



Memorandum

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

FROM: Maria Öberg

SUBJECT: See Below

DATE: September 8, 2025

Approved

Date:

9/16/2025

COUNCIL DISTRICT: Citywide

SUBJECT: Issuance of City of San José Financing Authority Commercial Paper to Finance the Acquisition of the Property Located at 447 South Almaden Boulevard

RECOMMENDATION

- (a) Conduct a public hearing in accordance with Section 6586.5 of the California Government Code, to hear and consider information concerning the approval by the City of San José of a lease financing by the City of San José Financing Authority and the City for the purchase of property located at 447 South Almaden Boulevard, through the issuance of lease revenue commercial paper notes by the City of San José Financing Authority, and the significant public benefit of such financing by the City of San José Financing Authority in accordance with the criteria specified in Section 6586 of the California Government Code.
- (b) Adopt a resolution of the City of San José Financing Authority to approve and authorize the issuance of lease revenue commercial paper notes in the principal amount not to exceed \$13,500,000 to finance the purchase of the property located at 447 South Almaden Boulevard.
- (c) Adopt a resolution of the City of San José to approve and authorize the issuance of City of San José Financing Authority lease revenue commercial paper notes in the amount not to exceed \$13,500,000 to finance the purchase of the property located at 447 South Almaden Boulevard.

September 8, 2025

Subject: Issuance of City of San José Financing Authority Commercial Paper to Finance the Acquisition of the Property Located at 447 South Almaden Boulevard

Page 2

SUMMARY AND OUTCOME

Approval of these recommendations will allow the City of San José Financing Authority (the Authority, or CSJFA) to issue commercial paper notes (CP Notes) to finance the purchase of the property located at 447 South Almaden Boulevard (Property).

BACKGROUND

City of San José Financing Authority

CSJFA 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 of San José (City) and the former Redevelopment Agency of the City of San José (Former Agency), for the purpose, among others, of having CSJFA 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 Successor Agency to the Redevelopment Agency of the City of San José (the Successor Agency) is 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 CSJFA. The City Manager is the Executive Director, the City Clerk is the Secretary, and the Director of Finance is the Treasurer of the CSJFA.

447 South Almaden Boulevard Property

The Property is approximately 3.56 acres located at 447 South Almaden Boulevard on the northwest corner of Almaden Boulevard and Woz Way. The Property has a general plan designation of "Downtown." The Guadalupe River Trail and Guadalupe River abut the property on the west side.

Around 1993, the Property was developed into a surface parking lot and remains virtually unchanged to this day, consisting of approximately 414 parking spaces with ancillary infrastructure as well as an electric vehicle charging station. The Property is currently leased by the City for use as a parking lot. The City entered into a lease in December of 2001 to use the Property for off-street parking and subsequently has amended the lease 15 times. The current lease term expires on June 30, 2027.

BXP Almaden Associates LP (BXP) currently owns the Property, which it purchased in 2000 from the Former Agency through a Disposition and Development Agreement

September 8, 2025

Subject: Issuance of City of San José Financing Authority Commercial Paper to Finance the Acquisition of the Property Located at 447 South Almaden Boulevard

Page 3

(DDA). The DDA obligated BXP to develop three high rise office buildings in three phases. In 2021, modifications to the DDA were approved, allowing two connected 16-story office towers with a total 2.05 million square feet, comprised of 1.4 million square feet of office space, 37,603 square feet of retail and amenity space, and three levels of underground parking included. Pursuant to the DDA, the property cannot be sold or transferred without prior approval of the Successor Agency. The Executive Officer of the Successor Agency has the authority to approve the assignment of the DDA to the City.

In addition to the lease allowing for use as a public parking lot, the City and BXP have entered into a site investigation and standstill agreement that runs until the end of September 2025. This agreement allows for the City to conduct environmental investigations and prohibits BXP from marketing the Property.

