

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2022

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: Moody's: ___
S&P: ___
Fitch: ___

See "RATINGS" herein

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, interest on the 2022A Bonds is exempt from State of California personal income taxes. Bond counsel observes that interest on the 2022A Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the 2022A Bonds. See "TAX MATTERS" herein."



\$ _____ *
CITY OF SAN JOSE FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, SERIES 2022A
(CONVENTION CENTER REFUNDING PROJECT)

Dated: Date of Delivery

Due: May 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "2022A Bonds") are being issued by the City of San José Financing Authority (the "Authority") under a resolution adopted by the Governing Board of the Authority on _____, 2022, and an Indenture of Trust dated as of April 1, 2022 (the "Indenture"), by and between the Authority and Wilmington Trust, National Association, as trustee (the "Trustee"). See "THE 2022A BONDS – Authority for Issuance."

Purpose. The 2022A Bonds are being issued primarily to refinance on a current basis the outstanding (i) Special Hotel Tax Revenue Bonds, Series 2011 (Convention Center Expansion and Renovation Project) of the City of San José (the "City"), (ii) Lease Revenue Bonds, Series 2011A (Convention Center Expansion and Renovation Project) of the Authority and the related lease payment obligation of the City, and (iii) certain outstanding commercial paper notes of the Authority. Bond proceeds will also pay the costs of issuing the 2022A Bonds. See "REFINANCING PLAN."

Security. Under the Indenture, the 2022A Bonds are payable from and secured by a first pledge of and lien on "Revenues" (as defined in this Official Statement) received by the Authority under the Lease Agreement, dated as of April 1, 2022, by and between the Authority, as lessor, and the City, as lessee (the "Lease"), consisting primarily of lease payments (the "Lease Payments") made by the City under the Lease with respect to the lease of certain real property.. See "SECURITY FOR THE 2022A BONDS."

No Reserve Fund. Neither the Authority nor the City will fund a reserve fund for the 2022A Bonds.

Book-Entry Only. The 2022A Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). The 2022A Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers of the 2022A Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the 2022A Bonds. See "THE 2022A BONDS" and APPENDIX H.

Payments. Interest on the 2022A Bonds accrues from the date of delivery and is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2022. Payments of principal and interest on the 2022A Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the 2022A Bonds. See "THE 2022A BONDS – General Provisions."

Redemption. The 2022A Bonds are subject to redemption prior to maturity. See "THE 2022A BONDS – Redemption."

NONE OF THE 2022A BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, OR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE 2022A BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE 2022A BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE 2022A BONDS.

The 2022A Bonds are offered when, as and if issued and received by the Underwriters and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP, San Francisco, California. It is anticipated that the 2022A Bonds will be delivered in book-entry form through the facilities of DTC on or about _____, 2022.

Morgan Stanley

STIFEL

JEFFERIES LLC

The date of this Official Statement is: _____, 2022

* Preliminary; subject to change.

DRAFT--Contact the Office of the City Clerk at (408) 535-1260 or CityClerk@sanjoseca.gov for final document.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

**CITY OF SAN JOSE FINANCING AUTHORITY
Taxable Lease Revenue Bonds, Series 2022A
(Convention Center Refunding Project)**

**MATURITY SCHEDULE*
(Base CUSIP:† _____)**

<u>Maturity Date</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
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* Preliminary; subject to change.

† CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. None of the City or the Underwriters takes any responsibility for the accuracy of the CUSIP data.

**CITY OF SAN JOSE FINANCING AUTHORITY
CITY OF SAN JOSE, CALIFORNIA
AUTHORITY BOARD MEMBERS AND CITY COUNCIL**

Sam Liccardo, Mayor, Chair

District 1: Chappie Jones, Vice Mayor, Member	District 6: Dev Davis, Member
District 2: Sergio Jimenez, Member	District 7: Maya Esparza, Member
District 3: Raul Peralez Member	District 8: Sylvia Arenas, Member
District 4: David Cohen, Member	District 9: Pam Foley, Member
District 5: Magdalena Carrasco, Member	District 10: Matt Mahan, Member

AUTHORITY AND CITY OFFICIALS

Jennifer Maguire, Executive Director and City Manager
Toni Taber, Secretary and City Clerk
Julia H. Cooper, Treasurer and Director of Finance
Nora Frimann, City Attorney

CITY STAFF

Luz Cofresí-Howe, Assistant Director, Department of Finance
Nikolai J. Sklaroff, Deputy Director of Finance, Debt & Treasury Management Division
Joe Gray, Debt Administrator

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL
Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR
PFM Financial Advisors LLC
San Francisco, California

TRUSTEE
Wilmington Trust, National Association
Costa Mesa, California

VERIFICATION AGENT

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 2022A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the Authority or the Underwriters.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City or the Underwriters.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the 2022A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority in any press release and in any oral statement made with the approval of an authorized officer of the City or the Authority or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project”, “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, Authority or any other entity described or referenced herein since the date hereof.

Involvement of Underwriters. The following statement has been included in this Official Statement on behalf of the Underwriters: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Stabilization of and Changes to Offering Prices. The Underwriters may overallocate or take other steps that stabilize or maintain the market prices of the 2022A Bonds at levels above that which might otherwise prevail in the open market. If commenced, the Underwriters may discontinue such market stabilization at any time. The Underwriters may offer and sell the 2022A Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriters.

Document Summaries. All summaries of the Indenture or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The 2022A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The 2022A Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2022A Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, the Authority, the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

Website. The City maintains a number of websites. However, the information presented on the City's websites is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2022A Bonds.



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OFFICIAL STATEMENT

\$ _____ *

CITY OF SAN JOSE FINANCING AUTHORITY
Taxable Lease Revenue Bonds, Series 2022A
(Convention Center Refunding Project)

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the bonds captioned above (the “**2022A Bonds**”) by the City of San José Financing Authority (the “**Authority**”). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Indenture (as defined below).

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2022A Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance. The Authority is issuing the 2022A Bonds under the following:

- (a) Article 4 of Chapter 5, Division 7, Title 1 of the California Government Code, as amended, commencing with Section 6584 (the “**Law**”);
- (b) resolutions adopted by the Governing Board (the “**Board**”) of the Authority on [March 29], 2022 (the “**Authority Resolution**”), and by the City Council (the “**City Council**”) of the City of San José (the “**City**”) on [March 29], 2022 (the “**City Resolution**”); and
- (c) an Indenture of Trust (the “**Indenture**”) dated as of April 1, 2022, by and between the Authority and Wilmington Trust, National Association, as trustee (the “**Trustee**”).

The City. The City, with an estimated population as of January 1, 2021 of approximately 1,029,782 (as reported by the California Department of Finance), is the third most populous city in the State of California (the “**State**”) and the tenth most populous city in the United States. The territory of the City encompasses approximately 180 square miles. Located at the southern end of the San Francisco Bay, the City is the county seat of the County of Santa Clara (the “**County**”).

The Authority. The Authority was formed pursuant to a Joint Exercise of Powers Agreement dated December 8, 1992, by and between the City and the former Redevelopment

* Preliminary; subject to change.

Agency of the City of San José (the “**Former Agency**”), and is qualified to issue the 2022A Bonds under the Law. As a result of changes to the California Community Redevelopment Law, the Former Agency has been dissolved and the Successor Agency to the Redevelopment Agency of the City of San José (the “**Successor Agency**”) has become the successor agency to the Former Agency. The Authority, the Successor Agency and the City are each separate and distinct legal entities, and the debts and obligations of one such entity are not the debts or obligations of the other entities. See “THE AUTHORITY.”

Purpose of the 2022A Bonds. The 2022A Bonds are being issued to:

- Refinance, on a current basis, all of the City’s outstanding revenue bonds captioned Special Hotel Tax Revenue Bonds, Series 2011 (Convention Center Expansion and Renovation Project) (the “**2011 CCFD Bonds**”);
- Refinance, on a current basis, all of the Authority’s outstanding lease revenue bonds captioned Lease Revenue Bonds, Series 2011A (Convention Center Expansion and Renovation Project) (the “**2011 Lease Revenue Bonds**”);
- Refinance all of the Authority’s outstanding commercial paper which financed and refinanced certain public capital improvements to the Convention Center (the “**Exhibit Hall Commercial Paper Notes**”);
- Refinance all of the Authority’s outstanding commercial paper which financed the purchase of certain real property of the City known as the San José Convention Center South Hall (the “**South Hall Commercial Paper Notes**”); and
- Pay the costs of issuing the 2022A Bonds.

See “REFINANCING PLAN.”

Security for the 2022A Bonds and Pledge of Revenues. Under the Indenture, the Series 2022A Bonds and any Additional Bonds (as defined herein) (collectively, the “**Bonds**”) are payable from and secured by a first pledge of and lien on “**Revenues**” (as defined in this Official Statement) received by the Authority under the Lease Agreement dated as of April 1, 2022, between the Authority, as lessor, and the City, as lessee (the “**Lease**”), consisting primarily of (i) lease payments (the “**Lease Payments**”) made by the City under the Lease, (ii) revenues derived from the levy of a special tax (the “**Special Tax**”) on hotel properties within the Convention Center Facilities District according to the Rate and Method of Apportionment of Special Tax approved by the City Council as part of the resolution establishing the Convention Center Facilities District and the eligible landowner voters in the Convention Center Facilities District which are remitted by the City, on behalf of the Authority, to the Trustee in satisfaction of the Lease Payments payable by the City under the Lease. The 2022A Bonds are also secured by certain funds on deposit under the Indenture (as defined in this Official Statement). See “SECURITY FOR THE 2022A BONDS.”

The Special Taxes may be deposited into the Special Tax Fund established under the Indenture and used to pay debt service on the 2022A Bonds, but there can be no assurance that Special Taxes will be levied and collected by the City in an amount sufficient amount to make Lease Payments when due under the Lease. Special Taxes have historically been a volatile source of revenue for the City that is difficult to project. Accordingly, the City has assumed that Special Taxes will not be available for the payment of Lease Payments payable by the City under the Lease and therefore, for debt service on the 2022A Bonds

and any Additional Bonds. No assurance can be provided that any Special Taxes will be available for such purpose in the future. The City does not expect its ability to make Lease Payments when due to be materially adversely affected in the event no Special Taxes are received by the City in the future. The City does not expect the receipt or lack thereof any Special Tax to impact its ability to make the Lease Payments.

The City and the Authority will enter into a Site Lease dated as of April 1, 2022 (the “**Site Lease**”). Under the Site Lease, the City will lease certain real property to the Authority, initially consisting of the Convention Center (as described herein, the “**Leased Property**”). Concurrently, the City and the Authority will enter into the Lease, under which the Authority will lease the Leased Property back to the City. See “THE LEASED PROPERTY.”

Form of 2022A Bonds; Book-Entry Only. The 2022A Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York (“**DTC**”), or its nominee, which will act as securities depository for the 2022A Bonds. Purchasers of the 2022A Bonds will not receive certificates representing the 2022A Bonds that are purchased. See “THE BONDS – Book-Entry Only System” and APPENDIX H – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Additional Bonds; Outstanding and Additional General Fund Obligations. Under the Indenture, the Authority may issue additional bonds on a parity with the 2022A Bonds, provided that the conditions contained in the Indenture are met.

As previously described, the 2022A Bonds are secured solely by Revenues and certain funds and accounts held under the Indenture. The City also has existing obligations payable from its General Fund. The Lease does not limit the City’s right to incur additional obligations payable from its General Fund. See “SECURITY FOR THE 202A BONDS – Additional Bonds and General Fund Obligations.”

No Reserve Fund. Neither the Authority nor the City will fund a reserve fund for the 2022A Bonds.

Redemption. The 2022A Bonds are subject to redemption prior to their stated maturity dates. See “THE BONDS – Redemption.”

Abatement. The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s use and possession of the Leased Property or any portion thereof. If the Lease Payments are abated under the Lease, the Bond Owners would receive less than the full amount of principal of and interest on the Bonds. To the extent proceeds of rental interruption insurance are available (as described below), Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See “SECURITY FOR THE 2022A BONDS – Abatement” and “BOND OWNERS’ RISKS.”

Legal Opinion. Upon delivery of the 2022A Bonds, Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel (“**Bond Counsel**”), will release its final approving legal opinion with respect to the 2022A Bonds, regarding the validity and the exemption of interest on the 2022A Bonds from State of California personal income taxes, in the form attached as APPENDIX E.

Tax Matters. In the opinion of Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the 2022A Bonds is exempt from State of

California personal income taxes. Bond Counsel observes that interest on the 2022A Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the 2022A Bonds. See “TAX MATTERS” and APPENDIX E for the form of Bond Counsel’s opinion to be delivered concurrently with the 2022A Bonds.

Risks of Investment. Debt service on the 2022A Bonds is payable only from Lease Payments and other amounts payable by the City to the Authority under the Lease, and certain funds on deposit under the Indenture. For a discussion of some of the risks associated with the purchase of the 2022A Bonds, see “BOND OWNERS’ RISKS.”

NONE OF THE 2022A BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, OR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE 2022A BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE 2022A BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

Continuing Disclosure. The City has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, dated the date of issuance of the 2022A Bonds and executed by the City (the “**Continuing Disclosure Certificate**”). The form of the Continuing Disclosure Certificate is included in Appendix F hereto. See “CONTINUING DISCLOSURE.”

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change.

REFINANCING PLAN

Refinancing of 2011 CCFD Bonds

Authority and Purpose of 2011 CCFD Bonds. On April 12, 2011, the City issued its Special Hotel Tax Revenue Bonds, Series 2011 (Convention Center Expansion and Renovation Project) in the original par amount of \$107,425,000 (the “**2011 CCFD Bonds**”), for the purpose of financing the renovation and expansion of the Convention Center.

The refinancing plan calls for the outstanding 2011 CCFD Bonds to be redeemed in full on [April 22], 2022 (the “**2011 CCFD Bonds Redemption Date**”), at a redemption price equal to the principal amount thereof, together with interest coming due and payable on the 2011 CCFD Bonds Redemption Date.

Irrevocable 2011 CCFD Prepayment Account Deposit. In order to accomplish the refinancing plan for the 2011 CCFD Bonds, a portion of the proceeds of the 2022A Bonds will be sent to U.S. Bank National Association, acting as the trustee for the 2011 CCFD Bonds (the “**2011 CCFD Bonds Trustee**”), for deposit into a prepayment account (the “**2011 CCFD Bonds Prepayment Account**”) to be established under irrevocable refunding instructions (the “**2011 CCFD Bonds Refunding Instructions**”) to be given by the City to the 2011 CCFD Bonds Trustee. The 2011 CCFD Bonds Trustee will hold the amounts on deposit in the 2011 CCFD Bonds Prepayment Account as cash. These funds will be sufficient to redeem the 2011 CCFD Bonds in full on the 2011 CCFD Bonds Redemption Date.

Sufficiency of the deposits in the 2011 CCFD Bonds Prepayment Account for those purposes will be verified by _____, certified public accountants (the “**Verification Agent**”). See “VERIFICATION OF MATHEMATICAL ACCURACY” herein. As a result of the deposit of funds with the 2011 CCFD Bonds Trustee on the date of issuance of the 2022A Bonds, the 2011 CCFD Bonds will be legally defeased and will be payable solely from amounts held for that purpose under the 2011 CCFD Bonds Prepayment Account, and will cease to be secured by any other sources.

The moneys held by the 2011 CCFD Bonds Trustee in the 2011 CCFD Bonds Prepayment Account are pledged solely to the payment and redemption of the 2011 CCFD Bonds and will not be available for payment of the 2022A Bonds.

Refinancing of 2011 Lease Revenue Bonds

Authority and Purpose of 2011 Lease Revenue Bonds. On April 12, 2011, the City issued its Lease Revenue Bonds, Series 2011A (Convention Center Expansion and Renovation Project) in the original par amount of \$30,895,000 (the “**2011 Lease Revenue Bonds**”), for the purpose of financing the renovation and expansion of the Convention Center and funding a reserve account for the 2011 Lease Revenue Bonds.

The refinancing plan calls for the outstanding 2011 Lease Revenue Bonds to be redeemed in full on [April 22], 2022 (the “**2011 Lease Revenue Bonds Redemption Date**”), at a redemption price equal to the principal amount thereof, together with interest coming due and payable on the 2011 Lease Revenue Bonds Redemption Date.

Irrevocable 2011 Lease Revenue Bonds Prepayment Account Deposit. To accomplish the refinancing plan for the 2011 Lease Revenue Bonds, a portion of the proceeds of

the 2022A Bonds will be sent to U.S. Bank National Association, acting as the trustee for the 2011 Lease Revenue Bonds (the “**2011 Lease Revenue Bonds Trustee**”), for deposit into a prepayment account (the “**2011 Lease Revenue Bonds Prepayment Account**”) to be established under irrevocable refunding instructions (the “**2011 Lease Revenue Bonds Refunding Instructions**”) to be given by the City to the 2011 Lease Revenue Bonds Trustee. The 2011 Lease Revenue Bonds Trustee will hold the amounts on deposit in the 2011 Lease Revenue Bonds Prepayment Account as cash. These funds will be sufficient to redeem the 2011 Lease Revenue Bonds in full on the 2011 Lease Revenue Bonds Redemption Date.

Sufficiency of the deposits in the 2011 Lease Revenue Bonds Prepayment Account for those purposes will be verified by _____, certified public accountants (the “**Verification Agent**”). See “VERIFICATION OF MATHEMATICAL ACCURACY” herein. As a result of the deposit of funds with the 2011 Lease Revenue Bonds Trustee on the date of issuance of the 2022A Bonds, the 2011 Lease Revenue Bonds will be legally defeased and will be payable solely from amounts held for that purpose under the 2011 Lease Revenue Bonds Prepayment Account, and will cease to be secured by any other sources.

The moneys held by the 2011 Lease Revenue Bonds Trustee in the 2011 Lease Revenue Bonds Prepayment Account are pledged solely to the payment and redemption of the 2011 Lease Revenue Bonds and will not be available for payment of the 2022A Bonds.

Refinancing of Exhibit Hall and South Hall Commercial Paper Notes

Commercial Paper Program. The City’s commercial paper program, which was established in 2004, utilizes a lease revenue financing structure to issue commercial paper notes at prevailing interest rates for periods up to 270 days. The principal and interest on the Exhibit Hall and South Hall Commercial Paper Notes is supported by an irrevocable direct-pay letter of credit (“**US Bank Letter of Credit**”) provided by U.S. Bank Trust Company, National Association (the “**US Bank**”).

The refinancing plan calls for the Authority’s outstanding commercial paper which financed and refinanced certain public capital improvements to the Convention Center (the “**Exhibit Hall Commercial Paper Notes**”) to be paid at maturity on [April 28], 2022 (the “**Exhibit Hall Commercial Paper Redemption Date**”) with a draw on the US Bank Letter of Credit.

The refinancing plan calls for the Authority’s outstanding commercial paper which financed the purchase of certain real property of the City known as the San José Convention Center South Hall (the “**South Hall Commercial Paper Notes**”) to be paid at maturity on [April 28], 2022 (the “**South Hall Commercial Paper Redemption Date**”) with a draw on the US Bank Letter of Credit.

Irrevocable Exhibit Hall Commercial Paper Notes Reimbursement Deposit. In order to accomplish the refinancing plan for the Exhibit Hall Commercial Paper Notes, a portion of the proceeds of the 2022A Bonds will be sent to Wells Fargo Bank, National Association, acting as the trustee and issuing and paying agent for the Exhibit Hall Commercial Paper Notes (the “**Exhibit Hall Commercial Paper Trustee**”), pursuant to irrevocable refunding instructions (the “**Exhibit Hall Commercial Paper Refunding Instructions**”) to be given by the City to the Exhibit Hall Commercial Paper Trustee. On the Exhibit Hall Commercial Paper Redemption Date, the Exhibit Hall Commercial Paper Trustee will draw upon the US Bank Letter of Credit an amount sufficient to pay the principal amount of the Exhibit Hall Commercial Paper Notes plus unpaid interest accrued thereon to the Exhibit Hall Commercial Paper Redemption Date. The proceeds of the 2022A Bonds that are delivered to the Exhibit Hall Commercial Paper Trustee will be

sufficient to reimburse US Bank for such amounts in full on the Exhibit Hall Commercial Paper Redemption Date.

Irrevocable South Hall Commercial Paper Notes Reimbursement Deposit. In order to accomplish the refinancing plan for the South Hall Commercial Paper Notes, a portion of the proceeds of the 2022A Bonds will be sent to Wells Fargo Bank, National Association, acting as the trustee and issuing and paying agent for the South Hall Commercial Paper Notes (the “**South Hall Commercial Paper Trustee**”), pursuant to irrevocable refunding instructions (the “**South Hall Commercial Paper Refunding Instructions**”) to be given by the City to the South Hall Commercial Paper Trustee. On the South Hall Commercial Paper Redemption Date, the South Hall Commercial Paper Trustee will draw upon the US Bank Letter of Credit an amount sufficient to pay the principal amount of the South Hall Commercial Paper Notes plus unpaid interest accrued thereon to the South Hall Commercial Paper Redemption Date. The proceeds of the 2022A Bonds that are delivered to the South Hall Commercial Paper Trustee will be sufficient to reimburse US Bank for such amounts in full on the South Hall Commercial Paper Redemption Date.

The moneys held by the Exhibit Hall Commercial Paper Trustee pursuant to the Exhibit Hall Commercial Paper Refunding Instructions are pledged solely to the payment and redemption of the Exhibit Hall Commercial Paper Notes and will not be available for payment of the 2022A Bonds. The moneys held by the South Hall Commercial Paper Trustee pursuant to the South Hall Commercial Paper Refunding Instructions are pledged solely to the payment and redemption of the South Hall Commercial Paper Notes and will not be available for payment of the 2022A Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the 2022A Bonds are as follows:

Sources of Funds:

Principal Amount of 2022A Bonds	\$
Plus: Funds Available with Respect to 2011 CCFD Bonds	
Plus: Funds Available with Respect to 2011 Lease Revenue Bonds	
TOTAL SOURCES	\$

Uses of Funds:

Deposit to 2011 CCFD Prepayment Account ⁽¹⁾	\$
Deposit to 2011 Lease Revenue Bonds Prepayment Account ⁽²⁾	
Deposit to Exhibit Hall Letter of Credit Reimbursement ⁽³⁾	
Deposit to South Hall Letter of Credit Reimbursement ⁽⁴⁾	
Costs of Issuance ⁽⁵⁾	
Underwriters' Discount	
TOTAL USES	\$

- (1) Represents funds to be used to redeem the 2011 CCFD Bonds. See “– Refinancing of 2011 CCFD Bonds.”
 (2) Represents funds to be used to redeem the 2011 Lease Revenue Bonds. See “– Refinancing of 2011 Lease Revenue Bonds.”
 (3) Represents funds to be used to reimburse US Bank for the draw on the US Bank Letter of Credit to repay the Exhibit Hall Commercial Paper. See “– Refinancing of Commercial Paper Notes.”
 (4) Represents funds to be used to reimburse US Bank for the draw on the US Bank Letter of Credit to repay the South Hall Commercial Paper. See “– Refinancing of Commercial Paper Notes.”
 (5) Represents funds to be used to pay costs of issuance, which include municipal advisory fees, legal fees, printing costs, rating agency fees, trustee fees, title fees, and other costs of issuing the 2022A Bonds.

THE LEASED PROPERTY

Description and Location

Lease Payments will be made by the City under the Lease for the use and occupancy of the Leased Property, which will initially consist of the site of the San José McEnery Convention Center (the “**Convention Center**”). The Convention Center opened on April 13, 1989 and underwent an expansion and renovation in 2013. Located on four City blocks in the center of downtown San José, the Convention Center covers approximately thirteen acres includes an estimated 520,000 square feet of flexible space. The approximate insured value of the Convention Center is \$546,141,000.

Modification of Leased Property

Under the Lease, the City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease.

Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this provision of the Lease, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

The City will not permit any mechanic’s or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under this provision of the Lease; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City’s intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Substitution of Property

Under the Lease, the City has the option, at any time, to substitute other real property (the “**Substitute Property**”) for the Leased Property or any portion thereof (the “**Former Property**”), upon satisfaction of all of the requirements set forth in the Lease, which includes (among others) the following:

- The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement that adds the legal description of the Substitute Property and deletes therefrom the legal description of the Former Property, and has filed and caused to be recorded corresponding amendments to the Site Lease and Assignment Agreement.

- The City has obtained a CLTA policy of title insurance insuring the City’s leasehold estate under the Lease in the Substitute Property, subject only to Permitted Encumbrances (as defined in the Lease), in an amount at least equal to the estimated value thereof.
- The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California.
- The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the useful life of the Substitute Property at least extends to at least the final maturity date of the 2022A Bonds, that the estimated value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the aggregate Outstanding principal amount of the 2022A Bonds, and the fair rental value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the Lease Payments thereafter coming due and payable under the Lease.

See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

Upon the satisfaction of all such conditions precedent, the Term of the Lease will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under this provision of the Lease.

Release of Leased Property

General. Under the Lease, the City has the option at any time and from time to time to release any portion of the Leased Property from the Lease (the “**Released Property**”) provided that the City has satisfied all of the requirements under the Lease that are conditions precedent to such release, which include (among others) the following:

- The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement which removes the Released Property from the Lease, the Site Lease and the Assignment Agreement.
- The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease following such release is at least equal to the fair rental value of the property which remains subject to this Lease following such release is at least equal to the Lease Payments thereafter coming due and payable under the Lease.

Addition of Property

Under the Lease, the City has the option, at any time, to add additional real property (the “**Additional Property**”) to the Leased Property. If the Additional Property is being added in connection with the issuance of Additional Bonds, the City must satisfy of all of the requirements set forth in the Lease, which includes (among others) the following:

- The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement that adds the legal description of the Additional Property.
- The City has obtained a CLTA policy of title insurance insuring the City’s leasehold estate under the Lease in the Additional Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- The City has certified in writing to the Authority and the Trustee that the Additional Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California.
- The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the useful life of the Substitute Property at least extends to the remaining term of the Lease, that the estimated value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the aggregate Outstanding principal amount of the 2022A Bonds, and the fair rental value of the Leased Property, after the addition of the Additional Property, is at least equal to the Lease Payments thereafter coming due and payable under the Lease.

Amendments to the Lease

Under the Lease, the Authority and the City may at any time amend or modify any of the provisions of the Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of the Trustee or any of the Bond Owners, but only if such amendment or modification is for any one or more of the purposes described in the Lease. Amendments or modifications that do not require the consent of the Trustee or any of the Bond Owners include amendments or modifications to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property in the event of the issuance of Additional Bonds, but only to obligate the City to pay additional amounts of Lease Payments such that the scheduled amount of Lease Payments payable after such amendment is sufficient to pay the principal of and interest on the 2022A Bonds and all such Additional Bonds.

See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

THE 2022A BONDS

This section provides summaries of the 2022A Bonds and certain provisions of the Indenture. See APPENDIX D for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX D.

Authority for Issuance

The 2022A Bonds are being issued under the Law, the Authority Resolution and the Indenture. Under the Authority Resolution and City Resolution, the 2022A Bonds may be issued in a principal amount not to exceed \$175,000,000.

General Provisions

Bond Terms. The 2022A Bonds will be dated their date of delivery and issued in fully registered form without coupons in integral multiples of \$5,000, so long as no Bond has more than one maturity date.

Interest on the 2022A Bonds will be payable on May 1 and November 1 in each year, commencing November 1, 2022 (each an “**Interest Payment Date**”). The 2022A Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Calculation of Interest. Interest on the 2022A Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date;
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date; or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest with respect to the 2022A Bonds will be computed on the basis of a 360-day year composed of 12 months of 30 days each.

Record Date. Under the Indenture, “Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

Payments of Principal and Interest. Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the 2022A Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the

payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the 2022A Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the 2022A Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of 2022A Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2022A Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which will remain in effect until rescinded in writing by the Owner.

The Trustee will pay principal and premium, if any, of the 2022A Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender of such 2022A Bonds at the Office of the Trustee.

While the 2022A Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the 2022A Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the 2022A Bonds. See “– Book-Entry Only System” below.

Redemption*

Par Call Redemption. The 2022A Bonds maturing on or after May 1, 20__, are subject to redemption, at the option of the Authority, as a whole or in part at the election of the Authority on May 1, 20__, and on any date thereafter, at a redemption price equal to 100% of the principal amount of 2022A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Make-Whole Call Redemption. The 2022A Bonds may be redeemed in whole or in part at the election of the Authority on any date before May 1, 20__, from any moneys that may be provided for such purpose, at a redemption price for such 2022A Bonds to be redeemed determined by a Reference Treasury Dealer appointed by the Authority and the City (the “**Designated Investment Banker**”) equal to the greater of (i) 100% of the principal amount of such 2022A Bonds to be redeemed, or (ii) an amount equal to the sum of the present values of the remaining scheduled payments of principal and interest on each of such 2022A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2022A Bonds are to be redeemed, discounted to the date on which such 2022A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the applicable Treasury Rate plus __ basis points, plus accrued and unpaid interest on the 2022A Bonds to be redeemed on the redemption date.

“**Comparable Treasury Issue**” means, with respect to any redemption date for a particular Bond, the U.S. Treasury security or securities selected by the Designated Investment Banker that has or have an actual maturity closest to (one equal to or one earlier and one later than) the remaining average life of the 2022A Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such 2022A Bonds to be redeemed.

* Preliminary; subject to change.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, the average of five Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than five Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means a Reference Treasury Dealer appointed by the Authority and the City.

“Reference Treasury Dealer” means each of five firms, specified by the Authority and the City from time to time, that are primary U.S. Treasury securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue or Comparable Treasury Issues, as applicable (expressed in each case as a percentage of its principal amount), quoted in writing to the Authority, the City and the Trustee by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the Valuation Date.

“Treasury Rate” means, with respect to any redemption date for particular 2022A Bonds, the rate per annum, expressed as a percentage of the principal amount, equal to the actual or interpolated rate based on (a) the most recent yield data for the Comparable Treasury Issue, as applicable, from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or (b) if the yield described in (a) above is not reported as of such date and time or the yield reported as of such date and time is not ascertainable, the semi-annual equivalent yield to maturity of the Comparable Treasury Issue or Comparable Treasury Issues on the valuation date, assuming that such Comparable Treasury Issue or Comparable Treasury Issues are purchased on the redemption date for a price equal to the applicable Comparable Treasury Price, as calculated by the Designated Investment Banker.

“U.S. Treasury” means any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged.

“Valuation Date” means a date, as determined by the Authority and the City, after consultation with the Designated Investment Banker, that is no earlier than 45 days prior to the redemption date. ***Mandatory Sinking Fund Redemption.*** The 2022A Bonds maturing on May 1, 20__ and May 1, 20__ (the **“Term 2022A Bonds”**) are subject to mandatory sinking fund redemption in part prior to their stated maturity date, on each May 1 in accordance with the tables set forth below, respectively, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium provided.

\$ _____ Term 2022A Bonds Maturing May 1, 20

Redemption Date
(May 1)

Principal
Amount

\$ _____ Term 2022A Bonds Maturing May 1, 20

Redemption Date
(May 1)

Principal
Amount

Special Mandatory Redemption from Insurance or Condemnation Proceeds. The 2022A Bonds are subject to redemption as a whole, or in part on a pro rata basis among maturities, on any date, from any Net Proceeds required to be used for such purpose as provided in the Indenture, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of 2022A Bonds for Redemption. If less than all of the 2022A Bonds are to be redeemed, the particular maturities of 2022A Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If the 2022A Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of such 2022A Bonds, if less than all of the 2022A Bonds of a maturity are called for prior redemption, the particular 2022A Bonds or portions thereof to be redeemed shall be allocated on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the 2022A Bonds are held in book-entry form, the selection for redemption of such 2022A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the 2022A Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

The Authority intends that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, none of City, the Authority or the Underwriters can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of 2022A Bonds on such basis. In the event Term 2022A Bonds are redeemed in part, the Authority will deliver a revised sinking fund schedule to the Trustee.

In connection with any repayment of principal, the Trustee will direct DTC to make a pass-through distribution of principal to the holders of the 2022A Bonds.

For purposes of calculation of the “pro rata pass-through distribution of principal,” “pro rata” means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective 2022A Bonds where (a) the numerator of which is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective 2022A Bonds.

If the 2022A Bonds are no longer registered in book-entry-only form, each owner will receive an amount of 2022A Bonds equal to the original face amount then beneficially held by that owner, registered in such investor’s name. Thereafter, any redemption of less than all of the 2022A Bonds of any maturity will continue to be paid to the registered owners of such 2022A Bonds on a pro-rata basis, based on the portion of the original face amount of any such 2022A Bonds to be redeemed.

Notice of Redemption. The Trustee shall mail notice of redemption of the 2022A Bonds by first class mail, postage prepaid, not less than 20 nor more than 60 days before any redemption date, to the respective Owners of any 2022A Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Municipal Securities Rulemaking Board as provided in the Continuing Disclosure Certificate.

Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date.

Rescission of Redemption. The Authority has the right to rescind any notice of optional redemption of the 2022A Bonds by written notice to the Trustee on or prior to the date fixed for redemption.

Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2022A Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture.

The Authority and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the 2022A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2022A Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2022A Bonds so called for redemption will cease to accrue, said 2022A Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2022A Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry Only System

The 2022A Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple of \$5,000, under the book-entry system maintained by DTC. While the 2022A Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the 2022A Bonds. Purchasers of the 2022A Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See APPENDIX H for further information regarding DTC and the book-entry system.

Transfer, Registration and Exchange

The following provisions regarding the exchange and transfer of the 2022A Bonds apply only during any period in which the 2022A Bonds are not subject to DTC's book-entry system. While the 2022A Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See APPENDIX H – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Bond Register. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2022A Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2022A Bonds as provided in the Indenture.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee will require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Whenever any Bond or Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

Exchange of Bonds. The 2022A Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee will require the Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The Authority will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

Limitations on Transfer and Exchange. The Trustee may refuse to transfer or exchange, under these provisions of the Indenture, any Bonds selected by the Trustee for

redemption under the Indenture, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

DEBT SERVICE SCHEDULE

The table below shows scheduled annual debt service payments on the 2022A Bonds, assuming no early redemptions.

Year Ending May 1	Principal	Interest	Total Debt Service
<hr/>			
Total:			

SECURITY FOR THE 2022A BONDS

The principal of and interest on the 2022A Bonds are not a debt of the Authority or the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of their respective property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture.

This section provides summaries of the security for the 2022A Bonds and certain provisions of the Indenture, the Lease and the Site Lease. See APPENDIX D for a more complete summary of the Indenture, the Lease and the Site Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX D.

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under the Indenture other than the Costs of Issuance Fund are pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge constitutes a lien on and security interest in the Revenues and such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

“**Revenues**” are defined in the Indenture to mean:

- (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any Additional Rental Payments (consisting of certain administrative costs due to the Authority and the Trustee under the Lease),
- (b) all Special Tax Revenues, and
- (c) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

“**Special Tax Revenues**” are defined in the Indenture to mean all Special Taxes paid by the City, on behalf of the Convention Center Facilities District, and received by the Trustee pursuant to the Pledge Agreement dated as of April 1, 2022, between the City, for and on behalf of the Convention Center Facilities District, and the Authority (the “**Pledge Agreement**”) for the purpose of satisfying the City’s obligation to make Lease Payments under the Lease. For the avoidance of doubt, Special Tax Revenues include any Special Taxes that are transferred by the City, at its discretion, to the Trustee from amounts on deposit in the Revenue Stabilization Reserve (defined herein) established and held by the City under the Pledge Agreement.

The City has covenanted to budget and appropriate Lease Payments to the Authority as security for the 2022A Bonds. The City does not expect its ability to make Lease Payments when due to be materially adversely affected in the event no Special Taxes are received by the City in the future.

Special Taxes have historically been a volatile source of revenue for the City that is difficult to project. Accordingly, the City has assumed that Special Taxes will not be available for the payment of Lease Payments payable by the City under the Lease and therefore, for debt service on the 2022A Bonds and any Additional Bonds. No assurance can be provided that any Special Taxes will be available for such purpose in the future.

See “– Lease Payments; Covenant to Appropriate – Limited Pledge of Special Taxes” for a discussion of the Special Taxes pledged by the City, for and on behalf of the Convention Center Facilities District, of a lien and security interest on the Special Taxes for the benefit of the Authority as security for the City’s obligations to make Lease Payments. See also “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – MAJOR GENERAL FUND REVENUE SOURCES – Special Taxes” for information regarding historical Special Tax Revenues and “APPENDIX G – RATE AND METHOD OF APPORTIONMENT OF THE CONVENTION CENTER FACILITITES DISTRICT” for additional information regarding the calculation and collection of the Special Tax. ***Assignment to Trustee.*** Under the Assignment Agreement, the Authority has transferred to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under the provisions of the Lease regarding Additional Rental Payments, advances, release and indemnification covenants, and agreement to pay attorneys’ fees). The Authority has also assigned to the Trustee for the benefit of the Owners of all Bonds issued and Outstanding under the Indenture, all Special Tax Revenues.

The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. If the Authority receives any Special Taxes pursuant to the Pledge Agreement or Lease Payments pursuant to the Lease, it will hold the same in trust as agent of the Trustee and immediately transfer such Special Taxes or Lease Payments to the Trustee on the Lease Payment Dates.

The Trustee is also entitled to and required to, subject to the provisions of the Indenture regarding rights of the Trustee, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.

Allocation of Revenues by Trustee; Application of Funds

Deposit of Revenues in Bond Fund. All Revenues will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Bond Fund,” which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease to be deposited in the Redemption Fund or the Insurance and Condemnation Fund will be promptly deposited in such funds.

All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Any surplus remaining in the Bond Fund, after payment in full of the principal of and interest on the Bonds or provision therefore under Indenture, and any applicable fees and expenses to the Trustee, will be withdrawn by the Trustee and remitted to the City at the written request of the City.

Allocation of Revenues. On or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts and subaccounts

(each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

(a) Deposit to Interest Account. The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

(b) Deposit to Principal Account. The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including principal of any Term 2022A Bonds payable as a result of mandatory sinking fund redemption under a Supplemental Indenture.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates, including principal of any Term 2022A Bonds payable as a result of mandatory sinking fund redemption under the Indenture and any other Term 2022A Bonds payable as a result of mandatory sinking fund redemption under a Supplemental Indenture.

Lease Payments; Covenant to Appropriate

Obligation to Pay. Under the Lease, subject to the provisions of the Lease regarding abatement and prepayment, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts specified in the Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in the Lease, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in the Lease.

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date will be credited towards the Lease Payment then required to be paid under the Lease. The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee.

The Lease Payments payable in any Rental Period are for the use of the Leased Property during that Rental Period.

Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable by the City in each Rental Period for

and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period.

The City and the Authority have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under the Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Source of Payments; Covenant to Budget and Appropriate. Under the Lease, the Lease Payments are payable from any source of legally available funds of the City, subject to the provisions of the Lease regarding abatement. See “– Abatement” below.

Subject to the provisions of the Lease regarding abatement, the City covenants in the Lease to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. This covenant of the City constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements agreed to be carried out and performed by the City under the Lease. Notwithstanding any other provision of the Lease, the City will in no event be obligated to pay any Lease Payments or Additional Rental Payments due hereunder in any Rental Period for any succeeding Rental Period.

Limited Pledge of Special Taxes

Under the Pledge Agreement, the City has pledged a lien and security interest on the Special Taxes for the benefit of the Authority as security for the City's obligations to make Lease Payments.

The City has established a special fund known as the Convention Center Facility District Revenue Fund (the “**Special Tax Fund**”) under the Pledge Agreement. Promptly upon receipt thereof, the City will deposit all Special Taxes received in the Special Tax Fund and shall apply such funds in the following order of priority:

First, transfer to the Trustee and each CCFD Parity Debt trustee, respectively: (i) on each Lease Payment Date, the Lease Payments required to be paid by the City under the Lease less any amounts on deposit in the Bond Fund established and held under the Indenture and (ii) on each Interest Payment Date, any amounts coming due and payable with respect to any CCFD Parity Debt, including without limitation, any mandatory sinking fund payments required thereunder, less amounts on deposit in any funds and accounts established and held by the CCFD Parity Debt trustee that are available for the payment of such amounts, respectively.

Second, transfer to the Trustee, with respect to any debt service reserve funds or accounts established for any Additional 2022A Bonds under the Indenture or any CCFD Parity Debt, the following, respectively:

(i) an amount equal to that required to (A) maintain the balance in each such fund or account equal to the applicable reserve requirement as provided in a Supplemental Indenture, or (B) reimburse the provider of a debt service reserve

policy or surety bond delivered for the purpose of satisfying such requirement in accordance with the terms of such Supplemental Indenture; and

(ii) an amount equal to that required to (A) maintain the balance in each such fund or account equal to the applicable reserve requirement as provided in such CCFD Parity Debt documents or reimburse the provider of a debt service reserve policy or surety bond delivered for the purpose of satisfying such requirement, or (B) reimburse the provider of a debt service reserve policy or surety bond delivered for the purpose of satisfying such requirement in accordance with the terms of such CCFD Parity Debt documents.

Third, pay Expenses (as defined in the Pledge Agreement) when due and, prior to transferring Special Taxes pursuant to *Fourth* below, shall set aside any Special Taxes required to pay Expenses from such Special Taxes.

Fourth, transfer to the Revenue Stabilization Reserve an amount equal to that required to restore the Revenue Stabilization Reserve to the Revenue Stabilization Reserve Requirement; provided, that no deposit need be made into the Revenue Stabilization Reserve if the amount on deposit therein is at least equal to the Reserve Stabilization Reserve Requirement.

Revenue Stabilization Reserve. The City has previously established a fund known as the “City of San José Convention Center Facilities District Revenue Stabilization Reserve” (the “**Revenue Stabilization Reserve**”). Funds in the Revenue Stabilization Reserve may only be used and withdrawn by the City, for and on behalf of the Convention Center Facilities District, for the following purposes and in the following order of priority:

First, for the purpose of making the Lease Payments required to be paid by the City under the Lease and any amounts coming due and payable with respect to any CCFD Parity Debt to the extent Special Taxes available thereof are insufficient on each Lease Payment Date and Interest Payment Date, respectively.

Second, if it is determined that the amount of money in the Revenue Stabilization Reserve exceeds the Revenue Stabilization Reserve Requirement, the City shall withdraw the amount of money representing such excess from the Revenue Stabilization Reserve to be used for any lawful purpose within the authority conferred by the Convention Center Facilities District and such Special Taxes shall be released from the lien under the Pledge Agreement.

On each May 1, Special Taxes in excess of the amounts required to be deposited in the Revenue Stabilization Reserve pursuant to the Pledge Agreement, if any, shall be used by the City, for and on behalf of the Convention Center Facilities District, for any lawful purpose within the authority conferred to the Convention Center Facilities District.

“**Revenue Stabilization Reserve Requirement**” is defined in the Pledge Agreement to mean, as of any date of determination (A) the lesser of (1) aggregate Maximum Annual Debt Service on the outstanding 2022A Bonds and CCFD Parity Debt (without duplication), and (2) the maximum permitted by the Internal Revenue Code of 1986, as in effect as of the closing date of the 2022A Bonds, for the preservation of the tax status of any 2022A Bonds or CCFD Parity Debt (without duplication) the interest on which is intended to be exempt from federal taxation, less (B) any amounts on deposit in one or more debt service reserve funds or accounts established for any Additional 2022A Bonds issued by the Authority under the Indenture, and less (C) any

amounts on deposit in one or more debt service reserve funds or accounts established for any CCFD Parity Debt issued or incurred by the City. As of the Closing Date of the 2022A Bonds, the Revenue Stabilization Reserve Requirement is \$_____.

“Maximum Annual Debt Service” is defined in the Pledge Agreement to mean, with respect to any series of 2022A Bonds or CCFD Parity Debt, the maximum sum obtained for any twelve-month period extending from May 2 in one calendar year to May 1 of the succeeding calendar year, both dates inclusive (a **“Bond Year”**) prior to the final maturity of such 2022A Bonds or CCFD Parity Debt by totaling the following for each Bond Year:

(1) The amount of all outstanding 2022A Bonds or CCFD Parity Debt of that series payable in such Bond Year;

(2) The principal amount of any 2022A Bonds or CCFD Parity Debt of that series scheduled to be called and redeemed in such Bond Year; and

(3) The interest payable on the aggregate principal amount of the outstanding 2022A Bonds or CCFD Parity Debt of that series in such Bond Year if such 2022A Bonds are, or such CCFD Parity Debt is, retired as scheduled.

Amounts held in the Revenue Stabilization Reserve are not pledged as security for the City’s obligations under the Pledge Agreement or any other obligations, including without limitation the Lease and the 2022A Bonds.

Limited Obligation

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE AUTHORITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Abatement

Termination or Abatement Due to Eminent Domain. Under the Lease, if the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

(a) the Lease will continue in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary; and

(b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Abatement Due to Damage or Destruction. Under the Lease, the Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof.

The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease continues in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage and destruction.

Special Tax Revenues Not Subject to Abatement. The Special Tax Revenues are not subject to abatement.

The Special Taxes may be deposited into the Special Tax Fund established under the Indenture and used to pay debt service on the Bonds, but there can be no assurance that Special Taxes will be levied and collected by the City in an amount sufficient amount to make Lease Payments when due under the Lease. The City does not expect the receipt or lack thereof any Special Tax Revenues to impact its ability to make the Lease Payments

Additional Bonds and General Fund Obligations

Additional Bonds. Under the Indenture, in addition to the 2022A Bonds, the Authority may, by Supplemental Indenture, establish one or more other issues of bonds on a parity with the 2022A Bonds (“**Additional Bonds**”), and may issue and deliver such Additional Bonds pursuant to a Supplemental Indenture in a principal amount as may be determined by the Authority, but only upon compliance by the Authority with the provisions of the Indenture which include (among others) the following:

- Such Additional Bonds must be authorized to finance Facilities pursuant to and in accordance with the terms of the Chapter, or to refund bonds previously issued to finance such capital improvements, and the issuance thereof must be determined and declared by the Authority, in a Supplemental Indenture, to be necessary for that purpose.
- The Authority and the City must be in compliance with all covenants and undertakings set forth in the Indenture, the Lease, the Site Lease and the Pledge Agreement.
- The aggregate principal amount of Bonds issued and at any time Outstanding under the Indenture may not exceed the debt authorization of the Convention Center Facilities District or any limit imposed by law, by the Indenture or by any Supplemental Indenture.
- The Supplemental Indenture authorizing issuance of Additional Bonds must establish such accounts and subaccounts within the various funds and accounts established thereby or that the Authority deems necessary or advisable.

- Additional Bonds shall be equally and ratably secured by the Revenues.
- The Authority must enter into an amendment to the Lease, in which the City obligates itself to make Lease Payments for the lease of the Leased Property at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Lease, and the City must certify in writing that such Lease Payments, as amended, in any Lease Year will not exceed the fair rental value of the Leased Property.
- If necessary to ensure that the Lease Payments payable after the issuance of Additional Bonds does not exceed the fair rental value of the Leased Property in any Lease Year, the Authority and the City must amend the Lease to add additional property to the Leased Property.

In addition, among other things, the Indenture requires the Authority to file the following documents with the Trustee:

- An Opinion of bond counsel stating: (a) the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the Authority; (b) the issuance of the Additional Bonds is authorized by the Bond Law and the Indenture; (c) the Additional Bonds when duly executed and delivered, will be valid and binding obligations of the Authority, payable from Revenues in accordance with the terms of this Indenture and the Supplemental Indenture authorizing the issuance of such Additional Bonds; (d) upon the delivery of the Additional Bonds the aggregate principal amount of Bonds then Outstanding will not exceed the amount at the time permitted by law or the then limits of indebtedness of the Authority, if any; (e) if the Additional Bonds are to be tax-exempt, that the interest on the Additional Bonds will be excluded from the gross income of the Owners thereof for federal income tax purposes; and (f) the issuance of such Additional Bonds will not, of itself, cause interest on any Outstanding Bonds the interest on which is intended to be exempt from federal income taxation to become includable in gross income for federal income tax purposes.

Any series of Additional Bonds may, but are not required to, be secured by a reserve fund or account established for such purpose in the related Supplemental Indenture,

Outstanding and Additional General Fund Payment Obligations. The City has existing obligations payable from its General Fund. See “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – BONDED AND OTHER INDEBTEDNESS – General Fund Debt” and “APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2021” for more information. The Lease does not limit the City’s right to incur additional obligations payable from its General Fund.

Additional Special Tax Bonds

Under the Pledge Agreement, the City, on behalf of the Convention Center Facilities District, may issue additional indebtedness secured by a pledge of and lien on the Special Taxes on a parity with the lien and security interest in the Special Taxes pledged by the City for the benefit of the Authority as security for the City's obligations to make Lease Payments under the Lease (the "**CCFD Parity Debt**"), but only upon compliance by the City with the provisions of the Pledge Agreement which include (among others) the following

- Such CCFD Parity Debt must be authorized to finance Facilities authorized pursuant to and in accordance with the terms of the Chapter, or to refund bonds or other Debt (as defined in the Act) previous issued to finance or refinance such capital improvements.
- The City must be in compliance with all agreements, conditions, covenants and terms contained herein, in the Indenture the indenture of trust, trust agreement, fiscal agent agreement, lease, loan agreement or other document authorizing the issuance or incurrence of any CCFD Parity Debt or any securities which evidence CCFD Parity Debt required to be observed or performed by it, and no default shall have occurred and shall be then continuing.
- The proposed CCFD Parity Debt will not cause the debt authorization of the Convention Center Facilities District to be exceeded.
- The CCFD Parity Debt document for such CCFD Parity Debt shall provide that:
 - (i) with respect to CCFD Parity Debt constituting lease obligations of the City, interest on such Parity Debt shall be payable on a Lease Payment Date, and principal shall be payable on May 1 (provided there will be no requirement that any such CCFD Parity Debt pay interest on current basis); and
 - (ii) with respect to all CCFD Parity Debt other than lease obligations of the City, interest on such CCFD Parity Debt shall be payable on an Interest Payment Date, and principal is payable on May 1 (provided that there will be no requirement that any such CCFD Parity Debt pay interest on a current basis).

Any CCFD Parity Debt may, but is not required to, be secured by a separate reserve fund or account established therefore in the document authorizing the issuance or incurrence of such CCFD Parity Debt in any amount specific in secured by a separate reserve fund or account established therefore.

- The balance in the Revenue Stabilization Reserve must be no less than the Revenue Stabilization Reserve Requirement on the date the proposed CCFD Parity Debt is issued or incurred by the City, calculated as if the proposed CCFD Parity Debt were outstanding, as evidenced by a certificate of the City or an independent, nationally recognized municipal

finance consultant on file with the Trustee and CCFD Parity Debt Trustee for any CCFD Parity Debt then outstanding.

CCFD Parity Debt may include bonds issued by the City or the Authority and lease obligations, including without limitation, any obligation to make payments to secure the payment of the principal of and interest on Additional Bonds issued by the Authority pursuant to the Indenture.

Insurance

Liability and Property Damage Insurance. Under the Lease, the City is required to maintain or cause to be maintained throughout the Term of the Lease, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property.

Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Lease, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

Property Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, property insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds.

Such insurance must, (i) as nearly as practicable, cover loss or damage by explosion, windstorm, vandalism, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and (ii) include flood and earthquake insurance, but only in such amounts as are available at reasonable cost from reputable insurers in the judgment of the City if any. Any such flood or earthquake insurance procured by the City may be in any amounts, and is not subject to the minimum amounts described in the previous paragraph.

Such insurance may be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The Net Proceeds of such insurance must be applied as provided in the Lease and described below.

Rental Interruption Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, rental

interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the property insurance described above, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years; provided, however, that such insurance shall be required to be procured and maintained by the City only if available at reasonable cost from reputable insurers in the judgment of the City.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance.

The Net Proceeds of such insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Application of Net Proceeds. The Trustee, as assignee of the Authority under the Assignment Agreement, has the right to receive all Net Proceeds. As provided in the Indenture, the Trustee will deposit all Net Proceeds in the Insurance and Condemnation Fund to be applied to the redemption of Bonds as set forth in the Indenture. However, if the Leased Property is damaged or destroyed in full, the Net Proceeds of such insurance shall be used by the City to rebuild or replace the Leased Property if such proceeds are not sufficient to redeem Outstanding Bonds equal in aggregate principal amount to the unpaid Lease Payments allocable to the Leased Property.

Alternative Risk Management Programs; Additional Insurance. The City has adopted alternative risk management programs to insure against certain of the risks required to be insured against under the terms of the Lease (except self-insurance against loss of rental income or self-insurance for title insurance as required by the Lease), which have been approved as reasonable and appropriate by a Risk Management Consultant. Notwithstanding anything in the Lease Agreement to the contrary, the City has the right to adopt alternative risk management programs to insure against any of the risks required to be insured against under the terms of the Lease Agreement, including a program of self-insurance (except self-insurance for rental interruption and title insurance as required by the Lease Agreement), in whole or in part. In addition, the City Manager of the City may approve such other types of insurance, including any increases in the insurance coverage required by the Lease Agreement. The City self-insures for casualty insurance, and does not carry earthquake insurance.

See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

THE AUTHORITY

Creation of the Authority. The Authority was created by a Joint Exercise of Powers Agreement, dated as of December 8, 1992 (the “**Agreement**”), between the City and the Former Agency. The Agreement was entered into pursuant to the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the State Government Code. The Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City.

The Former Agency was dissolved as of February 1, 2012, and the Successor Agency has become the successor agency of the Former Agency. The Agreement remains in effect.

Governing Board of the Authority. The Authority is governed by an eleven-member Governing Board that consists of the members of the City Council of the City.

Powers of the Authority. Pursuant to the Law, the Authority is authorized to issue bonds for the purpose of financing, refinancing or providing reimbursement for costs incurred in connection with the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of public capital improvements of public entities such as the City. The Law provides for the issuance of revenue bonds by joint exercise of powers authorities, such as the Authority, to be repaid from the proceeds of certain public obligations, such as the Lease. The intent of the California Legislature, as stated in the Law, is to assist in the reduction of local borrowing costs, help accelerate the construction, repair and maintenance of public capital improvements, and promote greater use of existing and new financial instruments and mechanisms such as bond pooling by local agencies.

The 2022A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged under the Indenture and certain funds held under the Indenture.

THE CONVENTION CENTER FACILITIES DISTRICT

Description of the Convention Center Facilities District

General. The Convention Center Facilities District No. 2008-1, City of San José, County of Santa Clara, State of California (the “**Convention Center Facilities District**”) was established by the City under the Chapter 14.32 of the Municipal Code of the City of San José (the “**Chapter**”), which includes by reference, to the extent they are not amended by the specific terms of the Chapter, the provisions of the Mello-Roos Community Facilities Act of 1982 (the “**Act**”), pursuant to (i) the City Council adopted Resolution No. 74826, which established the Convention Center Facilities District and authorized the levy of a special tax within the Convention Center Facilities District and (ii) an election held on June 9, 2009, at which the then-qualified electors of the Convention Center Facilities District authorized the Convention Center Facilities District to incur bonded indebtedness and approved the levy of special taxes.

Commencing July 1, 2009, all owners of all land within the Convention Center Facilities District taxable under the Chapter in accordance with the proceedings for the authorization of the the levy and collection of the Special Tax (the “**Hotel Property**”) are subject to the Special Tax.

In general, all existing hotel properties in the City are a part of the Convention Center Facilities District including 83 properties with 9,378 hotel rooms as of April 14, 2022. More

specifically, since July 1, 2009, all owners of parcels classified as Hotel Property within the boundaries of the Convention Center Facilities District have been subject to the Special Tax. The City currently anticipates adding 678 hotel rooms to the Convention Center Facilities District through annexation, and additional hotels may annex into the Convention Center Facilities District in the future. See “BOND OWNERS’ RISKS – Exempt Properties and Exemptions from the Special Tax” for a description of some of the circumstances in which a Hotel Property is not obligated to pay Special Taxes.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

The constitutional and statutory provisions discussed in this section have the potential to affect the ability of the City to levy taxes and spend tax proceeds for operating and other purposes. The discussion of the Constitutional and statutory provisions and judicial decisions interpreting these provisions below is not intended to be an exhaustive analysis of these provisions.

Article XIII A of the State Constitution

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978 and has been amended on occasions, including most recently on November 7, 2000, to reduce the voting percentage required for the passage of school bonds. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on any (1) indebtedness approved by the voters prior to July 1, 1978, (2) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition and (3) bonded indebtedness incurred by a school district, community college or county office of education district for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters voting on the proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Section 51 of the Revenue and Taxation Code permits County assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than two percent, depending on the assessor’s measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the one percent base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These

exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property.

Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the State Constitution

General. In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years. The City has never exceeded its appropriations limit.

Articles XIII C and XIII D of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with

respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

On November 2, 2010, California voters approved Proposition 26, known as the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. With respect to local governments such as the City, Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

- “(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

Article XIII C. Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City’s General Fund, require a two-thirds vote. The voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Article XIII C also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund.

Article XIII D. Article XIII D also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIII D, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. If the City were unable to continue to collect the property-related fees or

assessments currently collected by the City, the services and programs funded with these revenues would have to be curtailed and/or the City's General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Article XIID or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

Judicial Interpretation of Articles XIIC and XIID. On April 12, 2002, the California Court of Appeal in *Howard Jarvis Taxpayers Association v. City of Roseville* (97 Cal. App. 4th 637 (as modified on denial of rehearing on May 13, 2002; California Supreme Court review denied on July 10, 2002) ("**Roseville**") held that the City of Roseville's practice of charging "in-lieu franchise fees" against the budgets of the City-operated municipal utilities violated Article XIID. Annually, the City of Roseville transferred from the enterprise accounts for each of its water, refuse collection and sewer service utilities to its general fund an amount equivalent to 4% of each utility's annual budget. The basis for these budgetary transfers was that if these utilities were privately operated, the city would receive a franchise fee to compensate it for the use of city streets and rights-of-way.

The *Roseville* court ruled that the "in-lieu franchise fees" were subject to Article XIID's restrictions on "property-related" fees because the City of Roseville charged for water, refuse collection and sewer service regardless of whether the property owner used the particular service. Because the transfer from each utility's enterprise account was a flat rate of 4% of the utility's annual budget, the *Roseville* court also ruled that these budgetary transfers violated Proposition 218's requirements that a property-related fee cannot exceed the amount necessary to provide the particular service and cannot be imposed to fund general governmental services, such as police, fire and the like. In rendering its decision, the *Roseville* court distinguished an earlier California appellate decision, *Howard Jarvis Taxpayers Assn. v. City of Los Angeles* (2000) 85 Cal. App. 4th 79 ("**Jarvis-L.A.**"). In *Jarvis-L.A.*, the court determined that the charges imposed by the Los Angeles Department of Water and Power were based on water consumption and as such were "commodity charges which do not fall within the scope of Proposition 218."

