



# Approval of Issuance of Taxable Lease Revenue Bonds

Series 2022A  
(Convention Center Refunding Project)

Joint City Council/  
City of San José Financing Authority  
March 29, 2022

Agenda Item # 2

## Presenters:

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# ***Outstanding Convention Center Obligations***

- **Convention Center Expansion and Renovation Project**
  - ✓ \$107,425,000 Special Hotel Tax Revenue Bonds, Series 2011 (CCFD)
    - \$93,420,000 remain outstanding, secured by special hotel taxes
  - ✓ \$30,985,000 Lease Revenue Bonds, Series 2011A
    - \$27,345,000 remain outstanding, secured by General Fund lease rental payments and a subordinate pledge of convention center facilities district hotel special taxes
- **Other Convention Center Obligations**
  - ✓ \$42.4 million of Commercial Paper Notes for the South Hall Site
  - ✓ \$8.4 million of Commercial Paper Notes for the Exhibition Hall

# ***Objectives of the 2022A Bonds***

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- Generate strong economic savings by refunding of 2011 CCFD Bonds and 2011A Lease Revenue Bonds at lower interest rates
- Eliminate variable rate interest exposure, associated with Commercial Paper Notes issued for the Convention Center Exhibit Hall and South Hall, by issuing fixed rate bonds
- Reduce debt service paid from special hotel tax revenues which have suffered from the impact of the COVID-19 pandemic
- Increase City's flexibility for operating the Convention Center and developing the South Hall site by replacing tax-exempt debt with taxable debt while the cost difference is low
- Use Authority Lease Revenue Bonds to take advantage of the City's strong credit ratings to reduce interest cost on the bonds
  - ✓ Amplifies savings, offsets impact of higher taxable rates, and preserves the availability of special tax revenues as a budgetary source

# Pandemic Impact on Special Taxes

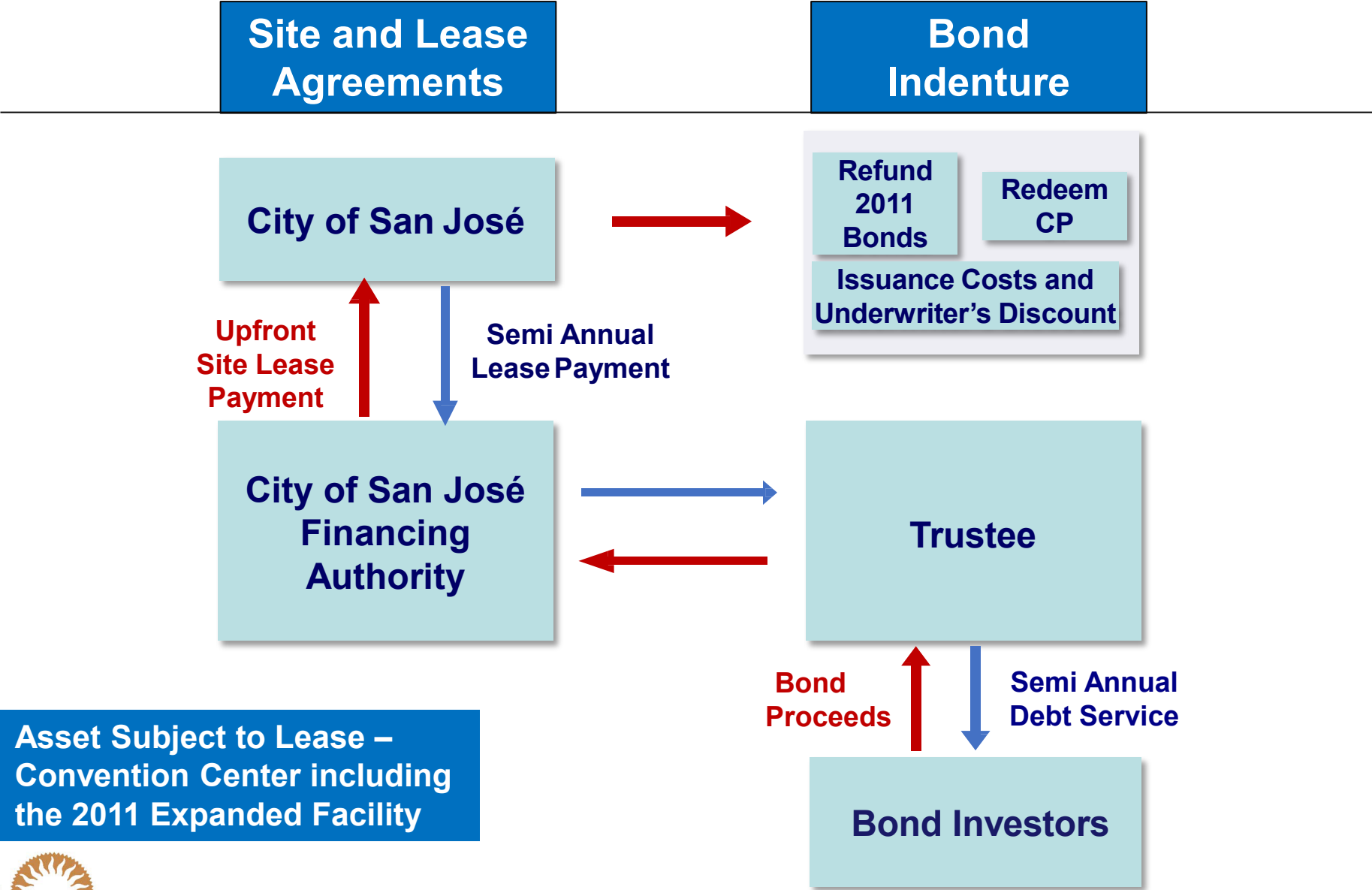
- Convention Center Facilities District (CCFD) Formed in 2009
  - ✓ Special Hotel Tax levied at 4% of Taxable Hotel Revenues on most existing hotel properties in the City, including 85 hotels with 9,779 rooms

