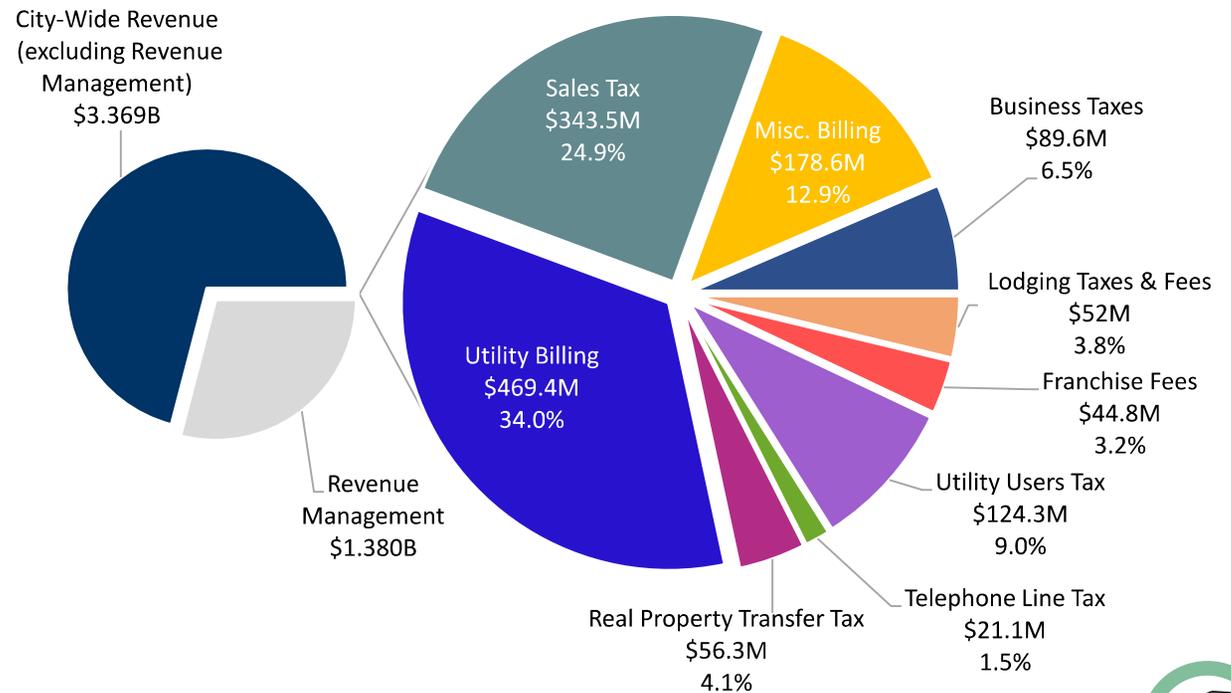
# REVENUE MANAGEMENT PORTFOLIO

## FY 2022-23 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.749B

Source: 2022-23 City Manager's  
Budget Office Annual Report

(Graph is updated annually)

