



# Memorandum

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

**FROM:** Julia H. Cooper

**SUBJECT:** SEE BELOW

**DATE:** February 2, 2018

Approved

Date

2/2/18

**SUBJECT: ISSUANCE OF CITY OF SAN JOSE FINANCING AUTHORITY  
COMMERCIAL PAPER NOTES FOR THE FLOOD RECOVERY  
CONSTRUCTION PROJECTS OF CITY IMPROVEMENTS**

## RECOMMENDATION

1. It is recommended that City Council take the following actions:
  - a. Conduct a public hearing concerning the approval of the issuance by the City of San José Financing Authority of commercial paper notes in order to finance certain public capital improvements of the City, consisting of flood recovery and construction for parks and community facilities.
  - b. Adopt a resolution to approve the issuance of commercial paper notes pursuant to the previously established commercial paper program designated as "City of San José Financing Authority Lease Revenue Commercial Paper Notes" to provide financing for the flood recovery and construction for parks and community facilities in an amount not to exceed \$21 million and to state the City Council's determination that there will be significant public benefits accruing from such financing.
2. It is recommended that the City of San José Financing Authority Board adopt a resolution to approve the issuance of City of San José Financing Authority Commercial Paper Notes to provide financing for the flood recovery construction project in an amount not to exceed \$21 million.

## **OUTCOME**

Approval of these recommendations, both by the City of San José Financing Authority Board and by two-thirds majority approval by the City Council, will allow the issuance of commercial paper ("CP") notes to finance flood recovery and construction improvements at various parks and community facilities damaged during the winter flood event of 2016-2017.

## **BACKGROUND**

### **Commercial Paper Program**

The Commercial Paper Program ("CP Program") utilizes a lease revenue financing structure. Under this program, the City of San José Financing Authority (the "Authority") is able to issue commercial paper notes ("CP Notes") at prevailing interest rates for periods of maturity not to exceed 270 days. Although the maturity of a CP Note may not 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.

The CP Notes are secured by separate direct-pay letters of credit ("LOCs") provided by State Street Bank and Trust Company and U.S. Bank (together, the "Banks") and are additionally secured by a pledge of lease revenues from various City assets. Both LOCs expire on November 30, 2018. See Attachment A for a description of the mechanics of the Authority's CP Program along with a summary of the program amendments since inception in 2004. See Attachment B for the technical aspects of how commercial paper works.

### **Flood Damage to Parks and Community Facilities**

During the winter of 2016-2017 the City experienced intense winter storms that produced flood events and structural damage, affecting 65 parks and trails spanning the City but with greatest impact to those adjacent to creeks and rivers. Significant projects to be funded from CP Note proceeds include: The Japanese Friendship Gardens (Kelley Park) which sustained the costliest damage with irreparable damage to the Japanese Tea House and mechanical pumping station for the Koi Fish Pond; Alum Rock Park experienced structural slope failure due to debris flows, as historic stone walls and retaining walls slumped away from steeply sloping areas; flooding to Watson Park will require replacement of the artificial turf soccer field. Extensive repairs to both Watson and Selma Olinder Parks are needed to fix electrical systems which supply energy to park lighting systems. Additionally, structural assessments of a key Guadalupe River Park retaining wall and assessments of the irrigation water pumping stations at flood-impacted parks will be ongoing. There are 26 locations where reconstruction of a facility is required (see Attachment C). Other flood related capital projects include sanitary sewer and storm sewer improvements which will not be funded with this commercial paper request.

## **Funding Approach and Reimbursement**

In May 2017, Council approved the Manager's Budget Addendum (MBA) plan to fund major repairs in response to flood damage. The 2017-2018 Adopted Capital Budget provided for the development of a scope of work and funding plan to repair the flood and structural damage sustained at City parks as a result of the intense storms during the winter of 2016-2017. Staff has conducted numerous site visits with representatives of the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (CalOES) since the flooding. Property and Casualty Insurance is anticipated to cover a portion of the flood related damage. The City will seek reimbursement funds from FEMA and CalOES (through the Public Assistance Program) via a reimbursement program and may be used to fund some of the uninsured losses and deductible payments. Under the Public Assistance Program, FEMA would reimburse 75% of the eligible project costs and the remaining 25% would be the responsibility of the State of California and the City of San José. The State of California has approved the reimbursement of 18.75% of the remaining costs which leaves a balance of 6.25% for which the City is responsible.