Historical 4% Special Tax Revenues	
Fiscal Year	Special Tax Revenues
2011-2012	\$8,328,083
2012-2013	9,723,283
2013-2014	11,297,472
2014-2015	13,994,390
2015-2016	14,713,117
2016-2017	14,901,673
2017-2018	19,660,994
2018-2019	18,131,601
2019-2020	11,710,728
2020-2021*	4,013,755

Source: Continuing Disclosure Annual Report amounts filed on EMMA

\*For 2021, \$12.6 million was available for debt service: \$4.0 million in special taxes transferred to the trustee, plus \$4.0 million transferred from capital fund and \$4.6 million from hotels annexed in May 2021

# Lease Revenue Bond Structure



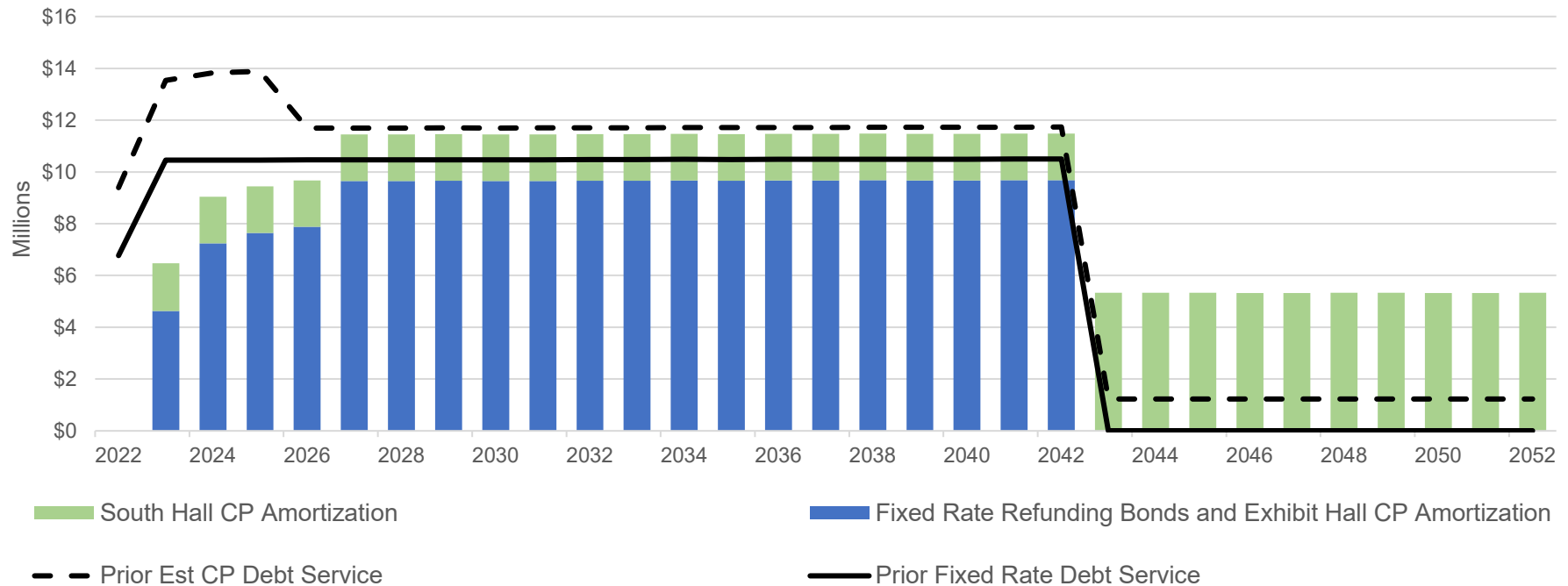
# 2022A Refunding Bonds<sup>1</sup>

<b>SOURCES</b>	<b>Amount</b>
<b>Par Amount</b>	<b>\$165,715,000</b>
<b>DSRF Release</b>	<b>10,529,780</b>
<b>Total Sources</b>	<b>\$176,244,780</b>
<b>USES</b>	
<b>Escrow Deposit<sup>2</sup></b>	<b>\$124,270,144</b>
<b>Commercial Paper Principal</b>	<b>50,832,847</b>
<b>Commercial Paper Interest</b>	<b>33,954</b>
<b>Cost of Issuance</b>	<b>758,176</b>
<b>Underwriters' Discount</b>	<b>349,659</b>
<b>Total Uses</b>	<b>\$176,244,780</b>

(1) Preliminary; subject to change

(2) Deposit to redeem 2011 and 2011A Bonds

# Refunding Savings\* from 2022A Bonds



- Refunding of Series 2011 and Series 2011 A fixed rate bonds generates estimated net present savings of \$27.5 million or 22.8% of Refunded Bonds
- These savings are used, in part, to amortize all outstanding Convention Center related CP, fix the interest cost on CP, and to create front-end debt service relief as hotel tax collections recover from impact of COVID-19

\* Preliminary, subject to change based on market conditions

# ***Source of Bond Repayment - 2022A Bonds***

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- City required to appropriate funds from all eligible sources including the General Fund for lease payments.
- City separately pledged to Authority available Convention Center Facilities District Special Taxes towards lease payments.
- Pledge of Special Taxes provides additional protection to the General Fund and is not subject to abatement.
