



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT: COMPREHENSIVE ANNUAL  
DEBT REPORT FOR FISCAL  
YEAR ENDED JUNE 30, 2022**

**DATE:** November 14, 2022

Approved

Date

**11/17/2022**

## **RECOMMENDATION**

Accept the Comprehensive Annual Debt Report for the City of San José for Fiscal Year 2021-2022.

## **OUTCOME**

Acceptance of the Fiscal Year 2021-2022 Comprehensive Annual Debt Report (CADR) will provide relevant information related to the debt portfolio of the City and its related entities to the City Council, residents of San José, creditors, investors, and other interested parties. This document serves to augment the disclosure practices described in the City's Debt Management Policy, and to help meet the Strategic Support City Service Area Strategic Goal: "Customers have the financial information they need to make informed decisions" and may be a starting point for those interested in finding information on the outstanding debt of the City and its related entities.

## **BACKGROUND**

The City's Finance Department oversees the issuance of debt and the management of outstanding debt issued by the City, the Successor Agency to the Redevelopment Agency, and other related entities. The Fiscal Year 2021-2022 CADR provides a detailed description of the debt issuance and management activities for the period of July 1, 2021 through June 30, 2022, and is divided into four key sections:

- An overview of the City's debt management program;
- A summary of recent debt issuance activity;

- A discussion of the key debt administration tasks; and
- A review of the outstanding debt portfolio.

## **ANALYSIS**

The Fiscal Year 2021-2022 CADR provides a comprehensive review of the City's debt management portfolio activities.

The CADR discusses the activities undertaken and managed by Debt Management staff within the Debt & Treasury Management Division of the Finance Department. This annual report is prepared pursuant to Section II (B) of the City Council-adopted Debt Management Policy. Major sections of the report summarize recent debt issuance activity; discuss key debt administration tasks; review the outstanding debt portfolio; and describe projects anticipated in the next fiscal year.

In fiscal year 2021-2022, the Finance Department oversaw the issuance of \$877.3 million of debt consisting of a \$285 million Tax Revenue Anticipation Note, \$200.5 million in City of San José General Obligation Bonds, \$22.8 million in City of San José Financing Authority (CSJFA) Lease Revenue Bonds (Fire Department Training Center and Central Service Yard projects), \$165.8 million in CSJFA Taxable Lease Revenue Bonds (Convention Center Refunding Project), \$45.0 million in CSJFA Lease Revenue Taxable Commercial Paper Notes to fund San José Clean Energy operations, \$86.5 million in CSJFA Subordinate Wastewater Revenue Notes to finance capital improvements at the San José-Santa Clara Regional Wastewater Facility, and \$71.7 million of conduit multi-family housing revenue obligations.

The outstanding debt portfolio totals \$4.6 billion, consisting of 79 debt obligations, consisting of 75 series of bonds, two commercial paper programs, one revolving line of credit facility for the San José-Santa Clara Regional Wastewater Facility, and one revolving credit facility for San José Clean Energy. Of the 75 series of bonds, 24 series are debt of the City, the Successor Agency to the Redevelopment Agency, or related entities while the remaining 51 series are multifamily housing revenue bonds for which private developers are the obligors and the City is a conduit issuer.

The City continues to receive high credit ratings from all three national rating agencies. Please see the table below for rating details regarding General Obligation Bonds, CSJFA Lease Revenue Bonds, and Airport Revenue Bonds.

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
City of San José General Obligation Bonds	Aa1	AA+	AAA
CSJFA Lease Revenue Bonds (1)	Aa2	AA	AA
CSJFA Lease Revenue Bonds (2)	Aa3	AA	AA-
CSJFA Lease Revenue Bonds (3)	Aa3	AA	AA
Airport Revenue Bonds	A2	A	A

- (1) Series 2013B (Civic Center Garage), 2020A (Civic Center Refunding), 2021A (Fire Department Training Center, and Central Service Yard projects)
- (2) Series 2020B (Ice Centre Project)
- (3) Series 2022A (Convention Center Refunding Project)

## **CONCLUSION**

Acceptance of the Fiscal Year 2021-2022 CADR provides relevant information related to the debt portfolio of the City and its related entities to the City Council, residents of San José, creditors, investors, and other interested parties.

## **EVALUATION AND FOLLOW-UP**

Staff from the Finance Department will be available to answer questions regarding the Fiscal Year 2021-2022 CADR at the City Council meeting on December 6, 2022.

## **CLIMATE SMART SAN JOSE**

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

## **PUBLIC OUTREACH**

This memorandum along with the CADR will be posted on the City's website for the December 6, 2022 City Council meeting.

## **COORDINATION**

The CADR was prepared by the Finance Department in coordination with the City Attorney's Office.

HONORABLE MAYOR AND CITY COUNCIL

November 14, 2022

**Subject: Comprehensive Annual Debt Report for Fiscal Year Ended June 30, 2022**

Page 4

**COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

**CEQA**

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

/s/

JULIA H. COOPER  
Director of Finance

For questions, please contact Qianyu Sun, Deputy Director of Finance, Debt & Treasury Management Division, (408) 535-7832.

Attachment – FY 2021-2022 Comprehensive Annual Debt Report



# COMPREHENSIVE ANNUAL DEBT REPORT

FISCAL YEAR ENDED JUNE 30,

# 2022



The featured photos on the front and back pages of this year's Comprehensive Annual Debt Report include:



**Cover** – The cover photo features a view of the City Hall tower through the rotunda. City Hall consists of three structures within the Civic Plaza: the Tower, the Rotunda, and the Wing. City Hall has received LEED Platinum certification for its environmentally friendly design.



**Back Cover** – The back cover photo features the new Fire Station 37, located on Lincoln Avenue. The new building is an 8,100 square foot two-story, single-fire company station that contains two apparatus bays, separate crew and captain's offices.

**City of San José  
California**

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**31<sup>st</sup> Comprehensive Annual  
Debt Report**



Fiscal Year Ended June 30, 2022

**31<sup>st</sup> Comprehensive Annual Debt Report**  
**City of San José**  
**Department of Finance**

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Director of Finance

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Qianyu Sun  
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**Debt Management Staff**

Kevin Freimarck, Financial Analyst  
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Cal Haynes, Analyst

**Special Assistance – Departments and Offices**

Office of the City Attorney  
City Manager's Office  
Community Energy Department  
Environmental Services Department  
Fire Department  
Housing Department  
Library Department  
Norman Y. Mineta San José International Airport  
Parks, Recreation and Neighborhood Services Department  
Police Department  
Public Works Department  
Transportation Department



**CITY OF SAN JOSE  
COMPREHENSIVE ANNUAL DEBT REPORT  
FISCAL YEAR ENDED JUNE 30, 2022**

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**LETTER OF TRANSMITTAL**

November 17, 2022

HONORABLE MAYOR AND CITY COUNCIL

**THE COMPREHENSIVE ANNUAL DEBT REPORT  
OF THE CITY OF SAN JOSE**

I am pleased to present the 31<sup>st</sup> Comprehensive Annual Debt Report (CADR) for the City of San José (City) for the fiscal year (FY) ended June 30, 2022. The CADR is submitted for review and approval by the City Council in accordance with the City Debt Management Policy originally approved by the City Council on May 21, 2002 with the most recent amendment approved on March 7, 2017. This CADR covers FY 2021-22 and discusses the activities undertaken and managed by the Debt Management Program. The major sections in the CADR include:

- Overview of the City Debt Management Program
- Summary of Recent Debt Issuance Activity
- Discussion of Key Debt Administration Tasks
- Review of the Outstanding Debt Portfolio

In addition, the CADR includes a glossary to help guide the reader in understanding municipal finance terms.

The discussions of debt management activities in the CADR pertain to activities managed by the City's Debt Management Program, and the section of the CADR pertaining to the City's outstanding debt portfolio includes all debt issued by the City of San José, City of San José Financing Authority (Authority or CSJFA) and the Successor Agency to the Redevelopment Agency of the City of San José (Successor Agency). Debt Management staff is responsible for managing the City's participation in the debt issuance process for all borrowings.

In addition to the activities and programs described above, the CADR includes a review of the Debt Management Policy, rating agency relations and credit maintenance issues, and a discussion of legislative and regulatory issues.



## DEBT MANAGEMENT ACTIVITIES

Debt issuance is a key component of the Debt Management Program. As illustrated in the graph on page two, FY 2021-22 activities reflected debt issuance of approximately \$877.3 million. The debt issued included a \$285.0 million City of San José Tax and Revenue Anticipation Note (2021 TRAN), \$200.5 million in City of San José General Obligation (GO) Bonds, \$22.8 million in CSJFA Lease Revenue Bonds (new issuance and Central Service Yard Refunding Projects), \$165.8 million in CSJFA Taxable Lease Revenue Bonds (Convention Center Refunding Project), \$45.0 million in CSJFA Lease Revenue Taxable Commercial Paper Notes to fund San José Clean Energy (SJCE) operations, \$86.5 million in CSJFA Subordinate Wastewater Revenue Notes to finance capital improvements at the San José-Santa Clara Regional Wastewater Facility, and \$71.7 million of conduit multi-family housing revenue obligations.

The City continues to maintain high general credit ratings from three of the major national bond rating agencies. The City's General Obligation ratings were affirmed "Aa1" by Moody's Investors Service (Moody's), "AA+" by S&P Global Ratings (S&P), and "AAA" by Fitch Ratings (Fitch) in June 2021 with a "Stable" outlook in conjunction with the issuance of the Series 2021ABC General Obligation Bonds in July 2021. On June 23, 2022, S&P Ratings upgraded the long-term and underlying ratings on the Airport Revenue Bonds to "A" from "A-".

The ratings reflect the diversity of the local economy, anchored by a strong technology presence with the ability to provide financial resilience through economic downturns; very strong management with sound financial policies and practices; healthy reserves and liquidity as well as strong budgetary practices. Overall, the maintenance of these ratings translates into significant interest cost savings in the City's debt program, which in turn benefit the taxpayers and residents of the San José community.

In addition to providing the core debt management services of debt issuance, primary market and secondary market continuing disclosure, bank contract compliance reporting, budgeting and forecasting, debt service invoice processing, funds' management, accounting, and professional services procurements, a significant amount of Debt Management staff resources was devoted to providing financial advisory services to numerous citywide projects during FY 2021-22.

These projects included:

- 10-year Capital Funding Strategy support for the Regional Wastewater Facility (RWF)
- Extension of the Airport Commercial Paper Letter of Credit (Airport CP) to September 10, 2024
- Extension of CSJFA Commercial Paper (CSJFA CP) Letter of Credit to March 24, 2025 and increased maximum capacity to \$175 million
- Redemption of Community Facility District #1 Bonds (Capitol Expressway Auto Mall)
- Redemption of Limited Obligation Improvement Bonds, Series 24Q (Hellyer-Piercy)
- Active participation in the management of Successor Agency operations and finances including budgeting, reporting and accounting

The Debt Management Program work plan for FY 2022-23 anticipates a major focus on issuing the City of San José Wastewater Revenue Bonds to refund all outstanding Subordinate Wastewater Revenue Notes, issued to fund capital improvements at the RWF, planning activities for the third issuance of the GO Bonds under the Measure T authorization and potentially issuing commercial paper (CP) for interim financing of the San José Municipal Water System (Muni Water) Water Resources Administration and Operations Facility. Pension obligation bond planning activities continue, including proceeding with the judicial validation actions, development of a pension funding policy, and evaluation of potential issuance of such bonds based on market conditions upon receipt of judicial validation. Total debt issuance in FY 2022-23 for the City and its related entities is estimated at \$621.4 million, comprised of new money and refunding issuances. A Tax and Revenue Anticipation Note (2022 TRAN) in the amount of \$275.0 million has already been issued. Of the remaining planned issuances, the City expects the issuance of \$300 million in Wastewater Revenue Bonds, \$40.0 million in authorization for issuing CSJFA Tax-Exempt CP Notes for the construction of a Water Resources Administration and Operations Facility, and \$6.4 million in CSJFA CP Notes for the Flood Recovery Improvements project in June 2023.

Other work efforts will include issuance of future conduit housing bonds, and administration of outstanding conduit housing bonds, and continued monitoring of private activity at tax-exempt financed facilities.

### **ACKNOWLEDGMENTS**

The preparation of this CADR represents the culmination of a concerted team effort led by the Finance Department Debt Management staff as well as special assistance and support from key departments and offices throughout the City. Of particular note is the ongoing collaboration and support between the Finance Department and the City Attorney's Office. The support received from the City Attorney's Office cannot be overlooked and is integral to the success of the City's Debt Management program. In addition, City departments who have participated in partnership with the Debt Management program should be recognized for responding positively to the requests for detailed information required for every debt issuance, as well as for the information they provide to the Debt Management staff for the ongoing management and monitoring of the City's outstanding debt portfolio. The City's municipal advisors and bond counsel are acknowledged for providing a significant contribution to the City's success in its Debt Management program, especially for the role they have played in helping to secure and maintain the City's excellent bond ratings.

Finally, after being intimately involved in either the production or review of the CADR since its inception thirty-one years ago, as a reporting tool for the City Council, our community, and the municipal bond market, I wish to express my sincere appreciation to the Mayor, City Council, and the City Manager for providing leadership, policy direction, and support in guiding the City to a secure, strong financial condition. Their leadership ensures necessary financial resources can be available to provide capital facilities and affordable housing for our community.

Respectfully submitted,

  
JULIA H. COOPER  
Director of Finance



## **I. OVERVIEW**

The Overview section of the CADR includes a discussion of the Debt Management Program, review of Debt Management Policies, Rating Agency Relations and Credit Maintenance, and Legislative and Regulatory Issues.

The CADR does not include discussions of the City's obligations related to pension and other postemployment benefits (OPEB). For details relating to pension and OPEB unfunded liabilities, please refer to "Defined Benefit Retirement Plans" section in the Notes to the Annual Comprehensive Financial Report for the City of San José for the fiscal year ended June 30, 2022.

### **A. Debt Management Program**

This section of the report provides an overview of debt issuance, debt administration, and debt management projects for FY 2021-22 that have been completed, currently underway, or planned for FY 2022-23.

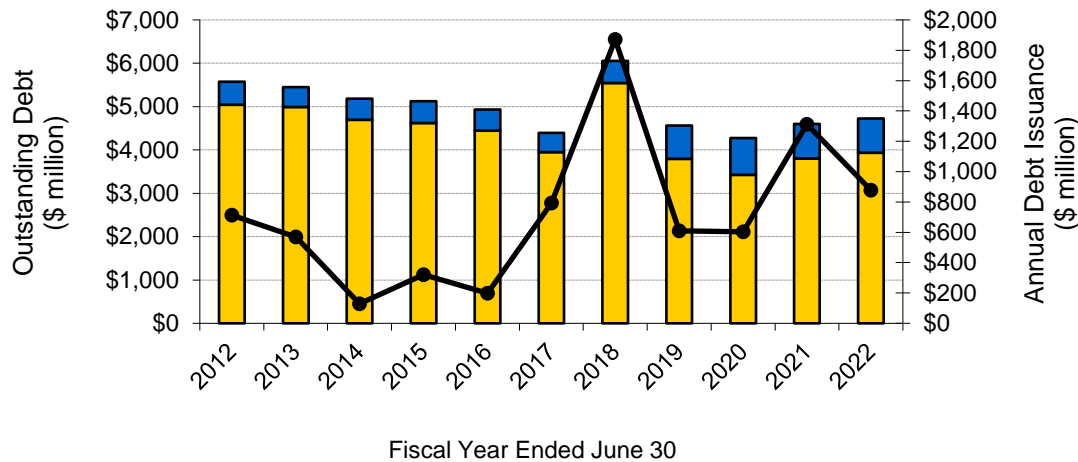
#### **1. Debt Issuance**

Debt Management, a program within the Finance Department's Debt & Treasury Management Division, is responsible for managing the debt issuance process for all City borrowings.

FY 2021-22 debt issuance totaled \$877.3 million, composed of a 2021 TRAN in the amount of \$285.0 million, \$200.5 million in GO Bonds, \$22.8 million in CSJFA Lease Revenue Bonds, \$165.8 million in CSJFA Taxable Lease Revenue Bonds, \$45.0 million CSJFA Lease Revenue Taxable Commercial Paper Notes, \$86.5 million in CSJFA Subordinate Wastewater Revenue Notes to finance capital improvements at the San José-Santa Clara Regional Wastewater Facility, and \$71.7 million of conduit multi-family housing revenue obligations.

The Debt Management Program work plan for FY 2022-23 includes total debt issuance estimated at \$621.4 million. Of that amount, a \$275.0 million 2022 TRAN has already been issued. Of the remaining planned issuance, the City expects the issuance of \$300 million in Wastewater Revenue Bonds, \$40.0 million in authorization for issuing CSJFA Tax-Exempt CP Notes for construction of a Water Resources Administration and Operations Facility, and \$6.4 million in CSJFA Taxable CP Notes for the Flood Recovery Improvements project in June 2023. The debt team will also analyze current bond interest rates to see if CSJFA Lease Revenue Bonds, Series 2013B are a refunding candidate. For the refunding to occur, the Debt Management Policy, in general, requires a minimum of 3% net present value savings.

### City Debt Portfolio and Debt Issuance History FY 2011-12 through FY 2021-22



Fiscal Year Ended June 30

City and Related Entity Debt Outstanding
  Conduit Debt Outstanding
  Annual Debt Issuance

## 2. Debt Administration

After debt issuance, the Debt Management staff is responsible for administering the debt portfolio. As part of the City's statutory compliance program, the Special Tax Annual Report required by State law has been incorporated into this CADR as Appendix E. Section III of this report (Debt Administration) provides a detailed discussion of debt administration tasks performed by Debt Management staff.

## 3. Debt Management Projects

In addition to debt issuance and administration, Debt Management staff serves in a financial advisory role to other City departments to assist in the review of capital funding options. Various projects and administrative efforts are described below.

### a. Projects in FY 2021-22

Renewal/Replacement/Expansion of Letters of Credit and Direct Placement for Variable-Rate Debt. Staff completed the following work in FY 2021-22:

- Airport Commercial Paper Notes. On August 19, 2021, the City extended the Letter of Credit and Reimbursement Agreement with the Bank of America National Association (BANA) securing the City's Airport CP program through September 10, 2024. In conjunction, BANA extended an irrevocable transferable letter of credit (LOC) to the City in the stated amount of \$81.7 million (to cover the principal of \$75 million and interest on the subordinated CP Notes calculated at a rate of 12% for 270 days based on a 365-day year) scheduled to expire on September 10, 2021. The current facility fee rate is 0.40%.



On August 31, 2021, the City conducted a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing with respect to the proposed issuance by the City of one or more issues of tax-exempt Series B subordinated commercial paper notes (Series B Notes) in an aggregate principal amount not to exceed \$600,000,000. The issuance was pursuant to a plan of finance to provide proceeds to pay for or reimburse all or a portion of the costs of acquisition, construction, equipping, financing, reconstruction, development, and modification of airport terminal and ancillary facilities that are included in or are consistent with the Airport master plan for the Norman Y. Mineta San José International Airport (Airport). The City Council adopted Resolution No. 80201 approving, for purposes of Section 147(f) of the Internal Revenue Code of 1986, the issuance of Series B Notes, in an aggregate principal amount together with certain other commercial paper notes not to exceed \$600,000,000 from time to time, to finance and refinance the facilities at the Airport. The actual principal amount of Airport CP Notes that can be issued currently is constrained by the amount of the LOC.

- City of San José Financing Authority Lease Revenue Commercial Paper Notes. On August 31, 2021, the City adopted Resolution No. 80208 authorizing the execution and delivery of amendments to certain financing documents. The amendments to an amended and restated trust agreement with Wells Fargo Bank N.A. (WFBNA) and the sublease increased the maximum principal amount outstanding of Series 2 Notes and Series 2-T Notes to \$175 million, supported solely by the U.S. Bank LOC, and reduced the maximum principal amount outstanding of Series 1 Notes and Series 1-T Notes to \$0 dollars. The amendment to the Letter of Credit and Reimbursement Agreement with U.S. Bank increased the commitment to the aggregate principal amount of \$175 million and extended the stated expiration date of the U.S. Bank LOC to March 24, 2025. The State Street Bank and Trust Company (State Street) LOC was terminated at the election of the City on September 23, 2021. U.S. Bank's current commitment fee is 0.38%, paid quarterly in arrears. The dealer fee remains at 0.045%.

Pension Obligation Bonds. The City has been exploring options for controlling retirement costs including issuing Pension Obligation Bonds (POBs) since at least 2007. Prior staff reached a conclusion in 2010 that POBs were not a viable tool at that time to address the 2010-11 budget shortfall. In March 2019, the Mayor convened the Retirement Stakeholder Solutions Working Group to address retirement fund resilience and explore options that would protect both employee benefits and the City's ability to provide basic services through the next recession. In April 2021, the Retirement Stakeholder Solutions Working Group issued its final report indicating POBs were the only viable option to have a significant impact on reducing the unfunded actuarial liability. Since April 2021, the City has held several public study sessions, meetings with the City Council and the Police and Fire and Federated Retirement Boards on analyzing the benefits, risks, and process for issuing POBs.

On October 5, 2021, the City Council adopted Resolution 80248 authorizing the issuance of bonds to refund certain pension obligations of the City of San José, including approving the form, and authorizing the execution of, a Trust Agreement and Bond Purchase Agreement; and authorizing judicial validation proceedings and additional actions relating to the issuance of the bonds. The pension obligations include the unfunded liability for both the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System Plan, and the annually required retirement contribution that is due and payable

within 12 months of the issuance of the bonds. The proposed final aggregate principal amount of the bonds may not be greater than \$3.5 billion or the sum of the City's unfunded liability and current obligation, as calculated by the actuary for both Retirement Plans, together with the costs of issuing the Bonds. The Trust Agreement will not constitute an obligation for which the City is obligated or permitted to levy or pledge any form of taxation or for which the City has levied or pledged or will levy or pledge any form of taxation. The City filed a complaint for validation on November 18, 2021. Howard Jarvis Taxpayers Association, Citizens for Fiscal Responsibility and Pat Waite (HJTA) filed a response challenging the City's authority to issue bonds without voter approval. A hearing before the Santa Clara Superior Court occurred on August 22, 2022, and a final decision is pending. If the City receives a favorable judgment, the size and timing of the actual bond issuance would require the City Council's approval of offering documents, including disclosures, and would be contingent on favorable market conditions. Prior to actual issuance of any pension obligation bonds, the City Council will consider adoption of a pension funding policy.

Request for Qualifications and Request for Proposals. In May 2022, the City issued a Request for Qualifications for a Municipal Bond Underwriting Pool for the following credits: CSJFA Lease Revenue Bonds, Regional Wastewater Facility Bonds, Norman Y. Mineta San José International Airport Revenue Bonds and Land-Secured Financings including issuances through Community Facility Districts. The City selected the underwriting firms of Morgan Stanley & Co. LLC, Stifel, Nicolaus & Company, Incorporated and Jefferies LLC for the 2022A CSJFA Convention Center Refunding Project. The City also issued a Request for Proposals for a Municipal Bond Underwriting Pool for the Regional Wastewater Facility Bonds within the RFQ, proposals from which the City established the underwriter pool. Morgan Stanley & Co. LLC, Academy Securities, Inc., Samuel A. Ramirez & Co., Inc. and Stifel, Nicolaus & Company, Inc. were chosen from the Regional Wastewater Facility underwriter pool for the CSJFA Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified). Pools for other bonds are pending.

Request for Bank Commitment. In April 2022, the City invited commercial banks to respond to its Request for Bank Commitments for direct purchase of its 2022 TRAN in the range of \$200 million - \$450 million to support the City prefunding of retirement contributions. A TRAN is a short-term note that must be repaid within the same fiscal year. In April 2022, the City received responses from nine banks submitting various possible TRAN/alternative product commitments ranging from \$100 million to \$450 million. The City selected BANA for the direct purchase of the 2022 TRAN, which was ultimately sized at \$275 million.

Special Assessment Bonds, Series 24Q (Hellyer-Piercy). On March 2, 2022, the 24Q Bonds were redeemed in full and are no longer outstanding.

Declaration of Surplus Construction Funds, Special Assessment Bonds, Series 24Q (Hellyer-Piercy). Staff identified remaining surplus construction funds for which the capital projects were concluded. Working closely with the Department of Public Works and the City Attorney's Office, staff performed a thorough analysis of surplus funds and developed a close-out plan that was approved by the City Council on November 22, 2021. During FY 2021-22, Debt Management staff implemented the close-out plan, including transferring surplus funds to designated accounts, developing accounting and allocation schedules, creating a refund notification program to identify and locate refund eligible recipients. The refund notification began in April 2022 by directly mailing the claim forms to each eligible

recipient. Staff is currently working with the recipients to assist in completing their claim forms.

Special Tax Bonds, Community Facility District No. 1 (Capitol Expressway Auto Mall). On May 1, 2022, the CFD 1 Bonds were redeemed in full and are no longer outstanding.

Affordable Housing Project TEFRA Hearings. The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 requires a published notice, public hearing and approval by elected officials for issuance of qualified private activity bonds, such as multifamily housing revenue bonds. The City Policy for the Issuance of Multifamily Housing Revenue Bonds (Housing Policy), adopted by Council in June 2002, and San José Municipal Code Chapter 5.06 delegated the authority to hold TEFRA hearings for multifamily housing projects, with the City as the conduit issuer, to the Director of Finance. The Housing Policy was last amended/re-affirmed on March 13, 2018, to comply with the California Debt Limit Allocation Committee (CDLAC), Regulation 5031(c), which required City Council to re-affirm the existing bond policies and procedures, by resolution of the City Council, to refresh the current documents, and to conform to the CDLAC policy requiring re-approval of the issuer's policy and post-issuance policies at least every ten (10) years. In FY 2021-22, the Finance Department held TEFRA hearings for the following projects:

TEFRA Hearings for Multifamily Housing Projects City as Conduit Debt Issuer FY 2021-22			
Date	Project	Amount	Issue Date
11/2/2021	Vitalia (formerly Bascom Apartments)	\$35,672,716	1/28/2022
11/2/2021	Mariposa Place	31,341,010	1/28/2022
3/28/2022	Algarve Apartments	32,532,700	No issuance
3/28/2022	McEvoy Apartments	64,160,884	No Issuance

- Vitalia (formerly known as Bascom Apartments) – A TEFRA hearing was held on November 2, 2021 for the approval and proposed issuance of tax-exempt 501(c)(3) revenue bonds in an amount not to exceed \$35,672,716, to finance the acquisition, construction and development of a 79-unit (including two manager's units) residential rental project located at 3090 South Bascom Avenue, to be renumbered upon building permit issuance to 3100 South Bascom Avenue, in the City to be occupied by low-income and very low-income tenants. The note was issued on January 28, 2022.
- Mariposa Place – A TEFRA hearing was held on November 2, 2021, for the approval and proposed issuance of tax-exempt 501(c)(3) revenue bonds in an amount not to exceed \$31,341,010, to finance the acquisition, construction and development of an 80-unit (including one manager's unit) of residential rental housing by Danco Communities or an affiliate located at 750 West San Carlos in the City to be occupied by low-income and very low-income tenants. The note was issued on January 28, 2022.