Commercial Paper Program

The Commercial Paper Program (CP Program) utilizes a lease revenue financing structure. Under this program, CSJFA can issue CP Notes at prevailing interest rates for periods up to 270 days. Although the maturity of each CP Note may not exceed 270 days, CSJFA may have CP Notes outstanding longer for a project by issuing new CP Notes to pay maturing CP Notes (and interest) instead of repaying the principal and interest owed on the maturing CP Notes. In the current market, all-in costs (interest and fees) for CP Notes are estimated to be under five percent for taxable and under three-and one-half percent for tax-exempt issuances.¹ This project will be funded with taxable CP Notes and the interest payable on the CP Notes will be paid upon each maturity of the CP Notes.

The payment of principal and interest on the CP Notes is supported by a direct-pay letter of credit (LOC) provided by TD Bank, N.A. (TD Bank) and additionally secured by a pledge of lease payments received by the Authority from the City pursuant to a sublease of certain real property² owned by the City. The current LOC is scheduled to expire on June 17, 2030.

See Attachment A for a description of the structure of the Authority 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.

¹ Rate estimates as of September 5, 2025.

² Pledged properties include the Police Communications Center, South San José Police Substation, and Tech Museum.

September 8, 2025

Subject: Issuance of City of San José Financing Authority Commercial Paper to Finance the Acquisition of the Property Located at 447 South Almaden Boulevard

Page 4

ANALYSIS

Property Description

The Property is located in a highly strategic location for the City's future downtown planning, situated across the street from the Convention Center, and on the other side of the Guadalupe River from the Children's Discovery Museum and Discovery Meadows. Acquisition of the Property would link these two existing City-owned properties into a 32-acre contiguous block of City ownership downtown. This would be highly advantageous as the City is beginning planning efforts for an expanded Convention Center, and is considering other use activations that could align with a Sports and Entertainment District, including uses such as a hotel, retail, restaurants, arts and cultural venues, and other gathering spaces.

Debt Management Policy and San José Municipal Code Requirements Related to Lease Financings

The plan to issue CP Notes to finance the acquisition cost of the Property is subject to the City 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 the proposed lease financing and identify a source of repayment. The Debt Management Policy requires a feasibility study be performed prior to the issuance of lease financing in which project revenues are identified as the repayment source. The Convention Center Facilities District (CCFD) Revenue Fund and the General Purpose Parking Fund will be the source of payment for the proposed CP Notes. A feasibility study is not required because the Property is not identified as a repayment source as it will not generate significant project revenues.

UNDER BOTH THE DEBT MANAGEMENT POLICY AND SAN JOSE MUNICIPAL CODE SECTION 4.34.200, APPROVAL OF THE ISSUANCE OF THESE CP NOTES REQUIRES A TWO-THIRDS VOTE BY THE CITY COUNCIL (EIGHT (8) VOTES).

Source of Repayment/Funding

The CP Notes issued to finance the acquisition of the Property, including interest and all associated fees, are expected to be paid by transfers from the CCFD Revenue Fund and the General Purpose Parking Fund. The principal amount will be repaid over seven years with the final payment occurring in Fiscal Year 2031-2032, though the repayment schedule may be accelerated as funding allows. In the event funds available from the CCFD Revenue Fund and the General Purpose Parking Fund are insufficient, repayment could be made from any legally available funds of the City.

Authorization to Issue CP Notes

To authorize the issuance of CP Notes, the City Council will hold a duly noticed public hearing in accordance with Section 6586.5 of the California Government Code, and will consider whether the financing of the Property will result in significant public benefits accruing from such financing. The public hearing will allow the City Council and Authority Board to hear and consider information concerning the approval of the financing by the Authority and the City for the acquisition of the Property. No later than five days before the public hearing to be held by the City Council on September 30, 2025, a notice advertising the hearing will be published in the San José Post-Record. Per Section 6586 of the California Government Code, "significant public benefits" means any of the following benefits to the citizens of the local agency:

- a) Demonstrable savings in effective interest rate, bond preparation, bond underwriting, or bond issuance costs;
- b) Significant reductions in effective user charges levied by a local agency;
- c) Employment benefits from undertaking the project in a timely fashion; or
- d) More efficient delivery of local agency services to residential and commercial development.