On June 3, 2002, the California Court of Appeal in *Howard Jarvis Taxpayers Association v. City of Salinas*, 98 Cal. App. 4th 1351 (rehearing denied on July 2, 2002; California Supreme Court review denied on August 28, 2002) ("**Salinas**") held that the City of Salinas's imposition of storm drain fees without voter approval violated section 6(c) of Article XIID. In rendering its decision, the *Salinas* Court held that (i) the Salinas storm drain fees were property-related fees subject to Article XIID's requirements and (ii) these fees were not exempt from voter approval as "sewer fees." The *Salinas* court, in holding that the imposition of storm drain fees required voter approval, determined that the voters in approving Article XIID intended that Article XIID's exemption of sewer fees from voter approval applied only to the imposition of, or increases to, sanitary sewer fees.

The California Legislature in 2017 enacted SB 231, effective on January 1, 2018, to amend California Government Code provisions, known as "The Proposition 218 Omnibus Implementation Act." The Proposition 218 Omnibus Implementation Act prescribes specific procedures and parameters for local jurisdictions in order to comply with Articles XIIC and XIID and defines terms for these purposes. SB 231 amended Government Code Section 53750 to define sewer to include both storm and sanitary sewers and to set forth in Government Code Section 53751 certain findings of the Legislature concerning the Salinas court's interpretation of the term "sewer" for purposes of Article XIID. There is no reported decision of a California appellate court applying the Government Code provisions enacted by SB 231 to a storm sewer fee and the City cannot

predict, if or how, a California appellate court or the California Supreme Court, would apply these provisions.

Unlike the City of Salinas, the City imposed a storm sewer fee prior to the passage of Proposition 218. In 1999, the City's storm sewer fees were restructured, without voter approval, in order to meet Article XIID's sewer fee requirements. Subsequent storm sewer fee increases have been adopted in accordance with Article XIID's requirements for sewer fee increases. In the event a court were to determine that despite the City's restructuring of its storm sewer fees to meet Article XIID's sewer fee requirements, the City's storm sewer fee increases require voter approval under Article XIID, then the fees imposed after the passage of Proposition 218 could be at risk.

In July 2006, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal. 4th 205 ("**Bighorn**"), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The *Bighorn* court held that the water agency's charges for ongoing water delivery were "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery which are fees and charges within the meaning of Article XIID are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held that Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. In reaching its decision, the *Bighorn* court expressly disapproved the *Jarvis-L.A.* decision discussed above, "to the extent that it was inconsistent" with its conclusion that charges for water delivery service are charges for a property-related service "whether the charge is calculated on the basis of consumption or is imposed as a fixed monthly fee."

However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.

On April 20, 2015, the California Court of Appeal issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* ("**Capistrano**"), 235 Cal.App.4th 1493 (as modified on May 19, 2015), upholding tiered water rates under Article XIID provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels.

City's Current Practices. The City has complied with Article XIID's noticing and protest procedure requirements for all sanitary and storm sewer rate increases that have been implemented since passage of Proposition 218. With respect to the City's municipal water utility, known as "San José Municipal Water", these noticing and protest procedures are also being followed for rate increases implemented after the *Bighorn* decision, even though the City, unlike the agency involved in *Bighorn*, does not collect delinquent charges through a property lien process.

Subsequent to the *Capistrano* decision, the City conducted a cost of service study for San José Municipal Water and in fiscal year 2017-2018 implemented a new rate structure eliminating

the prior tiered rate structure for residential customers, adjusting the percentage of costs recovered on a fixed basis through meter charges instead of the quantity charge for water, establishing quantity rates based on the cost of water supply in three service areas, and revising the reserves and reserve levels.

In the past, the City has made budgetary transfers from its municipal utilities to the City's General Fund similar to those described in the *Roseville* decision. The City has not made any such transfer after fiscal year 2007-2008 and has no plans to make any such transfers in the future. The trial courts have dismissed all lawsuits, but plaintiffs may continue to appeal.

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which, among other matters, requires: (a) that any tax for general governmental purposes imposed by local government entities be approved by a majority vote of the voters voting in an election on the issue, (b) that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds of the voters voting in an election on the issue and (c) the revenues from a special tax be used for the purposes or for the services for which the special tax was imposed. Proposition 62 also provided that any tax imposed by any local government after August 1, 1985, and prior to November 5, 1986 (the effective date of proposition 62) can continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue, and that any local government which fails to seek or obtain such approval shall cease to impose such tax on and after November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional by the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino* (1995) 11 Cal. 4th 220 ("**Guardino**"), upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The *Guardino* decision did not address the question of whether or not Proposition 62 should be applied retroactively to taxes imposed during the period that certain of its provisions were held to be unconstitutional.

Following the *Guardino* decision several actions were filed challenging taxes imposed by public agencies after the adoption of Proposition 62. On June 4, 2001, the California Supreme Court rendered its opinion in *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (2001) 25 Cal. 4th 809 ("**La Habra**") holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes, without voter approval, was not barred by a three-year statute of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period began anew with each collection.

The *Guardino* and *La Habra* decisions did not decide the question of the applicability of Proposition 62 to charter cities such as the City. Two cases decided by the California Courts of Appeals in 1993, *Fielder v. City of Los Angeles* (1993) 14 Cal. App. 4th 137 (rev. den. May 27, 1993), and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4th 120 (rev. den. Feb. 24, 1994) hold that Proposition 62's restrictions on property transfer taxes do not apply to charter cities because charter cities derive their power to enact taxes under Article XI, Section 5 of the California Constitution relating to municipal affairs.

The City estimates that approximately \$85.1 million has been collected from July 1, 2016 through June 30, 2020 as a result of new or increased taxes imposed without voter approval between August 1, 1985 and January 1, 1995, the date on which the provisions of Proposition 218 applicable to voter approval of taxes were effective. Such increased or new taxes include hotel and business taxes ("**Post Proposition 62 Taxes**").

If a court were to determine that a jurisdiction imposed a new or increased tax in violation of Proposition 62, Proposition 62 specifies that the portion of the one-percent ad valorem property tax levy allocated to that jurisdiction be reduced by \$1 for every \$1 in revenue attributable to the tax for each year that the tax is collected. This provision of Proposition 62 has not been interpreted by the California courts.

Proposition 62, is an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature (except that it may be amended only by a vote of the State's electorate). However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62 with respect to taxes imposed after January 1, 1995.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-2005 Budget, approved by the voters in November 2004 and generally effective in fiscal year 2006-2007, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-2009, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the motor vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 22

Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 amended the state Constitution to eliminate or reduce the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment

agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues. Notwithstanding the passage of Proposition 22, the State successfully dissolved redevelopment agencies.

Possible Future Actions

Propositions 62, 111, 218, 26, 1A and 22 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the 2022A Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the 2022A Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2022A Bonds. There can be no assurance that other considerations will not materialize in the future.

The COVID-19 pandemic is a significant development materially adversely affecting the City's finances and outlook. See “– Public Health Emergencies” below and “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – PUBLIC HEALTH EMERGENCY – COVID-19.”

Economic Condition in Local, State and National Economies

The financial condition of the City can be significantly affected by generally prevailing conditions in the local, State and national economies. Such conditions and factors may impact the funds available to the City to make the Lease Payments. A number of the City's revenue sources are collected by the State or allocated in accordance with State law (most significantly, property taxes). There can be no assurances that the current or future recessions or otherwise declining conditions in the local, State or national economies will not materially adversely affect the financial condition of the City in the future.

Environmental Hazards

Seismic Hazards. According to the safety element of the City's "2040 General Plan" (the "**General Plan**"), the City, is located in a region of very high seismic activity. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the City, including damage by tsunamis or fires caused by earthquakes. The City is located within 6 to 12 miles of the San Andreas Fault, the Hayward Fault and the Calaveras Fault, which are known to be active earthquake faults and pose the greatest potential for surface rupture in the Bay Area. The City has experienced at least nine recorded earthquakes with a Richter scale magnitude of 6.0 or greater, and with the epicenter located within the Bay Area. The South Napa earthquake with a Richter scale magnitude of 6.0 according to the U.S. Geological Survey ("**USGS**"), occurred on August 24, 2014; however little or no damage was reported in the City. Prior to the South Napa earthquake, the City experienced the Loma Prieta earthquake on October 17, 1989 which had a Richter scale magnitude of 6.9, according to the USGS. In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the USGS, the California Geological Society, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more earthquakes of magnitude 6.7 or larger will occur in the Bay Area before the year 2045. In addition, the USGS released a report in October 2021 entitled the HayWired Earthquake Scenario - Societal Consequences, which estimates property damage, utility outages, and ripple effects through supply chains would result in losses of \$44 billion from a magnitude 7.0 earthquake on the Hayward Fault. The City generally does not carry earthquake insurance as it is not available at reasonable cost.

The seismic risks to a structure are dependent upon several factors, including the distance of the structure from the active fault, the character of the earthquake, the nature of construction

of the structure, and the geologic conditions underlying the structure. Ground surface rupture tends to occur along lines of previous faulting, where fault displacement intersects the ground surface. Displacement may either occur suddenly during an earthquake or it may occur slowly as the fault “creeps” over a long period of time. Pursuant to applicable state law, the California Geological Survey has prepared maps to identify certain areas as liquefaction hazard zones. “Liquefaction” is the transformation of soil from a solid state to a liquid state during a major earthquake, and liquefaction hazard zones are areas where historic occurrence of liquefaction or local geological, geotechnical and ground water conditions indicate a potential for permanent ground displacements during a major earthquake. According to the most recent published maps prepared by the California Geological Survey, certain areas within the City are located within an area subject to a high potential for liquefaction during a major earthquake.

Drought. As with much of the State of California, the City experiences recurring drought as a result of its climate conditions. Droughts impact public health and safety related to both water supply and wildfire risk.

Water suppliers prepare an Urban Water Management Plan (“**UWMP**”) for the California Department of Water Resources (“**DWR**”) every five years. These plans must assess the reliability of the water sources over a 20-year planning time frame, describe demand management, report on progress toward meeting a targeted 20 percent reduction in water per capita by 2020, and discuss the planned use of recycled water.

On June 15, 2021, the City Council adopted the 2020 UWMP, which was subsequently submitted to DWR. Climate change could result in water resource impacts, including impacts on the watersheds in the Bay Area: (i) reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low and medium elevation zones, such as in the Tuolumne River basin, and a shift in snowmelt runoff to earlier in the year; (ii) changes in the timing, intensity and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow; (iii) long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality and quantity; (iv) sea level rise and an increase in saltwater intrusion; (v) increased water temperatures with accompanying potential adverse effects on some fisheries and water quality; (vi) increases in evaporation and concomitant increased irrigation need; and (vii) changes in urban and agricultural water demand. The updated UWMP also addresses supply challenges based upon preliminary information related to potential future implementation of the San Francisco Bay/Sacramento-San Joaquin Delta Estuary Water Quality Control Plan, that would impact water supply throughout Northern California.

On October 19, 2021, the Governor declared a drought emergency for the entire State. The State reports that climate change induced earlier than expected warm temperatures and extremely dry soil, which have further depleted the expected runoff water from the Sierra-Cascade snowpack, resulting in historic and unanticipated reductions in the amount of water flowing to major reservoirs, especially in Klamath River, Sacramento-San Joaquin Delta, and Tulare Lake Watershed counties.

According to the State, 2021 was the second driest water year, with August 2021 being the hottest and driest month on record. California experienced an accelerated rate of snow melt in the Sacramento, Feather and American River watersheds, which feed the major reservoirs of the State and federal water projects. This was exacerbated when much of the snowpack, sitting on very dry ground, seeped into the earth rather than flowing into our rivers and streams and into these reservoirs. Warming temperatures also prompted water diverters below the dams to withdraw their water much earlier and in greater volumes than typical even in other recent critically

dry years. The drastic reduction in water supplies means these reservoirs are extremely low for water users, including farmers, and fish and wildlife in the counties the drought proclamation covers.

According to the National Oceanic and Atmospheric Administration and National Integrated Drought Information System, 100% of Santa Clara County is under severe drought conditions, and 100% of the State is abnormally dry. The City anticipates that resulting increases in dead and dry vegetation will expand this year's fire season into winter and spring months with greater potential for larger fires and rapid fire spread. In addition, on May 26, 2021, the United States Bureau of Reclamation ("**Bureau**") announced an update to its Central Valley Water Project 2021 water supply allocation for municipal and industrial water service. The Bureau indicated that the hydrologic conditions have degraded since the initial supply allocation in February 2021. Due to worsening conditions, the municipal water supply from the Central Valley Water Project is reduced from 55% to 25% of their contracted amount. This reduction impacts the supplies of the Santa Clara Valley Water District ("**Valley Water**"), which declared a drought emergency and called for the residents to cut water usage by 15% from 2019 levels on June 9, 2021.

See also "– Climate Change" below.

Flood Hazards. The City is situated within the two major watersheds in the South San Francisco Bay associated with the Coyote and Guadalupe rivers which run through the City. The largest of these is the Coyote Watershed, which encompasses 322 square miles and drains a large area in the eastern foothills, including major portions of Henry Coe State Park in the upper watershed above Anderson and Coyote Reservoirs. Coyote Creek is the primary feature within this watershed and runs north through both Coyote and Anderson Reservoirs towards the City through the North Coyote Valley, entering south San José and passing through central and north San José, joining the South San Francisco Bay on the eastern side of Alviso.

The City and the Santa Clara Valley have a history of flooding due to heavy rain and inadequate storm drains and flood protection conveyance systems, which has resulted in property damage. Valley Water is responsible for flood protection infrastructure in Santa Clara County on streams and waterways, with exception of Cherry Flat Reservoir and Dam, which is owned and operated by the City. Valley Water coordinates flood hazard mitigation efforts for the major creeks and waterways in the City and assists the City in the review of development proposals that could impact flood protection efforts.

The Federal Emergency Management Agency ("**FEMA**") oversees the delineation of flood zones. The Convention Center is located in an area designated by FEMA as Zone X and Zone D. The eastern portion of the Convention Center is located in Zone X and the western portion is located in Zone D. According to FEMA, Zone X is the flood insurance rate zone that corresponds to the areas of moderate or minimal flood hazard and Zone D corresponded to unstudied areas where flood hazards have not been determined.

FEMA publishes Flood Insurance Rate Maps ("**FIRMs**") that show the expected frequency and severity of flooding by area, typically for the existing land use and drainage/flood control facilities. The maps prepared by FEMA for the San José area indicate that during a 100-year flood event (area subject to a flood that has a one percent chance of being equaled or exceeded in any given year), sections of the City would be subject to flooding from creek overbanking, inadequate storm drains and levees or inundation from the San Francisco Bay. Approximately 20,000 parcels

in the City are within the 100-year flood hazard area established by FEMA. This represents approximately 10 percent of the total number of properties within the City.

Valley Water is also responsible for several dams located upstream of the City. In a catastrophic event, damage to one or more of these dams could result in flooding within the City as shown on inundation maps originally prepared by Valley Water in the early 1970's and mid 1990's (the map for Guadalupe Dam was further updated in 2019, the map for Lenihan Dam was further updated in 2016, and the map for Anderson Dam was further updated in 2016). These inundation maps are on file with the California Office of Emergency Services and with the City.

Valley Water commenced seismic stability studies on nine of Valley Water's dams in 2007. On July 6, 2011, Valley Water issued a press release announcing the results of a seismic study of the Anderson Dam, an earth and rockfill structure constructed in 1950, which concluded that the dam could be affected by a major earthquake with a magnitude of 7.25 on the Calaveras Fault within two kilometers of the dam. The study further stated that the analysis found loosely compacted layers of liquefiable materials in the foundation of the dam. These materials are susceptible to a reduction in strength when subjected to severe earthquake shaking. If the foundation were damaged, part of the dam could experience 15 to 25 feet of vertical deformation, with an additional 15 feet of potential cracking. The study stated that if the reservoir were full at the time, there could be an uncontrolled release of water. Although the City believes the chances are very remote, a complete failure of the Anderson Dam could send a wall of water 35 feet high into downtown Morgan Hill in 14 minutes, and 8 feet deep into the City within three hours.

In response to the seismic study, Valley Water initiated a project to retrofit the Anderson Dam. Construction of the first phase, the Anderson Dam Tunnel Project, started in 2021 and is scheduled to be completed in 2024. Construction of the second phase, the Anderson Dam Seismic Retrofit project, a complete rebuild of the dam from the ground up, will follow and is scheduled to be completed in 2031. As of 2021, the total cost of the Anderson Dam Project has increased from \$600 million to approximately \$1.2 billion.

The Anderson Dam is regulated by the State of California Division of Safety of Dams (“**DSOD**”), which performs yearly reviews and requires maintenance and safety standards to be enforced by the dam owners and operators. Additionally, the Federal Energy Regulatory Commission (“**FERC**”) has dam safety jurisdiction at the Anderson Dam. Prior to February 20, 2020, these regulatory agencies set a reservoir elevation restriction equivalent to 58 percent of capacity, or 52,553 acre-feet of water. These agencies set these storage elevation restrictions understanding that reservoirs cannot physically be kept below a restricted level at all times; but after a large inflow event, the dam operator must use available measures to lower the water surface to the maximum height dictated by the DSOD operating restriction. Studies have shown a large earthquake could damage Anderson Dam, causing damage or failure and an uncontrolled release of water that could inundate cities and rural areas from San Francisco Bay south to Monterey Bay, including much of the County.

On February 20, 2020, FERC notified Valley Water of new Dam Safety Directives requiring that Valley Water immediately take all appropriate measures to maintain and quickly lower the reservoir to elevation 565 feet if the reservoir rises in the event of significant inflow, and further lower the reservoir to elevation 488 feet, starting on October 1, 2020, and take all appropriate measures to maintain and quickly lower the reservoir to dead pool in the event of significant inflow once the elevation is reached. Valley Water responded to the FERC directive by noting that emptying the Anderson Reservoir has the potential to damage the intake structure, which would result in a loss of control of water flows out of the reservoir, potentially impacting downstream communities.

Pursuant to the FERC directive, Valley Water immediately restricted the reservoir operating level to elevation 565 feet and began defining the interim risk reduction measures now referred to as the FERC Order Compliance Project (“**FOCP**”). On October 1, 2020, pursuant to the FOCP, Valley Water began to reduce the water level in the Anderson Reservoir to deadpool storage (i.e. a level below at which water cannot drain by gravity through a dam’s outlets). For safety reasons and to initiate the Anderson Dam Seismic Retrofit project, the Anderson Reservoir, the largest reservoir of Valley Water, was reduced to deadpool storage of less than 3%, as of February 2022. This water level reduces the risk of Anderson Dam failure, and helps to allow for capacity in the reservoir in the event that the Coyote Reservoir Dam (which is located upstream) either spills or is damaged by an earthquake. The City anticipates that the Anderson Reservoir will remain at this level throughout the Anderson Dam Seismic Retrofit project. During this time, Valley Water is taking action by withdrawing previously banked water supplies, purchasing emergency water from its partners, and aggressively increasing conservation measures to help meet demand and support the groundwater basins.

Coyote Reservoir and Dam, also operated by Valley Water District, lie immediately upstream of Anderson Reservoir and are located on the Calaveras fault. Coyote Reservoir was constructed in the 1930’s and is currently operated under a State of California Division of Safety of Dams storage restriction limit equivalent to 53 percent of capacity. When Coyote Reservoir exceeds 100 percent of storage capacity due to extreme wet weather, spillway flows from Coyote Reservoir enter the south end of Anderson Reservoir. Coyote Reservoir has a total storage capacity of 23,244 acre-feet, which is approximately 25 percent of the storage capacity of Anderson Reservoir, which can store a total of 90,373 acre-feet. In the event of a total failure of Coyote Reservoir Dam, the resulting water that would be released because of such failure would be expected to be contained within the channel that leads to Anderson Reservoir. If Anderson Reservoir lacked the storage capacity to contain the Coyote Reservoir water flows resulting from a dam failure event, the Anderson Reservoir spillway would convey those flows to Coyote Creek below the Anderson Reservoir and ultimately into San José.

On October 26, 2011, Valley Water announced preliminary findings from a seismic study indicating that its Calero and Guadalupe dams could be subject to significant damage if a major earthquake occurred near either dam. In response to these preliminary findings, Valley Water has further restricted reservoir levels at the Calero and Guadalupe dams. Failure of either of these two dams would impact the City. In 2012, Valley Water initiated a project to retrofit Calero and Guadalupe Dams. The planning phase of the project has been completed. The design phase of the project commenced in 2015. Construction of these two dam retrofit projects is scheduled for completion in fiscal year 2023-24 at an estimated cost of \$145 million.

Reports or studies were completed for the Almaden Dam in October 2012, the Lenihan Dam in December 2012, and the Stevens Creek Dam in December 2013, that concluded that the dams are in suitable condition and that no retrofit work is required. Valley Water continues to work with the State of California Division of Safety of Dams to study seismic stability of its other dams and is adapting operations accordingly.

Cherry Flat Reservoir and Dam, owned and operated by the City, is located in the upper reach of the Upper Penitencia Creek. Upper Penitencia Creek is one of the main tributaries of Coyote Creek. In July 2020, the DSOD notified the City that the City was not in compliance with certain State laws regarding dam operations. Specifically, inundation mapping and associated technical reports, and an Emergency Action Plan needed to be developed and submitted to the State. The City submitted the Inundation Study and DSOD approved the document on January 13, 2021. According to the Inundation Study, failure of the Cherry Flat Dam would result in the

inundation of land adjacent to Upper Penitencia Creek, mostly less than three feet deep. Most of the areas would be flooded less than two feet deep, mainly confined to streets. The Inundation Study further shows that most of the neighborhood flooding would occur above Piedmont Avenue, with mostly street flooding below Piedmont Avenue. The study further shows some flooding on portions of Highway 680. The Emergency Action Plan is currently being developed and the City anticipates submitting such plan later this year to the California Office of Emergency Services for review and approval. The City currently expects to be in compliance with all State regulations for Cherry Flat Dam by the end of 2022.

Wildfire Risk. In a report entitled: “Wildfires and Climate Change: California’s Energy Future -- A Report from Governor Newsom’s Strike Force” published on April 12, 2019 (the “**Wildfire Report**”), the Governor’s Strike Force made a number of recommendations to address the challenges presented by catastrophic wildfires in California. The Wildfire Report notes that “[c]limate change, widespread tree mortality, weak utility infrastructure, and the proliferation of homes in the wildland-urban interface magnify the wildfire threat and place substantially more people and property at risk than ever before.”

The California Department of Forestry and Fire Protection (“**CAL FIRE**”) classifies State Responsibility Areas (in which the State is financially responsible for preventing and suppressing fires) as either Moderate, High, or Very High “Fire Hazard Severity Zones” (“**FHSZ**”). CAL FIRE has designated approximately 85.64 square miles of State Responsibility Area within the City as FHSZ of which, 4.08 square miles is Moderate, 81.12 square miles is High, and 0.44 square miles is Very High. CAL FIRE has identified 5.16 square miles within the City’s Local Responsibility Area (in which the City is financially responsible for preventing and suppressing fires) as Very High FHSZ. The City has not taken action to date to designate this area as Very High FHSZ. The City does maintain multiple radio towers located in the boundaries of an identified FHSZ, which are used to dispatch the City’s 911 emergency response.

2020 Fire Season. During the 2020 fire season, the State recorded five of its ten largest fires in state history, with more than 3.6 million acres burned. In August, 2020, the SCU Lightning Complex fire was sparked by lightning from remnants of a tropical storm, as it moved northward through the bay area. The SCU Lightning Complex fire, presently the fourth largest fire in California history, threatened the City’s neighborhoods, and resulted in evacuations of residents of unincorporated areas on the City’s eastern limits. Ultimately, the SCU Lightning Complex fire burned 396,624 acres, destroyed 222 buildings, and impacted six counties.

The City maintains multiple radio towers located in the boundaries of an identified FHSZ, which are used to dispatch the City’s 911 emergency response. During the 2020 wildfires, some of the City-owned radio towers experienced damage, none of which negatively impacted City operations or radio communications.

2021 Fire Season. The 2021 fire season consisted of thousands of fires across the State, burning more nearly 2.6 million acres of land and included the second largest fire in the State’s history. The 2021 fire season started atypically early.

2022 Fire Season. In January 2022, a fire near Big Sur burned approximately 700 acres. According to the State, fire season is starting earlier and ending later each year, with the increased length of the season corresponding to an increase in the extent of forest fires across the State.

In addition to destroying land and structures, there have been human fatalities and negative impacts on air quality throughout the State. Fires in the State and neighboring states

have threatened the region's power grids, making some power lines unreliable. The City cannot predict or make any representations regarding the effects that wildfires and related conditions have or may have on the City, or to what extent the effects said disasters might have on economic activity in the City.

As previously described, according to the National Oceanic and Atmospheric Administration and National Integrated Drought Information System, 100% of Santa Clara County is under severe drought conditions. The City anticipates that resulting increases in dead and dry vegetation will expand this year's fire season, with greater potential for larger fires and rapid fire spread throughout the fire season. See "– Drought" above.

Hazardous Substances

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances area also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect assessed values of property in the City and the operations and finances of the City.

Clean Water Compliance

In 2015, it was alleged that the City violated the Clean Water Act and its stormwater permit because cracks, displaced joints, holes and other leakage points in the sanitary sewer system could discharge sewage into the City's municipal separate storm water systems. The City is subject to a related consent decree under which, among other things, it is required to identify and improve up to sixty-five miles of high risk sewer pipes and appropriate \$100,000,000 to design, construct, operate and maintain projects in the City's Green Stormwater Infrastructure Plan over a 10-year period. In compliance with the consent decree, the City has implemented an exfiltration abatement program to rehabilitate sanitary sewer pipes and prevent cross contamination between the sanitary and storm sewer systems. If the City is unable to comply with its existing consent decree related to the green infrastructure, the City may be subject to significant costs or litigation. There can be no assurance that the City will be able to secured adequate funding to satisfy the consent decree. For additional information see APPENDIX A - "THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION - POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES - Clean Water Compliance" and "- Consent Decrees."

Natural Gas Transmission Pipelines

On September 9, 2010, a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. In a final Pipeline Accident Report, adopted by the National Transportation Safety Board (the "NTSB") on August 30, 2011, the NTSB found recurring deficiencies in PG&E's pipeline integrity management program, which the NTSB concluded were evidence of a systemic problem. There are numerous similar pipelines owned, operated and maintained by PG&E located throughout the City. PG&E's website www.pge.com (nothing contained in such website is incorporated in this

Official Statement) provides information regarding its high pressure natural gas transmission pipelines and its long range natural gas transmission pipeline planning. PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high density populations, potential reliability impacts and environmentally sensitive areas, and uses the data it collects to help plan and prioritize future work on its pipelines.

PG&E has instituted a comprehensive inspection and monitoring program with the purpose of ensuring the safety of its natural gas transmission pipeline system. PG&E regularly conducts patrols, leak surveys, and cathodic protection (corrosion protection) system inspections for its natural gas pipelines. PG&E's policy is to address issues identified as a threat to public safety immediately. PG&E conducts quarterly patrols for its gas transmission pipelines to look for indications of construction activity and other factors affecting safety and operation – there were no adverse indicators affecting pipeline safety during the last quarterly patrol done in January 2021. Leaks Surveys are done semi-annually. Leak surveys are either conducted by a leak surveyor walking above the pipeline with leak detection instruments or conducted aerially and followed-up with a ground leak survey if there is a leak indication identified during the aerial survey. There were no leaks found in the survey conducted by PG&E in January 2021 for Transmission Line 132, and no leaks found in the survey conducted by PG&E in October 2020 for the Tully Curtner Feeder Main. PG&E utilizes an active cathodic protection (“CP”) system on its gas transmission and steel distribution pipelines to protect them against corrosion. PG&E inspects its CP systems at least annually to ensure they are operating correctly.

The effects of any failure of the high-pressure natural gas transmission pipelines in the City are difficult to predict, but could include explosion and concussive force, fire, smoke, transportation delays and detours on routes to and from the City, and potential forced evacuation of nearby structures.

The City is not able to independently confirm the information set forth above or the information contained in the NTSB's Pipeline Accident Report or on the PG&E website, including the exact distances of any high pressure transmission lines from the City, and can provide no assurances as to the accuracy or completeness of such information. Information available in the NTSB's Pipeline Accident Report and from PG&E's website is not part of this Official Statement nor has such information been incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the 2022A Bonds. Further, the City can provide no assurances as to the condition of PG&E pipelines and other facilities in the City, or predict the extent of the damage to the surrounding property that would occur if a PG&E pipeline located within the City were to experience any type of failure, including a possible fire or explosion.

PG&E Chapter 11 Bankruptcy Filing

On January 29, 2019, PG&E filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code (the “**PG&E Bankruptcy Proceeding**”). On July 1, 2020, PG&E emerged from bankruptcy completing its restructuring process and implementing its Plan of Reorganization (the “**Plan**”) that was confirmed by the United States Bankruptcy Court on June 20, 2020.

The Plan requires PG&E to pay all allowed claims. This includes all of the City's allowed pre-petition claims that arose before PG&E filed for bankruptcy protection on January 29, 2019. A pre-petition claim is considered allowed if PG&E has not objected to the claim on a timely basis or, following a timely objection, the claim has been adjudicated in a determined amount. Originally, the Plan required PG&E to file objections to pre-petition claims within 180 days of the

Plan's effective date. The Plan went into effect on July 1, 2020. In November 2021, the Bankruptcy Court extended the deadline for PG&E to file its objections to pre-petition claims to June 21, 2022.

The City filed proofs of claims in the PG&E Bankruptcy Proceeding for pre-petition claims totaling \$30,660,000 and consisting of:

- unpaid permit fees and property damage in the amount of approximately \$60,000;
- assessments for unpaid utility users taxes on various surcharges in the amount of approximately \$9.9 million, for the period of April 1, 2014 through March 31, 2017 including interest and penalties calculated through December 31, 2020;
- estimated amounts for unpaid utility users taxes in the range of \$8.7 million, for the period of April 1, 2017 through January 28, 2019 including interest and penalties calculated through December 31, 2020; and
- assessments for unpaid utility users taxes and franchise fees for under-reporting gross charges (by improperly deducting California climate credits from charges billed for electricity and gas) in the amount of approximately \$9.2 million and \$2.8 million, respectively, for the period of April 1, 2014 through October 31, 2018 including interest and penalties calculated through May 12, 2020.

In February 2020, PG&E contested the assessments for unpaid utility users taxes on various surcharges through a proceeding held before the Director of Finance on February 27, 2020 and in its letter in support of its arguments of the same date. In a subsequent letter dated May 27, 2020, PG&E also contested the assessments for unpaid utility users taxes for the under-reporting of gross charges. The decision of the Director of Finance on these assessments is pending.

PG&E has objected to the City's claims, and a hearing is currently set for May 10, 2022.

PG&E Public Safety Power Shutoffs

PG&E adopted a Community Wildfire Safety Program in an effort to prevent wildfires in the State. In May, 2019, as part of its Community Wildfire Safety Program, PG&E notified customers, including the City, that PG&E implemented additional precautionary measures to help reduce the risk of wildfires. In particular, PG&E notified the City that, if extreme fire danger conditions threaten a portion of the electric system serving a community, PG&E may turn off electricity in the interest of public safety (a "**PG&E Shutoff**"). Under regulations issued by the California Public Utilities Commission ("**CPUC**"), investor owned utilities, such as PG&E, are authorized to use power shutoffs as a measure of last resort under specified conditions. The impact of a PG&E Shutoff is not limited to customers in areas that are experiencing high winds or other extreme weather conditions because PG&E's system relies on power lines working together to provide electricity across cities, counties and regions, including the City and the County.

As the third largest city in the State and the largest in Northern California, the City is the largest city served by PG&E. The City serves a population of over 1 million people. Reliable electric service is essential to the residents, government operations, and businesses in the City's community. In the event of a PG&E Shutoff in the City or surrounding areas, the general economy of the City could be adversely affected and result in a reduction in tax revenues to the City, such as sales tax revenues resulting from the interruption of businesses within the City. See

“APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – MAJOR GENERAL FUND REVENUE SOURCES” for a description of the City’s major general fund sources, including sales tax revenues.

In 2019, the City experienced two PG&E Shutoffs. The first PG&E Shutoff occurred on October 9, 2019 when PG&E de-energized transmission and distribution lines to several parts of the City, mostly in portions of the eastern and southern districts of the City. The power was shut off to approximately 23,000 customer accounts, with an estimated impact to over 100,000 City residents. PG&E reported that all customer accounts were restored on October 10, 2019.

The second PG&E Shutoff occurred on October 26, 2019 when PG&E de-energized transmission and distribution lines to several parts of the City, mostly in the Alum Rock and Almaden Valley areas, which are often referred to as the wildland-urban interface areas. In this second PG&E Shutoff, power was shut off to approximately 7,500 customer accounts, with an estimated impact to over 24,000 City residents. PG&E reported that all customer accounts were restored on October 29, 2019.

Following these two PG&E Shutoffs, the City contacted PG&E to set up a series of workshops to address concerns that the City has regarding future PG&E Shutoffs, including: critical infrastructure inspections, data access, circuit maps, weather data interpretation, notification and communications protocols, and outreach to medical baseline customers. In addition, City staff met with Santa Clara County Office of Emergency Management staff to develop stronger lines of communication with County agencies providing services to City residents.

On March 17, 2020, the City Administration brought forward a Public Safety Power Shutoff After Action Report for City Council approval which presented three fundamental areas of focus: People, Processes, and Technology, resulting in a series of recommendations designed to improve the City’s resilience and capacity to respond to future PG&E Shutoffs.

The financial cost to the City for its response to the first and second PG&E Shutoffs was approximately \$746,000, and \$500,000, respectively, not including City staff time spent responding to the shutoffs. In January 2020, the City Council accepted a grant from Cal OES in the amount of \$500,000 to support the City’s resiliency to power shutoffs, including funding for equipment and the development of plans for future shutoff events.

In addition to these costs, the City incurred costs as the operator of San José Clean Energy (“**SJCE**”), which supplies the City and City residents and businesses with cleaner electricity options through PG&E’s infrastructure. During the first 2019 outage, an estimated 23,000 customers lost power for approximately 48 hours, which cost SJCE approximately \$40,000 per day. During the second 2019 outage, an estimated 7,500 customers lost power for approximately 48-60 hours, which cost SJCE approximately \$15,000 per day.

In the summer months of 2020, PG&E did implement two PSPS events: October 14-16, 2020 that affected approximately 150 customers and October 25-27, 2020 that affected approximately 570 customers. The impacts of the two incidents were significantly mitigated by improvements PG&E implemented over the prior year. New switching equipment and better identification of the outage area reduced the footprint of the outages. There were no recorded PG&E Shutoffs in 2021 that impacted the City.

It is anticipated that there will be additional PG&E Shutoffs under current CPUC regulations, although PG&E has communicated with the City that it has taken measures to reduce

the geographic area and impacts of any future shutoffs. The impact that any PG&E Shutoffs in the City and surrounding areas will have on the City and its finances is unknown and the City cannot provide any assurance regarding the effect such shutoffs will have on the City or its finances.

See “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – MUNICIPAL GOVERNMENT– CAPITAL IMPROVEMENT – Sustainability Initiatives” for further discussion regarding SJCE.

Public Health Emergencies

General. In recent years, public health authorities have warned of threats posed by outbreaks of disease and other public health threats. On February 11, 2020 the World Health Organization (“**WHO**”) announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City. The WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State and the President of the United States.

The COVID-19 outbreak is ongoing, though indications are present that the pandemic is transitioning to its endemic stage. Ongoing impacts from the COVID-19 pandemic have been significant to many aspects of the local economy and City operations and finances. The ultimate impact of COVID-19 on the City’s operations and finances and the economy, real estate market and development within the City is not fully known, and it may be some time before the full adverse impact of the COVID-19 outbreak is known. Certain reports providing information regarding the impact of the COVID-19 pandemic are described herein under “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION.” Further, there could be future COVID-19 outbreaks or other public health emergencies that could have material adverse effects on the City’s operations and finances.

The negative impacts from the COVID-19 pandemic on the City’s revenues, including the Special Tax Revenues, in fiscal year 2019-2020 through 2021-2022 are anticipated to lessen during fiscal year 2022-2023, and slowly lessen several fiscal years beyond, depending on the pace of recovery of the local economy to the levels which existed prior to the outbreak of the COVID-19 pandemic. See “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – PUBLIC HEALTH EMERGENCY – COVID-19.”

Climate Change

The change in the earth’s average atmospheric temperature, generally referred to as “climate change,” is expected to, among other things, cause sea levels to rise, extreme temperatures to become more common, and extreme weather events to become more frequent and severe.

On August 9, 2021, the United Nations’ Intergovernmental Panel on Climate Change published its Sixth Assessment Report on the physical science basis of climate change (the “**IPCC Report**”) summarizing the current state of the climate, including how it is changing and the role of humans in such change, and the state of knowledge about possible climate futures. The IPCC Report states, unequivocally, that human influence has warmed the atmosphere, ocean and land,

causing widespread changes including weather and climate extremes across the globe. The IPCC Report estimates that global warming of 1.5 °C and 2°C will be exceeded during the current century unless deep reductions in carbon dioxide and other greenhouse gas emissions occur in the coming decades. However, the IPCC Report also states that many changes in the climate system are irreversible for centuries to millennia due to past and future greenhouse gases, especially with respect to changes in the ocean, ice sheets and global sea level. Temperatures and extreme high temperatures are expected to continue to increase, and sea level rise is expected to continue to increase, along with associated flooding and erosion. With respect to western North America, where the City is located, the IPCC Report projects increases in drought and fire weather.

In 2018, the State released its Fourth Climate Change Assessment (the “**Fourth Assessment**”) assessing the impacts of climate change on the State and on nine regions within the State. The Fourth Assessment finds that by 2100, if greenhouse gas (“**GHG**”) emissions continue to increase, the average annual maximum daily temperature across the State is projected to increase by between 5.6°F and 8.8°F and the average area burned by wildfires across the State could increase by up to 77 percent.

Projections of the impacts of climate change are complex and depend on many factors that are outside the City’s control. The various scientific studies that forecast the amount and timing of the adverse impacts of global climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the City cannot predict the timing or precise magnitude of adverse economic effects resulting from climate change, including, without limitation, material adverse impacts on the business operations or the financial condition of the City and the local economy during the term of the 2022A Bonds. In 2018, the City accepted the Climate Smart San Jose Plan which was intended to provide a policy framework to address climate change. While the impacts of climate change may be mitigated by the City’s past and future investment in adaptation strategies, the City can give no assurance about the net effects of those strategies and whether the City will be required to take additional adaptive mitigation measures. For more information regarding the City’s sustainability initiatives, see “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – MUNICIPAL GOVERNMENT– CAPITAL IMPROVEMENT – Sustainability Initiatives.”

The City is unable to predict what additional laws and regulations with respect to environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on the City or the local economy. The effects, however, could be material.

Cybersecurity

The City relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City is subject to cyber threats, including, but not limited to: hacking, viruses/malware, and other attacks on information and communications assets. The City’s Information Technology Department has no knowledge or notice of any significant data breaches on City information and systems assets to date.

In 2017, the City established a Cybersecurity Office and in 2018 hired its first Chief/City Information Security Officer (the “**CISO**”), within the City’s Information Technology Department, to coordinate cybersecurity preparation and response across City departments. Under the direction of the CISO, the City has developed and disseminated an administrative policy entitled

“Information and Systems Security Policy” to set forth authorities, responsibilities, and procedures governing the use and security of the City’s information and systems assets. The City’s Information Security Standards Handbook further establishes the operational security baseline of the City’s information systems. The Cybersecurity Office also worked with City departments to improve system and infrastructure changes by establishing a Citywide Change Control Board (“CCB”) in August 2018. The CCB’s main objective is to communicate and inform all impacted departments of changes made to business systems for detailed review as part of maintenance and/or upgrades. Additionally, a Cybersecurity Advisory Board, with cybersecurity leaders from the public and private sectors, helped validate and refine the City’s cybersecurity strategies, policies approach, and roadmap.

The City has conducted training with City employees who handle credit card transactions for Payment Card Industry Data Security Standard compliance. The Cybersecurity Office also provides recurring cybersecurity training and testing for all City employees, including phishing email tests, social engineering tests, periodic cybersecurity newsletters, and workshops. These efforts have been coupled with ongoing information technology security assessments to help identify and remediate potential weaknesses in systems and networks. The Cybersecurity Office and Office of the City Auditor jointly executed a review in the second half of 2021 to set assessment and risk management priorities for 2022-2023.

In response to exceptional ransomware, operating system, and web server attacks governments and businesses faced in 2020-2021, the City upgraded its servers and workstations to help guard against various strains of Cryptoware implemented a solution to help address Business Email Compromise and hardened systems controls for versions and protective layers. Since 2019, the City has focused on creating system contingency plans to test the recovery of the City’s critical systems in the event of a major disaster.

The City maintains specialized insurance coverage for cyber risks, but there is no assurance that such coverage will be maintained in the future or that the coverage amount will be sufficient to address the cost of any particular cyberattack.

In 2020, as a result of the COVID-19 pandemic, the City adapted the organization to allow employees to work remotely, utilizing online cloud tools, a private network and secure cloud access. Safeguards were enhanced to migrate to a mobile workforce while maintaining functionality. Since July 2021, the City has implemented return-to-onsite-work plans and activities for the City’s transition to pandemic recovery and a hybrid work environment for City employees. The City continues to perform technical refresh projects to reduce number and risks of legacy systems by designing modern, secure architectures that take advantage of hybrid cloud and on-premises infrastructures. In December 2021, the City adopted a policy of using only City devices in hybrid work and connecting to the City environment, to minimize the risk of unmanaged devices touching City data, systems, and networks.

In late 2020, the City implemented a Virtual Security Operations Center to provide visibility across networks, along with a more robust incident response capabilities. This capability will mature over time to include automated responses, integration with other defense toolsets, enhanced triaging for investigations, and integration with the City’s Office of Emergency Management for larger incidents. In 2022, the City will work to further enhance the resilience of its systems through contractual engagements with approved vendors designed to help identify and correct gaps, provide state-of-the-art protection to devices, continue phishing and social engineering training for employees, and to provide third-party expertise for effective incident response if an event occurs and legal, forensics, and/or public communications skills are required.

No assurances can be given that any organization's cybersecurity and operational controls will be completely successful in guarding against cyber threats, cyberattacks, and/or advanced persistent threats. The results of any attack on the City's computer and information technology systems could impact its services and cause serious impairment to the City's operations. The costs of remedying any such damage could be substantial. Hence, the City's cybersecurity work focuses on prevention and resilience, as described above.

The City was made vulnerable in a 2020 cyberattack against SolarWinds Exchange, and Log4j. In response, the City followed Federal guidance, applied fixes identified in such guidance, and adhered to the guidance and category determinations as instructed by the federal Cybersecurity and Infrastructure Security Agency. The City's Incident Response Team completed additional reviews through external contractors and confirmed that there are no indications of compromise to the City's network and systems or evidence of access to or data exfiltration as a result of the attack. Through those attacks, the City has documented that there were no indicators of compromise.

Change in Law

No assurance can be given that the State, the County or the City electorate will not at some future time adopt initiatives, or that the State Legislature or the City Council will not enact legislation that will amend the laws of the State or the City's Municipal Code, respectively, in a manner that could result in a reduction of the City's General Fund revenues or an increase in expenditures required to run City programs, and therefore a reduction of the funds legally available to the City to make Lease Payments. See, for example, "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Articles XIII C and XIII D of the State Constitution."

Policing and Civil Unrest

In response to social justice demonstrations and civil unrest occurring as a result of the death of black Americans during interactions with law enforcement, protests and calls for the defunding of police departments occurred in the City and throughout the United States. On June 16, 2020, in connection with budget actions for fiscal year 2020-2021, the City Council voted to reallocate approximately \$1.8 million from the police department overtime budget to partially restore funding for the Community Services Officer program for two years, to fund an independent after action report related to police response to the civil unrest, to fund a community engagement process on future police reforms, and to update the Independent Police Auditor's online complaint form. The City allocated \$1 million in funding in Fiscal Year 2020-2021 to establish the Office of Racial Equity in the City to advance a City-wide racial equity framework to examine and make recommendations regarding the City's internal policies, programs and practices. There can be no assurance that additional protests and other incidences of civil unrest in the City will not occur in the future.

On September 15, 2020, the City's police department presented a preliminary after action report to the City Council from the police department's perspective, which the City Council accepted, related to civil unrest that occurred in the City from May 29 to June 7, 2020. The police department's report identifies issues with lack of training and experience, insufficient staffing levels, and a need to update policies and procedures. An independent report is expected to be presented to City Council on March 1, 2022. This report was coordinated by the Office of the Independent Police Auditor, and is anticipated to include a broader perspective of the protests, civil unrest and the police department's response during this same time period. The City's police

department has identified 28 or the 32 recommendations in the report that it can implement within its current work plan, and plans to immediately begin addressing these items.

Future Litigation

There can be no assurance that future lawsuits or governmental actions will not affect repayment of the 2022A Bonds. See the section entitled “POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DEGREES” in “APPENDIX A – THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – “BUDGET.”

Limited Obligations; Lease Not a Debt of the City

The 2022A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor under the Indenture, together with amounts on deposit from time to time in certain funds and accounts held by the Trustee. Revenues consist primarily of Lease Payments. If for any of the reasons described below, or for any other reason, the Authority does not receive sufficient Lease Payments to pay debt service on the 2022A Bonds, the Authority will not be obligated to utilize any other of its funds to pay debt service on the 2022A Bonds.

The Lease Payments are not secured by any pledge of or lien on taxes or other revenue of the City, but are payable from all funds lawfully available to the City. The City has the capacity to enter into other obligations that may constitute additional obligations against its revenues. In the event the City’s revenue sources are less than its total obligations, the City could choose to fund other obligations before making Lease Payments; in that case, the failure to pay Lease Payments in full would constitute a default under the Lease. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues; in that case, the failure to pay Lease Payments in full would constitute a default under the Lease. The City must adopt a balanced Budget each year, and has covenanted in the Lease to budget for, appropriate and make the Lease Payments in each year that it has possession and use of the Leased Property. For a general understanding of the City’s budget process and budget forecasts, see “APPENDIX A – THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION.”

Abatement of Lease

Under California law, the obligation of the City to make Lease Payments is contingent upon the availability of the Leased Property for use and occupancy by the City. The Lease Payments will be abated proportionately during any period in which by reason of material damage or destruction, there is substantial interference with the use and occupancy of any portion of the Leased Property by the City, and such abatement will continue until substantial completion of the work of repair or replacement of the portion of the Leased Property damaged or destroyed; provided that, in determining the amount of abatement, the City shall consider the then-current value of the Leased Property but only to reduce or eliminate the amount of the abatement. Any abatement of Lease Payments could affect the Authority’s ability to pay debt service on the 2022A Bonds.

In the event Lease Payments are abated, no assurances can be given that moneys on deposit pursuant to the Indenture, or the proceeds of rental interruption insurance (which is not

expected to be available to cover earthquake damage) will be sufficient to pay the debt service on the 2022A Bonds during the period of such abatement.

Notwithstanding the provisions of the Lease specifying the extent of abatement in the event of the City's failure to have full use and occupancy of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Lease Payments of the City may not be sufficient to pay all of the remaining principal and interest with respect to the 2022A Bonds.

Insurance on the Property

Under the Lease, the City is required to maintain policies of insurance covering loss or damage to the Property, up to replacement costs and covering title defects, through the term of the Lease. If the Leased Property is damaged or destroyed, there can be no assurance that the insurance proceeds will be sufficient to repair or restore the Leased Property, or to redeem or defease all of the outstanding Bonds. In addition, neither the Authority nor the City can provide any assurance as to whether the provider of an insurance policy will pay under such policy. See the caption "SECURITY FOR THE 2022A BONDS — Insurance" for a description of the insurance coverages that are required by the Lease. Certain risks, such as earthquakes and floods, are not required to be covered under the Lease.

Limitation on Remedies

The enforcement of any remedies provided for in the Lease and in the Indenture could prove to be both expensive and time-consuming. Although the Lease provides that if there is a default by the City, the Trustee may take possession of and relet the Leased Property, no assurance can be given that the amounts received from such reletting would be sufficient to pay the principal of and interest with respect to the 2022A Bonds when due.

The Lease provides that upon the occurrence and during the continuance of the City's failure to deposit with the Trustee any Lease Payments when due, the bankruptcy of the City, or if the City breaches any other terms, covenants, conditions or agreements contained in the Lease (subject to a cure period as described in the Lease), the Trustee, as assignee of the Authority, has the following general remedies: (i) to reenter the Leased Property and relet the Leased Property; or (ii) to enforce its rights to recover Lease Payments as they become due. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

In addition to the limitations on remedies contained in the Lease and the Indenture, the rights and remedies provided in those documents may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights generally. The various legal opinions to be delivered concurrently with the issuance of the 2022A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles. See "- Bankruptcy Risks" below.

Additional Obligations of the City

The City has existing obligations payable from its General Fund. See Appendices A and C for more information. The City is permitted to enter into other obligations that constitute

additional charges against its revenues without the consent of Owners of the 2022A Bonds. If the City were to incur additional obligations, the funds available to pay Lease Payments could be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Leased Property, taxes and other governmental charges levied against the Leased Property) are payable from funds lawfully available to the City. If the amounts that the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Rental Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

No Reserve Fund

No reserve fund will be established and maintained with respect to the 2022A Bonds. As a result, in the event on non-appropriation or non-payment of the Lease Payments in full when due, no other source of funds will be available to make payments of debt service on the 2022A Bonds while remedial actions are taken with respect to such non-appropriation or non-payment.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Lease Payments for the term of the Lease. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

Bankruptcy Risks

The rights of the owners of the 2022A Bonds and the enforceability of the Authority's obligation to make payments on the 2022A Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights under currently existing law or laws enacted in the future, and may also be subject to the exercise of judicial discretion under certain circumstances.

Under existing law, the City is eligible to file for bankruptcy. Should the City file for bankruptcy, there could be adverse effects on the holders of the 2022A Bonds. In a bankruptcy of the City, the Authority or the Trustee as its assignee and the owners of the 2022A Bonds may be prohibited from taking any action against the City, any official of the City, or any property of the City (including the Leased Property) to enforce the terms of the Lease, unless the consent of the bankruptcy court is first obtained. The bankruptcy court is not required to give its consent. This prohibition on action may even prohibit the Trustee from using funds in its possession to make payments on the 2022A Bonds. As a result, Owners may experience temporary or permanent delays in the payment of the 2022A Bonds.

In a bankruptcy case, a plan of adjustment for the City could be confirmed that would allow for enforcement of the Lease, but the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants and other terms or provisions of the Lease and the 2022A

Bonds may be altered by the bankruptcy court. Such a plan could be confirmed even over the objections of the Authority or the Trustee as its assignee and the owners of the 2022A Bonds, and without their consent. Additionally, the resulting plan could adjust some or all of the City's financial obligations, which include the City's lease payment obligations under the Lease and the City's obligation to fund certain retirement benefits. The City can provide no assurance about the nature of any adjustment plan it if were to file for bankruptcy.

In addition, if the Lease is determined to constitute a "true lease" by the bankruptcy court (rather than a financing lease providing for the extension of credit), the City could choose not to perform under the Lease and the claim of the owners of the 2022A Bonds could be substantially limited. An allowable claim could be substantially less than the amount of the 2022A Bonds outstanding, resulting in the owners of the 2022A Bonds suffering a substantial loss.

The opinions of counsel, including Bond Counsel, delivered in connection with the issuance and delivery of the 2022A Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the owners of the 2022A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

State Law Limitations on Appropriations

Article XIII B of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Lease Payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of cities in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Article XIII B of the State Constitution."

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2022A Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

TAX MATTERS

The interest on the 2022A Bonds is not intended by the Authority to be excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation, Bond Counsel, San Francisco, California, interest on the 2022A Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the 2022A Bonds, which is to be delivered on the date of issuance of the 2022A Bonds, is set forth in APPENDIX E.

Owners of the 2022A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2022A Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2022A Bonds, the ownership, sale or disposition of the 2022A Bonds, or the amount, accrual or receipt of interest on the 2022A Bonds.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the 2022A Bonds, the form of which is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City and the Authority by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney, and for the Underwriters by its counsel, Norton Rose LLP.

LITIGATION AND SIGNIFICANT CLAIMS

No litigation is pending against the City with service of process accomplished or threatened in writing concerning the validity of the 2022A Bonds, or questioning the political existence of the City or seeking to restrain or enjoin the issuance or execution of the 2022A Bonds.

There are a variety of civil cases in which the City is a named defendant pending at any given time, including without limitation, the litigation described in Appendix A hereto. See "APPENDIX A – THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES." Additionally, there are numerous claims filed with the City or with other agencies in which the claimants allege that they have been damaged by the City. If these cases or these claims which develop into civil actions were determined adversely to the City, it is possible there could be an adverse effect on the City's revenues and cash flow.

RATINGS

The 2022A Bonds have received ratings of "___" by Moody's Investors Service, "___" by S&P Global Ratings, and "___" by Fitch.

These ratings reflect only the views of the respective rating agency and any desired explanation of the significance of these ratings should be obtained from the rating agencies. There is no assurance that any ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies,

circumstances so warrant. Any such downward revision or withdrawal of any ratings may have an adverse effect on the market price of the 2022A Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

The Verification Agent, upon delivery of the 2022A Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the City, relating to (a) the sufficiency of the anticipated amount of proceeds of the 2022A Bonds and other funds available to pay upon prior redemption, interest and redemption premium requirements of the 2011 CCFD Bonds and the 2011 Lease Revenue Bonds, respectively, as described under the heading “THE REFINANCING PLAN” and (b) the “yields” on the amount of proceeds held and invested prior to redemption of the 2011 CCFD Bonds and the 2011 Lease Revenue Bonds, respectively, and on the 2022A Bonds in connection with the opinion rendered by Bond Counsel that the 2022A Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Tax Code.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying mathematical accuracy, of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the 2022A Bonds to provide to the Electronic Municipal Market Access System (“**EMMA System**”) certain financial information and operating data relating to the City by not later than April 1 after the end of each fiscal year of the City (currently June 30th), commencing not later than April 1, 2023 with the report for the 2021-2022 fiscal year (the “**Annual Report**”), and to provide notices of the occurrence of certain listed events. The specific nature of the information to be contained in the Annual Report or the notices of listed events is summarized in APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriters in complying with the Rule. The Trustee has no obligation to enforce the undertakings of the City in the Continuing Disclosure Certificate, and a failure by the City to provide any information required thereunder shall not constitute an Event of Default under the Indenture.

The City engaged third-party consultants to conduct an analysis of the historical compliance of the City and the Successor Agency with their respective continuing disclosure obligations over the past five years. During this time, both the City and the Successor Agency were obligated to provide continuing disclosure. The City was obligated to provide continuing disclosure pursuant to undertakings for numerous bond issuances, including bond issuances of the City, the Authority, the San José-Santa Clara Clean Water Financing Authority, and various City of San José special assessment and community facilities districts and a convention center facilities district. However, the City was not obligated under the Successor Agency’s prior undertakings under the Rule, nor was the Successor Agency obligated under the City’s prior undertakings under the Rule. The Successor Agency is not obligated under the Continuing Disclosure Certificate for the 2022A Bonds.

During the five year period preceding the date of this Official Statement, the City failed to file, on a timely basis, notices of rating changes, or insurer-related rating changes or rating withdrawals with respect to numerous series of bonds. In addition, the assessed value of taxable property and top ten real property tax assessee's information contained in the City's Annual Reports for fiscal years 2016-2017 and 2017-2018 reflects information as of the "prior" fiscal year instead of the "current" fiscal year, as may have been required by the terms of the City's undertakings relating to issues of general obligation bonds that were defeased in July 2019. [CONFIRM NO UPDATES]

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, San Francisco, California, as its municipal advisor (the "**Municipal Advisor**") in connection with the authorization and delivery of the 2022A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The fees and expenses of the Municipal Advisor are contingent upon the successful issuance and delivery of the 2022A Bonds.

UNDERWRITING

Morgan Stanley & Co. LLC, as representative (the "**Representative**") of itself, Stifel, Nicolaus & Company, Incorporated and Jefferies LLC (collectively, the "**Underwriters**") has entered into a Bond Purchase Agreement with the Authority under which the Underwriters will purchase the 2022A Bonds at a purchase price of \$_____ (which is equal to the par amount of the 2022A Bonds, less an Underwriters' discount of \$_____, and plus (less) a net original issue premium (discount) of \$_____).

The Underwriters will be obligated to take and pay for all of the 2022A Bonds if any are taken. The Underwriters intend to offer the 2022A Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the issuer for which they received or will receive customary fees.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the issuer.

The Representative has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, the Representative may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Representative may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2022A Bonds.

PROFESSIONAL SERVICES

In connection with the issuance of the 2022A Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the 2022A Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; the Municipal Advisor; the Trustee, and Underwriters' counsel.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the 2022A Bonds, the Indenture providing for issuance of the 2022A Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from City records. Appropriate City officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the City Council and the Board.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the Board of the Authority and the City Council of the City.

CITY OF SAN JOSE FINANCING AUTHORITY

By: _____
Treasurer

CITY OF SAN JOSE

By: _____
Director of Finance

APPENDIX A

**THE CITY OF SAN JOSE:
DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION**

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INTRODUCTION TO APPENDIX A

This Appendix A is the part of the Official Statement that provides investors with information concerning the City of San José (the “**City**”). Investors are advised to read the entire Official Statement, including Appendix A, to obtain information essential to making an informed investment decision.

When used in this Appendix A and in any continuing disclosure made by the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” and “intend,” and similar expressions identify “forward-looking statements.” Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is also subject to such risks and uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The COVID-19 pandemic and resulting social and business restrictions have severely disrupted, and continue to disrupt, the economies of the United States and foreign countries. Historical information set forth in this Appendix A is not intended to be predictive of future results: there are likely to be differences between forecasts and actual results, and those differences may be material.

The Official Statement speaks only as of its date, and the information contained herein is subject to change. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof.

This Appendix A summarizes portions of certain documents of the City, including the following:

- Basic Financial Statements for the Fiscal Year ended June 30, 2021 (included in this Official Statement as Appendix C);
- Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2021;
- 2021-2022 Adopted Operating Budget;
- 2020-2021 Annual Report
- 2021-2022 Mid-Year Budget Report;
- 2022-2023 City Manager’s Budget Request & 2023-2027 Five-Year Forecast and Revenue Projections;
- 2022-2023 Mayor’s March Budget Message;
- 2021-2022 Adopted Capital Budget; and
- 2022-2026 Capital Improvement Program.