- Algarve Apartments – A TEFRA hearing was held on March 28, 2022, for the approval and proposed issuance of tax-exempt 501(c)(3) revenue bonds in an amount not to exceed \$32,532,700, to finance the acquisition, construction and development of a 91-unit (including one manager's units) residential rent and income-restricted apartments project located at 1135 East Santa Clara Street in the City to be occupied by extremely low-income and very low-income tenants. Algarve's CDLAC allocation was set to expire in June 2022. In May 2022, CDLAC granted a 90-day blanket extension to all the projects to September 2022. However, Algarve returned its allocation to CDLAC in August 2022. Therefore, no note was issued.
- McEvoy Apartments – A TEFRA hearing was held on March 28, 2022, for the approval and proposed issuance of tax-exempt 501(c)(3) revenue bonds in an amount not to exceed \$64,160,884 to finance the acquisition, construction and development of a 224-unit (including two manager's units) residential rent and income-restricted apartments project located at 280 McEvoy Street (also known as 699 West San Carlos Street) in the City to be occupied by low or moderate-income households. McEvoy's CDLAC allocation was set to expire in June 2022. In May 2022, CDLAC granted a 90-day blanket extension to all the projects to September 2022. However, McEvoy returned its allocation to CDLAC in May 2022. Therefore, no note was issued.

TEFRA Hearings for Other Conduit Financings – Debt Management staff coordinates with the other Conduit issuers (e.g., the California Enterprise Development Authority [CEDA], California Municipal Finance Authority [CMFA], or California Statewide Community Development Authority [CSCDA]) to prepare the required documentation for the City Council to hold a TEFRA hearing and approve the issuance of tax-exempt bonds for the projects located in the City. Debt Management staff facilitated the following TEFRA hearings for Other Conduit issuers in FY 2021-22:

- 425 Auzerai Apartments (CMFA as issuer) – On August 10, 2021, City Council held a TEFRA meeting and approved the issuance of tax-exempt 501(c)(3) revenue obligations in an amount not to exceed \$45,000,000 of tax-exempt private activity revenue bonds by the CMFA to finance and refinance the acquisition, construction, improvement and equipping of the 130-unit affordable apartment complex.

***b. Projects Completed and/or Anticipated for FY 2022-23***

Request for Proposals (RFP) and Qualifications (RFQ):

- Continuing Disclosure Services - The City anticipates issuing an RFP inviting experienced consulting firms to respond for the purpose of continuing disclosure audit/compliance services. The selected firm for this assignment will provide continuing disclosure consulting and audit services for compliance in conjunction with previously entered into continuing disclosure undertakings pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities and Exchange Act of 1934.
- Arbitrage Rebate Services - The City anticipates issuing an RFP inviting firms experienced in offering arbitrage rebate calculation services in conjunction with the tax-exempt bonds to respond to this RFP to provide arbitrage rebate calculation

services to the City and its related issuing entities for a five-year engagement, subject to additional one-year extensions. The selected firm will provide arbitrage rebate calculation services for tax exempt bonds to comply with Internal Revenue Code requirements.

- Special Tax Consultant Services - The City anticipates issuing an RFP inviting experienced consultants to provide special tax consulting services for special district formations and land-secured (Community Facilities Districts and Assessment Districts) bond financings. The selected firm will assist the City in the potential formation of the Market Park Community Facilities District and issuance of bonds to finance certain public improvements in accordance with the City's Community Facilities District Financing Procedure.

#### Wastewater Revenue Bonds, Series 2022B:

- Request for Trustee Services – In August 2022, the City with the assistance of its Municipal Advisors, Public Resources Advisory Group, invited commercial banks to respond to its RFQ to provide trustee services for the City's anticipated City of San José Financing Authority Wastewater Revenue Bonds. In September 2022, the City received responses from seven firms. Based on the statement of qualifications provide by proposers, the RFQ evaluation committee, in accordance with the selection process and evaluation criteria prescribed in the RFQ Wilmington Trust, N.A. was selected to provide trustee services for the 2022B Wastewater Revenue Bonds.
- Request for Second Party Opinion (Green Bonds-Climate Bond Certification) – In August 2022, the City with the assistance of its Co-Senior Manager, Morgan Stanley, invited qualifying firms to respond to its RFQ to provide a Second Party Opinion for the City's anticipated City of San José Financing Authority Wastewater Revenue Bonds. In September 2022, the City received responses from four firms. Based on the statement of qualifications provided by the proposers, the Evaluation Committee, in accordance with the selection process and evaluation criteria prescribed in the RFQ, Kestrel Verifiers was selected to provide the Second Party Opinion for the 2022B Wastewater Revenue Bonds. Kestrel Verifiers completed its review of the Wastewater Revenue Bonds and assisted the City in successfully securing the "Green Bonds-Climate Bond Certified" label for the Bonds.

#### General and Municipal Advisory and Underwriting Services:

- Request for Municipal Advisor - The City anticipates issuing an RFQ inviting experienced municipal advisory firms to respond to one or more of the assignments, which may include general advisory services along with municipal advisory services for the following credits: General Obligation and Lease Revenue, Airport, Multifamily Housing, Wastewater Revenue, Clean Energy, the Successor Agency to the Redevelopment Agency (SARA) and Land-Secured (community facility districts and improvement districts).



- Request for Underwriters – The Request for Qualifications for the City bond underwriting pool was published in May 2022. The Debt Management team is evaluating responses from the underwriters for CSJFA lease revenue bonds, Airport revenue bonds, and land-secured financings including issuances through Community Facility Districts. The term of each financing pool is 5 years, with the City's ability to consider optional renewal periods. The City will select senior managers and co-managers for each pool.

## **B. Review of Debt Management Policies**

### **1. Debt Management Policy**

On May 21, 2002, City Council adopted, by Resolution No. 70977, Council Policy No. 1-15, a Debt Management Policy (Policy) (See Appendix A) which establishes the following objectives in order to obtain cost-effective access to the capital markets:

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve the highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure financial controls are in place with respect to proceeds of debt issuances
- Ensure compliance with applicable State and Federal laws

The Policy establishes parameters for when and how the City may enter into debt obligations but permits sufficient flexibility to allow the City to take advantage of opportunities that may arise. The Policy was most recently amended on March 7, 2017, to comply with California Senate Bill 1029 which requires additional reporting requirements of debt issued by the City (including that of the Successor Agency and the Authority) to the California Debt and Investment Advisory Commission (CDIAC).

In February 2022, the City complied with the California Senate Bill 1029 with submission of the Annual Debt Transparency Report for debt issued on or after January 21, 2017. Those debt issues reported and submitted to CDIAC, that occurred from January 21, 2017 through June 30, 2021 and new issuances in FY 2021-22, are shown in the table below:

**ANNUAL DEBT TRANSPARENCY REPORT (SB1029)**

	ISSUER	PROJECT / ISSUE	DEBT TYPE	PRINCIPAL	ISSUE DATE	YEAR OF ISSUE (FY 6/30)	UPDATE	NEW
1	San José - Airport	Series 2017A	Public enterprise revenue bond	\$473,595,000	4/11/2017	2017	X	
2	San José - Airport	Series 2017B	Public enterprise revenue bond	150,675,000	4/11/2017	2017	X	
3	San José - MHRB	Villa De Guadalupe Apts Series A-1 & A- 2	Conduit revenue note	37,700,000	5/23/2017	2017	X	
4	San José - MHRB	Villa De Guadalupe Apts Series B	Conduit revenue bond	4,615,712	5/23/2017	2017	X	
5	San José - MHRB	Catalonia Apartments Series C	Conduit revenue bond	16,264,154	10/17/2017	2018	X	
6	CSJFA	RWF CIP, CSJFA Subordinate Wastewater Revenue Note, Series A	Public enterprise revenue notes	300,000,000	10/19/2017	2018	X	
7	Successor Agency	Series 2017A	Tax allocation bond	79,825,000	12/21/2017	2018	X	
8	Successor Agency	Series 2017B	Tax allocation bond	264,390,000	12/21/2017	2018	X	
9	Successor Agency	Series 2017A-T	Tax allocation bond	1,333,325,000	12/21/2017	2018	X	
10	San José - MHRB	El Rancho Verde Apts Series 2018 A & B	Conduit revenue bond	318,000,000	8/28/2018	2019	X	
12	San José - GO Bonds	Series 2019A-1 Disaster Preparedness, Public Safety, & Infrastructure	General obligation bond	140,360,000	7/25/2019	2020	X	
13	San José - GO Bonds	Series 2019A-2 Disaster Preparedness, Public Safety, & Infrastructure	General obligation bond	33,040,000	7/25/2019	2020	X	
14	San José - GO Bonds	Series 2019B Disaster Preparedness, Public Safety, & Infrastructure	General obligation bond	66,500,000	7/25/2019	2020	X	
15	San José - GO Bonds	Libraries, Parks, & Public Safety Series C	General obligation bond	158,185,000	7/25/2019	2020	X	
16	San José - GO Bonds	Libraries, Parks, & Public Safety Series D	General obligation bond	103,935,000	7/25/2019	2020	X	
17	San José - MHRB	Lenzen Square Series A-1 & A-2	Conduit revenue bond	21,500,000	8/22/2019	2020	X	
18	San José - MHRB	Vista Park I Apts Series C	Conduit revenue note	13,245,397	10/11/2019	2020	X	
19	San José - MHRB	Palm Court Apts Series D	Conduit revenue note	12,247,056	10/11/2019	2020	X	
20	San José - MHRB	Markham Plaza I Series B-1	Conduit revenue bond	18,000,000	10/31/2019	2020	X	
21	San José - MHRB	Markham Plaza I Sub Series B-2	Conduit revenue bond	5,000,000	10/31/2019	2020	X	
22	San José - MHRB	Quetzal Gardens Apartments Series E	Conduit revenue note	32,207,500	12/18/2019	2020	X	
23	CSJFA	Series 2020A Civic Center Refunding Bonds	Lease revenue bonds	355,620,000	9/24/2020	2021	X	
24	CSJFA	Series 2020B Ice Centre Expansion	Lease revenue bonds	146,535,000	10/15/2020	2021	X	
23	San José - Airport	Series 2021A	Public enterprise revenue bond	85,860,000	4/7/2021	2021	X	
24	San José - Airport	Series 2021B	Public enterprise revenue bond	48,200,000	4/7/2021	2021	X	
25	San José - Airport	Series 2021C	Public enterprise revenue bond	294,020,000	4/7/2021	2021	X	
28	San José - GO Bonds	Series 2021A Disaster Preparedness, Public Safety, Infrastructure	General obligation bond	151,210,000	7/29/2021	2022		X
29	San José - GO Bonds	Series 2021B Disaster Preparedness, Public Safety, Infrastructure	General obligation bond	8,450,000	7/29/2021	2022		X
30	San José - GO Bonds	Series 2021C Disaster Preparedness, Public Safety, Infrastructure	General obligation bond	40,870,000	7/29/2021	2022		X
31	CSJFA	Series 2021A Fire Training Center and Central Service Yard Projects	Lease revenue bonds	22,825,000	11/2/2021	2022		X
32	San José - MHRB	Vitalia 2021 Series F	Conduit revenue note	35,672,716	1/28/2022	2022		X
33	San José - MHRB	Mariposa 2021 Series G	Conduit revenue note	36,000,000	1/28/2022	2022		X
34	CSJFA	Series 2022A Convention Center Refunding Project	Lease revenue bonds	165,815,000	4/21/2022	2022		X

The Administrative Disclosure Policies and Procedures<sup>1</sup> (Administrative Disclosure Policy) establish a policy, process, and procedures that the City, including the Successor Agency and Other Related Entities, follows to promote compliance with primary disclosure and continuing disclosure requirements. The Administrative Disclosure Policy provides for the creation of disclosure working groups that include the City Manager, City Attorney, City Budget Director, City Finance Director, and other senior departmental staff as needed, who are responsible for the review and release of disclosure documents related to the sale of securities, and provide for on-going training of staff and City Council on disclosure issues. The Administrative Disclosure Policy was approved by the City Manager in June 2020 and will be periodically reviewed and updated as needed.

## **2. Policy for the Issuance of Multifamily Housing Revenue Bonds**

In addition to the general Debt Management Policy, the City Council approved by Resolution No. 71023 on June 11, 2002, Council Policy No. 1-16, a supplemental policy for the Issuance of Multifamily Housing Revenue Bonds (Housing Policy) (See Appendix B). The Housing Policy was last amended/re-affirmed on March 27, 2018, to comply with the California Debt Limit Allocation Committee (CDLAC), Regulation 5031(c), which required City Council to re-affirm the existing bond policies and procedures, by resolution of the City Council, to refresh the current documents, and to conform the CDLAC policy requiring re-approval of the issuer's policy and post-issuance policies at least every ten (10) years.

## **C. Rating Agency Relations and Credit Maintenance**

### **1. Credit Analysis Process**

Municipal bond ratings provide investors with a simple way to compare the relative investment quality of different bonds. Bond ratings express the opinions of the rating agencies as to the issuer's ability and willingness to pay debt service when it is due. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) adopted in August 2014, credit rating agencies have adopted and followed new requirements to enhance governance, protect against conflicts of interest, and increase transparency to improve the quality of credit ratings and increase credit rating agency accountability. While the criteria for evaluating municipal bonds vary by type of bond, the credit rating analysis in general includes the evaluation of the relative strengths and weaknesses of the following four factors as they affect an issuer's ability to pay debt service:

#### ***a. Fiscal Factors***

Financial results have a significant impact on the rating process. The rating review involves an examination of results of operations, including a review of the actual fiscal performance versus planned budget performance. The financial statements are examined with emphasis on current financial position and fund balances, as well as three- and five-year trends in planning and budgeting procedures. Pension and OPEB liabilities are also important in the analytical process.

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<sup>1</sup> [CPM 7 Disclosures Policies and Procedures \(sanjoseca.gov\)](http://cpm7.sanjoseca.gov)

### ***b. Economic Factors***

The overall economic strength is heavily weighted in the evaluation of creditworthiness by diversity of both the economic base and, as applicable, the tax base. The diversity of industries employing residents and paying taxes reflects an agency's ability to weather industry-specific downturns as well as general economic recession. Property values, employment levels, income levels, costs of living, and other factors impacting the wealth of the taxpayers provide an indication of the strength of a tax base.

### ***c. Debt Factors***

Overall debt burden is considered in the credit analysis process. In addition to government regulated debt ceilings, the ability to maintain manageable debt levels and debt service coverage is evaluated. Other positive indicators are proper management of existing debt, proactive efforts in identifying and executing financially prudent refunding opportunities, and closely matching capital financing structures to the funding needs of the project.

### ***d. Administrative/Management Factors***

Administrative and management factors include the examination of the form of government and assessment of ability to implement plans as well as fulfill legal requirements, policymakers' commitment to disciplined fiscal policies, and management's capacity to implement these decisions over several administrations. The quality and implementation of a financial plan that supports financial discipline, stability and comprehensiveness of the budgeting process to monitor revenues and control expenditures, including pension responsibilities and the implementation of large-scale infrastructure projects, is also a factor. The focus is on the capabilities of management staff and related entities, which are seen as a vital ingredient in assessing an issuer's credit quality. Managerial and legislative willingness to make difficult decisions, the development of financial policies, and the reliability and continuity of regularly updated accounting and financial information are key. Management that maintains regular contact with the rating agencies is well regarded.

The formal criteria used by each of the three major rating agencies currently rating some of the City's debt – Moody's, S&P and Fitch – are independently established by the respective rating agencies and can vary among the rating agencies and are subject to change over time.

## **2. Rating Summary**

A complete listing of the ratings for the City's general obligation and Enterprise debt, CSJFA lease revenue and the Successor Agency tax allocation bonds is provided in Appendix C. This section covers rating activity during the 2021-22 fiscal year:

### **Rating Agency Credit Reviews**

The rating agencies conduct periodic and regular credit reviews as part of their required surveillance compliance of the City's and related entities outstanding bonds. Responding to the rating agencies' request for information relevant to their credit analysis involves a coordinated effort by Debt Management staff with City departments. Below are rating actions that occurred either during Fiscal Year 2021-22 (or, where indicated, after the fiscal year prior to CADR publication), by issuer credit category:

- The City's GO Bond credit ratings at the end for the FY 2021-22 were Aa1/AA+/AAA from

Moody's, S&P, and Fitch, respectively. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence, sound financial management and prudent budgetary practices and translates into significant interest cost savings in the City's borrowing costs, which in turn benefits the taxpayers and residents of the San José community.

- The Authority issued tax-exempt Lease Revenue Bonds, Series 2021A (Fire Department Training Center and Central Service Yard Projects) to refund CSJFA Series 2003A Bonds and Central Service Yard Commercial Paper Notes and finance the acquisition and construction of public improvements benefitting the City, including (i) the acquisition, construction, and equipping of a portion of the City's Fire Department Training Center and (ii) additional improvements to and equipping of the Central Service Yard. The 2021A Bonds are rated by Moody's, S&P and Fitch: Aa2, AA and AA, respectively.
- The Authority issued Taxable Lease Revenue Bonds, Series 2022A (Convention Center Refunding Project) to refund CCFD Hotel Tax Bonds Series 2011, CSJFA Lease Revenue Bonds Series 2011A and CSJFA Exhibit Hall and South Hall Commercial Paper Notes. The 2022A Bonds are rated by Moody's, S&P and Fitch: Aa3, AA and AA, respectively.

Notwithstanding the City's determination that each of these assets were important public improvements worthy of City financial support, Moody's and Fitch make a rating distinction among assets they deem to be essential (such as police and fire facilities, city halls and facilities serving core government functions), and facilities they deem to be "less essential" which may include various types of recreational facilities the rating agencies believe would be more vulnerable to non-appropriation of lease payments in the event of financial difficulty. The differences in the ratings of the various series of Lease Revenue Bonds reflect the differences in criteria among the rating agencies for evaluating the impact of asset "essentiality" on the credit rating.

As of June 30, 2022, the CSJFA Lease Revenue Bonds had the following ratings shown in the table below.

<u>Series</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
2013B, 2020A, 2021A	Aa2	AA	AA
2020B	Aa3	AA	AA-
2022A	Aa3	AA	AA
Rating Outlook	Stable	Stable	Stable

- The City's Airport bonds credit ratings are A2, A, and A from Moody's, S&P, and Fitch, respectively as of June 2022. S&P upgraded the rating from A- to A in June 2022.

### 3. Legal Debt Margins

General Obligation debt is debt secured by the City's property tax revenues. Section 1216 of the San José City Charter limits outstanding GO debt of the City to 15% of the total assessed value of all real and personal property within the City limits (debt limit). For FY2021-22 the City's gross assessed value of taxable property, provided by the County, was \$222.7 billion, which results in



a total debt limit of approximately \$33.4 billion (total assessed value x 15% = debt limit). As of June 30, 2022, the City had \$582.1 million in GO debt outstanding (principal), representing 1.7% of the debt limit.

#### **D. Legislative and Regulatory Issues**

Debt Management staff review federal and state legislative referrals for potential impact to the outstanding debt portfolio. Staff also monitor regulatory changes proposed by governmental agencies such as the Internal Revenue Service (IRS), the Securities and Exchange Commission (SEC), and the Municipal Securities Rulemaking Board (MSRB), as well as industry organizations such as the National Association of Bond Lawyers (NABL), the National Federation of Municipal Analysts (NFMA), and the Government Finance Officers Association (GFOA).

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. One of the provisions of the Act eliminated the ability to use tax exempt bond proceeds to advance refund tax exempt bonds issued after December 31, 2017; tax exempt bonds may continue to be issued for current refunding bonds (bonds closed no more than 90 days prior to the call date). There have been legislative efforts to pass a reconciliation bill that would, among other things, reinstate the federal tax exemption for interest income earned on advance refunding bonds, reintroduce direct-pay bonds and expand bank-qualified debt, but as of the time this report was published no new provision has been passed.



## **II. DEBT ISSUANCE**

### **A. Debt Issued During FY 2021-22**

FY 2021-22 debt issuance totaled \$877.3 million. The issuance included a \$285.0 million TRAN, \$200.5 million in General Obligation Bonds, \$22.8 million in Lease Revenue Bonds, \$165.8 million in Taxable Lease Revenue Bonds, \$45.0 million Lease Revenue Taxable Commercial Paper Notes, \$86.5 million in subordinate wastewater revenue notes to finance capital improvements at the San José-Santa Clara Regional Wastewater Facility, and \$71.7 million of conduit multi-family housing revenue obligations. These financings are described below and are presented in the summary table at the end of this section.

City of San José 2021 Tax and Revenue Anticipation Note - The City issued a short-term note for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. A \$285 million TRAN was purchased by BANA, on July 1, 2021. Security for the repayment of the 2021 TRAN was a pledge of the City's FY 2021-22 secured property tax and other available General Fund revenues of the City including sales tax revenues, if required. The 2021 Note was fully repaid on June 30, 2022.

City of San José General Obligation Bonds - On July 29, 2021, the City issued \$200,530,000 of General Obligation Bonds, consisting of Series 2021A (in the principal amount of \$151,210,000), Series 2021B (federally taxable, in the principal amount of \$8,450,000) and Series 2021C (federally taxable, in the principal amount of \$40,870,000) (collectively, the 2021 GO Bonds). The 2021 GO Bonds constitute the second round of general obligation bonds issued under the Measure T authorization of \$650,000,000 for Disaster Preparedness, Public Safety, and Infrastructure, approved by the voters in November 2018. The 2021 GO Bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount (except certain personal property which is taxable at limited rates). The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. The 2021 GO Bonds were rated Aa1 from Moody's, AA+ from S&P, and AAA from Fitch with stable outlook. The Fitch rating on the outstanding 2019 GO Bonds was upgraded from AA+ to AAA in connection with Fitch's rating of the 2021 GO Bonds.

City of San José Financing Authority Lease Revenue Bonds Series 2021A (Fire Department Training Center and Central Service Yard Projects) - On November 2, 2021, the Authority issued \$22,825,000 of Lease Revenue Bonds, Series 2021A (CSJFA 2021A Bonds) to (i) refinance on a current basis the outstanding Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project) of the Authority and the related lease payment obligation of the City of San José (the City), (ii) refinance on a current basis the outstanding Central Service Yard (\$2,474,000) Commercial Paper Notes of the Authority, (iii) finance the acquisition and construction of public improvements, and (iv) pay the costs of issuing the CSJFA 2021A Bonds.

City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2022A (Convention Center Refunding Project) - On April 21, 2022 the Authority issued \$165,815,000 of Taxable Lease Revenue Bonds, Series 2022A (CSJFA 2022A Bonds) 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, (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) refinance the outstanding Exhibit Hall (\$8,432,847) and South Hall

(\$42,400,000) Commercial Paper Notes of the Authority and (iv) pay the cost of issuing the CSJFA 2022A Bonds.

While the City incurred additional cost by replacing low-cost tax-exempt bonds with taxable bonds, it was done at a time when the spread between tax-exempt and taxable bonds was historically low and therefore will provide greater operating flexibility for the Convention Center and the South Hall Site. Additionally, the refunding of the CP Notes to fixed rate bonds reduced the risk of increases in the interest rates of the Exhibit Hall and the South Hall Commercial Paper Notes. Finally, by structuring the refunding transaction as a General Fund lease, the refinancing of the 2011 CCFD Bonds benefited from the City's stronger lease revenue bond ratings relative to the existing special hotel tax ratings, thereby lowering the cost of debt service and maximizing savings. Under the Pledge Agreement dated as of April 1, 2022, between the City, for and on behalf of the Convention Center Facilities District (CCFD), and the Authority, the City pledged a lien and security interest on the Special Taxes (4% hotel special tax levied by the CCFD) for the benefit of the Authority as security for the City's obligations to make Lease Payments.

City of San José Financing Authority Lease Revenue Commercial Paper Notes – The CSJFA CP program utilizes a lease revenue financing structure. Under this program, the Authority issues commercial paper notes with maturities not exceeding 270 days. The CSJFA CP Notes are secured by a pledge of lease revenues from various City assets (the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, the South San José Police Substation, and the Tech Museum) and one direct-pay LOC provided by U.S. Bank pursuant to a letter of credit and reimbursement agreement by and among the Authority, the City and U.S. Bank, as amended.

On August 31, 2021, the City adopted Resolution No. 80208 approving and authorizing the execution and delivery of amendments to certain financing documents. The amendments to the amended and restated trust agreement with WFBNA along with the sublease increased the maximum principal amount outstanding of Series 2 Notes and Series 2-T Notes to \$175 million, supported solely by the U.S. Bank LOC, and reduced the maximum principal amount outstanding of Series 1 Notes and Series 1-T Notes to \$0 dollars. The State Street LOC was terminated at the election of the City on September 23, 2021. The U.S. Bank's current commitment fee is 0.38%, paid quarterly in arrears. The dealer fee remains at 0.045% and is Barclays Bank PLC (Barclays).

During FY 2021-22, the Authority issued \$45 million of new money commercial paper notes to finance SJCE energy costs and operations. As of June 30, 2022, \$66.95 million of CSJFA Taxable CP Notes were outstanding at an average interest rate of 1.35%. The CSJFA CP program was initially established in January 2004 and has been amended and expanded through various City Council and Authority Board actions over time. A summary of these program amendments is provided in Appendix C.

City of San José Financing Authority Subordinate Wastewater Revenue Notes – On October 3, 2017 the City Council/Authority Board approved the Authority entering into an agreement with WFBNA with a three-year term (Wastewater Credit Agreement) under which the Authority issues subordinate wastewater revenue notes (the Subordinate Notes) from time to time in an aggregate principal amount not to exceed \$300 million outstanding at any time, and request

advances of funds under the Subordinate Notes for the purpose of financing Wastewater System and Treatment Plant Projects. The Subordinate Notes are supported by wastewater net system revenues and have no claim against the City's General Fund. This facility closed on October 19, 2017.

This interim financing facility is part of a long-term plan to provide funding for the RWF Capital Improvement Program at the lowest possible cost and with the least risk. The initial Wastewater Credit Agreement was amended and extended prior to its scheduled expiration on October 18, 2020. The City and Authority approved the First Amendment to the Wastewater Credit Agreement and an Amended and Restated Fee Letter Agreement, both with WFBNA on June 26, 2018 to adjust the calculation of interest and fees for tax-exempt Subordinate Notes to address increased borrowing cost under the terms of the agreement resulting from tax changes in the Tax Cuts and Jobs Act of December 2017. The City and Authority approved the second amendment to the Wastewater Credit Agreement and a second amended and restated fee letter agreement with WFBNA on September 29, 2020, with a new expiration date of October 18, 2023. During FY 2021-22, \$86.5 million was drawn on the facility. The outstanding balance of Subordinate Notes drawn, as of June 30, 2022 was \$236.87 million, leaving an undrawn amount of approximately \$63.13 million for use on capital improvements at the Wastewater System Treatment Plant facility. The Authority will refinance the Subordinate Notes (which bears interest at a variable interest rate) with long-term, fixed rate financing amortized over 30 years in winter 2022.

