



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL AND  
CITY OF SAN JOSE  
FINANCING AUTHORITY  
BOARD

**FROM:** Maria Öberg

**SUBJECT:** See Below

**DATE:** April 14, 2025

Approved

Date:

4/22/2025

**COUNCIL DISTRICT:** Citywide

**SUBJECT: Actions Related to the City of San José Financing Authority's  
Commercial Paper Program**

## **RECOMMENDATION**

- (a) City Council adopt a resolution approving and authorizing the execution and delivery of a letter of credit and reimbursement agreement; a fee agreement; amendments to certain financing documents; and authorizing other related actions to provide for the issuance of a letter of credit to support the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program and for the release of certain components of the property under the site lease and the sublease, and authorizing the negotiation, execution and delivery of one or more extensions of the expiration date of such letter of credit.
- (b) City of San José Financing Authority Board adopt a resolution approving and authorizing the execution and delivery of a letter of credit and reimbursement agreement; a fee agreement; amendments to certain financing documents; and authorizing other related actions to provide for the issuance of a letter of credit to support the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program and for the release of certain components of the property under the site lease and the sublease, and authorizing the negotiation, execution and delivery of one or more extensions of the expiration date of such letter of credit.

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## **SUMMARY AND OUTCOME**

Approval of these recommendations will authorize the execution and delivery of a Letter of Credit and Reimbursement Agreement with TD Bank, N.A. (TD Bank) and other related documents, pursuant to which TD Bank will issue an irrevocable direct-pay letter of credit (TD Bank LOC) to support the City of San José Financing Authority (Authority) Lease Revenue Commercial Paper (CP) Notes, Series 1 and Series 1-T. The issuance of the TD Bank LOC would permit the City to continue to utilize its Commercial Paper Program (CP Program) as a low cost, short-term financing vehicle for capital projects.

## **BACKGROUND**

### **City of San José Financing Authority**

The Authority is a joint exercise powers authority created pursuant to Section 6500 et seq. of the California Government Code and a joint exercises of powers agreement, dated December 8, 1992, by and between the City and the former Redevelopment Agency of the City of San José (the Former Agency), for the purpose, among others, of having the Authority issue its instruments of debt to finance the acquisition, construction and improvement of certain public capital improvements. The Former Agency was dissolved as of February 1, 2012 and the City has become the successor agency to the Former Agency pursuant to Part 1.85 of Division 24 of the California Health and Safety Code. The joint exercise of powers agreement establishing the Authority remains in effect.

The City Council is the governing board of the Authority. The City Manager is the Executive Director, the City Clerk is the Secretary, and the Director of Finance is the Treasurer.

### **Commercial Paper Program**

The City and the Authority established the CP Program in 2004. The CP Program utilizes a lease revenue financing structure. Under this structure, the Authority issues Lease Revenue Commercial Paper Notes (CP Notes) at prevailing interest rates for periods of maturity not to exceed 270 days. The Authority may issue additional CP Notes to pay off the maturing notes instead of repaying the principal and interest owed on the maturing CP Notes using available funds on hand. The CP Notes are secured by a pledge of lease revenues payable by the City to the Authority for the lease back of various City real property assets.

The CP Program currently consists of the Authority's Tax-Exempt Lease Revenue Commercial Paper Notes, Series 1 (the Series 1 Notes), Taxable Lease Revenue Commercial Paper Notes, Series 1-T (the Series 1-T Notes), Tax-Exempt Lease

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Revenue Commercial Paper Notes, Series 2 (the Series 2 Notes), and Taxable Lease Revenue Commercial Paper Notes, Series 2-T (the Series 2-T Notes). The payment of principal and interest on the Series 2 Notes and Series 2-T Notes is currently supported by a direct-pay letter of credit provided by the U.S. Bank (the U.S. Bank LOC), with a stated amount of \$187,945,206, representing the maximum principal amount authorized to be issued under the CP Program of \$175 million plus interest calculated at the rate of 10% per annum for a period of 270 days. As of today, the only CP Notes outstanding are \$5.7 million of Series 2 Notes. The US Bank LOC is scheduled to expire on June 20, 2025.