Copies of documents listed above are available from the Finance Department – Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, California 95113; Phone (408) 535-7010; email: debt.management@sanjoseca.gov.

In addition, certain of the information in this Official Statement, including Appendix A, information has been collected from third-party sources that the City believes to be reliable. However, the City can provide no assurances as to the accuracy or completeness of such information.

The City maintains a number of websites. However, the information presented on such websites is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

INTRODUCTION TO THE CITY OF SAN JOSE

The City is the oldest city in the State of California (the “**State**”), developing from a Spanish pueblo established in 1777, and is the county seat of Santa Clara County (the “**County**”). Situated between the Diablo and Santa Cruz mountain ranges, the City encompasses approximately 180 square miles at the south end of the San Francisco Bay. The Coyote and Guadalupe rivers run through the city. The City is in the Santa Clara Valley at the southern tip of San Francisco Bay, 48 miles south of San Francisco and 40 miles south of Oakland. The area is known as the Southern Peninsula. As of January 1, 2021, the City’s estimated population totaled approximately 1,029,782, making the City the third most populous city in the State and the tenth most populous in the United States as of such date (based on information published by the California Department of Finance). See “DEMOGRAPHIC AND ECONOMIC INFORMATION – Population.”

The City has transformed from the agricultural setting of its early years into the largest city in the Silicon Valley. Silicon Valley is a region in the Southern San Francisco Bay Area of Northern California which serves as a global center of high technology, innovation, and social media. Silicon Valley corresponds roughly to the geographical Santa Clara Valley. The San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (the “**San José MSA**”) in the Silicon Valley has a large concentration of high-tech employment with 237,000 workers out of a total civilian employment level of 1.14 million, which includes workers in computer electronics manufacturing and information, according to the California Employment Development Department’s December 2021 Industry by Employment Data report. Silicon Valley is home to many of the world’s largest technology companies and is a global center of technology innovation. Commercial, retail, professional, high-tech manufacturing, electronic assembly, and service businesses all have a presence in the City. On the international front, historically the City has attracted significant foreign investment from throughout the globe. See “RECENT ECONOMIC DEVELOPMENT ACTIVITIES.”

PUBLIC HEALTH EMERGENCY – COVID-19

General. The spread of the novel strains of coronavirus that causes the disease known as COVID-19 (“**COVID-19**”) and local, state, and federal actions in response to COVID-19, is having a significant impact on the economy and on the City’s operations and finances. On February 11, 2020, the World Health Organization (“**WHO**”) announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The COVID-19 pandemic has had an adverse effect on, among other things, the world economy, global supply chain, international travel, and a number of travel-related industries. The temporary and permanent business closures caused by the COVID-19 pandemic have led to a stark increase in unemployment across the County and the nation. Depending on the length and the breadth of the impacts of the COVID-19 pandemic, the economic costs may be very significant for the City and the region’s economy. On June 8, 2020, the National Bureau of Economic Research announced that the United States of America (the “**U.S.**”) officially entered into a recession in February 2020. In addition, capital markets in the United States and globally have been volatile.

The COVID-19 pandemic materially adversely impacted the financial condition of the City. Previous, existing, and potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, reductions in tourism and disruption of the regional and local economy, widespread business closures, and significantly higher levels of unemployment, with corresponding decreases in City revenues, as described below.

Since mid-March 2020, based on guidance and directives from the State and public health agencies, all counties in the Bay Area (including the County) implemented and revised Shelter-in-Place (“**Shelter-in-Place**”) emergency orders or directives, which directed individuals to stay home, except for limited travel for the conduct of essential services. In December 2020, two vaccines were authorized for emergency use in the United States and vaccinations began in California, and have since been approved by the U.S. Food and Drug Administration. A third vaccine was approved for emergency use in February 2021.

On August 2, 2021, as a result of an increase in cases of COVID-19 due to primarily the Delta variant, the County issued a health order requiring all persons wear face coverings at all times when indoors, with certain exceptions. On December 28, 2021, as a result of an increase in COVID-19 cases due primarily to the Omicron variant, the County issued a health order requiring that, by January 24, 2022, workers in high-risk settings be up to date on COVID vaccinations.

As of February 1, 2022, there were over 284,531 cumulative confirmed cases of COVID-19 in the County. The County reports that, as of February 1, 2022, over 89% of the County’s residents age 5 and older are fully vaccinated, with nearly 65% of the County’s residents after 12 and older having received a booster dose. Effective March 2, 2022, the indoor-mask mandate has been lifted in the County, except for limited settings.

Financial Impact on City. A number of City services and revenues were negatively impacted by the COVID-19 emergency. In the General Fund, actions were taken to close estimated shortfalls of \$45 million in 2019-2020, \$77.6 million in 2020-2021, and \$38.3 million in 2021-2022. In addition, several other funding sources dedicated to support specified City services saw significant revenue losses, including funds supporting the Airport, the downtown parking system, and convention and cultural facilities. While the City worked quickly to recognize the anticipated revenue loss and take corresponding actions to reduce expenditures, a significant influx of Federal and State resources was received that helped limit the pandemic’s short-term impact and allowed the City to marshal a community-focused response and recovery effort. As of February 28, 2022, the City has received or is estimated to receive \$796.4 million to aid in the response to and recovery from the COVID-19. Federal sources, primarily from the Coronavirus Aid, Relief, and Economic Stabilization Act (the “**CARES Act**”), the American Rescue Plan Act, and reimbursements from the Federal Emergency Management Agency (“**FEMA**”) (approximately \$212.3 million in American Rescue Plan funding, \$179.8 in CARES Act funding, and an expected \$38.1 million in FEMA sources)). See “MAJOR REVENUE FUND REVENUE SOURCES – Relief Funds.”

On March 11, 2021, the President of the United States signed the American Rescue Plan, a \$1.9 trillion economic stimulus package designed to help the United States’ economy recover from the adverse impacts of the COVID-19 pandemic. The American Rescue Plan Act (the “**American Rescue Plan**”) authorized \$350 billion in economic relief to states, counties, and local governments. The final rule was released on January 6, 2022 and provided additional flexibility on the use of Recovery Funds for revenue shortfalls caused by the pandemic. As of the date of this Official Statement, the City estimates it will receive a total of approximately \$212.3 million in

funding under the American Rescue Plan. See “MAJOR REVENUE FUND REVENUE SOURCES – Relief Funds.”

Economic conditions are anticipated to continue to be the primary drivers for a number of the City’s revenue in 2021-2022; the categories most impacted by economic conditions Property Tax, Sales Tax, Business Taxes, Real Property Transfer Tax, and Transient Occupancy Tax. Collectively, such revenue categories constitute almost 60% of total General Fund budgeted revenues for 2021-2022. See “MAJOR GENERAL FUND REVENUE SOURCES.”

The COVID-19 pandemic is still ongoing; however, indications are strong that the pandemic is transitioning to its endemic stage though its dynamic nature leads to uncertainties. There are many variables that will continue to contribute to the economic impact of the COVID-19 pandemic and the recovery, including the length of time social distancing measures are in place, the effectiveness of State and Federal governments’ relief programs and the timing for the containment and treatment of COVID-19. The ultimate impact of COVID-19 on the City’s operations and finances is not fully known, and it may be some time before the full impact of the COVID-19 pandemic is known. See “CERTAIN RISK FACTORS – Public Health Emergencies” in the forepart of this Official Statement.

MUNICIPAL GOVERNMENT

General

The City is a charter city, which means the City, through its charter (the “**Charter**”), may regulate municipal affairs, subject only to restrictions and limitations provided in the Charter. In matters other than municipal affairs or in matters of statewide concern, the City is subject to State law. The form of municipal government established by the Charter is known as the “Council-Manager” form of government. Revisions to the Charter require voter approval.

The City Council consists of a Mayor and ten other council members. The Mayor is elected at large for a four-year term. Council members are elected by district for staggered four-year terms. The Mayor and the council members are limited to two consecutive four-year terms. Under the Charter, the Mayor recommends policy, program, and budget priorities to the Council, which in turn approves policy direction for the City. The City Manager is appointed by the Council and serves as the chief administrative officer of the organization responsible for the administration of City affairs, day-to-day operations, and implementation of Council policies. In addition to the City Manager, the City Attorney, City Clerk, City Auditor, and Independent Police Auditor are appointed by and report directly to the Council.

The Charter provides that the boards of administration of each of the City’s retirement plans, the Federated City Employees’ Retirement System and the Police and Fire Department Plan, retain the Chief Executive Officer and Chief Investment Officer within the Office of Retirement Services who serve at the pleasure of the boards. The Charter also specifies certain duties and obligations of each board. The Chief Executive Officer has appointing authority over the other staff in the Office of Retirement Services.

The City also provides oversight in the management of convention, cultural event, sport, and hospitality facilities that include the San José McEnery Convention Center, Center for the Performing Arts, California Theatre, Mexican Heritage Plaza, Ice Centre at San José, and the SAP Center at San José (the “**SAP Center**”), home of the San José Sharks of the National Hockey League and the San José Barracuda minor league hockey team. The City leases the San José

Municipal Stadium to the San José Giants, a minor league baseball team. The City has served as host City for major sporting events, including the 2019 College Football Playoff National Championship, the 2019 National Hockey League All-Star Game, and the first and second rounds of the 2019 NCAA Men's Division I Basketball Championship.

Charter Review Commission

In September 2020, the City Council established the Charter Review Commission. The Charter Review Commission consists of two members per Council District who are members of the appointing district, and three members appointed by the Mayor who are residents of the City. The Charter Review Commission was established to bring forward recommendations to the City Council on the (1) City's governance structure including the "Mayor-Council" governance structure found in other cities in the United States in which the Mayor has executive authority and the Council has legislative authority, (2) alignment of the Mayoral election with the presidential election and whether the term of office of the candidate elected to be Mayor in 2022 would serve a two year term or six year term, (3) evaluate transition of the election cycle for odd-numbered districts to align with the presidential election cycle and the even-numbered districts with the gubernatorial election cycle; and (4) consider additional measures and potential charter amendments, as needed, that will improve accountability, representation, and inclusion in City government.

In December 2021, the Charter Review Commission submitted its recommendations to the City Council. Any proposed amendments to the City's Charter would require the approval of a majority of the qualified voters in the City at a regularly scheduled primary or general election provided that any amendments that affect employment rights may only be submitted for approval by voters at a November general election.

The City Council discussed the Charter Review Commission's recommendations on January 11, 2022 and agreed to move forward with the recommendation to amend the City Charter to move the Mayoral election from the gubernatorial election cycle to the presidential election cycle beginning in 2024. This amendment requires approval of a majority of the qualified voters in the City at the regularly scheduled primary election on June 7, 2022. All other recommendations were deferred to a study session that has not been scheduled as of the date of this Official Statement.

City Service Areas

The City organization is structured into six City Service Areas ("**CSAs**") that integrate services provided by separate departments and offices into key alignments from the community's perspective. The CSAs consists of Community and Economic Development, Environmental and Utility Services, Neighborhood Services, Public Safety, Transportation and Aviation Services, and Strategic Support. The City provides a range of municipal services, including police and fire protection, sanitation services, environmental management, maintenance of streets and infrastructure, and the administration of library services, recreational activities, and cultural facilities. The City also operates a parking program, a municipal water system, a wastewater treatment facility, the Norman Y. Mineta San José International Airport (the "**Airport**"), and three municipal golf courses.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

As of January 1, 2021, the City was, by population, the third largest city in the State (after Los Angeles and San Diego), the tenth largest city in the nation, and the largest city in Silicon Valley (based on information published by the California Department of Finance). As of January 1, 2021, the City's estimated population totaled 1,029,782. As shown in Table 1, City residents account for over half of the population of the County, which is the most populous of the San Francisco Bay Area counties. While the period from 1960 to 1980 was characterized by extremely rapid population growth in both the City and County, the last three decades reflect a trend of slower but steady growth, with 2021 seeing a decline in population.

**Table 1
City, County and State Population Statistics**

	City of San José	% Change	County of Santa Clara	% Change	State of California	% Change
1960	204,196	--	642,315	--	15,717,204	--
1970	459,913	125.23%	1,064,714	65.76%	19,953,134	26.95%
1980	629,442	36.86	1,295,071	21.64	23,667,902	18.62
1990	782,248	24.28	1,497,577	15.64	29,760,021	25.74
2000	895,131	14.43	1,682,585	12.35	33,873,086	13.82
2010	945,942	5.68	1,781,642	5.89	37,253,956	9.98
2016	1,037,952	9.73	1,931,565	8.41	39,131,307	5.04
2017	1,045,047	0.68	1,942,176	0.55	39,398,702	0.68
2018	1,048,875	0.37	1,951,088	0.46	39,586,646	0.48
2019	1,047,871	(0.10)	1,954,833	0.19	39,695,376	0.28
2020	1,049,187	0.13	1,961,969	0.37	39,782,870	0.22
2021	1,029,782	(1.85)	1,934,171	(1.42)	39,466,855	(0.79)

Sources: U.S. Census Bureau (1960-2010), California Department of Finance (2016-2021).

In recent years, the City has been the only major city in the country that has a smaller daytime population than nighttime population commonly referred to as “bedroom communities.” Large cities are typically job centers. In contrast, the City has historically had job centers around it. The imbalance between jobs and residents has created fiscal challenges for the City because a significant portion of its residents have worked and spent dollars outside the City. It is unclear what, if any, effect the COVID-19 pandemic has had on this imbalance. The City’s general plan, *Envision San José 2040 General Plan* (the “**General Plan**”), includes a set of major strategies to address long-term development of the City in a manner that promotes greater land use within the City for employment, housing (in urban villages, the Downtown area of the City, North San José, and certain other specific plan areas) and improves the ability of City residents to commute to work without vehicles. See “RECENT ECONOMIC DEVELOPMENT ACTIVITIES – Development Challenges” for a discussion of recent economic development in the City and challenges relating to development in the City.

Employment

The high-technology industry component of the City’s economy is diversified in research, development, manufacturing, marketing, and management. Development of high technology has been supported by the area’s proximity to San José State University, Stanford University, Santa Clara University, and other institutions of higher education, and such research and development facilities as SRI International (formerly the Stanford Research Institute), the Stanford Linear Accelerator Center and NASA Ames Research Center. While the region is known worldwide as “Silicon Valley,” the silicon-based semiconductor industry is only a part of the industrial picture. Other industries include information systems, medical devices, solar, manufacturing, computers, peripherals, instruments, software, and a wide array of communication electronics.

Prior to the Shelter-in-Place orders or directives in response to the COVID-19 pandemic, the unemployment rate in the City and surrounding areas had not exceeded 3.0% since August 2017. However, the San José MSA unemployment rate rose to 12.0% in April 2020. Since April 2020, the local unemployment rate in the San José MSA has steadily declined to 3.0% as of December 30, 2021. For further comparison, the City’s unemployment rate increased from 6.7% in 2008 to 11.8% in 2010 during the time of the Great Recession of 2008.

Table 2 shows employment figures for the City and the County and unemployment rates for the City, the County, the State, and the United States for the four most recent calendar years available.

Civilian Labor Force <i>(in thousands)</i>	2018	2019	2020	2021⁽³⁾
City of San José				
Employed	540	556	479	532
Unemployed	15	13	65	17
Total ⁽²⁾	555	569	544	549
County of Santa Clara				
Employed	1,021	1,051	913	1,013
Unemployed	27	23	105	30
Total ⁽²⁾	1,048	1,074	1,017	1,043
Unemployment Rates				
City	2.7%	2.3%	12%	3.2%
County	2.6	2.2	10.7	2.9
State	4.2	3.9	14.1	5.0
United States	3.9	3.7	11.2	3.9

⁽¹⁾ Data is not seasonally adjusted.
⁽²⁾ Totals may not add due to independent rounding.
⁽³⁾ As of December 2021.
Source: California Employment Development Department, Labor Market Information Division; United States Department of Labor, Bureau of Labor Statistics.

Table 3 shows the composition of employment in the San José MSA by general category for the most recent three years available.

Table 3
San José-Sunnyvale-Santa Clara Metropolitan Statistical Area
Estimated Average Annual Employment by Industry

Industry	2019	Percent of Total	2020	Percent of Total	2021	Percent of Total
Farm	5,625	0.5%	5,142	0.5%	5,125	0.5%
Natural Resources & Mining....	200	0.0	200	0.0	200	0.0
Construction	53,042	4.6	50,125	4.6	50,067	4.6
Manufacturing	172,025	14.9	168,725	15.6	171,183	15.6
Wholesale Trade	31,417	2.7	29,150	2.7	28,533	2.6
Retail Trade.....	83,092	7.2	73,067	6.7	73,675	6.7
Transportation, Warehousing, Utilities.....	16,075	1.4	15,758	1.5	17,275	1.6
Information	100,567	8.7	105,958	9.8	109,550	10.0
Financial Activities.....	37,867	3.3	38,008	3.5	37,475	3.4
Professional & Business Services.....	243,125	21.0	237,892	21.9	243,950	22.2
Educational & Health Services	178,683	15.5	171,650	15.8	174,133	15.9
Leisure & Hospitality.....	107,533	9.3	71,733	6.6	72,075	6.6
Other Services.....	28,933	2.5	22,183	2.0	24,100	2.2
Government.....	97,317	8.4	94,250	8.7	90,867	8.3
Total⁽¹⁾	1,155,501		1,083,842		1,098,208	

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ As of December 2021.

Source: California Employment Development Department, Labor Market Information Division.

Major Employers

Table 4 shows fifteen selected major employers in the City, ranked by the number of their employees, estimated as of March 1, 2022. Because there is no official source for this information, it has been gathered by the City's Office of Economic Development on an informal basis from sources believed to be reliable. However, the City can provide no assurances as to the accuracy or completeness of the information shown in Table 4.

Table 4
City of San José
Selected Major Employers as of March 1, 2022

	Company/Organization	Approximate Number of Employees	Percent of Total City Employment
1	County of Santa Clara	19,900	5.0%
2	Cisco Systems	7,500	1.9
3	City of San Jose	6,647	1.7
4	San Jose State University	4,512	1.1
5	PayPal	4,250	1.1
6	Adobe Systems	3,825	1.0
7	Kaiser Permanente	3,673	0.9
8	Broadcom	3,026	0.8
9	Western Digital	2,892	0.7
10	Broadcom	2,753	0.7
11	eBay	2,700	0.7
12	Target Stores	2,437	0.6
13	Super Micro Computer	2,180	0.5
14	IBM	2,070	0.5
15	Cadence Design Systems	1,956	0.5

Source: City of San José, Office of Economic Development, San José business tax filings, and company surveys.

Household Income

Household income, as measured by the U.S. Census Bureau, includes the income of the householder and all other people 15 years and older in the household, whether they are related to the householder. The median is based on the income distribution of all households, including those with no income. Table 5 shows the top ten median household incomes by metropolitan statistical area in the United States in 2020, the most recent American Community Survey available. The San José MSA had the highest median household income in 2020, which was well above the national median. [TO BE UPDATED IN MARCH]

Table 5
United States
2020 Top Ten Median Household Income

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

U.S. Median

Source: U.S. Census Bureau, American Community Survey 2020 1-Year Estimates.

Retail Sales

Table 6 sets forth a history of taxable sales for the City for calendar years 2018 to 2021. Taxable sales are reported using the North American Industry Classification System codes.

Table 6
City of San José
Taxable Sales
Calendar Years 2017 to 2020
(in thousands)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021⁽¹⁾</u>
Motor Vehicle and Parts Dealers	\$2,416,279	\$2,309,185	\$2,026,211	\$1,814,150
Home Furnishings and Appliance Stores.....	852,104	753,316	655,593	636,319
Bldg. Matrl. and Garden Equip. and Supplies.	1,041,664	1,049,711	1,142,685	922,540
Food and Beverage Stores	588,124	612,960	660,987	473,248
Gasoline Stations	1,188,590	1,194,716	745,609	764,204
Clothing and Clothing Accessories Stores.....	1,001,151	1,013,635	584,695	709,522
General Merchandise Stores	1,328,742	1,359,673	1,196,342	952,746
Food Services and Drinking Places	2,130,239	2,249,724	1,461,387	1,390,510
Other Retail Group	1,009,174	1,804,540	4,982,003	3,821,684
Total Retail and Food Services	11,556,068	12,347,460	13,455,513	11,484,925
All Other Outlets	4,872,501	4,804,076	3,981,188	3,522,366
Total All Outlets.....	<u>\$16,428,568</u>	<u>\$17,151,536</u>	<u>\$17,436,701</u>	<u>15,007,291</u>

(1) Includes only the first three quarters of calendar year 2021.

Source: California Department of Tax and Fee Administration.

See “MAJOR GENERAL FUND REVENUE SOURCES – Sales and Use Taxes” for a discussion regarding the City’s sales tax receipts.

Construction Activity

Overall construction activity through December 2021, measured by permit valuation, decreased 60.9% from prior-year levels for the first half of the fiscal year ended December 31, 2020. The decrease was primarily due to lower valuation across all three areas of construction activity, industrial, residential and commercial, in the first half of the fiscal year. The 2021-2022 Adopted Budget was developed with the expectation that private development activity would improve, but would remain below pre-pandemic levels for some time.

Through December 2021, residential permit valuation has decreased 26.7% from prior-year levels (\$149.2 million through December 2021 vs. \$203.6 million through December 2020). Residential activity through December included 292 multi-family units and 278 units for single-family construction for a total of 570 units.

Commercial construction permit valuation for the year ended December 31, 2021 declined 74.4% from the prior year level (\$235.7 million through December 2021, down from \$921.6 million through December 2020). Modest commercial activity in the first quarter of the Fiscal Year 2021-

2022 (\$136.5 million) was followed by uncharacteristically low valuation in the second quarter (\$99.0 million).

Industrial construction valuation through December 2021 was 41.5% lower than prior-year levels, with receipts totaling \$163.1 million through December 2021 and \$278.6 million through December 2020. Unlike the same period last fiscal year, there has been minimal new construction in the first half of fiscal year 2021-2022 with five of the first six months registering no new industrial projects commencing construction, though industrial alterations continued.

Table 7 shows construction valuation and new dwelling units for the most recent five calendar years.

Table 7					
City of San José					
Construction Valuation and New Dwelling Units					
(in thousands)					
	2017	2018	2019	2020	2021
Valuation:⁽¹⁾					
Residential	\$708,898	\$547,029	\$510,890	\$324,266	\$335,720
Non-Residential	1,691,856	811,018	1,721,756	1,672,103	713,154
Total	<u>\$2,400,754</u>	<u>\$1,358,047</u>	<u>\$2,232,646</u>	<u>\$1,996,369</u>	<u>1,048,875</u>
New Dwelling Units:					
Single Family	201	315	568	504	584
Multi-Family	2,896	2,658	1,881	1,196	1,105
Total	<u>3,097</u>	<u>2,973</u>	<u>2,449</u>	<u>1,700</u>	<u>1,689</u>

⁽¹⁾ Valuation figures are adjusted to 2021 dollars (December 2021 San Francisco-Oakland-Hayward Consumer Price Index).

Source: City of San José, Department of Planning, Building and Code Enforcement.

More information regarding building permits and fees is set forth below in the section entitled “MAJOR GENERAL FUND REVENUE SOURCES – Licenses and Permits.”

Home Sale Prices

Real estate activity was significantly curtailed at the onset of the COVID-19 pandemic. According to data from the Santa Clara County Association of Realtors, the number of residential property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranging from 10% at the time the shelter-in-place orders went into effect to 54% between the beginning of the shelter-in-place in March 2020 through June 2020. However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains, a trend continuing through fall 2021.

Through December 2021, there were a total of 4,711 property transfers for all residences, which represents growth of almost 15% from prior year levels. In addition, median single-family home prices remain strong. As of December 2021, the median single-family home price totaled \$1.48 million, which represents a 20.4% increase from the December 2020 price of \$1.22 million. Finally, it is taking significantly less time to sell these more expensive homes. The average days-

on-market through December 2021 totaled 16 days, which is significantly below the average of 26 days experienced year-to-date through December 2020.

Table 8 shows the average monthly median price for a single-family home in the City for Fiscal Years 2011-2012 through 2020-2021.

Fiscal Year	Average Median Price	Percentage Change
2011-2012.....	\$499,620	0.3%
2012-2013.....	630,001	26.1
2013-2014.....	724,450	15.0
2014-2015.....	781,708	7.9
2015-2016.....	870,042	11.3
2016-2017.....	921,019	5.9
2017-2018.....	1,131,704	22.9
2018-2019.....	1,120,042	(1.0)
2019-2020.....	1,136,729	1.5
2020-2021.....	1,316,287	13.6

Source: Santa Clara County Association of Realtors.

Education

The residents in the City are educated. According to the United States Census Bureau’s American Community Survey for 2019 [to be updated after March 17], approximately 45% of the City’s population aged 25 and older have a bachelor’s degree or higher, compared to approximately 35% in the State and approximately 33% in the United States.

The residents of the County are served by 257 elementary schools; 68 middle schools and junior high schools; 55 high schools; 31 K-12, community, alternative, special education, continuation, and juvenile hall schools, 67 charter schools, and a number of private schools. The City is served by 15 of the 32 public school districts in the County. Many of these school districts cross municipal boundaries. Principal public school systems serving the City are the San José Unified School District (grades K-12) and the East Side Union High School District.

In addition, the City includes or is near the County’s seven community colleges, which are within four community college districts (San José-Evergreen, Foothill-DeAnza, Gavilan Joint, and West Valley-Mission). Major universities in the County include Stanford University, Santa Clara University, and San José State University.

Transportation

General. The City and the surrounding area are served by a network of freeways providing regional, national, and international access. Bayshore Freeway (Highway 101), a major north-south highway between San Francisco and Los Angeles, provides access to air passenger and cargo facilities at the Airport and San Francisco International Airport. Interstate 880 connects

the City with the Oakland International Airport and the Port of Oakland. Interstates 280 and 680 provide access to the peninsula and eastern regions of the San Francisco Bay Area, respectively, and State Route 17 serves to connect the City with the Pacific Coast at Santa Cruz. Additional freeways serving the local area include State Routes 85, 87 and 237.

Public Transportation. The Santa Clara Valley Transportation Authority (the “**VTA**”) provides public transit service throughout the County, which is readily accessible to residents of the City as most residences and businesses in the City are within a quarter mile of bus or light rail service. VTA also partners with Altamont Commuter Express and Caltrain, a commuter rail service, to provide commuter rail service, with Santa Cruz Metro to provide regional bus service from Santa Cruz to Downtown San José, and with the Dumbarton Express for bus services between the East Bay and northern Santa Clara County work centers and communities.

Caltrain runs from Gilroy through the City and north to San Francisco. Caltrain’s weekday trains include Baby Bullet express route trains that travel from the City to San Francisco in less than an hour. Electrification of the Caltrain system is under construction, with electric trains anticipated to be in service in 2022.

In 2019-2020, the Bay Area Rapid Transit District (“**BART**”) completed the first phase of its extension into Santa Clara County, opening stations at Milpitas and Berryessa/North San José. The second phase of BART’s extension project, which is projected to be completed around 2030, is currently expected to consist of a six-mile extension from the Berryessa/North San José station through downtown San José, and include stations at 28th Street/Little Portugal, Downtown San José, Diridon Station, and Santa Clara.

The California High Speed Rail Authority (the “**CHSR Authority**”) is pursuing a statewide, high speed rail system in California linking Los Angeles to the San Francisco Bay Area, with a proposed station to be in the City. The CHSR Authority has indicated it will pursue a phased implementation of service. Groundbreaking on the initial construction segment of the project (Merced to Bakersfield) began in 2015 and is expected to be operational by 2028-2029. On February 25, 2022, the CHSR Authority released the final environmental impact report for the portion of the project that will connect the City and the city of Merced. This section of the railway will connect Silicon Valley and the Central Valley with a route that goes through Gilroy and north San Benito County. The City is unable to predict if or when a statewide, high speed rail system will become operational between the San Francisco Bay Area, the City and Los Angeles, or what effect such rail system would have, if any, the City’s revenues.

In the Mayor’s March Budget Message, the Mayor directed the City Manager to allocate funds to enable the City to issue a Request for Proposals relating to a potential privately financed airport connector to Diridon Station. City staff is preparing a Request for Proposals, expected to be released by summer of 2022.

The City is unable to predict how the revenues or future plans of any transportation agencies may be impacted by the COVID-19 pandemic or other events. See “CERTAIN RISK FACTORS – Public Health Emergencies” in the forepart of this Official Statement.

Airport. The Airport is located on approximately 1,000 acres of land four miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport is a commercial service and general aviation airport owned and operated by the City. The Airport is classified by the Federal Aviation Administration (the “**FAA**”) as a “medium hub” (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States). The Airport serves the California counties

of Alameda, Monterey, San Benito, San Mateo, Santa Clara, and Santa Cruz. According to a March, 2017 American City Business Journals article, the Airport was ranked as the “best-run airport in the country.”

From fiscal year 2013 through December 2019, the Airport experienced an increase in passenger activity, resulting in a total of approximately 15.7 million passengers traveling through the Airport and passenger traffic growth of 9.3% on a rolling twelve-month basis as of December 2019, representing a 9.9% compound annual growth rate from fiscal year 2013 through fiscal year 2019.

To accommodate the large increase in air traffic, the Airport added two gates at the south end of Terminal B and a 6-gate interim facility at the south end of Terminal B (the “**Interim Facility**”). The Interim Facility, completed in June 2019, includes boarding bridges as well as food and beverage concessions. The Interim Facility was designed and built as a temporary facility that can operate during construction of the future Terminal C in the same area.

Following the outbreak of COVID-19 and the resulting stay-at-home directives, passenger levels at the Airport have dropped significantly and are currently below the passenger levels experienced during the Great Recession of 2008. From March to December 2020, passenger levels declined year-over-year by 81.9% at the Airport. Compared to 2019, the total passenger levels in 2021 were down 53%, with December 2021 passengers declining by 41% from December 2019.

The Airport continues its operations as essential infrastructure. Airport revenues depend on the level of aviation activity and passenger traffic at the Airport and has seen a steady rebound in passenger levels since the low in April 2020. The Airport experienced and expects to continue to experience a significant decrease in aviation and non-aviation revenues because of the COVID-19 pandemic. The City cannot predict the extent and duration of changes in air traffic volume because of the COVID-19 pandemic and its associated economic impacts on the Airport.

RECENT ECONOMIC DEVELOPMENT ACTIVITIES

Overview

The City has experienced strong job growth and development activity since emerging from the Great Recession of 2008, particularly in North San José and the downtown area. However, recent trends suggest that development levels have plateaued, and the rate of new development is slowing. This trend was evident prior to the outbreak of COVID-19, which may further chill development momentum, but much remains unclear about the depth and length of the impacts of the pandemic and its economic effects. It is currently expected that some companies will allow their employees to continue working remotely until the COVID-19 crisis is over, and perhaps on a permanent basis. See “DEMOGRAPHIC AND ECONOMIC INFORMATION – Economic Overview – Construction” for additional information about recent construction activity in the City.

The City’s Department of Planning, Building and Code Enforcement produces an annual Development Activity Highlights and Five-Year Forecast report. Overall, the report, which was last updated in early 2022, expects the annual production of new residential units were forecasted to stabilize at a pace in the middle of the range seen over the last five years, or about 2,000 units per year. New commercial/retail and industrial construction is also projected to decline from the very high numbers seen in recent years. This partly reflects uncertainty around the economic recovery as consumer shopping habits shift online, and office-space demand comes into view following the COVID-19 pandemic.

Employment levels have rebounded from the initial impact of COVID-19, sales tax receipts are recovering, and the office leasing market is improving. Recent large leases in North San Jose by high-tech companies include electric carmaker, Nio (200,000 square feet); electric battery maker, QuantumScape (420,000 square feet); robotic surgery company, Procept BioRobotics (160,000 square feet); and electric air taxi startup, Archer Aviation (95,000 square feet). All of these leases are with companies in the research and hardware industry that involve work which cannot be performed remotely.

The following sections include descriptions of certain proposed and pending construction and development projects in the City. The City cannot provide assurance as to the timing of completion of such projects, if ever, or that such projects when completed will conform to the descriptions herein.

Downtown Development

The City’s compact downtown district is a regional transit, cultural, civic and employment hub. In recent years, the City’s planning efforts have been met with increased interest from private investment to develop significant new office and residential projects. In 2011, after three years of extensive community input from more than 5,000 residents and more than 50 public meetings, the City Council unanimously adopted the General Plan to determine how San José would develop in the next three decades. The General Plan provided capacity for a large expansion of both jobs and residences, a critical component of which focused on creating a vibrant Downtown destination including expansion of the relatively small Downtown to a size and density more appropriate for a city of one million people. The General Plan called for adding 48,500 jobs, along with 10,360 housing units, to Downtown.

Three years later, in 2014, the City Council adopted the Diridon Station Area Plan to transform the 250-acre area of Downtown’s western side (the “**Diridon Station Area**”) into an area for people to live, work and visit. The Diridon Station Area Plan provides for the development

of the Diridon Station Area into mixed-used developments with improved parks, trails, and public spaces, among other items.

In December 2018, the City Council approved General Plan amendments and adopted the Downtown Strategy 2040 to replace the 2000 Downtown Strategy. The Downtown Strategy 2040 and associated General Plan amendments increased the Downtown housing unit capacity from 10,360 to 14,360 and 48,500 jobs to 58,500 jobs. The housing and job capacity were transferred from other General Plan Growth Areas to the Downtown to accommodate anticipated Downtown growth to year 2040.

In May 2021, the City Council approved amendments to the General Plan and Diridon Station Area Plan and related rezoning to transfer additional housing unit capacity and jobs from other General Plan Growth Areas to the Downtown. The Google Mixed-Use Development (described below) also reallocated planned housing and jobs to the Downtown.

Google Mixed-Use Development in Diridon Station Area. In early 2017, Google Inc. (“**Google**”) expressed to the City an interest in purchasing land in the Diridon Station Area for the purpose of creating a mixed-use office development. Early discussions by the City with Google indicated their interest in planning and building a master-planned, transit-oriented development that could include between 6 million and 8 million square feet of office/R&D space and retail/commercial amenities. Such potential development could support approximately 20,000 new Downtown employees, significantly aiding the City’s critical need for local jobs and supporting ridership on existing and new public transportation investments.

In 2018, the City entered into purchase and sale agreements and an option agreements with Google with respect to properties in the Diridon area owned by the City, including a fire training facility, totaling approximately 15 acres (collectively, the “**Diridon City Properties**”), and five properties previously owned by the former Redevelopment Agency of the City of San José (the “**Former Agency**”) totaling approximately 6.5 acres (collectively, the “**Diridon SARA Properties**”). In December 2018, sale of the Diridon SARA Properties was completed. The City’s sale of the fire training facility to Google closed in June 2019. As part of the sale, Google agreed to lease the fire training facility to the City through June 2022. In addition, discussions are currently underway between the City and Google with respect to the option agreement for the roughly 10.5-acre property north of Santa Clara Street and adjacent to the SAP Center that is operated by Sharks Sports and Entertainment (“**SSE**”) under a lease with the City. The option agreement specifies that Google and SSE must come to mutual agreement to effectuate the transfer of the property, and the City is unable to predict whether the parties will come to an agreement. Should the parties not agree, Google may complete the transaction at the conclusion of the term of SSE’s lease of the SAP Center, which currently ends in 2040.

In December 2018, the City and Google entered into a Memorandum of Understanding (the “**Google MOU**”) for the purpose of memorializing guiding principles and shared goals of the City and Google’s collaboration and to act as a basis for negotiating a potential future development agreement between the City and Google with respect to Diridon Station Area. The Google MOU was slated to expire upon the mutual execution of a development agreement between the City and Google or December 31, 2022, whichever occurs first. The shared goals set forth in the Google MOU include, optimizing development density and creating a complementary mix of uses in order to create a transit-oriented urban neighborhood and destination and to grow and preserve housing in the City to help address rising housing costs and displacement.

In October of 2019, Google submitted its Downtown West Mixed-Use Plan application to the City, initiating the City's project review period. The project proposes up to 7.3 million square feet of office space; up to 5,900 units of new housing, up to 500,000 square feet of "active uses" such as retail and arts; up to 100,000 square feet of event space and up to 300 hotel rooms; and approximately 15 acres of private and public parks and open space. In April 2021, the City released a draft development agreement for public review, which addresses the top priorities expressed by the City Council in 2018. These priorities include affordable housing, anti-displacement, and jobs/education. The development agreement includes a "Community Benefits" package valued at approximately \$200 million designed to address these priorities. The project proposes up to 7.3 million square feet of office space; up to 5,900 units of new housing, up to 500,000 square feet of "active uses" such as retail and arts; up to 100,000 square feet of event space and up to 300 hotel rooms; and approximately 15 acres of private and public parks and open space. On May 25, 2021, the City Council approved the project, and on June 8, 2021 adopted the ordinances to implement the project.

In addition, approximately 3.1 million square feet of office space was under construction in the Downtown area and Diridon Station Area, as of February 2022. From 2017 through February 2022, investors spent \$5.4 billion on land-development sites, existing office buildings, hotel properties, multifamily housing investments, and retail properties, according to CoStar, a real estate information service. As of February 2022, entitlements had been issued for 4,500 residential units, 178,000 square feet of retail space, and 9.1 million square feet of office space within the Downtown Core. The largest proposal is a 3.4 million square foot redevelopment of the 1970s-era CityView Plaza from developer Jay Paul Co., which has built more than 11 million square feet of Class A office space in California. The proposal was approved by the City Council in June 2020. The City can provide no assurances regarding timing or completion of the project.

Most Downtown construction during the last several years has been residential in nature, but the office construction market has recently been increasing. As of February 2022, construction was underway on 1,625 residential units, 72,000 square feet of retail space, and 3.1 million square feet of office space within the Downtown core.

While Downtown is still a relatively small office market (it had a daytime employment of roughly 43,000 as of 2018), these under-construction and potential projects could substantially increase its size. However, the City can provide no assurance that any such projects will obtain land use entitlements or as to the timing or completion.

Platform 16. In February 2022, Boston Properties, a major real estate investment trust, announced it would resume construction on a large office project near Diridon Station called Platform 16. Boston Properties' investor in the project is the Canada Pension Plan Investment Board. The project broke ground in March 2020, but work stopped at the start of the COVID-19 pandemic. The project will consist of approximately 1.1 million square feet across three buildings and a garage. The first phase of development is slated to be ready for tenant improvements in late 2024. It will include a modern office building totaling 367,400 square feet.

200 Park. In November 2019, the Jay Paul Co., a privately held real estate development firm, broke ground on 200 Park Ave. The project consists of a 16-story tower comprising 875,000 square feet, making it the largest single office building in Downtown.

Adobe North Tower. On June 24, 2019, Adobe commenced construction of a fourth office tower in Downtown San José, to serve as office space for Adobe's employees. Adobe, a provider of cloud-based software and services, already owns a three-tower campus in the Downtown area that serve as Adobe's headquarters. The fourth office tower is being constructed

on a parcel across the street from the existing campus. The fourth tower is anticipated to accommodate approximately 4,000 employees with approximately 700,000 square feet of office space. Adobe's new tower is expected to provide ground floor retail. The retail could total about 8,100 square feet, according to information that Adobe has provided to the City. The City cannot predict when construction of the North Tower will be completed, or whether it will be occupied upon completion.

Other City Development

North San José. North San José is the City's main employment district. It contains approximately 100,000 jobs and is home to major companies such as Cisco Systems Inc., Broadcom Inc., Maxim Integrated Products Inc., and Cadence Design Systems Inc. North San José has traditionally been singularly employment-focused, but it has seen nearly 8,000 residential units constructed between 2009 and 2017 as part of a planning policy change to allow workers to live near jobs. In addition, developers have constructed the equivalent of roughly 4.5 million square feet of office and research and development ("**R&D**") space in this area during this period. Much of this activity followed the adoption in 2005 of the North San José Area Development Policy (the "**NSJ ADP**"), which provides development capacity for 32,000 homes and 26.7 million square feet of industrial (office/R&D), metered in four phases. Commercial occupancy in the North San José area has been boosted by recent tenant leases, acquisitions or expansions including Bloom Energy, Roku, Nio, and FedEx.

Beginning in 2015 and continuing through 2018, Apple Inc. ("**Apple**") acquired roughly 86 acres of contiguous land (most of it undeveloped) in North San José. In 2016, the City Council approved a 15-year development agreement with Apple, that provides capacity for up to 4.1 million square feet of industrial/office/R&D space. In November 2019, Apple announced its intention to commit \$2.5 billion toward helping to alleviate housing availability and affordability in the Bay Area. Of the total amount, Apple announced \$300 million would come from the Apple-owned land in North San José. It is not clear what Apple will propose to do with the land. Apple Inc. has not submitted a development application to the City and the City cannot provide any assurance that Apple will move forward with a development proposal with respect to its land in North San José.

Microsoft has also acquired vacant property in North San José recently. In May 2021, Microsoft acquired approximately 21 acres near the corner of Orchard Parkway and Component Drive, which is part of a site where a large mixed-use project of offices, hotel rooms, and retail uses has been proposed. According to Costar, a real estate information service, Microsoft acquired the property for \$78.7 million, or \$3.7 million an acre. It is not clear what Microsoft will propose to do with this property. Microsoft has not submitted a development application to the City and the City cannot provide any assurance that Microsoft will move forward with a development proposal with respect to this land.

Microsoft previously acquired land in 2017 along the north side of State Route 237 between Zanker Road and the banks of the Coyote River Creek for roughly \$1.13 million an acre. The City approved a development permit in October 2019 to allow the construction of six data center buildings totaling approximately 376,510 square feet on a 64.59 gross acre site. This development permit expires on October 24, 2022, if the permittee does not obtain a building permit and begin construction.

Microsoft filed a new development permit in November 2019. The City is currently engaged in environmental review process led by the California Energy Commission for a proposed data center consisting of two buildings totaling 479,000 square feet on an approximately

64.59-acre site. The City cannot provide any assurance that Microsoft will move forward with a development proposal for this site.

As mentioned above, the NSJ ADP provides for a specified amount of new development, including an additional 26.7 million square feet of new office/R&D development, as well as an additional 32,000 residential units, 2.7 million sq. ft. of retail development and 1,000 hotel rooms. The full build out of all new development within the NSJ ADP area is divided into four roughly equivalent phases. The NSJ ADP does not establish a timeline for these phases. Rather, each phase is defined by various amounts of development capacity for industrial, commercial, and residential development that are also tied to a menu of specified transportation improvements occurring within a reasonable time of development. For this reason, the NSJ ADP includes a phasing plan that limits how much industrial and residential development may occur in advance of the construction of supporting infrastructure improvements. As of this date, development in North San José remains in Phase I primarily because commercial and industrial development has not reached Phase I capacity. Additionally, the NSJ ADP requires that 85% of the infrastructure improvements for each phase must be reasonably assured and that all of the improvements from any preceding phase must be constructed before the industrial or residential development of the next phase may be issued building permits. Similarly, the NSJ ADP also requires that the entire industrial development of a phase and the minimum residential development of a phase must also have Building Permits issued before entitlements begin for the next phase. Currently, although the industrial and commercial capacity of Phase I has not yet been achieved, the residential capacity of Phase I has been utilized and the City Council has directed staff to explore options to advance additional residential units prior to the conclusion of Phase I.

The City entered into three settlement agreements relating to transportation improvements in the North San José Area Development Policy area. The first is a settlement agreement between the City of San José, the County of Santa Clara, and the City of Santa Clara. The second is a settlement agreement between the City of San José and the County. The third settlement agreement is between the City and the City of Milpitas.

Both 2006 settlement agreements with the City of Santa Clara and the County provide that the City contribute \$1.5 million towards a Santa Clara County project to fund the design work for the construction of the Montague/Mission/101 Interchange Project as contemplated in the County's Project Study Report for the project, which funds have been set aside by the City for that purpose. These two settlement agreements also require the City to fund and complete the widening of Montague Expressway to eight lanes between Lick Mill Boulevard and Trade Zone Boulevard, including all portions of the Expressway, regardless of City boundaries, including interchange modifications at I-880 and the Trimble Road flyover (the "**Flyover**") as part of Phase I of the NSJ ADP. Some of the work to widen Montague Expressway to eight lanes has already been completed, with the remaining work to be completed on Montague Expressway between Lick Mill Boulevard and North 1st Street. The City has set aside funding in an amount estimated to be adequate to complete the design and improvements on this County expressway that does not include funding for the Trimble Flyover, as detailed below. Both settlement agreements also require the City to complete the McCarthy-O'Toole Interchange as part of implementation of Phase III of the North San José Area Development Policy. To date, development in North San José has not reached the limits of Phase I of the North San José Area Development Policy, so the Phase I obligations of these settlement agreements are not yet applicable.

On July 1, 2020, the City advised the City of Santa Clara that it intends to reconsider its prior area plans for North San José. Instead, the City will transition to a project-by-project approach for development in the area consistent with the City's General Plan. Should that occur, the City would rescind the North San Jose Development Policies for future development that has

not already received land use entitlements from the City, rendering the obligations set forth in the 2006 settlement agreements inapplicable and subject to negotiation of revisions to the settlement agreements. The City has also notified the County of Santa Clara and the City of Milpitas of its intentions to limit applicability of the North San Jose Area Development Policy.

The City has attempted unsuccessfully to negotiate changes to the settlement agreements with the City of Santa Clara, attempting primarily to amend the NSJ ADP phasing plan to provide more housing opportunities and to change the phasing of the transportation improvements to reflect where development has occurred. The City of Santa Clara requested advisory mediation in accordance with the provisions of the agreements alleging an anticipatory breach of its settlement agreement if the City were to carry out its option to rephase the NSJ ADP. The City and the City of Santa Clara have engaged in mediation in an attempt to reach an agreement to amend the current settlement agreements, and are currently discussing the mediator's proposal and settlement of the matter, but there is currently no resolution among the parties.

If the City is unable to amend the agreements with the various parties, the City may become engaged in litigation, which could be costly, and could delay development in the North San José, hindering growth in property tax receipts. In 2018, the time of the most recent estimate, the City preliminarily projected that it would be responsible for approximately \$47 million in costs if required to complete the Trimble Flyover modifications. The City has not set any funds aside for this purpose.

West San José. The City's west side has continued to build on its retail-heavy base in recent years, anchored by Valley Fair mall and mixed-use Santana Row development. Unibail-Rodamco-Westfield began construction in 2016 on a \$1.1 billion expansion and renovation of Valley Fair, which expanded the 1.5-million-square-foot mall by 650,000 square feet. It was substantially completed by mid-2020. The expansion included a new Bloomingdale's store, a new flagship Apple store, space for 150 retail shops and restaurants and additional parking. A portion of Valley Fair lies in the City of Santa Clara; the Bloomingdale's, Apple Store and most of the new stores are located on the portion of Valley Fair within the City of San José. Eataly (a 40,000-square-foot Italian market/food hall destination), remains under construction and is expected to open in 2022.

Other projects in the City's west side include the expansion of Santana Row by Federal Realty Investment Trust. Federal Realty Investment Trust continues to expand Santana Row, completing a 284,000 square foot building at the 2.1-million-square-foot center, which includes 622 residential units, a 212-room hotel, 360,000 square feet of office, and 650,000 square feet of retail. Federal Realty Investment Trust has also entitled a roughly 1-million-square-foot office campus on a 13.4-acre site across from Santana Row. Federal Realty Investment Trust is constructing the first building, totaling 350,000 square feet, on the site. Construction halted during the first phase of the Shelter-in-Place orders, but resumed in mid-May 2020. NetApp, a cloud data management company, recently leased a 303,000-square-foot office building at Santana Row for its new headquarters.

South San José. The southern region of the City ("**South San José**") includes the Edenvale industrial district. While South San José has not seen as much development activity as other business districts in the City, several major projects have added significant housing, retail, and industrial/warehouse space. The largest of these sits on former buffer lands surrounding the Western Digital manufacturing campus totaling roughly 400 acres. Master-planned projects on these buffer lands include roughly 3,700 housing units, 500,000 square feet of retail (including a Costco store that opened in 2017), and 386,000 square feet of data center space. Most of these projects are now either complete or nearing completion. Western Digital has also expanded over

the past few years, with two buildings totaling 240,000 square feet. In addition, in Edenvale, developers constructed the first new warehouse/industrial projects in the City in many years: three warehouse buildings totaling roughly 420,000 square feet; the third building was completed in 2018. Interest in the construction of data centers in the Edenvale area has remained strong, and there is a roughly 300,000-square-foot data center project for China Mobile currently under construction.

Hospitality Development

The City's hospitality market is driven primarily by business travel, thanks to its position as a technology hub in Silicon Valley that is also served by a major convention center and international airport. As of June 30, 2021, there are approximately 10,695 hotel rooms across all hotel types including 9,779 in the Convention Center Facilities District. Over the last 10 years, approximately 2,000 hotel rooms have been built in the City. As of February 2022, approximately 413 hotel rooms were under construction across three projects. The City's pipeline of hotel projects (those approved but not yet under construction) totaled 2,944 rooms, according to the City's Development Activity Highlights and Five-Year Forecast report. The City can make no assurances as to the timing or completion of these projects.

The City's downtown hotel market is dominated by full-service hotels near the Convention Center. In March 2021, one of the largest hotels, the Fairmont San Jose, closed its doors. Following bankruptcy proceedings, the property owner received new financing and brought on a new hotel operator. The property is being branded as Signia by Hilton San Jose, and is slated to open in April 2022.

San José Convention Center

The Convention Center was opened in 1989 and was expanded in 2013. It now spans 520,000 square feet of meeting and event space. Prior to the onset of the COVID-19 pandemic, the Convention Center was experiencing strong bookings and was able to capture some events that had previously been located in San Francisco. Team San Jose, a nonprofit corporation, operates and promotes the Convention Center on behalf of the City.

Although bookings of the Convention Center have been increasing, business is not expected to reach pre-pandemic levels until 2025. For the fiscal year to date through February 2022, Team San Jose has booked 51,776 room nights for current and future years. Lead volume is up significantly as more meeting planners are beginning to source potential events after setbacks due to the Delta and Omicron variants of COVID-19. The team has received 635 leads totaling over 603,000 potential room nights for the fiscal year through February 2022, compared to 147 leads totaling 197,000 potential room nights over the same time last year. This compares to pre-COVID-19 levels of 720 leads equating to a 772,000-room-night potential. The initial attendance projection for the Convention Center in Fiscal Year 2022-2023 is 238,000, which is 46% of the attendance level from Fiscal Year 2018-2019.

Development Challenges

Commercial Development. Future development within the City is expected to face a number of challenges. While the City has seen development activity since the Great Recession of 2008, some recent proposals have struggled to obtain financing and have not broken ground as expected. These challenges, which are not unique to the City, were due in large part to escalating construction costs. An April 2018 study prepared for the City by Keyser Marston Associates ("KMA") found that direct construction costs would need to decrease by 15% to 20%,

or average commercial rents would need to increase by 10% to 15% (or some combination of the two) to ensure sufficient returns to drive new construction. Despite challenges in the current market, unique circumstances could enable certain projects to proceed, such as projects with a low land basis due to long-term ownership, or projects viewed as longer-term investments. Moreover, real estate development economics are constantly changing with respect to construction costs, land values, rent potential, and cost of capital. If, for example, market values improve relative to costs, more projects would be able to achieve an acceptable return and break ground. The rise in the Consumer Price Index could further impact development and construction pathways, as costs rise for key raw materials.

The coronavirus pandemic has resulted in a need for businesses to implement measures to protect the health and safety of workers. Among the changes being implemented or contemplated are modifications to office layouts that increase the distance and physical separation between employees. This has led to speculation that the density of employment within office buildings could be reduced on a more permanent basis.

The City adopted a commercial linkage fee in September 2020 that applies to limited geographic subareas of the City. The fee is imposed on new non-residential development to fund affordable housing. A nexus analysis was prepared in July 2020 for the City by KMA, in support of the adoption of the City's commercial linkage fee. [An update to the commercial linkage fee ordinance will be considered by the City Council on March 29, 2022 to change the timing of payment, add a 20% discount for payment prior to building permit issuance, and add credits for affordable housing].

The COVID-19 crisis could further challenge development if a new virus surge triggers an extended recession or other economic disruption depresses the demand for real estate, depresses rents, or negatively impacts the capital markets and ability of lenders to finance projects. Consumer behavioral shifts could also contribute to changes in business operations that result in lower demand for real estate. For instance, demand for office space may decline if companies allow more employees to work from home. Prolonged concern about the use of public transit could threaten the attractiveness of transit-oriented development projects. Accelerated adoption of e-commerce or new or increased City impact or development fees, including the commercial linkage fee, could diminish plans for some future retail, commercial and industrial development. Additionally, widespread disruption, bankruptcies, and consolidation in the retail sector due to the factors discussed above could depress future development or occupancy of these types of shopping centers.

The recession created by the pandemic was a temporary condition from which the economy will eventually recover. However, in addition to short-term economic damage, the pandemic is contemplated as a driver of possible long-term changes which need to be taken into consideration.

Key measures of inflation rose in 2021 at the fastest pace in decades, with the Consumer Price Index rising 7.5% over the year, before seasonal adjustment. Cost increases are also being felt in the construction industry, with construction materials prices jumping 20% in 2021, according to an Associated General Contractors report. Continued cost escalations could make approved or proposed projects infeasible.

San Jose Municipal Water System's Water Supply. Through its San Jose Municipal Water System, the City provides water service to approximately 26,000 potable and recycled water customers combined, representing roughly 100,000 residents in the Evergreen, North San Jose/Alviso, Edenvale, and Coyote Valley areas.

San Jose Municipal Water relies on four sources of supply: surface water from the San Francisco Public Utilities Commission (“**SFPUC**”), local and imported surface water from the Santa Clara Valley Water District, groundwater from the Santa Clara groundwater basin, and the City’s recycled water program. All water supplies may be impacted by the challenges related to drought. For the SFPUC water supply, serving the North San Jose/Alviso area, the business relationship between the SFPUC and its wholesale customers is largely defined by the “Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County and Santa Clara County (“**WSA**”), as amended and restated in 2018. The 2018 action amended a 2009 25-year WSA without extending the term, which expires in June, 2034, with options through 2044. The WSA addresses the ratemaking methodology used by the SFPUC in setting wholesale water rates for its customers in addition to addressing water supply and water shortages. The WSA serves as the master agreement, and it provides for a 184 million of gallons per day (MGD) Supply Assurance to all the permanent SFPUC wholesale customers on an annual average basis. The WSA is supplemented by Water Sales Contracts executed in July 2009 between SFPUC and each individual retailer. The individual Water Sales Contract includes specific conditions between SFPUC and the retailer. The City’s Water Sales Contract continues to be a temporary and interruptible supply contract. The City has no individual supply guarantee, but does have an interim supply allocation of 4.5 MGD, which requires 10-year notice before interruption. For drought conditions, the WSA contains a Water Shortage Allocation Plan which first requires voluntary reductions, but then permits the SFPUC to implement mandatory reductions if necessary to respond to water shortages. See “CERTAIN RISK FACTORS – Development Risks – Water Supply Risks” in the forepart of this Official Statement.

BUDGET

The City is legally required to adopt a balanced budget before the beginning of each fiscal year. The City Council adopted a balanced budget for 2021-2022 on June 15, 2021 and adopted the Annual Appropriation Ordinance and Funding Sources Resolution implementing the 2021-2022 Operating and Capital Budgets on June 22, 2021.

City's Budgetary Process

The City's fiscal year extends from July 1 through June 30. In the third quarter of each fiscal year, the City Manager releases the "City Manager's Budget Request and Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program." Since 1986, the City has used the five-year forecast to assist in projecting revenue levels and expenditures based on certain assumptions and expectations.

Pursuant to the Charter, the Mayor releases an annual "budget message" (the "**Mayor's Budget Message**"). This document describes the budget process, the then current fiscal situation of the City, the strategy for developing the proposed budget, recommendations on specific budget items, and other related issues. The City Council reviews and holds a public hearing on the Mayor's Budget Message prior to the City Council acting. The City Council, by majority vote, may revise the Mayor's Budget Message.

The Charter requires that the City Manager release the Proposed Capital Budget, the Capital Improvement Program, and the Proposed Operating Budget at least thirty days prior to the beginning of each fiscal year, or at such earlier time as the City Council may specify. As currently directed by the City Council, the City Manager releases the Proposed Capital Budget in April and the Proposed Operating Budget and Proposed Fees and Charges Report in May. The Proposed Operating and Capital Budgets contain the complete financial plan for the City for the next fiscal year, and account for all revenue received by the City and the uses for all revenue. The Operating Budget describes each department's activities and budget and recommended additions or reductions to the budget. The Capital Budget describes the capital projects that are funded, including the project cost and source of funds, a project description, and the timing of the project. The Fees and Charges Report documents the majority of fees and charges accruing to the City's General Fund and selected fees within other funds. The Fees and Charges Report excludes certain fees assessed by the City's enterprise operations (e.g., Airport, Downtown Parking, and Convention Center facilities). The City Council holds a number of study sessions in mid-May to discuss the proposed Operating and Capital Budgets and the Fees and Charges Report, and holds two public hearings on the budget, the first of which generally occurs in mid-May and the second of which generally occurs in early June.

In early June of each year, the Mayor releases the final budget modification message for City Council deliberation. It contains changes to the Proposed Budget recommended by the Mayor after review and discussion of the document during the budget hearings. The City Council approves the Mayor's June Budget Message, with any revisions supported by a majority vote. By June 30, the City Council adopts the operating and capital budgets for the next fiscal year, along with the implementing appropriation ordinances and funding sources resolutions that appropriate the budgeted amounts to the respective departments.

Current City practice calls for the preparation of Bi-Monthly Financial Reports, which are presented to the City Council Public Safety, Finance, and Strategic Support Committee. Additionally, the Mid-Year Budget Review document is released in January and considered by

the City Council in February. The Mid-Year Budget Review contains an assessment of the City's budget condition based on actual performance during the first six months of the fiscal year.

Based on this assessment, any necessary budget revisions are recommended to address projected revenue and expenditure variances, account for new grants and reimbursements, and address any other budgetary needs. City Council reviews the mid-year status of the operating and capital budgets, and takes actions as necessary to maintain a balanced budget. At any public meeting, the City Council may amend or supplement the budget by affirmative vote of at least a majority of the total members of the City Council.