The issuance of CP Notes to finance the acquisition of the Property will result in more efficient delivery of local agency services to commercial development.

Utilization of the CP Program

The CP Program has a total capacity of \$175 million. The principal amount of CP Notes currently authorized is \$148 million. The table below illustrates CP Notes outstanding, remaining authorization and proposed authorization actions by project. With the proposed authorization of \$13.5 million for the Property, utilization of the CP Program will total \$161.5 million, with \$13.5 million remaining in unutilized capacity.

**Authority CP Program as of August 6, 2025
(\$175 million Principal Amount Capacity)**

Project	CP Notes Outstanding	Remaining Authorization	Outstanding and Authorized	Proposed Authorization	Program Utilization
	A	B	C = A + B	D	E = C + D
Flood Improvement Recovery – Parks, Recreation, and Neighborhood Services Department	\$652,000	\$5,031,000	\$5,683,000		\$5,683,000
Energy Purchases – Energy Department		75,000,000	75,000,000		75,000,000

HONORABLE MAYOR AND CITY COUNCIL AND CITY OF SAN JOSE FINANCING AUTHORITY
BOARD

September 8, 2025

Subject: Issuance of City of San José Financing Authority Commercial Paper to Finance the Acquisition of the Property Located at 447 South Almaden Boulevard

Page 6

Project	CP Notes Outstanding	Remaining Authorization	Outstanding and Authorized	Proposed Authorization	Program Utilization
	A	B	C = A + B	D	E = C + D
Energy Services Company Conservation Project – Public Works Department	4,315,000		4,315,000		4,315,000
Muni Water Building Infrastructure – Environmental Services Department	20,700,000	19,300,000	40,000,000		40,000,000
Muni Water Advanced Metering Infrastructure – Environmental Services Department		23,000,000	23,000,000		23,000,000
447 South Almaden Boulevard – City Manager’s Office of Economic Development and Cultural Affairs				\$13,500,000	13,500,000
Total	\$25,667,000	\$122,331,000	\$147,998,000	\$13,500,000	\$161,498,000

Risks Associated with the CP Program

The CP Program is subject to the following risks:

- LOC Renewal Risk – If the LOC expires and the City is not able to execute a replacement LOC in time, the CP Notes outstanding will need to be repaid in full. The General Fund is ultimately responsible for the repayment of outstanding CP Notes. LOC fees are also subject to change at future renewal dates based on market conditions.
- Interest Rate Risk – The interest rates on the CP Notes vary depending on general interest rate trends, factors affecting the supply and demand for short-term paper and investor perceptions on the course of future interest rates or investor perceptions about the bank providing the LOC.
- 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 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 be increased based on a schedule agreed to by the bank, the Authority, and the City.

September 8, 2025

**Subject: Issuance of City of San José Financing Authority Commercial Paper to Finance the
Acquisition of the Property Located at 447 South Almaden Boulevard**

Page 7

- Marketability Risk – If there is a lack of market demand for CP Notes, the Authority may not be able to roll the CP Notes for additional terms.

The payment of principal and interest on the CP Notes are ultimately backed by lease payments to be made by the City to the Authority for certain real properties. If any such leased properties in the future become unavailable for the City's continued beneficial use and occupancy, replacement real property owned by the City may need to be identified in order for the maximum principal amount of CP Notes not to be reduced. Replacement assets require approval by the LOC provider bank and are subject to certain conditions set forth in the documents related to the CP Notes.

EVALUATION AND FOLLOW-UP

This memorandum will not require any additional follow-up.