See Attachment A for a description of the structure of the CSJFA CP Program along with a summary of the CP program amendments since inception in 2004. See Attachment B for the technical aspects of the CP process.

### **Debt Management Policy and Municipal Code Requirements Related to Lease Financings**

Any proposal to issue CP Notes is subject to the City's Debt Management Policy, City Council Policy 1-15, and San José Municipal Code Chapter 4.34 related to lease financings. Under Section III (D) of the Debt Management Policy, the Finance Department is required to conduct its due diligence for a proposed lease financing and identify a source of repayment. The Debt Management Policy also requires a feasibility study be performed prior to the issuance of a lease financing when the revenues of the project being financed are the source of repayment. The source of repayment for the CP Notes is determined prior to authorizing the use of CP.

Under both the Debt Management Policy and San José Municipal Code Section 4.34.200, approval of the issuance of CP Notes requires a two-thirds vote by the City Council (8 votes).

### **ANALYSIS**

In late 2024, the Finance Department contacted U.S. Bank to inquire about an extension of the existing letter of credit and received a rate indication much higher than what the City is currently paying. Subsequently, the Finance Department issued a Request for Proposals on December 2, 2024, inviting qualified banks to respond with proposals to issue a letter of credit to support the CP Program. Seventeen firms were notified and the City received seven proposals. To solicit improved pricing and other terms, three firms were selected to provide a Best and Final Offer. All three firms responded favorably to the Best and Final Offer. On January 24, 2025, the evaluation team selected TD Bank to issue such letter of credit subject to negotiation and execution of definitive agreements with the City and the Authority.

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Pursuant to the Reimbursement Agreement, TD Bank will issue a TD Bank LOC providing the same commitment level as the expiring U.S. Bank LOC, with a stated amount of \$187,945,205, representing the maximum principal amount authorized under the CP Program of \$175 million plus interest calculated at the rate of 10% per annum for a period of 270 days, to support Series 1 Notes and Series 1-T Notes. Concurrently with the issuance of the TD Bank LOC, Computershare Trust Company, National Association, as issuing and paying agent, will draw on the U.S. Bank LOC to pay the principal and interest due on maturing Series 2 Notes, and the Authority will issue Series 1 Notes in an amount sufficient to reimburse U.S. Bank for such draw. Thereafter, the City and the Authority will terminate the U.S. Bank LOC and only Series 1 Notes and Series 1-T Notes will be authorized to be issued under the CP Program.

Under the Fee Agreement, the Authority and the City are required to pay TD Bank annual fees for the next five years in an amount equal to the product of the rate per annum corresponding to the level specified in the Fee Agreement multiplied by the stated amount of the TD Bank LOC (Letter of Credit Fee). The fee levels are based on ratings assigned by Fitch, Moody's and S&P to the long-term unenhanced lease revenue debt supported or secured by essential assets of the City or the Authority. Letter of Credit Fees range from 0.32% to 0.92%. Based on current ratings, the City would pay Letter of Credit Fee at the rate of 0.32%. In addition, the City and the Authority are required to pay quarterly Draw Fees of \$500 for up to twelve (12) draws per year. Any draws after the twelfth annual draw would be \$350 each. These fee levels are expected to save the City approximately \$112,000 each year as compared to the current letter of credit (assuming no downgrades in ratings that would cause the Letter of Credit Fee rate to increase above 0.32%). These savings will benefit the General Fund and all participating departmental funds.

In connection with the issuance of the TD Bank LOC, the Authority and the City will terminate the letter of credit with U.S. Bank and amend the Trust Agreement pursuant to an Eighth Supplement to the Amended and Restated Trust Agreement to reflect the delivery of the TD Bank LOC as an alternate credit facility.