In accordance with the City Charter, an Annual Report is issued in late September that reports on the financial status of the City at the end of the prior fiscal year, including a comparison of actual revenue collections and expenditures to projections and appropriations included in the City's budget. Recommended budget actions are brought forward in the City's Annual Report for City Council consideration to implement required fund balance reconciliations as well as necessary re-budget and clean-up adjustments based on the final year-end financial performance of the City's funds. Budget actions are also typically brought forward to adjust the current year budget to align revenues and expenditures with the most current information, make technical adjustments, and recognize new and adjust existing grant, reimbursement, or fee activity revenues and expenditures. On October 19, 2021, the City Council adopted the Annual Report for the Fiscal Year ended June 30, 2021. See "– 2020-2021 Annual Report" below for additional information.

2021-2022 Adopted Operating Budget

On October 26, 2021, the City Manager published the 2021-2022 Adopted Operating Budget (the "**2021-2022 Adopted Operating Budget**"). The 2021-2022 Adopted Operating Budget is a balanced budget that reflects the changes to the local community since the pandemic's onset in early 2020, and the changes that still need to take place.

The 2021-2022 Adopted Operating Budget totals \$5.1 billion for all City funds (General, Special, and Capital). This amount is \$333.5 million (7.0%) above the 2020-2021 Adopted Operating Budget.

The 2021-2022 Adopted Operating Budget resolves a projected General Fund shortfall of \$38.3 million that is resolved through a mix of actions, including \$45.0 million from the American Rescue Plan Fund to the General Fund that also pays for high-priority one-time projects and programs in the General Fund. However, because the balancing strategy only identified \$6.7 million in ongoing solutions, one-time solutions of \$31.6 million were required to balance the budget in 2021-2022. At the time of the 2021-2022 Adopted Operating Budget's approval, it was anticipated that the \$31.6 million of one-time solutions would carry-over into 2022-2023; and, when combined with the previous forecast, result in a General Fund shortfall in 2022-2023 of \$28.3 million.

While it is the City's policy and practice to adopt budgets that align ongoing revenue projections with ongoing expenditure obligations, approving additional cost-cutting actions would have resulted in impacts to community-facing services. Due to the uncertainty of the future economic environment and the large of resources made available from the American Rescue Plan, resolving only a portion of the ongoing shortfall was appropriate. However, the 2021-2022 Adopted Operating Budget noted the need to bring the City's General Fund budget back into structural balance over the next year as the impact from the pandemic recedes.

2020-2021 Annual Report

The Annual Report for Fiscal Year 2020-2021 included certain reconciliations and clean-up actions to various capital and operating funds in the 2021-2022 Adopted Operating Budget. In the General Fund, an ending fund balance of \$369.2 million exceeded the estimate of \$321.2 million used in the development of the 2021-2021 Adopted Budget by \$48.0 million. The net additional revenue includes Sales Tax receipts that exceeded budgeted levels by \$21.5 million due to strong performance in the last quarter of the fiscal year, Property Tax receipts that exceeded the budgeted estimate by \$11.4 million due to an additional disbursement from the County for ERAF, offset by a reduction of \$23.4 million from commercial paper proceeds that was anticipated to be used in Fiscal Year 2020-2021 for certain capital projects, but will not be needed until Fiscal Year 2021-2022.

Actions included in the Annual Report fully allocate the additional General Fund ending fund balance, including setting aside \$28.3 million to meet the 2022-2023 deficit reserve that was initially projected in the 2022-2026 Five-Year Forecast, as modified by actions included in the 2021-2022 Adopted Operating Budget, and increasing the Budget Stabilization Reserve from \$33.6 million to \$46.5 million. With the approval of the 2020-2021 Annual Report, the City's general purpose reserves increased from 6.6% to 7.6% of General Fund operating expenditures.

2021-2022 Mid-Year Budget Review Report

The 2021-2022 Mid-Year Budget Review Report (the “**2021-2022 Mid-Year Budget Review Report**”) was released on January 28, 2022, and was approved by the City Council on February 8, 2022. The 2021-2022 Mid-Year Budget Review Report provides an assessment of the City's budget condition in the current fiscal year as compared to the 2021-2022 Adopted Operating Budget, as modified, based on actual performance during the first six months of 2021-2022. Based on this analysis, budget revisions were recommended in the 2021-2022 Mid-Year Budget Review Report to: address two urgent fiscal-program needs to strengthen the City's recruitment and retention efforts given the challenging labor market, and initiate a critical upgrade and redesign of the City's budgeting platform; implement required technical/rebalancing actions to align existing revenue estimates and expenditure budgets with the most current tracking information, implement City Council direction or reallocate funding among appropriations based on updated needs; implement a number of technical and net-zero adjustments between revenue categories and expenditure appropriations; account for new or adjusted grants, reimbursements, or fees; and fund a limited number of new and urgent projects in special and capital funds. The 2021-2022 Adopted Operating Budget as modified from time to time is sometimes referred to in this Official Statement as the “**2021-2022 Modified Adopted Operating Budget.**”

According to the 2021-2022 Mid-Year Budget Review Report, while the pandemic continues to impact the community and the City organization, many of the economically sensitive revenue categories in the General Fund have experienced robust growth in the first half of the fiscal year, and revenues are on pace to exceed the previously budgeted levels by approximately \$100 million. Of this amount, \$50 million is due to real property transfer tax revenues that will be allocated by City Council policy for homelessness prevention and affordable housing purposes. Overall, General Fund expenditures are tracking below authorized levels and are expected to generate savings by year-end of \$5 to \$7 million. However, a significant portion of the excess revenues are recommended to be placed in a new revenue loss reserve (the “**Revenue Loss Reserve**”).

At the end of October 2021, the City was informed by the State of California that a portion of the City's previous and current tax revenue receipts could be significantly lower. While the City

disputes and has appealed the State's initial determination, the 2021-2022 Mid-Year Budget Review Report establishes a Revenue Loss Reserve in the amount of \$30.0 million, which sets aside the disputed revenues in 2021-2022 to address the potential negative impact to the General Fund in the event there is a final adverse determination. As the City continues to receive the referenced tax revenues, revenue estimates remain unchanged. The 2023-2027 Five-Year Forecast will initially establish an ongoing reserve of approximately \$30 million adjusted annually by the disputed tax revenues to ensure that the disputed tax revenues are not spent until the matter is fully resolved, which could take several years.

The 2021-2022 Mid-Year Budget Review Report recommended an overall net increase of \$109.5 million to the General Fund Sources in the 2021-2022 Adopted Operating Budget. This reflected required technical and rebalancing actions (\$98.2 million) and the recognition of grants, reimbursements, and/or fee related funds (\$11.3 million). Budget adjustments were recommended for several revenue categories to align the budgeted estimate with anticipated receipts. These adjustments included increasing the revenue estimates for Real Property Transfer Tax (\$50.0 million), Sales Tax (\$20.0 million), Property Tax (\$10.0 million), Business Taxes (\$8.0 million), Transfers and Reimbursements (\$4.9 million), and Fees, Rates, and Charges (\$4.0 million). Offsetting these increases is a reduction in the revenue estimate for the Transient Occupancy Tax (-\$1.0 million).

The 2021-2022 Mid-Year Budget Review Report further reported that General Fund expenditures through December 2021 totaled \$618.2 million, or 31.4% of the total 2021-2022 Modified Adopted Operating Budget. This expenditure level represented a decrease of \$63.5 million, or 9.3%, from the December 2020 level. The decrease was primarily due to lower City-wide expenses related to the timing of payments of debt service on the City's \$130 million original principal amount of Tax and Revenue Anticipation Notes issued in July of 2021 (the "**2021 TRAN**") and Energy Service Company debt service, which are anticipated to be fully expended by year-end. General Fund encumbrances through December 2021, totaled \$100.0 million, which was \$32.9 million above the December 2020 level, which was primarily due to higher capital contribution encumbrances. In total, expenditures and encumbrances through December 2021 totaled \$718.2 million, constituting 36.5% of the total 2021-2022 Modified Adopted Operating Budget (including reserves) of \$2.0 billion. When excluding reserves of \$245.5 million, expenditures and encumbrances through December constituted 41.7% of the total 2021-2022 Modified Adopted Operating Budget.

2022-2023 Mayor's March Budget Message

On March 7, 2022, the Mayor released the March Budget Message for 2022-2023 (the "**Mayor's March Budget Message**"), outlining recommendations and changes to the 2022-2023 Proposed Operating Budget. The City Council completed the review and approval of the message on March 15, 2022.

2023-2027 Five-Year Forecast

On February 28, 2022, the City Manager released the 2022-2023 City Manager's Budget Request and the 2023-2027 Five-Year Forecast and Revenue Projections for the General Fund and the Capital Improvement Fund. The 2023-2027 Five-Year Forecast and Revenue Projections (the "**2023-2027 Forecast**") reflects the City Manager's best estimates on the projected revenues and expenditures over the next five fiscal years based on the information available as of February 28, 2022. The 2023-2027 Forecast is built on the assumption of the economy continuing to recover after the sharp revenue declines experienced as a result of the COVID-19 pandemic. As with all forecasts, there is a level of uncertainty regarding the revenue and expenditure estimates

contained in the 2023-2027 Forecast. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. The City’s two largest General Fund revenues, Property Tax and Sales Tax, are sensitive to changes in the local economy and may fluctuate to a significant degree depending on future conditions. Various cost elements can also vary from year to year. While retirement costs as a percentage of the General Fund have stabilized over the past several years and are projected to decrease in future years, costs fluctuate and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards.

The following table shows the projected General Fund revenues and expenditures over the next five fiscal years and the total cumulative surplus set forth in the 2023-2027 Forecast. In addition to the cumulative surplus, the incremental surpluses (assuming each preceding shortfall or surplus is addressed completely with ongoing solutions in the year it appears) for each year of the forecast is included. Because it is the City’s goal to remain in balance on an ongoing basis, the incremental figure is useful in that it shows the additional shortfall or surplus attributed to a particular fiscal year. To the extent that a shortfall is not resolved, or a surplus is not expended on an ongoing basis, the remaining budget gap or surplus will carry over to the following year.

Table 9
City of San José
2023-2027 General Fund Five-Year Forecast ⁽¹⁾
(in millions)

	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
Projected Revenues	\$1,375.1	\$1,423.2	\$472.3	\$1,523.5	\$1,574.3
Projected Expenditures	1,347.4	1,369.5	1,395.0	1,423.6	1,445.5
Total Cumulative Surplus/(Shortfall)	\$27.7	\$53.7	\$77.3	99.9	\$128.8
Total Incremental Surplus/(Shortfall)	27.7	26.0	23.5	22.7	\$28.9
% of Budget (Based on Expenditure)	2.1%	1.9%	1.7%	1.6%	2.0%

⁽¹⁾ Does not include (a) costs associated with services that were funded on a one-time basis in 2021-2022; (b) costs associated with unmet/deferred infrastructure and maintenance needs; and (c) one-time revenue sources or expenditure needs.
Source: City of San José 2023-2027 Five-Year Forecast and Revenue Projections.

In the 2023-2027 Forecast, a modest General Fund surplus of \$27.7 million is anticipated for 2022-2023, followed by incremental surpluses ranging from \$22.7 million to \$28.9 million over the next four years. These margins are relatively negligible when put into context with the size of the projected General Fund budget, ranging from 1.6% to 2.1% of the projected annual budget of \$1.3 billion to \$1.4 billion. However, there are significant expenditure components that are not incorporated into the 2023-2027 Forecast, including programs funded on a one-time basis in 2021-2022, such as funding to continue the City’s community and economic recovery efforts, as well as unmet or deferred infrastructure and maintenance needs. See “CAPITAL IMPROVEMENT – Capital Budget and Capital Improvement Plan.”

Given the decreasing level of precision to be expected in the later years of a multi-year forecast, the significance of the projections in the out years is not so much in terms of their absolute amounts, but rather in the relative size of the decrease or increase from the prior year. This information should be used to provide a multi-year perspective to budgetary decision-making, rather than as a precise prediction of what will occur.

In the 2023-2027 Forecast, when reconciling forecast to the 2021-2022 Adopted Operating Budget, the projected surplus of \$27.7 million for 2022-2023 is the result of carrying forward the \$31.6 million shortfall resolved in 2021-2022 on a one-time basis, improved revenues of \$141.9 million, and increased costs of \$82.6 million. The largest revenue changes are increases in the Sales Tax (\$39.8 million), due to strong economic activity and relatively high levels of inflation; Property Tax (\$31.5 million), which is based off the most recent information provided by the County; Real Property Transfer Tax (\$25.0 million), resulting from the continuation of a strong real estate market; Business Tax (\$11.5 million), due to the full resumption of cardroom operations and higher activity levels for Cannabis Business Tax; Utility Taxes(\$10.4 million), based on rate increases and usage projections; Fees, Rates, and Charges(\$9.1 million) due to a more normal level of fee activity from Parks, Recreation and Neighborhood Services Department operations; Transfers and Reimbursements (\$8.5 million), associated with various adjustments related to transfers from other City funds and overhead reimbursements; and Fines, Forfeitures, and Penalties (\$3.5 million), as parking fine revenues partially recover from pandemic lows.

On the expenditure side, a number of upward and downward adjustments have been incorporated into the 2023-2027 Forecast resulting in a net increase of \$82.6 million in 2022-2023. The largest expenditure changes include the continuation of the Revenue Loss Reserve, established as part of the 2021- 2022 Mid-Year Budget Review, to set aside disputed revenues to address the potential negative impact to the General Fund in the event there is a final adverse determination regarding the ongoing allocation of tax revenues to the City (\$30.0 million; See “ – 2021-2022 Mid-Year Budget Review Report”); employee compensation increases (\$26.3 million) in accordance with existing labor agreements and estimation of future salary costs; increases for the allocation of Real Property Transfer Tax (Measure E) revenues toward affordable housing and homelessness prevention reserves and program administration (\$25.0 million); workers’ compensation claims (\$3.3 million); city-wide vehicle operations and maintenance, electricity, gas, and police fleet replacements (\$2.9 million); compensation related to living and minimum wage adjustments (\$2.5 million); health insurance plans cost increases (\$2.2 million); non-management step and management pay-for-performance program (\$2.0 million).

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the “Base Case.” The “Optimistic” and “Pessimistic” cases model economic scenarios considered possible, but less likely to occur than the “Base Case.” These alternatives are presented in the 2023-2027 Forecast to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and was used for planning purposes for the 2022-2023 Proposed Operating Budget. The projected General Fund operating margins for 2022-2023 through 2026-2027 as set forth in the 2023-2027 Forecast are shown in the following table.

Table 10
City of San José
General Fund Operating Margins
(Base, Optimistic, and Pessimistic Cases)
(in Millions)

	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	Five-year Surplus/ (Shortfall)
Base Case	\$27.7	\$26.0	\$23.5	\$22.7	\$28.9	\$128.8
Optimistic Case	\$51.7	\$28.8	\$5.4	\$29.3	\$38.0	\$153.1
Pessimistic Case	\$(1.0)	\$18.5	\$19.9	\$15.7	\$25.4	\$79.5

Source: City of San José 2023-2027 Five-Year Forecast and Revenue Projections.

- Base Case.** The Base Case Forecast is built on the assumption of the economy continuing to grow. The local region is anticipated to continue benefitting from a high level of venture capital investment in the technology industry, employment growth, moderating levels of inflation, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to continue growing, but to a lesser extent than was experienced in 2021. Additionally, with the exception of the Transient Occupancy Tax, all economically sensitive City revenues are above pre-pandemic levels. Year-over-year growth for economically sensitive General Fund revenues such as Property Tax, Sales Tax, and Transient Occupancy Tax receipts will remain strong to moderate throughout the forecast period.
- Optimistic Case.** The Optimistic Case Forecast assumes that the downward push from interest rate increases occurs much later than anticipated in the Base Case Forecast. Venture capital investments, the key driver of the technology sector of the economy, are higher in each year of the forecast in the Optimistic Case. As a result, the largest technology employers are doing much better than in the Base Case. Local employment continues to expand at a high rate, and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Higher inflation for a longer period of time is also expected in the Optimistic Case. This growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.
- Pessimistic Case.** The Pessimistic Case Forecast assumes the adverse factor of rapidly increasing interest rates and lower inflation rates occurring much earlier than the Base Case. Slower growth is assumed for several of the key determinants of the City's revenues, including home prices and the number of property sales. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, economically sensitive revenues, particularly Property Tax and Sales Tax, are impacted by economic slowdown.

Comparative General Fund Budgets

Table 11 on the following page summarizes the City's actual General Fund performance for 2019-2020 and 2020-2021, and the 2021-2022 Modified Operating Budget.

Table 11
City of San José
General Fund Budget Summaries⁽¹⁾
2019-2020 and 2020-2021 Actuals, and 2021-2022 Modified Adopted Operating Budget
(in thousands)

SOURCE OF FUNDS	2019-2020 Actuals	2020-2021 Actuals	2021-2022 Modified Adopted Operating Budget
FUND BALANCE			
Encumbrance Reserve	\$46,555	\$46,906	\$57,028
Carryover	400,284	369,180	369,180
Total Fund Balance	\$446,839	\$416,086	\$426,208
GENERAL REVENUES			
Property Tax	\$369,507	390,897	406,500
Sales and Use Tax	260,558	284,020	300,200
Transient Occupancy Tax	14,104	5,409	9,000
Franchise Fees	44,436	45,628	44,652
Utility Taxes	99,518	106,971	97,060
Business Taxes	70,822	70,036	82,500
Real Property Transfer Tax	--	50,531	90,000
Telephone Line Tax	20,695	20,873	20,000
Licenses and Permits	64,520	19,388	20,452
Fines and Forfeitures	14,383	9,760	8,676
Revenue from Use of Money and Property	13,523	8,778	9,304
Revenue from Local Agencies	15,660	20,412	22,326
Revenue from the State Government	22,512	20,735	24,005
Revenue from the Federal Government	2,639	3,734	8,526
Fees, Rates and Charges	48,568	7,442	18,973
Other Revenue	34,505	166,872	322,829
Total General Revenue	\$1,095,950	\$1,231,486	\$1,485,003
Overhead Reimbursements	57,004	68,110	69,542
Transfers to the General Fund	35,630	39,190	84,321
Reimbursements for Services	16,145	16,658	16,792
Total Interfund Transfers Reimbursements	108,779	123,958	170,655
TOTAL SOURCE OF FUNDS	\$1,651,568	\$1,771,530	\$2,081,866
USE OF FUNDS			
DEPARTMENTAL			
General Government	\$108,470	\$107,503	\$130,434
Public Safety	638,816	701,794	750,220
Capital Maintenance	86,483	70,110	76,803
Community Services	169,210	124,569	148,836
Total Departmental	\$1,002,979	\$1,003,976	\$1,106,294
NON-DEPARTMENTAL			
Citywide	\$83,913	\$254,625	\$472,842
Capital Expenditures	33,044	35,046	82,124
Transfers to Other Funds	48,967	80,826	30,393
Earmarked Reserves	--	--	292,685
Encumbrance Reserve	46,906	57,028	57,028
Contingency Reserve	--	--	40,500
Total Non-Departmental and Reserves	212,830	427,525	975,572
TOTAL USE OF FUNDS	\$1,215,809	\$1,431,500	\$2,081,866

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ As of February 8, 2022.

Source: City of San José.

State Budget

Fiscal Year 2022-2023 State Budget. On January 10, 2022, the Governor released the proposed State budget for fiscal year 2022-2023 (the “**Proposed 2022-2023 State Budget**”). The Proposed 2022-2023 State Budget is anticipated to represent a \$286.4 billion operating budget that is balanced.

Impact of State Budget on City. The City receives a portion of its funding from the State. The City's 2021-2022 Adopted Operating Budget projects that approximately 1% of the City's General Fund revenues will come from State sources.

Voters approved Proposition 1A in November 2004 to amend the State Constitution to place constraints on the State’s ability to divert certain specified revenues from local agencies to the State. Subsequently, in November 2010, voters approved Proposition 22 to amend the State Constitution to further constrain or eliminate the State’s ability to redirect revenues from local agencies. “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Proposition 1A” and “– Proposition 22.”

Additional Information. Information about the Proposed 2021-2022 State Budget and other State budgets is available at www.ebudget.ca.gov. An impartial analysis of the budget is posted by the Legislative Analyst Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. *The information referred to in this paragraph is prepared by the respective State agency maintaining each website and not by the City. The City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated in this Official Statement by these references.*

MAJOR GENERAL FUND REVENUE SOURCES

Following is a discussion of the City's principal General Fund revenue sources. The City's ability to increase revenues payable to the General Fund is limited. Legal limitations under the State Constitution generally restrict the ability of cities to raise or increase taxes without voter approval and to increase fees in excess of the amount needed to provide the service with respect to which such fees are charged, and increases to property-related fees may be subject to majority protest. Additional limitations may also be imposed through legislation or initiatives. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

The table on the following page summarizes the actual revenues for 2019-2020 and 2020-2021, and the 2021-2022 Modified Adopted Operating Budget. Included in this presentation are Interfund Transfers and Reimbursements as a source of revenue to the General Fund. The percentage of General Fund revenues for the revenue sources shown in the tables below include Interfund Transfers and Reimbursements.

Table 12
City of San José
General Fund Revenues⁽¹⁾
2019-2020 Actuals, 2020-2021 Actuals, and 2021-2022 Modified Adopted Operating Budget
(in thousands)

	2019-2020 Actuals	% of Total	2020-2021 Actuals	% of Total	2021-2022 Modified Adopted Operating Budget⁽²⁾	% of Total
Property Tax	\$369,507	30.7%	\$390,897	28.8%	\$406,500	24.6%
Sales and Use Tax	260,558	21.6	284,020	21.0	300,200	18.1
Transient Occupancy Tax	14,104	1.2	5,409	0.4	9,000	0.5
Franchise Fees	44,436	3.7	45,628	3.4	44,652	2.7
Utility Taxes	99,518	8.3	106,971	7.9	97,060	5.9
Business Taxes	70,822	5.9	70,036	5.2	82,500	5.0
Real Property Transfer Taxes	--	0.0	50,531	3.7	90,000	5.4
Telephone Line Tax	20,695	1.7	20,873	1.5	20,000	1.2
Licenses and Permits	64,520	5.4	19,388	1.4	20,452	1.2
Fines, Forfeitures and Penalties	14,383	1.2	9,760	0.7	8,676	0.5
Revenue from the Use of Money and Property	13,523	1.1	8,778	0.6	9,304	0.6
Revenue from Local Agencies	15,660	1.3	20,412	1.5	22,326	1.3
Revenue from the State Government	22,512	1.9	20,735	1.5	24,005	1.4
Revenue from the Federal Government	2,639	0.2	3,734	0.3	8,526	0.5
Fees, Rates, and Charges	48,568	4.0	7,442	0.5	18,973	1.1
Other Revenue	34,505	2.9	166,872	12.3	322,829	19.5
Total General Revenues	\$1,095,950	91.0%	\$1,231,486	90.9%	\$1,485,003	89.7%
Overhead Reimbursements	\$57,004	4.7	\$68,110	5.0%	\$69,542	4.2%
Transfers to the General Fund	35,630	3.0	39,190	2.9	84,321	5.1
Reimbursements for Services	16,145	1.3	16,658	1.2	16,792	1.0
Total Interfund Transfers and Reimbursements	\$108,779	9.0%	123,958	9.1%	170,655	10.3%
TOTAL GENERAL FUND REVENUES⁽³⁾	\$1,204,729		\$1,355,444		\$1,655,658	

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ As February 8, 2022.

⁽³⁾ Does not include the Beginning Fund Balance and Reserve for Encumbrances.

Source: City of San José.

Assessed Values and Property Taxes

Assessed Values. The assessed valuation of property is established by the County Assessor and reported at 100% of the full cash value as of January 1, except for public utility property, which is assessed by the State Board of Equalization.

The County collects the ad valorem property taxes. Taxes arising from the 1% levy are apportioned among local taxing agencies based on a formula established by State law in 1979. Under this formula, the City receives a base year allocation plus an allocation based on growth in assessed value (consisting of new construction, change of ownership and inflation). Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. Beginning in 1990-1991 (with the adoption of new State legislation), the County deducts the pro-rata cost of collecting property taxes from the City's allocation.

Table 13 sets forth the City's net assessed valuation for 2021-2022 and the previous ten fiscal years.

Fiscal Year	Total Net Assessed Valuation⁽¹⁾	Percentage Change
2011-2012.....	\$119,519,391	0.9%
2012-2013.....	121,132,767	1.3
2013-2014.....	131,817,441	8.8
2014-2015.....	140,740,876	6.8
2015-2016.....	150,039,891	6.6
2016-2017.....	160,547,694	7.0
2017-2018.....	170,460,819	6.2
2018-2019.....	181,926,524	6.7
2019-2020.....	195,150,554	7.3
2020-2021.....	206,432,481	5.8
2021-2022.....	215,860,838	4.3

⁽¹⁾ Valuations are as of the end of the fiscal year, include local secured, utility, and unsecured valuations, are net of exemptions and include properties in the Former Agency's project areas.
Source: California Municipal Statistics, Inc.

Under current County policy, the City's allocation of total ad valorem taxes (excluding supplemental taxes) is received in approximately the following cumulative percentages: 40% by mid-December, 50% by the first week of January, 85% by the third week of April, 90% by the end of April and 100% by the end of June.

The County Board of Supervisors has approved the implementation of an alternative method of distribution of tax levies and collections of tax sale proceeds (a "**Teeter Plan**"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the County's Teeter Plan, the County apportions secured property taxes on an accrual basis when

due (irrespective of actual collections) to its local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The County then receives all future delinquent payments, penalties, and interest. The Teeter Plan was effective in the County beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and tax levy for certain 1915 Act assessment bonds.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may, by resolution adopted no later than July 15 of the fiscal year for which it is to apply, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any political subdivision in the County if the rate of secured property tax delinquency in that political subdivision in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that political subdivision. If the Teeter Plan were discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency.

There can be no assurance that the County will always maintain the Teeter Plan or will have sufficient funds available to distribute the full amount of the City's share of property tax collections to the City. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. It may also be affected by State and County action. Property tax delinquencies may be impacted by economic and other factors beyond the City's or the County's control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or depression could be caused by many factors outside the control of the City, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of the spread of COVID-19 or other pandemic or natural or manmade disaster.

Property Taxes. Table 14 shows the City's Property Tax receipts in 2017-2018 through 2020-2021 and budgeted receipts for 2021-2022.

Table 14
City of San José
Property Tax Receipts
(in thousands)

Fiscal Year	Property Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$306,222	23.6%	10.8%
2018-2019 Actual	330,199 ⁽¹⁾	23.7	7.8
2019-2020 Actual	369,507	30.7	11.9
2020-2021 Actual	390,897	28.8	5.8
2021-2022 Modified Adopted Operating Budget ⁽²⁾	406,500	24.6	4.0

⁽¹⁾ Increase in Property Tax Receipts beginning in 2018-2019 is due, in part, to increases in residual property taxes resulting from debt service savings achieved as a result of the issuance of tax allocation refunding bonds by the successor agency to the City's former redevelopment agency in 2017.

⁽²⁾ As of February 8, 2022.

Source: City of San José.

Under California law, property owners are entitled to an assessment based on the lower of the fair market value of their property as of the property tax lien date (January 1) or the assessed value as determined at the time of purchase or construction, and increased by no more than 2% annually. A reduction of a property's assessed valuation may occur upon the request of the property owner, or the County Assessor may unilaterally reduce the assessed valuations of properties in response to declining market values. In the event a property owner's request for a reduction in assessed value is denied, the property owner may file an appeal.

The State's Community Redevelopment Law (codified in Part 1 of Division 24 of the California Health and Safety Code) authorized the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area is formed. In effect, local taxing agencies, such as the City, realize tax revenues only in the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. Although Assembly Bill No. 26 ("AB X1 26"), enacted on June 29, 2011 as Chapter 5 of Statutes of 2011, statutorily dissolved redevelopment agencies as of February 1, 2012, the enforceable obligations of dissolved redevelopment agencies, continue to be paid from property taxes derived from such incremental value until the enforceable obligations are paid in full in accordance with Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 ("AB 1484"), enacted as Chapter 26, Statutes of 2012, and as such statutory provisions have and may further be amended from time to time (as amended, the "Dissolution Act"). Under the Dissolution Act, taxing entities, such as the City, are to receive distributions (in proportion to such taxing entity's share of property tax revenues in the tax rate area for the applicable fiscal year) of residual amounts of property taxes attributable to incremental value on each June 1 and January 2, commencing June 1, 2012, after payment of (i) tax sharing obligations established previously pursuant to the Community Redevelopment Law, (ii) enforceable obligations of the successor agency to the former

redevelopment agency, and (iii) an administrative cost allowance to such successor agency. As enforceable obligations of the former redevelopment agency and its successor agency are paid and retired, residual amounts of property tax revenues attributable to redevelopment project area incremental value are expected to increase over time. Commencing in 2020-2021, the County Auditor-Controller modified the manner in which residual distributions to taxing entities within the County, including the City, are calculated in response to a recent California Court of Appeal decision in *City of Chula Vista v. Drager, et. al.* (2020), 49 Cal. App. 5th 539, in which the Court held that passthrough payments negotiated prior to the dissolution of redevelopment agencies must be paid in full before remaining tax increment revenues are distributed pro rata.

Property Tax receipts for 2021-2022 are estimated to total \$406.5 million, which is \$11 million above the 2021-2022 Adopted Operating Budget. Therefore, the 2021-2022 Mid-Year Budget Review included an action to increase the 2021-2022 Adopted Operating Budget by \$11 million. This increase is primarily due to higher estimated Educational Revenue Augmentation Fund (ERAF) receipts (\$7.0 million), General Secured Property Tax receipts (\$4.0 million), and Unsecured Property Tax receipts (\$1.0 million); partially offset by lower SB813 Property Tax receipts (-\$1.0 million).

It is important to note that, due to litigation from school districts disputing the calculation methodology used by the counties to allocate ERAF distributions, approximately \$10.5 million is considered at risk for not being distributed; however, a decision on the litigation will likely occur after the current fiscal year.

While San José remains a largely residential community and experienced strong activity since the initial onset of the pandemic, the impact of COVID-19 on commercial valuations is uncertain, and may have negative impacts on future valuation growth.

Largest Secured Property Taxpayers. Table 15 shows the twenty largest property taxpayers for 2021-2022 based on secured assessed valuations within the City, which collectively account for approximately 5.88% of the total secured assessed property valuation for 2021-2022. Some of the properties owned by these property owners are located in redevelopment project areas established by the Former Agency.

Table 15
City of San José
2021-2022 Twenty Largest Local Secured Property Taxpayers

Name	Assessed Property Valuation	Percentage of Total⁽¹⁾
Essex Portfolio LP	\$ 1,150,230,615	0.56%
Cisco Technology Inc.	1,033,462,676	0.50
Google LLC	965,655,470	0.47
FRIT San Jose Town & Country Village LLC	936,796,863	0.45
VF Mall LLC	891,696,826	0.43
Sobrato Interests	739,751,477	0.36
San Jose Water Works	728,626,056	0.35
River View Apartments	685,420,409	0.33
Adobe Systems Inc.	630,713,794	0.31
Apple Inc.	518,163,889	0.25
Hitachi Global Storage Techs Inc.	488,945,663	0.24
US ER America Center 1,2,3 & 4 LLC	461,873,520	0.22
MT Silicon Valley One LLC	442,113,326	0.21
Tishman Speyer Archstone-Smith	436,194,497	0.21
Samsung Semiconductor Inc.	424,949,997	0.21
SJ Cityview LLC	334,601,020	0.16
CAP Tranche 2 LLC	323,743,148	0.16
Paypal Inc.	318,537,217	0.15
Hudson Concourse LLC	317,326,568	0.15
CAP OZ 34 LLC	<u>310,500,000</u>	<u>0.15</u>
Total	\$12,139,303,031	5.88%

⁽¹⁾ 2021-2022 Local Secured Assessed Valuation: \$206,285,368,640.
Source: California Municipal Statistics, Inc.

Sales and Use Taxes

The sales tax is an excise tax imposed on retailers for the privilege of selling tangible personal property. The use tax is an excise tax imposed on a person for the storage, use or other consumption of tangible personal property purchased from any retailer. The proceeds of sales and use taxes (collectively, “**Sales Tax**”) imposed within the boundaries of the City are distributed by the State to various agencies as shown in Table 16. As of February 1, 2022, the total Sales Tax rate applicable within the City is 9.375%.

Table 16
City of San José
Sales Tax Rates

State – General Fund.....	3.9375%
State – Local Revenue Fund.....	1.5625
State – County Transportation Funds.....	0.2500
State – City or County Operations.....	1.0000
Public Safety Fund (Proposition 172) ⁽¹⁾	0.5000
Sub-Total Statewide Sales and Use Tax	7.2500
Local – City of San José ⁽²⁾	0.2500
Santa Clara County Transit District ⁽³⁾	0.5000
Santa Clara County Valley Transportation Authority ⁽⁴⁾	0.5000
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax ⁽⁵⁾	0.1250
Santa Clara County Retail Transactions and Use Tax ⁽⁶⁾	0.1250
Silicon Valley Transportation Solutions Tax ⁽⁷⁾	0.5000
Peninsula Corridor Joint Powers Board ⁽⁸⁾	0.1250
Total	9.3750%

⁽¹⁾ Approximately 0.18% of this tax is allocated to the City. In 2018-2019, the most recent data available, the Santa Clara County share of the statewide allocation is 6.37%; the City receives approximately 2.78% of the allocation to the County.

⁽²⁾ Approved by voters in June 2016, and effective October 1, 2016, (limited to 15 years) to fund essential City services.

⁽³⁾ Approved by voters in 1976; does not expire. Imposed by VTA.

⁽⁴⁾ Approved by voters in November 2000, and effective April 1, 2006 (limited to 30 years). Imposed by VTA.

⁽⁵⁾ Approved by voters in November 2008 to support BART was implemented on July 1, 2012 (limited to 30 years). Imposed by VTA.

⁽⁶⁾ Approved by voters in November 2012 and effective April 1, 2013 (limited to 10 years).

⁽⁷⁾ Approved by voters in June 2016, and effective April 1, 2017 (limited to 30 years). Imposed by VTA.

⁽⁸⁾ Approved by voters in November 2020, and effective July 1, 2021 (limited to 30 years). Imposed by the Peninsula Corridor Joint Powers Board,

Source: California Department of Tax and Fee Administration; City of San José.

At the November 1993 election, Proposition 172 was approved by voters in the State, allowing for the permanent extension of the half-cent sales tax that was originally imposed on July 15, 1991, which was scheduled to sunset on June 30, 1993. (On July 1, 1993, a six-month extension of the tax was granted by the State in order to provide a source of one-time funding for cities and counties to partially offset 1993-1994 ongoing property tax reductions.) The passage of the Proposition 172 legislation, effective January 1, 1994, required that the proceeds from the half-cent tax be diverted from the State to counties and cities on an ongoing basis for funding public safety programs.

At the June 2016 election, Measure B was approved by voters in the City amending the City’s Municipal Code to enact a 0.25% transactions and use tax, also referred to as the Local Sales Tax, in the City beginning October 1, 2016 for 15 years to fund essential City services, such

as: improving public safety; maintaining and repairing major streets (e.g., increase pavement maintenance funding for major streets to significantly slow the incidence of pothole formation and general pavement deterioration); and increasing neighborhood services (e.g., additional resources for reducing homelessness, increasing youth and senior services, and other high priority neighborhood services, such as blight eradication and gang prevention). The 0.25% transactions and use tax will terminate automatically on September 30, 2031, unless extended by voters.

The City’s budgeting forecast of Sales Tax receipts is based on the forecast of local economists, information from the City’s Sales Tax consultant, State officials’ estimates, an analysis of current and historical performance, economic trends, which are described below. Such forecasts are based on the portion of the 1% of State sales taxes for city and county operations that is allocated to the City, the portion of the State sales taxes under Proposition 172 (approximately 0.18%), and the 0.25% of the sales taxes in the City approved by Measure B.

Table 17 shows actual Sales Tax receipts for 2017-2018 through 2020-2021 and budgeted receipts for 2021-2022.

Table 17
City of San José
Sales Tax Receipts
(in thousands)

Fiscal Year	Sales Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$226,337	17.4%	9.0%
2018-2019 Actual ⁽¹⁾	263,530	18.9	16.4
2019-2020 Actual	260,558	21.6	(1.1)
2020-2021 Actual	284,020	21.0	9.0
2021-2022 Modified Adopted Operating Budget ⁽²⁾	300,200	18.1	5.7

⁽¹⁾ Due to a CDTFA processing issue, 2018-2019 collections include revenue that was attributed to 2017-2018 activity.

⁽²⁾ As of February 8, 2022.

Source: City of San José.

In March 2020, as the COVID-19 pandemic rapidly accelerated, the County of Santa Clara instituted a shelter-in-place order, which severely restricted economic activity. The shelter-in-place and subsequent public health orders impacted almost all sectors of Sales Tax revenue, including retail sales, transportation, and business-to-business. However, as the local economy continues to emerge from the pandemic, taxable sales activity has been rebounding. The 2021-2022 Adopted Operating Budget estimated Sales Tax would total \$280 million. However, due to stronger than anticipated collection levels over the last two quarters, the 2021-2022 Mid-Year Budget Review Report included an action to increase the 2021-2022 Modified Adopted Operating Budget by \$20 million, to \$300 million.

Other Revenue

The Other Revenue category includes a number of unrelated revenue sources, including proceeds from the sale of property and the issuance of Tax and Revenue Anticipation Notes (TRANs), which prefunds employer retirement contributions for the City's pension plans. The Other Revenue category in 2020-2021 totaled approximately \$167 million, which included \$130 million related to the issuance of TRANs. The Other Revenue category in the 2021-2022 Modified Adopted Operating Budget totals \$323 million, which includes the issuance of the 2021 TRAN in the original aggregate principal amount of \$285 million to prefund employer retirement contributions for the City's pension plans. See "BONDED AND OTHER INDEBTEDNESS."

Utility Taxes

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (e.g., a utility company's consumption of all utilities used in the production or supply of its service is not taxed). Except as described below with respect to the City's telephone utility user's tax, the consumers of these services pay a tax at the rate of 5% of the utility charges to the utility company that acts as a collection agent for the City. The utility company collects the tax from consumers on a monthly basis and is required to remit that amount to the City by the 25th of the following month. The tax is not applicable to Federal, State, County, City agencies, insurance companies and banks.

On November 4, 2008, voters approved Measure K, a ballot measure that replaced the existing tax on telephone service with an updated telecommunications user's tax. The updated telecommunication user's tax took effect on April 1, 2009 and reduces the 5.0% tax rate to 4.5%, and applies the tax to all intrastate, interstate and international communications services regardless of technology used to provide such services, such as private communication services, voicemail, paging, and text messaging, and continues to tax existing communication services including landline, wireless, Voice over Internet Protocol, and bundled services (where taxable and non-taxable services are bundled together).

In February 2009, the City Council adopted an ordinance amending the new voter approved telecommunications user's tax to cap the maximum amount of telecommunications user's tax payable by customers that meet certain threshold requirements in order to mitigate any disproportionate financial impact on customers. The ordinance went into effect on April 3, 2009, with an original expiration date of December 31, 2012 that the City Council extended through December 31, 2017. On January 9, 2018, the City Council approved a further extension of the ordinance through December 31, 2022, and changed the annual increase of the cap from 2% to 3%, to take effect retroactively on January 1, 2018.

Table 18 shows actual Utility Tax receipts for 2017-2018 through 2020-2021 and budgeted receipts for 2021-2022.

Table 18
City of San José
Utility Tax Receipts
(in thousands)

Fiscal Year	Utility Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$99,753	7.7%	(1.0)%
2018-2019 Actual	99,253	7.1	(0.5)
2019-2020 Actual	99,518	8.3	(0.3)
2020-2021 Actual	106,971	7.9	7.5
2021-2022 Modified Adopted Operating Budget ⁽¹⁾	97,060	5.9	(9.3)

⁽¹⁾ As of February 8, 2022.

Source: City of San José.

Utility Tax collections in 2021-2022 are expected to slightly exceed the budgeted estimate of \$97 million.

Franchise Fees

Franchise Fees are collected mainly from utility providers for the use of public rights-of-way. Franchise Fees include revenues from electricity, gas and water utility services, commercial solid waste, cable television, and nitrogen pipelines. Actual collections are subject to significant fluctuations from the impact of weather conditions and/or rate changes because the largest sources of Franchise Fees are based on utility revenues.

Table 19 shows actual Franchise fee receipts for 2017-2018 through 2020-2021 and budgeted receipts for 2021-2022.

Table 19
City of San José
Franchise Fees
(in thousands)

Fiscal Year	Franchise Fee Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$51,180	3.9%	3.1%
2018-2019 Actual	48,397	3.5	(5.4)
2019-2020 Actual	44,436	3.7	(8.2)
2020-2021 Actual	45,628	3.4	2.7
2021-2022 Modified Adopted Operating Budget ⁽¹⁾	44,652	2.7	(2.1)

⁽¹⁾ As of February 8, 2022.

Source: City of San José.

Overall, Franchise fee receipts are projected at \$44.7 million in 2021-2022, which is approximately 2% below the prior year receipts of \$45.6 million.

Business Taxes

Business Taxes are comprised of four major subcategories: (1) general business taxes; (2) cardroom business taxes; (3) cannabis business taxes; and (4) disposal facility taxes. Table 20a shows actual Business Tax receipts for 2017-2018 through 2020-2021 and budgeted receipts for 2021-2022.

Table 20a
City of San José
Business Tax Receipts
(in thousands)

Fiscal Year	Business Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$70,673	5.4%	30.5%
2018-2019 Actual	74,903	5.4	6.0
2019-2020 Actual	70,822	5.9	(5.4)
2020-2021 Actual	70,036	5.2	(1.1)
2021-2022 Modified Adopted Operating Budget ⁽¹⁾	82,500	5.0	17.8

⁽¹⁾ As of February 8, 2022.
Source: City of San José.

Table 20b shows actual Business Tax receipts by major subcategory for 2017-2018 through 2020-2021 and budgeted receipts for 2021-2022.

Table 20b
City of San José
Business Tax Receipts By Major Subcategory
(in thousands)

Subcategory	2017-2018	2018-2019	2019-2020	2020-2021 ⁽¹⁾	2021-2022 Modified Adopted Operating Budget ⁽¹⁾
Business Tax	\$26,486	\$28,048	\$28,844	\$26,502	\$25,700
Cardroom Tax	18,891	18,871	13,535	11,072	26,000
Disposal Facility Tax	12,278	12,093	12,520	13,783	12,300
Cannabis Business Tax	13,018	15,890	15,923	18,679	18,500
Total	\$70,673	\$74,903	\$70,822	\$70,036	\$82,500

⁽¹⁾ As of February 8, 2022.
Source: City of San José.

General Business Tax. On November 8, 2016, voters approved Measure G, a ballot measure to increase the general business tax imposed on all persons (broadly defined) engaged in business in San José. The general business tax is an excise tax based on the number of persons employed or on the number of units, lots or square feet leased in the City, as applicable. It is not a tax on gross receipts. Prior to Measure G, most businesses paid an annual base tax of \$150 for up to 8 employees with an additional \$18 for each employee, thereafter, capped at \$25,000 annually. For landlords of residential real estate, mobile home parks, or commercial real estate the tax was based on the number of units, lots, or square feet leased in San José, capped at \$5,000 annually.

Measure G enacted an ordinance, effective on July 1, 2017, that: (1) increased the minimum base tax from \$150 to \$195, set graduated rates for businesses with more employees paying higher rates, increased rates for landlords who pay more per unit, lot and square feet of leased space, (2) raised the annual cap on the maximum amount of tax payable to \$150,000; and (3) instituted an annual adjustment for inflation based on the consumer price index beginning on July 1, 2018, subject to certain limits. Measure G maintained various exemptions for nonprofits and a financial hardship exemption for small business owners, while adding a financial hardship exemption for certain small businesses with limited household incomes.

In 2020-2021, General Business Tax proceeds were \$26.5 million, slightly higher than anticipated, but lower than 2019-2020 collection levels by 8.1%. This decrease reflects the COVID-19 pandemic's impact on local businesses. In 2021-2022, General Business Tax revenue is anticipated to remain flat as a result of a moderate annual inflation rate increase of 1.6%, offset by reduced activity levels.

Cardroom Tax. Two cardrooms exist in the City. Currently, the City imposes an annual base tax on each cardroom in an annual minimum amount of \$150 per year, plus an additional tax in the amount of \$18 per employee based on the average number of employees, not to exceed a maximum of \$25,000, and a tax on annual gross revenues described below.

On August 4, 2020, the City Council approved placing a measure related to the City's cardrooms on the November 3, 2020 ballot ("**Measure H**"). Measure H was approved by a majority of the voters and amended the City's Municipal Code to: increase the total number of card tables permitted in the City from 98 to 128 and increase the number permitted at each cardroom from 49 to 64, increase the existing tax on gross revenues of the City's cardrooms from 15% to 16.5% and impose a tax on the gross revenues of the entities that bank the card games played at the cardrooms, referred to as third party providers of proposition player services, at the following rates; (a) 5% of annual gross revenue up to \$25,000,000; (b) 7.5% of annual gross revenues between \$25,000,001 and \$30,000,000; and (c) 10% of annual gross revenues above \$30,000,000.

Measure H is a general fund tax. As such, Measure H revenues are available for any governmental purpose of the City and are not restricted for particular purposes.

In 2021-2022, as pandemic-related restrictions continue to ease, Cardroom Tax receipts are anticipated to increase to \$26.0 million. The estimates for Cardroom Tax receipts are inclusive of the tax revenue from Measure H approved by voters in November 2020 that increased taxes on the cardrooms and imposed a new tax on third party providers of proposition player services beginning on January 1, 2021.

Since the passage of Measure H, both cardrooms in the City and a third-party provider of proposition player services have filed separate reverse validation actions in Santa Clara County

Superior Court to stop the City from imposing the taxes described in the Measure. See “POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES – Potentially Significant Litigation – Measure H Litigation” for a further discussion of such pending litigation. The City cannot provide any assurance that Measure H will not be invalidated in the future as a result of pending or future litigation.

Cannabis Business Tax. On November 2, 2010, San José voters approved Measure U, which allows the City to impose a tax on all cannabis businesses in the City at a rate of up to 10% of gross receipts from the planting, cultivation, harvesting, transporting, manufacturing, compounding, converting, processing, preparing, storing, packaging, and sales of cannabis and ancillary products in the City. On December 13, 2010, the City Council approved a 7% rate, and the tax became effective on March 1, 2011 and on June 4, 2013, the City Council adopted an ordinance increasing to the rate to 10% effective on July 1, 2013. While the maximum tax rate on all cannabis businesses approved by the voters in the City is 10% of gross receipts, the City Council has discretion to set a lower tax rate for different categories of cannabis activities.

On January 15, 2019, the City Council approved amendments to the Municipal Code to add manufacturing, distribution, and laboratory testing to the categories of regulated cannabis businesses in the City. On May 21, 2019, the City Council adopted an ordinance amending the Municipal Code to revise the Chapter setting forth the Cannabis Business Tax to reduce the tax rate from 10% of gross receipts to 4% of gross receipts derived from cultivation, 3% of gross receipts derived from manufacturing, 2% of gross receipts derived from distribution, and 0% of gross receipts derived from laboratory testing and to replace the term “marijuana” with “cannabis.” The reduction of the tax rate for these activities is effective July 1, 2019.

Based on current collection trends, it is anticipated Cannabis Business Tax receipts will total \$18.5 million in 2021-2022, which is \$1 million higher than the 2021-2022 Adopted Operating Budget estimate, but less than the \$18.7 million received in 2020-2021.

Disposal Facility Tax. On May 26, 1987, the City Council adopted the Disposal Facility Tax, which went into effect on July 1, 1987. The tax is based on the weight of solid waste disposed. The tax rate is \$13.00 per ton and is assessed on landfills located in San José. Based on current collection trends, 2021-2022 Disposal Facility Tax collections are estimated at \$12.3 million, representing a 12.3% drop from 2020-2021 collection levels \$13.8 million.

Transfer Taxes

On March 3, 2020, voters approved a ballot measure to enact a real property transfer tax ordinance (“**Transfer Tax**”), effective on July 1, 2020 (“**Measure E**”). The Transfer Tax is a general tax imposed whenever a deed, instrument, or writing, whether recorded or not, transfers real property in the City for consideration. Consideration means the amount paid for, or the value of, the transferred property and includes the amount of any debt and special assessments secured by the transferred property. The Transfer Tax also applies to a transfer of ownership interests in a legal entity (e.g., a corporation, partnership, or limited liability company) that would be considered an ownership change of real property under State law. Payment of the Transfer Tax is the responsibility of the parties to the transfer and may be paid by either party.

Real property transfers under \$2,000,000 are exempt from the Transfer Tax. Real property transfers of \$2,000,000 or more are taxed at one of the following rates applied to the full value of the consideration:

<u>Value of Consideration</u>	<u>Transfer Tax Rate</u>
\$2,000,000 to \$5,000,000	0.75%
\$5,000,001 to \$10,000,000	1.0%
Over \$10,000,000	1.5%

Beginning July 1, 2025, the exemption threshold of under \$2,000,000 (i.e., \$1,999,999.99) will automatically be adjusted based on a consumer price index every 5 years. The City Council may also increase the exemption threshold at any time, but in no event can the exemption threshold be less than \$1,999,999.99. The Transfer Tax is in addition to the existing real property conveyance tax (“**Conveyance Tax**”), also imposed on a transfer of real property, where the value of consideration exceeds \$100, at the rate of \$1.65 for each \$500 of consideration or fractional part thereof, and is a special tax that is required to be used for certain specified purposes.

On June 16, 2020, the City Council adopted a resolution approving revisions to City Council Policy 1-18 to set forth a spending plan related to the revenues from Measure E. Although Measure E is a general tax and the revenues derived from the tax can be used for any governmental purpose, Policy 1-18, as revised, allocates Measure E revenues towards addressing homelessness including, but not limited to, homeless prevention and developing new affordable housing, and sets forth the procedural requirements for changing the allocation. On April 12, 2022, the City Council will consider adopting proposed changes to the Policy to increase the allocation for homeless prevention services.

Licenses and Permits

The City requires payment for the issuance of building permits, fire permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. Where appropriate, license and permit fees take into consideration approved exceptions to the City Council’s full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City’s Fees and Charges Report, which is released in May of each year. Table 21 shows actual Licenses and Permits receipts for 2017-2018 through 2020-2021 and budgeted receipts for 2021-2022.

Table 21
City of San José
Licenses and Permits Receipts
(in thousands)

<u>Fiscal Year</u>	<u>Licenses and Permits Receipts</u>	<u>Percentage of General Fund Revenues</u>	<u>Percentage Change (Y/Y)</u>
2017-2018 Actual	\$60,505	4.7%	4.2%
2018-2019 Actual	65,295	4.7	7.9
2019-2020 Actual	64,520	5.4	(1.2)
2020-2021 Actual	19,388	1.4	(70.0)
2021-2022 Modified Adopted Operating Budget ⁽¹⁾ .	20,452	1.2	5.5

⁽¹⁾ As of February 8, 2022.
Source: City of San José.

In 2020-2021, there was a 70% decline in license and permit fees from the 2019-2020 actual receipts (which accounted for approximately 1.6% of the total General Fund revenues for fiscal year 2020-2021). Historically, a significant portion (approximately 70%) of the revenue in this category was associated with Building and Fire development-related fees (the “**Development Fee Program**”). Beginning in 2020-2021, all revenue and expenditures related to the Development Fee Program were no longer accounted for in the General Fund, and instead were accounted under specific Development Fee Program funds.

Revenue from Local Agencies

This revenue category includes revenue received from a variety of other local government agencies. For example, the City receives payments from the Central Fire District for fire services provided to the Central Fire District residents by the San José Fire Department. Table 22 shows actual Revenue from Local Agencies for 2017-2018 through 2020-2021 and budgeted Revenue from Local Agencies for 2021-2022.

Table 22
City of San José
Revenue from Local Agencies
(in thousands)

Fiscal Year	Revenue from Local Agencies	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$38,623	3.0%	39.3%
2018-2019 Actual	16,685	1.2	(56.8)
2019-2020 Actual	15,660	1.3	(6.1)
2020-2021 Actual	20,412	1.5	30.3
2021-2022 Modified Adopted Operating Budget ⁽¹⁾ .	22,326	1.3	9.4

⁽¹⁾ As of February 8, 2022.

Source: City of San José.

Transient Occupancy Tax

The Transient Occupancy Tax (the “TOT”) is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The tax rate is currently 10%. The General Fund portion of the TOT totaling approximately 40%, was enacted as a general tax. The remaining 60% of the TOT is restricted for use in cultural development, supporting a convention and visitors bureau, and supporting the convention and cultural facilities of the City. Table 23 shows actual TOT receipts for 2017-2018 through 2020-2021 and budgeted TOT receipts for 2021-2022.

Table 23
City of San José
Transient Occupancy Tax
(in thousands)

Fiscal Year	Transient Occupancy Tax	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$19,531	1.5%	6.9%
2018-2019 Actual	20,536	1.5	5.1
2019-2020 Actual	14,104	1.2	(31.3)
2020-2021 Actual	5,409	0.4	(61.6)
2021-2022 Modified Adopted Operating Budget ⁽¹⁾	9,000	0.5	66.4

⁽¹⁾ As of February 8, 2022.

Source: City of San José.

In 2020-2021, TOT receipts in the General Fund (which represent 40% of the total tax) are estimated to reach \$5.5 million, reflecting a 62% drop from the 2019-2020 collection level of \$14.1 million, and a 74% decline from the 2018-2019 collection level of \$20.5 million. The drastic decline in TOT receipts beginning in spring 2020 illustrate the contraction in hotel activity in response to the COVID-19 pandemic.

Overall, the average room rate across the City’s reporting hotels decreased by \$78.81 (from \$181.72 to \$102.91) in 2020-2021 relative to 2019-2020, with average occupancy decreasing 18.4% (from 57.56% to 39.15%). Occupancy levels hovered between 30.2% and 42.5% from July 2020 to March 2021, with room rates ranging between \$95.29 and \$105.11. However, room demand and revenues began to exhibit incremental gains over the final quarter of 2020-2021, closing at an occupancy rate of 52.31%, room rate of \$112.37, and revenue per available room (RevPAR) of \$58.78 for June 2021. This incremental rebound has continued into the first half of 2021-2022, with the occupancy and room rates reaching 58.05% and \$125.14 in November 2021 – the highest performance levels to date since April 2020. As of November 2021, cumulative average occupancy was 57.16%, the room rate was \$120.55, and RevPAR was \$68.91. The City anticipates that it will take time for business and leisure travel activity to fully recover from the reduction in receipts as a result of COVID-19, which is currently surging in the State and nationally. See “PUBLIC HEALTH EMERGENCY – COVID-19.”

Special Taxes

The City’s Convention Center Facilities District No. 2008-1, City of San José, County of Santa Clara, State of California (the “**Convention Center Facilities District**”) was established by the City in 2009. All owners of all land within the Convention Center Facilities District taxable under the Chapter in accordance with the proceedings for the authorization of the issuance of the Bonds and the levy and collection of the Special Tax (the “**Hotel Property**”) are subject to the Special Tax.

The Convention Center Facilities District includes 87 hotel properties with 9,779 hotel rooms, including Signia by Hilton which is anticipated to open in April 2022. The following table provides a recent history of taxable hotel revenue in the City by fiscal year and identifies potential Special Tax Revenues. The City’s taxable hotel revenues are a function of both the hotels’ revenue per available room and the changes in the supply of guestrooms. There are currently 413 hotel rooms under construction and that are eligible to be annexed into the Convention Center Facilities District in the future, but there can be no guarantee as to if or when such hotels will be annexed into the Convention Center Facilities District

Table 24
City of San José
Special tax Revenues
(in thousands)

Fiscal Year	Taxable Hotel Revenue ⁽¹⁾	Percentage Change	4% Base Special Tax Revenues
2011-2012	\$208,202,083	--	\$8,328,083
2012-2013	243,082,065	16.75%	9,723,283
2013-2014	282,436,788	16.19	11,297,472
2014-2015	349,859,747	23.87	13,994,390
2015-2016	367,827,933	5.14	14,713,117
2016-2017	372,541,823	1.28	14,901,673
2017-2018	491,524,857	31.94	19,660,994
2018-2019	453,290,019	(7.78)	18,131,601
2019-2020	292,768,201	(35.41)	11,710,728
2020-2021	100,343,885	(65.73)	4,013,755 ⁽¹⁾

(1) Represents \$4.0 million in special hotel taxes collected and transferred to the trustee in Fiscal Year 2020-2021. The Continuing Disclosure Annual Report, as posted on EMMA, includes the \$4.0 million of FY 2020-21 tax collections, \$4.0 million in prior fiscal year special hotel tax collections transferred from the Convention Center Facility District Capital Fund, and \$4.6 million in prior fiscal years special hotel tax collections from hotels annexed in May 2021, for a total of \$12.6 million..

Source: City of San José.

As shown in the table above, Special Taxes have historically been a volatile source and difficult to project. See “APPENDIX G – RATE AND METHOD OF APPORTIONMENT OF THE CONVENTION CENTER FACILITIES DISTRICT” for additional information regarding the calculation and collection of the Special Tax.

Relief Funds

The City's costs relating to the COVID-19 pandemic totaled approximately \$403 million for fiscal year 2019-2020 and 2020-2021 and received or expects to receive funding from Federal, State, and local sources in response to the COVID-19 pandemic. Approximately \$315 million, or 78%, of such funding is from Federal sources, and State and local sources each totaled approximately \$44 million, or 11%. As of May 4, 2021, Federal sources consisted primarily of funding from the CARES Act totaling approximately \$180 million and FEMA sources totaling approximately \$38.1 million.

In addition, the City has received a total of approximately \$106.2 million or 50% of the \$212.3 million appropriated in funding under the American Rescue Plan. Of the total \$212.3 million in American Rescue Plan funding, the 2021-2022 Adopted Operating Budget provided for \$45 million to balance the General Fund and \$2.5 million to resolve an anticipated negative fund balance in the Convention and Cultural Affairs Fund (TOT revenue was severely impacted, which would otherwise cause a negative balance in the fund used to support operations of the convention center and other cultural facilities), and \$3.0 million budgeted to meet commitments for food distribution through the end of 2020-2021 (actual expenditures through June 30, 2021 were \$1.9 million).

The City provide cannot provide any assurance that relief funds, if and when received by the City, will be adequate to alleviate the impact of the COVID-19 pandemic on the City's finances.

FINANCIAL OPERATIONS

Financial Statements

The City's Basic Financial Statements provide both government-wide financial statements with a long-term perspective on the City's activities while retaining the more traditional fund-based financial statements that focus on near-term inflows, outflows, and balances of spendable financial resources. The government-wide financial statements report on a full accrual basis and include comprehensive reporting of the City's infrastructure and other fixed assets. See "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSÉ FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note I" for a summary of the City's significant accounting policies.