However, to minimize risk of under allocating financial resources to flood projects, City management assembled a funding strategy that assumes that the City may ultimately be responsible for 40 percent of the costs. This approach accounts for project delays for which FEMA does not provide an extension, challenges in meeting all of FEMA's procurement requirements as a result of the low inventory of available contractors given the Bay Area's robust construction activity, and potential determinations by FEMA that some projects may result in public assets that are enhanced when compared to their condition prior to the flood. Though City management will strive to meet all requirements of the Public Assistance Program, the number of projects, the relatively short timelines, and the reality of the Bay Area construction market necessitates this conservative approach. Details related to the park sites and locations can be found in the "2017 Flood Recovery Project Construction" memorandum on the same agenda.

The Department of Public Works is preparing to move these projects into construction in FY2017-18, but some are expected to carry over into FY2018-19. Given that most projects will be complete within two years, and the delayed availability of insurance and FEMA reimbursements, staff recommends funding flood remediation projects through a combination of the Authority's CP Program and resources from the Parks Construction Tax and Property Conveyance Tax Funds ("Parks C&C Funds") for the preliminary costs of the projects.

Through 2018-2019, staff expects to spend approximately \$27.8 million on project-related costs, of which \$23.4 million is related to the Parks and Community Facilities Development capital program. The balance of the project-related costs, \$4.4 million, are for Traffic, Sanitary Sewer System and Storm Sewer System. Due to the lack of funds in the Parks C&C Funds to fund the upfront costs of the flood repairs to the park projects, the City plans to use \$13.3 million (of the \$21 million authorized) from the CP Program, \$11.2 million in 2017-2018 and \$2.1 million in 2018-2019. It is important to note, however, that the City will only use CP proceeds to cover

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actual costs as they are incurred for specific projects. As a result, the specific amounts may vary, but will not exceed \$21 million in aggregate.

The use of CP to finance flood repairs for the major projects is beneficial because the flexible terms of the debt are suited to the funding need. In general, major capital projects take between one and three years to implement. The use of CP Notes to fund the flood recovery projects may extend beyond the initial use of \$13.3 million and would roll out over several budget years depending on reimbursements and continued assessment of flood damage. CP Notes are issued, and re-issued, for up to 270 days each time, which allows the use of short-term interest rates, sufficient liquidity allowing repayment at any time (with no prepayment penalty), and incurrence of the debt only after the incurrence of the project costs. Additionally, the authorization to issue CP Notes as approved by the City Council and City of San Jose Financing Authority provides the ability to encumber contracts for a like amount along with other funding sources.

The following table provides a summary of the projected costs for each capital improvement program associated with design and construction of the flood projects.

Capital Program	Total Est. Design and Const. Cost	Est. Insurance Reimbursement	Est. FEMA Reimbursement	Remaining Cost to City*
Parks & Community Facilities Development	\$ 23,396,000	(\$ 9,212,000)	(\$ 8,145,000)	\$ 6,039,000
Traffic	3,778,000	N/A	(1,511,000)	2,267,000
Sanitary Sewer System	427,000	0	(256,000)	171,000
Storm Sewer System	227,000	0	(137,000)	90,000
<b>TOTAL</b>	<b>\$ 27,828,000</b>	<b>(\$ 9,212,000)</b>	<b>(\$ 10,049,000)</b>	<b>\$ 8,567,000</b>

\*Remaining cost to the City does not include approximately \$998,000 in interest expense and \$235,000 in Letter of Credit Fees related to the issuance of \$13.3 million in commercial paper over the three-year repayment period.

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

The proposal to issue these Commercial Paper 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 the proposed lease financing and identify a source of repayment. As discussed below, the source of repayment for the proposed CP Notes is the Parks C&C Funds. Additionally, it is estimated that reimbursement from FEMA/CalOES and AIG insurance (the City's casualty and liability insurance provider) will be \$8.1 million and \$9.2 million, respectively. If those funds should become insufficient, repayment could be made from any legally available funds of the City. The Debt Management Policy's provision that requires a feasibility study be performed prior to the issuance of a lease financing are not applicable to the

issuance of these notes as a feasibility study is required only when the revenues of the project being financed are the source of repayment. In this case, project revenues are not the source of repayment of the CP Notes and there is an identified funding source- Parks C&C Funds, including repayments coming from insurance proceeds from FEMA/CalOES.

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

### **ANALYSIS**

As described in a memorandum to City Council, PRNS staff has identified \$23.4 million in flood remediation projects for through 2018-2019: approximately \$13.7 million in 2017-2018 and \$9.6 million in 2018-2019. As the Parks C&C Funds lack sufficient resources to fully fund the flood remediation projects, staff recommends that the City Council and the Authority Board authorize the issuance of CP Notes in an amount not to exceed \$21 million. It is projected that the CP Notes, if authorized, would be repaid over a period of three (3) years.