To execute the TD Bank LOC, the City engaged the municipal advisor, note counsel, rating agencies, and other financial service providers. The aggregate cost of the services is estimated at approximately \$500,000. The cost will be allocated to authorized projects in accordance with their proportionate share of CP authorization.

## Utilization of the CP Program

The CP Program has a total capacity of \$175 million. The table below illustrates CP Notes outstanding, remaining authorization, and proposed authorization actions by project. Upon authorization of \$23 million for the Advanced Meter Infrastructure Project (expected to go to Council/Authority Board on May 6, 2025), utilization of the CP Program can total \$148.7 million, with \$26.3 million remaining in unutilized capacity.

### CSJFA CP Program as of May 6, 2025 (\$175 million Capacity)

Project	CP Notes Outstanding	Remaining Authorization	Outstanding & Authorized	Proposed Authorization	Program Utilization
	A	B	C = A + B	D	E = C + D
Flood Improvement Recovery – Parks, Recreation, Neighborhood Services	\$652,000	\$5,031,000	\$5,683,000		\$5,683,000
Energy Purchases – San José Clean Energy		\$75,000,000	\$75,000,000		\$75,000,000
ESCO Conservation Project – Public Works	\$5,015,000		\$5,015,000		\$5,015,000
Muni Water Building Infrastructure – Environmental Services Department		\$40,000,000	\$40,000,000		\$40,000,000
Muni Water Advanced Metering Infrastructure – Environmental Services Department*				\$23,000,000*	\$23,000,000
<b>Totals</b>	<b>\$5,667,000</b>	<b>\$120,031,000</b>	<b>\$125,698,000</b>	<b>\$23,000,000</b>	<b>\$148,698,000</b>

\* To be submitted to the City Council and Authority Board's on May 6, 2025 for authorization

## Risks Associated with the CP Program

The CP Program is subject to the following risks:

- **LOC Renewal Risk** - If the City is not able to execute a replacement LOC before the U.S. Bank LOC expires, the CP Notes outstanding will be required to be repaid in full with available funds on hand. The General Fund is ultimately responsible for the repayment of outstanding CP Notes. Fees related to the TD Bank LOC are subject to change at future renewal dates based on market conditions.

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- Interest Rate Risk - The interest rate for CP Notes may increase significantly depending on the overall financial market conditions.
- Downgrade Risk - Credit ratings of the bank providing the LOC may be downgraded due to changes in the market's perception of the financial health of the bank. To the extent a downgrade occurs, the CP Notes may incur higher interest rates and/or become unmarketable. Additionally, if the City is downgraded by any of the credit rating agencies, the annual commitment fees for the LOC backing the CP Notes may increase as described in the Fee Agreement.
- Marketability Risk - If there is a lack of market demand for CP Notes due to future changes in the market's perception of the financial health of TD Bank as credit provider or other factors impacting the demand for taxable or tax-exempt commercial paper notes, the Authority may not be able to find buyers for these notes.

### **Document Approvals Related to CP Program Expansion and Extension**

There are a number of agreements and financing documents that require approval by either the Authority, the City Council, or both, to renew the CP Program. The principal documents are described below.

- TD Bank, N.A. Letter of Credit and Reimbursement Agreement. The Letter of Credit and Reimbursement Agreement with TD Bank authorizes the issuance of an irrevocable direct pay letter of credit to support the payment of the principal and interest of the Series 1 Notes and Series 1-T Notes. The stated amount of the TD Bank LOC would be \$187,945,206, representing the maximum principal amount authorized to be issued under the CP Program of \$175 million plus interest calculated at the rate of 10% per annum for 270 days. The TD Bank LOC will be effective for five years from May 20, 2025 to May 20, 2030.