Tables 24 and 25 on the following pages summarize financial information contained in the City's Basic Financial Statements for the fiscal years ended June 30, 2016, through June 30, 2020. The tables include information solely on the General Fund of the City

Table 25
City of San José
General Fund
Balance Sheet
2016-2017 through 2020-2021
(in thousands)

	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>
ASSETS					
Cash and Pooled Investments	\$299,728	\$296,597	\$435,353	\$588,848	\$567,062
Receivables:					
Taxes	55,039	54,281	62,075	57,449	79,809
Accrued Interest.....	1,440	1,986	2,536	1,910	1,615
Grants	822	3,081	1,106	3,889	5,427
Other	39,782	39,965	36,057	40,892	48,311
Less: allowance for uncollectibles	(27,904)	(26,398)	(23,618)	(24,216)	(32,365)
Due from Other Funds.....	1,823	1,797	1,653	2,116	3,445
Due from Outside Agencies	341	185	58	--	--
Loans Receivable (net of allowance for uncollectibles)	1,241	1,241	1,241	1,241	1,241
Advances and Deposits.....	170	153	137	121	104
Advances to Other Funds.....	3,297	3,297	3,297	3,297	3,297
Advances to Receivable from SARA.....	28,950	13,863	12,742	--	--
Restricted Assets:					
Cash and Pooled Investments.....	1,289	1,308	1,331	1,359	3,440
Cash and Investments held with fiscal agent.....	2,852	682	1	--	--
TOTAL ASSETS	<u>\$408,870</u>	<u>\$392,038</u>	<u>\$533,969</u>	<u>\$676,906</u>	<u>\$681,386</u>
LIABILITIES					
Accounts Payable.....	\$14,125	\$9,001	\$11,901	\$21,886	\$30,916
Accrued Salaries, Wages and Payroll Taxes	30,536	33,975	34,437	37,209	38,026
Due to Outside Agency	373	372	373	373	373
Unearned Revenue	6,302	6,483	6,548	113,514	153,751
Advance, Deposits, and Reimbursement Credits	7	7	37	67	77
Other Liabilities.....	32,553	36,736	53,432	41,545	38,257
TOTAL LIABILITIES	<u>\$83,896</u>	<u>\$86,574</u>	<u>\$106,728</u>	<u>\$214,594</u>	<u>\$261,400</u>
DEFERRED INFLOW OF RESOURCES	\$12,142	\$12,442	\$12,742	\$2,080	\$6,644
FUND EQUITY					
Fund Balances:					
Nonspendable.....	\$170	\$153	\$153	\$121	\$104
Restricted.....	690	1,057	1,370	2,007	307
Committed.....	96,026	97,809	100,147	95,414	73,580
Assigned	136,093	111,509	168,961	283,322	331,310
Unassigned	79,853	82,494	143,868	79,368	8,041
TOTAL FUND EQUITY	<u>\$312,832</u>	<u>\$293,022</u>	<u>\$414,499</u>	<u>\$460,232</u>	<u>\$413,342</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$408,870</u>	<u>\$392,038</u>	<u>\$533,969</u>	<u>\$676,906</u>	<u>\$681,386</u>

Source: City of San José Annual Comprehensive Financial Reports, 2016-2017 through -2020-2021.

Table 26
City of San José
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
2016-2017 through 2020-2021
(in thousands)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
REVENUES					
Taxes:					
Property Taxes.....	\$276,388	\$306,222	\$344,458	\$366,470	\$434,046
Sales Taxes and Shared Revenue.....	207,695	226,337	263,530	260,558	284,020
Utility Taxes.....	121,045	120,234	120,846	120,213	127,844
State of California in-lieu Tax.....	467	551	505	826	770
Franchise Taxes.....	49,642	51,180	48,397	44,436	45,628
Business Taxes.....	54,159	70,673	77,011	71,978	71,169
Miscellaneous Taxes.....	18,275	19,531	20,535	14,104	5,409
Total Taxes.....	727,671	794,728	875,282	878,585	968,886
Licenses, Permits, and Fines.....	75,173	74,859	80,725	77,747	28,344
Intergovernmental.....	11,132	11,773	8,349	90,822	120,702
Charges for Current Services.....	46,049	52,303	55,646	48,535	7,285
Interest and Investment income.....	2,222	2,228	7,303	14,512	1,561
Other Revenues.....	38,821	42,905	40,888	60,931	54,543
TOTAL REVENUES	\$901,068	\$978,796	\$1,068,193	\$1,171,132	\$1,181,321
EXPENDITURES					
Current:					
General Government.....	\$95,861	\$100,732	\$137,732	\$225,598	\$292,591
Public Safety.....	536,068	593,162	622,250	641,297	676,303
Capital Maintenance.....	111,737	120,158	89,758	86,008	45,340
Community Services.....	133,409	139,593	115,441	121,268	121,738
Sanitation.....	2,444	4,148	4,844	4,014	4,632
Capital Outlay.....	14,535	14,264	12,464	23,471	35,103
Debt Service:					
Principal.....	1,526	39,119	1,420	1,460	12,431
Interest.....	1,328	2,184	838	700	2,163
TOTAL EXPENDITURES	\$896,908	\$1,013,360	\$984,747	\$1,103,816	\$1,190,301
Excess (Deficiency) of Revenues over Expenditures	\$4,160	\$(34,564)	\$83,446	\$67,316	\$(8,980)
OTHER FINANCING SOURCES (USES)					
Bonds Issued.....	--	--	--	--	\$17,777
Transfers In.....	\$20,461	\$11,409	\$18,751	\$14,492	16,367
Proceeds for sale of capital assets.....	157	38,187	132,703	5,352	7,020
Escrow payment to the County of Santa Clara....	--	--	(67,000)	--	--
Transfers Out.....	(30,985)	(34,842)	(46,423)	(41,427)	(79,074)
TOTAL OTHER FINANCING SOURCES (USES)	\$(10,367)	\$14,754	\$38,031	\$(21,583)	\$(37,910)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$(6,207)	\$(19,810)	\$121,477	\$45,733	\$(46,890)
Fund Balance - July 1	319,039	312,832	293,022	414,499	460,232
Fund Balance - June 30	\$312,832	\$293,022	\$414,499	\$460,232	413,342

Source: City of San José Annual Comprehensive Financial Reports, 2016-2017 through 2020-2021.

Financial and Accounting Information

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category, such as governmental, proprietary, and fiduciary, are presented. The emphasis of fund financial statements is on the major governmental and enterprise funds of the City and are reported separately in the accompanying financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds in the City's accompanying financial statements.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The basis of accounting determines when transactions are reported in the financial statements. The government-wide, proprietary, and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility user taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Governmental funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. This focus is on the determination of, and changes in financial resources, and generally only current assets and current liabilities are included in the balance sheet. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. For this purpose, the City considers revenues as available if they are collected within sixty days after the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. However, principal and interest on long-term debt and certain estimated liabilities, such as compensated absences and self-insurance claims, are recorded when payment is due.

City Audit and Management Report

The City Council engages an independent certified public accountant (the "**Accountant**") who examines books, records, inventories and reports of all officers and employees who receive, control, handle, or disburse public funds and of any other officers, employees or departments as the City Council directs. These duties are performed both annually and upon request. For 2017-2018 through 2020-2021 the City engaged Macias Gini & O'Connell LLP as the Accountant. Within 180 days following the end of each fiscal year, City staff submits the financial statements audited by the Accountant to the City Council. The City publishes the City's audited financial statements as of the close of the fiscal year in the Annual Comprehensive Financial Report.

In addition to the annual audit of the City's financial statements, the Accountant issues an annual audit report of the City's internal controls over financial reporting (the "**Management Report**") to the City Council.

In the 2020-2021 Management Report, the Accountant noted two deficiencies relating to internal controls over the financial reporting process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal

course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of financial statements will not be prevented, or detected and corrected on a timely basis.

The Accountant noted a material weakness in the City's internal controls over the financial reporting process in the 2020-2021 Management Report. The Accountant commented that while the City has made significant efforts in improving its financial reporting process over the past several years, that progress has been impeded by staff turnover, an increase in volume and complexity of new accounting pronouncements issued by the Governmental Accounting Standards Board, and additional reporting and compliance responsibilities associated with new federal and state grants funds.

The City's audited Basic Financial Statements for fiscal year 2020-2021 are included as Appendix C to this Official Statement. The Accountant has not reviewed this Official Statement, has not been requested to consent to the inclusion herein of the audited financial statements and has not performed any post audit review of the financial condition or operations of the City.

CAPITAL IMPROVEMENT

Capital Budget and Capital Improvement Plan

On April 26, 2021, the City Manager released the City's 2021-2022 Proposed Capital Budget (the "**2021-2022 Proposed Capital Budget**") and 2022-2026 Capital Improvement Program (the "**2022-2026 CIP**"). On June 15, 2021, the City Council adopted the 2021-2022 Proposed Capital Budget and the 2022-2026 CIP (as so adopted, the "**2021-2022 Adopted Capital Budget**" and the "**2022-2026 Adopted CIP**," respectively). The 2021-2022 Adopted Capital Budget and the 2022-2026 Adopted CIP guide the City in the planning, scheduling, and budgeting of capital improvement projects during 2022-2026.

The 2021-2022 Adopted Capital Budget of \$1.6 billion reflects a 11.6% increase from the 2020-2021 Adopted Capital Budget of \$1.4 billion. Over a five-year period, the 2022-2026 Adopted CIP totals \$3.8 billion, a 5.1% increase from the City's 2021-2025 Adopted Capital Improvement Program of \$3.7 billion.

In November of 2018, the City received a voter authorization of up to \$650 million of general obligation bonds for various public improvements ("**Measure T**"), intended to address some of the City's most critical infrastructure needs. The 2022-2026 Adopted CIP takes into account funding for a wide variety of infrastructure needs authorized under Measure T. See also "BONDED AND OTHER INDEBTEDNESS" for additional information regarding the general obligation bonds previously issued by the City under Measure T.

The City's financial condition has historically limited, and continues to limit, the City's ability to expand much needed services to City residents and fully address the backlog of the City's deferred infrastructure and maintenance needs. The Status Report on Deferred Infrastructure Maintenance Backlog, expected to be considered by the City Council's Transportation and Environment Committee on April 4, 2021, identifies an infrastructure backlog of approximately \$1.7 billion, with an additional \$92.8 million needed annually to maintain the City's infrastructure in a sustained functional condition. Though the backlog of \$1.7 billion is expected to decrease as Measure T projects are fully implemented, including \$300 million for street paving, the City must continue to search for additional resources and leverage grant opportunities to ensure the City's public assets are appropriately maintained.

Sustainability Initiatives

In 2011, the City prepared its Greenhouse Gas Reduction Strategy in conjunction with the preparation of the General Plan process to ensure that the implementation of the General Plan update aligns with the implementation requirements of California Global Warming Solutions Act of 2006 ("**AB 32**"). The General Plan is the City's comprehensive and long-range plan to guide physical development within San José. The purposes of the Greenhouse Gas Reduction Strategy were to: (i) capture and consolidate GHG reduction efforts already underway by the City; (ii) distill policy direction on GHG reduction from the General Plan update; (iii) quantify GHG reductions that could result from land use changes incorporated in the General Plan's Land Use/Transportation diagram; (iv) create a framework for the ongoing monitoring and revision of this Greenhouse Gas Reduction Strategy; and (v) achieve General Plan-level environmental clearance in a way that is compliant with CEQA for future development activities (through the year 2020) occurring within San José. The City updated the Greenhouse Gas Reduction Strategy in 2015 and recently updated the Greenhouse Gas Reduction Strategy to comply with Senate Bill No. 32 for emissions reductions through year 2030. Further, the Greenhouse Gas Reduction

Strategy 2030 and will allow future development projects to demonstrate consistency with the Greenhouse Gas Reduction Strategy 2030 to streamline the GHG emissions analysis for the environmental review process. The City Council adopted the Greenhouse Gas Reduction Strategy 2030 on November 17, 2020.

In February 2018, City Council accepted the Climate Smart San José Plan (“**Climate Smart**”) which is intended to provide a policy framework to address global warming, establish a sustainable water supply, reduce dependency upon fossil fuels, and create cleaner air by 2050. Under a fully implemented Climate Smart Plan, the City anticipates that it would exceed the AB 32 targets.

Climate Smart outlines future strategies for the City which align with the Paris Climate Agreement. The City Council has approved one of the major Climate Smart initiatives, San José Clean Energy (“**SJCE**”). SJCE is a community choice energy program operated by the City’s Community Energy Department which supplies the City and City residents and businesses with cleaner electricity options through PG&E’s infrastructure. SJCE launched services to the City in September 2018 and to City residents and businesses in February 2019, and its operating costs, including repayment of financing costs, are anticipated to be borne by SJCE customers/ratepayers. See “**BONDED AND OTHER INDEBTEDNESS**” for a description of additional outstanding debt of the City that is secured by SJCE revenues.

Other strategies in Climate Smart include encouraging densification of development and increasing residents’ access to mass transit to reduce vehicle miles travelled. Climate Smart also contemplates support for State requirements for Zero Net Carbon new residential construction, as well as strategies for retrofitting existing residential buildings to improve energy usage. If all of the actions in Climate Smart are implemented, the cost to residents and the City (estimated to be \$264 billion or 2.55% of gross domestic product (“**GDP**”) cumulative through 2050) is anticipated to be offset by long-term savings and avoided costs (estimated at \$269 billion or 2.6% of GDP cumulative through 2050). As to the City, the estimated annual cost for full implementation is \$435 million, with ninety-five percent of this cost (\$413.25 million) attributed to SJCE, as discussed above. The remaining cost is for staff facilitation and coordination activities.

In September 2019, the City Council approved a building reach code ordinance that encourages building electrification and energy efficiency, requires solar-readiness on nonresidential buildings, and requires electric vehicle (“**EV**”)-readiness and EV equipment installation. In addition, in October 2019, the City Council approved an ordinance prohibiting natural gas infrastructure in new detached accessory dwelling units, single-family, and low-rise multi-family buildings that would supplement the reach code ordinance. Both ordinances apply to new construction starting January 1, 2020. In December 2020, the City Council approved the extension of the ordinance prohibiting natural gas infrastructure to all building types with some limited exemptions. This updated ordinance will apply to new construction starting August 1, 2021.

INSURANCE AND SELF-INSURANCE PROGRAMS

The City reassesses its insurance coverage annually. Therefore, the City makes no representations that the insurance coverages described below will be maintained in the future.

Citywide Insurance

General Liability. The City self-insures for liability (other than for the Airport and auto liability exposure at the San José-Santa Clara Regional Wastewater Facility (the “Plant”), personal injury, and workers’ compensation. The current portion of claims liability is accounted for in the General Fund and the enterprise funds on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements and the enterprise fund financial statements, the estimated liability for all self-insurance liability claims is recorded as a liability.

All-Risk Property Insurance. The City currently maintains an all-risk property insurance policy with coverage for property owned by the City. This policy also provides coverage for boiler and machinery exposures and loss due to business interruption resulting from a covered property loss. The City generally does not carry earthquake insurance as it is not reasonably available. A summary of insurable coverage for the policy period October 1, 2021 to October 1, 2022 is provided in Table 27.

Table 27
City of San José
Summary of Citywide Property Insurance Coverage
(For Policy period October 1, 2021 – October 1, 2022)

Property ⁽³⁾	Limits Per Occurrence ⁽¹⁾	Deductible Per Occurrence ⁽²⁾
	\$1,000,000,000	\$100,000
Business Interruption	300,000,000	\$100,000
Flood Locations – Low Hazard ⁽⁴⁾	\$100,000,000 Annual Aggregate	\$100,000 per Location
Flood Zones (Other) ⁽⁵⁾⁽⁶⁾	\$10,000,000 Annual Aggregate	\$500,000 per Location

⁽¹⁾ Other sub-limits apply.

⁽²⁾ Other deductibles apply.

⁽³⁾ Covers “Certified Act of Terrorism” under the Terrorism Risk Insurance Act of 2002, as amended.

⁽⁴⁾ Refers to Flood Locations – Low Hazard as defined in the City’s insurance policy.

⁽⁵⁾ The Airport and McEnery Convention Center are subject to a \$10,000,000 per Location deductible for flood.

⁽⁶⁾ The San José – Santa Clara Regional Wastewater Facility is subject to a \$5,000,000 per Location deductible for flood.

Source: City of San José, Finance Department - Risk & Insurance Management.

To mitigate the impact of a 2019 reduction to the base flood coverage from \$25,000,000 to \$10,000,000, the City has obtained an excess policy for locations considered by the City’s insurer to be in high and moderate hazard flood zones. The excess policy provides \$15,000,000

in limits excess of the primary property policy on a 50/50 quota share basis, where the City and excess insurer share the financing of losses on a 50/50 basis.

Aircraft (Hull & Liability) Policy. The City maintains an aircraft policy covering physical damage coverage for City aircraft used by the San José Police Department's Air Support Unit as well as liability coverage for bodily injury and property damage arising from the use of covered aircraft. The aircraft policy provides up to \$50,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage caused by war and other perils and is subject to a deductible of \$0 per occurrence. To supplement the aircraft policy, the City purchased an additional aircraft policy effective June 17, 2020, to include liability and physical damage coverage for the unmanned aerial systems ("UAS") used in the San José Police Department's and San José Fire Department's UAS program ("**Drone Coverage**"). The Drone Coverage, which has been renewed to June 21, 2022, provides up to \$2,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage.

Law Enforcement Liability Policy. The City maintains a law enforcement liability policy that provides coverage for third party claims alleging bodily injury, property damage, or personal injury arising from the law enforcement activities conducted on behalf of approved third-party employers by City police officers who have been approved to participate in the Secondary Employment program. The law enforcement liability policy provides \$2,000,000 in aggregate limits and is subject to a \$100,000 per occurrence deductible.

Fiduciary Liability Coverage. The City also maintains fiduciary liability insurance policies covering the City's defined contribution employee benefit plans: the Deferred Compensation Plans, the Voluntary Employees' Beneficiary Association ("**VEBA**") Plans; and the Defined Contribution 401(a) Plan. The policies protect the City and the members of the applicable Board from legal liability arising from fiduciary obligations to plan beneficiaries. The policy covering the Deferred Compensation Plans provides \$5,000,000 in aggregate limits subject to a \$25,000 per claim retention except a \$100,000 per claim retention for Class Action Claims as defined in such policy. The policy covering the VEBA Plans provides \$5,000,000 in aggregate limits subject to a \$25,000 per claim retention. The policy covering the Defined Contribution 401(a) Plan provides \$1,000,000 in aggregate limits subject to a \$25,000 per claim retention.

Crime Coverage. The City maintains government fidelity/crime coverage for City losses arising from employee dishonesty. Coverage is for financial or property losses and provides a \$5,000,000 per occurrence limit for losses resulting from employee theft, forgery, or alteration and inside the premises theft of money and securities. The policy also provides a \$1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders and counterfeit currency. All coverages are subject to a per occurrence deductible of \$100,000. The City also purchases liability insurance covering cyber risks to complement the City's cybersecurity efforts.

Workers' Compensation. The City is self-insured for workers' compensation, with all claims administered by third party administrator Intercare Holdings Services, Inc. ("**Intercare**"). Every year, the City reviews a five-year forecast for worker's compensation expenditures based on the prior year payout. Based on this review, the City's budget related to all funds for 2021-2022 is \$22.3 million and the five-year forecast for 2022-2023 is \$23.1 million.

The City entered a three-year agreement with Intercare beginning July 1, 2019, to provide comprehensive workers' compensation services including claims administration services, bill review, utilization review, medical case management, and other ancillary services at a total

compensation not to exceed \$15,963,931 based on an estimated caseload of 2,330 to 2,850 claims. As of December 21, 2021, the open claims inventory handled by Intercare was 2,513.

Third Party Liability Claims. The City is also self-insured for third party liability claims, other than those involving the Airport. The Plant also maintains an automobile liability policy issued to provide coverage for the off-premise operations of scheduled Plant vehicles with a limit of \$1,000,000 per occurrence, combined single limit for bodily injury and property damage and subject to a \$250,000 per accident retention.

Generally, third party liability claims are handled by the City Attorney's Office. The City maintains a budgeted allocation for the potential payment of third-party liability claims – this amount is \$18.6 million in the 2021-2022 Adopted Operating Budget. The City also maintains an emergency reserve to provide funding for potential workers' compensation or general liability claims that exceed the budgeted amounts as the City, for the most part, is self-insured. As of June 30, 2020, the workers' compensation and general liability catastrophic reserve currently totals and has historically totaled \$15.0 million of the unassigned fund balance and was re-budgeted in the same amount for 2020-2021 and 2021-2022.

Claims liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, newly discovered information, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information, and changes in the law. The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims. The workers' compensation estimate includes allocated loss adjustment expenses, which represent the direct cost associated with the defense of individual claims, which may be years into the future and have been discounted to their present value using a rate of approximately 1.5% for the amounts recorded.

With respect to the general liability accrual in the City's financial statements, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2021. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated. As of June 30, 2021, such provision totaled approximately \$145.6 million. The City does not maintain a cash reserve for such loss contingencies.

See "POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES" below for a description of certain claims and lawsuits filed against the City.

Unemployment Insurance. The City self-insures to the limits required by State statute. The City budgets for each year's anticipated unemployment insurance claims. By policy, the City typically funds a reserve that equates to one year of average claims payments.

The high quantity of unemployment claims incurred in Fiscal Year 2020-2021 due to the furloughs instituted in response to the COVID-19 pandemic have tapered off as the benefit period has ended for these employees. In Fiscal Year 2020-2021, \$500,000 was added back into the

reserves. Claims in Fiscal Year 2021-2022 are now approaching pre-COVID levels. As such, the contribution rate will be reduced accordingly on an ongoing basis.

Dental Insurance. The City self-insures one of its two dental plans. The City budgets each year for anticipated claims, and a claims reserve is maintained, as recommended by an actuary. During 2019-2020, the claims reserve was in excess of three months of claims. Beginning July 1, 2020, at the recommendation of the City’s benefit consultant actuary, the City has reduced the claims reserve to 1.5 months of claims in alignment with industry trends.

Medical Insurance. The self-insured plan was closed as of December 31, 2019 and the claims runout period ended on December 31, 2020. The City no longer retains any liability for this plan.

Airport Coverages

Liability Coverages. The City maintains an airport liability policy (the “**Airport Liability Policy**”), which provides a \$200 million combined single limit for bodily injury and property damage subject to a deductible of \$0 per occurrence and annual aggregate with a sublimit of \$50 million per occurrence and in the annual aggregate for personal and advertising injury, and a limit of \$200 million per occurrence and in the annual aggregate as respects to war liability.

In addition, the Airport Liability Policy provides excess auto liability coverage with a limit of \$25 million in excess of the underlying limit of \$1 million, which is provided by a separate automobile liability policy issued to provide coverage for the off-premise operations of scheduled Airport vehicles including shuttle bus fleets with a limit of \$1 million per occurrence, combined single limit for bodily injury and property damage and subject to a \$250,000 per accident retention. Physical damage coverage is available for the Airport shuttle bus fleet and is subject to a \$10,000 comprehensive and \$10,000 collision deductible.

Airport Owner Controlled Insurance Program – Terminal Area Improvement Program. On March 15, 2007, the City bound certain liability insurance for major components of the Airport’s Terminal Area Improvement Program (“**TAIP**”) through an Owner Controlled Insurance Program procured through American International Group (the “**TAIP OCIP**”). The coverage for this program is as follows:

Coverages	Limit	Deductible Per Occurrence
General Liability	\$2 million per occurrence \$4 million aggregate	\$250,000
Workers’ Compensation	Statutory	\$250,000
Employers’ Liability	\$1 million per accident	\$250,000
Excess Liability	\$200 million	None

Source: City of San José, Finance Department - Risk & Insurance Management.

The liability under the TAIP OCIP is based upon an estimated payroll of \$92.5 million for the covered projects and a construction period of 45 months, commencing on March 15, 2007

through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with AIG in the amount of \$8.9 million. The claims loss reserve fund is available to AIG to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6.5 million was deposited with AIG in 2008-2009 and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. Since August 2013, as part of the annual loss reserve analysis by AIG, a total amount of \$2,889,005 has been returned to the Airport as of December 31, 2021. The balance of the TAIP reserve fund as of December 31, 2021 was approximately \$1,179,230.

The TAIP Project has been completed and the policies expired on June 30, 2011. AIG will continue to hold the remaining funds in the claims loss reserve until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Regional Wastewater Facility Coverages: OCIP I and OCIP II

Pursuant to an agreement executed between the City and City of Santa Clara in 1959 (the "**1959 Agreement**"), the City is co-owner and administering agency of the Plant. On June 30, 2017, the City bound certain liability insurance coverage for the major components of the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program through an Owner-Controlled Insurance Program ("**RWF OCIP I**") with the primary carrier Old Republic General Insurance Corporation ("**Old Republic**"). The RWF OCIP I is a single insurance program that the City sponsors and provides commercial general liability, excess liability, and worker's compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site. In addition, the City procured builder's risk, and contractor's pollution liability insurance to cover liabilities associated with the work.

The City was also required to establish and post a cash collateral fund of \$2,657,395, to be paid in five annual installments and subject to the Old Republic's quarterly requests to adjust based on expenditure of funds up to the maximum aggregate loss of \$4,385,000. Due to positive claims experience since the inception of the program, the City negotiated a \$100,000 reduction in the overall cash collateral requirement. As of July 31, 2021, the City has provided Old Republic with \$2,557,395 for the cash collateral fund. The cash collateral fund is available to Old Republic to pay claims within the City's deductible of up to \$250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of \$4,385,000. The coverage for this program is as follows:

Table 29a
City of San José
Summary of San José-Santa Clara Regional Wastewater Facility Capital Improvement Program
RWF OCIP I

Coverages	Limit	Deductible Per Occurrence
General Liability	\$2 million per occurrence \$4 million aggregate	\$250,000
Workers' Compensation	Statutory	\$250,000
Employers' Liability	\$1 million per accident	\$250,000
Excess Liability	\$100 million	None

Source: City of San José, Finance Department - Risk & Insurance Management.

The premiums of the RWF OCIP I are calculated based on the estimated hard cost of construction valued at \$535,000,000 for the covered capital improvement projects to be enrolled and for work to be performed up to March 30, 2023.

On January 25, 2022 the City bound certain liability insurance coverage for the major components of the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program through an Owner-Controlled Insurance Program (“**RWF OCIP II**”) with the primary carrier Ace American Insurance Company (“Chubb”). The RWF OCIP II is a single insurance program that the City sponsors and provides commercial general liability, excess liability, and worker’s compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site. In addition, the City procured builder’s risk, and contractor’s pollution liability insurance to cover liabilities associated with the work.

The City was also required to establish and post a cash collateral fund of \$1,496,471, to be paid in four annual installments and subject to Chubb’s quarterly requests to adjust based on expenditure of funds up to the maximum aggregate loss of \$2,559,441. The cash collateral fund is available to Chubb to pay claims within the City’s deductible of up to \$250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of \$2,559,441. The coverage for the RWF OCIP II is as follows:

Table 29b
City of San José
Summary of San José-Santa Clara Regional Wastewater Facility Capital Improvement Program
RWF OCIP II

Coverages	Limit	Deductible Per Occurrence
General Liability	\$2 million per occurrence \$4 million aggregate	\$250,000
Workers' Compensation	Statutory	\$250,000
Employers' Liability	\$1 million per accident	\$250,000
Excess Liability	\$100 million	None

Source: City of San José, Finance Department - Risk & Insurance Management.

The premiums of the RWF OCIP II are calculated based on the estimated hard cost of construction valued at \$305,000,000 for the covered capital improvement projects to be enrolled and for work to be performed during the policy period February 1, 2022 through February 1, 2028.

The City also elected to purchase Excess Professional Liability insurance for RWF OCIP II. Excess Professional Liability coverage provides claims-made, project-specific coverage to the City for liabilities and exposures resulting from breach of the performance of professional services providers, including design, architecture and engineering work. The \$10 million in Excess Professional Liability coverage is in excess of the individual policies of these professionals, which must provide a minimum of \$2 million in professional liability coverage and applies only after exhaustion of proceeds on those policies.

LABOR RELATIONS

Overview

The City has 11 recognized employee bargaining units. The table below shows the representation and agreement expiration dates for the units. In addition to its represented employees, the City has 365 unrepresented employees budgeted for 2021-2022 pursuant to the 2021-2022 Adopted Operating Budget.

Table 30
City of San José
Summary of Labor Agreements

	Agreement Expiration Date	Full-Time Equivalent Employment ⁽¹⁾⁽²⁾
Association of Maintenance Supervisory Personnel	6/30/23	117
Association of Engineers and Architects	6/30/23	338
City Association of Management Personnel	6/30/23	518
International Brotherhood of Electrical Workers	6/30/21	75
Municipal Employees Federation	6/30/23	2,478
San José Police Officers' Association	6/30/22	1,147
Assoc. of Building, Mechanical and Electrical Inspectors	6/30/23	90
International Association of Firefighters, Local 230	6/30/23	713
Peace Officer Park Rangers Association	6/20/23	15
Association of Legal Professionals	6/30/24	45
International Union of Operating Engineers, Local #3	6/30/24	742
Total		6,278

⁽¹⁾ Full-time Equivalents ("FTE's") are the combined total number of budgeted full-time positions. For example, one full-time position equals one FTE. Similarly, two half-time positions equal one FTE. The FTE numbers are based upon the 2021-2022 Adopted Operating Budget, and have been rounded to the nearest FTE.

⁽²⁾ The total number of employees does not include 367 unrepresented positions budgeted in 2021-2022.

Source: City of San José, Office of Employee Relations, City Manager's Budget Office.

The City reached successor Memoranda of Agreement with six of the seven bargaining units whose contracts expired in 2021. The table above contains the new agreement expiration dates for all bargaining units except the International Brotherhood of Electrical Workers (“**IBEW**”). IBEW and the City have been engaged in negotiations over a successor MOA since May 2021. The parties held a factfinding hearing on January 18, 2022. The City and IBEW are currently awaiting the final factfinding report. In addition, the City has wage re-opener clauses with certain of the employee bargaining units in the event the City’s budget for 2022-2023 shows a total cumulative General Fund surplus for Fiscal Year 2022-2023, upon request of the bargaining unit. See “– State Law Requirements Related to Labor Negotiations.”

State Law Requirements Related to Labor Negotiations

Under California law, sworn police and fire employees are not permitted to strike. The City Charter provides that police and fire bargaining units have the right to binding interest arbitration of labor disputes once either the City or the applicable bargaining unit declares that the negotiations are at impasse. A summary of the City Charter’s binding interest arbitration provisions is set forth below in “– City Charter Binding Interest Arbitration Provisions.” The agreements with the Association of Building, Mechanical and Electrical Inspectors (“**ABMEI**”), the AEA, ALP, the IBEW, the MEF, the AMSP, the CAMP, the Peace Officer Park Ranger Association (“**POPRA**”) and OE#3 include “no strike” clauses during the terms of their respective agreements.

Also, under California law (the Meyers-Milias-Brown Act), the City and the bargaining units have the mutual obligation to meet and confer promptly upon request by either party and to endeavor to reach agreement on matters within the scope of representation, which generally include wages, hours, benefits and other terms and conditions of employment. Some bargaining units have limitations in their contracts on whether or not they are required to meet and confer on certain items during the term of a contract. In the event that the City and a bargaining unit are unable to reach an agreement, the parties are required to follow the impasse procedures set forth in the City’s resolution governing employer-employee relations which specifies mediation of the dispute. The non-public safety bargaining units do not have the right to binding interest arbitration of disputes. Prior to January 2012, if mediation with a non-public safety bargaining group did not result in an agreement, the City Council could choose to implement the City’s last, best and final offer. Implementation of any such terms, however, does not result in a bargaining agreement.

Effective January 2012, State law was amended to provide for an additional step before the City Council may impose a last, best and final offer. State law currently requires a non-binding fact-finding process upon election by a bargaining unit. A three-person fact-finding panel, comprised of representatives selected by the employer, bargaining unit and a chairperson selected by the Public Employee Relations Board or by mutual agreement of the parties, is charged with making written findings of fact and advisory recommendations covering unresolved issues during negotiations. The panel is empowered to conduct investigations, hold hearings, and issue subpoenas requiring the attendance and testimony of witnesses and the production of evidence. In arriving at their findings and recommendations, the panel is required to consider and apply numerous factors, including without limitation: (a) state and federal laws applicable to the employer; (b) local rules, regulations and ordinances; (c) stipulations of the parties; (d) the interests and welfare of the public; (e) the financial ability of the public agency; (f) wages, hours and conditions of employment of employees performing similar services for comparable public agencies; (g) the consumer price index for goods and services; and (h) the overall compensation presently received by employees. After applicable mediation and fact-finding procedures have been exhausted, but no earlier than 10 days after the issuance of the panel’s written findings and recommendations, a public agency may implement its last, best and final offer. Prior to doing so,

the City must hold a public hearing regarding the impasse. It is expected that the fact-finding process could significantly lengthen the negotiation process.

City Charter Binding Interest Arbitration Provisions

In November 2010, the voters approved a Charter amendment to revise the Charter's binding interest arbitration provisions for the City's public safety bargaining units to, among other things, change the selection process for the neutral arbitrator member of the Arbitration Board (as defined below) and the factors to be weighed by the Arbitration Board in making its award, and to place limits on the Arbitration Board's authority. The Charter's provisions governing arbitration, as amended, are described below.

These provisions have been utilized on two occasions since they were enacted. In 2013, the City and the San José Police Officers Association (the "**POA**") reached an impasse during the negotiations for a successor memorandum of agreement ("**MOA**"). An arbitration hearing was held regarding certain terms of the MOA under dispute in May 2013. In July 2013, the Arbitration Board issued its decision on those terms within the limitations of Charter Section 1111. In 2014, the City and the International Association of Firefighters, Local 230 ("**IAFF, Local 230**") held an arbitration hearing related to implementation of a new tier of retirement benefits for new Fire employees hired or rehired by the City after the effective date of the implementing ordinance. At the conclusion of the hearing, the Arbitration Board adopted the City's proposal for a new tier of pension retirement benefits for Fire employees. The reduced retirement benefits awarded through these arbitration proceedings have been superseded by the retirement benefits that were implemented through the voters' approval of Measure F in November 2018. See APPENDIX B – "THE CITY OF SAN JOSE: RETIREMENT PLANS." In addition, in 2013, prior to the commencement of the arbitration for a tier two retirement plan for police officers, the POA and the City reached an agreement on new retirement benefits for new Police employees that was subsequently approved by the Arbitration Board as a stipulated arbitration award.

Under the City's Charter, the City and the bargaining unit each select one arbitrator and jointly select a third neutral arbitrator. The neutral arbitrator serves as the Chair of the three-person arbitration board ("**Arbitration Board**"). If the City and the bargaining unit cannot reach agreement on the selection of the neutral arbitrator, then either party may request the Superior Court to appoint the third arbitrator who shall be a retired judge of the Superior Court.

At the conclusion of the arbitration hearings, the Arbitration Board shall direct each of the parties to submit, within such time limit as the Board may establish, a last offer of settlement on each of the issues in dispute. The Arbitration Board shall decide each issue by majority vote by selecting whichever last offer of settlement on that issue it finds by the preponderance of the evidence submitted to the Arbitration Board is consistent with the City Charter, satisfies the factors below, is in the best interest and promotes the welfare of the public, and most nearly conforms with those factors traditionally taken into consideration in the determination of wages, hours, and other terms and conditions of public and private employment, including, but not limited to, changes in the average consumer price index for goods and services, the wages, hours, and other terms and conditions of employment of other employees performing similar services.

The primary factors in decisions regarding compensation shall be the City's financial condition and, in addition, its ability to pay for employee compensation from on-going revenues without reducing City services. No arbitration award may be issued unless a majority of the Arbitration Board determines, based upon a fair and thorough review of the City's financial condition and a cost analysis of the parties' last offers, that the City can meet the cost of the award

from on-going revenues without reducing City services. The arbitrators shall also consider and give substantial weight to the rate of increase or decrease of compensation approved by the City Council for other bargaining units.

Additionally, the Arbitration Board cannot issue an award that would (1) increase the projected cost of compensation at a rate that exceeds the rate of increase in revenues from the sales tax, property tax, utility tax and telephone tax averaged over the prior five fiscal years; (2) retroactively increase or decrease compensation, excluding base wages; (3) create a new or additional unfunded liability for which the City would be obligated to pay; or (4) deprive or interfere with the discretion of the Police or Fire Chiefs to make managerial, operational or staffing decisions, rules, order and policies in the interest of the effective and efficient provision of police and fire services to the public.

POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES

Potentially Significant Litigation

There are a number of pending cases or claims that could result in litigation that are anticipated to be scheduled for trial or appellate court hearing during the next twelve to twenty-four months in which the City's potential exposure for damages or attorneys' fees, collectively, could total \$10 million or more. For all the matters described below, the City is unable to predict their actual outcome or when they will be resolved.

Tributary Agencies' Litigation. Pursuant to the 1959 Agreement, the City and the City of Santa Clara are co-owners of the Plant, with the City serving as the administering agency under an agreement with the City of Santa Clara executed in 1959. The Plant provides wastewater treatment services to the City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District, and CSD 2-3 (the "**Tributary Agencies**") pursuant to a separate "Master Agreement" with each Agency. On January 22, 2016 and September 7, 2016, the City, as the administering agency, received claims from all Tributary Agencies alleging a breach of contract and inequity under the Master Agreements.

The Master Agreements require that any allegation of breach of contract or inequity ("**Claim**") be filed with the legislative bodies of the agencies that committed the alleged breach, and with the Treatment Plant Advisory Committee ("**TPAC**"). TPAC is an advisory body, comprised of representatives of the City, Santa Clara and three of the Tributary Agencies that was established by the Master Agreements to provide policy and budget guidance to the City, as the Plant's administering agency. TPAC conducted two administrative hearings, on March 24, 2016 and September 7, 2016, regarding each claim and issued reports as required by the Master Agreements. The Tributary Agencies disagreed with the reports and the parties attempted to mediate the Claims but were unable to reach a resolution. All parties agreed to waive the hearings before the joint legislative bodies.

The Tributary Agencies filed a complaint against the City and Santa Clara on March 23, 2018. The allegations in the complaint are substantially similar to the claims raised and heard through the administrative hearing process. The Tributary Agencies allege the City breached their respective contracts, which set the terms for treating the Agencies' wastewater by, among other allegations, charging them for expenditures they allege the contracts do not authorize and concealing how the funds are used. They also allege the City breached the implied covenant of

good faith and fair dealing and violated certain California Constitutional provisions limiting local agencies' imposition of property related fees, charges, and taxes. The Tributary Agencies further allege their payments resulted in unjust enrichment to the City and Santa Clara, and that the court should provide declaratory relief in support of their allegations.

The City filed and served a cross-complaint against each Tributary Agency seeking declaratory relief from the court as to each of the causes of action alleged by the Tributary Agencies in their complaint. The Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Plant to date. The City cannot predict the outcome or the timeline for resolution of this litigation. Discovery in the case is ongoing, and a trial date has been set for January 2023.

Retirement Benefits Litigation. On November 30, 2016, twenty-one individuals who are retired members of the Federated City Employees' Retirement System (the "**Federated Plan**") and their spouses, a surviving spouse of a Federated Plan retiree and an association representing Federated Plan retired members or to-be-retired Federated Plan members, their qualified spouses, domestic partners, dependents and beneficiaries filed a claim against the City and the Federated Plan Board and have since filed a lawsuit against the City and the Board. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Internal Revenue Code Section 415 ("**Section 415**"). The lawsuit alleges that the City has failed to provide the plaintiffs with their fully earned vested retirement pension benefits as a result of the application of Section 415 limitations. The lawsuit further alleges that the City should have established a separate plan as allowed under Section 415 or should have taken other action to pay the plaintiffs with the amount of the compensation that would exceed the Section 415 limitations. The City has accepted the tendered defense of the Board.

Following a series of motions challenging the sufficiency of the allegations and the legal basis for the claims, on July 30, 2020, a Third Amended Complaint was filed, and the City answered that complaint. In June 2021, the Court granted summary judgment for the City as to all but two plaintiffs. Discovery continues and the remaining claims by these two plaintiffs are set for a court trial in May 2022. Those plaintiffs whose claims the Court denied have appealed the summary judgment ruling. Currently, the City is unable to state the potential exposure for damages in this case.

Cardroom Litigation. A cardroom business filed lawsuits against the City challenging the constitutionality of the City's regulatory fees and seeking declaratory and injunctive relief finding the imposition of the regulatory fees to be a special tax and refund of the fees that have been paid. The refund of the regulatory fees paid would be approximately \$1 million for each of the fiscal years 2012 through 2018, with the exception of 2012-2013, for which no claim has been made. In addition, the cardroom business is seeking interest at the legal rate and attorneys' fees.

On August 22, 2018, the court entered judgment in favor of the City on all claims. The plaintiff filed an appeal from the judgment and the matter is pending before the California Court of Appeal, Sixth Appellate District Court.

The cardroom business and the City entered into a settlement agreement that was approved by the City Council on September 22, 2020. The settlement was contingent upon City voters approving a ballot measure presented in the November 3, 2020 election pertaining to cardroom operations and taxation, amendments to the City's gaming regulations under Title 16 of the Municipal Code, and approval from the City for at least fifteen (15) additional tables. The

foregoing contingencies were met as of March 2, 2021. The City has demanded that the cardroom dismiss the lawsuit; however, to date, the cardroom has not complied.

Cardroom businesses are also subject to regulation under the California Gambling Control Act and additional tables must be approved by the California Gambling Control Commission. The State Department of Justice has notified the City in a comment letter that in their view the increase in the number of tables in the City from 98 to 128 is not inconsistent with the State Gambling Control Act, but the increase of cardroom tables at each cardroom from 49 to 64 is inconsistent with the Act. On April 26, 2021, the Gambling Control Commission denied requests by the cardrooms in the City for additional tables. Following the State Gambling Commission's decision, the cardrooms filed a lawsuit in the San Francisco County Superior Court to require the Gambling Control Commission to approve the application for additional tables. The City is named as a necessary party in those lawsuits. On July 9, 2021, the Court issued a decision upholding the Gambling Control Commission's decision. One cardroom filed an appeal from that decision on August 3, 2021. The matter has been fully briefed.

Measure H Litigation. Measure H is the ballot measure which was part of the settlement of the regulatory fee litigation described above in the section entitled "Cardroom Litigation" which amended the City's Municipal Code to: increase the total number of tables permitted in the City from 98 to 128 and increase the number permitted at each cardroom from 49 to 64; increase the existing tax on gross revenues of the City's two cardrooms from 15% to 16.5% and impose a tax on the gross revenues of the entities that bank the card games played at the cardrooms, referred to as third party providers of proposition player services at varying rates depending on the amount of gross revenues, up to a maximum rate of 10%.

The voters approved the measure and on December 8, 2020, the City Council certified the results of the November 3, 2020 election. By its terms, the ordinance enacted by Measure H became effective 10 days after the City Council certified the results of the election with the tax provisions taking effect on January 1, 2021.

Since the passage in November 2020 of the City's Measure H, both cardrooms in the City and a third-party provider of proposition player services have filed separate reverse validation actions in the Santa Clara County Superior Court to stop the City from imposing the taxes described in the Measure. The Court issued an order on November 21, 2021, consolidating the three cases. The complaints allege that the Gambling Control Commission will likely reject any applications from cardroom businesses to increase the number of cardroom tables at their establishments, based on the comment letter provided by the State Department of Justice to the City. (The Gambling Control Commission did reject the cardrooms' applications on April 26, 2021.) The plaintiffs contend that the entire Measure therefore should be invalidated, and the City should not be allowed to impose the increased tax rate on the cardroom businesses or the applicable tax rates on third party providers of proposition player services. All of the complaints cite and attach a City staff report which estimated that the increased cardroom tax rate could generate \$2 million and the tax on third party providers of proposition player services could generate \$4 million in potential annual revenue for the City. A case management conference is scheduled for June 21, 2022. **FLSA Litigation and Claims.** Seven individual lawsuits pending in federal court cases brought by firefighters have been consolidated in the case entitled *Barnett v. City of San Jose*. Approximately 290 firefighters allege that the City failed to pay them adequate overtime under the Fair Labor Standards Act ("**FLSA**"). The Court vacated the trial date set for January 24, 2022. The Court directed the parties to identify the legal issues to be decided and indicated that the Court would rule on them. The case is set for a settlement conference on April 1, 2022.

Coyote Valley Litigation. The owners of property in North Coyote Valley filed a complaint on February 9, 2022 alleging that the City's November 16, 2021 amendment to the General Plan constitutes an unconstitutional taking of 126.5 acres of undeveloped land in the North Coyote Valley area of San Jose, by changing the land use designation from Industrial Park to Agriculture. The City only recently received the complaint and cannot evaluate the potential liability or predict the final outcome of the case at this time.

Coyote Valley Litigation. The owners of property in North Coyote Valley filed a complaint on February 9, 2022 alleging that the City's November 16, 2021 amendment to the General Plan constitutes an unconstitutional taking of 126.5 acres of undeveloped land in the North Coyote Valley area of San Jose, by changing the land use designation from "Industrial Park" to "Agriculture." The City only recently received the complaint and cannot evaluate the potential liability or predict the final outcome of the case at this time.

Police Civil Rights Cases. The City is defending several cases involving claims of police excessive force, wrongful arrest and/or other civil rights and state law violations. These include, but are not limited to, five lawsuits brought by several individuals alleging injuries attributed to police crowd control activity during protests in late May and early June 2020 after the death of George Floyd. Generally, these lawsuits allege various constitutional violations involving excessive use of force, failure to protect, failure to intervene, and violation of plaintiffs' First Amendment right to peacefully assemble and unlawful crowd control tactics including shooting projectiles at demonstrators.

In addition to these cases, a lawsuit has been filed against the City, Santa Clara County, and individuals who were involved in the investigation and prosecution of a crime that resulted in a conviction and lengthy prison term for the accused individual. The suit alleges that the investigation by City police was based on a faulty identification, that they focused on the suspect to the exclusion of other suspects, and that the police failed to identify and report information that would have been exculpatory. The plaintiff in the lawsuit was recently released from prison after serving almost 20 years following a conviction integrity investigation by the District Attorney's Office. The City understands that the District Attorney decided not to re-prosecute the plaintiff. Discovery has commenced and, at this time, the City is not able to evaluate the potential liability exposure for the City, or potential damages, in this matter.

The other civil rights cases involving the police department are in various civil procedure stages with trial dates in the next couple of years or in discovery and subject to motion practice. The cases, collectively, pose significant damages exposure if the City and/or officers are found liable or reach a settlement in those actions. Additionally, the City has exposure to the payment of the plaintiffs' attorneys' fees and costs.

Constitutional and Preemption challenges. The City is currently defending several lawsuits in which the City has a potential exposure to the payment of the attorneys' fee and costs if the City does not prevail. These include a lawsuit challenging the City's sign ordinance and multiple lawsuits challenging City's rental property ordinances on various Constitutional grounds. Currently, these cases are at various stages of litigation. The lawsuit involving the City's sign ordinance is in federal district court. The district court granted partial summary judgment in favor of the City, and the plaintiffs, with the remaining issues proceeding to trial. Two of the lawsuits concerning the City's rental property ordinances are stayed in federal district court while a third lawsuit also involving the City's rental property ordinances, in which the City prevailed in the trial court and on appeal in the Ninth Circuit. Plaintiffs have filed a petition with the U. S. Supreme

Court seeking review of the appellate decision. Collectively, the City's exposure to attorneys' fees and costs could be significant should the City ultimately not prevail in the various cases.

Dangerous condition of public property cases. The City frequently receives claims and lawsuits by individuals alleging City owned or controlled property, including roads, intersections, sidewalks, lighting, trees, wastewater and stormwater systems, and other City activity, caused or contributed to property damage, injury, or death. Collectively, these cases have the potential for significant exposure to liability for personal injury and property damages; however, the City is unable to estimate the likelihood or quantify its potential exposure due to such claims.

Other Significant Proceedings

FAA Audit of Use of Revenues. Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the Federal Aviation Administration (the "FAA") provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations. The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of \$5,600,000 that would be applied equally to the Airport cost allocation plan over a seven-year period beginning in 2012-2013 and ending in 2018-2019. The City also has adjusted its indirect cost allocation methodology in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base started in 2015-2016, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA, disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs.

On May 3, 2018, the City received a letter from the FAA in which the FAA requested a copy of the City's 2016-2017 indirect cost allocation plan to substantiate indirect charges to the Airport in order to finalize the FAA's financial compliance review. The City responded to the FAA on July 20, 2018 with copies of the requested information and clarified actions taken by the City to date to implement the FAA's recommendations. The FAA has not responded to the City's July 2018 correspondence and the audit remains pending. The City cannot predict the final outcome of the audit.

Potential Claim from FAA Regarding Reuse of Guadalupe Gardens. In early 2002, the City Council approved a Master Plan for Guadalupe Gardens, consisting of approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and the FAA grant agreements consequently required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City's Director of Aviation, the FAA San Francisco Airport District Office ("**ADO**") approved the City's Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval.

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA contends that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA.

The City believes that it has viable defenses to any potential claim by the FAA with regard to Guadalupe Gardens. The FAA ADO's 2002 approval of the Guadalupe Gardens Master Plan constituted an official FAA approval of the City's reuse of the parcels acquired with proceeds from FAA noise compatibility grants, and the approval expressly provides that the entire Guadalupe Gardens is necessary for the continuing aeronautical purpose of runway and approach protection. Having received official FAA approval of its reuse of the parcels, the City believes it is under no obligation to take any further action to secure further FAA approval of its continuing use of the Guadalupe Gardens. However, the City cannot predict the final outcome of any such potential claim by the FAA.

FAA Inquiry Regarding Encampments in Guadalupe Gardens. On February 1, 2021, the Director of Aviation received a letter from the FAA Western-Pacific Region Office of Airports regarding encampments of homeless persons in the Guadalupe Gardens. Guadalupe Gardens is approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and these FAA grants include certain restrictions ("**Grant Assurances**") on the City's use of the Guadalupe Gardens properties.

In its letter, the FAA asserts that the presence of encampments of homeless persons in the Guadalupe Gardens is: (a) inconsistent with the Grant Assurances that were a condition of the FAA grants that the City received to acquire the Guadalupe Gardens properties; and (b) contrary to the City's Airport Noise Compatibility Plan ("**ANCP**"), both of which prohibit transient and permanent residential uses in the Guadalupe Gardens. The FAA requested and the City

provided a Corrective Action Plan to remove and relocate the encampments of homeless persons from the Guadalupe Gardens on March 11, 2021.

The FAA then requested, and the City provided a revised Corrective Action Plan on July 28, 2021, with a schedule for incremental relocation of the encampment inhabitants to alternative sites. The FAA accepted the revised Corrective Action Plan. However, the City cannot predict the actual timing of the encampments relocation or the final resolution of this matter with the FAA.

Federal Aviation Administration Inquiry Regarding Chick-fil-A. The City Council approved a Chick-fil-A subconcession at the Airport on March 6, 2018, as part of its approval of the Fourth Amendment to the Host Food and Beverage Agreement. Chick-fil-A does not have a direct contractual relationship with the City. Rather, Host operates the Chick-fil-A concept at the Airport as a licensee. On April 9, 2019, the City Council approved an amendment to the Host Food and Beverage Agreement that extended the termination date from June 30, 2026 to June 30, 2028. However, the City Council limited the additional two-year extension term only to those Airport concession locations operated by Host that are open 7-days each week. All owned and licensed Chick-fil-A locations, including the Airport location, are closed on Sundays. The City Council approved this limitation after hearing concerns from community members that the owners of Chick-fil-A have made donations to and supported certain organizations that oppose equal rights and protections for the LGBTQ+ communities. The City Council also directed Airport staff to display the Rainbow and Transgender flags at the Airport terminals to show the City's support for those communities.

On January 22, 2020, the Director of Aviation received a Notice of Investigation from the FAA Office of Civil Rights. The FAA is investigating a complaint received by the FAA that alleges discrimination against Chick-fil-A, "because of the expression of religious beliefs by the owner of the company." The complainant, whose identity has been withheld by the FAA, contends that the City has discriminated against Chick-fil-A for its "perceived religious and ideological convictions" and that this "discrimination" is in violation of federal law. The complainant is requesting that the FAA withhold further grant funding to the City pending its investigation.

The City responded to the FAA Notice of Investigation by letter dated May 21, 2020. In addition to responding to specific questions from the FAA regarding this matter, the City requested the FAA to find that there is no basis for the complaint and to close its investigation. The City believes that it has viable defenses to any potential enforcement action by the FAA with regard to this complaint. The Director of Aviation met with the FAA on July 28, 2021 and again on December 13, 2021, to discuss these issues further. The City cannot predict the final outcome of any potential enforcement action by the FAA.

San José Clean Energy – CPUC Citation. The California Public Utilities Commission ("CPUC") adopted a Resource Adequacy ("RA") policy framework in 2004 in an effort to ensure the reliability of electric service in the State. In particular, the RA policy framework is designed to ensure that CPUC jurisdictional Load Serving Entities, such as SJCE, have sufficient capacity to meet their peak load with a 15% reserve margin. The City paid three CPUC citations assessed against the City for failing to procure RA in amounts sufficient to satisfy the 2019 (\$6.8 million), 2020 (\$1.1 million) year-ahead RA Requirements; and 2021 (\$758,000) month-ahead RA Requirements. The City cannot predict if the CPUC will issue future citations.

Clean Water Compliance

The federal Clean Water Act (the “**CWA**”) establishes the structure for federal regulation of the discharge of pollutants into the waters of the United States. Under the CWA, it is unlawful to discharge any pollutant into these waters unless the discharger has a permit under the National Pollutant Discharge Elimination System (the “**NPDES**”) and the permittee abides by its terms.

The City is a permittee under an NPDES permit (the “**Stormwater Permit**”) issued by the Regional Water Quality Control Board – San Francisco Bay Region (the “**Regional Water Board**”). This Regional Stormwater Permit governs 76 entities, including the City, and was scheduled to expire in December 2020 but was administratively extended until the next permit effective date, tentatively July 1, 2022. On July 1, 2020, the Santa Clara Valley Urban Runoff Pollution Prevention Program (the “**SCVURPPP**”) applied to the Regional Water Board for a renewed permit on behalf of fifteen co-permittees, including the City.

The regional Stormwater Permit identifies pollutants which contribute to the impairment of water bodies and sets a total maximum daily load (“**TMDL**”) for some of these contaminants. For waters connected to the City (e.g., the San Francisco Bay), the Stormwater Permit identifies two pollutants of concern with TMDL limitations, mercury, and polychlorinated biphenyls (“**PCBs**”). The City, through its work with SCVURPPP, meets the TMDL requirements for both mercury and PCBs.

The Stormwater Permit also set a goal of 100% trash load reduction, or no adverse impact to receiving waters from trash by July 1, 2022, and established interim mandatory targets. The City exceeded the interim target of 80% by July 1, 2019 with a trash load reduction of 96.8% by implementing a combination of structural trash controls, source controls, trash assessments, and creek cleanups, and direct discharge programming. Fifteen percent of the City’s trash load reduction is from an offset allowed under the current Stormwater Permit for the City’s implementation of the Direct Discharge Trash Control Program, approved by the Regional Water Board in 2016.

On September 10, 2021, the Regional Water Board issued a tentative Order on the next Stormwater Permit. Although the tentative Order extends the compliance deadlines for 100% trash load reduction (from July 1, 2022 to June 30, 2025), it also phases out some trash reduction credits by June 30, 2025 which the City relies upon in meeting the goals. The tentative Order provides that if the City is unable to achieve compliance, it must submit a revised trash load reduction plan for Board approval. The tentative Order includes a path for credits for a Direct Discharge Program, but that plan must also provide systematic and comprehensive implementation of control actions for “increasing the provision of emergency, transitional and/or permanent housing ...” and trash, sanitary, and social services. The City commented to the Board regarding the increased cost of compliance and the consequences of the loss of the credits. The City has participated in the public hearings, and it is expected that the Board will issue a final Order by Summer, 2022. The tentative Order includes a July 1, 2022 operative date.

The Regional Water Board and private parties can enforce the CWA and the terms of the Stormwater Permit. Violations can result in significant civil penalties of up to \$55,800.00 per pollutant per day (as of January, 2020), plus criminal fines, and attorney’s fees.

Consent Decrees

Baykeeper Consent Decree. San Francisco Baykeeper (“**Baykeeper**”) filed a lawsuit in federal district court against the City in February 2015. Baykeeper’s complaint alleged violations of the CWA and the Stormwater Permit. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements, and that there were CWA violations resulting from the discharge of sewage from the City’s Sanitary Sewer System that infiltrated into the City’s municipal separate storm sewer systems (“**MS4**”).

To settle the lawsuit, the City and Baykeeper agreed to a consent decree that was approved by the U.S. District Court in August 2016 (the “**Consent Decree**”). The Consent Decree has a 10-year term expiring in August 2026 and will require the City to:

- Comply with trash provisions of the current Stormwater Permit including installing full trash capture devices, supporting additional creek cleanup efforts, and monitoring of trash in receiving waters;
- Rehabilitate, replace, or repair 65 miles of high-risk sanitary sewer system pipes at an average of 6.5 miles per year, based on the City’s existing program with some changes in the priority of segments of this work;
- Monitor and report fecal indicator bacteria (“**FIB**”) in receiving waters for a five-year period;
- Comply with green infrastructure planning as required in the Stormwater Permit, adding FIB as a pollutant for planning purposes;
- Bring forward new revenue measure options for Council consideration by December 31, 2017, ;
- Appropriate, contingent upon the receipt of sufficient new revenues, \$100,000,000 over a ten-year period for acquisition of land, review, design, construction, maintenance, and operation of various green infrastructure projects with the goal of reducing pollutants and/or flows from the City’s urban areas into receiving waters, with expenditures anticipated to occur as follows:
 - Identify and design \$25,000,000 in total projects by September 2024;
 - Award \$25,000,000 in total projects by September 2025;
 - Identify and design an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by September 2025;
 - Award an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by the termination date of the consent decree; and
 - Identify and design an additional \$15,000,000 (\$50,000,000 aggregate) in total projects by the termination date of the consent decree.