City of San José, California, San José International Airport Subordinated Commercial Paper Notes – The Airport CP program was established in November 1999, pursuant to Council Resolution 69200, to provide interim financing for Airport capital needs in anticipation of issuance of long-term fixed-rate airport revenue bonds. Airport CP Notes are debt obligations backed by Net General Airport Revenues (Airport's gross revenues less maintenance and operation expenses) and are subordinate to Airport senior lien debt, also backed by these revenues and one direct-pay LOC currently issued by BANA.

On September 12, 2018, BANA issued an Airport LOC replacing the Airport LOC issued by Barclays. Pursuant to a letter of credit and reimbursement agreement between the City and BANA, BANA issued its irrevocable transferrable Airport LOC in the initial stated amount of approximately \$81.7 million (to cover principal of \$75.0 million and interest on the subordinated Airport CP Notes accruing calculated at a rate of 12% for 270 days based on a 365-day year), scheduled to expire on September 10, 2021.

In connection with BANA's issuance of its Airport LOC, the following documents were executed:

- First amendment to the third amended and restated issuing and paying agent agreement between the City and U.S. Bank
- Fourth amended and restated dealer agreement between the City and each of the dealers of the Airport CP Notes
- Fee letter between the City and BANA
- Bank note payable to BANA in the amount of approximately \$81.7 million under which the City promises to pay principal and interest on the unpaid principal amount of all unreimbursed drawings and term loans evidenced by the bank note on the dates and at the rates provided for in a reimbursement agreement

On August 19, 2021, BANA extended the expiration date of the Airport LOC from September 10, 2021, to September 10, 2024.

As of June 30, 2022, the only Airport CP series outstanding under the program was Series B with \$34.1 million notes outstanding at an interest rate of 1.60%, Series A2 and Series C notes were both fully redeemed in November 2018 and July 2017, respectively.

As noted above, the Airport CP program was initially established in 1999, and it has been expanded and amended by various City Council actions. A summary of these Airport CP program amendments is provided in Appendix D.

#### Multifamily Housing Revenue Bonds/Notes

- Vitalia (formerly Bascom Apartments) – CDLAC approved up to \$35.7 million for the issuance of tax-exempt debt at the August 11, 2021 meeting. City Council approved the issuance of multifamily housing notes on December 7, 2021. The notes were issued on January 28, 2022 for \$35.7 million to provide financing for the acquisition and construction and development of the 79-unit multifamily rental housing project to low-income and very low-income residents.
- Mariposa Place – CDLAC approved up to \$31.3 million for the issuance of tax-exempt debt at the August 11, 2021 meeting. City Council approved the issuance of multifamily housing notes on December 14, 2021. The notes were issued on January 28, 2022 for \$31.3 million to provide financing for the acquisition and construction and development of the 80-unit multifamily rental housing project to low-income and very low-income residents.

SUMMARY OF COMPLETED DEBT ISSUANCE FY 2021-22								
Issue Date	Issue Name	Size (millions)	Type of Debt Vehicle	Sale Type	Municipal Advisor	Bond Counsel	Underwriter / Bank	Credit Enhancement
7/1/2021	CSJ 2021 Tax and Revenue Anticipation Note	\$ 285.0	Tax and Revenue Anticipation Notes	Private Placement	PFM Financial Advisors, LLC	Hawkins Delafield & Wood LLP	Bank of America, N.A.	N/A
7/27/2021	CSJFA Lease Revenue Commercial Paper - (SJCE) (1)	15.0	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
7/29/2021	CSJ General Obligation Bonds (GO) Series 2021A (\$151,210,000) Series 2021B (\$8,450,000) Series 2021C (\$40,870,000)	200.5	New Issuance Fixed Rate GO Bonds	Competitive	Public Resources Advisory Group (PRAG)	Jones Hall	BofA Securities, Inc.	N/A
9/15/2021	CSJFA Lease Revenue Commercial Paper - (SJCE) (1)	0.2	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
9/28/2021	CSJFA Lease Revenue Commercial Paper - (SJCE) (1)	6.0	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
10/28/2021	CSJFA Lease Revenue Commercial Paper - (SJCE) (1)	5.0	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
11/2/2021	CSJFA Lease Revenue Bonds, Series 2021A	22.8	Lease Revenue Bonds	Negotiated	Public Resources Advisory Group (PRAG)	Jones Hall	RBC Capital Markets	N/A
11/23/2021	CSJFA Lease Revenue Commercial Paper - (SJCE) (1)	9.8	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
12/17/2021	CSJFA Lease Revenue Commercial Paper - (SJCE) (1)	9.1	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
1/28/2022	Vitalia (Bascom Apartments), Series 2021F-1, 2021F-2	35.7	Multifamily Housing Revenue Notes	Multifamily Housing Revenue Notes	PFM Financial Advisors, LLC	Quint & Thimmig LLP	MUFG Union Bank, N.A.	N/A
1/28/2022	Mariposa Place, Series 2021E-1, 2021E-2	36.0	Multifamily Housing Revenue Notes	Multifamily Housing Revenue Notes	PFM Financial Advisors, LLC	Quint & Thimmig LLP	Pacific Western Bank	N/A
3/11/2022	CSJFA Subordinate Wastewater Revenue Notes	36.5	SJ-SC Regional Wastewater Facility	Private Placement	Public Resources Advisory Group (PRAG)	Orick Herrington & Sutcliffe LLP	Wells Fargo, N.A.	N/A
4/21/2022	CSJFA Lease Revenue Bonds, Series 2022A	165.8	Lease Revenue Bonds	Negotiated	PFM Financial Advisors, LLC	Jones Hall	Morgan Stanley, Stifel, Jefferies (2)	N/A
5/3/2022	CSJFA Subordinate Wastewater Revenue Notes	40.0	SJ-SC Regional Wastewater Facility	Private Placement	Public Resources Advisory Group (PRAG)	Orick Herrington & Sutcliffe LLP	Wells Fargo, N.A.	N/A
6/27/2022	CSJFA Subordinate Wastewater Revenue Notes	10.0	SJ-SC Regional Wastewater Facility	Private Placement	Public Resources Advisory Group (PRAG)	Orick Herrington & Sutcliffe LLP	Wells Fargo, N.A.	N/A
<b>Total</b>		<b>\$ 877.3</b>						

Issuer Key: CSJ - City of San José, CSJFA - City of San José Financing Authority

(1) The reported size of commercial paper debt issuance includes only new money, not the reissuance of outstanding notes or redemptions.

(2) Morgan Stanley was the Book-Running Senior Manager, Stifel was the Co-Senior Manager, and Jefferies was the Co-Manager.



## **B. Debt Activity for FY 2022-23**

Staff anticipate debt issuance in FY 2022-23 totaling approximately \$621.4 million in both new money and refunding issuance. A \$275.0 million 2022 TRAN has already been issued. Of the remaining planned issuance, the City expects the issuance of \$300 million in Wastewater Revenue Bonds, \$6.4 million in CSJFA Taxable CP Notes for the Flood Recovery Improvements project, and \$40.0 million in authorization for issuing CSJFA Tax-Exempt CP Notes for the interim construction financing of a Water Resources Administration and Operations Facility. These financings are described below and are presented in the summary table at the end of this section.

### **Debt Issuance and Redemptions Completed**

City of San José 2022 Tax and Revenue Anticipation Note – On July 1, 2022, the City issued a \$275,000,000 TRAN to facilitate the prefunding of employer retirement contributions for FY 2023. The 2022 TRAN was sold in a direct placement to BANA. For repayment of the 2022 TRAN is a pledge of the City's FY 2022-2023 secured property tax and other legally available General Fund revenues of the City including sales tax revenues, if required. The 2022 TRAN maturity dates are February 28, 2023 (\$137.5 million) and June 30, 2023 (\$137.5 million).

Redemption of Special Tax Bonds CFD #6 and #10 – On September 1, 2022, the Special Tax Bonds, Community Facility District 6 (Great Oaks-Route 85), with an outstanding principal balance of \$1.7 million, and Community Facility District 10 (Hassler-Silver Creek), with an outstanding principal balance of \$1.8 million, were redeemed in full and are no longer outstanding.

### **Debt Planned for FY 2022-23**

City of San José Financing Authority Wastewater Revenue Bonds – This transaction will refinance the Authority's outstanding Subordinate Wastewater Revenue Notes, Series A in the amount of \$300,000,000. The City, with the assistance of its municipal advisor, Public Resources Advisory Group, solicited proposals from experienced investment banking firms and selected Wells Fargo Bank, N.A., to serve as the Senior Manager and Morgan Stanley as the Co-Senior Manager. The City also solicited firms to provide Second Party Opinion (SPO) for Green Bonds – Climate Bond Certification and selected Kestrel Verifiers with the assistance of the Co-Senior Manager through an RFQ process. City Council and the Authority Board approved the issuance of the bonds on November 15; staff anticipates bond sale on December 1 and bond closing on December 15. The Subordinate Notes will be refunded within 90 days of the bond closing date.

SJCE Credit Facility Solicitation - The City issued an RFP for San José Clean Energy Revolving Credit Facilities in the amount up to \$250 million on October 7, 2022. The City requested qualified lenders and/or financial institutions to submit proposals for credit facilities consisting of a revolving line of credit and a standby letter of credit facility in an aggregate amount up to \$250 million to support operations related to San José Clean Energy, the community choice aggregation program of the City. On November 17, 2022, the City issued a recommendation to award to JPMorgan Chase Bank for the full amount of the facility. Contract negotiations are pending.

CSJFA CP Notes – The Debt Management staff currently anticipates seeking City Council and Authority Board approval for the issuance of up to \$40 million for interim financing and issuing \$6.4 million as described below:

- \$40 million authorization for the interim financing for the construction of a new Water Resources Administration & Operations Facility, consisting of one large building that will house all staff and infrastructure necessary to ensure continuous operations. The new facility is expected to include conference and training rooms; a customer service and payment area; a water quality laboratory; a map room for utility plans and documents; a warehouse for equipment, materials, and parts; a welding shop for metalwork and fabrication needs; adequate parking for staff, City vehicles, and visitors; and site security systems and fencing.
- \$6.4 million is anticipated to be issued for the Flood Recovery Improvements project.

#### Multifamily Housing Revenue Bonds/Notes

The City anticipates serving as conduit issuer for the following multi-family housing revenue bonds on the basis of the CDLAC applications filed on August 9, 2022. The four projects that submitted applications were Tamien, The Charles, 1860 Alum Rock and 777 W. San Carlos. CDLAC will award the bond allocations on November 30, 2022. The issuance will occur if a project is awarded a CDLAC allocation and there are no obstacles with the issuance.

Below is a table that shows the planned issuance for FY 2022-23.

SUMMARY OF COMPLETED AND PLANNED DEBT ISSUANCE FY 2022-23								
Issue Date	Issue Name	Size (millions)	Type of Debt Vehicle	Sale Type	Municipal Advisor	Bond Counsel	Underwriter / Bank	Credit Enhancement
7/1/2022	CSJ 2021 Tax and Revenue Anticipation Note	\$ 275.0	Tax and Revenue Anticipation Note	Private Placement	PFM Financial Advisors, LLC	Hawkins Delafield & Wood LLP	Bank of America, N.A.	N/A
12/15/2022	CSJFA Regional Wastewater Facility Revenue Bonds	300.0	Lease Revenue Commercial Paper	Negotiated	Public Resources Advisory Group (PRAG)	Orick Herrington & Sutcliffe LLP  Disclosure Counsel: Jones Hall	Senior Book Runner: Wells Fargo, N.A. Co-Senior: Morgan Stanley Co-Mgrs: Academy Securities, Ramirez and Stifel	N/A
Spring 2023	CSJFA Lease Revenue Commercial Paper - (Muni Water) <sup>(1)</sup>	40.0	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
6/30/2023	CSJFA Lease Revenue Commercial Paper - (Flood Recovery) <sup>(1)</sup>	6.4	Lease Revenue Commercial Paper	Market Offering	PFM Financial Advisors, LLC	Jones Hall	Barclays Capital Inc.	U.S. Bank (LOC)
<b>Total</b>		<b>\$ 621.4</b>						

Issuer Key: CSJ - City of San José, CSJFA - City of San José Financing Authority

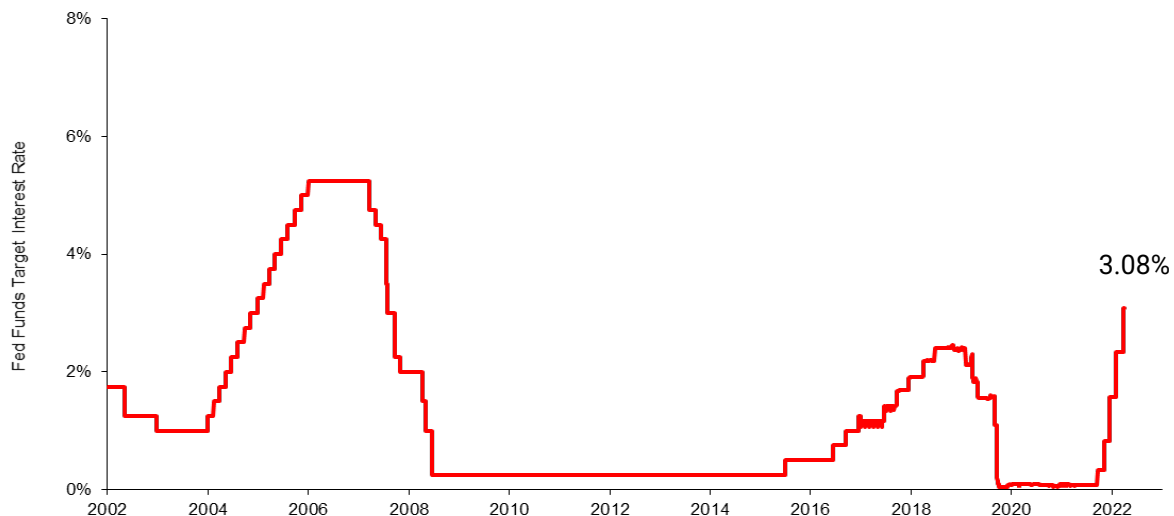
<sup>(1)</sup> The reported size of commercial paper debt issuance includes only new money.

### C. Historical Market Conditions

After the dot-com bubble, the Federal Open Market Committee (the FOMC) tightened the interest rates. The housing crisis in 2008 followed by the Great Recession forced the FOMC to reverse its course, reducing interest rates to a historical low level in a short period of time. Rates stayed relatively unchanged until the end of 2015, as the Federal Reserve and central banks of many other countries dedicated monetary policies to extensive quantitative easing. Economic recovery gradually took hold, albeit uneven, from 2016 to 2019. The spread of the coronavirus in early 2020 halted economic activities abruptly and triggered decline in interest rates. During COVID-19, supply chain disruptions and resignation of labor force contributed to price increases and labor shortages. The war on Ukraine adds more inflationary pressures and the Federal Reserve has taken action by increasing interest rates in an effort to curb rising inflation. From January to October 2022, the Federal Reserve increased the Fed Funds Target Rate from 0.25% to 3.25%. More increases are anticipated at the November and December 2022 Fed meetings.

The Fed Funds Target Rate experienced significant ups and downs during the last twenty years. The following graph demonstrates the changes and trend of the Fed Fund Target Rate throughout the period.

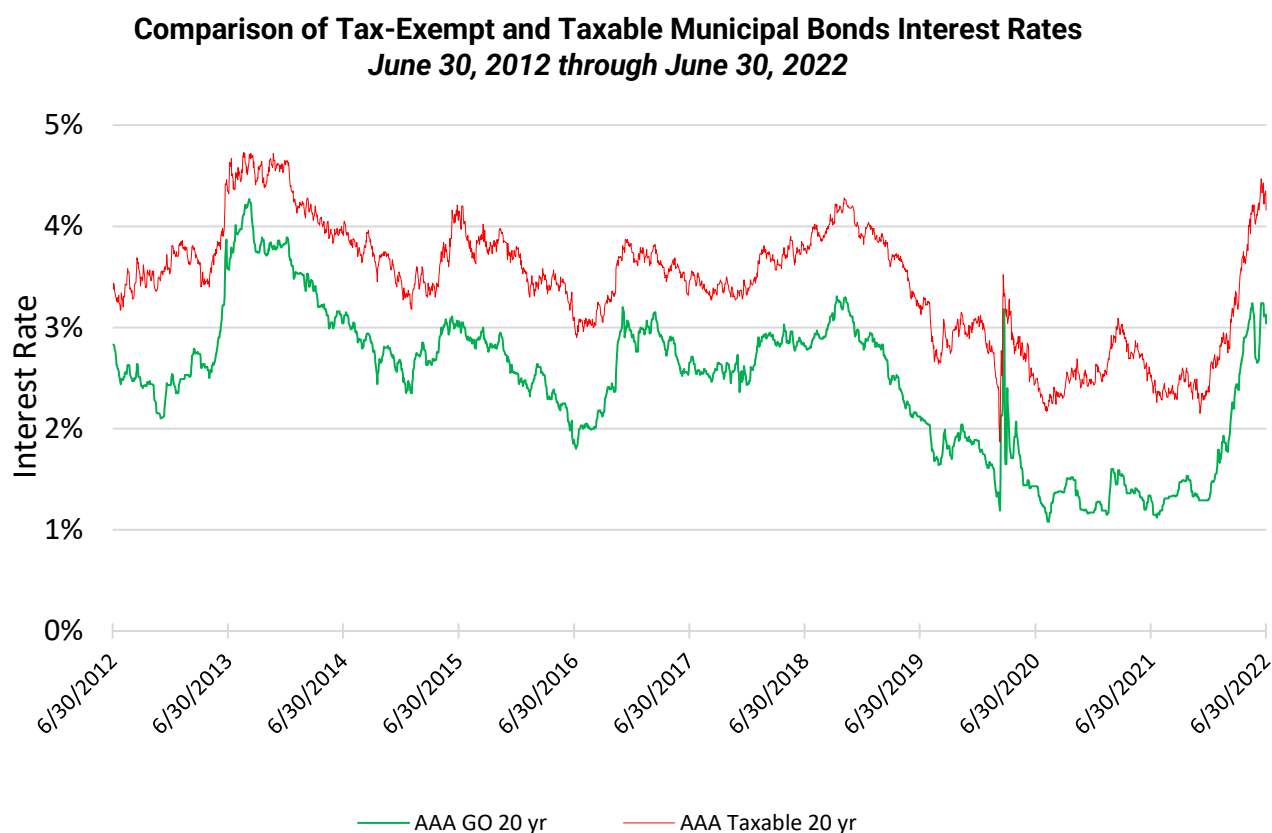
**Federal Funds Target Interest Rates**  
*January 2002 through September 2022*



Data Source: <https://fred.stlouisfed.org/series/DFF>

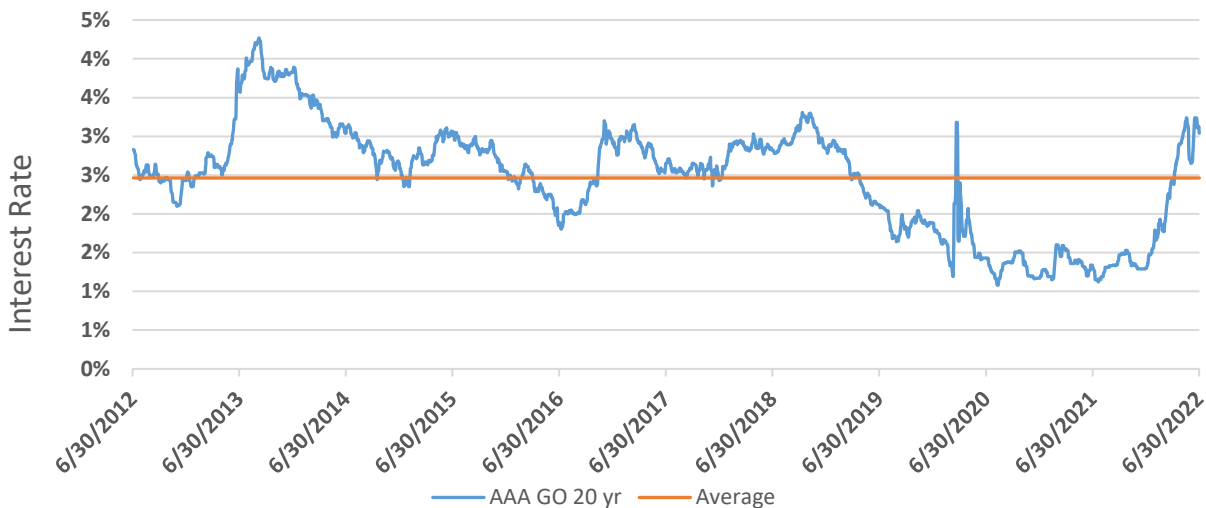
In the aftermath of the Great Recession, the financial industry has transformed significantly, which has contributed in part to tightening of credit standards, and produced more stringent capital adequacy requirements for banks. Although the historical trend for variable rate bonds has been consistently lower than fixed rate bonds, this may not hold true in the future. Staff continues to monitor how future regulatory proposals to regulate the banking industry, such as the Basel III Finalization, and financial market changes may affect the City's variable rate program and will recommend adjustments to the program as appropriate. As of June 30, 2022, the City's variable rate exposure is limited to the Airport CP program, CSJFA Lease Revenue CP program, and the RWF Revolver Note.

The chart below compares the changes in interest rates between tax-exempt and taxable interest rates beginning in July 2012 through June 2022. Normally, taxable bonds have higher interest rates than tax-exempt bonds, although the spread is not consistent throughout the historical period. Spreads between the taxable and tax-exempt municipal bonds are dependent upon market factors, including supply, demand, liquidity, etc. Due to inflation and interest rate increases, tax-exempted municipal bond rates are now above the 10-year average.



Data Source: Refinitiv TM3

### Ten-Year History of Tax-Exempt Interest Rates June 30, 2012 through June 30, 2022



Data Source: Refinitiv TM3

#### **D. Selection of Debt Financing Teams**

The selection of the municipal advisor and underwriter for a financing engagement is generally done in the form of a competitive request for proposals (RFP) or request for qualifications (RFQ) process. Written proposals are reviewed by representatives from the Finance Department and other City departments involved with the financing. The selection process may, at the City's discretion, proceed to oral presentations from among the highest ranked proposers.

**Municipal Advisory Pool** – Debt Management staff is planning to conduct an RFP process for municipal advisory services in FY 2022-23. The municipal advisors selected will be eligible for project assignments through June 30, 2028. A six-month extension was executed in June 2022 and expires in December 2022 for the current municipal advisors under contract. Staff is working on extending these agreements to June 2023. The municipal advisors are listed by subject area in the table below:

<b>General Municipal Advisors and Municipal Advisory Pool Eligible List</b> <i>July 2017 to June 2023<sup>(1)</sup></i>	
City General Municipal Advisor:	Public Resources Advisory Group
Airport General Co-Municipal Advisors:	PFM Financial Advisors LLC Public Resources Advisory Group
Clean Energy Municipal Advisor:	PFM Financial Advisors LLC
Wastewater Facilities Municipal Advisor:	Public Resources Advisory Group
Multifamily Housing Program Municipal Advisor (General)	Ross Financial
Successor Agency Municipal Advisors (Refunding)	PFM Financial Advisors LLC Ross Financial
Multifamily Housing Program Municipal Advisors (Pool):	CSG Advisors PFM Financial Advisors LLC Ross Financial
General City Municipal Advisor (Pool):	Fieldman, Rolapp & Associates Montague DeRose & Associates PFM Financial Advisors LLC Public Resources Advisory Group
Land-Secured Financings (Pool):	Fieldman, Rolapp & Associates PFM Financial Advisors LLC

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1. City anticipates that the municipal advisory services agreements be a three-year agreement (July 2023-June 2026) with two one-year options for renewal (July 2026-June 2028) subject to annual appropriation of funds.

**Pension Obligation Bonds** – In December 2020, the City released an RFP via the City’s procurement site on [www.biddingo.com](http://www.biddingo.com), inviting experienced and registered municipal advisor firms to respond for the purpose of providing advice on options for funding its annual obligations to fund retirement system payments including the unfunded actuarial liabilities of the two retirement systems.

The engagement was split into two separate service agreements: Phase 1 – assist the City in evaluating options and development of a pension funding plan; Phase 2 – provide municipal advisory services if the City elects to issue Pension Obligation Bonds (or other long-term obligations) to fund the unfunded liabilities of its retirement systems. If the City chooses to finance the unfunded actuarial liability with bonds or other financing vehicles, a separate engagement was to be entered into with a municipal advisor (Phase 2 engagement). In January 2021, the City received proposals from six municipal advisory firms. The City selected Urban Futures, Inc. (UFI) as the municipal advisor for Phase 1 of the engagement. Phase 2 of the engagement was further split into Phase 2A (validation process) and Phase 2B (bond issuance). UFI was selected to continue to serve for Phase 2A and provide additional services, as needed.

The City has not selected the municipal advisor(s) for the bond issuance phase (Phase 2B) of the engagement and expects to select such a firm or firms only if the judicial validation of POBs is successful and the market conditions are appropriate for bond issuance.

### **III. DEBT ADMINISTRATION**

#### **A. Debt Administration System**

The Debt Management staff continually work to improve the comprehensive debt administration system, MunEase. Inputs to the system come from financing documents, trustee reports, reports from the City's remarketing agents and collateral agents, contracts with financial services providers, and reports and requests from City staff. These inputs provide the data needed to ensure that the City meets its debt administration obligations to:

- Pay debt service
- Issue, invest, and disburse bond funds
- Monitor trustee-held accounts and investment agreements
- Comply with bond covenants and IRS requirements
- Provide continuing disclosure and other reports to the municipal bond market
- Ensure market pricing of variable rate debt
- Manage liquidity and credit enhancement contracts
- Evaluate potential refunding opportunities

MunEase is a legacy debt administrative system and no longer actively supported by its owner. The City appropriated \$250,000 in FY 2022-23 for the replacement of MunEase. Due to critical staff vacancies in the Debt Management program, the City has not been able to start the market research and solicitation process. Work will commence after vacancies in the Debt Management Team are filled.

#### **B. Compliance and Monitoring**

Compliance and monitoring activities constitute a large and growing portion of the Debt Management staff's daily tasks. While the process of assembling a specific bond financing project may take several months, compliance with the provisions of bond covenants last the entire life the bonds are outstanding, up to 30 years or more. Debt Management staff also monitors compliance with IRS regulations governing tax-exempt debt. Debt Management staff work very closely with other City departments as well as with the City Attorney's Office and the Budget Office to manage the investment, disbursement, and compliance/continuing disclosure requirements of the debt portfolio.



The table presents a summary of compliance items currently monitored and provided by Debt Management staff.