### **Source of Repayment**

The City would repay any CP Notes issued for these purposes, including interest and all associated fees, with transfers from the Parks C&C Funds over a not to exceed three (3) year repayment schedule, with interest only payments in 2017-2018 and 2018-2019, and the final interest and principal payment to occur in 2019-2020. In the event revenues are insufficient, repayment could be made from any legally available funds of the City.

### **Authorization to Issue Commercial Paper Notes**

It is necessary that Council conduct a public hearing, as required by State law, to authorize the issuance of CP Notes. No later than 5 days before the public hearing to be held by the City Council on February 13, 2018, a notice advertising the hearing will be published in the *San Jose Post-Record*.

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 issuance of CP Notes, related to the flood recovery and construction project, and the significant public benefit of such financing with the Authority as issuer. Under State law "significant public benefit" includes lower costs of financing. Establishing the financing with the Authority as the issuer, rather than the City as the issuer, makes the financing less complicated and, because the Authority can issue CP Notes whereas the City would have to issue Certificates of Participation, which would involve creating a new financing program. No amendments to any of the documents that established the CP Program are necessary, the Authority's issuance of CP Notes to finance the flood recovery and construction project is less costly than any other form of financing available to the City.

### Utilization of the CP Program

The amount of CP Notes currently outstanding is \$37.7 million of the total program capacity of \$85.0 million. The table below illustrates the current CP outstanding by project along with projects approved for CP issuance, but not yet issued.

#### Commercial Paper Notes Outstanding (as of December 31, 2017)

<u>Project</u>	<u>Amount</u> <u>(in millions)</u>
<i>CP Notes Already Issued</i>	
Energy Conservation Equipment	\$ 8.2
Central Service Yard Phase II	5.2
Housing Loan (SARA)	4.7
Convention Center Expansion/Renovation	4.0
Water Meter Replacement	0.6
Convention Center Exhibit Hall	<u>15.0</u>
Total Current CP Projects	\$ 37.7
<i>CP Notes Authorized but Not Issued</i>	
San Jose Clean Energy Project	\$ 10.0
ESCO	<u>2.2</u>
Total Outstanding and Committed	\$ 49.9
<i>CP Notes Anticipated to be Issued</i>	
Flood Recovery and Construction	\$ 21.0
<b>Grand Total</b>	<b><u>\$ 70.9</u></b>
CP Program Issuance Capacity – Current	\$ 85.0
Unutilized Issuance Capacity	\$ 14.1

### Risks associated with the CP Program

The CP Program is subject to the following risks:

- LOC Renewal Risk - Should the Banks decide not to renew the LOCs upon expiration in November 2018 and no replacement banks are identified, the CP Notes outstanding will need to be repaid in full. The General Fund is ultimately responsible for the repayment of outstanding notes. LOC fees are subject to change at future renewal dates based on market conditions.
- Interest Rate Risk - The interest rate for CP Notes may increase significantly depending on the overall financial market conditions.
- Downgrade Risk - The Banks' credit ratings may be downgraded in the future due to changes in the market's perception of the financial health of the Banks. 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 fees for the LOCs backing the CP Notes may be increased based on a schedule agreed to by the Banks, the Authority, and the City.

- Marketability Risk - If there is a lack of market demand for CP Notes, the notes may be tendered back to the Authority and the Authority may not be able to find buyers for these notes.

The LOC is backed by certain real properties pledged as leased assets<sup>1</sup> by the City and Authority with a total insured replacement value of approximately \$180.3 million. If any of the underlying leased assets above are no longer available for the City's continued use and occupancy, replacement assets would need to be identified or the CP Program capacity may be adversely impacted. Replacement assets require approval by the Banks.

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

This memorandum presents the set of recommendations related to the City Council and the Authority Board's approval of various actions related to the City of San José Financing Authority Lease Revenue CP Program and requires no additional evaluation or follow-up to the City Council or the Authority Board. The appropriation action necessary to recognize the CP proceeds as revenue to the City and to establish the various capital projects described in this memorandum are included as part of the "2017 Flood Recovery Project Construction" memorandum heard concurrently with this item.