See Attachment C for additional TD Bank LOC Rate Terms

- Fee Agreement. TD Bank requires the City and the Authority to execute a Fee Agreement specifying the Letter of Credit Fee and other fees payable by the City and the Authority in connection with the TD Bank LOC. The annual Letter of Credit Fee is 0.32% based on ratings of current long-term, unenhanced lease revenue debt supported or secured by essential assets of the City (Level I in the chart below, Aa2/AA/AA by Moody's, Standard & Poor's, and Fitch respectively). Total annual fee is estimated at \$603,424, consisting of the Letter of Credit fee of \$601,424 and draw fee of \$2,000. These fees will be allocated to authorized projects in accordance with their proportionate share of CP authorization. Any

unallocated commitment amount is allocated and payable by the General Fund, which is budgeted annually as a City-Wide Expenses appropriation.

If ratings assigned by all three of the rating agencies appear in more than one level in the table below, the Letter of Credit Fee shall be based upon the highest of the two lowest ratings. If ratings are assigned by only two of the rating agencies and such ratings appear in more than one level, the Letter of Credit Fee shall be based upon the lower of the two ratings.

Level	City Lease Revenue Debt Rating (Moody's/S&P/Fitch)	Commitment Fee Rate
I	Aa2/AA/AA or above	0.32%
II	Aa3/AA-/AA-	0.37%
III	A1/A+/A+	0.47%
IV	A2/A/A	0.62%
V	A3/A-/A-	0.77%
VI	Baa1/BBB+/BBB+	0.92%

Draw Fees \$500 fixed fee each quarter / an additional \$350 per draw after 12 draws

Special Bank Counsel Fees Not to exceed \$50,000

Amendment/Transfer/Waiver Fees \$2,500 each occurrence plus legal counsel fees

- Amendments to Site Lease and Sublease. As noted above and in Attachment A, the repayment of the CP Notes is secured by a pledge of lease revenues from various City assets. The facilities currently subject to the Site Lease and Sublease are the Tech Museum, the Animal Care Center, Fire Station No. 1, Fire Station No. 3, Communication Center, and the South San José Police Substation. These properties have a combined insured replacement value of approximately \$221 million on the City's schedule of insured properties. If any of the underlying leased assets mentioned above are no longer available for the City's continued use and occupancy, replacement assets would need to be identified or the CP Notes Program capacity may be adversely impacted. Replacement assets require approval by TD Bank.

The Site Lease and Sublease require an amendment in order to revise the schedule of maximum Base Rental to reflect the release of certain components of the Property from the leasehold interests thereunder and extend the term.

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- Supplement to Trust Agreement; Issuing and Paying Agent Agreement. The Amended and Restated Trust Agreement, as supplemented, requires an additional supplement, the Eighth Supplement, in order to reflect TD Bank as the provider of the TD Bank LOC, and certain other information. In addition, in connection with the execution and delivery of the Eighth Supplement, the Authority and Computershare Trust Company, National Association, as successor issuing and paying agent, will enter into a Third Amended and Restated Issuing and Paying Agreement to, among other things, reflect certain terms of the TD Bank LOC.
- Offering Memorandum. The Offering Memorandum provides information to potential investors of the Series 1 Notes and Series 1-T Notes, including financing structure, maximum principal amount, TD Bank, the TD Bank LOC, and other information relating to the CP Program. The Offering Memorandum will be used by the dealers to market and remarket Series 1 Notes and Series 1-T Notes to potential investors. The City issued a Request for Proposals for dealers. Based on responses, staff recommends establishing a dealer pool for the CP Program, comprised of Barclays Capital, Inc., Morgan Stanley & Co. LLC, and TD Securities (USA) LLC.
- Dealer Agreements. The Authority and each of the Dealers will enter into a Dealer Agreement providing for the terms under which the Dealers will place CP Notes.