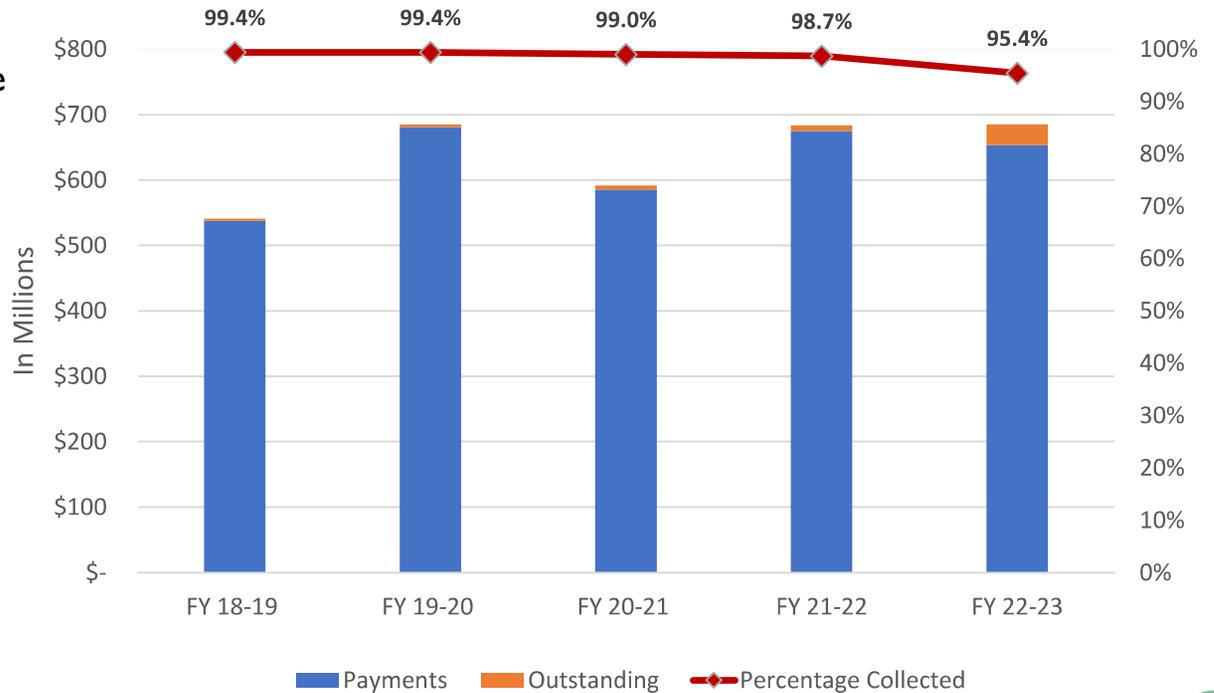


# INVOICING AND PAYMENTS

## FIVE-YEAR HISTORY (FY 2018-19 TO FY 2022-23)

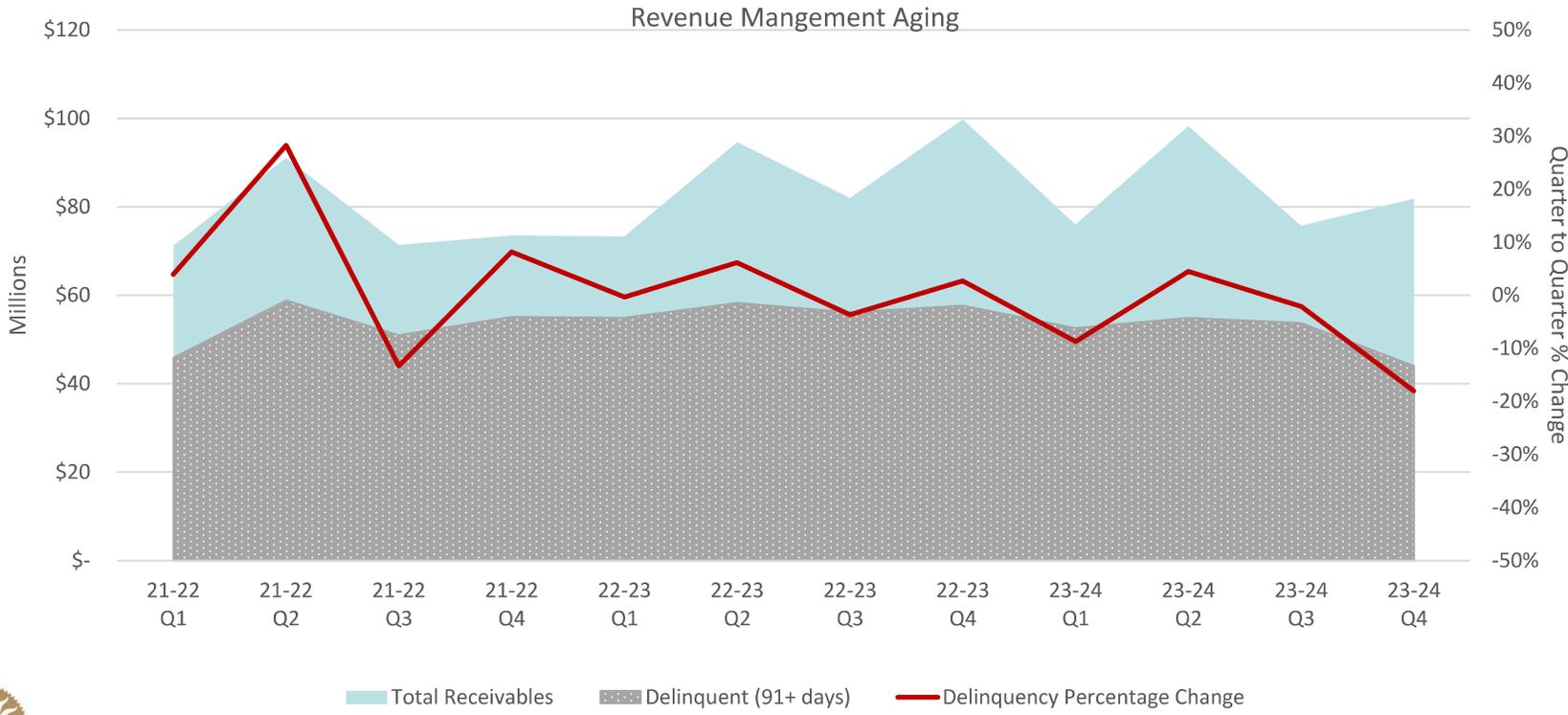
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system, and the Utility Billing System.