SUMMARY OF COMPLIANCE REQUIREMENTS										
Item Descriptions	Airport	Airport CP	RWF Credit Facility	GO	Successor Agency <sup>(4)</sup>	Lease-Backed	Lease-Backed CP	Land-Backed <sup>(6)</sup>	TRAN	Clean Energy LOC
1. Annual Compliance Report/Certificate	✓	✓			✓					✓
2. Budget Distribution		✓				✓				
3. ACFR Distribution	✓	✓		✓	✓	✓	✓		✓	
4. CDIAC Annual Debt Transparency Reports <sup>(5)</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	
5. Certificate of adequate Budgeted Debt Service			✓			✓	✓			
6. Certificate of Property Insurance	✓	✓				✓	✓			
7. Certificate of the City/No Event of Default Certificate						✓	✓		✓	
8. Continuing Disclosure (SEC Rule 15c2-12) <sup>(1)</sup>										
i) Annual Report <sup>(2)</sup>	✓	✓		✓	✓	✓	✓	✓		
ii) Material Events Notice <sup>(3)</sup>	✓	✓		✓	✓	✓	✓	✓		
9. Investment Policy	✓					✓				
10. Special Reporting										
i) Tax Roll				✓				✓		
ii) Quarterly Billing						✓				
iii) Other Available Funds Report	✓									
iv) Monthly Cash Reports										✓
v) Quarterly Financials & Compliance Certificate/Quarterly Report		✓								✓
vi) Special Tax Annual Report								✓		
vii) Airport Commercial Paper Debt Service Certification		✓								
viii) Tax-Exempt Compliance/Private Activity	✓	✓		✓	✓	✓	✓			

(1) The CP programs are not subject to Continuing Disclosure obligations. However, the banks providing letters of credit support or the banks that have directly purchased the lease revenue bonds require copies of applicable reports and material events notices posted to EMMA pursuant to the City's continuing disclosure agreements.

(2) Annual Report includes Annual Financial Information and Operating Data, and Audited Financial Statements or ACFR.

(3) Material Events include: (1) Principal/Interest payment delinquency, (2) Non-payment related default, (3) Unscheduled draw on debt service reserve reflecting financial difficulties, (4) Unscheduled draw on credit enhancement reflecting financial difficulties, (5) Substitution of credit or liquidity provider, or its failure to perform, (6) Adverse tax opinion or event affecting the tax-exempt status of the security, (7) Material modification to the rights of security holders, (8) Material bond call, (9) Defeasances (10) Release, substitution or sale of property securing repayment of the security, (11) Rating change, and (12) Bankruptcy or insolvency of the obligated person (13) Consummation of a merger, consolidation or acquisition or termination of a definitive agreement (14) Appointment of a successor or additional trustee or change of name of trustee (15) Incurrence of a financial obligation of the issuer or obligated person [1], if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or 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 issuer or obligated person, any of which reflect financial difficulties It is a requirement to post a notice to EMMA within 10 business days when (1) it incurs financial obligation if material; (2) there is a default, modifications of terms, acceleration or other similar terms of a financial obligation that reflect financial difficulties.

(4) Successor Agency to the Redevelopment Agency of the City of San José Refunding Bonds.

(5) CDIAC Annual Debt Transparency Reports include (SB 1029, Mello-Roos and Marks-Roos reports). Multi-Family Housing Revenue bonds/notes are excluded from compliance requirements because they are conduit obligations. The Borrower takes full responsibility for compliance and continuing disclosure on these obligations.

(6) As of September 1, 2022, the City no longer has any land-backed (community facilities district or improvement district bonds outstanding)

## 1. Trustee Activities

As of June 30, 2022, the City had approximately \$561.1 million in bond and commercial paper note funds, including reserve funds, held by four banking institutions serving as trustee, fiscal agent or issuing and paying agent (collectively, Trustees). The Successor Agency had approximately \$121.8 million in funds to pay for debt service. The table below summarizes the City's and Successor Agency's trustee fund balances and activity.

Trustee Summary <sup>1</sup> As of June 30, 2022			
Trustee	Number of Bond/CP Loan/Revolver Issues	Original Par Amount of Bonds/CP Loan/Revolver	Trustee Fund Balance
<b>City Related</b>			
Bank of New York	8	\$ 1,177,995,000	\$ 98,675,676
US Bank	2	24,700,000	1,962,337
Wells Fargo Bank	1	30,445,000	2,004,663
Wilmington Trust	11	1,360,305,000	336,330,404
U.S. Bank (Airport CP)	1	600,000,000	316,772
Wells Fargo Bank, N.A. (RWF Note and CSJFA CP)	2	475,000,000	9,153
Barclays Bank, PLC.	1	65,000,000	0
Sub-Total	26	\$ 3,733,445,000	\$ 439,299,005
<b>Successor Agency</b>			
Wilmington Trust	3	\$1,677,540,000	\$ 121,843,000
Sub-Total	3	\$1,677,540,000	\$ 121,843,329
<b>Grand Total</b>	<b>29</b>	<b>\$5,410,985,000</b>	<b>\$ 561,142,334</b>

<sup>1</sup> Does not include multifamily housing revenue bonds funds held.

## 2. Bond Proceeds Expenditures and Reimbursement Procedures

The City's use of tax-exempt bond proceeds is limited by Federal and State law, and in some cases, by the ballot language authorizing the debt. Generally, tax-exempt bond proceeds, including interest earnings on bond funds, may only be spent for governmental purposes and only on capital projects. In the case of voter-approved debt, the bond proceeds may only be used for the purposes described in the ballot language authorizing the debt. To provide accountability in managing bond funds, most of the City's bond-financed project funds are held by trustees, who disburse the construction or improvement funds after Debt Management staff has reviewed a disbursement request from the City department managing the project.

Disbursement requests are reviewed and approved by department heads or their deputies before they are submitted to Debt Management. Debt Management staff then reviews, reconciles, and qualifies the bond-financed project expenditures before submitting disbursement requests to the Trustees. When there is an ambiguity, the City Attorney's Office assists in determining the eligibility of expenditure items.

### **3. Arbitrage Rebate**

Debt Management staff actively monitor proceeds of tax-exempt bonds for arbitrage compliance purposes. Arbitrage is the profit that results from investing low-yield tax-exempt bond proceeds in higher-yield securities (also referred to as positive arbitrage). Federal law stipulates that investment earnings in excess of the bond yield are arbitrage earnings and must be rebated and paid to the U.S. Treasury. However, if a jurisdiction meets certain IRS expenditure exceptions for bond proceeds, the arbitrage earnings do not have to be rebated to the U.S. Treasury.

The investment of bond proceeds is managed in accordance with the City Investment Policy and the Permitted Investment provisions of the governing documents of each series of bonds. For some types of bond funds, particularly a construction fund that must be held in short-term securities, a fund may earn at a rate less than the bond yield. The fund is said to be earning negative arbitrage. Through careful management of its investments, the City can use positive arbitrage earnings in one account of a bond series to offset negative arbitrage in another account of the same bond series.

Although arbitrage earnings are rebated to the U.S. Treasury on a five-year installment basis, Debt Management staff conduct annual rebate calculations to ensure the City remains current on compliance issues and to facilitate appropriate budgeting and accounting for any potential rebate liability. Since FY 2018, the Debt Management staff has conducted and managed rebate calculations for the Successor Agency to ensure and maintain compliance with the IRS.

In addition to performing its own annual calculations, the City uses an outside consultant, BLX, to (1) review the City's arbitrage compliance at five-year anniversary dates when rebate is due to the U.S. Treasury; (2) compute annual and five-year installment arbitrage rebate liability on the more complex financings; and (3) provide technical assistance to the City in the area of arbitrage rebate compliance. This third-party review provides an added level of confidence that the City is in compliance with the arbitrage regulations. Such review is particularly important given the IRS has a random audit and target audit programs for tax-exempt bond issues. The City plans to issue a RFP in FY22-23 for arbitrage services.

None of the City's tax-exempt bond issues currently have a positive arbitrage rebate liability.

### **4. Continuing Disclosure**

On November 10, 1994, the Securities and Exchange Commission (SEC) adopted amendments to existing federal regulations (Rule 15c2-12 or the Rule) under which municipalities issuing securities on or after July 3, 1995 are required to:

1. Prepare official statements meeting current requirements of the Rule;
2. Annually file certain financial information and operating data with national and state repositories; and
3. Prepare announcements of the significant events enumerated in the Rule.

Effective July 1, 2009, the SEC requires all municipal issuers and other obligated persons to make all continuing disclosure filings electronically to an on-line, electronic filing system, known as the Electronic Municipal Market Access system (EMMA) maintained by the Municipal Securities Rulemaking Board (MSRB) instead of making these continuing disclosure filings with national and state repositories as originally required by Rule 15c2-12. Subsequently, the SEC amended Rule 15c2-12, for municipal bonds issued on or after December 1, 2010, to (1)

increase the number of events required to be reported as significant events from 11 to 14; (2) require that certain events previously required to be reported only if material to be reported regardless of materiality; (3) impose the requirement to report significant events within 10 business days from the occurrence of the event; (4) remove the exemption from the continuing disclosure for variable rate demand and other demand securities; and (5) amend the provisions regarding reporting of certain adverse tax events.

Additional amendments to SEC Rule 15c2-12 regarding continuing disclosure obligations became effective on February 27, 2019 for bonds issued after this date. The amendments generally require a municipal issuer or obligated person to post a notice to EMMA within 10 business days when (1) it incurs a financial obligation (e.g. a debt obligation such as a loan), if material, or enters into an agreement related to a financial obligation that includes default, remedies, priority of rights or similar terms that will affect other bond holders, if material; or (2) there is a default, modifications of terms, acceleration or other similar terms of a financial obligation that reflect financial difficulties.

As noted above, the City has an Administrative Disclosure Policy and Procedures, approved by the City Manager and Director of Finance in June 2020, that includes procedures related to continuing disclosure to guide staff in meeting the City's and the Successor Agency's continuing disclosure obligations. Continuing disclosure, as well as compliance reporting, will continue to be a significant and important part of Debt Management's administration of outstanding debt. The City is in the process of creating an RFP for post-issuance compliance for disclosure and arbitrage compliance monitoring.

### **C. Investment of Bond Proceeds**

Debt Management staff work closely with bond trustees and Investment staff to manage the investment and disbursement of bond proceeds. Bond proceeds are invested in accordance with bond covenants and guided by the provisions of the City's Investment Policy, which was most recently amended on March 15, 2022.

### **D. Outstanding Variable-Rate Debt**

The City's and Authority's outstanding debt portfolios, as described in Section IV, include variable rate bonds and commercial paper notes secured by letters of credit or purchased directly by a bank (direct placements). Administration of LOC facilities and direct placements presents an ongoing and significant work effort for Debt Management staff and the City Attorney's Office, especially as it relates to the work involved in bank facility renewal efforts. The agreements with the banks typically require renewal every three years, and market activity requires ongoing review and monitoring given the variable rate nature of the obligations.

The interest on variable rate demand bonds is determined through a remarketing function, with rates set by the market, based on liquidity in the form of an LOC or standby purchase agreement for a limited period such as three years when the facility needs to be renewed, replaced or the bonds redeemed. Issuing and paying agents draw against facilities when necessary for liquidity. Bank direct placements provide a similar form of borrowing liquidity as well. The interest rate on a bank direct placement is generally set based on an indexed interest rate, plus a spread and have a mandatory tender at the expiration date. The total cost of funds under either type of facility is comparable, but different market conditions have provided an advantage to one or the other, especially based on internal factors affecting banks. In particular, bank facilities may be advantageous as they may charge a lower bank facility rate for undrawn balances; letters of

credit and standby purchase agreements typically charge a single fee for all balances, whether drawn or not.

As outlined in the table below, the City currently has approximately \$615 million in letters of credit, securing two commercial paper programs (CSJFA CP program and Airport CP program), a revolving credit facility (for SJCE) and a revolving line of credit facility (for the RWF) as of June 30, 2022. In September 23, 2021 the CSJFA CP Notes capacity increased from \$125 million to \$175 million.

As of June 30, 2022, the City has no outstanding variable rate bonds.

<b>Summary of Letters of Credit and Direct Placement Banks</b> <i>As of June 30, 2022</i>				
<b>Bond Series</b>	<b>Project Description</b>	<b>Bank</b>	<b>Authorized Amount <sup>(1)</sup></b>	<b>Expiration Date</b>
<b><u>Letters of Credit</u></b>				
Airport Commercial Paper Series ABC	Airport Terminal Area Improvement Program	Bank of America	\$75,000,000 <sup>(2)</sup>	9/10/2024
City of San José Financing Authority Commercial Paper	Various City projects	U.S. Bank	175,000,000 <sup>(3)</sup>	3/24/2025
<b><u>Revolving Line of Credit</u></b>				
San José-Santa Clara Regional Wastewater Facility	Wastewater System and Treatment Plant Projects	Wells Fargo Bank, N.A.	300,000,000 <sup>(4)</sup>	10/18/2023
<b><u>Revolving Credit Facility</u></b>				
San José Clean Energy Letter of Credit	Energy Power Provider Contracts	Barclays Bank PLC	65,000,000 <sup>(5)</sup>	11/27/2023
<b>Total</b>			<b>\$615,000,000</b>	
<sup>(1)</sup> Commercial Paper principal or Credit Facility capacity. <sup>(2)</sup> Airport CP Notes outstanding as of June 30, 2022 was \$34.1 million. The City Council has authorized the Airport CP Notes to be issued in an aggregate principal amount of up to \$600 million outstanding at any one time. <sup>(3)</sup> CSJFA CP Notes outstanding as of June 30, 2022 was \$66.95 million. <sup>(4)</sup> The amount drawn on the Revolving Line of Credit during FY 2021-22 was \$43.4 million; total amount drawn as of June 30, 2022 was \$236.9 million with debt service calculated using SOFR based formula. <sup>(5)</sup> Debt Service calculated using a LIBOR based formula and total amount outstanding cannot exceed \$65 million.				

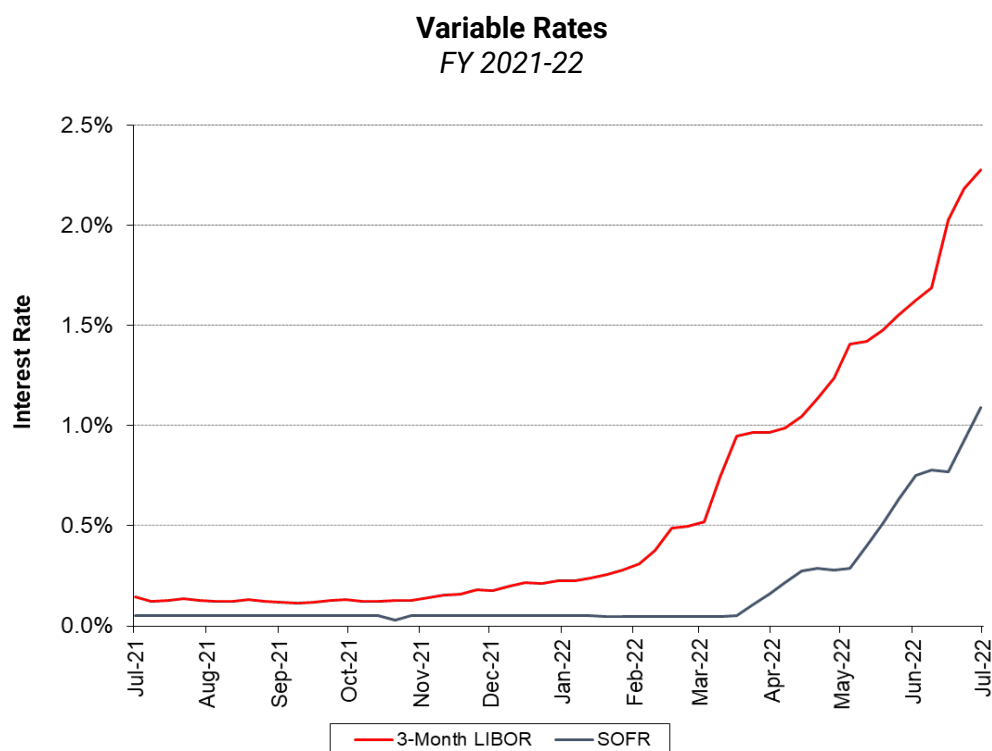
For several years, regulators and market participants have been preparing for a transition from the benchmark London Interbank Offer Rate (LIBOR) index. On November 30, 2020, the Federal Reserve announced that LIBOR will be phased out and eventually replaced by June 2023; banks were instructed to stop writing contracts using LIBOR by the end of 2021, and all contracts using LIBOR are to wrap up by June 30, 2023. Publication of LIBOR rates is scheduled to cease in 2023. In the municipal market a large volume of bank loans, floaters and interest rate swaps use LIBOR to calculate cash interest rates. A new benchmark, U.S. Secured Overnight Financing Rate (SOFR), has been developed to serve as a broad measure of the cost of borrowing cash

overnight collateralized by Treasury securities. SOFR is intended to work alongside LIBOR and is expected to be used in new transactions and amendments of existing contracts that extend beyond the termination of LIBOR.

A switch of benchmark from LIBOR to SOFR for existing tax-exempt securities could be interpreted as a material change that would cause the securities to be considered newly reissued and subject to current tax laws. On October 9, 2019, the U.S. Treasury Department and the Internal Revenue Service (IRS) issued proposed regulations providing guidance to taxpayers on the tax consequences of modifying financial instruments and contracts in advance of the upcoming phase-out of the LIBOR and other interbank rates (collectively, IBORs). The detailed report on guidance on the transition can be found in the federal register website.

The City's exposure to LIBOR borrowing rates is currently limited to a \$65 million City revolving credit agreement for SJCE. Financing documents for the transaction includes a provision for a transition from the LIBOR index to a new benchmark index as determined by Barclays. For conduit housing debt, there is some LIBOR rate exposure, but recent bond documents also provide for a transition from the LIBOR index to a new benchmark index.

The following chart provides indicative variable rates the City and related entities paid during FY 2021-22 for taxable bond obligations. The taxable three-month LIBOR interest rate averaged 0.58% and daily SOFR rate averaged 0.18% for the fiscal year.



To develop budget estimates for variable rate debt, Debt Management staff undertakes a comprehensive analysis which considers historical rates, trends and future projections. Annually, Debt Management staff provides the City's Budget Office forecasted interest rates for budgeting short-term borrowing cost, in this case for the City's 2023-2027 General Fund

Forecast. The rates below for FY2022-23 are based on 3-month LIBOR (for taxable rates) and 80% of 3-month LIBOR (for tax-exempt rates), plus 50 basis points (bps) for fees/spread and 25 bps as a cushion against rising interest. The forward rates are based on future rates from Bloomberg Market Data – Forward Swap Curves as of August 2, 2022. For FY2024-2027, rates below are based on 3-month SOFR (for taxable rates) and 80% of 3-month SOFR (for tax-exempt rates), plus 50 bps for fees/spread and 25 bps as a cushion against rising interest.

<b>Variable Interest Rate Forecast</b> <i>for Future Debt Service Payments</i> <i>July 2022 – June 2027</i>		
<b>Fiscal Year</b>	<b>Tax-Exempt Rates</b>	<b>Taxable Rates</b>
2022-23	4.48%	5.60%
2023-24	4.17%	5.21%
2024-25	3.61%	4.52%
2025-26	3.41%	4.27%
2026-27	3.34%	4.18%

#### **E. Refunding Opportunities**

Debt Management staff review and analyze the outstanding debt portfolio with the goal of identifying opportunities to refund or restructure certain series of bonds to reduce annual debt service obligations.

Generally, fixed rate bonds can be refunded in two ways: as a current refunding or as an advance refunding. A current refunding is a refinancing in which the refunding bonds (new bonds) are issued less than 90 days before a date on which the refunded bonds (old bonds) can be called. The proceeds of the refunding bonds are applied immediately to pay principal, interest, and a call premium, if any, on the refunded bonds. Thereafter, the revenues originally pledged to the payment of the refunded bonds are pledged to the payment of the refunding bonds.

An advance refunding is the refinancing of outstanding bonds by the issuance of a new issue of bonds more than 90 days prior to the date on which the outstanding bonds are callable. Certain types of tax-exempt bonds, such as the bonds issued to finance airport terminal improvements, are not eligible to be advance refunded with tax-exempt proceeds. The proceeds of advance refunding bonds are invested in an escrow until the first call date of the bonds to be refunded. Accordingly, for a period of time, both the issue being refunded and the refunding bond issue are outstanding until the refunded bonds are redeemed from the refunding escrow on their call date. The Tax Cuts and Jobs Act (Act), enacted on December 22, 2017, effectively eliminated the use of tax-exempt proceeds for advance refunding tax-exempt bonds issued after December 31, 2017. The proceeds of taxable bonds may be used to advance refund bonds and tax-exempt bond proceeds may still be used to current refund tax-exempt bonds.

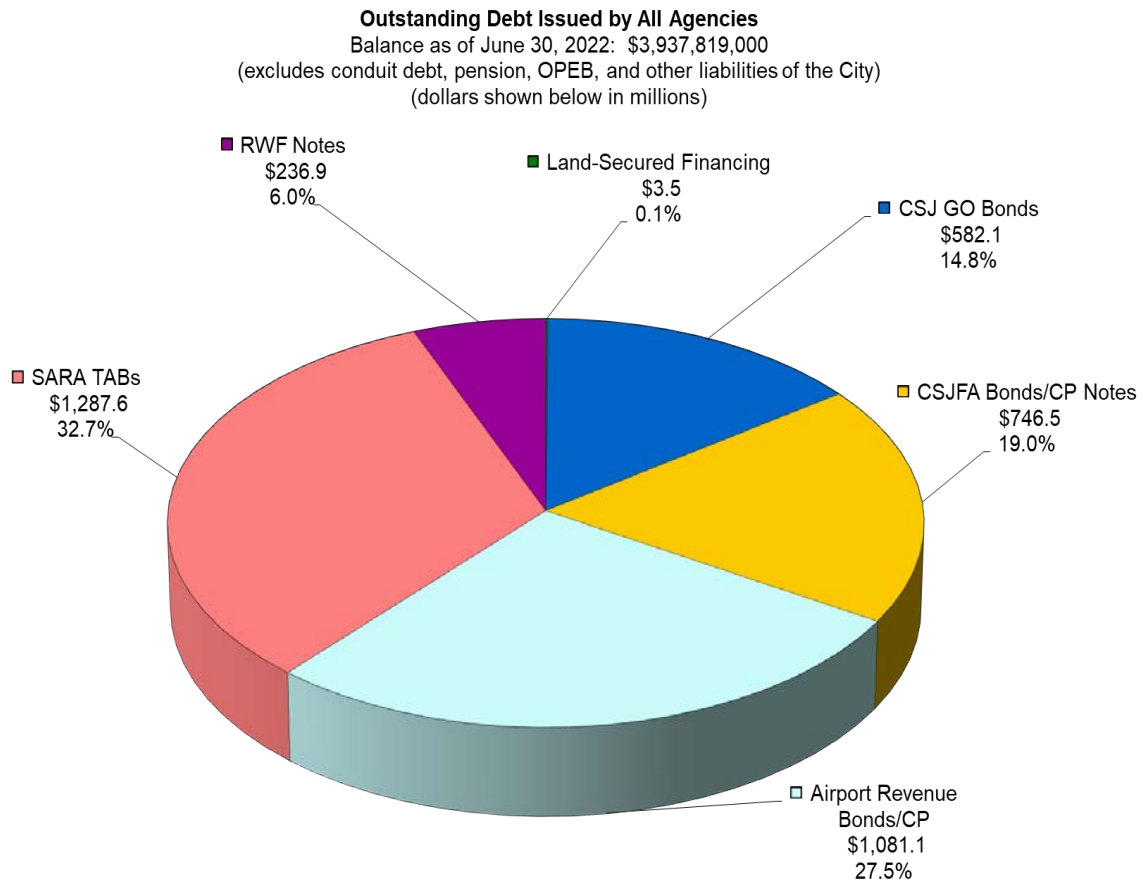
#### IV. CITY'S OUTSTANDING DEBT PORTFOLIO

This section includes a presentation of the City's debt portfolio which as of June 30, 2022 was comprised of 79 different debt obligations, consisting of 75 series of bonds/notes, two commercial paper programs, one revolving line of credit facility for RWF and one revolving credit facility for SJCE, totaling \$4.6 billion. Of the 75 series of bonds, 24 series are debt of the City, the Successor Agency, or related entities while the remaining 51 series are multifamily housing revenue bonds or notes for which a private developer is the obligor and the City is a conduit issuer. This analysis includes all debt issued by the City of San José, the Successor Agency, and various financing authorities of which the City is a member and obligated to make payment.

As of June 30, 2022, the City and related entities had debt outstanding totaling approximately \$3.9 billion, excluding \$790.8 million in outstanding multifamily housing revenue bonds.

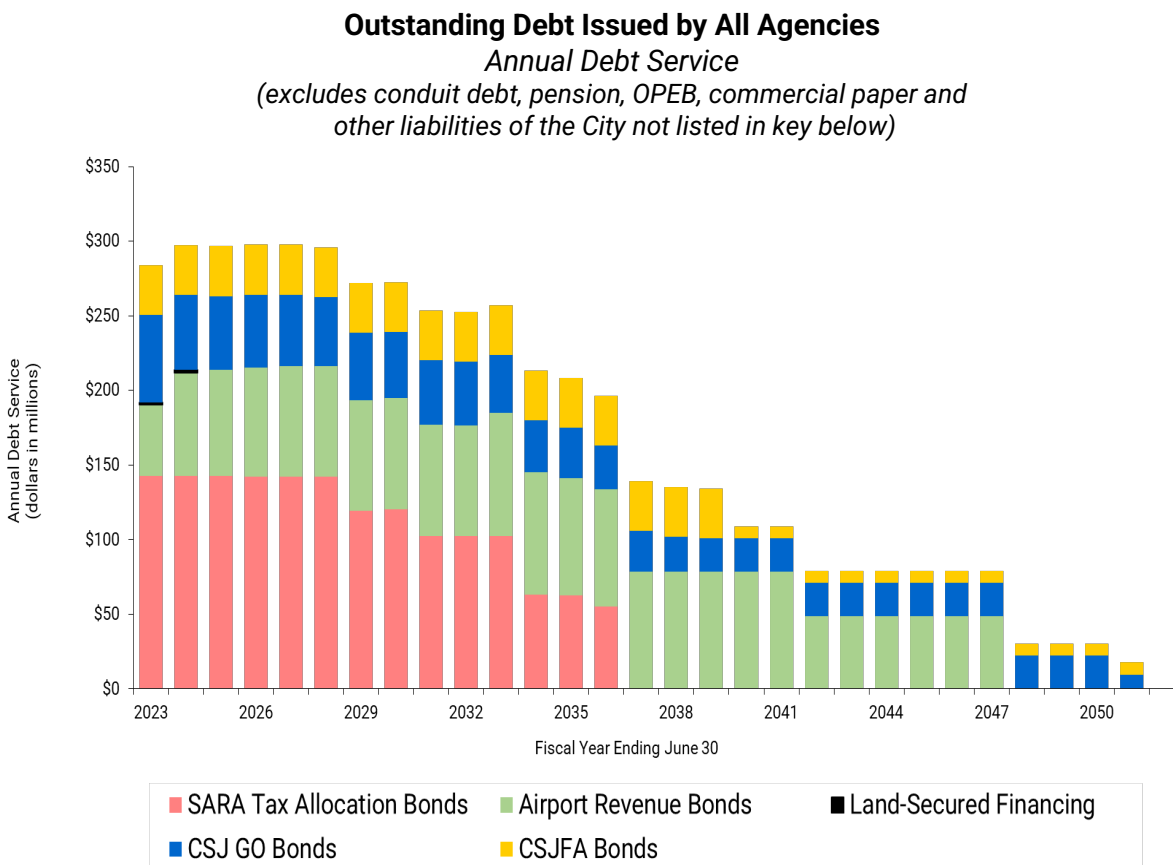
A summary table of all outstanding debt by series, excluding multifamily housing revenue bonds, is included in subsection I. Summary of Outstanding Debt. The multifamily housing revenue bonds are summarized in a separate table in subsection F. Multifamily Housing Revenue Bonds.