## **Financing Team**

The financing team participants consist of:

- City's Municipal Advisor: Public Resources Advisory Group
- City's Note Counsel: Anzel Galvan LLP
- Letter of Credit Bank: TD Bank N.A.
- Bank Counsel: Chapman and Cutler LLP

## **Authorization to Execute Documents**

Staff recommends that the Executive Director or Treasurer of the Authority or their designees (the Authority Designated Officers) be authorized to execute these documents as posted, on behalf of the Authority and that the City Manager or the Director of Finance or their designees (the City Designated Officers) be authorized to execute these documents as posted, on behalf of the City, as applicable, with such



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modifications as the Authority Designated Officers or the City Designated Officers determines to be necessary, desirable or appropriate, upon consultation with the City Attorney. Staff also recommends that the Authority and City Designated Officers each be authorized to enter into one or more future extensions of the TD Bank LOC provided that the annual fees for each extension do not exceed 1.0% of the stated amount of the TD Bank LOC without the approval of the Council and the Authority Board.

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

Staff from the Finance Department will be available to answer questions regarding the renewal of the TD Bank LOC, Fee Agreement and related documents of the CP Program at the joint meeting of the City Council and the City of San José Financing Authority Board on May 6, 2025.

### **COST SUMMARY/IMPLICATIONS**

The closing costs relating to the TD Bank LOC, including legal and financial service fees, are estimated to be \$500,000. The cost will be allocated to authorized projects in accordance with their proportionate share of CP authorization. Moving forward, the total annual fee of the CP Program is estimated at \$603,424, which is also proportionally shared between authorized projects.

### **COORDINATION**

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

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's Council Agenda website for the May 6, 2025 City Council meeting.

### **COMMISSION RECOMMENDATION AND INPUT**

No commission recommendation or input is associated with this action.

**CEQA**

Not a Project, File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project, which may result in a potentially significant physical impact on the environment.

**PUBLIC SUBSIDY REPORTING**

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/  
MARIA ÖBERG  
Director of Finance

For questions on the CP Program, please contact Qianyu Sun, Deputy Director of Finance, Debt and Treasury, at (408) 535-7832.

**ATTACHMENTS**

Attachment A - Structure of the City of San José Financing Authority Commercial Paper Program and Summary of Program Amendments since Inception in 2004

Attachment B - Technical Aspects of Commercial Paper Notes

Attachment C - Additional Letter of Credit and Reimbursement Agreement Rate Terms

## **ATTACHMENT A**

### **Structure of City of San José Financing Authority Commercial Paper Program and Summary of Program Amendments since Inception in 2004**

The City leases to the City of San José Financing Authority (CSJFA) various City-owned facilities pursuant to a Site Lease (as amended, the Site Lease). The CSJFA subleased these same facilities back to the City pursuant to a Sublease (as amended, the Sublease) in exchange for the rental payments which support repayment of the commercial paper (CP) Notes. The facilities subject to the Site Lease and Sublease are the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communication Center, the South San José Police Substation, and the Tech Museum.

The CSJFA issues the CP Notes under the Marks-Roos Local Bond Pooling Act of 1985 pursuant to an Amended and Restated Trust Agreement between the CSJFA and Computershare Trust Company, National Association (as successor in interest to Wells Fargo Bank, National Association), as Trustee, as amended, restated, supplemented otherwise modified from time to time (the Trust Agreement) and a Third Amended and Restated Issuing and Paying Agent Agreement between the CSJFA and Computershare Trust Company, National Association. A pool of CP dealers that includes Barclays Capital, Inc., TD Securities (USA) LLC, and Morgan Stanley & Co. LLC can serve as the dealer for the CP Notes pursuant to a Form of Commercial Paper Dealer Agreement. The CP Notes are currently secured by a direct-pay LOC from U.S. Bank, pursuant to a Letter of Credit and Reimbursement Agreement among U.S. Bank, the City, and the CSJFA (as amended, the Reimbursement Agreement). Under its LOC, U.S. Bank is responsible for payments on all draws made on the applicable LOC. The LOC is issued in the principal amount of \$175 million plus interest calculated at the maximum rate of 10% for a period of 270 days.

The CP Program was established in January 2004 and has been amended, expanded, and contracted through City Council and CSJFA Board actions summarized below.