### **PUBLIC OUTREACH**

The City Council will hold a public hearing on February 13, 2018, as required by Section 6586.5 of the Government Code of the State of California, to consider information concerning the approval of issuance of the CP Notes. The Notice of Public Hearing to be held in conjunction with the approval of the issuance of the CP Notes will be published in the *San Jose Post-Record* no later than five days before the February 13, 2018 hearing announcing the time and location of the public hearing.

The proposed resolutions of the City Council and the Financing Authority Board will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about February 2, 2018.

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<sup>1</sup> Pledged assets include South San Jose Police Substation, Tech Museum, Police Communication Center, Animal Care Center, Fire Station No.1 and Fire Station No.3

### **COORDINATION**

This memorandum has been coordinated with the Parks, Recreation and Neighborhood Services Department, the Public Works Department, the City Attorney's Office, and the City Manager's Budget Office.

### **COMMISSION RECOMMENDATION/INPUT**

There is no commission recommendation or input associated with this action.

### **FISCAL/POLICY ALIGNMENT**

As discussed above issuance and repayment of the CP Notes is consistent with the City's Debt Management Policy. The proposed financing plan is also consistent with the City's Debt Management Policy which establishes objectives in order to obtain cost-effective access to the capital markets, which includes minimizing debt service and issuance costs; maintaining access to cost-effective borrowing; and ensuring compliance with applicable State and Federal laws.

### **COST SUMMARY/IMPLICATIONS**

The CP notes issued for the identified purposes, including all associated fees and interest, will be repaid in part by AIG Insurance or public assistance through FEMA and CalOES. To the extent that those funds do not cover all of the project costs, it is anticipated that the CP notes will be repaid from the Parks C&C Funds. The issuance of CP notes in the amount not to exceed \$21.0 million is recommended. However, when considering the schedule of when expenses will be incurred, and the estimated insurance and public assistance reimbursement schedule, a need of only \$13.3 million of the authorized CP Notes is anticipated. The additional \$7.7 million provides the fiscal capacity necessary to award construction contracts in 2017-2018, even though many of the expenses will not be incurred until the 2018-2019.



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Debt is estimated to be repaid over a three-year period beginning in 2017-2018 and ending in 2019-2020. Due to limited resources in the Parks C&C Funds, payments in 2017-2018 and 2018-2019 will only address accrued interest. The final payment, including all outstanding principal, will be made in 2019-2020 after the City has received its insurance and public assistance reimbursements. The table below provides a preliminary debt service schedule.

	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>	<b>Total</b>
<b>Parks C&amp;C Funds</b>	\$198,000	\$518,000	\$13,781,000	\$14,497,000

The total estimated costs for parks and recreation facilities flood remediation projects is estimated at \$23.4 million. Of this amount, \$17.4 million is anticipated to be reimbursed from public assistance (\$8.1 million) and insurance (\$9.2 million). Including estimated interest of \$998,000 and \$235,000 in Letter of Credit Fees, total net cost to City (Parks C&C Funds) is approximately \$7.2 million.

For a more detailed review of the funding strategy and cost implications related to all flood remediation projects, please see the “2017 Flood Recovery Project Construction” memorandum heard in conjunction with this item.

**CEQA**

CEQA – Exempt, File No. PP18-003, CEQA Guidelines Section 15269, Emergency Projects.

/s/  
 JULIA H. COOPER  
 Director of Finance

For questions, please contact Lisa C. Taitano, Assistant Director of Finance, at (408) 535-7041.

Attachments

## Attachment A

### Mechanics 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 (the “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 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 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 Wells Fargo Bank, National Association (as amended and supplemented, the “Trust Agreement”) and a Second Amended and Restated Issuing and Paying Agent Agreement between the Authority and Wells Fargo Bank, National Association. Barclays Capital, Inc. serves as the current dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. As noted above, the CP Notes are backed by a separate LOC issued by each bank, pursuant to a Letter of Credit and Reimbursement Agreement among each bank, the City and the Authority (as amended, the “Letter of Credit Agreements”). Under their respective LOCs, each bank is separately responsible for payments on all draws made on the applicable LOC. Each LOC is issued in the principal amount of \$42,500,000 (half the program size of \$85 million) plus interest calculated at the rate of 10% for a period of 270 days.

The CP Program was initially established in January 2004 and has been amended, expanded and contracted through various City Council and Authority Board actions over time. A summary of these actions is provided in the table below.

<b>Date</b>	<b>City Council/City of San José Financing Authority Board Actions</b>
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” (the “CUSP Project”).
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 Authority 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 CP Notes in an amount not to exceed \$8.25 million to pay for capital improvements at the City’s HP Pavilion.