The following chart shows the distribution among the various categories of outstanding debt issued by the City and its related entities.





The following chart illustrates the annual debt service payments for all outstanding City-related debt except listed below:

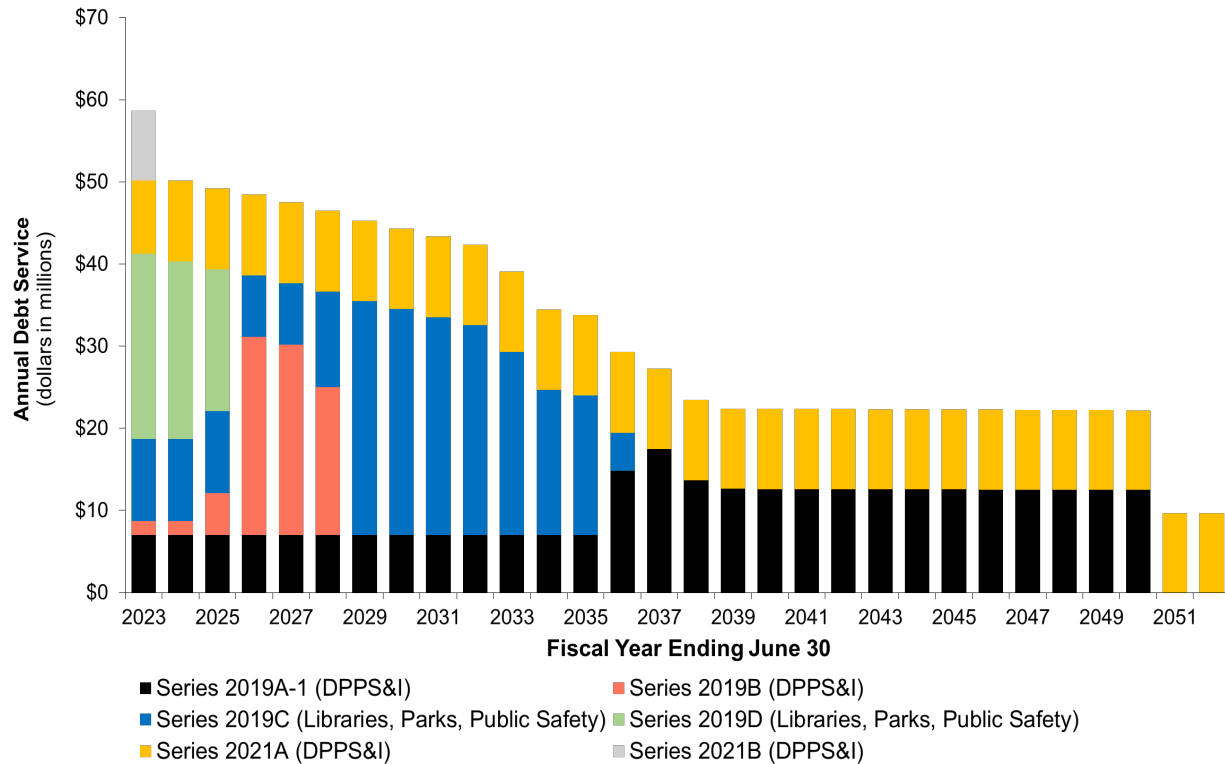


### A. General Obligation Bonds

On November 6, 2018, voters approved Measure T, authorizing a total issuance of \$650,000,000 in GO bonds to acquire property and construct improvements to improve emergency and disaster response, repair deteriorating bridges vulnerable to earthquakes, repave streets and potholes, prevent flooding and water contamination including the acquisition of land in the Coyote Valley for these purposes, and repair critical infrastructure.

On July 29, 2021, the City issued \$200,530,000 of General Obligation Bonds, Series 2021A (in the amount of \$151,210,000), Series 2021B (federally taxable, in the amount of \$8,450,000) and Series 2021C (federally taxable, in the amount of \$40,870,000) (collectively, the 2021 GO Bonds). The 2021 GO Bonds constitute the second round of bonds issued under the Measure T authorization of \$650,000,000 for Disaster Preparedness, Public Safety, and Infrastructure. The 2021 Bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount (except certain personal property which is taxable at limited rates). The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. Total principal outstanding and interest due as of June 30, 2022 is \$949,689,403 with final maturity of 09/01/2051.

## General Obligation Bonds Annual Debt Service



The table below reflects the General Obligation Bond portfolio as of June 30, 2022:

City of San José General Obligation Bonds Issuance Amounts and Outstanding Balances as of June 30, 2022						
Measure T Issuance						
Issuance	Final Maturity	Series 2019 (Refunding)	Series 2019 (New Money)	Series 2021 (New Money)	Measure T Total Issued	Outstanding Balance
Series 2019A	9/1/2049		\$173,400,000		\$173,400,000	\$140,360,000
Series 2019B	9/1/2027		66,500,000		66,500,000	66,500,000
Series 2019C <sup>(1)</sup>	9/1/2035	\$158,185,000				156,045,000
Series 2019D	9/1/2024	103,935,000				59,545,000
Series 2021A	9/1/2051			\$151,210,000	\$151,210,000	151,210,000
Series 2021B	9/1/2022			8,450,000	8,450,000	8,450,000
Series 2021C	9/1/2021			40,870,000	40,870,000	0
Total		\$262,120,000	\$239,900,000	\$200,530,000	\$430,000,440	\$582,110,000
Measure T Voter Authorization					\$650,000,000	
Remaining Measure T Authorization					\$209,570,000	

<sup>(1)</sup> A portion of the 2019C Bonds funded remaining projects under Measure O (2000) in the amount of \$5,905,000 and under Measure O (2002) in the amount of \$3,325,000.

## **B. City of San José Financing Authority Obligations**

The financing projects included in this category include bond-financed capital projects for which the City General Fund bears the majority of the debt burden.

In November 2021, the Authority issued \$22.8 million in lease revenue refunding bonds, Series 2021A to (i) refinance on a current basis the outstanding Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project) of the Authority and the related lease payment obligation of the City, (ii) refinance on a current basis the outstanding Central Service Yard (\$2,474,000) Commercial Paper Notes of the Authority, (iii) finance the acquisition and construction of public improvements, and (iv) pay the costs of issuing the CSJFA 2021A Bonds.

In April 2022, the Authority issued \$165.8 of Taxable Lease Revenue Bonds, Series 2022A (CSJFA 2022A Bonds) 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, (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) refinance the outstanding Exhibit Hall (\$8,432,847) and South Hall (\$42,400,000) Commercial Paper Notes of the Authority and (iv) pay the cost of issuing the CSJFA 2022A Bonds.

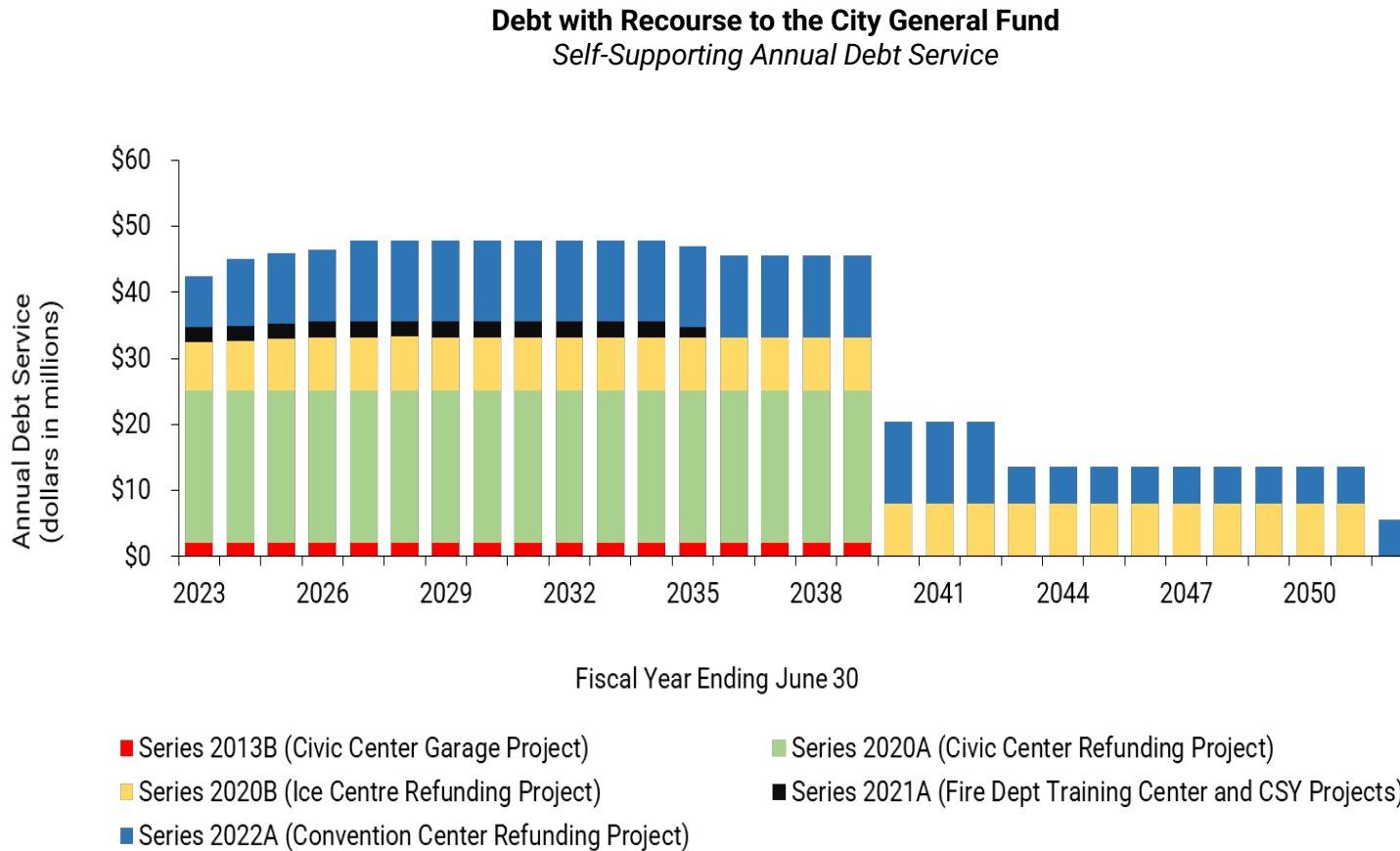
Non-self-supporting obligations - Several outstanding lease revenue bond issues financed projects are considered non-self-supporting as they do not generate revenues that can be applied to offset the City's lease payments. Although City special funds or other revenue sources may be earmarked to make these payments, the City's General Fund bears the majority of the debt service burden. Below is a short description of each of the non-self-supporting projects:

- Series 2013B Bonds were issued to refund the bonds issued to finance the land acquisition and construction of the City Hall Employee Parking Garage (2008B Bonds)
- Series 2020A Bonds were issued to refund the bonds that refunded the City Hall project and recreational facilities (2006A, 2007A, 2013A Bonds) and finance the build out of SJCE operations
- Series 2021A Bonds were issued to finance the acquisition and construction of Fire Department Training Facility, finance the City's Central Service Yard improvements project, refund the Central Service Yard Outstanding Commercial Paper and outstanding CSJFA 2003A Bonds
- Commercial paper notes issued to provide funding for Flood Recovery Improvement Projects.

Self-supporting obligations – Such obligations are issued for projects that produce sufficient revenues to retire the debt. The bonds are not supported by the taxing power of the governmental entity issuing them. Financing projects are considered self-supporting if revenue generated from the project can be applied to offset, in whole or in part, the City's lease payments. To the extent that offsetting revenues are insufficient to completely cover the debt service payments for any of these bonds, the City's General Fund is committed to making up the difference. A short description of each of these self-supporting projects is listed below.

- Series 2020B Bonds were issued to refund the 2008E-1 and 2008E-2 Bonds and finance the acquisition and construction of two additional ice rinks and related facilities at the Ice Centre of San José. Under the Second Amended and Restated Lease, Sharks Ice leases the expanded facility and the Sharks Ice's base rent payments to the City are the first source of the City's repayment of the 2020B Bonds.
- Series 2022A Bonds were issued to refund bonds that financed the convention center expansion and renovation project (2011 Special Hotel Tax Revenue Bonds and CSJFA 2011A Bonds) and refunded Exhibit Hall and South Hall Commercial Paper Notes. Under the Pledge Agreement dated as of April 1, 2022, between the City, for and on behalf of the Convention Center Facilities District (CCFD), and the Authority, the City pledged a lien and security interest on the Special Taxes (4% hotel special tax levied by the CCFD for the benefit of the Authority as security for the City's obligations to make Lease Payments).
- Commercial paper notes have been issued to provide funding for the following projects (self-supporting): Community Energy power purchase and other operating costs.

As of June 30, 2022, the total amount of CSJFA Lease Revenue obligations outstanding was \$746.5 million, consisting of \$679.6 million in fixed rate bonds and \$66.9 million of outstanding CSJFA CP Notes. The following chart illustrates the annual debt service requirements. CSJFA CP Notes outstanding is not included in the graph because there is no fixed amortization schedule.

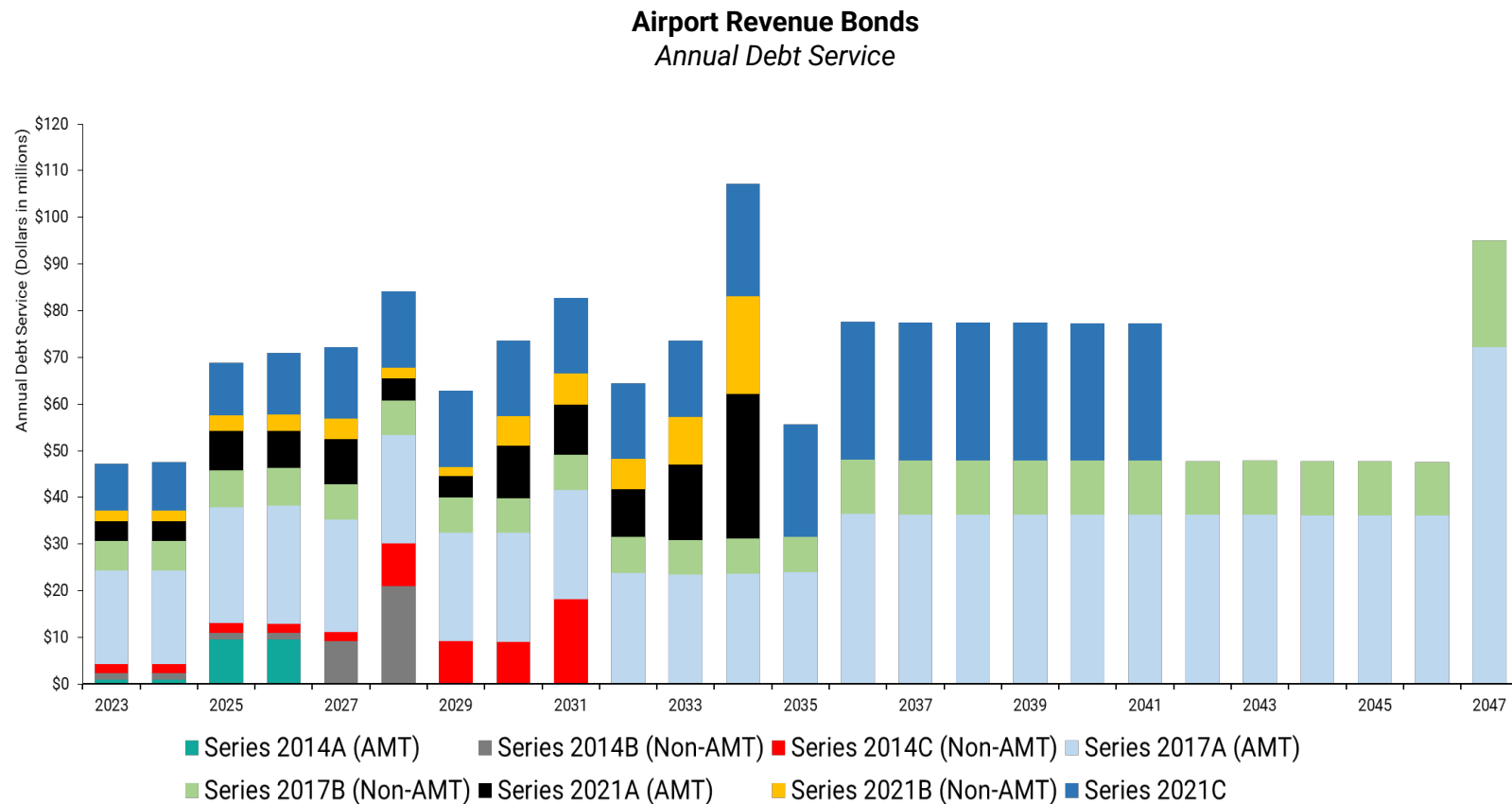


## C. Enterprise Fund Obligations

### 1. Norman Y. Mineta San José International Airport

As of June 30, 2022, the total amount of Airport obligations outstanding was estimated at \$1.1 billion, consisting of senior debt of \$1.0 billion and \$34.1 million of outstanding Airport CP Notes. The Airport CP program is subordinate to the airport revenue bonds.

The following chart illustrates the annual debt service requirements. Airport CP Notes outstanding is not included in the graph as there is no fixed amortization schedule.



## **2. Debt Related to the San José-Santa Clara Regional Wastewater Facility**

Pursuant to a Wastewater Credit Agreement dated as of October 1, 2017 and amended on October 18, 2020 by and among the City, the Financing Authority, and WFBNA, the Financing Authority issued to WFBNA (i) a subordinate tax-exempt wastewater revenue note in an amount not to exceed \$300 million or (ii) a subordinate taxable wastewater revenue note in an amount not to exceed \$300 million outstanding at any one time. The Wastewater Credit Agreement effectively established an interim financing program under a three-year contract that enables the issuance of subordinate wastewater revenue notes to finance capital improvements at the RWF.

In September 2020, City staff negotiated a Second Amendment to the Wastewater Credit Agreement with WFBNA that extended the Wastewater Credit Agreement to October 18, 2023.

As of June 30, 2022, the Authority had drawn \$236.9 of the aggregate principal amount of \$300 million available to be drawn on the note. The Wastewater Credit Agreement currently expires October 18, 2023. The table below reflects the changes in the note outstanding during the fiscal year; figures are presented in millions.

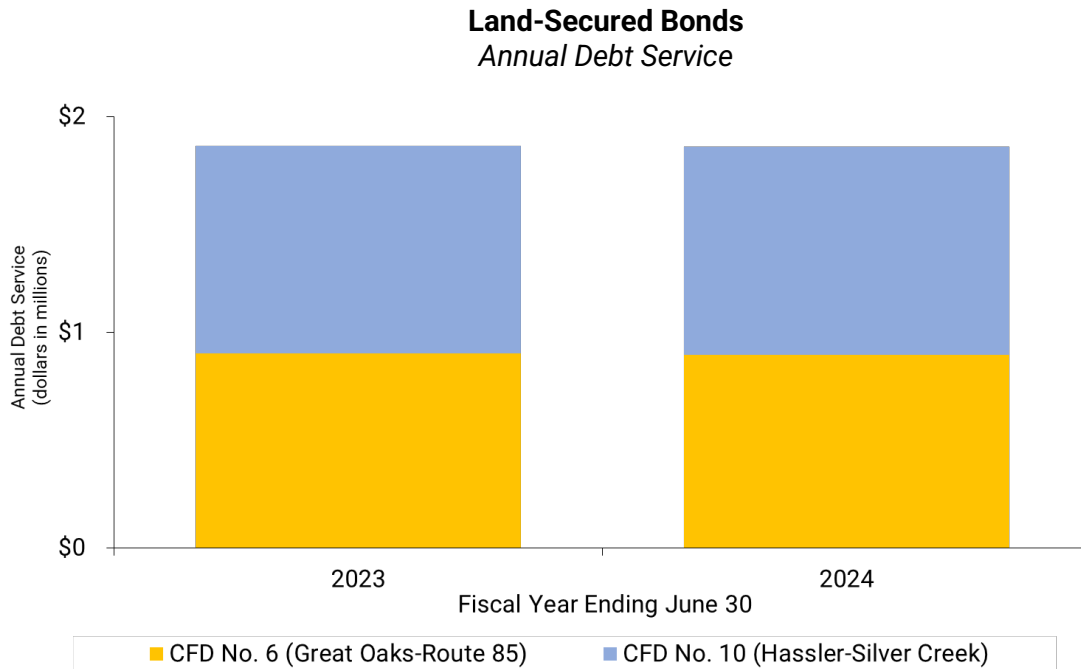
<b>July 1, 2021</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2022</b>	<b>Interest Rate</b>
<u>\$150.4</u>	<u>\$86.5</u>	<u>\$ -</u>	<u>\$236.9</u>	<u>1.53%</u>

On November 15, 2022 the City Council and Authority Board authorized the issuance of up to \$300 million in wastewater revenue bonds. The Authority anticipates issuing these wastewater revenue bonds on or about December 15, 2022 to refinance the interim financing facility with long-term, fixed rate financing amortized over 30 years.

#### **D. Land-Secured Financing**

As of June 30, 2022, the City had two series of community facilities district bonds outstanding totaling \$3,525,000.

The chart below illustrates the total annual debt service requirements for the community facilities district debt outstanding as of June 30, 2022. Note that unlike prior charts, these bond issues are payable from a separate and discrete revenue stream and therefore debt service for each of these transactions is structured independently.



On September 1, 2022, the two outstanding series of community facilities district debt, Special Tax Bonds CFD No. 6 (Great Oaks-Route 85) in the amount of \$1.7 million, and CFD No.10 (Hassler-Silver Creek) in the amount of \$1.8 million were redeemed. The City has no outstanding community facilities district debt as of September 2022.



### **E. Successor Agency to the Redevelopment Agency of the City of San José**

The former Redevelopment Agency of the City of José (Agency) was established in 1956 by the San José City Council as a public entity legally separate from the City of San José (City). In January 1975, the City Council declared itself the Agency Board, replacing a separate board. Until June 28, 2011, the Agency had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a Redevelopment Area. Redevelopment projects were developed in cooperation with private developers. Public redevelopment projects were also developed under cooperation agreements between the Agency and the City or other public entity that would own the project.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. AB X1 26 has since been amended by AB 1484 in 2012 and by SB 107 in 2015. AB X1 26, as subsequently amended, is referred to herein as the Redevelopment Dissolution Law. The legislation provides for successor agencies and oversight boards to be responsible for overseeing the dissolution process and the wind down of redevelopment activity. On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency, effective February 1, 2012. The Successor Agency is a component unit of the City. Also, upon dissolution, the City Council elected to retain the housing assets, functions and powers previously performed by the Agency.

The Successor Agency is a separate public entity from the City, subject to the direction and oversight of a Board consisting of the Mayor and the other members of the City Council. The Successor Agency is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an Oversight Board. Beginning July 1, 2018, the individual oversight boards within Santa Clara County were combined into one county-wide oversight board (Oversight Board). The Oversight Board is comprised of seven member representatives with one member appointed by each of the following: County Board of Supervisors, the city selection committee established pursuant to Section 50270 of the Government Code, the independent special district selection committee established pursuant to Section 56332 of the Government Code, the County Superintendent of Education, the Chancellor of the California Community Colleges, a public appointment made by the County Board of Supervisors, and the recognized employee organization representing the largest number of successor agency employees in the County. The Oversight Board is staffed by the County of Santa Clara Auditor-Controller ("County Auditor-Controller") and tasks have been delegated among the County Finance Agency, the Office of the County Executive, the Clerk of the Board of Supervisors, and Office of the County Counsel

In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

On December 21, 2017, the Successor Agency issued 2017 Senior Tax Allocation Refunding Bonds and the 2017 Subordinate Tax Allocation Refunding Bonds (the 2017 Refunding Bonds). The 2017 Refunding Bonds were issued in the aggregate principal amount of \$1,677,540,000, in two senior series and one subordinate series: (i) \$79,825,000 of the tax-exempt senior lien 2017 Series A Bonds (the 2017A Bonds), (ii) \$1,333,325,000 of taxable senior lien 2017 Series A-T Bonds (the 2017A-T Bonds) and collectively (the 2017 Senior Tax Allocation Refunding Bonds),

and (iii) \$264,390,000 of tax-exempt subordinate lien 2017 Series B Bonds (the 2017 Subordinate Tax Allocation Refunding Bonds or 2017B Bonds).