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January 13, 2004	Authorized the issuance of tax-exempt CP Notes in an amount not to exceed \$98 million to finance public improvements of the City including the offsite parking garage for the new City Hall and non-construction costs for technology, furniture, equipment, and relocation services for the new City Hall.
November 9, 2004	Authorized the issuance of tax-exempt CP Notes to provide additional funding for the Integrated Utility Billing, Customer Service and Performance Management System.
June 21, 2005	Authorized the issuance of taxable CP Notes, under the same \$98 million not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the CSJFA to issue taxable CP Notes to pay for expenses otherwise authorized under the CP Program, but ineligible to be paid from tax-exempt CP proceeds.

November 15, 2005	Authorized expanding the capacity of the CP Program from \$98 million to \$116 million and authorizing the issuance of CP Notes to pay a portion of the costs of the Phase II improvements at the City's Central Service Yard and a portion of the demolition and clean-up costs at the City's Main Service Yard.
May 22, 2007	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$8.25 million to pay for capital improvements at the City's HP Pavilion (Arena).
October 21, 2008	Authorized the issuance of CP Notes to refund bonds and other obligations of the City or the CSJFA pursuant to Government Code Sections 53570 et seq and 53580 et seq.
December 8, 2009	Authorized staff to amend and renew the Letter of Credit and Reimbursement Agreement supporting the CP Notes to extend the term to January 27, 2013.
April 27, 2010	Authorized the issuance of CP Notes to fund a loan to the low- and moderate-income housing fund and to fund short-term cash flow needs of the City.
March 15, 2011	Authorized the execution and delivery of a Third Amendment to the Site Lease, a Third Amendment to the Sublease, and other related actions pertaining to the CSJFA's Lease Revenue Commercial Paper Program to provide for the substitution of certain components of the property under the Site Lease and the Sublease.
June 19, 2012	Authorized the issuance of CP Notes in an amount not to exceed \$10.0 million to provide funding for additional projects for the Convention Center Expansion and Renovation project.
December 4, 2012	Authorized staff to amend and restate the Letter of Credit and Reimbursement Agreement supporting the CP Notes to extend the term to March 15, 2013.
February 12, 2013	Authorized staff to negotiate two new Letter of Credit and Reimbursement Agreements supporting the CP Notes; and authorized the execution and delivery of a Fourth Amendment to the Site Lease, a Fourth Amendment to the Sublease, and other related actions pertaining to the CSJFA's Lease Revenue Commercial Paper Program to provide for the substitution of certain components of the property under the Site Lease and the Sublease. The facilities currently subject to the Site Lease and Sublease are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, and the South San José Police Substation.

June 17, 2014	Authorized the Fifth Amendment to the Site Lease, a Fifth Amendment to the Sublease, and other related actions to provide for the addition of a component of property (the Tech Museum) under the Site Lease and the Sublease in connection with the CSJFA's Lease Revenue Commercial Paper Program to provide additional security.
September 15, 2015	Authorized the issuance of CP Notes in an amount not to exceed \$3.5 million to provide funding for the Municipal Water System's Water Meter Replacement project.
June 21, 2016	Authorized the issuance of CP Notes in an amount not to exceed \$10.0 million to provide funding for Energy Conservation projects.
January 31, 2017	Authorized the issuance of CP Notes in an amount not to exceed \$15.0 million to provide funding for the Convention Center Exhibit Hall project.
August 29, 2017	Authorized the issuance of CP Notes in an amount not to exceed \$10.0 million to provide funding for startup costs relating to San José Clean Energy.
February 13, 2018	Authorized the issuance of CP Notes in an amount not to exceed \$21.0 million to provide funding for the flood recovery and construction for parks and community facilities.
August 14, 2018	Authorized the issuance of CP Notes in an amount not to exceed \$47.0 million to provide funding for the purchase of Convention Center - South Hall site and amendments of the two Letter of Credits and Reimbursement Agreements.
August 14, 2018	Authorized the negotiation, execution, and delivery of amendments to two Letter of Credit and Reimbursement Agreements and authorizing other related actions in connection with the CSJFA's Lease Revenue Commercial Paper Notes to increase the not-to-exceed aggregate principal amount thereof from \$85 million to \$125 million and to extend the stated expiration dates and commitments available under such Letter of Credit and Reimbursement Agreements.
January 12, 2021	Authorized the issuance of CP Notes in an amount not to exceed \$23.4 million to provide bridge funding for the Fire Training Center and Emergency Operations Relocation project.
June 22, 2021	Authorized the issuance of CP Notes in an amount not to exceed \$95.0 million to provide funding for energy costs for the San José Clean Energy department and deauthorized \$7.8 million for the Parks Floods Recovery projects to dedicate that amount to the San José Clean Energy CP authorization amount.
August 31, 2021	Authorized the negotiation, execution, and delivery of amendments to a Letter of Credit and Reimbursement Agreement and authorizing other related actions in connection with the CSJFA's Lease Revenue