(Graph is updated annually)



# OUTSTANDING RECEIVABLES

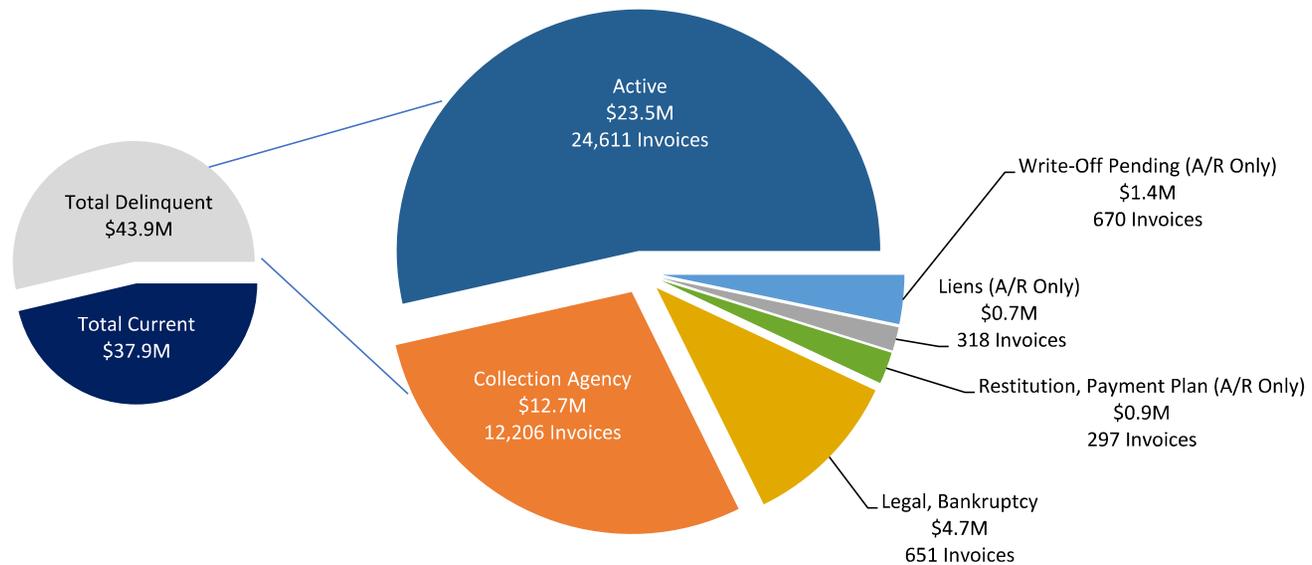
## THREE-YEAR HISTORY (FY 2021-22 Q1 TO FY 2023-24 Q4)