COST SUMMARY/IMPLICATIONS

Elsewhere on the September 30, 2025 agenda, staff will request City Council approval to negotiate and execute a purchase and sale agreement with BXP to transfer the Property to the City. Staff requests to issue an amount not to exceed \$13.5 million in CP Notes to fund the Property. The interest and fees owed on the CP Notes are estimated to be \$2.2 million. The total cost for the Property, including financing costs, is estimated to be \$15.7 million. The CCFD Revenue Fund and General Purpose Parking Fund are anticipated to pay for the principal and associated fees and interest over a seven-year period averaging \$2.3 million annually. Of this amount, approximately \$2 million will be paid from the CCFD Revenue Fund and \$300,000 from the General Purpose Parking Fund, which is roughly equivalent to the City's existing lease to operate its off-street parking operations.

For reference, between 2025-2026 and 2031-2032, the seven-year payback period for the CP Notes, the revenue from special hotel taxes paid to the CCFD Revenue Fund averages \$15.8 million annually. With the existing annual debt service for the outstanding CCFD bonds averaging \$12.1 million over that same period, the CCFD Revenue Fund has sufficient capacity to pay the additional CP Note debt service while also ensuring a modest amount of new funding remains available for capital improvement needs at the Convention Center.

September 8, 2025

**Subject: Issuance of City of San José Financing Authority Commercial Paper to Finance the
Acquisition of the Property Located at 447 South Almaden Boulevard**

Page 8

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the City Manager's Budget Office and the City Manager's Office of Economic Development and Cultural Affairs.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the September 30, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, Public 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 Department

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

ATTACHMENTS:

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

B – Technical Aspects of Commercial Paper Notes

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 (Authority) various City-owned facilities pursuant to a Site Lease (as amended, the Site Lease). The Authority 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 Police Communications Center, the South San José Police Substation, and the Tech Museum.

The Authority issues the CP Notes under the Marks-Roos Local Bond Pooling Act of 1985 pursuant to an Amended and Restated Trust Agreement between the Authority and Computershare Trust Company, National Association (as successor in interest to Wells Fargo Bank, National Association), as Trustee, as amended, restated, supplemented or otherwise modified from time to time (the Trust Agreement) and a Third Amended and Restated Issuing and Paying Agent Agreement between the Authority and Computershare Trust Company, National Association. The Authority has a pool of CP Dealers from which to choose. Barclays Capital, Inc. currently serves as the CP Dealer for the Taxable CP Notes and Morgan Stanley & Co. LLC currently serves as the CP Dealer for the Tax-Exempt CP Notes, each pursuant to a respective Commercial Paper Dealer Agreement. The CP Notes are currently secured by a direct-pay LOC from TD Bank, N.A. (TD Bank), pursuant to a Letter of Credit and Reimbursement Agreement among TD Bank, the City, and the Authority (as amended, the "Letter of Credit Agreement"). Under its LOC, TD 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 calculated based on a year of 365 days.

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

January 13, 2004	Authorized the issuance of tax-exempt CP Notes in an amount not to exceed \$98.0 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 \$98.0 million to \$116.0 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 Parks Floods Recovery construction projects 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. 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 \$85.0 million to \$125.0 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 purchase of power and other operating costs for the San José Clean Energy department and deauthorized \$7.8 million for the Parks Floods Recovery construction 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 \$125.0 to \$175.0 million and to extend the

stated expiration date and commitment available under such Letter of Credit and Reimbursement Agreement to March 2025 and authorized the negotiation, execution and delivery of one or more extensions of the expiration date of such letter of credit.

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 \$40.0 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 \$20.0 million CP Notes allocated to San José Clean Energy to lower the authorized amount from \$95.0 million to \$75.0 million CP Notes outstanding at any time.

May 6, 2025

Authorized the issuance of CP Notes in an amount not to exceed \$23.0 million for the purpose of financing the purchase and installation of the Advance Metering Infrastructure project for the City of San José Environmental Services Department Water Resources Division.

Authorized the execution and delivery of a letter of credit and reimbursement agreement with TD Bank N.A.; a fee agreement; amendments to certain financing documents; and authorized 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 authorized the negotiation, execution and delivery of one or more extensions of the expiration date of such letter of credit.

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 it complies 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).