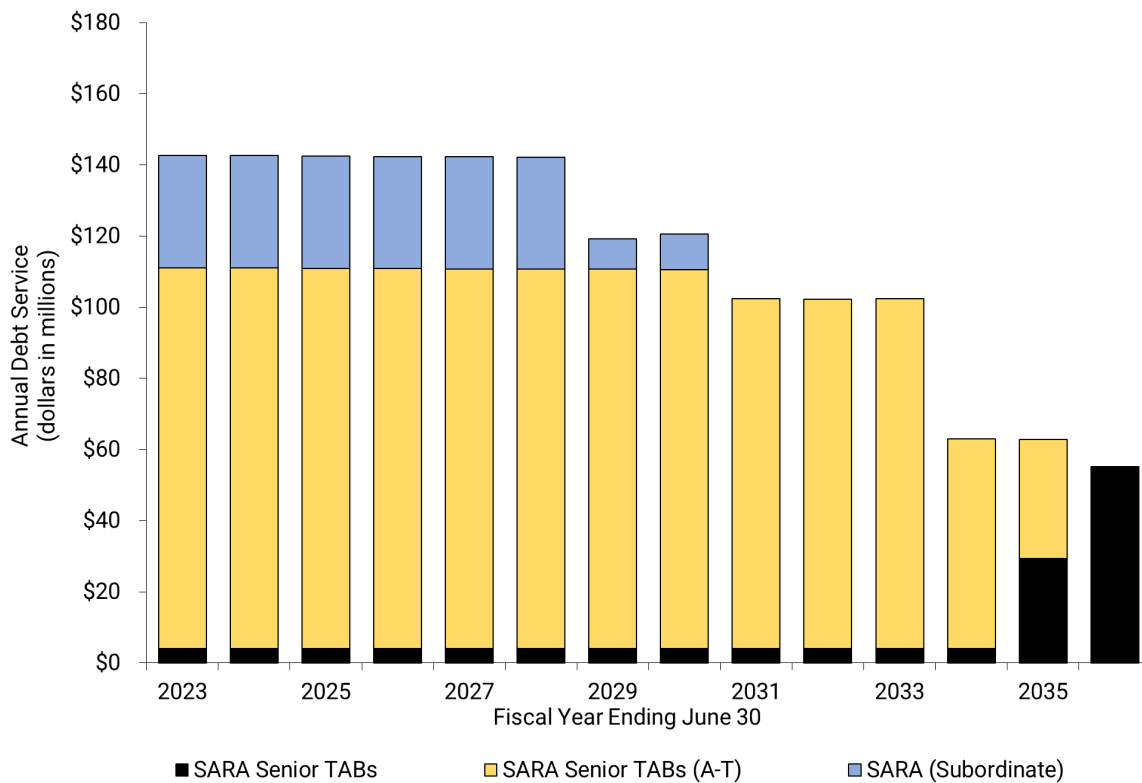
Proceeds of the 2017 Refunding Bonds were used to i) redeem, defease, or prepay all of the Former Agency's outstanding tax allocation bonds and obligations in connection with agreements entered into in connection with the City of San José Financing Authority's Revenue Bonds, Series 2001A (4th & San Fernando Parking Facility Project) and Lease Revenue Bonds, Series 2001F (Convention Center Refunding Project), ii) and pay the costs of issuing the 2017 Refunding Bonds including the debt service reserve insurance policies. The 2017 Refunding Bonds generated total debt service savings of \$253,855,595 over the next eighteen years and net present value savings of \$185,599,774 (discounted at the all-in true interest cost) or 10.82% of the Refunded Obligations.

The 2017 Refunding Bonds are secured and payable from Redevelopment Property Tax Trust Fund tax revenues which is generally defined as the portion of property tax revenues collected in the Merged Project Area derived from incremental growth in assessed property values over the initial base year values in each of 17 component areas, less certain County administrative fees and the AB1290 statutory pass-through payment to the San José Unified School District, and excluding the amounts collected pursuant to the pension override or State Water Project override provisions<sup>2</sup> of the Dissolution Law that were not pledged to the repayment of the 2017 Refunding Bonds. All other AB1290 statutory pass-through payments and the negotiated pass-through payments to Santa Clara County were subordinated to the 2017 Refunding Bonds. As of June 30, 2022, the Successor Agency had total debt outstanding of \$1,287,630,000, consisting of approximately \$1,111,130,000 in senior Tax Allocation Bonds and \$176,500,000 in subordinate Tax Allocation Bonds.

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<sup>2</sup> For more detailed discussion on pension override and State Water Project override, refer to page 26 in the Official Statement, Successor Agency to the Redevelopment Agency of the City of San José, Series 2017A, A-T and B Tax Allocation Refunding Bonds" <https://emma.msrb.org/ER1114101-ER871408-ER1272103.pdf>

The following chart illustrates the total annual debt service requirements for Successor Agency debt outstanding:



## **F. Multifamily Housing Revenue Bonds**

Multifamily housing revenue bonds are issued to finance the construction, acquisition and rehabilitation of rental apartment projects by private developers. The City issues the bonds, typically on a tax-exempt basis, and then lends the proceeds to the developer/ borrower. The bonds are limited obligations of the City, payable solely from loan repayments by the borrower and any credit enhancement. For multifamily housing revenue bonds to qualify for tax-exemption, generally one of two restrictions must apply: either at least 20 percent of the units in the housing development must be reserved for occupancy by individuals and families of very-low income (50% of area median income) or at least 40 percent of the units must be reserved for occupancy by individuals and families of low income (60% of area median income).

Since November 1985, the City has issued \$1.9 billion of bonds and notes for the City's multifamily housing program, which has financed the production of 9,989 affordable housing units. As of June 30, 2022, the total principal amount of bonds outstanding for the housing program was \$790.8 million.

In addition to serving as a conduit for financing multifamily housing revenue bonds/notes, there are other vehicles available to the City to assist with the financing of affordable housing units, including loans, grants and application of low-income housing tax-credits. However, the state's elimination of redevelopment agencies, which were required to set aside 20% of tax increment revenue for affordable housing, has significantly reduced the City's ability to facilitate the financing of affordable housing. In March 2020, the voters approved Measure E – Real Property Transfer Tax in which by City Council Policy 1-18, Section 22 are allocated for development of new affordable housing, homeless prevention and homeless supportive services, which provided additional source of funding. The information presented in this report represents affordable housing projects that were financed, in whole or in part, with bonds or notes issued by the City.

The table presented on the following pages summarizes the City's portfolio of multifamily revenue bonds and represents information provided by the City of San José Housing Department as of June 30, 2022.

**Multifamily Housing Revenue Bonds**  
**As of June 30, 2022**

Project Name	Series	Date Issued	Issue Amount (thousands)	Balance (thousands)	Maturity/ Redemption	Affordable Units	Annual Fees
Fairway Glen	1985A	11/18/85	10,100	-	04/15/07	29	n/a
Foxchase Drive	1985B	11/18/85	11,700	-	05/15/08	29	n/a
Somerset Park Apartments	1987A	11/20/87	8,000	-	08/01/05	26	n/a
Timberwood Apartments	1990A	02/01/90	13,425	-	09/01/05	166	n/a
Timberwood Apartments	1990B (Sub.)	02/01/90	1,500	-	08/01/05	-	n/a
Countrybrook Apartments	1992A	04/15/92	20,090	-	04/01/12	72	n/a
Countrybrook Apartments	1992B (Tax.)	04/15/92	1,000	-	04/01/97	-	n/a
Siena at Renaissance Square	1996A	08/22/96	50,000	-	12/01/29	271	n/a
Siena at Renaissance Square	1996B	08/22/96	10,000	-	04/01/98	-	n/a
Almaden Lake Village Apartments	1997A	03/27/97	25,000	-	03/01/32	50	33,750
Almaden Lake Village Apartments	1997B	03/27/97	2,000	-	03/29/00	-	n/a
Coleman Senior Apartments	1998	04/24/98	8,050	-	05/01/30	140	n/a
Italian Gardens Senior Apartments	1998	04/24/98	8,000	-	05/01/30	146	n/a
Carlton Plaza	1998A	04/24/98	12,000	-	10/15/32	28	n/a
Carlton Plaza	1998A (Tax.)	04/24/98	2,600	-	04/02/01	-	n/a
The Gardens Apartments	1999A	05/12/99	18,970	-	01/01/32	286	n/a
The Gardens Apartments	1999B (Tax.)	05/12/99	2,930	-	01/01/11	-	n/a
Helzer Court Apartments	1999A	06/02/99	16,948	13,413	12/01/41	153	26,123
Helzer Court Apartments	1999B	06/02/99	3,950	-	12/01/08	-	n/a
Helzer Court Apartments	1999B (Tax.)	06/02/99	2,271	-	12/01/04	-	n/a
Ohlone-Chynoweth Commons Apartments	1999	06/04/99	16,200	-	06/01/39	192	20,250
Kimberly Woods Apartments	1999A	12/20/99	16,050	-	12/01/29	42	n/a
Almaden Lake Village Apartments	2000A	03/29/00	2,000	2,000	03/01/32	-	n/a
Sixth and Martha Family Apartments Phase I	2000	07/21/00	9,900	-	03/01/33	102	n/a
Craig Gardens Apartments	2000A	12/05/00	7,100	-	12/18/20	89	n/a
El Parador Apartments	2000A	12/07/00	6,130	4,865	01/01/41	124	14,413
El Parador Apartments	2000B	12/07/00	900	-	01/01/16	-	n/a
El Parador Apartments	2000C	12/07/00	4,500	-	01/01/04	-	n/a
Monte Vista Gardens Senior Housing	2000A	12/08/00	3,740	-	02/17/21	68	n/a
Willow Glen Senior Apartments	2000A	12/08/00	9,700	-	02/01/03	132	n/a
Willow Glen Senior Apartments	2000B	12/08/00	1,320	-	02/01/03	-	n/a
San Jose Lutheran Seniors Apartments	2001A-1	07/11/01	3,850	2,323	02/15/34	62	6,250
San Jose Lutheran Seniors Apartments	2001A-2	07/11/01	1,150	-	02/15/04	-	n/a
Sixth and Martha Family Apartments Phase II	2001C	08/01/01	9,000	-	04/01/34	87	n/a
The Villages Parkway Senior Apartments	2001D	08/01/01	6,800	-	04/01/34	78	n/a
Lenzen Housing	2001B	08/22/01	8,395	-	02/20/43	87	n/a
Lenzen Housing	2001B (Sub.)	08/22/01	1,100	-	10/01/03	-	n/a
Terramina Square Apts/North White Rd Proj	2001F	11/15/01	16,845	-	04/01/44	156	n/a
Villa de Guadalupe Apartments	2001E	11/27/01	6,840	-	01/01/32	41	n/a
Villa de Guadalupe Apartments	2001E (Tax.)	11/27/01	760	-	04/01/12	-	n/a

**Multifamily Housing Revenue Bonds**  
**As of June 30, 2022**

<b>Project Name</b>	<b>Series</b>	<b>Date Issued</b>	<b>Issue Amount (thousands)</b>	<b>Balance (thousands)</b>	<b>Maturity/ Redemption</b>	<b>Affordable Units</b>	<b>Annual Fees</b>
Almaden Senior Housing Apartments	2001G	12/05/01	6,050		07/15/34	65	7,563
Betty Anne Gardens Apartments	2002A	04/05/02	11,000		02/16/21	76	n/a
El Paseo Apartments	2002B	04/05/02	9,600		07/29/20	98	12,000
Sunset Square Apartments	2002E	06/26/02	10,904		06/01/34	94	n/a
Villa Monterey Apartments	2002F	06/27/02	11,000		11/16/20	119	n/a
Monte Vista Gardens Senior Hsg Apts, Phase II	2002C-1	07/24/02	3,465		01/29/20	48	n/a
Monte Vista Gardens Senior Hsg Apts, Phase II	2002C-2	12/13/02	200	-	02/01/05	-	n/a
Pollard Plaza Apartments	2002D	08/06/02	14,000	5,195	08/01/35	129	17,500
Evans Lane Apartments	2002H	10/08/02	31,000	-	04/15/36	236	n/a
Hacienda Villa Creek Senior Apartments	2002G-1	10/10/02	4,453	2,562	12/01/34	79	8,750
Hacienda Villa Creek Senior Apartments	2002G-2	10/10/02	2,547	-	05/12/06	-	n/a
Kennedy Apartment Homes	2002K	12/11/02	14,000	6,675	12/15/35	100	17,500
Fallen Leaves Apartments	2002J-1	12/18/02	13,360	8,490	06/01/36	159	23,500
Fallen Leaves Apartments	2002J-2 (Sub.)	12/18/02	3,340	2,190	05/01/36	-	n/a
Fallen Leaves Apartments	2002J-3 (Jr. Sub.)	12/18/02	2,100	-	07/31/07	-	n/a
Turnleaf Apartments	2003A	06/26/03	15,290		12/15/20	152	n/a
The Oaks of Almaden Apartments	2003B-1	07/29/03	4,365	2,765	02/15/36	125	10,438
The Oaks of Almaden Apartments	2003B-2	07/29/03	3,985	-	10/04/05	-	n/a
Cinnabar Commons	2003C	08/07/03	25,900	21,100	02/01/37	243	32,375
Almaden Family Apartments	2003D	11/14/03	31,300		11/15/37	223	39,125
Trestles Apartments	2004A	03/04/04	7,325		12/15/20	70	n/a
Trestles Apartments	2004A (Sub.)	03/04/04	1,300		12/15/20	-	n/a
Vintage Tower Apartments	2004B-1	06/28/04	4,150		10/21/20	59	n/a
Vintage Tower Apartments	2004B-2	06/28/04	1,350	-	11/01/06	-	n/a
Delmas Park	2004C-1	10/15/04	13,780	11,417	01/01/47	122	24,224
Delmas Park	2004C-2	10/15/04	5,599	-	06/01/07	-	n/a
Raintree Apartments	2005A	02/01/05	21,100	-	02/01/38	174	n/a
Paseo Senter I	2005B-1	12/21/05	6,142	3,832	12/01/38	115	7,500
Paseo Senter I	2005B-2	12/21/05	23,805	-	06/01/09	-	n/a
Paseo Senter II	2005C-1	12/21/05	4,903	2,929	06/01/38	99	7,500
Paseo Senter II	2005C-2	12/21/05	19,776	-	12/01/08	-	n/a
Casa Feliz Studio Apartments	2007A	06/13/07	11,000	-	06/01/36	60	7,500
Almaden Family Apartments	2007B (Sub.)	12/17/07	6,385	-	05/01/36	-	n/a
Curtner Studios	2007C-1	12/19/07	5,520	4,166	07/31/07	-	7,500
Curtner Studios	2007C-2	12/19/07	3,275	-	12/15/20	178	n/a
Fairgrounds Senior Housing Apartments	2008B	05/08/08	26,000	10,030	02/15/36	199	32,500
Las Ventanas Apartments	2008B	07/15/08	25,900	25,900	10/04/05	237	38,750
Brookwood Terrace Family Apts	2009B-1	12/23/09	7,780	6,620	02/01/37	83	17,000
Brookwood Terrace Family Apts	2009B-2	12/23/09	5,445	-	11/15/37	-	n/a

**Multifamily Housing Revenue Bonds  
As of June 30, 2022**

<b>Project Name</b>	<b>Series</b>	<b>Date Issued</b>	<b>Issue Amount (thousands)</b>	<b>Balance (thousands)</b>	<b>Maturity/ Redemption</b>	<b>Affordable Units</b>	<b>Annual Fees</b>
Fourth Street Apts	2010A-1	06/04/10	5,620	4,577	05/01/43	99	7,500
Fourth Street Apts	2010A-2	06/04/10	17,380	-	05/01/13	-	n/a
Orvieto Family Apartments	2010B-1	07/20/10	7,760	7,010	08/01/29	91	17,750
Orvieto Family Apartments	2010B-2	07/20/10	6,440	-	08/01/29	-	n/a
Kings Crossing Apartments	2010C	09/17/10	24,125	2,054	09/01/45	92	7,500
Taylor Oaks Apartments	2011A-1	10/21/11	3,950	3,585	10/01/28	58	7,875
Taylor Oaks Apartments	2011A-2	10/21/11	2,350	-	04/01/24	-	n/a
1st and Rosemary Family Apartments	2012C	04/19/12	35,500	24,404	10/01/44	182	33,900
1st and Rosemary Senior Apartments	2012D	04/19/12	15,500	8,868	10/01/44	105	12,319
Mayfair Court Apartments	2012B-1	04/20/12	5,220	4,348	10/01/44	92	27,500
Mayfair Court Apartments	2012B-2	04/20/12	16,780	-	10/01/44	-	n/a
La Moraga Apartments	2012E	09/07/12	52,440	47,662	03/01/26	60	65,550
3rd Street Residential Apartments	2013A	06/27/13	6,630	3,639	07/01/33	36	8,288
Cambrian Center	2014A-1	10/17/14	19,035	11,913	05/01/47	151	32,048
Cambrian Center	2014A-2	10/17/14	19,035	11,913	05/01/47	-	n/a
Cambrian Center	2014A-3	10/17/14	1,695	-	11/01/18	-	n/a
Cambrian Center	2014A-4	10/17/14	1,695	-	11/01/18	-	n/a
Parkview Family Apartments	2014B	11/13/14	13,600	-	06/01/16	89	n/a
Parkview Senior Apartments	2014C	11/13/14	14,630	-	06/01/16	140	n/a
Poco Way Apartments	2015A-1	02/01/15	21,833	10,313	09/01/47	130	14,406
Poco Way Apartments	2015A-2	02/01/15	3,000	-	09/01/47	-	n/a
Canoas Terrace Apartments	2015B	10/30/15	22,700	20,501	05/01/48	112	28,375
Town Park Towers Apartments	2015C	10/14/15	45,250	21,570	04/01/48	216	28,281
Casa del Pueblo Apartments	2015D	12/04/15	30,000	-	12/01/17	163	37,500
Don de Dios Apartments	2016A	12/22/16	17,376	6,371	06/01/34	70	8,353
Villa De Guadalupe	2017A1 & A2	05/23/17	37,700	28,980	03/01/52	100	41,995
Villa De Guadalupe Junior	2017B	05/23/17	4,616	4,616	03/01/52	-	n/a
Catalonia Apartments	2017C	10/17/17	16,264	6,063	04/01/39	50	7,905
El Rancho Verde	2018A	08/28/18	277,700	271,904	09/01/48	700	52,500
El Rancho Verde	2018B	08/28/18	40,300	40,300	09/01/20	0	n/a
Lenzen Square	2019A-1	08/22/19	18,500	16,250	08/01/59	87	28,750
Lenzen Square	2019A-2	08/22/19	3,000	3,000	08/01/59	0	n/a
Markham I	2019B-1	10/01/19	18,000	-	10/01/22	152	28,750
Markham I	2019B-2	10/01/19	5,000	-	10/01/22	-	n/a
Vista Park I	2019C	10/11/19	13,245	5,578	06/01/38	82	16,557
Palm Court Sr	2019D	10/11/19	12,247	4,394	06/01/38	65	15,309
Quetzal Gardens	2019E	12/20/19	32,208	28,829	07/01/37	70	40,259
Page Street	2020 B -1	10/01/20	6,000	5,926	05/05/53	81	33,437
Page Street	2020 B -2	10/01/20	20,750	-	11/02/23	-	n/a
Alum Rock	2020	11/01/20	32,896	23,480	12/01/39	85	9,503
Arya	2021	03/01/21	34,314	4,596	03/01/46	86	42,893
Markham Plaza II C-1	2021	05/01/21	19,000	15,177	05/01/66	151	31,250
Markham Plaza II C-2	2021	05/01/21	6,000	-	05/01/66	-	n/a
Immanuel Sobrato	2021D	06/01/21	34,980	57	05/01/41	95	43,725
Blossom Hill	2021	06/01/21	39,363	4,728	08/01/45	145	49,203
Mariposa Place	2021 E-1	01/28/22	31,341	56	01/01/40	79	39,176
Maiposa	2021 E-2	01/28/22	4,659	-	01/01/40	-	n/a
Vitalia	2021F-1	01/28/22	25,173	1,679	01/01/41	77	44,591
Vitalia	2021F-2	01/28/22	10,500	-	01/01/41	-	n/a
<b>Grand Total</b>			<b>\$ 1,932,507</b>	<b>\$ 790,813</b>		<b>9,989</b>	<b>\$1,274,958</b>

## G. Summary of Outstanding Debt

The following table summarizes all outstanding debt by series, excluding multifamily housing revenue bonds, pension, OPEB, and other liabilities of the City.

Summary of Outstanding Debt As of 6/30/2022					
	Issue Amount (thousands)	Issue Date	Call Date <sup>(1,2)</sup>	Final Maturity	Balance (thousands)
<b>Long-Term Debt</b>					
<b>Governmental Activities</b>					
<b>City of San José</b>					
General Obligation Bonds:					
Series 2019A-1 (DPPS&I)	\$ 140,360	07/25/2019	03/01/2029	09/01/2049	\$ 140,360
Series 2019B (DPPS&I)	66,500	07/25/2019	Anytime	09/01/2027	66,500
Series 2019C (Libraries, Parks, Public Safety)	158,185	07/25/2019	03/01/2029	09/01/2035	156,045
Series 2019D (Libraries, Parks, Public Safety)	103,935	07/25/2019	Anytime	09/01/2024	59,545
Series 2021A (DPPS&I)	151,210	07/29/2021	03/01/2031	09/01/2051	151,210
Series 2021B (DPPS&I)	8,450	07/29/2021	N/A	09/01/2022	8,450
	<u>\$ 628,640</u>				<u>\$ 582,110</u>
<b>City of San José Financing Authority</b>					
Lease Revenue Bonds:					
Series 2013B (Civic Center Garage Project)	\$ 30,445	06/19/2013	06/01/2023	06/01/2039	\$ 23,835
Series 2020A (Civic Center Refunding)	355,620	09/24/2020	06/01/2030	06/01/2039	320,590
Series 2020B (Ice Center Expansion)	146,535	10/15/2020	06/01/2030	06/01/2051	146,535
Series 2021A (Fire Training Center and Central Service Yard Proj)	22,825	11/02/2021	10/01/2031	10/01/2034	22,825
Series 2022A (Convention Center Refunding)	165,815	04/21/2022	05/01/2032	05/01/2052	165,815
	<u>\$ 721,240</u>				<u>\$ 679,600</u>
<b>Special Tax Bonds</b>					
CFD No. 6 (Great Oaks-Route 85) <sup>(4)</sup>	12,200	12/18/2001	09/01/2010	09/01/2023	1,695
CFD No. 10 (Hassler-Silver Creek) <sup>(4)</sup>	12,500	07/23/2003	09/01/2010	09/01/2023	1,830
	<u>\$ 24,700</u>				<u>\$ 3,525</u>
<b>Government Activities Totals</b>	<u><b>\$ 1,374,580</b></u>				<u><b>\$ 1,265,235</b></u>
<b>Business-Type Activities</b>					
<b>Norman Y. Mineta San José International Airport</b>					
Revenue Bonds:					
Series 2014A (AMT)	\$ 57,350	10/07/2014	03/01/2024	03/01/2026	\$ 18,240
Series 2014B (Non-AMT)	28,010	10/07/2014	03/01/2024	03/01/2028	28,010
Series 2014C (Non-AMT)	40,285	10/07/2014	03/01/2024	03/01/2031	40,285
Series 2017A (AMT)	473,595	04/11/2017	03/01/2027	03/01/2047	405,350
Series 2017B (Non-AMT)	150,675	04/11/2017	03/01/2027	03/01/2047	128,960
Series 2021A (AMT)	85,860	04/07/2021	03/01/2031	03/01/2034	85,860
Series 2021B (Non-AMT)	48,200	04/07/2021	03/01/2031	03/01/2034	48,200
Series 2021C (Taxable)	294,020	04/07/2021	Various	03/01/2041	292,120
	<u>\$ 1,177,995</u>				<u>\$ 1,047,025</u>
<b>Business-Type Activity Totals</b>	<u><b>\$ 1,177,995</b></u>				<u><b>\$ 1,047,025</b></u>



Summary of Outstanding Debt (Continued)						
As of 6/30/2022						
	Issue Amount (thousands)	Issue Date	Call Date <sup>(1,2)</sup>	Final Maturity	Balance (thousands)	
<b>Private Purpose Trust Activities</b>						
<b>Successor Agency</b>						
Tax Allocation Bonds:						
Series 2017A Senior	\$ 79,825	12/21/2017	08/01/2027	08/01/2035	\$ 79,825	
Series 2017A-T Senior Taxable	1,333,325	12/21/2017	08/01/2027	08/01/2034	1,031,305	
Series 2017B Subordinate	264,390	12/21/2017	08/01/2027	08/01/2029	176,500	
	<u>\$ 1,677,540</u>				<u>\$ 1,287,630</u>	
<b>Private Purpose Trust Activities Totals</b>	<b><u>\$ 1,677,540</u></b>				<b><u>\$ 1,287,630</u></b>	
<b>Long-Term Debt Totals</b>	<b><u>\$ 4,230,115</u></b>				<b><u>\$ 3,599,890</u></b>	
<b>Short-Term Debt <sup>(3)</sup></b>						
<b>City of San José Financing Authority</b>						
Lease Revenue Commercial Paper Notes	\$ 175,000	Various	Anytime	3/24/2025	\$ 66,947	
Wastewater System (RWF) Notes Payable	300,000	Various	Anytime	10/18/2023	236,870	
Clean Energy Revolving Credit Facility	65,000	Various	Anytime	11/27/2023	-	
<b>Norman Y. Mineta San José International Airport</b>						
Airport Revenue Commercial Paper Notes	\$ 75,000	Various	Anytime	9/10/2024	\$ 34,112	
<b>Short-Term Debt Totals</b>	<b><u>\$ 615,000</u></b>				<b><u>\$ 337,929</u></b>	
<b>Grand Totals</b>	<b><u>\$ 4,845,115</u></b>				<b><u>\$ 3,937,819</u></b>	

<sup>(1)</sup> In reference to "Anytime": (i) with respect to Long-Term Debt, the GO Bonds, Series 2019B and Series 2019D are fixed-rate taxable bonds redeemable at anytime with make-whole call provisions as prescribed in the respective bond documents; (ii) with respect to Short-Term Debt, those obligations are in variable-rate mode (a) Lease Revenue Commercial Paper Notes - are not subject to early redemption and can be paid in full upon maturity (up to 270 days); (b) Wastewater System (RWF) Notes Payable - the Note can be terminated and paid in full anytime with 3-days notice; and (c) Clean Energy Revolving Credit Facility - the Commitment can be terminated anytime with 5-days notice, paid in full.

<sup>(2)</sup> In reference to "Various" in the Call Date column, with respect to Long-Term Debt, the Airport Bonds, Series 2021C are fixed rate taxable bonds with 2022-2031 maturity dates callable at anytime and 2032 to 2041 maturity dates callable on March 1, 2031.

<sup>(3)</sup> The dollar amounts in the Issue Amount column for all Short Term Debt are authorized amounts and the dollar amounts in the Balance column are the outstanding amounts that have been drawn.

<sup>(4)</sup> CFD 6 and 10 were redeemed in full on September 1, 2022.

**APPENDIX A:**

**DEBT MANAGEMENT POLICY**



***City of San José, California***

**COUNCIL POLICY**

<b>TITLE</b> DEBT MANAGEMENT POLICY	<b>PAGE</b> 1 of 12	<b>POLICY NUMBER</b> 1-15
<b>EFFECTIVE DATE</b> May 21, 2002	<b>REVISED DATE</b>	March 7, 2017

**APPROVED BY COUNCIL ACTION**

5/21/02, Item 3.3, Res. No. 70977; 12/4/12, Item 3.7(b), Res. No. 76500, 6/10/14, Item 3.6(d), Res. No. 77020, 6/9/15, Item 3.12, Res. No. 77385; 3/7/17, Item SJFA(2)(a) Res. No. 78102.

**POLICY**

This Debt Management Policy sets forth certain debt management objectives, and establishes overall parameters for issuing and administering debt for which the City is financially obligated or is responsible for managing (“Debt Program”). Recognizing that cost-effective access to the capital markets depends on prudent management of the Debt Program, this Debt Management Policy (alternatively, “Policy”) has been adopted by resolution.