# FY 2023-24 Q4 DELINQUENT RECEIVABLES

## COLLECTION STATUS SUMMARY (\$ IN MILLIONS\*)

Revenue Management



\*Rounded

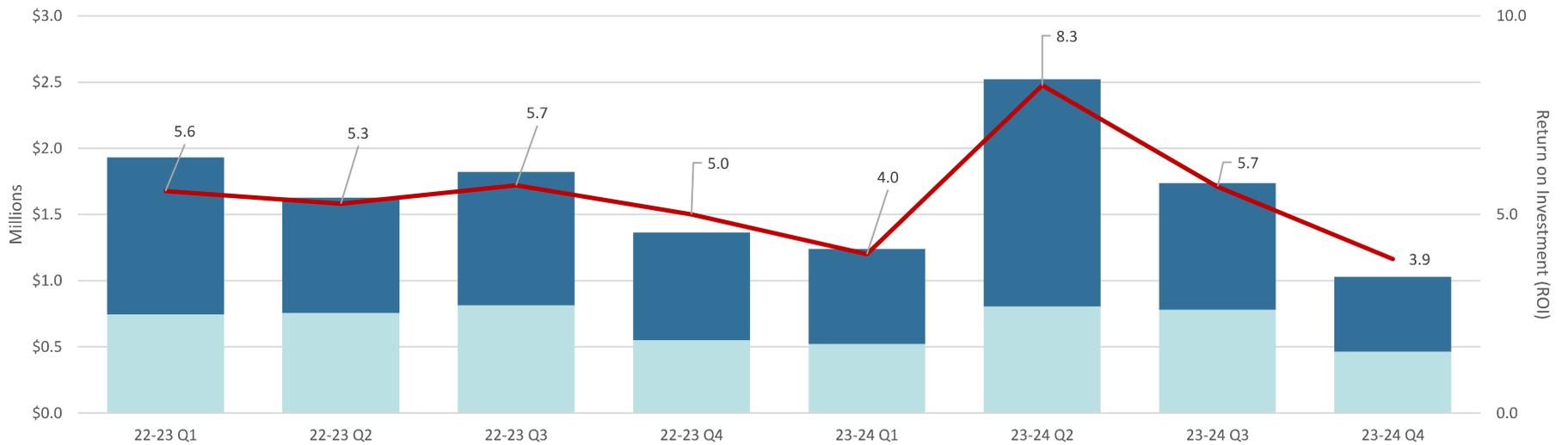
As of June 30, 2024



# COLLECTIONS & RETURN ON INVESTMENT

## REVENUE MANAGEMENT COLLECTIONS (FY 2022-23 Q1 To FY 2023-24 Q4)

Revenue Management Collections



FY 2022-23 ROI: 5.42

Business Tax Accounts Receivable Actual ROI

FY 2023-24 ROI: 5.51

Target ROI: 5.0



# REVENUE COMPLIANCE REVENUE RECOVERY

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- Revenue Compliance and Monitoring conducts cyclical tax and fee audits for a variety of programs (e.g., Sales and Use Tax, Hotel Taxes/Lodging Fees, Utilities, Telecommunications, and Cannabis).
- In Q4, Revenue Compliance and Monitoring recovered ~\$2M in compliance revenue, largely attributed to:
  - One-time finding of ~\$1.8M from the State of California, due to unclaimed property.
  - One-time finding of ~\$250K from a single taxpayer telecommunications audit, due to taxpayer under-remittance.



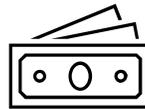
# **FOURTH QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2023-2024**



# PURCHASING PROGRAM

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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 TRANSACTIONS COMPLETED

## FOURTH QUARTER FY2023-24

| PROCUREMENT TYPE  | FOURTH QUARTER TRANSACTIONS | FISCAL YEAR TO DATE |
|---|-----------------------------|---------------------|
| PROCUREMENT SOLICITATIONS COMPLETED (RFx)                   | 29                          | 114                 |
| PURCHASE ORDERS AND PURCHASE ORDER ADJUSTMENTS ISSUED       | 463                         | 2,027               |
| NEW AGREEMENTS NEGOTIATED AND EXECUTED                      | 4                           | 15                  |
| AMENDMENTS, CHANGE ORDERS, SERVICE ORDERS, OPTIONS EXECUTED | 50                          | 134                 |
| COUNCIL MEMORANDA ISSUED                                    | 33                          | 80                  |
| PURCHASE ORDER & CONTRACT DOLLARS PROCURED                  | \$72,650,238                | \$460,226,727       |
|   |                             |                     |



# RISK MANAGEMENT PROGRAM

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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 TRANSACTIONS COMPLETED

## FY2023-24, FOURTH QUARTER

| Transaction Type  | Fourth Quarter Transactions | Fiscal Year to Date |
|---|-----------------------------|---------------------|
| Request for Contract Insurance Specifications           | 370                         | 1,303               |
| Request for Insurance Compliance Review                 | 229                         | 744                 |
| Request for Letters of Self-Insurance                   | 31                          | 93                  |
| Subrogation Dollars Billed to Responsible Third Parties | \$42,899                    | \$471,436           |
| Council and Committee Memorandums Issued                | 2                           | 4                   |



# OTHER FOURTH QUARTER RISK MANAGEMENT ACCOMPLISHMENTS

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- Other highlights include:
  - Facilitated seven insurer property loss prevention visits including visits to City Hall, the SAP Center, and Sharks Ice at San Jose
  - Completed property appraisals of the McEnery Convention Center, Center for Performing Arts, Hammer Theater, Civic Auditorium, and all three City-owned Golf Courses
  - Negotiated \$146,168 in collateral return to the Airport Department related to the Terminal Area Improvements Project Owner Controlled Insurance Program



# RECOMMENDATION

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(1) Accept the Fourth Quarter (period ended June 30, 2024) Financial Reports for Fiscal Year 2023-2024 for the following programs:

- (a) Debt Management;
- (b) Investment Management;
- (c) Revenue Management; and
- (d) Purchasing and Risk Management;

(2) Refer and cross-reference the Fourth Quarter Financial Reports for Fiscal Year 2023-2024 to the September 10, 2024 City Council meeting for full adoption