- No Debt Service Reserve Fund will be funded in connection with the 2022A Bonds.



# ***Revenue Stabilization Reserve***

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- Under the Pledge Agreement, the City has established a Revenue Stabilization Reserve (RSR) that may also be used to make lease payments.
- At closing, the RSR will be funded at maximum annual debt service of the 2022A Bonds to minimize the impact on General Fund due to Special Tax revenue volatility.

## ***Future Debt***

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- Under the Indenture, additional lease revenue bonds may be issued on parity with the 2022A Bonds, but only to finance or refinance Facilities related to the Convention Center
  - ✓ Lease Payments payable after the issuance of such additional bonds shall not exceed the fair rental value of the Leased Property in any Rental Period
  - ✓ Additional bonds shall be equally and ratably secured by the Revenues with all other Lease Revenue Bonds authorized
- City may issue debt secured by the Convention Center Facilities District Special Taxes (such as special tax bonds) that is not limited by the fair rental value of the Leased Property
  - ✓ City and Authority may issue future debt related to the Convention Center for purposes authorized by the CCFD for up to \$750 million including issuance of the bonds in 2011 and the issuance of the 2022A Bonds

# ***Bond and Legal Documents for Approval***

- For the 2022A Bonds the Council and Authority Board are being presented:
  - ✓ City and Authority Resolutions
  - ✓ Preliminary Official Statement 2022A Bonds including form of Continuing Disclosure Certificate
  - ✓ Indenture of Trust
  - ✓ Site Lease
  - ✓ Lease Agreement
  - ✓ Pledge Agreement
  - ✓ Bond Purchase Agreement
- Pursuant to Government Code Section 5852.1 which became effective on January 1, 2018, by the enactment of Senate Bill 450, certain financial information related to the 2022A Bonds has been included in the Resolutions and in the staff report, and such information has been disclosed and made public (“Good Faith Estimates”).