Commercial Paper Notes to increase the not-to exceed aggregate principal amount thereof from \$125 to \$175 million and to extend the stated expiration date and commitment available under such Letter of Credit and Reimbursement Agreement to March 2025.

October 5, 2021

Deauthorized the issuance of CP Notes for \$23.4 million for the Fire Training Center and Emergency Operations Relocation project upon the issuance of CSJFA Lease Revenue Bonds, Series 2021A (Fire Department Training Center and Central Service Yard projects).

June 20, 2023

Authorized the issuance of CP Notes in an amount not to exceed \$40 million for the purpose of financing the construction of the Administration and Operations Building and the acquisition, construction, and installation of related capital projects for the Water Resources Division.

Deauthorized \$20 million CP Notes allocated to San José Clean Energy to lower the authorized amount from \$95 million to \$75 million CP Notes outstanding at any time.

February 14, 2025

Extended Letter of Credit with U.S. Bank from March 25, 2025 to June 20, 2025.

## **ATTACHMENT B**

### **Technical Aspects of Commercial Paper Notes**

#### **The Mechanics of Commercial Paper Notes**

Commercial Paper (CP) Notes are a form of debt that is sold with a maturity of between 1 and 270 days. The maturity of CP Notes is determined by the CP dealer and the issuer at the time it is sold. CP Notes bear interest at a fixed rate for the period it is outstanding; or is sold at a discount, and such interest or discount is payable when the note matures. The procedures for the payment of interest on the CP Notes are described below under “Payment of Principal and Interest on Commercial Paper Notes” section.

Municipal CP programs typically require the issuer to obtain credit support through one or more letters of credit provided by a commercial bank. Upon each CP Note maturity, the paying agent is authorized and required to draw on the supporting letter of credit in the amount of principal and interest due on that date. The issuer may then “roll over” the CP Notes by issuing renewal notes and using the proceeds of the renewal notes to reimburse the draw on the letter of credit. To the extent that the CP dealer is unable to find an investor for the renewal notes, the draw on the letter of credit remains unreimbursed and the issuer is responsible for repaying the bank or banks that provided the letter of credit. The terms and conditions governing the letter(s) of credit and the reimbursement process are memorialized in a reimbursement agreement entered into between the issuer and the bank or bank(s) that provided the letter of credit.

The renewal CP Notes may be sold through a CP dealer either to a new investor or to the investor who held the maturing note. The process of rolling over new CP Notes is not considered to be the issuance of additional debt if the amount of CP Notes outstanding is not increased as a result of the “roll over.” Through the “roll over” mechanism, CP Notes can be kept outstanding indefinitely, as individual commercial paper notes continually mature and new CP Notes are issued.

CP Notes are considered a form of variable-rate debt. Even though the interest rate on each CP Note is fixed at the time such CP Note is issued, the rate on each CP Note will be based on market conditions at the time. The rates on new CP Notes will thus vary from one issuance or roll to another. The actual cost of the program to the issuer will be the average rate on all its outstanding CP Notes over time. Most issuers project such average rates on a quarterly or annual basis. Overall, CP rates tend to be among the lowest available in the tax-exempt and taxable markets for municipal debt.