The City cannot provide any assurance that it will be able to satisfy any or all of the above requirements. In addition to the expenditures outlined above, the City has incurred or will incur the following expenditures during the Consent Decree’s term: (1) lump sum payment of attorney’s fees and costs to Baykeeper in the amount of \$425,000, which payment has been made; (2)

ongoing oversight costs payable to Baykeeper in the amount of \$10,000 per year for a total of \$100,000; and (3) \$200,000 per year for five years (a total of \$1,000,000) for supplemental environmental mitigation for trash clean up grants, habitat restoration, or projects that generally improve the water quality in the Guadalupe and Coyote creeks and associated watershed areas. The City is in compliance with these Consent Decree payments.

The City and Baykeeper entered into a First Amendment and Second Amendment to the Consent Decree in 2017 and 2019, respectively. Both Amendments were approved by the Court and made technical changes to the terms of the Consent Decree but did not modify the substantive requirements itemized above.

Identification of Funds. The Consent Decree requires that by December 31, 2020, the City identify funding sufficient to implement the green infrastructure projects previously brought to Council and meet the FIB load reduction standard. The City did not meet this deadline, and therefore the parties were required to meet and confer to discuss what measures the City would take to insure funding. In addition, by December 31, 2020, the City was required to obtain funding to implement the green infrastructure projects. If the City does not meet deadlines under the Consent Decree, Baykeeper may terminate the Consent Decree and resume litigation against the City. The City believes it has identified funds to implement the Consent Decree, and fulfilled its meet and confer obligations, but it unable to make any representations with respect to how Baykeeper may interpret the Consent Decree or the City's actions related to the Consent Decree. In the event of a dispute between Baykeeper and the City, the Consent Decree provides for a dispute resolution process that includes ongoing judicial oversight. The Consent Decree also specifies limits on Baykeeper's ability to pursue additional litigation against the City during its 10-year term and caps Baykeeper litigation fees for dispute resolution at \$200,000.

On December 19, 2017, the City Council considered a report from City staff concerning potential new revenue sources to fund the green infrastructure requirements specified in the Baykeeper Consent Decree described above. The City identified potential revenues of general obligation bonds and a parcel tax, both of which would require voter approval by a two-thirds margin. On August 10, 2018, the City Council placed Measure T on the ballot, which authorized up to \$650 million of general obligation bonds for various public improvements, including those that would prevent flooding and water contamination. At the November 2018 election, voters approved Measure T by more than two-thirds margin. Some of the green infrastructure improvements required by the Baykeeper Consent Decree are eligible for funding under Measure T. However, there are a number of different types of improvements that are eligible for funding under Measure T, including an allocation of at least \$300 million for street improvements. The City Council approved \$25 million of Measure T funds to be allocated for clean water projects, including green infrastructure improvements. In any event, there are Consent Decree obligations that would be ineligible for funding from general obligation bond proceeds and staff continues to assess additional mechanisms.

Potential projects identified in the GIP require further review and approval. The total construction and maintenance costs will be dependent on several factors including, among others, future costs of construction, whether the project will be on City-owned property or required as part of a future private development.

Green Stormwater Infrastructure Projects. The City's Green Infrastructure Plan (the "GIP") forecasts green stormwater projects and goals through 2050, and contains a \$1.49 billion estimate for illustrative purposes to demonstrate the proportional costs among project types. However, the City further estimates that complete implementation and maintenance of the potential projects

over the course of the thirty-year plan may be on the magnitude of \$6.85 billion. On September 10, 2019, City Council approved the GIP, outlining green infrastructure projects, including regional and green street projects. The preparation of the GIP met both obligations under the Consent Decree and the City's Stormwater Permit. The current Stormwater Permit does not require construction of any projects. However, the tentative order for the new Stormwater Permit (effective July 1, 2022) includes requirements for green infrastructure sufficient to treat 10 acres, which the City likely will be able to meet based on the existing projects and the schedule in the Consent Decree. The City has started with the design of the River Oaks Stormwater Capture project, and continued to move forward with evaluating the next set of green infrastructure projects using the available funding. The City will continue to explore funding opportunities and strategies for the implementation of the GIP.

The City is not able to predict the projects that will ultimately be approved or whether they will be funded for the GIP. In addition, the City is unable to predict whether Baykeeper's interpretation of the Consent Decree will align with the City's interpretations.

Curb Ramp Consent Decree. Plaintiffs filed a class action lawsuit in the case of *Lashbrook v. City of San Jose* in the United States District Court for the Northern District of California. This lawsuit alleged that the City violated federal and state disability access laws by failing to ensure that its pedestrian right of way contains curb ramps that are necessary to ensure that the pedestrian right of way is accessible to individuals with mobility disabilities. On April 14, 2020, the City Council approved a proposed settlement of this case in the form of a consent decree whereby Mr. Lashbrook will recover a total of \$55,000. The City will pay attorney's fees and costs in the amount of \$725,253.09. The City will be required to expend \$13 million each year until 2030 to remediate curb ramps, and after 2030 will expend 10% of its pavement maintenance budget to remediate curb ramps, which is accounted for within the City's pavement maintenance budget. The Court preliminarily approved the consent decree on May 27, 2020. At a Fairness Hearing on September 2, 2020, the Court granted final approval of the consent decree. The City is in compliance with the terms of this consent decree.

RETIREMENT PLANS

In June 2012, approximately 70% of San José voters passed an amendment to the City's Charter provisions related to the Retirement Plans ("**Measure B**"), to provide for certain modifications to such plans. Measure B was subsequently the subject of various legal challenges. In November 2016, the voters approved the Alternative Pension Reform Act ("**Measure F**") that the City Council placed on the ballot as a result of settlement frameworks entered into with the City's bargaining groups related to Measure B. The City Council adopted ordinances to implement the terms of the settlement frameworks and Measure F in February and May 2017. The City also approved a settlement in November 2017 in connection with a lawsuit brought by individual retirees and a retiree association. The legal challenges to Measure B have been resolved. See APPENDIX B – "THE CITY OF SAN JOSE: RETIREMENT PLANS – RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS" for further additional information regarding the City's Retirement Plans, including Measure B, Measure F and the settlement of the legal challenges brought in connection with Measure B.

INVESTMENT POLICY AND PRACTICES

The City and its related entities are required to invest all funds under the Director of Finance's control in accordance with principles of sound treasury management and in accordance with the provisions of the California Government Code, the Charter, the City Municipal Code, and the City Investment Policy (the "**Investment Policy**").

The Investment Policy was originally adopted by the City Council on April 2, 1985, and is reviewed annually by the City Council. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy. Most recently, on March 15, 2022, the City Council approved various updates to the Investment Policy.

The primary objectives of the Investment Policy, in their order of priority, are to (1) provide for the safe preservation of principal, (2) ensure that there is sufficient liquidity for operating needs, and (3) attain the maximum yield possible as long as investment practices are consistent with the first two stated objectives. The City has not entered into any interest rate or commodity swap or hedging agreements and does not currently expect to enter into any such agreements in the foreseeable future.

INVESTMENT PORTFOLIO

As of December 31, 2021, the book value of the City’s pooled investment fund was approximately \$2.157 billion while the market value was \$2.146 billion. The fund is classified by different types of investment securities. The composition of this fund, including the weighted average days to maturity and yield, is provided in the table below. The General Fund portion of the pool was approximately 26% as of December 31, 2021. To prevent potential loss of principal on any of the City’s investments, the Investment Policy strictly limits the composition of the holdings within the Investment Portfolio. The Finance Department’s investment staff continues to focus investment decisions in accordance with the Investment Policy’s primary investment objectives as described above in “INVESTMENT POLICY AND PRACTICES.”

Table 31
City of San José
Pooled Investment Fund – General Pool Investments ⁽¹⁾
As of December 31, 2021

	<u>Book Value</u>	<u>Percent of Portfolio</u>	<u>Market Value</u>	<u>Weighted Average Days to Maturity</u>	<u>Weighted Average Yield</u>
U.S. Treasury Bills and Notes	\$56,157,483	2.6%	\$56,327,387	306	0.54
Federal Agency Securities ⁽²⁾	546,702,171	25.4	545,539,496	914	0.94
Supranational Securities ⁽³⁾	249,400,619	11.6	247,245,372	808	0.83
Negotiable Certificate of Deposit	178,910,885	8.3	178,835,208	126	0.16
Commercial Paper	34,979,756	1.6	34,991,300	63	0.10
Corporate Notes	308,933,091	14.3	304,644,691	274	1.37
Asset Backed Securities	20,170,292	0.9	20,260,406	845	1.34
Municipal Bonds	220,316,985	10.2	219,107,145	746	1.47
Mortgage-Backed Bonds	142,959,882	6.6	141,457,647	771	1.61
Money Market Mutual Fund	173,026,435	8.0	173,026,435	1	0.023
State of California Local Agency Investment Fund ⁽⁴⁾	225,000,000	10.4%	225,000,000	1	0.33
Total ⁽⁴⁾	\$2,156,557,599	100.0%	\$2,146,435,086	520	0.86

(1) Excludes funds invested in separate, segregated accounts as part of City held invested funds; excludes bond proceeds held by fiscal agents/trustees.

(2) Composed of securities issued by Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal Agricultural Mortgage Corporation.

(3) Composed of securities issued by International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank.

(4) Estimated based upon City’s participation in the Local Agency Investment Fund (“LAIF”). Weighted average yield for LAIF is based upon the most recently reported quarterly earnings rate.

Source: City of San José, Finance Department.

DEBT MANAGEMENT POLICY

The City Council adopted a Debt Management Policy for the City on May 21, 2002, which is reviewed annually by the City Council and was last amended on March 7, 2017. The policy allocates responsibility for debt management activities to the Finance Department, describes the purposes for which debt may be issued, establishes overall parameters for issuing and administering the City's debt, including initial and continuing disclosure as required under the City's undertakings entered into pursuant to Securities and Exchange Commission Rule 15c2-12.

BONDED AND OTHER INDEBTEDNESS

General Obligation Debt. The City may issue general obligation bonds for the acquisition and improvement of real property subject to the approval of the voters voting on the bond proposition. The Charter limits bonded indebtedness for general obligation bonds to 15% of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2021-2022 tax roll was approximately \$215.3 billion, which results in a total debt limit of approximately \$31.0 billion. As of March 1, 2022, the City's outstanding bonded indebtedness for general obligation bonds totaled \$623.0 million. See Table 32 below.

In accordance with all relevant provisions of law, the City is obligated to levy ad valorem taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property that is taxed at limited rates), for the payment of all outstanding general obligation bonds and the interest thereon. Amounts levied for the payment of debt service on the City's outstanding general obligation bonds may not be used except to pay debt service on those bonds. The City is obligated to direct the County of Santa Clara to collect such ad valorem taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the general obligation bonds (See "MAJOR GENERAL FUND REVENUE SOURCES – Property Taxes" herein).

General Fund Debt. The City has authority to enter into long-term lease obligations without first obtaining voter approval. The City has entered into various lease arrangements under which the City must make annual payments to occupy public buildings or use equipment necessary for City operations. Securities have been issued which certificate these lease arrangements. As of June 30, 2021, the City had approximately \$677.4 million in non-voter approved bonded or certificated lease obligations outstanding. The City has never failed to pay principal of or interest on any debt or any lease obligation when due.

Table 32 summarizes City's outstanding general obligation bonds and the long-term obligations of the City payable from the General Fund as of March 1, 2022. See "Appendix C - Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2021, Note 2" for a description of such bonds and other obligations of the City as of June 30, 2021.

Table 32
City of San José
General Obligation Bonds and Bonded and Certificated General Fund Lease Obligations
As of March 1, 2022
(In thousands)

Issuer/Issue	Amount Issued	Issue Date	Purpose	Final Maturity	Amount Outstanding
<u>City of San José General Obligation Bonds:</u>					
Series 2019A-1 (Disaster Preparedness, Public Safety, and Infrastructure)	\$140,360	07/25/2019	Community Facilities	09/01/2049	\$140,360
Series 2019B (Disaster Preparedness, Public Safety, and Infrastructure)	66,500	07/25/2019	Community Facilities	09/01/2027	66,500
Series 2019C (Refunding, Libraries, Parks, Public Safety)	158,185	07/25/2019	Community Facilities, Refunding	09/01/2035	156,045
Series 2019D (Refunding, Libraries, Parks, Public Safety)	103,935	07/25/2019	Community Facilities, Refunding	09/01/2024	59,545
Series 2021A (Disaster Preparedness, Public Safety, and Infrastructure)	151,210	07/29/2021	Community Facilities	09/01/2051	151,210
Series 2021B (Disaster Preparedness, Public Safety, and Infrastructure)	8,450	07/29/2021	Community Facilities	09/01/2022	8,450
Series 2021C (Disaster Preparedness, Public Safety, and Infrastructure)	40,870	07/29/2021	Community Facilities	09/01/2021	40,870
	\$669,510				\$622,980
<u>City of San José Financing Authority-Lease Revenue Bonds:</u>					
Series 2011A (Convention Center) (1)	\$30,985	04/12/2011	Convention Center	05/01/2042	\$27,345
Series 2013B (Civic Center Garage Project)	30,445	06/19/2013	Refunding	06/01/2039	24,775
Series 2020A (Civic Center Refunding Project)	355,620	09/24/2020	Refunding	06/01/2039	337,080
Series 2020B (Ice Centre Project)	146,535	10/15/2020	Ice Centre, Refunding	06/01/2051	146,535
Series 2021A (Fire Department Training Center and Central Service Yard Projects)	\$22,825	11/02/2021	Facilities, Refunding	10/1/2034	22,825
	\$586,410				\$558,560
<u>City of San José Financing Authority Short-Term Debt:</u>					
Lease Revenue Commercial Paper Notes (1)	\$175,000	Various	Various	Various	\$118,885
Grand Total	\$1,430,920				\$1,300,425

(1) Expected to be redeemed in full with proceeds of the 2022A Bonds described in this Official Statement.

Source: City of San José, Finance Department, Debt Management.

General Fund Lease Revenue Commercial Paper Notes. Effective September 23, 2021, the City of San José Financing Authority (“**Authority**”) is authorized to issue Lease Revenue Commercial Paper Notes designated as Tax-Exempt Lease Revenue Commercial Paper Notes, Series 2 and Taxable Lease Revenue Commercial Paper Notes, Series 2-T in the maximum principal amount of \$175 million (collectively, “Lease Revenue Commercial Paper Notes”). Debt service on the Authority’s Lease Revenue Commercial Paper Notes is payable from the City’s General Fund under a lease revenue financing structure. Under this program, the Authority is authorized to issue Lease Revenue Commercial Paper Notes on a tax-exempt and federally taxable basis at prevailing interest rates for periods of maturity not to exceed 270 days.

The Lease Revenue Commercial Paper Notes are secured by a pledge of lease revenues received by the Authority from the City in connection with certain leased properties that are owned by the City. The Lease Revenue Commercial Paper Notes are supported by an irrevocable direct-pay letter of credit issued by U.S. Bank National Association in the maximum available amount of \$187,945,206 (the “**U.S. Bank Letter of Credit**”), pursuant to a Letter of Credit and Reimbursement Agreement by and among the Authority, the City, and U.S. Bank National Association. The U.S. Bank Letter of Credit has a stated expiration date of March 24, 2025.

The Authority and the City have previously authorized the issuance of Lease Revenue Commercial Paper Notes to finance various City projects, other permitted uses, and other actions related to the maintenance thereof. Such permitted uses include issuing Lease Revenue Commercial Paper Notes to finance the costs of purchasing power and other operating costs of SJCE as described below.

The market price of electricity has been adversely impacted as demand for power has outpaced supply because of volatility in weather conditions, operational issues experienced by certain nuclear plants that serve the State, and regional drought conditions. SJCE has a risk management policy and regulations that requires at least 80% of energy needs be procured in advance to reduce exposure to market volatility. SJCE has procured enough electricity to meet over 90% of its load forecast for 2022, including the most expensive evening hours for summer 2022.

As a result of such conditions, as of June 22, 2021, SJCE had an ending cash shortfall of approximately \$14.7 million for 2020-2021 (which shortfall excludes cash on deposit in a restricted operating reserve account pledge as security for the City’s obligations under the hereinafter defined Revolving Credit Agreement), which increased to approximately \$59.0 million by end of February 2022. SJCE further projected its cash shortfall will decrease to approximately \$25 million by the end of 2021-2022.

On June 22, 2021, the City Council and the Board of Directors of the City of the Authority approved the issuance of the Authority’s Lease Revenue Commercial Paper Notes in an amount not to exceed \$95 million, subject to the satisfaction of certain conditions. The proceeds of the Lease Revenue Commercial Paper Notes are authorized to finance the costs of purchasing power and other operating costs of SJCE. As of February 28, 2022, the Authority has issued Lease Revenue Commercial Paper Notes in the amount of \$60.0 million. The City does not anticipate requesting the Authority to issue additional Lease Revenue Commercial Paper Notes for SJCE in the foreseeable future.

The City anticipates using revenues of SJCE to repay Lease Revenue Commercial Paper Notes issued by the Authority with respect to SJCE subject to the conditions therefor in the Revolving Credit Agreement as amended by the hereinafter defined Second Amendment (see “*San José Community Energy Debt*” below for a description of such conditions). The City projects that SJCE’s revenues will be sufficient to begin repayment of the Lease Revenue Commercial Paper Notes in 2022-2023. As part of the motion approving the issuance of the Authority’s Lease Revenue Commercial Paper Notes, SJCE was directed to return to the City Council’s Transportation & Environment Committee in the fall with an updated business plan and outlook for the next 12 months for SJCE. On December 6, 2021, SJCE shared with the Committee that anticipated changes in PG&E rates and fees were expected to be major drivers for significantly higher SJCE revenues in calendar year 2022 (and to a lesser degree, calendar year 2023). On February 10, 2022, the California Public Utility Commission approved PG&E rates and fees to be implemented effective March 1, 2022 consistent with SJCE assumptions.

It is important to note that the projected cash shortfalls and issuances of Lease Revenue Commercial Paper Notes in the future to address such shortfalls are based on certain assumptions, including assumptions regarding energy prices, regional weather, and anticipated changes in PG&E's electricity rates and fees. Actual cash shortfalls could be different and such differences may be material, which may have a negative impact on the City's General Fund.

San José Community Energy Debt. In November 2018, Barclays Bank PLC ("**Barclays**") and the City entered into a Revolving Credit Agreement, dated as of November 1, 2018 (as amended, the "**Revolving Credit Agreement**") for the purpose of financing start-up costs of the SJCE, purchase power, and in the case of standby letters of credit, secure payments under power purchase agreements and other costs associated with the Community Energy Implementation Plan.

Pursuant to the Revolving Credit Agreement, the Bank has committed to make revolving loans to the City (the "**Revolving Loan Facility**") in an aggregate principal amount not to exceed \$30,000,000 and standby letters of credit for the account of the City (the "**Standby Letter of Credit Facility**") in an aggregate principal amount not to exceed \$65,000,000, provided, however, that the aggregate principal amount outstanding under the Revolving Loan Facility and the Standby Letter of Credit Facility may not exceed \$80,000,000 at any one time. The Revolving Loan Facility expired in November 2021 and the Standby Letter of Credit Facility expires in November 2023.

The City's obligations under the Revolving Credit Agreement are secured solely by a pledge and lien on revenues of SJCE, including revenues deposited in an operating reserve account held by the City pursuant to the Revolving Credit Agreement. See "Appendix C – Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2020, Note III.F11" for additional information regarding the Revolving Credit Agreement.

On June 24, 2021, the City and Barclays entered into a Second Amendment to Revolving Credit Agreement (the "**Second Amendment**"). The Second Amendment, among other things, allows the City to make loans of the proceeds of the Lease Revenue Commercial Paper Notes to SJCE up to \$100 million (which was previously limited to \$10 million). Repayment by SJCE of the City's loans is subordinate to SJCE's payment of obligations owed Barclays under the Revolving Credit Agreement. Repayment to the City is also contingent upon SJCE maintaining a minimum of \$50 million in cash (including \$20 million in a restricted operating reserve) as of the last day of the previous 4 out of 5 months (including the most recent month prior to repayment), and satisfying the debt service coverage ratio which was modified by the Second Amendment from 2 to 1 to 1.25 to 1.00. The Second Amendment makes other changes to the Revolving Credit Agreement including revising the definition of Aggregate Annual Debt Requirement.

The City projects that SJCE's revenues will be sufficient to begin repayment of the Lease Revenue Commercial Paper Notes in Fiscal Year 2022-2023, although such repayment depends on assumptions about future energy prices, regional weather, and anticipated changes in PG&E's electricity rates and fees..

Other Non-General Fund Debt. In addition, the City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for multi-family housing. The City and the Financing Authority have also issued bonds and notes secured by non-General Fund revenues. Such bonds, notes, loans, and certificates of participation are not secured by any City general

funds or revenues. See “Appendix C - Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2021, Note III.F.2” for a description of such debt as of June 30, 2021.

Tax and Revenue Anticipation Notes. The City began prefunding certain employer retirement contributions in 2008 for budgetary savings. Beginning in 2010-2011, and in each fiscal year thereafter through 2018-2019, the City entered into short-term borrowings to avoid a negative cash balance in the General Fund portion of the City Investment Pool as a result of prefunding its employer retirement contribution. On July 1, 2021 the City issued the 2021 TRAN in the aggregate principal amount of \$285 million to fund a portion of the City’s retirement contribution for 2021-2022. The amount consisted of a \$142.5 million variable rate note and a \$142.5 million fixed rate note. The variable rate note was paid in full on February 7, 2022. The fixed rate note matures on June 30, 2022. See “APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSÉ FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 10” for additional information regarding the 2021 TRAN.

For additional information about the City’s employer retirement contributions, see APPENDIX B – “THE CITY OF SAN JOSE: RETIREMENT PLANS – PENSION PLANS – Contributions.”

OVERLAPPING BONDED DEBT

Contained within the City are overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics, Inc., as of March 1, 2022, is shown in Table 33 below. The City makes no representations as to the completeness or accuracy of such statement.

Table 33
City of San José
Statement of Direct and Overlapping Debt

2021-22 Assessed Valuation: \$215,306,753,933

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/22</u>
Santa Clara County	37.359%	\$ 428,305,991
Foothill-DeAnza Community College District	3.814	25,091,479
Gavilan Joint Community College District	4.946	10,233,521
San Jose-Evergreen Community College District	85.173	710,393,587
West Valley Community College District	31.750	177,006,250
Morgan Hill Unified School District	11.506	12,574,907
San Jose Unified School District	98.492	496,630,176
Santa Clara Unified School District	21.834	208,809,459
Campbell Union High School District	59.541	221,129,320
East Side Union High School District	95.866	870,161,826
Fremont Union High School District	8.526	49,686,978
Los Gatos-Saratoga Joint Union High School District	0.838	704,171
Alum Rock Union School District	77.279	69,724,978
Berryessa Union School District	93.835	110,392,116
Cambrian School District	64.107	39,086,002
Campbell Union School District	47.298	97,428,830
Cupertino Union School District	15.557	42,278,995
Evergreen School District	99.422	158,498,584
Franklin-McKinley School District	99.433	151,134,982
Los Gatos Union School District	1.710	1,155,105
Luther Burbank School District	17.753	3,107,950
Moreland School District	74.62	88,534,579
Mount Pleasant School District	88.554	28,257,123
Oak Grove School District	99.923	224,986,560
Orchard School District	100.000	32,700,057
Union School District	72.773	76,673,225
City of San Jose	100.000	582,110,000
City of San Jose Community Facilities Districts	100.000	3,525,000
City of San Jose Special Assessment Bonds	100.000	4,065,000
Midpeninsula Regional Open Space District	0.011	9,303
Santa Clara Valley Water District Benefit Assessment District	37.359	17,988,359
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$4,942,384,413

(continued)

**Table 33 (continued from previous page)
City of San José
Statement of Direct and Overlapping Debt**

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>	<u>% Applicable</u> ⁽¹⁾	<u>Debt 3/1/2022</u>
Santa Clara County General Fund Obligations	37.359%	\$465,530,262
Santa Clara County Pension Obligation Bonds	37.359	125,391,176
Santa Clara County Board of Education Certificates of Participation	37.359	997,485
Foothill-DeAnza Community College District General Fund Obligations	3.814	842,322
Gavilan Joint Community College District General Fund Obligations	4.946	329,898
San Jose-Evergreen Community College District Benefit Obligations	85.173	40,414,589
West Valley-Mission Community College District General Fund Obligations	31.750	15,827,375
Morgan Hill Unified School District Certificates of Participation	11.506	1,553,885
San Jose Unified School District Certificates of Participation	98.492	6,352,734
Santa Clara Unified School District Certificates of Participation	21.834	2,909,381
Campbell Union High School District General Fund Obligations	59.541	9,526,560
East Side Union High School District Post Employment Obligations	95.866	25,557,876
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.838	9,344
Alum Rock Union School District Certificates of Participation	77.279	10,548,584
Berryessa Union School District Certificates of Participation	93.835	2,766,301
Campbell Union School District General Fund Obligations	47.298	962,514
Franklin-McKinley School District Certificates of Participation	99.433	2,306,846
City of San Jose General Fund Obligations	100.000	561,715,000
Midpeninsula Regional Open Space Park District General Fund Obligations	0.011	10,968
Santa Clara County Vector Control District Certificates of Participation	37.359	659,386
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$1,274,212,486</u>
Less: Santa Clara County supported obligations		<u>6,754,044</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$1,267,458,442</u>
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	 100.000%	 \$1,287,630,000
 GROSS COMBINED TOTAL DEBT		 \$7,504,226,899 ⁽²⁾
NET COMBINED TOTAL DEBT		\$7,497,472,855
 <u>Ratios to 2021-22 Assessed Valuation:</u>		
Direct Debt (\$582,110,000)	0.27%	
Total Direct and Overlapping Tax and Assessment Debt	2.30%	
Combined Direct Debt (\$1,143,825,000)	0.53%	
Gross Combined Total Debt	3.49%	
Net Combined Total Debt	3.48%	
 <u>Ratios to Redevelopment Incremental Valuation (\$36,837,323,647):</u>		
Total Overlapping Tax Increment Debt	3.50%	

⁽¹⁾ Excludes the 2022A Bonds offered for sale hereunder.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

APPENDIX B
THE CITY OF SAN JOSE RETIREMENT PLANS

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INTRODUCTION TO APPENDIX B

This Appendix B provides investors with information concerning the Retirement Plans (as defined below) for the City of San José (the “**City**”). Investors are advised to read the entire Official Statement, including this Appendix B, to obtain information essential to making an informed investment decision.

The Retirement Plans have required that the following statements in this paragraph be included in this Official Statement: The information contained in this Official Statement concerning the Federated City Employees Retirement System (the “**Federated Plan**”) and Police and Fire Department Retirement Plan (“**Police and Fire Plan**”) and together with the Federated Plan, the “**Retirement Plans**”) is derived in part from, among other sources, public information provided by the Retirement Plans and its independent accountants, actuaries and investment advisors. The Retirement Plans have not reviewed this Official Statement or approved its distribution, and no inference is intended or should be drawn that the Retirement Plans have reviewed or approved the distribution of this Official Statement or the issuance of the Bonds. The statements made in this Official Statement are solely the responsibility of the City.

When used in this Appendix B and in any continuing disclosure made by the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” and “intend,” and similar expressions identify “forward looking statements.” Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is also subject to such risks and uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The COVID-19 pandemic and resulting social and business restrictions have severely disrupted, and continue to disrupt, the economies of the United States and foreign countries. Historical information set forth in this Appendix A is not intended to be predictive of future results, there are likely to be differences between forecasts and actual results, and those differences may be material.

The Official Statement speaks only as of its date, and the information contained herein is subject to change. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof.

This Appendix B summarizes portions of the following documents relating to the Retirement Plans:

- City’s Basic Financial Statements for the Fiscal Year Ended June 30, 2021 included in the City’s Annual Comprehensive Financial Report (“**City of San José Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021**”),
- City of San José Federated City Employees’ Retirement System Actuarial Valuation Report as of June 30, 2021 (the “**Federated 2021 Pension Plan Actuarial Report**”),
- City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2021 (the “**Police and Fire 2021 Pension Plan Actuarial Report**”),

- City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2021, as revised in March 2022 (the “**Federated 2021 Healthcare Plan Actuarial Report**”),
- City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2021 (the “**Police and Fire 2021 Healthcare Plan Actuarial Report**”),
- City of San José Federated City Employees’ Retirement System Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2021 and June 30, 2020 (the “**Federated 2021 Annual Comprehensive Financial Report**”), and
- City of San José Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2021 and June 30, 2020 (the “**Police and Fire 2021 Annual Comprehensive Financial Report**”).

In addition, certain other documents relevant to the Retirement Plans are referenced or described in this Appendix B. The summary of the documents listed above and such other documents in this Appendix B do not purport to be comprehensive or definitive. All references in this Official Statement to such documents are qualified in their entirety by reference to such documents.

In instances where information relating to the Retirement Plans in this Appendix B is available from a Annual Comprehensive Financial Report and an actuarial report, the information in this Appendix B has been derived from such Annual Comprehensive Financial Report. In some instances, there may be differences in such information because the Annual Comprehensive Financial Reports are based on a valuation one year prior to the measurement date that is used in the actuarial reports rolled forward using roll-forward procedures. However, the City does not believe that such differences are material.

Copies of documents referred to in this Appendix B are available from the Finance Department – Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, California 95113; Phone (408) 535-7010; email: debt.management@sanjoseca.gov.

The City maintains a number of websites, including respective websites of the Retirement Plans. However, the information presented on such websites is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

RETIREMENT PLANS IN GENERAL

Overview

General. All regular full-time employees of the City and certain part-time employees, with the exception of certain unrepresented employees, participate in one of the two Retirement Plans established pursuant to the City Charter: the Federated Plan for non-sworn employees, and the Police and Fire Plan for sworn employees. The City does not participate in the Federal Social Security System.

Each Retirement Plan consists of a single-employer tax-qualified defined benefit pension plan and a postemployment healthcare plan. The single-employer tax-qualified defined benefit

pension plans offered under the Federated Plan and the Police and Fire Pension Plan are referred to in this Appendix B as, the “**Federated Pension Plan,**” and the “**Police and Fire Pension Plan,**” respectively; and collectively, the “**Pension Plans.**” The postemployment healthcare plan offered under the Federated Plan is referred to in this Appendix B as the “**Federated Healthcare Plan.**” The respective postemployment healthcare plans offered for sworn police and fire personnel are referred to collectively as the “**Police and Fire Healthcare Plan**” and, together with the Federated Healthcare Plan, the “**Healthcare Plans.**”

Each Retirement Plan is administered by its own Board of Administration (each, a “**Board**” and collectively, the “**Boards**”), and day-to-day operations are carried out by the City’s Office of Retirement Services staff under the oversight by the Boards. The Pension Plans offer a monthly pension benefit based on salary and length of service and, depending on the tier, provide either fixed or index-based cost of living increases. The Healthcare Plans pay all, or a portion of, health and dental insurance premiums for eligible retirees and their survivors and dependents. The Healthcare Plans consist of trusts (herein referred to as the Federated 115 Trust, the Police 115 Trust and the Fire 115 Trust and, collectively, the “**Section 115 Trusts**”) formed under Section 115 of the Internal Revenue Code (the “**Code**”) to supplement accounts previously established by the City under Section 401(h) of the Code (collectively, the “**401(h) accounts**” and each, a “**401(h) account**”). A single 401(h) account was established for each of the Federated Healthcare Plan and the Police and Fire Healthcare Plan. The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. See “HEALTHCARE PLANS – Establishment of Section 115 Trusts; Internal Revenue Code Limitations” for a discussion regarding the Section 115 Trust for the Healthcare Plans.

Participation by covered employees in the Pension Plans is mandatory, except for employees excluded under the City Charter as described below in “RETIREMENT PLANS IN GENERAL – Governance” and executive management and professional staff hired after February 2013 who can make an irrevocable election into a 401(a) retirement plan in lieu of the defined benefit retirement plans. For those employees who participate in the Pension Plans, participation in the Healthcare Plans is mandatory, except for (i) Federated members hired or rehired after the dates specified in Table B-1a or who elected to opt-in to the VEBA, and (ii) Police and Fire members hired or rehired after the dates specified in Table B-1b or who elected to opt-in to the VEBA. See “CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS – Implementation of Measure F and Settlement Frameworks – VEBA Establishment” for a discussion of the establishment of the VEBAs.

To fund such healthcare and retirement benefits, the objective of the Retirement Plans is to meet their respective obligations through investment income and contributions. The City and its covered employees make regular contributions to the Retirement Plans. Contributions to the Pension Plans by the City and covered employees are actuarially determined. The San José Municipal Code (the “**Municipal Code**”) specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City. Contributions to the Healthcare Plans by the City are actuarially determined while contributions by employees are determined based on rates established by the Municipal Code and the Settlement Frameworks (as hereinafter defined).

See “PENSION PLANS – Contributions” and “HEALTHCARE PLANS – Contributions” for a discussion of historical and projected contributions to the Pension Plans and the Healthcare Plans, respectively.

Implementation of Certain Accounting Changes Relating to Retirement Plans. In June 2012, the Governmental Accounting Standards Board (“**GASB**”) issued Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25 (“**GASB Statement No. 67**”) and Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (“**GASB Statement No. 68**”), which address the accounting and financial reporting requirements for pensions. The provisions of GASB Statements No. 67 and 68 separate accounting and financial reporting from how pensions are funded and require changes in the notes to the financial statements and required supplementary information. They also provide for comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and the pension expense and related deferred outflows/inflows of resources disclosures. The City implemented GASB Statements No. 67 and 68 in fiscal years 2013-2014 and 2014-2015, respectively. Contemporaneous with the implementation of GASB Statement No. 68, the City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which resolves transition issues in GASB Statement No. 68.

In June 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (“**GASB Statement No. 74**”). This statement replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended (“**GASB Statement No. 43**”), and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, GASB Statement No. 43, and GASB Statement No. 50, Pension Disclosures. The City implemented GASB Statement No. 74 in fiscal year 2016-2017.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“**GASB Statement No. 75**”). This statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended (“**GASB Statement No. 45**”), and Statement No. 57, for OPEB. GASB Statement No. 75 addresses accounting and financial reporting for OPEB and establishes standards for recognizing and measuring liabilities, deferred outflows/inflows of resources, and expenses/expenditures. The City implemented GASB Statement No. 75 in fiscal year 2017-2018. Because GASB Statements No. 74 and 75 have been implemented, the annual required contribution formerly required under GASB Statements No. 43 and 45 is no longer applicable to OPEB plans such as the Healthcare Plans.

Plan Actuary. Each Retirement Plan separately retains Cheiron, Inc. as actuary (the “**Plan Actuary**”) to calculate and value current and future benefits, contribution rates, assets, liabilities, and other necessary information. The Plan Actuary provides annual valuation reports for each Retirement Plan and contributes to each Retirement Plan’s Annual Comprehensive Financial Report.

Governance

Each Retirement Plan is governed by its own independent Board. The Retirement Plans are administered as entities separate from the City and for the benefit of the members of the Retirement Plans and their beneficiaries. The City Charter provides that the City Council shall establish by ordinance one or more retirement boards to administer the Retirement Plans in

accordance with the fiduciary duties and obligations established by law, the City Charter, and as further prescribed by the Municipal Code. Additionally, the City Charter specifies that the term of membership, qualifications of the members and the size of each retirement board shall be prescribed by ordinance and that the members of each Board shall be appointed and removed by the City Council in a manner prescribed by ordinance.

The Board of the Police and Fire Plan consists of nine-members (the “**Police and Fire Board**”) appointed by the City Council. The Police and Fire Board’s membership is composed of: two City employees, one employed in the Police Department and one employed in the Fire Department, each recommended through an election of the employees of the respective departments who are members of the Police and Fire Plan; two retired Police and Fire Plan members, one retired from the Police Department and one retired from the Fire Department; and five public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the five public members is subject to interview and the recommendation of the Police and Fire Board.

The Board of the Federated Plan (the “**Federated Board**”) consists of seven members appointed by the City Council. The Federated Board’s membership is composed of: two City employees recommended through an election of the members; a retired Federated Plan member; and four public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the four public members is subject to the recommendation of the Federated Board.

Members of both Boards serve four-year terms and may only be removed for cause as defined under the Municipal Code. Retired members on both Boards may not serve more than two consecutive terms unless no other retired member is recommended.

Each Board is authorized to perform the functions necessary to carry out the operation of the Retirement Plans, consistent with their fiduciary duties to the respective Retirement Plan. Under the California Constitution and the Municipal Code, Retirement Plan assets may only be used to provide benefits to plan participants and their beneficiaries and defraying reasonable costs of administration. The Boards are empowered to make certain decisions regarding investment of funds, management of assets, disbursement of benefits, hiring of legal counsel and financial advisors. Under the City Charter, each Board is required to adopt a budget approved by the City Council covering the entire aggregate expense of administration of the respective Retirement Plan.

The Office of Retirement Services is administered by its Chief Executive Officer. Both the Chief Executive Officer and Chief Investment Officer for the Retirement Plans are employees of the City who are retained by and serve at the pleasure of the Boards. The Chief Executive Officer has appointing authority over the other staff in the Office of Retirement Services. The Charter excludes the Chief Executive Officer, Chief Investment Officer and the other investment professional staff within the Office of Retirement Services from participating in the City’s Retirement Plans.

Internal Revenue Code Limitations on Pension Payments

The Retirement Plans are tax qualified plans and are subject to the Code requirements. The Code places limits on the amount of compensation on which a pension may be calculated (\$305,000 for 2022) for employees who are members of the Retirement Plans. Members of the

Retirement Plans who became members before January 1, 1996 are not subject to the foregoing limit. Additionally, the Code caps the annual maximum pension payment that is subject to periodic adjustment based on a consumer price index. For 2022, the maximum annual payment is \$245,000; however, the maximum amount is adjusted downward for certain employees, including for non-public safety employees who retire before the age of 62, depending on the employee's age at retirement.

The Office of Retirement Services conformed benefit payments to certain retirees within the Federated Plan to the applicable Code limits as of July 1, 2015 after becoming aware of pension overpayments to such retirees. The Federated Plan submitted an invoice to the City during fiscal year 2015-2016 for \$882,007, being the total prior pension overpayments plus interest, and subsequently filed a lawsuit against the City for the amounts claimed in the invoice. The City and the Federated Plan thereafter entered into a settlement under which the overpayment amount of \$866,000 as of June 2016 was included as an actuarial loss in the calculation of the Federated Plan's unfunded actuarial accrued liability, and as a result, paid by the City through its employer contributions and earnings on contributions over the amortization period set by the Federated Board in the ordinary course of the Board's determination of the City's required employer contribution.

Exceeding the maximum benefit payment limits places a pension plan at risk of receiving unfavorable tax treatment, which in turn, could subject the pension plan's income to the payment of income taxes that would reduce the amount available for retirement benefits. The Federated Plan took steps to voluntarily correct the overpayment errors under Internal Revenue Service ("IRS") guidance and preserve the tax-qualified status of the Federated Plan. However, the City has not independently verified whether the Federated Plan's corrective actions are sufficient under the Code or current IRS guidance.

On November 30, 2016, certain retired members and beneficiaries of the Federated Plan as well as an association representing a group of retired or to be retired Federated Plan members and beneficiaries (the "**Claimants**"), filed a claim against the City and the Federated Plan Board and have since filed a lawsuit against the City and the Board. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Section 415 of the Code ("**Section 415**"). See "POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES – Potentially Significant Litigation – Retirement Benefits Litigation" in Appendix A of this Official Statement for a description regarding this lawsuit.

2019 Grand Jury Report on Unfunded Pension Liabilities

On June 19, 2019, the 2018-2019 Santa Clara County Civil Grand Jury (the "**Grand Jury**") released publicly its final report entitled, "SAN JOSE – UNFUNDED PENSION LIABILITIES – A Growing Concern" (the "**Grand Jury Report**"). Under the California Constitution and Penal Code, the Grand Jury, a body composed of volunteer citizens, may at its discretion investigate the operations of cities within the County, including the City, and make such recommendations as it sees fit. However, the Grand Jury's recommendations are not binding on the City or the Boards.

In the Grand Jury Report, the Grand Jury made six findings with respect to the Pension Plans and provided seven recommendations for consideration by the City and the Boards. The Grand Jury requested responses from the City and each of the Boards, to selected findings and recommendations in accordance with the Penal Code. The City and the Boards submitted their respective responses in September 2019. In their responses, the City and the Boards disagreed with certain of the findings and recommendations for various reasons, including that certain of the

recommendations were legally impossible to implement by the City and/or the Boards. To date, only some of the accepted recommendations have been implemented by the City and the Boards, as applicable.

A copy of the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: https://www.sccourt.org/documents/San%20Jos%C3%A9%20-%20Unfunded%20Pension%20Liabilities%20-%20Rev.%2006.19.19_Signed.pdf. A copy of the City's responses to the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: https://www.sccourt.org/court_divisions/civil/cgj/2019/Responses/City%20of%20San%20Jose%2009.23.19.pdf. A copy of the joint responses by the Boards to the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: https://www.sccourt.org/court_divisions/civil/cgj/2019/Responses/Federated%20City%20Retirement%20System.pdf. The foregoing websites are referenced for informational purposes only and none are incorporated into this Appendix B by reference. The City makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

Retirement Stakeholder Solutions Working Group

In November 2019, the City formed the Retirement Stakeholder Solutions Working Group (the "**Working Group**") with the stated purpose of developing a shared understanding of the issues facing the City's retirement systems and to collaboratively develop a list of recommendations to be presented to City Council for review and consideration. The Working Group was comprised of representatives from a range of active and retired stakeholder groups representing active City bargaining groups, Federated and Police and Fire retirees, community groups, City Council, two members of each Retirement Board and City staff. The Working Group met nine times between November 2019 and February 2021. The Working Group explored various options and avenues to reduce the City's unfunded pension liability, including the issuance of pension obligation bonds. A summary of the options explored by the Working Group are summarized in a final report dated April 2, 2021. A copy of such report can be found at <https://www.sanjoseca.gov/Home/Components/News/News/2706/5167>. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference.

On April 23, 2021 a Council Study Session was held. At the Study Session, City staff presented options it had evaluated for financing the unfunded pension obligations of the City's Retirement Plans, including the possibility of issuing pension obligation bonds as requested by the Mayor and Council in December 2020. The Working Group's final report was included in the materials provided to the City Council in advance of the April 23 Study Session. At the conclusion of the Study Session, staff provided a plan for next steps that included potential recommendations for Council to consider on May 11, 2021. The City Council approved the staff's recommendations on May 11 and directed the City Administration and the City Attorney to proceed with planning and preparation of the necessary bond documents and court validation documents to confirm the City's authority to issue pension obligation bonds.

A validation action to confirm the City's authority to issue pension obligation bonds to refund the City's unfunded actuarial liability was filed in Santa Clara Superior Court on November 18, 2021. The City completed notice by publication on January 17, 2022. The validation action is pending and the City cannot predict the outcome of the validation action at this time. If the City receives a favorable judgment, the City Council must still approve actual issuance depending on market conditions.

APPENDIX B DEFINITIONS

The following terms are used in this Appendix B:

Actuarial Liability (“AL”): That portion of the present value of future benefits not provided for by future Normal Costs. The Actuarial Liability can be thought of as the present value of benefits attributed to employees’ past service. It is used in the actuarial valuation as a funding target. This measure is not appropriate for assessing the sufficiency of plan assets to settle the plan’s benefit obligations on a risk free basis because actual events and plan experience may deviate from the assumptions used in the actuarial liability calculations.

Actuarial Value of Assets: The value of cash, investments, and other property of the applicable plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an actuarial value of assets is to smooth out fluctuations in market value of assets to dampen the impact on contributions.

Actuarially Determined Contribution (“ADC”): The payment to a pension plan as determined by the actuary using a contribution allocation procedure. It may or may not be the actual amount contributed to a pension plan. A contribution allocation procedure typically uses an actuarial cost method, an asset valuation method, and an amortization method to develop the Actuarially Determined Contribution. Under the contribution allocation procedure employed by the Retirement Plans, there are two components to the contribution: (i) the Normal Cost (including administrative expenses), and (ii) an amortization payment on the Unfunded Actuarial Liability.

Amortization Payment: The portion of the contribution for pension or OPEB benefits that is designed to pay interest and principal on the UAL in a given number of years.

Entry Age Normal Actuarial Cost Method: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level percentage of pay from the individual’s date of entry into the plan to the individual’s assumed cessation of employment.

Fiduciary Net Position: The fair or market value of assets in the pension plan trust or healthcare plan trust.

Funded Ratio: Either the Market Value of Assets or Actuarial Value of Assets divided by the AL. This ratio is not appropriate for assessing the sufficiency of plan assets to cover the costs of settling the plan’s benefit obligations on a risk free basis because actual events and plan experience may deviate from the assumptions used in the actuarial calculations.

Market Value of Assets: The market value of assets is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The market value of assets is adjusted for accruals at the end of each fiscal year and is reported in the Annual Comprehensive Financial Report of the plan.

Net OPEB Liability: The liability reported by the City for a Healthcare Plan on its statement of net position. It is calculated as the Total OPEB Liability less the Fiduciary Net Position.

Net Pension Liability: The liability reported by the City for a Pension Plan on its statement of net position. It is calculated as the Total Pension Liability less the Fiduciary Net Position.

Normal Cost: Normal Cost is the portion of the contribution that is expected to cover the present value of benefits that are attributable to current service by covered employees under the actuarial cost method adopted by the applicable plan.

Other Postemployment Benefits (“OPEB”): Certain benefits provided after the employees’ services have ended. OPEB includes postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately or provided through a defined benefit pension plan. OPEB arises from an exchange of salaries and benefits for employee services, and it is part of the compensation that employers offer for services received.

Smoothing: When measuring assets for determining contributions, many pension plans, including each of the Pension Plans, “smooth” gains and losses to reduce the volatility of contribution rates.

Total OPEB Liability: The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statements No. 74 and 75 for plans providing OPEB to more than 100 employees. The Total OPEB Liability is the AL calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes.

Total Pension Liability: The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statements No. 67 and 68. The Total Pension Liability is the AL calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes.

Unfunded Actuarial Liability (“UAL”): The UAL is the excess of the AL over the Actuarial Value of Assets. The UAL typically results from gains and losses recognized as a result of investment returns that differ from the discount rate and changes in actuarial assumptions, benefit improvements and other experiences that differ from those anticipated by the actuarial assumptions. The purpose of the UAL calculation is to determine, as of the date of the calculation, the sufficiency of the assets in the Retirement Plans compared to the funding target (i.e., the AL) and the additional contributions needed to achieve the funding target. The funding status is typically expressed as the ratio of the Actuarial Value of Assets to the AL. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAL.

For a description of assumptions and methods employed for purposes of the actuarial valuations of the Pension Plans and Healthcare Plans, please see “PENSION PLANS – Actuarial Assumptions” and “HEALTHCARE PLANS – Actuarial Assumptions,” respectively.

CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS

Overview

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act (“**Measure B**”). Among other changes, Measure B amended the City Charter to: (1) increase pension contribution requirements for then current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for then current employees subject to IRS approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the COLA if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within each Retirement Plan that had provided supplemental pension benefits to retirees under certain circumstances; (6) codify in the City Charter contribution requirements for then current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within each Retirement Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

Measure B was subsequently the subject of various legal challenges. In November 2016, the voters approved the Alternative Pension Reform Act (“**Measure F**”) that the City Council placed on the ballot as a result of settlement frameworks entered into with the City’s bargaining groups related to Measure B. The City Council adopted ordinances to implement the terms of the settlement frameworks and Measure F in February and May 2017. The City also approved a settlement in November 2017 in connection with a lawsuit brought by individual retirees and a retiree association. The legal challenges to Measure B have been resolved as described below. Subsequent claims for attorneys’ fees related to the settlement of the Measure B litigation brought by bargaining units against the City have also been settled and, to the knowledge of the City, no claims for attorneys’ fees relating to such litigation remain outstanding.

Measure B - Settlements

Settlement of the legal challenges brought in connection with Measure B are discussed below.

Settlement Frameworks. In August 2015, the City Council formally approved an Alternative Pension Reform Settlement Framework agreement related to Measure B (“**Public Safety Settlement Framework**”) with the San José Police Officers Association and San José Fire Fighters, International Association of Firefighters, Local 230. On December 15, 2015 and January 12, 2016, the City and the bargaining units representing employees in the Federated Plan agreed to a Federated Alternative Pension Reform Settlement Framework agreement related to Measure B (the “**Federated Settlement Framework**”). The terms of the Federated Settlement Framework also applied to unrepresented employees, including unrepresented management and executive employees.

The Public Safety Settlement Framework and the Federated Settlement Framework (together, the “**Settlement Frameworks**”) include, among other things: (i) revised Tier 2 pension benefits that increased pension benefits for Tier 2 employees while preserving the 50/50 cost sharing between the City and Tier 2 employees; (ii) closed the defined benefit retiree healthcare benefit under the Healthcare Plans to new employees, as well as agreement on a new lowest cost medical plan associated with retiree healthcare; (iii) allowed Tier 1 and some Tier 2 employees to opt out of the applicable Healthcare Plan to a Voluntary Employee Benefit

Association (“**VEBA**”) for retiree healthcare subject to legal and IRS approval (since received); (iv) allowed Tier 1 employees who terminated employment with the City and either subsequently returned, or that return in the future, to return as Tier 1 employees; and (v) continued the elimination of the Supplemental Retiree Benefit Reserve (“**SRBR**”). In the Settlement Frameworks, the City also agreed that a ballot measure regarding the Settlement Frameworks would be placed on the November 2016 election. The City submitted the approval of the Settlement Frameworks to voters in the City through Measure F on the November 2016 election, as described below.

The Settlement Frameworks also contemplated that the City and the respective bargaining units within each Retirement Plan would enter into retirement memorandums of agreement (“**MOA**”) memorializing the terms of the Settlement Frameworks, with each such MOA having an expiration date of June 30, 2025. The City and such bargaining units have agreed upon the forms of the MOAs, but have not entered into any MOAs to date. The City, the San Jose Police Officers’ Association (SJPOA) and the International Association of Fire Fighter, Local 230 (IAFF, Local 230) recently agreed to a five (5) year extension of the sworn retirement MOA. Once approved by Council and ratified by the SJPOA and IAFF, Local 230 membership, the sworn MOA will expire in 2030. The City has proposed the same five (5) year extension to the Federated bargaining units.

Measure F – Passage. The City and its eleven bargaining units reached agreement on the provisions of Measure F to amend the City Charter to supersede the provisions implemented by Measure B consistent with the provisions agreed to in the Settlement Frameworks. On November 8, 2016, the voters approved Measure F. Measure F included, among other things: a prohibition on any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closure of the defined benefit retiree healthcare plan; and a prohibition on retroactive defined retirement benefit enhancements.

San José Retired Employees Association Litigation Settlement. In July 2014, the Retirees’ Association, along with four individually named retirees, filed, and subsequently served, a verified complaint against the City in the Santa Clara County Superior Court. The complaint alleged that the City changed the basic retiree healthcare benefit to a new plan that “fundamentally alters” the nature and quality of the benefit provided to retirees, because the plan has increased co-pays and deductibles. The complaint further alleged that the affected retirees had a vested right to the plan in existence when they were employed by the City, and to the premium amount paid by the City for their healthcare benefit. The action sought monetary damages for the increase in co-pays, deductibles and premium payments made by the affected retirees, as well as injunctive and writ relief prohibiting the City from continuing to provide the new health benefit to retirees.

On November 7, 2017, the City Council approved a settlement agreement (the “**Retirees’ Association Settlement Agreement**”) with the Retirees’ Association and the individual plaintiffs. The Retirees’ Association Settlement Agreement provided for the dismissal of the respective appeals in the Measure B litigation by the Retirees’ Association and the City, the dismissal by the Retirees’ Association of its stayed lawsuit with prejudice and the dismissal of the stayed lawsuit by the individual plaintiffs without prejudice.

The Retirees’ Association Settlement Agreement also included the following terms, among others:

- provides for the implementation of a new lowest cost healthcare plan for retirees who are members of the Healthcare Plans and additionally provides that the lowest

- cost plan for current and future retirees will be permanently set such that it is neither higher nor lower than the “Silver” level as specified in the Patient Protection and Affordable Care Act (“ACA”) in effect as of July 2015;
- specifies that the healthcare plan must provide at least 70% but no more than 79% of the then current ACA “Silver” definition;
 - continues the elimination of the SRBR and, in lieu of the SRBR, establishes a “Guaranteed Purchasing Power” provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;
 - creates a health-in-lieu premium credit option so that retirees can choose to receive 25% of the monthly premium of the lowest priced healthcare and dental plan (that cannot be taken in cash) in lieu of receiving healthcare coverage; and
 - reimburses specific retirees (i.e., those earning a pension of \$54,000 or less in 2016, and who were enrolled in pre-Medicare health plan between January 1, 2013 and December 31, 2016) for a portion of their additional contributions towards retiree medical premiums up to a maximum total amount of \$1.25 million.

The Retirees’ Association Settlement Agreement excludes the settlement of claims related to the payment of pensions in excess of limits established under Section 415 of the Code. For more information regarding such limits, please see “RETIREMENT PLANS IN GENERAL – Internal Revenue Code Limitations on Pension Payments.”

Implementation of Measure F and Settlement Frameworks

The City Council adopted Ordinance No. 29879 on February 14, 2017, amending the Municipal Code to reflect the terms of Measure F and the Public Safety Settlement Framework. Such changes to the Municipal Code became effective thirty days after February 14, 2017. The City Council adopted Ordinance No. 29904 on May 16, 2017, amending the Municipal Code to reflect the terms of Measure F and the Federated Settlement Framework. Such changes to the Municipal Code became effective thirty days after May 16, 2017. Most of the terms of Measure F and the Settlement Frameworks were implemented on June 18, 2017, being the first pay period of fiscal year 2017-2018.

Subsequent ordinances amending the Municipal Code to implement the terms of Measure F and the Settlement Frameworks have since been adopted by the City Council. As implementation issues arise, minor modifications to the Retirement Plans in the Municipal Code have been made to address these issues. In October 2017, to address various implementation issues, the City Council and the bargaining units entered into side letters amending the terms of the Settlement Agreements and the City Council approved ordinances further amending the terms of both Retirement Plans and the VEBA provisions. The City and the bargaining units also agreed to the terms and methodology for the amortization costs associated with reclassifying Tier 2 employees with previous Tier 1 service.

Previously, employees who separated from City service as Tier 1 employees, but were rehired or reinstated after the implementation of Tier 2, would be placed into Tier 2. The Settlement Frameworks included a provision that these employees would be reclassified as Tier 1, however, they would split the costs of the reclassification of their Tier 2 service on a 1:1 basis with the City. The employees’ portion of liability for reclassifications costs are paid over

individually determined amortization periods and includes payment of interest set by the Boards. The side letter agreements with the bargaining units were agreed to in June 2018, and the Municipal Code amendments were approved by the City Council in December 2018. In June 2020, the City and the bargaining units agreed that the City will pay future interest costs on the UAL attributable to Tier 1 Rehire employees effective September 2020. Tier 1 Rehire employees will continue to be responsible for any interest accrued prior to the effective date of such agreement.

VEBA Establishment. Measure F provides for the closure of the Healthcare Plans to Tier 2 employees of the Retirement Plans and Tier 1 Classic members of the Federated Plan. The Settlement Frameworks allowed Tier 1 members of the Federated Plan (with the exception of Tier 1 Classic members hired on or after September 27, 2013), Tier 2A members of the Federated Plan, and Tier 1 members of the Police and Fire Plan to make a one-time irrevocable election to remain in the defined benefit postemployment Healthcare Plan or opt into a defined contribution VEBA for employees of the respective Retirement Plan. Unrepresented Tier 1 and Tier 2 members of the Healthcare Plans were eligible to opt into a VEBA, but are not eligible to make ongoing contributions to the applicable VEBA. The City does not make contributions to the VEBAs. The VEBAs are not subject to the jurisdiction of the Boards and are instead administered by a five-member advisory committee, of which one member is appointed by the City Manager and four members are appointed by the City Council.

The Settlement Frameworks also provided that an amount estimated to be equal to the members' retiree healthcare contributions without interest would be transferred from the applicable Section 115 Trust to their VEBA accounts (see "HEALTHCARE PLANS – Establishment of Section 115 Trusts; Internal Revenue Code Limitations" for a discussion regarding such trusts). For members who opted out of the applicable Healthcare Plan into a VEBA, an amount estimated to be equal to the member's prior contributions to such Healthcare Plan, without interest, was required to be contributed to the member's VEBA account from the applicable Section 115 Trust. Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provided through the applicable Healthcare Plan until the member is eligible for Medicare or obtains alternative employment with healthcare coverage after exhausting all funds in their individual VEBA account. A VEBA member with at least five years of service may be eligible to purchase into the applicable Healthcare Plan at the retiree rate and not the blended rate with active employees. No amounts attributable to City contributions to the Healthcare Plans have been transferred to VEBA accounts.

VEBA Election and Postretirement Healthcare Contribution Transfer. At the time the Settlement Frameworks were executed, the City contemplated seeking IRS approval of the establishment of the VEBA accounts, the opt-in by employees who are members of the Healthcare Plans, and the transfer of Section 115 Trust funds to the applicable VEBA. The IRS reviewed the issues related to the VEBA establishment, employee opt-in, and transfer of funds under separate administrative processes.

Consistent with the terms of the Settlement Frameworks, as more fully described in "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS – Implementation of Measure F and Settlement Frameworks – VEBA Establishment," the City established the Federated VEBA Health Savings Plan (the "**Federated VEBA**") for eligible members of the Federated Healthcare Plan, and the Police and Fire VEBA Health Savings Plan (the "**Police and Fire VEBA**") and together with the Federated VEBA, the "**VEBAs**") for eligible members of the Police and Fire Healthcare Plan in fiscal year 2017-2018.

With the implementation of Measure F and establishment of the Police and Fire VEBA, Tier 2 members of the Police and Fire Plan were automatically placed into the Police and Fire VEBA. The City Manager on August 2, 2017, exercised discretion provided under the Municipal Code to terminate the Police and Fire Plan Tier 2 members' participation in the Police and Fire Healthcare Plan. On August 3, 2017, the Police and Fire Board took action to terminate the Police and Fire Healthcare Plan for Tier 2 Police and Fire members effective July 30, 2017. After July 30, 2017, the Police and Fire Plan Tier 2 members no longer make contributions to the Police and Fire Healthcare Plan.

In November 2017, the IRS and City entered into a Closing Agreement whereby Tier 1 members of both the Police and Fire Healthcare Plan and the Federated Healthcare Plan, and Tier 2A members of Federated Healthcare Plan, were eligible for an irrevocable opt-out of the applicable Healthcare Plan into the VEBAs. The transfer of their retiree healthcare contributions (medical and dental) from the applicable Healthcare Plan to their individual VEBA accounts remained subject to further IRS approval. The VEBA opt-in election period commenced on October 18, 2017, and ended on December 15, 2017.