**DEBT MANAGEMENT OBJECTIVES AND GOALS**

The purpose of this Debt Management Policy is to assist the pursuit of the following equally-important objectives and goals:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure financial controls are in place with respect to proceeds of debt issuances; and
- Ensure compliance with applicable State and Federal laws.

<b>TITLE</b> DEBT MANAGEMENT POLICY	<b>PAGE</b> 2 of 12	<b>POLICY NUMBER</b> 1-15
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## **GENERAL PROVISIONS**

### **I. SCOPE OF APPLICATION**

#### **A. Entities Covered.**

These policies establish the parameters within which debt may be issued by the City of San José, the City of San José Financing Authority, the Successor Agency to the Redevelopment Agency of the City of San José (“Successor Agency”) and the City of San José Parking Authority (“Covered Entities”). Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, and conduit-type financing by the City for multifamily housing or industrial development projects.

The City, as a member of Joint Powers Authorities such as the San José-Santa Clara Clean Water Financing Authority, will take these policies into account when considering approval of the issuance of Joint Powers Authority debt for which the City is financially obligated.

Supplemental policies, tailored to the specifics of certain types of financings, may be adopted by the City Council in the future. These supplemental policies may address, but are not limited to, the City's general obligation, lease revenue, enterprise, multifamily housing, and land-secured financings.

#### **B. Types of Debt.**

1. The following types of debt may be issued under this Policy subject to State and Federal law, the City’s Charter, City’s Municipal Code and City Council Policies, as may be applicable. Prior to issuance of debt, a reliable revenue source shall be identified to secure repayment of the debt.
  - a. general obligation bonds.
  - b. bond or grant anticipation notes.
  - c. lease revenue bonds or notes, certificates of participation and lease purchase transactions.
  - d. other revenue bonds or notes and certificates of participation.
  - e. tax and revenue anticipation bonds or notes.
  - f. land-secured financings, such as special tax revenue bonds and limited obligation assessment bonds.

<b>TITLE</b> DEBT MANAGEMENT POLICY	<b>PAGE</b> 3 of 12	<b>POLICY NUMBER</b> 1-15
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- g. tax increment financings to the extent permitted under State law.
- h. conduit financings, such as financings for affordable rental housing and qualified 501 (c)(3) organizations.
- 2. Debt may be publicly issued or privately placed and may be issued on either a long term basis (“Long-term Borrowing”) or short-term basis (“Short-term Borrowing”) consistent with the provisions of this Policy.
- 3. From time to time, a Covered Entity may find that other forms of debt would further its public purposes and may approve the issuance of such debt without an amendment of this Policy.

## **II. RESPONSIBILITY FOR DEBT MANAGEMENT ACTIVITIES**

The Finance Department will be responsible for managing and coordinating all activities related to the issuance and administration of debt, including the implementation of internal control procedures to ensure that the proceeds of debt will be directed to the intended use. The Director of Finance is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City Charter, Article VIII, Section 806, the Director of Finance is charged with responsibility for the conduct of all Finance Department functions. Additionally, the Director of Finance serves as the Chief Financial Officer of the Successor Agency and as the Chief Financial Officer is responsible for the oversight of the Successor Agency’s financial affairs, including use of the proceeds of debt issued by the Successor Agency.

Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

### **A. Debt Management Policy Review and Approval.**

This Policy, adopted by resolution of each of the Covered Entities, will be reviewed annually by the Finance Department to ensure that the Policy remains current. It is the intention of the City Council that any modifications to this Policy will be reviewed by the assigned City Council Committee and forwarded to the City Council with the Committee’s recommendation, unless otherwise directed by the City Council. Any modifications to this Policy are subject to approval by resolution of each of the Covered Entities.

### **B. Annual Debt Report.**

The Finance Department will prepare an annual debt report for review by the assigned City Council Committee and forwarded by the Committee to the City

<b>TITLE</b> DEBT MANAGEMENT POLICY	<b>PAGE</b> 4 of 12	<b>POLICY NUMBER</b> 1-15
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Council and the boards of the other Covered Entities for their consideration. The content of the annual debt report will include a summary of credit ratings, outstanding and newly-issued debt, a discussion of anticipated debt issues, refunding opportunities, a review of legislative, regulatory, and market issues, and an outline of any new or proposed changes to this Debt Management Policy.

**C. Debt Administration Activities.**

The Finance Department is responsible for debt administration activities, particularly investment of bond proceeds, monitoring compliance with bond covenants, implementing internal control procedures to ensure the use of proceeds of bonds or other debt will be directed to the intended use, monitoring use of facilities financed with tax-exempt debt, continuing disclosure, monitoring arbitrage compliance for tax-exempt debt, and ongoing interactions with credit rating agencies all of which shall be centralized within the Department.

**III. PURPOSES FOR WHICH DEBT MAY BE ISSUED**

**A. Long-term Borrowing.**

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year and, with respect to the City, will be reflected in the Adopted Annual Capital Budget and Adopted Five-Year Capital Improvement Plan. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs which may be legally capitalized. Long-term borrowing shall not be used to fund normal and re-occurring operating costs.

**B. Short-term Borrowing.**

In general, short-term borrowing through financing vehicles, such as commercial paper and lines of credit, will be considered as an interim source of funding for a capital improvement in anticipation of long-term borrowing or for the acquisition of equipment. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years. The City Council may also authorize the use of a short-term financing vehicle with a maturity longer than seven (7) years consistent with the useful life of the financed project if use of a short-term financing vehicle would be a beneficial component to the applicable debt portfolio. Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

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**C. Refunding.**

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

**D. Lease Financing.**

1. As used in this section, the term “lease financing” means any lease or sublease made between the City and another party for the purpose of financing the acquisition, construction or improvement by the City of real property or equipment. By way of example and not limitation, the term “lease financing” includes certificates of participation, lease revenue bonds or lease revenue notes.
2. Prior to bringing a lease financing to the City Council for approval, the Finance Department will perform initial due diligence on the project to be financed. The Finance Department’s due diligence review will include the following elements:
  - a. Any lease financing must have an identified revenue source for repayment, which may include the general fund, eligible special funds or project revenues.
  - b. Prior to embarking on a lease financing in which project revenues are identified as the repayment source, a feasibility study will be performed to determine the volatility of the revenue and provide a sensitivity analysis on project revenue projections including worst/best case scenarios, including without limitation, the impact on any repayment source identified as the backstop to the project revenues as the repayment source.
  - c. The Finance Department will present the results of the due diligence review including any feasibility study to the City Council for review and consideration, in order to proceed with the preparation of the



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documents necessary for the lease financing, two-thirds majority approval by the City Council of the proposed plan of finance is required.

- d. At the time the Finance Department brings forward the lease financing for City Council approval, the Finance Department will also provide the City Council with an update to the due diligence report and any feasibility study. Approval of the lease financing will require two-thirds majority approval by the City Council.
3. The provisions of this section will not apply to a refunding of a lease financing transaction.

## **DEBT ISSUANCE**

### **I. DEBT CAPACITY**

The Covered Entities will keep outstanding debt within the limits of applicable law and at levels consistent with its credit worthiness objectives. Without limiting the foregoing, the City will keep outstanding debt within the limits of the City's Charter, and the Successor Agency will issue debt to refund its outstanding debt consistent with applicable law.

In particular, the City will assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the City has limited capacity for debt service in its budget, and that each newly issued financing will obligate the City to a series of payments until the bonds are repaid.

### **II. CREDIT QUALITY**

Each Covered Entity seeks to obtain and maintain from rating agencies as selected by the applicable Covered Entity the highest possible credit ratings for all categories of short-term and long-term debt. The Covered Entities will not issue bonds directly or on behalf of others that do not carry investment grade ratings. However, the City will consider the issuance of non-rated special assessment, community facilities, multifamily housing, and special facility bonds.<sup>1</sup>

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<sup>1</sup> In most cases, a bond which cannot achieve an investment-grade rating will not be rated at all, because there is little value from a bond-marketing perspective in a below investment-grade rating.

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### **III. STRUCTURAL FEATURES**

#### **A. Debt Repayment.**

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project and, consideration will be given, so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

#### **B. Variable-rate Debt.**

A Covered Entity may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with creditworthiness objectives. When making the determination to issue bonds in a variable-rate mode, consideration will be given in regards to the useful life of the project or facility being financed or refinanced or the term of the project requiring the funding, market conditions, and the overall debt portfolio structure when issuing variable rate debt for any purpose.

#### **C. Derivatives.**

Derivative products<sup>2</sup> may have application to certain borrowing programs. In certain circumstances these products can reduce borrowing cost and assist in managing interest rate risk. However, these products carry with them certain risks not faced in standard debt instruments. The Director of Finance will evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

### **IV. PROFESSIONAL ASSISTANCE**

The Covered Entities will utilize the services of independent financial/municipal advisors and bond counsel on all debt financings. The Director of Finance has the authority to periodically select service providers as necessary

to meet legal requirements and minimize net debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The City Attorney's Office is responsible for selection of bond counsel and for publicly issued debt, disclosure counsel. Additionally, the City Attorney's Office will be responsible for the selection of disclosure counsel in those circumstances where the City Attorney's

<sup>2</sup> A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.

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Office determines it to be necessary or desirable to retain disclosure counsel to generally advise a Covered Entity with respect to its obligations under state and federal securities laws. The goal in selecting service providers, whether through a competitive process or when appropriate, a sole-source selection, is to achieve an appropriate balance between service and cost.

## **V. METHOD OF SALE**

Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The preferred method of sale is competitive bid. However, other methods such as negotiated sale and private placement may be considered on a case-by-case basis.

## **DISCLOSURE PRACTICES AND PROCEDURES**

### **I. STATEMENT OF POLICY**

The Covered Entities are committed to full and complete primary (prior to issuance) and secondary (post issuance) market disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and Municipal Securities Rulemaking Board, as may be amended from time to time. The Covered Entities are also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information.

### **II. IMPLEMENTATION OF POLICY OBJECTIVES**

#### **A. Definitions.**

For purposes of this section, the following definitions apply.

“Continuing Disclosure Agreement” means the certificate or agreement entered into by the City in connection with the sale of bonds in order to satisfy the requirements of Securities and Exchange Rule 15c2-12 that requires the City or Successor Agency, as applicable, to provide specified information and annual reports while the bonds remain outstanding.

“Offering Document” means the document prepared in connection with the sale of bonds to the public.

#### **B. Written Policies and Procedures.**

In order to carry out these policies objectives, the City Manager, in consultation with the City Attorney, will implement written disclosure policies and procedures

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related to the provision of financial and other relevant information to investors including preparation and review of Offering Documents before submission to the City Council or Successor Agency Board for approval, compliance with Continuing Disclosure Agreements, and other related topics.

**C. Review and Approval of Offering Documents.**

A Covered Entity's consideration of the approval of bonds and the Offering Document related to the bonds is to be placed on the applicable agenda as a new business matter and not on the Consent Calendar. Any Offering Document to be issued in connection with the sale of the bonds is to be transmitted to the Covered Entity's governing board in substantially final form for its consideration and approval to release to investors, subject to any updating required to make the Offering Document accurate and complete. The Covered Entity's review will consider whether the Offering Document includes all material information to an investor in the bonds -- meaning information where there is a substantial likelihood that the information would have actual significance in the deliberations of the reasonable investor. At the Covered Entity meeting at which the proposed sale of bonds is considered, the Covered Entity will have the opportunity to address questions to staff and the professional advisors regarding the information presented in the Offering Document.

**D. Responsibility for Disclosure.**

The City Manager and the Director of Finance are the designated officials for communicating information concerning the finances and other information about the City and the Successor Agency that a reasonable investor would consider to be material in making a decision to purchase or sell debt issued by the City, the Successor Agency or a Covered Entity on behalf of the City. Communications from other City or Successor Agency officials or employees regarding the financial condition of the City or Successor Agency will not be considered to be official communications to the investor marketplace.

**DEBT ADMINISTRATION – INVESTMENTS, USE OF PROCEEDS AND TAX COMPLIANCE**

**I. INVESTMENT AND USE OF PROCEEDS**

Investments of proceeds of bonds or other forms of debt shall be consistent with federal tax requirements and any applicable State law requirements, the City's Investment Policy as modified from time to time, and with requirements contained in the governing documents.

The Department of Finance will be responsible for the implementation of internal control procedures to ensure that the proceeds of debt, regardless of tax status, will be

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directed to the intended use. This responsibility is in addition to the specific requirements related to the monitoring use of tax-exempt proceeds specified below.

## **II. FEDERAL TAX COMPLIANCE**

### **A. Responsible Department.**

The Department of Finance will have primary responsibility for all ongoing tax compliance matters relating to tax-exempt debt issued by the City or a Covered Entity. The Director of Finance, in consultation with the City Attorney who may in turn consult with bond counsel, will be responsible for monitoring ongoing tax compliance matters relating to tax-exempt debt, including compliance with the arbitrage rebate requirements of Section 148 of the Internal Revenue Code, as set forth below. It is contemplated that additional policies and procedures will be implemented by either or both the City Manager and the Director of Finance to supplement the policies and procedures set forth in this Policy.

### **B. Arbitrage Compliance.**

The Department of Finance will maintain a system of record keeping and reporting to meet the arbitrage compliance requirements of federal tax law for tax-exempt debt. In connection with this responsibility, the Department will:

1. program payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of bonds or notes, and no later than 60 days after the last bond or notes of each issue is redeemed;
2. during the construction period of each capital project financed in whole or in part by bonds or notes, monitoring the investment and expenditure of proceeds and consult with rebate experts as necessary to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the bonds or notes; and
3. retain copies of all arbitrage reports and account statements as described below in "Record Keeping Requirements".

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**C. Use of Tax-Exempt Debt and Facilities.**

The Director of Finance, together with the applicable City departments, will be responsible for:

1. monitoring the use of tax-exempt proceeds and the use of tax-exempt financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the debt to ensure compliance with covenants and restrictions set forth in the governing documents relating to the debt;
2. maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of tax-exempt debt, including a final allocation of tax-exempt proceeds as described below under “Record Keeping Requirements”;
3. consulting with the City Attorney’s Office and bond counsel in the review of any contracts or arrangements involving use of tax-exempt financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the governing documents relating to the tax-exempt debt;
4. maintaining records for any contracts or arrangements involving the use of tax-exempt financed or refinanced assets as described below under “Record Keeping Requirements”;
5. conferring at least annually with personnel responsible for tax-exempt financed or refinanced assets to identify and discussing any existing or planned use of tax-exempt financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the governing documents relating to the tax-exempt debt; and
6. to the extent that the City discovers that any applicable tax restrictions regarding use of tax-exempt proceeds and tax-exempt-financed or refinanced assets will or may be violated, consulting promptly with the City Attorney’s Office and bond counsel to develop a course of action to remediate any identified violation.

**D. Record Keeping Requirements.**

The Department of Finance and other applicable City departments, as may be necessary, will be responsible for maintaining the following documents for the term of each issue of tax-exempt debt (including debt issued to refinance existing debt, if any) plus at least three years:



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1. a copy of the closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of tax-exempt, including any elections made by the City in connection therewith;
2. a copy of all material documents relating to capital expenditures financed or refinanced by tax-exempt debt proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, draw requests for tax-exempt debt proceeds and evidence as to the amount and date for each draw down of tax-exempt debt proceeds, as well as documents relating to costs paid or reimbursed with tax-exempt debt proceeds and records identifying the assets or portion of assets that are financed or refinanced with tax-exempt debt proceeds, including a final allocation of tax-exempt debt proceeds;
3. a copy of all contracts and arrangements involving the use of tax-exempt debt-financed or refinanced assets; and
4. a copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements, in connection with any investment agreements, and copies of all bidding documents, if any.

## **APPENDIX B**

### **POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS**





# *City of San José, California*

## **COUNCIL POLICY**

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<b>EFFECTIVE DATE</b> June 11, 2002	<b>REVISED DATE:</b> March 27, 2018	
<b>APPROVED BY COUNCIL ACTION</b>	June 11, 2002, Item 3.7, Resolution No. 71023; December 6, 2005, Item 3.5, addition of TEFRA Fee and amendment of Annual Monitoring Fee policy; Reaffirmed March 27, 2018, Item 4.1, Resolution No. 78538.	

### **GENERAL MATTERS**

#### **I. ISSUER**

The City of San José (the "City") shall be the issuer of all bonds financing multifamily housing rental projects (a "Project" or "Projects") within the City, except as provided below. The City's Housing Department and Finance Department will consider other issuing agencies as follows:

**A. The Redevelopment Agency**

Not applicable.

**B. ABAG, CSCDA, Other Conduits**

The City may agree to the issuance of bonds by the Association of Bay Area Governments ("ABAG"), California Statewide Community Development Authority ("CSCDA") or a similar issuing conduit provided that the City is not making a loan or grant to the Project and the Project is one of multiple projects being financed by the Project Sponsor through such issuing conduit agency in the same California Debt Limit Allocation Committee ("CDLAC") round under a similar financing program so as to result in economies of issuance.

**C. Special circumstances**

Another agency may issue bonds when merited by special circumstances of the Project and the financing.

Where the City is not the issuer of bonds for a Project, it shall be the City's policy to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal tax and state laws. Where feasible, however, the City shall seek to hold The Equity and Fiscal Responsibility Act of 1986 Hearing, better known as the "TEFRA" Hearing for such Project.

#### **II. FINANCING TEAM**

The City shall select the financing team for all multifamily housing revenue bonds issued by the City. The Finance Department is responsible for selecting the financial advisor, trustee and the investment banker/underwriter (assuming a negotiated public sale of bonds). The City Attorney's Office is responsible for selecting the bond counsel firm. The financial advisor, investment banker and bond counsel shall be selected from approved lists determined from time to time by a request for qualifications/proposal process.

#### **III. COORDINATION AMONG CITY DEPARTMENTS**

The City recognizes that the issuance of housing bonds entails a coordinated effort among the Housing Department, Finance Department and City Attorney's Office. The Housing Department shall ensure that the Finance Department and the City Attorney's Office are provided with regular updates on projects that may involve the issuance of bonds.

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## **THE FINANCING PROCESS**

### **I. INITIAL MEETING WITH PROJECT SPONSOR**

#### **A. Prior Due Diligence**

Prior to arranging an initial meeting with the Project Sponsor, the Housing Department shall perform initial due diligence on the Project Sponsor, including whether the Project Sponsor has ever failed to use an allocation from CDLAC and whether the Project Sponsor has failed to comply with the terms of any other City financings or City loans.

#### **B. Determination of Readiness**

Following the initial meeting, City representatives shall determine if the project is in a state of sufficient "readiness" to proceed with the CDLAC application process. This includes the status of the project in terms of the development process. In general, a project will be deemed "not ready" if the discretionary planning approvals will not have been completed by the time of the CDLAC application.

#### **C. Selection of Financing Team**

Following a determination of readiness, the Finance Department and City Attorney shall recommend the financial advisor, underwriter (if applicable) and bond counsel, as the case may be, for each project.

### **II. DEPARTMENTAL APPROVALS**

Pursuant to the Delegation of Authority by the City Council, both the City's Directors of Finance and Housing must approve each Project, the financing, and the filing of a CDLAC application before the City can make an application to CDLAC for private activity bond allocation. The approval of the Finance and Housing Directors shall be evidenced by a jointly signed "Notice to Proceed" addressed to the Project Sponsor. The Notice to Proceed shall describe the project, identify the developer or Project Sponsor, the affordability mix, the proposed plan of finance and the amount of bond funding requested.

#### **A. Resolution**

The City Attorney's Office will be responsible for preparing a resolution for joint approval by the Directors of Finance and Housing. The resolution will:

1. Memorialize the Council's intent to issue the debt in order to induce others to provide project financing;
2. Authorize the filing of a CDLAC application; and
3. Authorize the execution of a Deposit and Escrow Agreement.

#### **B. TEFRA HEARING**

The TEFRA hearing will be held before the Director of Finance on the date specified in the TEFRA Notice. The Director of Finance has the discretion to have the TEFRA hearing held by the City Council.

### **III. CDLAC APPLICATIONS**

#### **A. Description**

Before the City is legally able to issue private activity tax-exempt bonds for a project, an application must be filed with CDLAC in Sacramento and an allocation of the State ceiling on qualified private activity bonds must be approved by CDLAC.

#### **B. City to File**

The City is the applicant to CDLAC for each project to be financed with tax-exempt bonds issued by the City. The Housing Department will file all applications to CDLAC on behalf of project sponsors.

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**C. Project Sponsor to Prepare Application**

Each project sponsor shall take responsibility for preparing the CDLAC application for its project with input from City representatives, the City's financial advisor and bond counsel.

**D. Deposit and Escrow Agreement**

The City will not file a Project Sponsor's CDLAC application unless the Project Sponsor executes a Deposit and Escrow Agreement and makes the necessary deposits specified in this Agreement. The Deposit and Escrow Agreement shall contain the items identified below. It shall be the responsibility of the Housing Department to see that all requirements under the Deposit and Escrow Agreement are met.

**1. CDLAC Performance Deposit**

The Deposit and Escrow Agreement must require the payment of the CDLAC performance deposit, provided that current CDLAC rules require the payment of such deposit to the issuer.

**2. City of San José Performance Deposit**

In addition to the CDLAC performance deposit, the Deposit and Escrow Agreement shall require the Project Sponsor to deposit \$50,000 with the City as a City of San José performance deposit. This deposit shall be forfeited in the event that the City, on behalf of the Project Sponsor, receives an allocation but does not issue bonds. The deposit may be applied to pay costs of issuance or returned to the Project Sponsor as soon as practicable. By agreement between the City and the Project Sponsor, the Project Sponsor may designate its City loan as the source of payment in the event of forfeiture.

**3. Financing Team Fees**

The Deposit and Escrow Agreement shall identify, if available, the fees of the bond counsel, financial advisor, and underwriter (if applicable). It shall be the responsibility of the Finance Department and the City Attorney's Office to identify these fees.

**IV. COUNCIL APPROVAL**

**A. Staff Report**

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall prepare a staff report recommending final Council approval for a bond issue. The staff report shall be submitted to the City Manager's Office in accordance with the timing requirements of the then-current City procedures.

The staff report shall specify the approvals that are recommended, provide background on the project being financed, describe the financing structure, indicate any exceptions to the City's investment policy, describe the financing documents to be approved, identify the financing team participants, and seek approval of consultant agreements and financing participants that have not previously been approved by Council. The staff report should indicate if a separate City loan is being provided. However, the terms of that loan should be discussed in a separate staff report which, whenever possible, shall be submitted for the same agenda. The staff report shall be signed by the Directors of Finance and Housing.

The staff report should be submitted only after the major transaction terms (e.g., financing structure, security provisions, bond amount, maximum maturity, etc.) are identified and agreed to by the parties. The staff report may note that the bond issue is contingent upon certain other approvals and may identify certain issues to be resolved at a later time.

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**B. Substantially Final Documents**

The City Council shall approve documents that are "substantially final" documents. Documents are in "substantially final" form if they identify the final security provisions and financing structure for the transaction. The City Attorney's Office shall determine whether documentation is in substantially final form.

**C. Council Meeting**

The Council meeting shall occur on a date after which all approvals from major financial participants (e.g., credit enhancement provider, bond purchaser, tax credit investor) have been obtained. At the discretion of the City Attorney and Finance Department, the Council may proceed with its approval process without such other final approvals if: (1) such final approval is likely; (2) the Council's approval is subject to such other party's final approval; and (3) the Council approval process cannot be delayed without jeopardizing the financing.

**V. BOND SALE AND CLOSING**

**A. Timing**

The bond sale and closing may commence only after the Council authorizes the bond issue, including the distribution of a Preliminary Official Statement, if applicable.

**B. Investment Agreements**

If authorized by the Council, the Project Sponsor, through its representative, which may include the underwriter or financial advisor, may solicit investment agreement providers for the purpose of reinvesting bond proceeds and revenues. The investment agreement providers must meet the City's requirements and the requirements in the bond resolution and trust indenture for the bonds. Bond counsel and the financial advisor shall review the investment agreement solicitation forms, the eligible providers, and the investment agreements.

**C. Payment of Issuance Fee**

The City's issuance fee shall be funded from the Costs of Issuance Fund held by the Trustee.

**D. Information Memorandum to Council**

Promptly after the issuance of all bonds for a CDLAC round, the City Finance Department shall prepare an information memorandum summarizing the salient points of each bond issue.

**CITY FEES**

**I. TEFRA HEARING FEE**

The City shall charge a fee of \$5,000 for the administrative costs associated with holding a TEFRA hearing relating to a Project. The fee shall be payable prior to the date that notice of the TEFRA hearing is published. No separate TEFRA hearing fee shall be charged if the City or Redevelopment Agency is issuing the bonds for the Project.

**II. ISSUANCE FEE**

The City shall charge a fee for the administrative costs associated with issuing the bonds for a Project Sponsor. The fee shall be payable at bond closing and may be contingent on the bond sale. The issuance fee shall be based on the total amount of the bonds (both tax-exempt and taxable) to be issued in accordance with the following sliding scale:

*\$0 to \$10 million:* 0.5% of the principal amount of bonds issued, with a minimum fee of \$30,000.

*Over \$10 million:* 0.5% of the first \$10 million principal amount of bonds; 0.25% of any additional amount.

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### III. ANNUAL MONITORING FEE

The City shall charge an annual fee for monitoring the restricted units. The fee shall be in an amount equal to 0.125% of the original principal amount of tax-exempt bonds issued. Except for non-profit or government agency Project Sponsors, the fee shall not be reduced until all of the tax-exempt bonds are retired and the bond regulatory agreement ceases to have validity or is no longer in effect, at which time it will terminate. Upon conversion to permanent financing, a nonprofit or government agency Project Sponsor, may have a reduction in their annual fee to 0.125% of the permanent bond amount after conversion subject, to a minimum annual fee of \$7,500.

The City annual monitoring fee shall be paid "above the line," i.e., on a parity with bond debt service and trustee fees. This parity provides the greatest assurance that the City's fee will be paid, although it may reduce the amount that the Project Sponsor's lender may be willing to underwrite. The City may determine, at its sole discretion, to subordinate all or a portion of its annual fee to bond debt service only when the Housing Department has made a substantial loan to the Project, so long as the Project Sponsor provides adequate assurance of the payment of such fees. The City shall not subordinate its fee in circumstances where no City funds are subsidizing the Project.

### CREDIT CONSIDERATIONS

#### I. CREDIT ENHANCEMENT

##### A. General Policy

It shall be the general policy of the City to encourage the use of credit enhancement for bonds issued by the City. Credit enhancement shall be a requirement for any multifamily bonds that are publicly distributed. The minimum rating on such credit enhancement shall be "A" or higher by Moody's, Standard & Poor's, and/or Fitch. This policy shall be subject to the exceptions described below.