Date	City Council/City of San José Financing Authority Board Actions (cont.)
October 21, 2008	Authorized the issuance of CP Notes to refund bonds and other obligations of the City or the Authority 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 in order to extend the term to January 27, 2013.
April 20, 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 Authority's Lease Revenue Commercial Paper Program in order 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 in order 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 Authority's Lease Revenue Commercial Paper Program in order 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 in order to provide for the addition of a component of property (the Tech Museum) under the Site Lease and the Sublease in connection with the City of San José Financing Authority'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 financing for start-up costs for the San José Clean Energy Project.

## **Attachment B**

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

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

Commercial paper is debt that is sold with a maturity of between 1 and 270 days. The maturity of an individual commercial paper note is determined by the commercial paper dealer and the issuer at the time it is sold. Each commercial paper note bears interest at a fixed rate for the 1-270 day period of time 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 commercial paper are described below under "Payment of Principal and Interest on Commercial Paper".)

Municipal commercial paper programs typically require the issuer to obtain credit support through one or more letters of credit provided by a commercial bank. Upon each 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 commercial paper 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 commercial paper 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 by and between the issuer and the bank or bank(s) that provided the letter of credit.

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

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

The buyers of commercial paper are considered short-term investors because their investments in commercial paper mature in 270 days or less. One of the attractive features commercial paper offers to an investor is that the maturities can be matched to the specific timing needs of an investor (such as 27 days, or 112 days). This helps an investor invest amounts for a very precise period of time until such funds are needed for a specific known payment obligation in the future. Buyers of commercial paper include major corporations and money market funds. Commercial paper is attractive to money market funds because it complies with the maturity limitations imposed on such funds, and the flexibility in setting the maturity of commercial paper 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 commercial paper as it rolls over, and thus may own an issue for an extended period of time.

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

Commercial paper 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 commercial paper will be repaid. The issuer can repay commercial paper on any date on which a commercial paper note is scheduled to mature by providing the funds to repay such note to the paying agent for the issue. The paying agent uses such funds to pay the holder of the commercial paper. At the same time, the issuer instructs its commercial paper dealer not to attempt to sell new commercial paper to roll over the paper that is maturing. Hence, when such steps are taken, the amount of commercial paper outstanding at the end of the day is reduced.

The individual commercial paper notes are likely to have different maturities, so an issuer repaying a commercial paper program would do so in a series of steps as the individual notes mature. However, since each 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 pay a program off in the near future would instruct its commercial paper dealer to issue the paper with short maturities as it rolls over, so that the issuer could retire the commercial paper quickly when it begins the repayment process.

As noted above under “The Mechanics of Commercial Paper,” interest or discount is payable on each commercial paper 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 commercial paper to the amount of new paper being sold. If this approach is used, the principal amount of paper outstanding over time will increase as additional interest is capitalized (subject to the maximum authorized amount of 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. At that point, the issuer must provide to the paying agent the interest due at the time each 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 commercial paper. Since the interest at that point is being paid by the issuer, and not by increasing the amount of paper being rolled over, the principal amount of commercial paper outstanding will stay constant after the projects are completed. The 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

### PROJECT NAME/LOCATIONS

Alum Rock Park – Mineral Springs Bridge Embankment  
Alum Rock Park – Mineral Springs Restrooms  
Alum Rock Park - Trestle Repair  
Alum Rock Park – Falls Road Reconstruction  
Alum Rock Park – Service Road Repairs and Reconstruction  
Alum Rock Park – Visitors Center  
Bailey Ave Storm Drain Inlet Repair  
Century Oaks Park (Curie Dr) Slope Repair  
Family Camp Playground Shade Structure, Retaining Wall and Slope Stabilization  
Happy Hollow Park and Zoo – Lower Restrooms, Commissary & Office  
Happy Hollow Park and Zoo – Night House, Breakroom & Storage Sheds  
Japanese Friendship Garden – Koi Pond and Koi Pump House  
Japanese Friendship Garden - Public Restroom  
Japanese Friendship Tea House  
Kelley Park - Outfall  
Martin Park (Booster Pump)  
Martin Park Resilient Surfacing 1  
Nordale Pump Station Flood Wall  
Rocksprings Park Resilient Surfacing 1  
Selma Olinder Community Center  
Selma Olinder Park Resilient Surfacing 1  
Selma Olinder Theatre  
Sierra Road Reconstruction  
Watson Park – Turf Soccer Fields and Field Lighting  
Watson Park – Park Lighting and Irrigation Electrical Repair  
Watson Park – Park Lighting Future Mitigation