In February 2018, the IRS issued favorable private letter rulings with respect to the transfer of retiree healthcare contributions from both of the Healthcare Plans for those employees of the Healthcare Plans opting into the VEBAs and in March 2018, the retiree healthcare contributions of members of the Healthcare Plan who opted into the VEBAs were transferred from the applicable Healthcare Plan into their individual VEBA accounts. See "HEALTHCARE PLANS – General" for a description of the number of Healthcare Plan members that opted into the VEBAs and the amounts transferred from the VEBAs. The IRS also approved allowing eligible employees who are rehired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the applicable Healthcare Plan to their individual VEBA accounts.

Retirement Plan Tiers

As a result of the Settlement Frameworks and implementation of Measure F, members of each Retirement Plan are now categorized into membership categories based on when the member entered the respective Retirement Plan and whether certain prior service requirements are met. Following the passage of Measure B, but prior to the Settlement Frameworks, the Federated Plan included Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B and Tier 2C had the same reduced pension benefits as compared to Tier 1. Tier 2 had the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B originally consisted of employees who were newly hired or rehired on or after September 27, 2013, and they were not eligible for the defined benefit retiree health care benefits; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid had those employees been eligible. Tier 2C had retiree dental benefits but no retiree medical benefits. Tier 2C included employees who were previously Tier 1 members that separated from City service and returned on or after September 30, 2012, but before June 18, 2017. The Settlement Frameworks provided that all previous Tier 1 employees who were placed in Tier 2 would be classified as Tier 1. As a result, employees in Tier 2C have subsequently been moved to Tier 1.

The Police and Fire Plan had Tier 1 and Tier 2 for both Police and Fire Plan members with reduced pension benefits for the Tier 2 Police and Fire Plan members as compared to the Tier 1 members, and until July 30, 2017, Tier 1 and Tier 2 members of the Police and Fire Plan had the same retiree healthcare (medical and dental benefits). The membership categories for the Retirement Plans effective June 18, 2017, are summarized in Table B-1a and Table B-1b.

**Table B-1a
Federated Plan
Membership Tiers**

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	<ul style="list-style-type: none"> On or before September 29, 2012 Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions 	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 1 Rehire	<ul style="list-style-type: none"> Former Tier 1 rehired on or after September 30, 2012 through June 17, 2017 	Tier 1 ⁽¹⁾	Medical/Dental ⁽²⁾⁽⁴⁾⁽⁵⁾
Tier 1 Classic	<ul style="list-style-type: none"> “Classic” membership with California Public Employees’ Retirement System (“CalPERS”)/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013 “Classic” membership with CalPERS/reciprocal agency hired on or after September 27, 2013 	Tier 1 ⁽⁶⁾	Medical/Dental
Tier 2 (or Tier 2A)	<ul style="list-style-type: none"> Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013 	Tier 2	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 2B	<ul style="list-style-type: none"> Hired/rehired/reinstated on or after September 27, 2013 and have not met City’s eligibility for retiree healthcare 	Tier 2	Not Eligible ⁽³⁾⁽⁴⁾

⁽¹⁾ Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

⁽²⁾ Employees in these tiers were provided a one-time irrevocable election to remain in the Federated Healthcare Plan or opt into the Federated VEBA. Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.

⁽³⁾ Employees in these tiers were mandatorily placed into the Federated VEBA.

⁽⁴⁾ Unrepresented employees were eligible to opt into the Federated VEBA but are not eligible to make ongoing contributions to the Federated VEBA.

⁽⁵⁾ All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan on March 25, 2018.

⁽⁶⁾ Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the “Classic” tier regardless of start date.

Source: City of San José Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021.

**Table B-1b
Police and Fire Plan
Membership Tiers**

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Police Tier 1	<ul style="list-style-type: none"> Before August 4, 2013 Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions 	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Police Tier 1 Rehire	<ul style="list-style-type: none"> Tier 1 employee rehired between August 4, 2013 through June 17, 2017 	Tier 1 ⁽¹⁾	Medical/Dental ⁽²⁾⁽⁴⁾
Fire Tier 1	<ul style="list-style-type: none"> Before January 2, 2015 Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions 	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Fire Tier 1 Rehire	<ul style="list-style-type: none"> Tier 1 employee rehired between January 2, 2015 through June 17, 2017 	Tier 1 ⁽¹⁾	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 1 Classic	<ul style="list-style-type: none"> “Classic” membership with CalPERS/reciprocal agency hired on or after August 4, 2013 for Police and January 2, 2015 for Fire 	Tier 1 ⁽⁵⁾	Not Eligible
Police Tier 2	<ul style="list-style-type: none"> On or after August 4, 2013 	Tier 2	Not Eligible ⁽³⁾⁽⁴⁾
Fire Tier 2	<ul style="list-style-type: none"> On or after January 2, 2015 	Tier 2	Not Eligible ⁽³⁾⁽⁴⁾

⁽¹⁾ Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

⁽²⁾ Employees in these Tiers were provided a one-time irrevocable election to remain in the Police and Fire Healthcare Plan or opt into the Police and Fire VEBA. Employees that opted into the Police and Fire VEBA are not eligible for the Police and Fire Healthcare Plan. The Police and Fire VEBA was implemented on March 25, 2018.

⁽³⁾ Employees in these tiers were mandatorily placed into the Police and Fire VEBA.

⁽⁴⁾ Unrepresented employees were eligible to opt into a Police and Fire VEBA but are not eligible to make ongoing contributions to the Police and Fire VEBA.

⁽⁵⁾ Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the “Classic” tier regardless of start date.

Source: City of San José Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021.

SUMMARY OF RETIREMENT PLANS

Membership

Table B-2a and Table B-2b show the change in total membership in the Pension Plans and Healthcare Plans from June 30, 2020 to June 30, 2021. As of June 30, 2021, the ratio of retired and vested terminated members to active members within the Federated Plan was approximately 1.65 to 1. The Plan Actuary has indicated that the Federated Plan ratio appears to have stabilized after the increase following the recession, but there is no indication yet of a return to a lower ratio. The Plan Actuary further notes that because there are more retired and vested terminated members to be supported by each active member, future contributions may vary more significantly year-to-year due in part to increased sensitivity to investment gains and losses.

Following is a summary of the membership within the Federated Plan as of June 30, 2021:

- For the Federated Pension Plan, 68.8% of total members were in Tier 1, and 31.2% of total members were in Tier 2;
- For the Federated Pension Plan, 37.4% of active members were Tier 1, and 62.6% of active members were Tier 2; and
- For the Federated Healthcare Plan, 98.5% of total members eligible for full retiree medical benefits were in Tier 1 and 1.5% were in Tier 2.

Following is a summary of the membership within the Police and Fire Plan as of June 30, 2021:

- For the Police and Fire Pension Plan, 82.4% of total members were in Tier 1, and 17.6% of total members were in Tier 2;
- For the Police and Fire Pension Plan, 60.6% of active members were Tier 1, and 39.4% of active members were Tier 2; and
- For the Police and Fire Healthcare Plan, all members eligible for full retiree medical benefits were in Tier 1.

**Table B-2a
Federated Plan
Membership**

	June 30, 2020	June 30, 2021	% Change
Federated Pension Plan			
Retirees & beneficiaries receiving benefits ⁽¹⁾	4,441	4,511	1.6%
Terminated vested members not yet receiving benefits	1,614	1,663	3.0
Active members	3,742	3,775	0.9
Total	9,797	9,949	1.6
Federated Healthcare Plan⁽³⁾			
Retirees & beneficiaries receiving benefits ⁽²⁾	3,733	3,752	0.5
Terminated vested members not yet receiving benefits	156	153	(1.9)
Active members	1,445	1,345	(6.9)
Total⁽¹⁾	5,334	5,250	(1.6)

⁽¹⁾ The combined domestic relations orders are not included in the count above as their benefit is included in the member count.

⁽²⁾ Payees that have health and/or dental coverage.

⁽³⁾ Eligible for full retiree medical benefits.

Source: Federated 2021 Annual Comprehensive Financial Report.

**Table B-2b
Police and Fire Plan
Membership**

	June 30, 2020	June 30, 2021	% Change
Police and Fire Pension Plan			
Retirees & beneficiaries receiving benefits ⁽¹⁾	2,380	2,443	2.6%
Terminated vested members not yet receiving benefits	335	332	(0.9)
Active members	1,709	1,738	1.7
Total	4,424	4,513	2.0
Police and Fire Healthcare Plan⁽²⁾			
Retirees & beneficiaries receiving benefits ⁽³⁾	2,217	2,273	2.5%
Terminated vested members not yet receiving benefits	11	13	18.2
Active members	1,075	986	(8.3)
Total⁽¹⁾	3,303	3,272	(0.9)

⁽¹⁾ The combined domestic relations orders are not included in the count above as their benefit is included in the member count.

⁽²⁾ Eligible for full retiree medical benefits.

⁽³⁾ Payees that have health and/or dental coverage.

Source: Police and Fire 2021 Annual Comprehensive Financial Report.

Summary of Historical and Projected Contributions

Forward Looking Statements. Investors are cautioned that the UAL, the Funded Ratio, and the calculations of Normal Cost as reported by the Retirement Plans and the resulting pension and healthcare contributions are “forward looking” information prepared by the Retirement Plans for their own purposes. Such “forward looking” information reflects the judgment of the Boards and the Plan Actuary as to the assets which the Retirement Plans will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, existing retired employees, and their beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the Retirement Plans. The actuarial methods and assumptions could be changed by the Boards at any time. Such changes could cause the City’s actual obligations to the Retirement Plans to be higher or lower than those projected by the Plan Actuary in any particular year.

Historical and Projected Contributions. Contributions to the Pension Plans are actuarially determined. The Municipal Code specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City. With respect to the Healthcare Plans, contributions by the City are actuarially determined and contributions by employees are made at rates established by the Municipal Code and the Settlement Frameworks. See “PENSION PLANS – Contributions” and “HEALTHCARE PLANS – Contributions.”

The City’s estimated contributions to the Federated Plan and Police and Fire Plan for fiscal year 2021-2022 and the actual contributions for the previous 10 fiscal years are shown in Table B-3a and Table B-3b, respectively. As shown, the City’s annual dollar contributions to the Federated Plan and Police and Fire Plan have increased significantly since fiscal year 2011-2012, primarily due to losses recognized as a result of actual investment returns below the discount rate and assumption changes. See tables B-11b and B-21a for the components of the City’s contributions to the Federated Plan for fiscal year 2021-2022. See tables B-11d and B-21b for the components of the City’s contributions to the Police and Fire Plan for fiscal year 2021-2022.

Ta Table B-3a Federated Plan Historical Contributions	
Fiscal Year Ended June 30	Total Contribution
2012	\$112,916,000
2013	124,360,000
2014	126,842,000
2015	141,710,000
2016	159,921,000
2017	170,388,000
2018	189,167,000
2019	199,416,000
2020	207,860,000
2021	210,200,000
2022	237,863,000

Source: City of San José.

**Table B-3b
Police and Fire Plan
Historical Contributions**

Fiscal Year Ended June 30	Total Contribution
2012	\$142,214,000
2013	121,042,000
2014	140,850,000
2015	150,189,000
2016	153,545,000
2017	157,624,000
2018	183,094,000
2019	205,362,000
2020	215,831,000
2021	229,767,000
2022	219,406,000

Source: City of San José.

The City's contributions to the Retirement Plans for fiscal year 2021-22 represent approximately 22.2% of City's adopted budget for General Fund for such fiscal year.

In January 2022, as directed by the Retirement Plans, the Plan Actuary provided five-year budget projections for the City's contributions for the Retirement Plans based on the June 30, 2021 actuarial valuations. The projections for the Federated Plan were revised by the Plan Actuary at the direction of the Federated Board to include certain additional changes in demographic assumptions in March 2022. The projections of the City's actuarially determined contributions to the Federated Plan and Police and Fire Plan for fiscal years 2022-2023 through 2026-2027, are shown in Table B-3c and Table B-3d, respectively. These projections do not include the investment returns of the Pension Plans for fiscal year 2021-2022. The City's actual contributions will depend on various factors, including the respective actual returns of the Retirement Plans over the course of this five-year projection period.

**Table B-3c
Federated Plan
Projected City Contributions
(in millions)**

Fiscal Year Ended June 30	Federated Payroll	Federated Pension Plan Contribution	Pension Rate	Federated Healthcare Plan Contribution	Healthcare Rate	Total Contribution	Total Rate
2023	\$369.8	\$208.8	56.46%	\$18.8	5.08%	\$227.6	61.53%
2024	380.9	205.0	53.82	18.4	4.83	223.4	58.65
2025	392.4	201.4	51.33	17.3	4.42	218.7	55.75
2026	404.1	197.2	48.79	17.5	4.34	214.7	53.13
2027	416.3	192.6	46.27	17.7	4.26	210.3	50.53

Source: Cheiron 5-Year and 20-Year Budget Projections for Federated Plan, March 8, 2022.

Table B-3d
Police and Fire Plan
Projected City Contributions
(in millions)

Fiscal Year Ended June 30	Police and Fire Payroll	Police and Fire Pension Plan Contribution	Pension Rate	Police and Fire Healthcare Plan Contribution	Healthcare Rate	Total Contribution
2023	\$260.1	\$ 212.0	81.51%	\$29.2	11.18%	\$241.2
2024	267.9	193.7	72.31	30.3	11.26	224.0
2025	276.0	178.0	64.49	30.3	10.94	208.3
2026	284.3	165.4	58.20	31.5	11.04	196.9
2027	292.8	151.3	51.69	32.8	11.14	184.1

Source: Cheiron 5-Year and 20-Year Budget Projections for Police and Fire Plan, January 26, 2022.

The foregoing projections assume that all valuation assumptions were exactly met since June 30, 2021, and are exactly met each and every year for the projection period. In reality, actual experience will deviate from the assumptions. If all assumptions are met, contributions equal to the Normal Cost plus interest on the UAL are needed to prevent UAL from growing as a dollar amount.

In January 2022, the Plan Actuary also prepared 20-year projections of the City's contributions to the Pension Plans. Many factors influence the projections of the City's contributions to the Pension Plans, including, without limitation, changes in actuarial assumptions or methods, and differences between actual and anticipated investment performance. See "PENSION PLANS – Contributions – Projected City Contributions."

Pension Plan Risks. According to the Plan Actuary, the fundamental risk to the Pension Plans is that contributions needed to pay benefits become unaffordable. The Plan Actuary further notes that there are a number of factors that could lead to contributions becoming unaffordable. The Plan Actuary believes the primary risks for the Federated Pension Plan are investment risk, interest rate risk, and assumption change risk. The following discussion is only a summary of the risks identified by the Plan Actuary in the Federated 2021 Pension Plan Actuarial Report and Police and Fire 2021 Pension Plan Actuarial Report. For a further discussion of such risks see such reports.

Investment Risk. Investment risk is the potential for investment returns to be different than expected. Lower investment returns than anticipated will increase the UAL thereby resulting in higher contributions in the future unless other gains offset such losses. The potential volatility of future investment returns is determined by the allocation of assets and the affordability of the investment risk is determined by the amount of assets invested relative to the size of the City. Losses recognized as a result of actual investment returns below the discount rate have been a significant contributor to the growth of UAL of the Pension Plans in the last 10 years.

Interest Rate Risk. Interest rate risk is the potential for interest rates to be different than expected. For public plans like the Pension Plans, short-term fluctuations in interest rates have little or no effect as the plan's liability is usually measured based on the expected return on assets. Longer-term trends in interest rates, however, can have a

powerful effect. As interest rates have declined, pension plans have faced the choice of maintaining the same level of risk and reduce the expected rate of return or maintain the same expected rate of return and take on additional investment risk or some combination of the two strategies.

Assumption Change Risk. Assumption change risk is the potential for the environment to change such that future valuation assumptions are different than the current assumptions. Assumption rate risk is an extension of the other risks described above, but rather than capturing the risk as it is experienced, it captures the cost of recognizing a change in the environment when the current assumption is no longer reasonable. In the previous 10 years, there have been substantial changes in actuarial assumptions with respect to the Pension Plans that have caused their respective UALs to increase. Most of the changes are due to the reduction in the discount rate for the Pension Plans, but it also includes changes to demographic assumptions such as mortality and retirement rates. The reductions in the discount rate largely reflect the impact of declining interest rates on future expected investment returns.

In addition, in the Federated 2021 Pension Plan Actuarial Report and Police and Fire 2021 Pension Plan Actuarial Report, the Plan Actuary notes that the future financial condition of a mature plan is more sensitive to each of the risks described above when compared to less mature plans. The Plan Actuary identified the support ratio and leverage ratios as two measures of the maturity of a plan, as follows:

Support Ratio. The support ratio is the ratio of number of inactive members (those receiving benefits or entitled to a deferred benefit) to the number of active employees. The Plan Actuary notes the respective support ratios of the Pension Plans have increased dramatically from approximately 0.50 in 2001 (in the 25th to 50th percentile of support ratios for plans in the Public Plans Database) to approximately 1.60 in 2021 (in 75th to 95th percentile of support ratios for plans in the Public Plans Database).

Leverage Ratios. Leverage or volatility ratios measure the size of the plan compared to its revenue base more directly. Such ratios include the asset leverage ratio and actuarial liability ratio. The Plan Actuary notes that the respective leverage ratios for the Pension Plans are higher than most plans, indicating that the Pension Plans are much more sensitive to risk than most plans. In the last year, this sensitivity has worked to the City's advantage as the investment returns of fiscal year 2020-2021 have had a more dramatic impact on the City's contribution rates than for other plans. However, this growth in assets has further heightened the sensitivity to investment returns.

For additional information regarding the contributions to the Pension Plans and the Healthcare Plans, please see "PENSION PLANS – Contributions" and "HEALTHCARE PLANS – Contributions," respectively. For the Healthcare Plans, the projections of the Plan Actuary include changes to the benefits offered to active employees as described in "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS."

PENSION PLANS

The Pension Plans offer service retirement, disability retirement, survivor, and death benefits for members and their beneficiaries. The benefits available under the Pension Plans accrue throughout the time an employee engages in covered work for the City. Even though the

benefits accrue during employment, certain age and service requirements must be attained to generate a retirement or other benefit upon retirement or termination of City employment. If met, an employee may elect to receive a monthly pension benefit, calculated by taking into account years of service, final compensation, and in certain instances, age at retirement.

The terms of the final benefit calculation and subsequent cost of living increases, if any, during retirement depends on the employee’s membership tier within a Pension Plan. The pension benefits for employees in Tier 2 differ substantially from the Tier 1, as shown in Table B-4a and Table B-4b. In addition, the contribution rates for Tier 2 members are calculated based on a 50/50 split of all costs, including UAL. Members in Tier 1 of a Pension Plan share a portion of the Normal Cost, but generally do not contribute towards UAL costs. The Plan Actuary expects that as more employees join Tier 2 and contributions are made to pay down the UAL of the Pension Plans, the respective funding levels of the Pension Plans will generally increase and the contribution rates of the City will decrease over time.

Table B-4a and Table B-4b below provide a general description of service retirement pension benefit formulas (excluding early retirement) for each Tier in the Pension Plans as of June 30, 2021. For more additional information regarding such formulas, please see in APPENDIX C – “BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2021,” Notes to Financial Statements, Note IV.A, and Title 3 of the Municipal Code.

**Table B-4a
Federated Plan Service Pension Formulas**

	Normal Retirement Age	Minimum Vesting Service⁽¹⁾	Pension Allowance	Final Compensation
Tier 1	<ul style="list-style-type: none"> • 55 with 5 years service • 30 years service at any age 	5 years of service	<ul style="list-style-type: none"> • 2.5% x years of service x final compensation (75% max) 	Average monthly base pay in highest one year compensation ⁽²⁾
Tier 2	<ul style="list-style-type: none"> • 62 with 5 years of Federated Plan covered service • 55 with 5 years of Federated Plan covered service with reduction by a factor of 5% per year prior to age 62 prorated to closest month 	5 years of Federated Plan covered City service	<ul style="list-style-type: none"> • 2.0% x years of service x final compensation (70% max) 	Average monthly (or biweekly) base pay in highest consecutive three year compensation ⁽³⁾

⁽¹⁾ Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from the plan.

⁽²⁾ For separations that take place prior to July 1, 2001, final compensation is the highest average monthly base pay in highest consecutive three year compensation.

⁽³⁾ Excludes premium pay or additional compensation.

Source: Federated 2021 Annual Comprehensive Financial Report.

**Table B-4b
Police and Fire Plan Service Pension Formulas**

	Normal Retirement Age	Minimum Vesting Service⁽¹⁾	Pension Allowance	Final Compensation
Police Tier 1	<ul style="list-style-type: none"> • 50 with 25 years service • 55 with 20 years service • 30 years service at any age (with reciprocity must be 50 years of age) • Mandatory retirement at 70 years of age 	10 years of service	<ul style="list-style-type: none"> • First 20 years of Service: 50% of final compensation (2.5% per year) • 21-30 years service: 4% per year of service x final compensation (90% max) 	Highest one year average compensation
Fire Tier 1	<ul style="list-style-type: none"> • 50 with 25 years service • 55 with 20 years service • 30 years service at any age (with reciprocity must be 50 years of age) • Mandatory retirement at 70 years of age 	10 years of service	<ul style="list-style-type: none"> • First 20 years of service: 50% of final compensation (2.5% per year) • Beginning 21st year of service: 3% x years of service x final compensation (90% max). • All years convert to 3% after 20 years 	Highest one year average compensation
Police and Fire Tier 2	<ul style="list-style-type: none"> • 57 with 5 years of Police and Fire Department Plan covered service • 50 with 5 years of Police and Fire Department Plan covered service with reduction by a factor of 7% per year prior to age 57 prorated to closest month 	5 years of Police and Fire Department Plan covered service	<ul style="list-style-type: none"> • First 20 years of service: 2.4% per year of service x final compensation. • Beginning of 21st year: 3.0% per year of service x final compensation. • Beginning of 26th year: 3.4% per year of service x final compensation. • Maximum benefit is 80% of final compensation 	Average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service

⁽¹⁾ Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from plan.

Source: Police and Fire 2021 Annual Comprehensive Financial Report.

Funding Status

General. The funding objective for the Pension Plans is to meet long-term benefit obligations through contributions and investment income. Following is a summary of the funded status of the Pension Plans on an actuarial and financial statement basis.

Actuarial Funded Status. The Federated 2021 Pension Plan Actuarial Report and the Police and Fire 2021 Pension Plan Actuarial Report are the most recent actuarial valuations available for the Federated Pension Plan and the Police and Fire Pension Plan as of the date of this Official Statement. The following information is derived primarily from such report. To determine on-going funding requirements for pension benefits, most pension plans utilize an actuarial value of pension assets that differs from the market value of those assets. The actuarial value of pension assets is based on smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions. The market value represents the value of the pension assets if they were liquidated on the valuation date. For a further description of the methodology used by the Pension Plans for valuing their respective pension plan assets, please see “PENSION PLANS – Actuarial Assumptions.” Table B-5a, Table B-5b, Table B-5c and Table B-5d show the respective Market Value of Assets and Actuarial Value of Assets of the Pension Plans. Table B-5a and Table B-5c also show the actuarially determined value of all current and future benefits to be paid by the Pension Plans (the “**Total Actuarial Liability**”) as of June 30, 2020 and June 30, 2021. The Market Value of Assets, Actuarial Value of Assets and Total Actuarial Liability are intended to be used to assess contributions for an ongoing pension plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the obligations of a pension plan, like the Pension Plans, on a risk-free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial valuations and such deviations may be material.

Table B-5a
Federated Pension Plan
Assets & Liabilities
(in millions)

	June 30, 2020	June 30, 2021	% Change
Total Actuarial Liability	\$ 4,401	\$ 4,563	3.7%
Market Value Assets	2,208	2,884	30.6
Actuarial Value Assets	2,301	2,513	9.2
Unfunded Actuarial Liability- MV ⁽¹⁾	2,193	1,679	(23.5)
Unfunded Actuarial Liability - AV ⁽²⁾ (3)	2,100	2,050	(2.4)
Funded Ratio – Market Value	50.2%	63.2%	26.0
Funded Ratio – Actuarial Value	52.3%	55.1%	5.4

⁽¹⁾ UAL amount based on Market Value of Assets, which is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

⁽²⁾ UAL amount based on Actuarial Value of Assets, which is calculated by recognizing the deviation of actual investment returns compared to the expected return for the period ending on the valuation date over a five-year period. See “– Actuarial Assumptions – Actuarially Assumed Investment Rates of Return” for the actuarially expected or assumed investment returns for the previous 10 fiscal years.

⁽³⁾ Decrease from June 30, 2020 to June 30, 2021 is primarily due to gains recognized as a result of actual investment returns above the discount rate (reducing the UAL by approximately \$76 million) and contributions in excess of the Normal Cost plus interest on the UAL (further reducing the UAL by approximately \$14 million), offset by liability losses (of approximately \$31 million, including a \$21 million loss due to salaries being higher than expected) and changes in assumptions (of approximately \$10 million). See “PENSION PLANS – Funding Status” below for a discussion of the funding status of the Federated Pension Plan.

Source: Federated 2021 Pension Plan Actuarial Report.

Table B-5b
Police and Fire Pension Plan
Assets & Liabilities
(in millions)

	June 30, 2020	June 30, 2021	% Change
Total Actuarial Liability	\$ 5,235	\$ 5,442	3.9%
Market Value Assets	3,702	4,727	27.7
Actuarial Value Assets	3,852	4,210	9.3
Unfunded Actuarial Liability - MV ⁽¹⁾	1,533	715	(53.4)
Unfunded Actuarial Liability - AV ⁽²⁾ (3)	1,383	1,231	(11.0)
Funded Ratio – Market Value	70.7%	86.9%	16.1
Funded Ratio – Actuarial Value	73.6%	77.4%	5.16

⁽¹⁾ UAL amount based on Market Value of Assets, which is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

⁽²⁾ UAL amount based on Actuarial Value of Assets, which is calculated by recognizing the deviation of actual investment returns compared to the expected return for the period ending on the valuation date over a five-year period. See “– Actuarial Assumptions – Actuarially Assumed Investment Rates of Return” for the actuarially expected or assumed investment returns for the previous 10 fiscal years.

⁽³⁾ Decrease from June 30, 2020 to June 30, 2021 is primarily due to gains recognized as a result of actual investment returns above the discount rate (reducing the UAL by approximately \$117 million) and contributions in excess of the Normal Cost plus interest on the UAL (further reducing the UAL by approximately \$54 million), offset by liability losses (of approximately \$6.7 million) and changes in assumptions (of approximately \$12.4 million). See “PENSION PLANS – Funding Status” below for a discussion of the funding status of the Pension Plans.

Source: Police and Fire 2021 Pension Plan Actuarial Report.

Table B-5c
Federated Pension Plan
Market and Actuarial Value of Assets
(in thousands)

	June 30, 2020	June 30, 2021
Market Value, Beginning of Year	\$ 2,132,152	\$ 2,208,017
Contributions		
Member	25,082	25,724
City	181,327	183,964
Total	206,409	209,688
Net Investment Earnings ⁽¹⁾	90,909	698,608
Benefit Payments	(216,728)	(227,206)
Administrative Expenses	(4,725)	(4,762)
Market Value, End of Year	\$ 2,208,017	\$ 2,884,345
Actuarial Value of Assets	\$ 2,301,469	\$ 2,513,095

⁽¹⁾ Gross investment earnings less investment expenses.

Source: Federated 2021 Annual Comprehensive Financial Report for Market Value of Assets; Federated 2021 Pension Plan Actuarial Report for Actuarial Value of Assets.

Table B-5d
Police and Fire Pension Plan
Market and Actuarial Value of Assets
(in thousands)

	June 30, 2020	June 30, 2021
Market Value, Beginning of Year	\$ 3,588,422	\$ 3,702,020
Contributions		
Member	\$ 27,645	\$ 29,033
City	188,481	201,370
Total	\$ 216,126	\$ 230,403
Net Investment Earnings ⁽¹⁾	134,085	1,044,290
Benefit Payments	(231,008)	(244,310)
Administrative Expenses	(5,605)	(5,764)
Market Value, End of Year	\$ 3,702,020	\$ 4,726,639
Actuarial Value of Assets	\$ 3,851,948	\$ 4,210,447

⁽¹⁾ Gross investment earnings less investment expenses.

Source: Police and Fire 2021 Annual Comprehensive Financial Report for Market Value of Assets; Police and Fire 2021 Pension Plan Actuarial Report for Actuarial Value of Assets.

Table B-6a and Table B-6b show the historical dollar amount of the UAL and the Funded Ratio for the Pension Plans as of June 30, 2011 through June 30, 2021 calculated using the actuarial (smoothed) value of assets. See “PENSION PLANS – Actuarial Assumptions – Smoothing Methodology” for a description of the smoothing methodologies employed for the Pension Plans.

As shown in Table B-6a, the UAL of the Federated Pension Plan as of the June 30, 2021 valuation date increased approximately \$1.1 billion (or 110%) when compared to the UAL as of the June 30, 2011 valuation date. According to the Plan Actuary, the net increase is due primarily to the following:

- Unfavorable investment returns on the actuarial (smoothed) value of assets in eight of the previous 10 years (resulting in an increase in the UAL of approximately \$416 million over the last 10 years notwithstanding positive investment returns in seven of those years);
- Changes in actuarial assumptions primarily related to reductions in the discount rate (resulting in an increase in the UAL for the Federated Pension Plan of approximately \$501 million over the last 10 years);
- Contributions less than the Normal Cost plus interest on the UAL through fiscal year 2017-2018 offset by contributions greater than the Normal Cost plus interest on the UAL since fiscal year 2017-2018 (resulting in an increase in the UAL of approximately \$43.4 million over the last 10 years); and
- Actuarial gains and losses on the Actuarial Liability (resulting in an increase in the UAL of approximately \$135 million over the last 10 years).

As shown in Table B-6a, the Federated Pension Plan’s UAL was 571% of total covered annual payroll as of the June 30, 2021 valuation date of the Federated 2021 Pension Plan

Actuarial Report. In other words, to fully fund the UAL of the Federated Pension Plan as of June 30, 2021, contributions would need to be nearly 6 times the covered payroll for fiscal year 2020-2021.

Table B-6a
Federated Pension Plan
Schedule of Pension Funding Progress
(in thousands)

Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio⁽¹⁾	Covered Payroll	UAL as % of Covered Payroll⁽¹⁾
2011	\$ 1,788,660	\$ 2,770,227	\$ 981,567	65%	\$ 228,936	429%
2012	1,762,973	2,841,000	1,078,027	62	225,859	477
2013	1,783,270	3,013,763	1,230,493	59	225,779	545
2014	1,911,773	3,235,065	1,323,292	59	234,677	564
2015	2,004,481	3,569,898	1,565,417	56	251,430	623
2016	2,034,741	3,786,730	1,751,989	54	266,823	657
2017	2,101,435	3,923,966	1,822,531	54	287,339	634
2018	2,179,488	4,100,821	1,921,333	53	298,985	643
2019	2,228,802	4,200,708	1,971,906	53	313,310	629
2020	2,301,469	4,401,083	2,099,614	52	341,552	615
2021	2,513,095	4,562,981	2,049,886	55	359,061	571

⁽¹⁾ Rounded to the nearest whole percent.

Source: Federated 2020 Pension Plan Actuarial Report; Federated 2021 Pension Plan Actuarial Report.

The Plan Actuary projects that, if all assumptions are met in the future including an expected return of 6.625%, the Federated Pension Plan will achieve a funded status on an actuarial basis of approximately 93% by 2036.

As shown in Table B-6b, the UAL of the Police and Fire Pension Plan as of June 30, 2021 increased approximately \$721 million (or 141%) when compared to the UAL as of the June 30, 2011 valuation date. According to the Plan Actuary, the increase over the past 10 fiscal years in the UAL of the Police and Fire Pension Plan is due primarily to the following:

- Unfavorable investment returns on the actuarial (smoothed) value of assets in 7 of the previous 10 years (resulting in an increase in the UAL of approximately \$483 million over the last 10 years notwithstanding positive investment returns in seven of those years);
- Changes in actuarial assumptions primarily relating to the reduction in the discount rate (resulting in an increase in the UAL for the Police and Fire Pension Plan of approximately \$466 million over the last 10 years);
- Contributions above the Normal Cost plus interest on the UAL in 9 of the previous 10 years (resulting in a decrease in the UAL of approximately \$292 million over the last 10 years); and
- Actuarial losses on the Actuarial Liability (resulting in an increase in the UAL of approximately \$92.5 million over the last 10 years).

As shown in Table B-6b, the Police and Fire Pension Plan's UAL was 488% of total covered annual payroll as of the June 30, 2021 valuation date of the Police and Fire 2021 Pension Plan Actuarial Report. In other words, to fully fund the UAL of the Police and Fire Pension Plan as of June 30, 2021, contributions would need to be nearly 5 times the covered payroll for fiscal year 2020-2021.

Table B-6b
Police and Fire Pension Plan
Schedule of Pension Funding Progress
(in thousands)

Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio⁽¹⁾	Covered Payroll	UAL as % of Covered Payroll⁽¹⁾
2011	\$ 2,685,721	\$ 3,196,007	\$ 510,286	84%	\$ 190,726	268%
2012	2,703,539	3,397,792	694,253	80	187,959	369
2013	2,771,924	3,578,031	806,107	78	184,645	437
2014	3,025,101	3,813,825	788,724	79	188,189	419
2015	3,212,776	4,058,410	845,634	79	184,733	458
2016	3,303,550	4,355,990	1,052,440	76	194,072	542
2017	3,439,922	4,464,402	1,024,480	77	203,816	503
2018	3,596,590	4,696,428	1,099,838	77	218,429	504
2019	3,706,302	4,988,427	1,282,125	74	235,818	544
2020	3,851,948	5,235,335	1,383,387	74	240,798	575
2021	4,210,447	5,441,660	1,231,213	77	252,558	488

⁽¹⁾ Rounded to the nearest whole percent.

Source: Police and Fire 2020 Pension Plan Actuarial Report; Police and Fire 2021 Pension Plan Actuarial Report.

The Plan Actuary projects that, if all assumptions are met in the future, the Police and Fire Pension Plan will achieve a funded status on an actuarial basis of 100% by 2029 and 103% by 2036.

Net Pension Liability. For purposes of financial reporting, the City is required under GASB Statement No. 68 to calculate and disclose the Net Pension Liability of the Pension Plans. The Net Pension Liability of Pension Plan is the difference between the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated using methods and assumptions known as the "Total Pension Liability" and the fair market value of the Pension Plan's assets known as the "Fiduciary Net Position." For purposes of its financial statements, the City calculates the Net Pension Liability of the Pension Plans using a measurement date that is one fiscal year prior to the Net Pension Liability measurement date used for the Retirement Plans' financial statements.

Table B-7a presents the funded status of the Federated Pension Plan calculated in accordance with the assumptions and methodology set forth in GASB Statement No. 68 as of the June 30, 2020 and the June 30, 2021 measurement dates. The Total Pension Liability of Federated Pension Plan as of June 30, 2020 and June 30, 2021 shown in Table B-7a is based on results of actuarial valuations dated as of June 30, 2019 and June 30, 2020, respectively, and rolled-forward to June 30, 2020 and June 30, 2021 using standard roll forward procedures.

Table B-7a
Federated Pension Plan
Components of Net Pension Liability
(in thousands)

	June 30, 2020	June 30, 2021	% Change
Total pension liability	\$ 4,323,370	\$4,526,849	4.7%
Plan fiduciary net position	2,208,017	2,884,345	3.1
Net pension liability	\$ 2,115,353	\$ 1,642,504	(22.4%)
Plan fiduciary net position as a percentage of the total pension liability	51.1%	63.7%	24.7%

Source: Federated 2021 Annual Comprehensive Financial Report.

Table B-7b presents the funded status of the Police and Fire Pension Plan calculated in accordance with the assumptions and methodology set forth in GASB Statement No. 68 as of the June 30, 2020 and the June 30, 2021 measurement dates. The Total Pension Liability of the Police and Fire Pension Plan as of June 30, 2020 and June 30, 2021 shown in Table B-7b is based on results of actuarial valuations dated as of June 30, 2019 and June 30, 2020, respectively, and rolled-forward to June 30, 2020 and 2021 using standard roll forward procedures.

Table B-7b
Police and Fire Pension Plan
Components of Net Pension Liability
(in thousands)

	June 30, 2020	June 30, 2021	% Change
Total pension liability	\$ 5,177,016	\$ 5,423,372	4.8%
Plan fiduciary net position	3,702,020	4,726,640	27.7
Net pension liability	\$ 1,474,996	\$696,732	(52.8)
Plan fiduciary net position as a percentage of the total pension liability	71.5%	87.2%	21.9%

Source: Police and Fire 2021 Annual Comprehensive Financial Report.

Actuarial Assumptions

General. Annually, actuarial valuations are prepared to measure the financial position of the Federated Pension Plan to determine the amounts to be contributed to the plan by active members and the City. The Plan Actuary employs a variety of actuarial methods and assumptions in these calculations. To prepare the actuarial valuations, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates) to produce the necessary information. Experience studies are performed by the Plan Actuary periodically to determine appropriate revisions to the actuarial assumptions. Actual results are compared with past expectations and new estimates are made about the future. In 2019, the Boards adopted certain economic and demographic changes based on experience studies of the Pension Plans performed by the Plan Actuary. The Plan Actuary determined that the changes in the assumptions based on the experience studies decreased the UAL of the Federated Pension Plan by \$2.9 million or 0.1% of

the Actuarial Liability and increased the UAL of the Police and Fire Pension Plan by \$80.9 million or 1.6% of Accrued Liability. Table B-8a below summarizes actuarial assumptions employed by the Plan Actuary in the Federated 2021 Pension Plan Actuarial Report.

**Table B-8a
Federated Pension Plan
Actuarial Assumptions**

Valuation Date	June 30, 2021
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Amortization payment growth rate	2.75% compounded annually
Asset valuation method	5-year smoothing of return
Actuarial Assumptions:	
Discount Rate	6.625%
Wage inflation ⁽¹⁾	3.00% compounded annually
Cost-of-Living Adjustments ⁽²⁾	Tier 1-3.0% per year; Tier 2-1.25% - 2.0% per year depending on years of service

⁽¹⁾ Additional merit salary increases of 0.10% to 3.75% based on a participant's years of service are also assumed.

⁽²⁾ Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation.

For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.25% to 2.0% depending on service.

Source: Federated 2021 Pension Plan Actuarial Report.

Table B-8b below summarizes actuarial assumptions employed by the Plan Actuary in the Police and Fire 2021 Pension Plan Actuarial Report.

**Table B-8b
Police and Fire Pension Plan
Actuarial Assumptions**

Valuation Date	June 30, 2021
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Amortization payment growth rate	2.25% compounded annually
Asset valuation method	5 year smoothing of return; Minimum of 80% and maximum of 120% of market value
Actuarial Assumptions:	
Discount Rate	6.625%
Wage inflation ⁽¹⁾	Bargained for increases and 3.0% compounded annually thereafter
Cost-of-Living Adjustments ⁽²⁾	Tier 1-3.0% per year; Tier 2-2.0% per year

⁽¹⁾ Additional merit salary increases of 0.6% to 6.5% based on a participant's years of service are also assumed.

⁽²⁾ Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation.

For Tier 2, adjustments fluctuate with actual inflation and are capped at 2.0%.

Source: Police and Fire 2021 Pension Plan Actuarial Report.

The Federated 2021 Pension Plan Actuarial Report and the Police and Fire 2021 Pension Plan Actuarial Report are the most recently available actuarial valuations of the Federated Pension Plan and the Police and Fire Pension Plan, respectively. Please see Tables B-5a, B-5b, B-6a and B-6b above for a summary of certain of the conclusions set forth in the Federated 2021 Pension Plan Actuarial Report and the Police and Fire 2021 Pension Plan Actuarial Report.

Actuarial Funding Method. The Pension Plans use the individual Entry Age Normal Actuarial Cost Method. Under this method, the Normal Cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed termination of employment.

Amortization Method and Period. The Tier 1 UAL for the Federated Pension Plan as of June 30, 2009 is amortized over a 30-year closed period, and changes in the Tier 1 UAL are amortized over 20-year closed periods beginning with the valuation period in which they arise. Tier 1 assumption changes are amortized over 25-year periods beginning with the valuation date in which they first arise. For members who were reclassified under Measure F from Tier 2 to Tier 1, a portion of the increase in liability for the reclassification is to be paid by members. Rehired members who were reclassified pay an additional contribution rate of 3.0 percent of payroll until the amount they owe has been paid off. All Classic members pay an additional contribution rate based on a 20-year amortization of the increase in liability for Classic members who were reclassified from Tier 2 to Tier 1 under Measure F.

The Tier 2 UAL for the Federated Pension Plan as of June 30, 2017, is amortized over a closed 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes thereafter are amortized over 10-year periods beginning with the valuation date in which they first arise. Amortization payments for the Federated Pension Plan are scheduled to increase 2.75% each year while aggregate payroll is expected to grow 3.00% each year. As a result, contributions to the Federated Pension Plan are expected to become a slightly smaller percentage of combined Tier 1 and Tier 2 payroll each year.

With respect to the Police and Fire Pension Plan, actuarial gains and losses and plan changes are amortized over a 15-year period (16 years for gains and losses prior to June 30, 2016) beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

Effective June 30, 2019, the remaining amortization periods for several components of the Tier 1 UAL for the Police and Fire Pension Plan were adjusted to smooth the pattern of amortization payments. Effective June 30, 2019, all prior assumption amortization base periods were increased by four years. As a result of this change, all prior assumption amortization base periods have the same remaining period as if they had originally been amortized over 20 years. At the same time, amortization payments for the Police and Fire Pension Plan were scheduled to increase 2.50% each year, a decrease from the prior rate of 3.25%, while aggregate payroll was assumed to grow 3.00% each year and any already bargained for increases are taken into account. Effective June 30, 2020, the annual increase in amortization payments for the Police and Fire Pension Plan was reduced from 2.50% to 2.25%.

Smoothing Methodology. When measuring assets, the Pension Plans "smooth" gains and losses to reduce the volatility of contribution rates over a five-year period to reduce the impact of short-term investment volatility on employer contribution rates. If in the one-year period prior to the annual actuarial valuation, the actual net investment return on the Market Value

of Assets of the respective Pension Plans is lower or higher than the actuarial assumed net rate of return, then 20% of the shortfall or excess is recognized each year when determining the recommended contribution rates for that actuarial valuation. As a result, the respective smoothed assets of the Pension Plans will be lower or higher than the plan's Market Value of Assets depending upon whether the remaining amount to be smoothed is a net gain or a net loss.

Actuarially Assumed Investment Rates of Return. The net rate of return assumed by the Pension Plans represents the long-term expected rate of return on the plan's investments net of investment expenses. In November 2020 and December 2020, the Federated Board and the Police and Fire Board, respectively, adopted changes to the economic assumptions for the Federated 2021 Pension Plan Actuarial Report and the Police and Fire 2021 Pension Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate, from 6.75% to 6.625%. Table B-9a and Table B-9b show the historical discount rates for the Federated Pension Plan and Police and Fire Pension Plan, respectively, from the June 30, 2012 valuation through the June 30, 2021 valuation.

**Table B-9a
Federated Pension Plan
Historical Discount Rates**

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.750%	6.750%	6.625%	6.625%

Source: Federated 2021 Pension Plan Actuarial Report.

**Table B-9b
Police and Fire Pension Plan
Historical Discount Rates**

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
7.25%	7.125%	7.00%	7.00%	6.875%	6.875%	6.750%	6.750%	6.625%	6.625%

Source: Police and Fire 2021 Pension Plan Actuarial Report.

Contributions

General. Annual contributions to the Pension Plans by the City and employees are amounts actuarially determined to be sufficient to provide adequate assets to pay benefits when due. When the Boards approve contribution rates and amounts, such rates and amounts become the legally required contribution rates and amounts of the City and employees for the fiscal year beginning one year after the valuation date. There are two components to the annual City and employee contributions: (i) the Normal Cost (including administrative expenses); and (ii) the UAL contribution. Annual contributions are based upon actuarial calculations that take into consideration a number of economic and demographic assumptions, including assumed investment earnings on the assets of the Pension Plans that are used to pay benefits. For a description of the assumptions utilized in the actuarial valuations for the Pension Plans, please see "PENSION PLANS – Actuarial Assumptions."

Funding Policy. The Pension Plans employ a "floor funding method" for setting the City's funding policy contribution amount for Tier 1 for the Normal Cost portion (which includes administrative expenses). Under such method, beginning in fiscal year 2016-2017, the City's

Normal Cost contribution is the greater of: (1) the dollar amount recommended by the Plan Actuary in the annual valuation report and approved by the Boards (adjusted for time of contribution) or, (2) the dollar amount determined by applying the Normal Cost as a percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year if actual payroll exceeds the actuarial payroll. The portion of the City's contribution relating to the UAL is set at the dollar amount recommended by the Plan Actuary and adopted by the Boards in the annual actuarial valuation.

The Pension Plans do not employ a "floor funding method" for determining the City's contribution for Tier 2 members. The City's contribution for Tier 2 members of the Pension Plans are based on the contribution rate determined by the Plan Actuary and approved by the Boards multiplied by the actual Tier 2 member payroll for each Pension Plan.

The required contributions as determined by the Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City may elect to prefund all or part of its total required contributions to the Pension Plans at the beginning of each fiscal year. The prefunded annual contributions are made on the basis of estimated bi-weekly payroll in the actuarial valuation for the fiscal year and may be increased at the end of the fiscal year based on actual bi-weekly payroll. The amount of the prefunded annual contribution is the actuarial equivalent of contributions made regularly over the course of a year as established by the Boards. To the extent contributions are made after the beginning of the fiscal year, the amounts are adjusted for interest. To determine the City's "prefunded" annual contribution amount, the Boards, based on the advice of the Plan Actuary and outside investment consultants, set an interest discount rate to be applied by the Plan Actuary to the required contributions to account for the fact that contributions are made and invested at the beginning of the year instead of made throughout the year and invested thereafter by the Pension Plans. The Boards have implemented an "incremental reduction approach" to set the interest discount rate in a given year. The approach applies the discount rate for the year of the contribution reduced incrementally based on certain broad economic and market benchmarks. This approach is intended to incentivize the City to prefund contributions to the Pension Plans when market valuations may be lower and an economic cycle may be in early stages of expansion and disincentivize for prefunding contributions when market valuations and/or economic expansions may exceed historic patterns.

The City prefunded its contributions for Tier 1 employees under the Pension Plans for fiscal year 2020-2021 with funds on hand and proceeds of tax and revenue anticipation notes in the aggregate principal amount of \$130,000,000 issued in July 2020. The City prefunded its contributions for Tier 1 employees under the Retirement Plans for fiscal year 2021-2022 with funds on hand and proceeds of tax and revenue anticipation notes in the aggregate principal amount of \$285 million issued on July 1, 2021. The City may elect to prefund its contributions to the Pension Plans in future fiscal years, including fiscal year 2022-2023. The projected contributions set forth in this Appendix B do not take into account any such prefunding.

Historical City and Employee Contributions. Table B-10a shows the City’s actuarially determined annual contribution and actual contribution to the Federated Pension Plan for fiscal years 2016-2017 through 2020-2021.

	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020 -2021
Actuarially Determined Contribution	\$ 138,483	\$ 156,770	\$ 173,006	\$ 181,327	\$183,964
Actual Contribution	138,483	156,770	173,006	181,327	183,964
Contribution Deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Source: City of San José Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021.

The member contribution rate for Tier 1 of the Federated Pension Plan is a proportion (3/11ths) of the Normal Cost (including administrative expenses, but excluding reciprocity) with the remaining 8/11ths of the Normal Cost allocated to the City. On June 29, 2021, the City Council introduced an ordinance amending the Municipal Code to cease the Normal Cost contribution of Tier 1 members of the Federated Pension Plan with 30 or more years of service credit as of the effective date of the ordinance. The change is intended by the City to incentivize such members to continue working for the City by increasing their take-home pay. Such members will not be eligible for any return of the amount of Normal Cost contributions made between obtaining 30 years of service credit and the effective date of the ordinance. The ordinance became effective on September 2, 2021. See Table B-4a for a general description of service retirement pension benefit formulas (excluding early retirement) for Tier 1 members of the Federated Pension Plans as of June 30, 2021.

In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Normal Cost (i.e., the cost of funding reciprocity with other California pension plans), plus an amortization payment on the UAL. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service. The Federated Board set a contribution rate of 3.0% of pay that applies to each such individual member until such member has paid off their individual UAL amount for reclassification. For Tier 2, the members and the City each pay half of the total contribution rate. However, the member’s UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member. The member and City contribution rates each cannot be less than 50% of the Normal Cost rate. According to the Plan Actuary, the most significant portion of the City’s contribution to the Federated Pension Plan is the portion of the contribution attributable to the UAL for Tier 1, which is substantially attributable to members who no longer work for the City.

Table B-10b shows the City’s actuarially determined annual contribution and actual contribution to the Police and Fire Pension Plan for fiscal years 2016-17 through 2020-2021.

Table B-10b
Police and Fire Pension Plan
Schedule of City Contributions
(in thousands)

	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020 -2021
Actuarially Determined Contribution	\$ 136,957	\$ 157,712	\$ 176,618	\$ 188,481	\$ 201,370
Actual Contribution	136,957	157,712	176,618	188,481	201,370
Contribution Deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Source: City of San José Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021.

The member contribution rate for Tier 1 of the Police and Fire Pension Plan is a proportion (3/11ths) of the Normal Cost (excluding reciprocity), plus the employee member's historical share of assumed administrative expenses. In addition, employee members pay a portion of the UAL attributable to certain benefit improvements. The remaining 8/11ths of the Normal Cost is allocated to the City. In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Rate (the cost of funding reciprocity with other California pension plans) and the remaining portion of the UAL rate. For Tier 2 members of the Police and Fire Pension Plan, members and the City share the total contribution rate equally, except that increases in the contributions of members relating to the UAL are limited to one-third of one percent of compensation each year.

Table B-11a below summarizes the pension contribution rates for employee members of the Federated Plan for fiscal years 2021-2022 (as adopted by the Federated Board) and 2022-2023. The Federated Board has not yet adopted a resolution imposing the contribution rates for fiscal year 2022-2023 on the City and plan members. For fiscal year 2022-2023, the Plan Actuary projects payroll to total \$132.6 million for Tier 1 and \$237.2 million for Tier 2.

Table B-11a
Federated Pension Plan
Member Contribution Rates

	2021-2022			2022-2023		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
Total Member Normal Cost/Admin Rate ⁽¹⁾	5.25%	2.14%	7.39%	5.24%	2.17%	7.41%
Tier 2						
Member Normal Cost/Admin Rate ⁽²⁾	6.66%	1.12%	7.78%	6.72%	1.13%	7.85%
Member UAL Rate ⁽³⁾	0.26	0.13	0.39	0.16	0.12	0.28
Total Member Rate	6.92%	1.25%	8.17%	6.88%	1.25%	8.13%

⁽¹⁾ Determined by dividing the total Normal Cost plus assumed administrative expenses determined by the Plan Actuary by the payroll expected for members active on the valuation date.

⁽²⁾ Excludes additional reclassified rate (UAL) for Classic and Reclassified Tier 1 Members. According to the Plan Actuary, the increase in the Tier 1 member contribution rate for fiscal year 2020-2021 is primarily due to the discount rate change.

⁽³⁾ Determined by dividing the UAL payment by total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

Source: Resolution No. 9097 approved by the Federated Board on May 20, 2021; Resolution No. 9098 approved by the Federated Board on May 20, 2021; Federated 2021 Pension Plan Actuarial Report.

Table B-11b shows the City's contributions in dollars to the Federated Pension Plan for fiscal years 2021-2022 (as adopted by the Federated Board) and 2022-2023. Because Tier 1 is closed, the City's total Normal Cost contribution for Tier 1 is expected to decrease over time as active Tier 1 members decrease. The portion of the City's contribution rate attributable to the UAL for Tier 1 members is not expected to decrease as Tier 1 members retire or otherwise leave the system, because the City is responsible for all such contributions. The contributions set forth in Table B-11b assume the City makes such contributions in installments throughout the year.

Table B-11b
Federated Pension Plan
City Contribution Amounts
(in thousands)
(throughout the year)

	2021-2022			2022-2023		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
City Normal Cost/Admin ⁽¹⁾	\$ 19,736	\$ 8,056	\$ 27,792	\$ 19,027	\$ 7,875	\$ 26,903
City UAL Cost ⁽²⁾	84,804	75,890	160,694	85,400	77,202	162,602
Total City Contribution	\$ 104,540	\$ 83,946	\$ 188,486	\$104,427	\$85,077	\$ 189,505
Tier 2						
Total City Contribution⁽³⁾	\$ 14,847	\$ 2,682	\$ 17,529	\$ 16,322	\$ 2,966	\$ 19,288

⁽¹⁾ Includes the reciprocity rate for the prefunding of the liability for reciprocal benefits with certain other California public pension plans. The Plan Actuary reports that the decrease in the City's Normal Cost Tier 1 contribution in fiscal year 2021-2022 is due to the decline in Tier 1 active members.

⁽²⁾ Includes the deficiency rate for the amortization of the funding deficiency and the golden handshake rate for the cost for funding additional benefits granted in the past to certain retiring employees.

⁽³⁾ The Plan Actuary reports that the increase in the City's total contribution for Tier 2 is due primarily to the growth in Tier 2 membership. Source: Resolution No. 9097 approved by the Federated Board on May 20, 2021; Resolution No. 9098 approved by the Federated Board on May 20, 2021; Federated 2021 Pension Plan Actuarial Report.

Table B-11c summarizes the pension contribution rates for employee members of the Police and Fire Plan for fiscal years 2021-2022 (as adopted by the Police and Fire Board) and 2022-2023. The Police and Fire Board has not yet adopted a resolution imposing the contribution rates for fiscal year 2022-2023 on the City and plan members.

Table B-11c Police and Fire Pension Plan Member Contribution Rates						
	2021-2022			2022-2023		
	Basic	COLA	Total	Basic	COLA	Total
<u>Police Tier 1</u>						
Member Normal Cost/Admin Rate	7.41%	3.40%	10.81%	7.51%	3.46%	10.97%
Member UAL Rate ⁽¹⁾	0.03	0.01	0.04	0.04	0.02	0.06
Total Member Rate	7.44%	3.41%	10.85%	7.55%	3.48%	11.03%
<u>Police Tier 2</u>						
Member Normal Cost/Admin Rate	11.45%	3.10%	14.55%	11.60%	3.12%	14.72%
Member UAL Rate	(0.16)	0.04	(0.12)	(0.35)	--	(0.35)
Total Member Rate	11.29%	3.14%	14.43%	11.25%	3.12%	14.37%
<u>Fire Tier 1</u>						
Member Normal Cost/Admin Rate	8.11%	3.80%	11.91%	8.26%	3.85%	12.11%
Member UAL Rate ⁽¹⁾	--	--	--	--	0.01	0.01
Total Tier 1 Member Rate	8.11%	3.80%	11.91%	8.26%	3.86%	12.12%
<u>Fire Tier 2</u>						
Member Normal Cost/Admin Rate	12.10%	3.25%	15.35%	12.16%	3.26%	15.42%
Member UAL Rate	(0.10)	0.03	(0.07)	(0.22)	(0.02)	(0.24)
Total Tier 2 Member Rate	12.00%	3.28%	15.28%	11.94%	3.24%	15.18%

⁽¹⁾ Excludes additional reclassified rate (UAL) for Classic and Reclassified Tier 1 Members.
Source: Resolution No.4821 approved by the Police and Fire Board on May 6, 2021; Resolution No.4822 approved by the Police and Fire Board on May 6, 2021; Resolution No.4823 approved by the Police and Fire Board on May 6, 2021; Resolution No.4824 approved by the Police and Fire Board on May 6, 2021; Police and Fire 2021 Pension Plan Actuarial Report.

Table B-11d shows the City's contribution in dollars for the Police and Fire Pension Plan for fiscal years 2021-2022 (as adopted by the Police and Fire Board) and 2022-2023. The contributions set forth in Table B-11d assume the City makes such contributions in installments throughout the year.

Table B-11d
Police and Fire Pension Plan
City Contribution Amounts
(in thousands)

	2021-2022			2022-2023		
	Basic	COLA	Total	Basic	COLA	Total
Police						
Tier 1						
City Normal Cost/Admin	\$ 19,180	\$ 8,216	\$ 27,396	\$ 17,932	\$ 7,837	\$ 25,769
City UAL Cost	40,137	40,784	80,921	37,280	39,070	76,350
Total City Contribution	\$ 59,317	\$ 49,000	\$ 108,317	\$ 55,212	\$ 46,907	\$ 102,119
Tier 2						
Total City Contribution	\$ 7,598	\$ 2,113	\$ 9,711	\$ 9,470	\$ 2,626	\$ 12,096
Fire						
Tier 1						
City Normal Cost/Admin	\$ 16,483	\$ 7,709	\$ 24,192	\$ 16,106	\$ 7,515	\$ 23,620
City UAL Cost	35,681	35,206	70,887	34,551	35,138	69,689
Total City Contribution	\$ 52,164	\$ 42,915	\$ 95,079	\$ 50,657	\$ 42,653	\$ 93,309
Tier 2						
Total City Contribution	\$ 2,944	\$ 805	\$ 3,749	\$ 3,540	\$ 961	\$ 4,501

Source: Resolution No.4821 approved by the Police and Fire Board on May 6, 2021; Resolution No.4822 approved by the Police and Fire Board on May 6, 2021; Resolution No.4823 approved by the Police and Fire Board on May 6, 2021; Resolution No.4824 approved by the Police and Fire Board on May 6, 2021; Police and Fire 2021 Pension Plan Actuarial Report.

Projected City Contributions. Table B-12a provides 20-year projections of City contributions calculated by the Plan Actuary for the Federated Pension Plan as of March 8, 2022, assuming such contributions are made by the middle of the year and that all assumption are exactly met each and every year in the future.

Table B-12a
Federated Pension Plan
20-Year Projections of Contributions
(middle of the year)

Fiscal Year Ended June 30	Projected City Contribution Amount	Projected Total Contribution Rate (% of Payroll)
2023	\$208,793,000	56.46%
2024	205,028,000	53.82
2025	201,389,000	51.33
2026	197,191,000	48.79
2027	192,579,000	46.27
2028	196,800,000	45.90
2029	200,746,000	45.46
2030	205,194,000	45.11
2031	209,850,000	44.79
2032	207,752,000	43.05
2033	213,038,000	42.86
2034	208,591,000	40.75
2035	204,543,000	38.79
2036	213,662,000	39.34
2037	220,472,000	39.41
2038	188,152,000	32.65
2039	184,276,000	31.05
2040	174,641,000	28.57
2041	56,114,000	8.91
2042	51,684,000	7.97

Source: Cheiron 5-Year and 20-Year Budget Projections for Federated Plan, dated March 8, 2022.