# ***Importance of Disclosure - Speaking to the Market***

- Issuers of municipal securities have an obligation to ensure that information contained in their disclosure documents is accurate and complete in all material respects
- Proper disclosure allows investors to understand and evaluate the financial health of the local municipality in which they invest.

# Securities Law

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- Section 17(a) of the Securities Act of 1933 prohibits fraud in the offer or sale of securities, including municipal bonds
- Section 10(b) of the Securities and Exchange Act of 1934 prohibits fraud in the purchase or sale of securities, including municipal bonds
- SEC Rule 10(b)(5) prohibits
  - ✓ Making of any untrue statement of material fact
  - ✓ Omitting to state a material fact in the offer or sale of securities

# ***An Elected Official's Responsibility***

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- Review the primary disclosure document for information on key topics:
  - ✓ Purpose of the bond issue
  - ✓ Sources of repayment of the bonds
  - ✓ Risks that the sources of repayment may be insufficient to repay the bonds
  - ✓ Discussion of any other events or information that could affect the deliberations of a reasonable investor
- After such review of the document the following additional elements should be considered:
  - ✓ Have identified material risks and events been brought to the attention of staff, bond counsel and other professionals?
  - ✓ Have such risks and events been disclosed, and if not, what is the rationale for the non-disclosure?

# ***Reviewing the Content of the Official Statement***

- Introduction section in the Official Statement describes purpose of the Bonds and source of repayment
- More detailed information and discussions on risks related to repayment of the Bonds included in sections:
  - ✓ Security for the Bonds
  - ✓ Bond Owners' Risks
- Appendix A - describes the City's current financial position including fiscal pressures. It also provides geographic, demographic, economic and financial information.
- Appendix B - provides detailed information of the two retirement plans.
- Appendix F – Continuing Disclosure Certificate for the Bonds

**Elected officials not expected to be “fact checkers”**

# *Elected Officials' Responsibility*

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- If any Councilmember or Authority Board member has any personal knowledge that any of the material information in the Official Statement is or may be false or misleading, the Councilmember/Authority Board member must raise these issues prior to approval of the distribution of the document*



# Current Bond Ratings

- City met with bond rating agencies on March 14<sup>th</sup> through 16<sup>th</sup> and bond ratings were assigned by all three on March 28<sup>th</sup>

Rating Agency	Civic Center 2020A	Ice Centre 2020B	Fire Dept Training Center / CSY 2021A	Convention Center 2022A
Moody's Investors Service	Aa2 Stable	Aa3 Stable	Aa2 Stable	Aa3 Stable
S&P Ratings	AA Stable	AA Stable	AA Stable	AA Stable
Fitch Ratings	AA Stable	AA- Stable	AA Stable	AA Stable

# Financing Schedule – 2022A Bonds

- **March 28:** Credit Ratings Received
- **March 29:** City Council Approvals
- **March 30:** Distribute 2022A Preliminary Official Statement
- **April 7:** Price 2022A Bonds
- **April 21:** Close 2022A Bonds

March 2022						
Su	M	Tu	W	Th	F	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

April 2022						
Su	M	Tu	W	Th	F	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

# ***Policy Requirements for Lease Revenue Bonds***

- Subject to:
  - ✓ Debt Management Policy - City Council Policy 1-15
  - ✓ San José Municipal Code Chapter 4.34 related to lease financings
  - ✓ Under Section III (C) of the Debt Management Policy, the Finance Department is required periodic review of refunding opportunities that would produce 3%+ net present value savings.
- UNDER BOTH THE DEBT MANAGEMENT POLICY AND SAN JOSE MUNICIPAL CODE SECTION 4.34.200, APPROVAL OF THE ISSUANCE OF THE LEASE REVENUE BONDS FOR NEW PROJECTS REQUIRES A TWO-THIRDS VOTE BY THE CITY COUNCIL (8 VOTES).

# ***Recommendations for the 2022A Bonds***

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1. City Council adopt a resolution to authorize the issuance and sale of up to \$175 million 2022A Bonds, approve in substantially final form various legal documents and authorize the execution and delivery of all necessary documents.
2. City Council adopt a resolution to authorize the City Attorney to negotiate and execute an agreement for bond counsel services.
3. San Jose Financing Authority Board adopt a resolution to authorize the issuance and sale of up to \$175 million 2022A Bonds, approve in substantially final form various legal documents and authorize the execution and delivery of all necessary documents.