The buyers of CP Notes are considered short-term investors because their investments in CP Notes mature in 270 days or less. One of the attractive features of CP Notes is the ability of the investor to match the CP Note maturity to the specific timing needs of their cashflow (such as 27 days, or 112 days). This helps an investor invest amounts for a very precise period until such funds are needed for a specific known payment obligation in the future. Buyers of CP Notes include major corporations and money market funds. CP Notes are attractive to money market funds because they comply with

the maturity limitations imposed on such funds, and the flexibility in setting the maturity of CP Notes may help the fund achieve or maintain the average maturity it is seeking. Money market funds are likely to continue to buy a given issue of CP Notes as it rolls over and thus may own an issue for an extended period.

### **Payment of Principal and Interest on Commercial Paper Notes**

A CP Note is not sold with a fixed principal repayment schedule. Instead, the issuer maintains almost complete flexibility with respect to the timing and amounts in which the principal amount of a CP Note will be repaid. The issuer can repay a CP Note on any date on which it is scheduled to mature by providing the funds to repay such CP Note to the paying agent. The paying agent uses such funds to pay the holder of the CP Note. At the same time, the issuer instructs its CP dealer not to attempt to sell new CP Notes to roll over the paper that is maturing. Hence, when such steps are taken, the amount of CP Notes outstanding at the end of the day is reduced.

The individual CP Notes are likely to have different maturities, so an issuer repaying a CP program would do so in a series of steps as the individual CP Notes mature. However, since each CP Note would have a maximum maturity of 270 days, an entire program could be repaid at the option of the issuer in not more than 270 days from the time the issuer decided to commence such a repayment. It is likely that an issuer planning to repay an amount in the near future would instruct its CP dealer to issue the paper with short maturities as it rolls over, so that the issuer could retire the CP Note quickly when it begins the repayment process.

As noted above under “The Mechanics of Commercial Paper Notes,” interest or discount is payable on each CP Note as it matures. During the construction period for a project, the interest payable can be “capitalized” by adding the amount of interest due on the maturing CP Note to the amount of new paper being sold. If this approach is used, the principal amount of the CP Note outstanding over time will increase as additional interest is capitalized (subject to the maximum authorized amount of CP Notes permitted to be outstanding at any one time under the program).

Interest on tax-exempt debt generally cannot be capitalized following completion of the projects financed with Commercial Paper Notes. At that point, the issuer must provide to the paying agent the interest due at the time each CP Note matures. The paying agent then pays such interest to the investor together with the proceeds received from rolling over the principal amount of the CP Note. Since the interest at that point is being paid by the issuer, and not by increasing the amount of the CP Note being rolled over, the principal amount of the CP Notes outstanding will stay constant after the projects are completed. That principal amount outstanding could either be reduced in the future if the issuer decides to repay some, or all, of the program, or increased if the issuer decides to undertake additional projects (which may require an increase in the authorized amount of the program).



## ATTACHMENT C

### Additional Letter of Credit and Reimbursement Agreement Rate Terms

Other material terms of the Letter of Credit Agreement include the following:

Alternative Base Rate	Highest of: (i) TD Bank's prime rate + 1%; (ii) Fed Funds Rate +2%; or (iii) 7%
Advance Rate	(i) Alternative Base Rate (1-30 days after Principal Advance)  (ii) Alternative Base Rate + 1.0% (31-90 days after Principal Advance)  (iii) Alternative Base Rate + 2.0% (91-180 days after Principal Advance)  (iv) Term Loan Rate (181+ days after Principal Advance).  (v) Default Rate (Event of Default)
Term Loan Rate	Alternative Base Rate + 3%
Default Rate	Alternative Base Rate + 4.0%
Reference Rate	Rate of interest publicly announced from time to time by TD Bank as its prime rate. It is a rate set by the Bank based upon various factors including the Bank's costs and desired return, general economic conditions and other factors.