The relatively rapid decrease in the City contribution rates (as a percentage of payroll) in the first few years shown above is driven by the recognition of the deferred investment gains from fiscal year 2020-2021 in the actuarial value of assets. The more gradual decrease thereafter is due to the gradual decrease in the Normal Cost rate as Tier 2 becomes a greater proportion of the active membership and the gradual decrease in the UAL rate as payroll is expected to grow slightly faster than amortization payments. There is a more rapid decline in the contribution rates from 2038 to 2042 primarily due to paying off certain amortization bases.

Table B-12b
Police and Fire Pension Plan
20-Year Projections of Contributions

(middle of the year)

Fiscal Year Ended June 30	Projected City Contribution Amount	Projected Total Contribution Rate (% of Payroll)
2023	\$212,026,000	81.5%
2024	193,744,000	72.3
2025	177,975,000	64.5
2026	165,441,000	58.2
2027	151,326,000	51.7
2028	151,071,000	50.1
2029	150,115,000	48.3
2030	138,249,000	43.2
2031	114,123,000	34.6
2032	104,498,000	30.8
2033	85,789,000	24.5
2034	59,560,000	16.5
2035	59,676,000	16.1
2036	60,197,000	15.8
2037	61,122,000	15.5
2038	62,367,000	15.4
2039	63,820,000	15.3
2040	65,319,000	15.2
2041	67,084,000	15.2
2042	69,039,000	15.1

Source: Cheiron 5-Year and 20-Year Budget Projections for Police and Fire Plan, dated January 26, 2022.

For the Police and Fire Pension Plan, the 20-year projections set forth above show total contribution rates (as a percentage of payroll) declining rapidly over the next four years as the deferred investment gains from fiscal year 2020-2021 are recognized in the actuarial value of assets. Contribution rates continue to decline in the years afterwards as portions of the UAL are fully amortized.

It is certain that not all assumptions in the 20-year projections for the Pension Plans will be exactly met each and every year. In the Federated 2021 Pension Plan Actuarial Report and the Police and Fire 2021 Pension Plan Actuarial Report, the Plan Actuary notes that there is a significant level of uncertainty in projections of the future, the largest source of which is the projection of investment returns. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates. See "SUMMARY OF FEDERATED PLAN – Summary of Historical and Projected Contributions – Plan Risks."

Investments

The State Constitution and the Municipal Code provide that the Boards have exclusive control over the investment of the assets of their respective Pension Plan. The Municipal Code also specifies that the Boards are to manage the investments for the purpose of providing benefits to its members and beneficiaries, maintaining the actuarial soundness of the Pension Plans, and

defraying reasonable expenses of administering the plan. The Boards have retained investment consultants to advise them.

Table B-13 shows the historical annual returns for the Pension Plans at the identified interval as reported by their investment consultant in its quarterly reports for the period ending December 31, 2021.

Measurement Period	Federated Pension Plan Rate of Return^(1,2,3)	Police and Fire Pension Plan Rate of Return^(1,2,4)
Since Inception	7.3%	8.6%
10 Years	7.6	7.9
5 Years	10.4	10.1
3 Years	15.5	14.1
1 Year	16.5	14.6

⁽¹⁾ The returns for certain investments (Equity Aggregate) are gross of fees through June 2015 and net of fees thereafter.
⁽²⁾ Net of fees.
⁽³⁾ Measurement Period Beginning January 1994.
⁽⁴⁾ Measurement Period Beginning March 1971.
Source: Meketa Investment Group Federated Pension Plan Quarterly Review December 31, 2021; Meketa Investment Group Police and Fire Pension Plan Quarterly Review December 31, 2021.

Annually, the Boards receive projections from its investment consultants for the expected net rates of return based on approved target asset allocations. Investment returns and the subsequent risk associated with those returns are partially a function of the underlying assets of the Pension Plans. The Boards, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with its diversification goals and risk tolerance.

Table B-14 shows the asset allocation targets for the Pension Plans. Asset allocation targets represent the ultimate allocation goals of the Pension Plans. However, during periods of allocation transition, asset allocation target objectives may not be achieved. The Pension Plans are in the process of transitioning the asset allocations to new asset allocation targets shown in Table B-14. Changes to the allocations of illiquid asset classes may take several quarters to implement.

**Table B-14
Pension Plans
Target Asset Allocations**

Asset Class	Federated Pension Plan Target %	Police and Fire Pension Plan Target %
Growth	75	71
Public Equity	49	42
Private Markets	21	25
Private Equity	8	9
Venture/Growth Capital	4	4
Private Debt	3	4
Growth Real Estate	3	4
Private Real Assets	3	4
Emerging Markets Bonds	3	2
High Yield Bonds	2	2
Low Beta	8	16
Market Neutral Strategies	3	3
Bonds (Immunized Cash Flows)	5	13
Other	17	13
Core Real Estate	5	5
Commodities	0	0
Long-Term Government Bonds	2	1.5
Investment Grade Bonds	8	4.5
TIPS	2	2
<i>10-Year Expected Return ⁽¹⁾</i>	<i>6.2</i>	<i>6.0</i>
<i>20-Year Expected Return⁽¹⁾</i>	<i>7.2</i>	<i>7.0</i>
<i>Standard Deviation ⁽¹⁾</i>	<i>11.6</i>	<i>11.1</i>

⁽¹⁾ The City provides no assurance that actual returns will not be less than those expected by the Boards.
Source: Federated City Employees' Retirement System Investment Policy Statement, Approved by the Federated Board on January 20, 2022, Return and Risk numbers updated March 17, 2022; Police and Fire Department Retirement Plan Asset Allocation Analysis, Approved by the Police and Fire Board on March 3, 2022; City of San Jose, Office of Retirement Services.

For a description of the types of investments in each asset class identified in Table B-14, please see each Investment Policy Statement. A copy of the Investment Policy Statement for the Federated Pension Plan may be found at <https://www.sjretirement.com/investments-and-reports/investments-and-reports-federated/investments-and-reports-federated-investment/>. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. A copy of the Investment Policy Statement for the Police and Fire Pension Plan as of December 2021, prior to adoption of the targets set forth in Table B-14 above and the most recently available Investment Policy Statement for the Police and Fire Pension Plan, may be found at <https://www.sjretirement.com/investments-and-reports/investments-and-reports-police-and-fire/investments/>. The City makes no representation as to the accuracy or completeness of any of the information on such website. See also the

HEALTHCARE PLANS

General

The Healthcare Plans provide eligible retirees, their dependents, and survivors with health and dental benefits. For health benefits, the Healthcare Plans pay that portion of the premium that is equivalent to the premium for the lowest-priced medical plan with which the City contracts for medical benefits for active City employees. If the retiree elects a medical plan that is not the lowest priced plan, the eligible retiree or survivor pays the difference between the portion paid by their Healthcare Plan and that charged by the medical care provider. In the case of dental benefits, the Healthcare Plans pay the entire premium. Retired members of the Healthcare Plans eligible for medical and/or dental benefits may elect annually not to receive benefits for the plan year and participate in the in-lieu credit program, providing a credit equal to 25% of the lowest cost plan for that year which may be applied to member premiums in future years.

As described in “CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS,” the Healthcare Plans are closed to new members. Generally, members of the Retirement Plans that were hired before July 2013 and did not elect to opt into the VEBA for the applicable Retirement Plan are eligible for defined benefit retiree healthcare benefits from their Healthcare Plans. Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provided through their Healthcare Plan until the member is eligible for Medicare after exhausting all funds in their individual VEBA account.

The contributions for the members who opted into the applicable VEBA for the Healthcare Plans and opted out of the Healthcare Plans were transferred to the applicable VEBA in March 2018. Eligible employees who are rehired by the City during calendar years 2018 through 2022 may opt into the applicable VEBA for the Healthcare Plans if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the applicable Healthcare Plan to their VEBA account. The financial reporting, disclosure, and accounting for costs and obligations related to the Healthcare Plans are consistent with the requirements of GASB Statement No. 74 and GASB Statement No. 75. The Healthcare Plans provide financial reporting according to the requirements of GASB Statement No. 74. The City provides financial reporting, disclosure, and accounting for costs and obligations related to the Healthcare Plans according to the requirements of GASB Statement No. 75. GASB Statement No. 74 and GASB Statement No. 75 require the liability for OPEB obligations, known as the Net OPEB Liability, and an OPEB expense to be recognized in the financial statements of the Healthcare Plans and the City. OPEB expense under GASB Statement No. 74 and GASB Statement No. 75 recognizes deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period. See “RETIREMENT PLANS IN GENERAL – Implementation of Certain Accounting Changes Relating to Retirement Plans.”

Establishment of Section 115 Trusts; Internal Revenue Code Limitations

The Section 401(h) of the Code permits a pension plan to provide retiree healthcare benefits under certain conditions, including when: (1) a separate account (i.e., a 401(h) account) is maintained for the healthcare benefits; and (2) the healthcare benefits are subordinate to the

pension benefits. Under IRS regulations, subordination means that the contributions for healthcare benefits do not exceed 25% of the aggregate contributions excluding contributions to fund past service credits. Exceeding the subordination limit puts a pension plan at risk of losing its tax-exempt status, which in turn, would subject the pension plan's income to the payment of income tax and reduce the assets available for the payment of benefits.

To avoid exceeding the subordination limit for the 401(h) accounts held in the Pension Plans, the City Council enacted an ordinance to establish a separate trust under Section 115 of the Code for the Federated Plan effective June 2011 (the "**Federated 115 Trust**"), an ordinance to establish a separate trust under Section 115 of the Code for the Police members effective June 2012 (the "**Police 115 Trust**"), and an ordinance to establish a separate trust under Section 115 of the Code for the Fire members effective June 2012 (the "**Fire 115 Trust**" and together with the Police 115 Trust, the "**Police and Fire 115 Trust**"). The Police 115 Trust and Fire 115 Trust operate as sub trusts of a single trust under Section 115 of the Code. The Federated Board serves as the board of trustees for the Federated 115 Trust, and the Police and Fire Board serves as the board of trustees for the Police 115 Trust and Fire 115 Trust. The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019, leaving only the Federated 115 Trust in the Federated Healthcare Plan. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Assets in a trust established by the City under Section 115 of the Code are not available to satisfy liabilities of any other trust established under Section 115 of the Code.

The Boards received private letter rulings from the IRS on the tax-exempt status of the Federated 115 Trusts, the Police 115 Trust, and the Fire 115 Trust. Additionally, on August 6, 2013, in response to the City's request, the IRS issued a private letter ruling indicating that employee contributions into the Federated 115 Trust, the Police 115 Trust, and the Fire 115 Trust may be made as employer contributions and therefore are excludable from the employee's gross income and are not subject to income or other employment taxes. Employee contributions to the Federated 115 Trust commenced on December 22, 2013. To date, employee contributions to the Police 115 Trust and the Fire 115 Trust have not commenced.

The Boards have been advised that the contributions to the Federated 115 Trust the Police 115 Trust, and the Fire 115 Trust must be treated as non-refundable in order to maintain the tax-exempt status of such trusts. The Retirement Plans permit employee pension and retiree healthcare contributions held in the 401(h) accounts to be refunded. To date, retiree healthcare contributions have been refunded from the respective pension funds of the Pension Plans, not the respective 401(h) accounts therein. Federated employees are only eligible to receive the portion of their retiree healthcare contributions that were made to the 401(h) account before January 1, 2014. After such date, all employee contributions were placed into the Federated 115 trust. Employees have to take a return of contributions from the pension and retiree healthcare plans in order to receive the amount that they previously contributed into the 401(h) account.

Funding Status

General. Following is a summary of the funded status of the Healthcare Plans on an actuarial and financial statement basis.

Actuarial Funded Status. The Federated 2021 Healthcare Plan Actuarial Report and the Police and Fire 2021 Healthcare Plan Actuarial Report are the most recent actuarial valuations available for the Federated Healthcare Plan and the Police and Fire Healthcare Plan, respectively,

as of the date of this Official Statement. The following information is derived primarily from such report.

Tables B-15a, B-15b, B-16a and B-16b show the respective Market Value of Assets, the Actuarial Value of Assets and Total Actuarial Liability of the Federated Healthcare Plan as of June 30, 2020 and June 30, 2021. Actuarial valuations of a plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about claim costs, health care trend rates and dependent coverage elections. These measures, including the UAL and funded ratio as described in this Appendix B, are intended to be used to assess contribution amounts for an ongoing other post-employment benefits plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the respective obligations of the Healthcare Plans on a risk-free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial calculations and such deviations may be material.

**Table B-15a
Federated Healthcare Plan
Assets and Liabilities
(in thousands)**

	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>% Change</u>
Total Actuarial Liability	\$ 650,419	\$ 662,860	1.9%
Market Value Assets	303,313	384,613	26.8
Explicit Subsidy Unfunded Actuarial Liability	255,764	205,774	(19.5)
Explicit Subsidy Funded Percentage	54.3%	65.1%	10.8
Total Unfunded Actuarial Liability ⁽¹⁾	\$ 347,106	\$ 278,247	(19.8)
Total Funded Percentage	46.6%	58.0%	11.4

⁽¹⁾ According to the Plan Actuary, the net decrease in the UAL is primarily due to investment experience (resulting in a decrease of approximately \$57.6 million), liability experience mainly due to lower-than-expected premiums for dental and Medicare eligible health plans offset by demographic experience (resulting in a decrease of approximately \$28.6 million), and contributions in excess of the amount needed to pay the normal cost and interest on the UAL (resulting in a decrease of approximately \$10 million), offset by assumption changes (resulting in an increase of approximately \$46.3 million) mainly due to the reduction in the discount rate from 6.25% to 6.00%.

Source: Federated 2021 Healthcare Plan Actuarial Report.

Table B-15b
Police and Fire Healthcare Plan
Assets and Liabilities
(in thousands)

	June 30, 2020	June 30, 2021	% Change
Total Actuarial Liability	\$ 739,014	\$ 758,208	2.6%
Market Value Assets	208,531	276,313	32.5
Explicit Subsidy Unfunded Actuarial Liability	471,777	417,179	(11.6)
Explicit Subsidy Funded Percentage	30.7%	39.8%	9.2
Total Unfunded Actuarial Liability ⁽¹⁾	\$ 530,483	\$ 481,895	(9.2)
Total Funded Percentage	28.2%	36.4%	29.0

⁽¹⁾ According to the Plan Actuary, the net decrease in the UAL is primarily due to investment experience (resulting in a decrease of approximately \$38.6 million) and liability experience primarily driven by decreases in the Medicare eligible premium rates offset by demographic experience (resulting in a decrease of approximately \$51.4 million), offset by contributions less than the amount needed to pay the normal cost and interest on the UAL (resulting in an increase of approximately \$1.8 million) and assumption changes (resulting in an increase of approximately \$33.6 million) mainly due to the reduction in the discount rate from 6.25% to 6.00%.

Source: Police and Fire 2021 Healthcare Plan Actuarial Report.

Table B-16a
Federated Healthcare Plan
Market Value of Assets
(in thousands)

	2020-2021	2021-2022
Market Value, Beginning of Year	\$ 294,488	\$ 303,310
Contributions		
Member	10,692	10,275
City	21,790	20,949
Implicit Subsidy	4,743	5,287
Total	\$ 37,225	\$ 36,512
Net Investment Earnings ⁽¹⁾	3,075	77,360
Benefit Payments ⁽²⁾	(30,779)	(31,871)
Admin Expense	(686)	(697)
VEBA Transfer	(13)	(5)
Market Value, End of Year	\$ 303,310	\$ 384,608

⁽¹⁾ Gross investment earnings less investment expenses.

⁽²⁾ Includes both explicit and implicit subsidies. The implicit subsidy is shown as both a contribution and a payment from the plan, but it is not actually contributed to the trust or paid from the trust. It is paid by the City as a part of active health plan premiums.

Source: Federated 2021 Annual Comprehensive Financial Report.

In the Federated 2021 Healthcare Plan Actuarial Report, the Plan Actuary further notes that if all assumptions are met in the future, including an expected return of 6.00% each year, the funded percentage for the explicit subsidy is expected to reach 100% by 2037.

	2019-2020	2020-2021
Market Value, Beginning of Year	\$ 185,957	\$ 208,532
Contributions		
Member	13,135	12,475
City	24,003	25,382
Implicit Subsidy	3,347	3,015
Total	40,485	40,872
Net Investment Earnings ⁽¹⁾	7,243	52,994
Benefit Payments	(25,031)	(25,974)
Admin Expense	(122)	(110)
Market Value, End of Year	\$ 208,532	\$276,314

⁽¹⁾ Gross investment earnings less investment expenses.
Source: Police and Fire 2021 Annual Comprehensive Financial Report.

In the Police and Fire 2021 Healthcare Plan Actuarial Report, the Plan Actuary further notes that if all assumptions are met in the future, including an expected return of 6.00% each year, and the City does not impose its optional cap on contributions, the funded percentage for the explicit subsidy is expected to reach about 100% by 2043. If the City imposes its optional cap on contributions every year, the funded percentage for the explicit subsidy is not expected to reach 100%. See “HEALTHCARE PLANS – Contributions – General” below for a discussion regarding the City’s optional cap on contributions to the Healthcare Plans.

The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019 as a result of Federated Healthcare Plan contributions having been made solely to the Federated 115 Trust while at the same time benefits having been paid only from the Federated Healthcare Plan 401(h) account. All Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. The expected investment returns for the Federated Healthcare Plan will be based solely on the investment policy of the Section 115 Trust.

Table B-17a and Table B-17b show the respective UAL and Funded Ratio of the Healthcare Plans from as of June 30 of the years 2012 through 2021.

Table B-17a
Federated Healthcare Plan
Schedule of OPEB Funding Progress
(in thousands)

Valuation Date (June 30)	Market Value of Assets	Actuarial Liability	UAL	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
2012	\$137,798	\$1,096,620	\$958,822	13%	\$225,859	425%
2013	157,695	870,872	713,177	18	226,098	315
2014	199,776	729,406	529,630	27	234,677	226
2015	209,761	817,673	607,912	26	251,430	242
2016	225,845	764,261	538,416	30	266,823	202
2017	248,583	630,452	381,869	39	287,339	133
2018	277,256	650,114	372,858	43	298,985	125
2019	294,489	631,752	337,263	47	299,002	113
2020	303,313	650,419	347,106	47	322,850	108
2021	384,613	662,860	278,247	58	339,546	82

Source: Federated 2021 Healthcare Plan Actuarial Report.

As shown in Table B-17a, the UAL of the Federated Healthcare Plan decreased approximately \$680 million from approximately \$960 million as of the June 30, 2012 valuation date to approximately \$280 million as of the June 30, 2021 valuation date, a decrease of 73%. The Plan Actuary further reports that, over the last 10 years, the UAL of the Federated Healthcare Plan for the explicit subsidy decreased approximately \$307 million. According to the Plan Actuary, such decrease is due to a combination of a reduction in the Actuarial Liability of \$60.2 million and an increase in assets of \$246.8 million. The reduction in Actuarial Liability was primarily due to plan changes and favorable medical cost trend experience. The increase in the assets has been primarily attributable to contributions and recent investment returns. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions. See "HEALTHCARE PLANS – Contributions – General" for a discussion regarding the implicit subsidy.

In December 2021, the Federated Board adopted changes to the economic assumptions for the Federated 2021 Healthcare Plan Actuarial Report, which included a reduction in the discount rate from 6.25% to 6.00%. See "– Actuarial Assumptions"

As further shown in Table B-17a, the Federated Healthcare Plan's UAL was 82% of total covered annual payroll as of the June 30, 2021 valuation date of the Federated 2021 Healthcare Plan Actuarial Report. In other words, to fully fund the UAL of the Federated Healthcare Plan contributions would need to be nearly equal to the covered payroll for fiscal year 2020-2021.

Table B-17b
Police and Fire Healthcare Plan
Schedule of OPEB Funding Progress
(in thousands)

Valuation Date (June 30)	Market Value of Assets	Actuarial Liability	UAL	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
2012	\$66,385	\$997,321	\$930,936	6.7%	\$172,626	539%
2013	75,035	700,525	625,490	10.7	184,645	339
2014	93,605	706,710	613,105	13.2	188,189	326
2015	114,565	739,753	625,188	15.5	184,733	338
2016	135,207	778,871	643,664	17.4	194,072	332
2017	142,517	680,246	537,729	21.0	203,816	264
2018	162,519	747,274	584,755	21.7	218,429	268
2019	185,957	693,329	507,373	26.8	235,818	215
2020	208,532	739,014	530,483	28.2	240,798	220
2021	276,313	758,208	481,896	36.4	253,435	190

Source: Police and Fire 2021 Healthcare Plan Actuarial Report.

As shown in Table B-17b, the UAL of the Police and Fire Healthcare Plan decreased approximately \$449 million from approximately \$931 million as of the June 30, 2012 valuation date to approximately \$482 million as of the June 30, 2021 valuation date, a decrease of 48%.

The Plan Actuary further reports that, over the last 10 years, the UAL of the Police and Fire Healthcare Plan for the explicit subsidy decreased approximately \$116 million. According to the Plan Actuary, such decrease is due to an increase in assets of \$213.3 million somewhat offset by an increase in the Actuarial Liability of \$97.3 million. The increase in Actuarial Liability includes the impact of reducing the discount rate from 7.25% in 2012 to 6.00% in 2021. In December 2021, the Police and Fire Board adopted changes to the economic assumptions for the Police and Fire 2021 Healthcare Plan Actuarial Report, which included a reduction in the discount rate from 6.25% to 6.00%. See “– Actuarial Assumptions” below. The increase in the assets has been primarily attributable to contributions and recent investment returns. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions. See “HEALTHCARE PLANS – Contributions – General” for a discussion regarding the implicit subsidy.

As further shown in Table B-17b, the Police and Fire Healthcare Plan’s UAL was 190% of total covered annual payroll as of the June 30, 2020 valuation date of the Police and Fire 2021 Healthcare Plan Actuarial Report. In other words, to fully fund the UAL of the Police and Fire Healthcare Plan contributions would need to be nearly twice the covered payroll for fiscal year 2020-2021.

Net OPEB Liability. For purposes of financial reporting, GASB Statements No. 74 and 75 require the Healthcare Plans and the City, respectively, to report Net OPEB Liability in their respective financial statements. Net OPEB Liability is measured as the Total OPEB Liability less the OPEB plan fiduciary net position. The City’s financial statements calculate Net OPEB Liability using a measurement date that is one year prior to the measurement date used for the Plans financial statements. As a result, the respective financial statements of the Retirement Plans show Net OPEB Liability one year later in date.

Table B-18a and Table B-18b set forth the respective Total OPEB Liability of the Healthcare Plans as of June 30, 2020 and June 30, 2021 based on results of actuarial valuations dated as of June 30, 2019 and June 30, 2020, respectively, rolled-forward to June 30, 2020 and June 30, 2021, respectively, using generally accepted actuarial procedures.

Table B-18a			
Federated Healthcare Plan			
Components of Net OPEB Liability			
(in thousands)			
	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>% Change</u>
Total OPEB Liability	\$ 649,868	\$665,452	2.3%
Plan fiduciary net position	(303,310)	(384,608)	26.8
Net OPEB Liability	\$ 346,558	\$280,844	(18.9)
Plan fiduciary net position as a percentage of the Total OPEB Liability	46.7%	57.8%	23.7

Source: Federated 2021 Annual Comprehensive Financial Report.

Table B-18b			
Police and Fire Healthcare Plan			
Components of Net OPEB Liability			
(in thousands)			
	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>% Change</u>
Total OPEB Liability	\$ 725,788	\$ 771,819	6.3%
Plan fiduciary net position	208,532	276,313	32.5
Net OPEB Liability	\$ 517,256	\$ 495,506	(4.2)
Plan fiduciary net position as a percentage of the Total OPEB Liability	28.7%	35.8%	24.7

Source: Police and Fire 2021 Annual Comprehensive Financial Report.

Actuarial Assumptions

Actuarial assumptions used for the valuations for the health and dental benefits provided by the Healthcare Plans are generally the same as are used for the valuations of the respective Pension Plans. In addition to such assumptions, the Plan Actuary employs assumptions with respect to future healthcare utilization and inflation. See “PENSION PLANS – Actuarial Assumptions.” Table B-19a and Table B-19b summarize the actuarial valuation methods and

assumptions employed by the Plan Actuary in the Federated 2021 Healthcare Plan Actuarial Report and the Police and Fire 2021 Healthcare Plan Actuarial Report, respectively.

Table B-19a
Federated Healthcare Plan
Healthcare Actuarial Assumptions

Valuation Date	June 30, 2021
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed, layers
Amortization period	20 Years -3 year phase in and out
Asset valuation method ⁽¹⁾	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	3.00%
Discount Rate	6.00%

⁽¹⁾ The market value of assets means the actual value of assets, and not the smoothed value, is used.

Source: Federated 2021 Healthcare Plan Actuarial Report.

Table B-19b
Police and Fire Healthcare Plan
Healthcare Actuarial Assumptions

Valuation Date	June 30, 2021
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay, closed, layers
Amortization period	25 Years -3 year phase in and out
Asset valuation method ⁽¹⁾	Market Value
Actuarial Assumptions:	
Payroll Growth Rate ⁽²⁾	3.00%
Discount Rate	6.00%

⁽¹⁾ The market value of assets means the actual value of assets, and not the smoothed value, is used.

⁽²⁾ For Fire Members, 4.25% is assumed for fiscal year 2021-2022 and 3.00% for all other years.

Source: Police and Fire 2021 Healthcare Plan Actuarial Report.

The net rate of return assumed by the Healthcare Plans represent the long-term expected rate of return on the plan's investments net of investment expenses. In December 2021, the Federated Board and the Police and Fire Board, adopted changes to the economic assumptions for the Federated 2021 Healthcare Plan Actuarial Report and the Police and Fire 2021 Healthcare Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate from 6.25% to 6.00%.

Table B-20a and Table B-20b show the historical discount rates for the Federated Healthcare Plan and the Police and Fire Healthcare Plan, respectively, from the June 30, 2012 valuation through the June 30, 2021 valuation.

**Table B-20a
Federated Healthcare Plan
Historical Discount Rates**

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.75%	6.75%	6.25%	6.00%

Source: Federated 2021 Healthcare Plan Actuarial Report.

**Table B-20b
Police and Fire Healthcare Plan
Historical Discount Rates**

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
7.25%	7.125%	7.00%	7.00%	6.875%	6.875%	6.50%	6.50%	6.25%	6.00%

Source: Police and Fire 2021 Healthcare Plan Actuarial Report.

Contributions

General. The annual contribution costs for the benefits of the Healthcare Plans are allocated to both the City and the active employee members. Historically, member and City contributions to the Healthcare Plans were negotiated through collective bargaining and were not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions by the City and the participating employees to the Healthcare Plans were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years for the Federated Healthcare Plan and over 10 years for the Police and Fire Healthcare Plan. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution for the retiree health and dental benefits provided by the Healthcare Plans as calculated pursuant to GASB Statements No. 43 and 45 as then in effect. However, the contribution rates for the City and members of the Healthcare Plans were capped before the full annual required contribution was reached.

With the implementation of Measure F, member contributions are fixed as a percentage of pay, and the City's contribution toward the explicit subsidy (premium subsidy) is an Actuarially Determined Contribution. The City has an option to limit its Actuarially Determined Contribution to a fixed percentage of the payroll of all active members eligible for full benefits or catastrophic disability benefits under the Healthcare Plans. The Plan Actuary commenced calculating the Actuarially Determined Contribution for the Healthcare Plans in fiscal year 2018-2019. See "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS" for a discussion of Measure F.

According to the Plan Actuary, because new entrants to the Healthcare Plans are only entitled to catastrophic disability benefits and do not contribute to the Healthcare Plans, member contributions are expected to decline as current active members eligible for full benefits retire or otherwise leave active employment with the City. In addition, because member contributions pay

all of the Normal Cost plus a portion of the UAL, the City's Actuarially Determined Contribution is expected to increase slightly as the member contributions decrease.

The City pays the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees. The liabilities for the implicit subsidy have been included in the GASB Statements No. 74 and 75 disclosure calculations reported in the financial statements of the Healthcare Plans and the City. The implicit subsidy is included in the actuarial valuations of the Federated Healthcare Plan. The implicit subsidy is shown in such statements as both a contribution and payment from the respective Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Healthcare Plans. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The Plan Actuary separately calculates the total UAL, being the aggregate UAL for both implicit and explicit subsidies, and the UAL for only the explicit subsidy. The UAL for the explicit subsidy is used to calculate the City's Actuarially Determined Contribution to the Federated 115 Trust. The total implicit subsidy relating to the Federated Healthcare Plan for fiscal year 2021-2022 is approximately \$5 million.

Effective March 25, 2018, the Tier 1 and Tier 2 members in the Federated Healthcare Plan who opted to remain in the Federated Healthcare Plan contribute 7.5% of pay. The City continued to pay the phased-in contribution rate until the beginning of fiscal year 2018-2019. Currently, the City makes the Actuarially Determined Contribution determined by the Federated Board subject to a cap of 14% of payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan, not just active members of the Federated Healthcare Plan. For purposes of calculating the City's contribution to the explicit subsidy UAL, the UAL as of June 30, 2017, is amortized as a level dollar amount over a closed 20-year period. All future UAL amortization bases will be amortized over 20-year periods with a 3-year phase-in and phase-out.

Members remaining in the Police and Fire Healthcare Plan make contributions fixed at 8.0% of pay effective March 25, 2018. The City's contribution toward the explicit subsidy is actuarially determined separately for Police and Fire. The City pays the implicit subsidy on a pay-as-you-go basis as a part of the active health premiums. For purposes of calculating the City's contribution for the explicit subsidy UAL, the UAL as of June 30, 2017 was amortized as a level percent of payroll over a closed 25-year period. All future UAL amortization bases will be amortized over 25-year periods with a 3-year phase-in and phase-out. The UAL for the explicit subsidy is used to calculate the City's Actuarially Determined Contribution to the Police 115 Trust and the Fire 115 Trust. In addition, the City has an option to limit its contribution for the explicit subsidy to 11% of Police and Fire Retirement Plan total payroll. The total implicit subsidy relating to the Police and Fire Healthcare Plan for fiscal year 2021-2022 is approximately \$3.5 million.

Historical City and Member Contributions. Table B-21a shows the components of the Actuarially Determined Contribution for the Federated Healthcare Plan for fiscal years 2021-2022 (as adopted by the Federated Board) and 2022-2023. The Federated Board has not yet adopted a resolution imposing the contribution rates for fiscal year 2022-2023 on the City and plan members.

Table B-21a
Federated Healthcare Plan
Actuarially Determined Contribution
Explicit Subsidy Only
(in thousands)

	2021-2022	2022-2023	% Change
Normal Cost	\$ 5,815	\$ 6,536	12.4%
UAL Payment	23,197	21,051	(9.2)
Total Contribution	\$ 29,012	\$ 27,587	(4.9)
Projected Member Contributions	9,076	8,807	(3.0)
City ADC Amount	\$ 19,936	\$ 18,780	(5.8)
Projected Total Payroll	\$ 332,536	349,732	5.2
City ADC Percentage	6.0%	5.4%	(0.6)

Source: Resolution No. 9094 approved by the Federated Board on May 21, 2020; Resolution No. 9095 approved by the Federated Board on May 21, 2020 Resolution No. 9097 approved by the Federated Board on May 20, 2021; Federated 2021 Healthcare Plan Actuarial Report.

Table B-21b shows the components of the Actuarially Determined Contribution for the Police and Fire Healthcare Plan for fiscal years 2021-2022 (as adopted by the Police and Fire Board) and 2022-2023. The Police and Fire Board has not yet adopted a resolution imposing the contribution rates for fiscal year 2022-2023 on the City and plan members.

Table B-21b
Police and Fire Healthcare Plan
Actuarially Determined Contribution
Explicit Subsidy Only
(in thousands)

	2021-2022	2022-2023	% Change
Police			
Total Contribution	\$ 23,275	\$ 23,576	1.3%
Projected Member Contributions	6,030	5,567	(7.7)
City ADC Amount	\$ 17,245	\$ 18,009	4.4
City ADC Percentage	11.4%	11.1%	(2.4)
Fire			
Total Contribution	\$ 16,214	\$ 16,161	(0.3)
Projected Member Contributions	5,187	4,974	(4.1)
City ADC Amount	\$ 11,027	\$ 11,187	1.5
City ADC Percentage	11.4%	11.3%	(1.0)

Source: Resolution No. 4821 approved by the Police and Fire Board on May 6, 2021; Resolution No. 4822 approved by the Police and Fire Board on May 6, 2021; Resolution No. 4823 approved by the Police and Fire Board on May 6, 2021; Resolution No. 4824 approved by the Police and Fire Board on May 6, 2021; Police and Fire 2021 Healthcare Plan Actuarial Report.

Projected City Contributions. In January 2022, as directed by the Retirement Plans, the Plan Actuary provided five-year budget projections for the City’s contributions for the Healthcare Plans based on the Federated 2021 Healthcare Plan Actuarial Report and the Police and Fire 2021 Healthcare Plan Actuarial Report. The projections for the Federated Healthcare Plan were revised by the Plan Actuary at the direction of the Federated Board to include certain additional changes in demographic assumptions in March 2022. The projections assume that all valuation assumptions were exactly met since June 30, 2021, and are exactly met each and every year for the projection period. Such projections together with a projection of OPEB payroll are summarized in the following tables. Unlike the pension contributions, the City contributions for the Healthcare Plans are strictly payments toward the UAL. Consequently, there is no separate breakout of normal cost. According to the Plan Actuary, City contributions to the Healthcare Plans are expected to increase in the future as members retire or otherwise leave the plans.

Table B-22a
Federated Healthcare Plan
5-Year Projections of Contributions
(in thousands)
(Throughout the Year)

Fiscal Year Ended June 30	Full Benefit Payroll	Total Payroll	Estimated City Contribution Cap	Actuarially Determined Contribution
2023	\$ 117.4	\$ 369.8	\$ 49.0	\$ 18.8
2024	108.7	380.9	50.4	18.4
2025	100.1	392.4	51.9	17.3
2026	91.9	404.1	53.5	17.5
2027	84.0	416.3	55.1	17.7

Source: Cheiron 5-Year and 20-Year Budget Projections for Federated Plan, March 8, 2022.

Table B-22b
Police and Fire Healthcare Plan
5-Year Projections of Contributions
(in thousands)
(Throughout the Year)

Fiscal Year Ended June 30	Total Payroll	Estimated City Contribution Cap	Actuarially Determined Contribution
2023	\$ 261.0	\$ 28.7	\$ 29.2
2024	268.9	29.6	30.3
2025	276.9	30.5	30.3
2026	285.3	31.4	31.5
2027	293.8	32.3	32.8

Source: Cheiron 5-Year and 20-Year Budget Projections for Police and Fire Plan, January 26, 2022.

The estimated full benefit payroll is for the closed group of members entitled to full OPEB benefits. The total payroll also includes members only eligible for catastrophic disability benefits. According to the Plan Actuary, City contributions for the Federated Healthcare Plan represent payments solely toward the UAL, as member contributions are sufficient to cover Normal Costs

during this period. The Plan Actuary further notes that, if all assumptions are met in the future, including an expected return of 6.00% each year, with respect to the Federated Healthcare Plan, the funded percentage of the for the explicit subsidy is expected to reach 100% by 2037.

According to the Plan Actuary, City contributions for the Police and Fire Healthcare Plan represent payments predominately toward the UAL, as member contributions cover nearly all Normal Costs during this period. According to the Plan Actuary, if all assumptions are met in the future including an expected return of 6.00% each year and the City does not impose its optional cap on contributions, the funded percentage for the explicit subsidy with respect to the Police and Fire Healthcare Plan is expected to reach 100% by 2043. If the City imposes its optional cap on contributions every year, the funded percentage for the explicit subsidy is not expected to reach 100%.

It is certain that not all assumptions will be exactly met each and every year. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates.

Investments

The Federated Healthcare Plan is funded through the Federated 115 Trust as the 401(h) account within the Federated Pension Plan was depleted in 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Table B-23 shows the historical annual returns net of fees for the Federated Section 115 Trust and the Police and Fire 115 Trust at the identified interval as reported by the Healthcare Plans' investment consultant in the quarterly reports for the period ending December 31, 2021.

**Table B-23
Section 115 Trusts
Historical Investment Performance
(As of December 31, 2021)**

Measurement Period	Federated 115 Trust Net Rate of Return	Police and Fire 115 Trust Net Rate of Return
Since Inception ⁽¹⁾	N/A	6.3
10 Years	N/A	N/A
5 Years	8.2	8.2
3 Years	11.8	12.9
1 Year	10.5	10.8
	N/A	6.3

⁽¹⁾ Measurement Period Beginning July 2011 Federated, July 2012 Police and Fire.

Source: Meketa Investment Group Federated Retiree Healthcare 115 Trust Quarterly Review December 31, 2021; Meketa Investment Group Police and Fire Retiree Healthcare 115 Trust Quarterly Review December 31, 2021.

The most recent target allocations for the Federated 115 Trust and the Police and Fire 115 Trust are shown in the following table.

**Table B-24
Section 115 Trusts
Target Asset Allocation**

Asset Class	Federated 115 Trust Target %	Police and Fire 115 Trust Target %
Growth	59	59
US Equity	30	30
Developed Market Equity (non-US)	14	14
Emerging Market Equity	15	15
Low Beta	5	5
Short-Term Investment-Grade Bonds	5	5
Other	36	36
Investment Grade Bonds	14	14
Long Term Government Bonds	5	5
Core Real Estate	12	12
Commodities	5	5
<i>20-Year Expected Return ⁽¹⁾</i>	<i>6.3</i>	<i>6.3</i>
<i>Standard Deviation ⁽¹⁾</i>	<i>12.1</i>	<i>12.1</i>

⁽¹⁾ The City can provide no assurance that actual returns will not be less than those expected by the Boards.
Source: City of San Jose, Office of Retirement Services.

For a description of the types of investments in each asset class for the target asset allocations identified in Table B-24, please see the Federated City Employees’ Retirement System Investment Policy Statement, Approved by the Federated Board on April 18, 2019, at <https://sjrs.legistar.com/MeetingDetail.aspx?ID=687980&GUID=C9713B0A-A68F-4035-A4EF-2DF78A9B363C&Search=>, and the Police and Fire Department Plan Investment Policy Statement, Approved by the Police and Fire Board on April 4, 2019 <https://sjrs.legistar.com/MeetingDetail.aspx?ID=685165&GUID=B895D44B-1CEB-41B2-841F-7926B4EAEC97&Options=info&Search=>. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. The City makes no representation as to the accuracy or completeness of any of the information on such website.

APPENDIX C

**BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

[to be attached]

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Site Lease, Lease Agreement and the Indenture of Trust relating to the 2022A Bonds. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

[to come]

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City of San José Financing Authority
200 East Santa Clara Street
San Jose, California 95113

OPINION: \$[PAR] City of San José Financing Authority Taxable Lease Revenue 2022A Bonds, Series 2022A (Convention Center Refunding Project)

Members of the Governing Board of the Authority:

We have acted as bond counsel to the City of San José Financing Authority (the “Authority”) in connection with the issuance by the Authority of the captioned bonds dated the date hereof (the “2022A Bonds”). The 2022A Bonds are issued pursuant to Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Bond Law”), the Indenture of Trust, dated as of April 1, 2022 (the “Indenture”), by and between the Authority and Wilmington Trust, National Association, as trustee (the “Trustee”), and a resolution of the Governing Board of the Authority adopted on [March 29, 2022] (the “Authority Resolution”). Under the Indenture, the Authority has pledged certain revenues (the “Revenues”) for the payment of principal, premium (if any), and interest on the 2022A Bonds when due, including lease payments made by the City of San José (the “City”) under a Lease Agreement dated as of April 1, 2022 (the “Lease Agreement”), between the Authority and the City. Capitalized terms used but not defined herein have the meanings given to such terms in the Indenture.

In order to further secure the 2022A Bonds, the City, for and on behalf of the Convention Center Facilities District No. 2008-1, City of San José, County of Santa Clara, State of California (the “Convention Center Facilities District”), and the Authority have entered into a Pledge Agreement dated as of April 1, 2022 (the “Pledge Agreement”), pursuant to which the City, for and on behalf of the Convention Center Facilities District, has pledged a lien and security interest in the Special Taxes that are collected by the City for the benefit of the Authority as security for the City’s obligations to make Lease Payments under the Lease Agreement. The City Council, as the legislative body of the Convention Center Facilities District, approved the execution and delivery of the Pledge Agreement pursuant to a resolution of the City Council adopted on [March 29, 2022] (the “City Resolution”).

We have examined the law and such certified proceedings and other papers, opinions, and other documents as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the

Indenture and the City contained in the Lease Agreement and the Pledge Agreement, and in the certified proceedings, and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions, including the validation default judgment entered on March 30, 2010, by the Superior Court of the County of Santa Clara in the action entitled *City of San José v. All Persons Interested et al.*, Case No. 1-09-CV-148458, and cover certain matters not directly addressed by such authorities.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Authority is a duly created and validly existing joint exercise of powers authority under the laws of the State of California with the power to adopt the Authority Resolution, enter into the Indenture, the Lease Agreement and the Pledge Agreement and perform the agreements on its part contained therein, and issue the 2022A Bonds.

2. The City is a municipal corporation and charter city duly organized and existing under the laws of the State of California with the power to adopt the City Resolution, enter into the Lease Agreement and the Pledge Agreement and perform the agreements on its part contained therein.

3. The Indenture has been duly authorized, executed and delivered by the Authority, and constitutes a valid and binding obligation of the Authority, enforceable against the Authority.

4. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the 2022A Bonds.

5. The Lease Agreement has been duly authorized, executed and delivered by the Authority and the City, and constitutes a valid and binding obligation of the Authority and the City, enforceable against the Authority and the City.

6. The Pledge Agreement has been duly authorized, executed and delivered by the Authority and the City, for and on behalf of the Convention Center Facilities District, and constitutes a valid and binding obligation of the Authority and the City, for and on behalf of the Convention Center Facilities District, enforceable against the Authority and the City, for and on behalf of the Convention Center Facilities District.

7. The Pledge Agreement creates a valid lien on the Special Taxes for the benefit of the Authority as security for the City's obligations to make Lease Payments.

8. The 2022A Bonds have been duly authorized and executed by the Authority, and are valid and binding limited obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Indenture.

9. Interest on the 2022A Bonds is not intended to be excluded from gross income for federal income tax purposes.

10. Interest on the 2022A Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the 2022A Bonds.

The rights of the owners of the 2022A Bonds and the enforceability of the 2022A Bonds, the Indenture, the Lease Agreement and the Pledge Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Moreover, our opinions are not a guarantee of a particular result, and are not binding on the courts; rather, our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the certifications and opinions referenced above. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
CITY OF SAN JOSE FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, SERIES 2022A
(CONVENTION CENTER REFUNDING PROJECT)

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of San José (the “City”) in connection with the issuance by the City of San José Financing Authority (the “Authority”) of the bonds captioned-above (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Authority on March 29, 2022, and an Indenture of Trust (the “Indenture”), dated as of April 1, 2022, by and between the Authority and Wilmington Trust, National Association, as trustee (the “Trustee”).

The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

“*Annual Report Date*” means the date not later than April 1 after the end of each fiscal year of the City (currently June 30th).

“*Current Fiscal Year*” means the then current fiscal year as of an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2023, the Current Fiscal Year means the 2022-2023 fiscal year.

“*Dissemination Agent*” means the City or any other Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. As of the date of this Disclosure Certificate, the City is acting as Dissemination Agent.

“*Listed Events*” means any of the events listed in Section 5(a).

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“Participating Underwriter” means any of the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Preceding Fiscal Year” means the most recently ended fiscal year preceding an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2023, the Preceding Fiscal Year means the 2021-2022 fiscal year.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2023, with the report for the 2021-2022 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board for the Preceding Fiscal Year. If the City’s

audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the Preceding Fiscal Year or Current Fiscal Year, as specified below, substantially similar to that provided in the Official Statement:

(i) Summary information relating to the City's adopted operating budget for the then-current Fiscal Year, substantially in the form set forth in Table 11 of Appendix A to the Official Statement (provided that the categories set forth in said Table 11 may be revised to reflect the then current budgeting and budget reporting practices of the City)

(ii) Particular section or sections of the budget demonstrating that the City has budgeted for Lease Payments (as defined in the Official Statement) for the current Fiscal Year.

(iii) General Fund summary of revenues and expenditures substantially in the form set forth on page 32 of the City's fiscal year 2020-21 annual comprehensive financial report.

(iv) General fund balance sheet substantially in the form set forth on page 28 of the City's fiscal year 2020-21 annual comprehensive financial report.

(v) General fund tax revenues by source substantially in the form set forth on page 191 of the City's fiscal year 2020-21 annual comprehensive financial report.

(vi) Assessed valuation of property in the City substantially in the form set forth on page 282 of the City's fiscal year 2020-21 annual comprehensive financial report, and the current property tax levy and collections substantially in the form set forth on page 285 of the City's fiscal year 2020-21 annual comprehensive financial report.

(vii) A description of any event of default under the Indenture.

(viii) A description of any event resulting in the abatement of Lease Payments under the Lease.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and

Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or an obligated person, any of which affect security holders, if material.
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence

with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 5 contain the qualifier “if material.” The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(e) For purposes of Section 5(a)(15) and (16), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the

identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

City of San José - Finance
Debt Management
200 East Santa Clara Street, 13th Floor Tower
San José, California 95113-1905
Debt.Management@sanjoseca.gov

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2022

CITY OF SAN JOSE

By: _____
Director of Finance

APPROVED AS TO FORM:

By: _____
Senior Deputy City Attorney

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of San José Financing Authority

Name of Bond Issue: City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2022A (Convention Center Refunding Project)

Date of Issuance: _____, 2022

NOTICE IS HEREBY GIVEN that the City of San José (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated _____, 2022. The City anticipates that the Annual Report will be filed by _____.

Dated: [DISSEMINATION AGENT]

By: _____
Name:
Title:

APPENDIX G

**RATE AND METHOD OF APPORTIONMENT OF
THE CONVENTION CENTER FACILITIES DISTRICT**

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

CITY OF SAN JOSE

CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1

The Special Tax authorized by Convention Center Facilities District No. 2008-1 ("CCFD No. 2008-1") of the City of San Jose (the "City") shall be levied on all Assessor's Parcels within CCFD No. 2008-1 and collected as provided herein commencing in Fiscal Year 2009-2010 in an amount determined by the City Council through the application of the rate and method of apportionment of the Special Tax set forth below. All of the real property within CCFD No. 2008-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Additional Special Tax" means the Special Tax determined in accordance with Section D herein, which may be levied by the City Council in any Fiscal Year on an Assessor's Parcel of Taxable Property to satisfy the Revenue Stabilization Reserve Requirement, provided that there are Bonds outstanding.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned assessor's parcel number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by assessor's parcel number.

"Base Special Tax" means the Special Tax determined in accordance with Section C herein, which may be levied by the City Council in any Fiscal Year on an Assessor's Parcel of Taxable Property.

"Bond Documents" means any bond indenture, trust agreement or similar document setting forth the terms of any Bonds.

"Bonds" means any binding obligation to pay or repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to which the Special Tax has been pledged.

“CCFD Administrator” means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes for CCFD No. 2008-1.

“Chapter” means Chapter 14.32 of the San Jose Municipal Code, as amended.

“City” means the City of San Jose.

“City Council” means the City Council of the City.

“County” means the County of Santa Clara.

“Director of Finance” means the finance director of the City.

“Exempt Property” means all Assessor’s Parcels within CCFD No. 2008-1 which are exempt from the Special Taxes pursuant to Section F herein.

“Facilities” has the meaning given to that term in the resolution of which this Rate and Method of Apportionment of Special Tax is a part.

“Fiscal Year” means the period commencing on July 1 of any year and ending the following June 30.

“Hotel Property” means an Assessor’s Parcel of Taxable Property which consists of one or more buildings or structures situated in the City that has, on file with the Director of Finance, a transient occupancy registration certificate, including, but not limited to, any hotel, inn, tourist home or house, motel, studio hotel, bachelor hotel, guesthouse, bed and breakfast inn, apartment house, dormitory, public or private club, mobilehome or house trailer at a fixed location, or other similar structure or portion thereof situated in the city, which is occupied or intended or designed for Occupancy by Transients for dwelling, lodging or sleeping purposes.

“Hotel Transient Unit” means a room within Hotel Property as to which the Special Tax may be levied in that it is used for Transient Occupancy.

“Occupancy” means the use or possession, or right to the use or possession of any Hotel Transient Unit, or portion thereof.

“Operator” means the person who is proprietor of the Hotel Property, whether in the capacity of owner, lessee, sublessee, mortgagee in possession, licensee, or any other capacity. Where the operator performs his functions through a managing agent of any type or character other than an employee, the managing agent shall also be deemed an operator, and shall have the same duties and liabilities as his principal.

“Owner” means the landowner, owner of land, or property owner of Hotel Property, except that if the fee owner of the Hotel Property is a government entity, ‘Owner’ means the lessee of the government entity.

“Rent” means the consideration charged for the Occupancy of Hotel Transient Units valued in money, whether to be received in money, goods, property, labor, service, or otherwise. For purposes of this definition, Rent charged to: 1) a federal or state employee when on official business, or 2) any officer or employee of a foreign government, who is exempt by reason of express provision of federal law or international treaty, shall be excluded from the Base Special Tax and Additional Special Tax calculations defined in Section C and D herein, respectively.

“Revenue Stabilization Reserve” means a fund to be established and held by the City. Prior to the issuance of Bonds, all Special Tax revenues will, as collected and received by the City, be deposited in the Revenue Stabilization Reserve. Prior to the first issuance of Bonds, the City may pay its authorized expenses incurred in connection with the Convention Center Facilities District from the Revenue Stabilization Reserve, and thereafter as may be specified in the Bond Documents. Funds in the Revenue Stabilization Reserve shall be available for transfer to the appropriate redemption funds or accounts, established by the Bond Documents for the payment of debt service on Bonds, in the event that Special Tax collections, at any time, are not sufficient to make scheduled payments of principal or interest on the Bonds.

Subject to any limitations that may be imposed by the Bond Documents, the City may, at any time, transfer amounts in the Revenue Stabilization Reserve in excess of the Revenue Stabilization Reserve Requirement to the project fund for the Facilities or provide for changes, including a reduction, of the Revenue Stabilization Reserve.

The Bond Documents may establish terms and conditions under which the Revenue Stabilization Reserve may be closed and the Special Tax revenues therein, and any investment earnings thereon, applied to other authorized purposes of CCFD No. 2008-1. In the absence of provisions in the Bond Documents, once all Bonds have been retired, or provision has been made for their retirement or early redemption (which provision may include the application of moneys in the Revenue Stabilization Reserve), the Revenue Stabilization Reserve will be closed and all remaining funds in the Revenue Stabilization Reserve transferred to the project fund for the Facilities.

“Revenue Stabilization Reserve Requirement” means the minimum balance required in the Revenue Stabilization Reserve, as specified in the Bond Documents.

“Special Tax” means the special tax authorized by CCFD No. 2008-1 to be levied by the City Council pursuant to the Chapter to fund the Facilities.

“Taxable Property” means all Assessor’s Parcels that are not exempt from the Special Tax pursuant to law or the Rate and Method of Apportionment of Special Tax.

“Transient” means a person who exercises occupancy or is entitled to occupancy by reason of concession, permit, right of access, license, or other agreement for a period of thirty consecutive calendar days or less, counting portions of calendar days as full days.

“Zone” means one of the two mutually exclusive geographic areas defined below.

- “Zone 1” means all territory in the City located within a two and one quarter (2 ¼) mile radius of the San Jose Convention Center located at 408 Almaden Blvd. San Jose CA. 95110.
- “Zone 2” means all territory within the City of San Jose that is not within Zone 1.

B. CLASSIFICATIONS OF ASSESSOR'S PARCELS

Each Fiscal Year using the definitions above, all Assessor's Parcels within CCFD No. 2008-1 shall be classified as either Hotel Property or Exempt Property and all Hotel Property shall be classified as within either Zone 1 or Zone 2. Commencing with Fiscal Year 2009-2010 and for each subsequent Fiscal Year, all Hotel Property shall be subject to Special Taxes pursuant to Sections C, D and E below.

C. BASE SPECIAL TAX RATE

Zone 1

Commencing in Fiscal Year 2009-2010, each Assessor's Parcel classified as Hotel Property within Zone 1 of CCFD No. 2008-1 shall be subject to a Base Special Tax. The Base Special Tax for each Assessor's Parcel classified as Hotel Property within Zone 1 shall equal four percent (4%) of all Rent charged.

Zone 2

Commencing in Fiscal Year 2009-2010, each Assessor's Parcel classified as Hotel Property within Zone 2 of CCFD No. 2008-1 shall be subject to a Base Special Tax. The Base Special Tax for each Assessor's Parcel classified as Hotel Property within Zone 2 shall equal the percentage of all Rent charged as identified in Table 1 below.

TABLE 1
ZONE 2 BASE SPECIAL TAX RATES

Term	Base Special Tax
July 1, 2009 – December 31, 2009	1%
January 1, 2010 – June 30, 2010	2%
Fiscal Year 2010-2011	3%
Fiscal Year 2011-2012 and thereafter	4%

D. ADDITIONAL SPECIAL TAX RATE

Commencing in Fiscal Year 2009-2010, each Assessor's Parcel classified as Hotel Property in CCFD No. 2008-1 shall be subject to an Additional Special Tax. The Additional Special Tax for each Assessor's Parcel classified as Hotel Property within either Zone shall equal one percent (1%) of all Rent charged.

If Bonds are outstanding, and the City Council determines, by no later than June 1 of any calendar year (or such other date as specified in the Bond Documents), that the amount in the Revenue Stabilization Reserve is less than the Revenue Stabilization Reserve Requirement, then the City Council may levy and collect the Additional Special Tax in the following Fiscal Year. The City must mail written notice of the imposition of the Additional Special Tax to all Owners, or Operators on behalf of Owners, at least 30 days before the imposition of the Additional Special Tax may commence. If the Additional Special Tax will not be imposed in any year immediately following a year in which it was imposed, then the City must mail written notice by June 1 to all Owners or Operators on behalf of Owners that levy of the Additional Special Tax will cease as of the following July 1 for the Fiscal Year beginning on that day.

E. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2009-2010, and for each subsequent Fiscal Year, the City Council shall levy Special Taxes as described below:

- Step One: The Base Special Tax shall be levied on each Assessor's Parcel classified as Hotel Property up to the rates specified in Section C.
- Step Two: The Additional Special Tax shall also be levied on each Assessor's Parcel classified as Hotel Property if authorized, and as provided in, Section D.

Special Taxes associated with Rent that is charged for Transient Occupancy shall be considered levied and due in the calendar month the Transient ceases Occupancy of the Hotel Transient Unit(s), except that Special Taxes associated with Rent that is paid by credit card shall be deemed levied and collected on the date that the credit card is presented for payment to the Operator. The Special Taxes are payable as described in Section G below.

F. EXEMPTIONS

No Special Tax shall be levied on any Assessor's Parcel not classified as Hotel Property.

G. MANNER OF COLLECTION

The Special Tax shall be collected monthly by the City. Each Operator on behalf of the Owner shall, on or before the last day of each calendar month, submit the Special Taxes levied against their Hotel Property to the Director of Finance of the City and shall include a special tax obligation form provided by the City.

H. FAILURE TO SUBMIT SPECIAL TAX

If any Owner, or Operator on behalf of Owner, fails or refuses to pay the Special Tax levied, the Director of Finance shall proceed in such manner as he may deem best to obtain facts and information on which to base his estimate of the Special Tax. As soon as the Director of Finance shall procure such facts and information as he is able to obtain upon which to base the Special Tax for such Assessor's Parcel classified as Hotel Property, the Director of Finance shall proceed to determine the amount of such Special Tax due plus any penalties and interest, as described

below. In case such determination is made, the Director of Finance shall give a Determination of Special Tax Due by serving it personally or by depositing it in the United States mail, postage prepaid, addressed to the Owner or Operator on behalf of the Owner at its last known place of address. Such Owner, or Operator on behalf of the Owner, may file an appeal as prescribed in Section J herein.

Any Operator who fails to remit the Special Tax levied within the time required shall be subject to a penalty of ten percent (10%) of the amount delinquent in addition to the delinquent Special Tax. Delinquent Special Taxes will incur an additional 1½% penalty (applied to the amount originally levied without compounding) on the first day of each month which is more than six months after the date when the delinquent Special Tax was levied.

I. SPECIAL TAX AUDIT

It shall be the duty of the Owner, or Operator on behalf of the Owner, for each Assessor's Parcel classified as Hotel Property that is subject to the Special Tax to keep and preserve, for a period of three years, all records as may be deemed necessary by the City (and that will, at a minimum, include a record of all Rents collected) to determine the Special Taxes levied upon such Hotel Property by the City Council. The City shall have the right to inspect such records at all reasonable times.

J. APPEALS

Any Owner or Operator on behalf of the Owner, claiming that the amount or application of the Special Tax is not correct, may appeal to the City Council by filing a notice of appeal with the City Clerk within fifteen calendar days of the serving or mailing of the Determination of Special Tax Due. The City Council shall fix a time and place for hearing such appeal, and the City Clerk shall give notice in writing to such Owner and Operator at their last known place of address. The findings of the City Council shall be final and conclusive, and shall be served upon the appellant in the manner prescribed above for service of notice of hearing. Any Special Tax found to be due shall be immediately due and payable upon the service of the City Council findings. If the City Council decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the Owner, or Operator on behalf of Owner, a cash refund shall not be made, but a credit shall be given against future Special Taxes on that Assessor's Parcel.

K. TERM OF SPECIAL TAX

The authority of the City Council to levy the Base Special Tax on all Assessor's Parcels classified as Hotel Property within CCFD No. 2008-1 in accordance with Section E is perpetual. The Additional Special Tax may only be levied during a period when Bonds are outstanding in accordance with Section E herein.

APPENDIX H

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the 2022A Bonds, payment of principal, interest and other payments on the 2022A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2022A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the Authority (the “Issuer”) nor the Trustee (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2022A Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2022A Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2022A Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding

company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting

rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.