##### B. Forms of Credit Enhancement

Credit enhancement may be in the form of a bank letter of credit, bond insurance, surety, financial guaranty, mortgage-backed security (e.g., Fannie Mae, Freddie Mac or Ginnie Mae) or other type of credit enhancement approved by the market. If the City has not previously issued bonds with a particular kind of credit enhancement, the Finance Department and financial advisor shall determine whether such credit enhancement is acceptable and whether marketing restrictions shall be imposed.

##### C. Project Sponsor Responsibility

It shall be the responsibility of the Project Sponsor to obtain and pay for the costs of credit enhancement. The City will assume no responsibility therefor.

#### II. NON-CREDIT ENHANCED BONDS

##### A. General Policy

It shall be the general policy of the City to require bonds that are not secured with credit enhancement to be sold through private placement or through a limited public offering to institutional or accredited investors. As an exception to this policy, the City may authorize the public distribution of non-credit enhanced bonds that are rated at least in the "A" category by Moody's, Standard & Poor's, and/or Fitch, after consultation with the underwriter and financial advisor. In connection with such authorization, the City shall consider the sophistication of the Project Sponsor, its financial resources, commitment to the community and other factors.

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**B. Additional Requirements for Non-Rated Bonds**

Non-rated bonds must comply with the following additional requirements:

1. **Minimum Denominations and Number of Bondholders**  
In order to limit the transferability of non-rated bonds, the City shall seek minimum denominations of at least \$100,000. In addition, the City may also limit the number of bondholders to further limit the transferability of non-rated bonds.
2. **Qualified Institutional Buyer ("QIB") Letter**  
The bond purchaser in a private placement or limited public offering must certify that it is a qualified or accredited investor (a "big boy letter"). Such letter must be signed by subsequent bond purchasers so long as the bonds remain unrated.

**REFUNDING/RESTRUCTURING/REMARKETING**

**I. General**

The City has issued both fixed rate and variable rate multifamily bonds. On occasion, the Project Sponsor may ask the City to refund those bonds to lower the interest rate, to remarket the bonds with a new credit enhancement, and/or to remarket the bonds as fixed rate bonds. The Project Sponsor will be responsible for all costs and fees related to the refunding.

**II. Optional Refunding**

**A. Reasons to Refund Outstanding Bonds**

A Project Sponsor may ask the City to refund its outstanding bonds for one of several reasons:

1. Lower the interest rate on fixed rate bonds at the call date (through the issuance of fixed rate or variable rate refunding bonds);
2. Substitute a new credit structure that was not expressly provided for in the existing documents; or
3. Restructure the existing debt.

**B. Financing Team**

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

**C. Legal/Documentation**

New documents shall be prepared to meet the City's then-current legal, credit, financial, and procedural requirements. The City shall follow the documentation process applicable to new bonds. Because the City's primary purpose in issuing multifamily housing bonds is to preserve and increase the supply of affordable housing in the City, if federal or state affordability, income, and/or rent restrictions have changed between the time of the original financing and the refunding bonds, the more restrictive provisions shall apply. If new requirements are more restrictive than existing requirements, the new requirements shall be applied in phases to new tenants over a period of time, not to exceed five (5) years, as determined by the Housing Department staff and the City Attorney.

**D. Bond Maturity**

Subject to the approval of bond counsel, the final maturity of the refunding bonds may be later than the final maturity of the prior bonds so as to allow the Project Sponsor the longest possible period for repayment under federal law.

<b>TITLE</b>	<b>POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS</b>	<b>PAGE</b> 7 of 9	<b>POLICY NUMBER</b> 1-16
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**E. Compliance**

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

**F. Fees**

The Project Sponsor shall pay the following City fees in connection with the refunding:

1. Issuance Fee

The City shall charge an issuance fee in accordance with the City's current policy on issuance fees for new projects.

2. Annual Monitoring Fee

The City shall continue to charge the same annual fee for monitoring the Project as for the original bonds. Such fee shall not be reduced even if the refunding bond size is lower.

**G. Cash Flow Savings**

Cash flow savings from refunding fixed rate bonds at a lower fixed interest rate or a variable rate shall be applied as follows:

1. Projects with a City Loan

A portion of the projected cash flow savings, to be determined by the Housing Department, shall be used to accelerate the repayment of the City loan, subject to restrictions in existing documents.

2. Projects with No City Loan

The City Housing Department shall require the Project Sponsor to provide affordability or other financial concessions to the City as a condition for refunding. Such concessions may include increasing the percentage of affordable units and extending the term of affordability restrictions.

**H. City Council Approval**

All refunding bonds and related legal documentation must be approved by the City Council in accordance with the procedures set for the issuance of new bonds.

**III. DEFAULT REFUNDING**

**A. General**

In the event of a default on the bonds or the underlying mortgage, a fixed rate bond issue may be refundable in advance of the call date without premium. The issue does not arise with variable rate bonds, as such bonds are callable at any time. Default refunding bonds are an area of potential sensitivity for the City as it will not want a developer to manufacture a default to take advantage of more favorable interest rates.

**B. Financing Team**

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

**C. Confirming the Default**

To confirm a default, the City must receive a notice from an independent party, such as the bond trustee. If applicable, notice of cash flow insufficiency is then filed as part of the Continuing Disclosure



<b>TITLE</b>	<b>POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS</b>	<b>PAGE</b>	<b>POLICY NUMBER</b>
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Certificate. In addition, the City shall retain, at the expense of the Project Sponsor, an independent feasibility consultant to review the default. The City will proceed with the transaction only if a review by staff and the independent consultant indicates that:

1. Net cash flow from the Project is currently insufficient to pay debt service on the outstanding bonds and is unlikely to do so within a reasonable period;
2. The Project is being operated in accordance with reasonable real estate management practices and the net operating income has not been artificially reduced by failing to rent units actively, inflating operating expenses, or other reasons within the control of the Project Sponsor; and
3. The Project Sponsor has provided audited operating statements, Continuing Disclosure filings (if applicable), and arbitrage rebate reports for all years, has cooperated in providing requested information, and has used operating income and other resources to pay debt service.

**D. Additional Requirements**

1. Indemnification

The City shall be indemnified as to any costs incurred as a result of the refunding. Such indemnification shall come from a party or parties with adequate net worth or other financial capacity and whose assets are not limited to ownership of the Project.

2. Future Debt Coverage

The analysis of the feasibility consultant shall show that, upon the refunding, the Project's current net operating income will be at least sufficient to pay the revised debt service plus a reasonable coverage ratio (or adequate non-bond proceeds will be available to cover such deficiencies). In other words, the City shall not proceed with the refunding if it will not cure the cash flow problem.

3. Bond Counsel Review

Bond counsel shall have determined that the original bond and disclosure documents provided adequate disclosure of such a potential redemption and that the provisions of the prior documents have been satisfied.

4. Compliance

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

**E. Fees**

The fees and expenses of the feasibility consultant, financial advisor and bond counsel shall not be contingent on their findings or completion of a refunding. The City shall require that the Project Sponsor deposit the estimated fees and expenses with the City prior to the commencement of any analysis.

**F. Affordability Restrictions**

The affordability requirements for a default refunding shall be the same as those listed under "Legal/Documentation" for an optional refunding.

**G. City Council Approval.**

1. Initial City Council Approval

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain initial City Council approval prior to proceeding with any documentation for a default refunding. Initial City Council approval shall occur after the independent feasibility consultant performs the initial analysis, a default is confirmed, and it is determined that a refunding will cure the cash flow problem.

<b>TITLE</b>	<b>POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS</b>	<b>PAGE</b>	<b>POLICY NUMBER</b>
		9 of 9	1-16

2. **Final City Council Approval**

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain final City Council authorizing the bond issue and execution of the relevant documentation.

H. **City Fees**

The City shall charge the same issuance fee and annual monitoring fee that it otherwise would in conjunction with a new bond issue.

**IV. REMARKETING**

A. **General**

A Project Sponsor may ask the City to remarket outstanding bonds under one of three basic scenarios: (1) converting variable rate bonds to fixed rate bonds; (2) a mandatory tender of bonds; or (3) substituting a new credit enhancement for the bonds in accordance with existing documentation.

B. **Financing Team**

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

C. **Legal/Documentation**

A remarketing of fixed rate bonds will not require new legal documentation. However, the City Attorney's Office, in conjunction with bond counsel, may require a new disclosure document. A remarketing of bonds with a new credit enhancement may require amended documentation, as well as a new disclosure document, as determined by the City Attorney's Office and bond counsel.

D. **Fees**

A remarketing will not result in the payment of additional or revised City issuance or annual fees. However, the City shall charge a fee of \$10,000 to \$25,000 to the Project Sponsor for administrative costs.

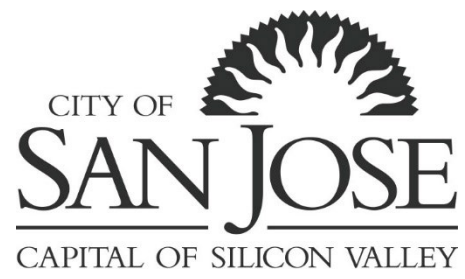
E. **Council Approval**

All remarketed bonds and any related documentation shall be approved by the City Council prior to any remarketing.



**APPENDIX C:**

**CITY OF SAN JOSÉ FINANCING AUTHORITY'S  
LEASE REVENUE COMMERCIAL PAPER PROGRAM**



**City Council/City of San José Financing Authority Board Actions –  
Authority's Lease Revenue Commercial Paper Program**

**Date**

January 13, 2004	Authorized the issuance of CSJFA tax-exempt CP Notes in an amount not to exceed \$98 million to finance public improvements of the City including the offsite parking garage for the new City Hall and non-construction costs for technology, furniture, equipment, and relocation services for the new City Hall.
November 9, 2004	Authorized the issuance of CSJFA tax-exempt CP Notes to provide additional funding for the Integrated Utility Billing, Customer Service and Performance Management System (the CUSP Project).
June 21, 2005	Authorized the issuance of CSJFA taxable CP Notes, under the same \$98 million not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue CSJFA taxable CP Notes to pay for expenses otherwise authorized under the CSJFA CP program, but ineligible to be paid from CSJFA tax-exempt CP proceeds.
November 15, 2005	Authorized expanding the capacity of the CSJFA CP program from \$98 million to \$116 million and authorizing the issuance of CSJFA CP Notes to pay a portion of the costs of the Phase II improvements at the City's Central Service Yard and a portion of the demolition and clean-up costs at the City's Main Service Yard.
May 22, 2007	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$8.25 million to pay for capital improvements at the City's HP Pavilion (Arena).
October 21, 2008	Authorized the issuance of CSJFA CP Notes to refund bonds and other obligations of the City or the Authority pursuant to Government Code Sections 53570 et seq. and 53580 et seq.
December 8, 2009	Authorized staff to amend and renew the letter of credit and reimbursement agreement supporting the CSJFA CP Notes in order to extend the term to January 27, 2013.
April 27, 2010	Authorized the issuance of CSJFA CP Notes to fund a loan to the low and moderate income housing fund and to fund short-term cash flow needs of the City.
March 15, 2011	Authorized the execution and delivery of a Third Amendment to the Site Lease, a Third Amendment to the Sublease, and other related actions pertaining to the CSJFA CP Program in order to provide for the substitution of certain components of the property under the Site Lease and the Sublease.
June 19, 2012	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$10.0 million to provide funding for additional projects for the Convention Center Expansion and Renovation Project.

December 4, 2012	Authorized staff to amend and restate the letter of credit and reimbursement agreement supporting the CSJFA CP Notes in order to extend the term to March 15, 2013.
February 12, 2013	Authorized staff to negotiate two new letters of credit and reimbursement agreements supporting the CSJFA CP Notes and to extend those terms; and authorized the execution and delivery of a Fourth Amendment to the Site Lease, a Fourth Amendment to the Sublease, and other related actions in order to provide for the substitution of certain components of the property under the Site Lease and the Sublease. In connection with these actions, also reduced the capacity of the CSJFA CP program to \$85 million from \$116 million.
June 17, 2014	Authorized the execution and delivery of a Fifth Amendment to the Site Lease, a Fifth Amendment to the Sublease, and other related actions in order to provide for the addition of a component of property (the Tech Museum) under the Site Lease and the Sublease to provide an additional pledged asset of the CSJFA CP program.
September 15, 2015	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$3.5 million to provide additional financing for the Water Meter Replacement Project.
June 21, 2016	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$10.0 million to provide additional financing for the Conservation Projects.
January 31, 2017	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$15.0 million to provide financing for the Convention Center Exhibit Hall Project.
August 29, 2017	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$10.0 million to provide financing for start-up costs for the San José Clean Energy Project.
February 13, 2018	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$21.0 million to provide financing for the Flood Recovery Project.
August 14, 2018	Authorized the extension of the respective letters of credit supporting the CSJFA CP program for 3.5 years to February 23, 2022 and increase of the aggregate principal size of the CSJFA CP Program from \$85 million to \$125 million, with each bank providing 50% of the credit support. Authorize the issuance of CSJFA CP Notes in an amount not to exceed \$47 million to finance the purchase of the San José Convention Center South Hall property.
January 12, 2021	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$23.4 million to provide bridge funding for the Fire Department Training Center and Emergency Operations Relocation project.

June 22, 2021	Authorized the issuance of CSJFA CP Notes in an amount not to exceed \$95.0 million to provide funding for energy and other operating costs for the San José Clean Energy department.
August 31, 2021	Authorized the extension of an LOC supporting the CSJFA CP program for three years to March 24, 2025 and increased of the aggregate principal size of the CSJFA CP program from \$125 million to \$175 million, with U.S Bank being the sole LOC provider supporting payment on Series 2 Notes and Series 2-T Notes only).
November 2, 2021	Deauthorized \$19.2 million of the bridge CP funding for the Fire Department Training Center and Central Service Yard projects with the issuance of the CSJFA 2021A Bonds.





**APPENDIX D:**

**AIRPORT COMMERCIAL PAPER PROGRAM**



<b><u>Date</u></b>	<b><u>City Council Actions – Airport Commercial Paper Program</u></b>
November 2, 1999	Council adopted Resolution No. 69200 approving the implementation of a commercial paper program (the Airport CP program) for the Norman Y. Mineta San José International Airport (the Airport), which authorized the issuance of up to \$100 million through a combination of three series of commercial paper notes: Series A (Non-AMT), Series B (AMT), and Series C (Taxable).
June 20, 2006	Council approved an expansion of the Airport CP program from \$100 million to \$200 million to ensure that funding would be available for the award of the design and construction contracts related to the amended Airport Master Plan projects and to pay costs related to the Airport's lease of the former FMC property.
January 9, 2007	Council approved an expansion of the Airport CP program from \$200 million to \$450 million to ensure that funding would be available for the design and construction contracts related to the re-phased Airport Master Plan projects. The Series A-C Notes of the Airport CP program were secured by letters of credit issued on a several, not joint, basis by J.P. Morgan Chase Bank, N.A. (J.P. Morgan), BANA, and Dexia Credit Local, acting through its New York Branch (Dexia), pursuant to the second amended and restated letter of credit and reimbursement agreement (the JPM/BANA/Dexia agreement).
March 25, 2008	Council approved an expansion of the Airport CP program from \$450 million to \$600 million primarily to refund the Series 2004A/B Bonds that were adversely impacted by disruptions in the financial markets related to auction rate securities. This expansion was accomplished through a combination of three additional series of commercial paper notes: Series D (Non-AMT), Series E (AMT), and Series F (Taxable), and was secured by a LOC issued by Lloyds TSB Bank plc, acting through its New York Branch (Lloyds), pursuant to a letter of credit and reimbursement agreement.
September 1, 2009	Council adopted a resolution authorizing the issuance of tax-exempt private activity Non-AMT commercial paper notes as provided for in the American Recovery and Reinvestment Act of 2009. At that time, the Series A Notes were redesignated as Series A-1 (Non-AMT) and Series A-2 (Non-AMT/Private Activity) and the Series D Notes were authorized to be redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity).
November 9, 2010	Council authorized an amendment to the JPM/BANA/Dexia agreement that extended the term of the agreement for two months from December 2, 2010 to February 2, 2011, removed Dexia Credit Local as a party to the agreement, reduced the amount of available credit from \$450 million to approximately \$283 million, and amended other terms of the reimbursement agreement. The two-month extension provided additional time to complete negotiations related to the replacement letters of credit approved by the City Council on January 11, 2011.

January 11, 2011	Council approved letter of credit and reimbursement agreements with each of J.P. Morgan, BANA, Citibank, and WFB. The terms of the agreements ranged from one year to three years and the replacement letters of credit provided aggregate credit support of \$383 million to the Airport CP program.
April 26, 2011	Council approved an amended and restated letter of credit and reimbursement agreement (the Amended Agreement) with Lloyds, which provided for the extension of the credit facility for the Series D, Series E and Series F Notes to September 7, 2011 from its previous termination date of May 7, 2011. The Amended Agreement provided aggregate credit support of \$140 million to the Airport CP program.
June 21, 2011 and November 15, 2011	Council approved the issuance of Airport Revenue Bonds, Series 2011A-1 and Series 2011B to refund a significant portion of the outstanding commercial paper notes. As a result of these bond issuances, the total outstanding Airport CP Notes authorization amount was reduced from \$410 million, as of July 1, 2011, to \$52 million, as of December 31, 2011.
February 4, 2014	Since December 2011, letters of credit issued by BANA, Citibank, JPMorgan and Lloyds have been terminated or expired. The LOC issued by WFBNA, by Council, was replaced with one issued by Barclays on February 11, 2014 and is scheduled to expire on February 9, 2018.
September 8, 2015	The City directed U.S. Bank N.A, as Issuing & Paying Agent, to decrease the stated amount of the LOC established by Barclays from \$60 million in capacity to \$38 million in capacity. The Barclays LOC was subsequently extended to February 8, 2019.
August 28, 2018	Council authorized the substitution of the LOC provided by Barclays with a LOC provided by BANA in an aggregate principal amount of \$75 million and with expiration date of September 10, 2021.
August 19, 2021	The City executed an amendment to the letter of credit and reimbursement agreement, dated as of September 1, 2018, between City of San José and BANA in the stated amount of \$81.7 million to extend the expiration date from September 10, 2021 to September 10, 2024. In connection with the extension of the expiration date of the Airport LOC on August 19, 2021, the facility fee rate was increased to 0.40%.
August 31, 2021	Council held a new TEFRA hearing for the Airport, approving the issuance of the Series B Notes. The TEFRA hearing will allow the issuance of tax-exempt Series B Notes, in an aggregate principal amount together with certain other commercial paper notes not to exceed \$600 million to be issued from time to time, to finance and refinance the facilities at the Airport. The maximum issuance is limited to \$75 million, the maximum principal amount supported by the LOC from BANA.

**APPENDIX E:**

**CURRENT RATINGS SUMMARY**



## **CURRENT RATINGS SUMMARY**

The table below shows the long-term and short-term ratings scales from Moody's Investors Service (Moody's), S&P Global Ratings (S&P) and Fitch Ratings (Fitch). (The ratings for bonds issued by the City and its related entities are summarized on the Current Ratings Summary table on the following pages.)

Rating Scale									
Moody's				S&P		Fitch			
<u>Long-term</u>		<u>Short-term</u>		<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>		
Aaa	MIG1	VMIG1	P-1	AAA	A-1+	AAA	F1+		
Aa1				AA+		AA+			
Aa2				AA		AA			
Aa3				AA-		AA-			
A1				MIG2	VMIG2	P-2	A+	A-1	A+
A2	A	A							
A3	MIG3	VMIG3	P-2	A-	A-2	A-	F2		
Baa1				BBB+		BBB+			
Baa2			MIG3	VMIG3	P-3	BBB	A-3	BBB	F3
Baa3	BBB-	BBB-							
Ba1	SG	SG	Not prime	BB+	B	BB+	B		
Ba2				BB		BB			
Ba3				BB-		BB-			
B1				B+		B+			
B2				B		B			
B3				B-		B-			
Caa1				C	CCC+	C	CCC	C	
Caa2									CCC
Caa3									CCC-
Ca									CC
									C
C				D	/	DDD	/		
/						DD			
/						D			
A-category = Highest quality B-category = Medium grade, speculative C-category = Lowest grade, highest speculation D-category = Default, questionable value									



**Current Ratings Summary <sup>(5)</sup>**  
As of September 2022

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
<b><u>City of San José</u></b>			
<b><i>General Obligation Bonds</i></b>			
Series 2019A-1 (Disaster Preparedness, Public Safety and Infrastructure)	Aa1	AA+	AAA
Series 2019B (Disaster Preparedness, Public Safety and Infrastructure)	Aa1	AA+	AAA
Series 2019C (Libraries, Parks and Public Safety)	Aa1	AA+	AAA
Series 2019D (Libraries, Parks and Public Safety)	Aa1	AA+	AAA
Series 2021A (Disaster Preparedness, Public Safety and Infrastructure)	Aa1	AA+	AAA
Series 2021B (Disaster Preparedness, Public Safety and Infrastructure)	Aa1	AA+	AAA
<b><u>City of San José Financing Authority</u></b>			
<b><i>Lease Revenue Bonds</i></b>			
Series 2013B (Civic Center Garage)	Aa2	AA	AA
Series 2020A (Civic Center Refunding)	Aa2	AA	AA
Series 2020B (Ice Centre Project)	Aa3	AA	AA-
Series 2021A (Fire Dept Training Center and Central Service Yard Projects)	Aa2	AA	AA
Series 2022A (Convention Center Refunding Project)	Aa3	AA	AA
<b><i>Commercial Paper Notes</i></b>			
Lease Revenue Commercial Paper Notes			
LOC: U.S. Bank (expires 3/24/25)	P-1	A-1+	F1+
<b><i>Wastewater Revenue Notes</i></b>			
Regional Wastewater Facility <sup>(3)</sup>	--	--	--
<b><i>Revolving Credit Facility <sup>(4)</sup></i></b>			
Clean Energy	--	--	--
<b><u>Norman Y. Mineta San José International Airport</u></b>			
<b><i>Airport Revenue Bonds</i></b>			
Series 2014A (AMT)	A2	A	A
Series 2014B (Non-AMT)	A2	A	A
Series 2014C (Non-AMT)	A2	A	A
Series 2017A (AMT) <sup>(1)</sup>	A2	A	A
Series 2017B (AMT) <sup>(1)</sup>	A2	A	A
Series 2021A (AMT) <sup>(1)</sup>	A2	A	A
Series 2021B (Non-AMT) <sup>(1)</sup>	A2	A	A
Series 2021C (Taxable) <sup>(1)</sup>	A2	A	A

**Current Ratings Summary <sup>(5)</sup>**  
As of September 2022

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b><i>Subordinate Airport Commercial Paper Notes</i></b>			
CP Series A-1 (Non-AMT)			
LOC: Bank of America N.A. (expires 9/10/2024) <sup>(2)</sup>	P-1	A-1	F1+
CP Series A-2 (Private Activity Non-AMT)			
LOC: Bank of America N.A. (expires 9/10/2024) <sup>(2)</sup>	P-1	A-1	F1+
CP Series B (AMT)			
LOC: Bank of America N.A. (expires 9/10/2024) <sup>(2)</sup>	P-1	A-1	F1+
CP Series C (Taxable)			
LOC: Bank of America N.A. (expires 9/10/2024) <sup>(2)</sup>	P-1	A-1	F1+
<b><u>Clean Water Financing Authority – No Bonds outstanding</u> <sup>(6)</sup></b>			
	--	--	--
<b><u>Successor Agency to the Redevelopment Agency</u></b>			
<b><i>SARA Tax Allocation Bonds</i></b>			
Series 2017A Senior	--	AA	AA
Series 2017(A-T) (Senior Taxable)	--	AA	AA
Series 2017B Subordinate	--	AA-	AA-

(1) Insured by Build America Mutual (BAM) – NR/AA/NR

(2) Bank of America replaced Barclays as the LOC provider effective September 1, 2018

(3) There is no obligor rating associated with the RWF. The directly placed bank facility with Wells Fargo Bank, N.A. is not rated.

(4) There is no obligor rating associated with the Revolving Credit Facility. The directly placed bank facility with Barclays Bank PLC. Is not rated.

(5) The ratings in this table are provided without effect to any credit enhancement and would be separately footnoted.

(6) Currently there are no outstanding bonds issued the Clean Water Financing Authority.

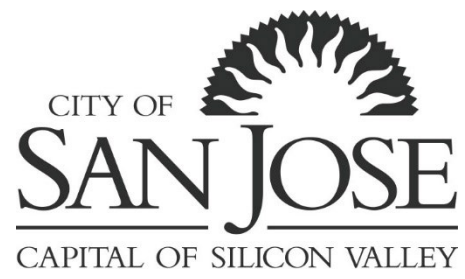
"--" denotes bonds that are not rated by the respective rating agency.



## **APPENDIX F:**

### **OVERLAPPING DEBT REPORT**

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 obligations (including certificates of participation), bonds issued to refund pension and other post-employment benefits, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics, Inc., as of June 30, 2022, is shown in this appendix. The City makes no representations as to the completeness or accuracy of such statement.



**City of San José**  
**Schedule of Direct and Overlapping Bonded Debt**  
**June 30, 2022**

City Net Taxable Assessed Valuation (in thousands)		\$ 216,232,207	
	% Applicable	Outstanding Debt as of 06/30/22	Estimated Share of Overlapping Debt
<b>City Direct Debt</b>	100.00%	\$ 1,392,012	\$ 1,392,012
<b>Direct Tax and Assessment Debt:</b>			
City of San José Community Facilities Districts	100.00%	\$ 3,525	\$ 3,525
City of San José Special Assessment Bonds	100.00%	0	
		<u>3,525</u>	<u>3,525</u>
<b>Overlapping Tax and Assessment Debt:</b>			
Alum Rock Union School District	77.28%	90,225	69,725
Berryessa Union School District	93.83%	117,645	110,392
Cambrian School District	64.11%	60,970	39,086
Campbell Union High School District	59.54%	371,390	221,129
Campbell Union School District	47.30%	223,499	105,711
Cupertino Union School District	15.56%	271,768	42,279
East Side Union High School District	95.87%	907,686	870,162
Evergreen School District	99.42%	159,420	158,499
Foothill-DeAnza Community College District	3.81%	657,878	25,092
Franklin-McKinley School District	99.43%	151,997	151,135
Fremont Union High School District	8.53%	582,770	49,687
Gavilan Joint Community College District	4.95%	206,905	10,234
Los Gatos Union School District	1.71%	67,035	1,146
Los Gatos-Saratoga Joint Union High School District	0.84%	84,030	704
Luther Burbank School District	17.75%	17,507	3,108
Midpeninsula Regional Open Space District	0.01%	84,575	9
Moreland School District	74.62%	118,647	88,535
Morgan Hill Unified School District	11.51%	109,290	12,575
Mount Pleasant School District	88.55%	31,785	28,146
Oak Grove School District	99.92%	225,160	224,987
Orchard School District	100.00%	32,700	32,700
San José Unified School District	98.49%	504,234	496,630
San José-Evergreen Community College District	85.17%	834,060	710,394
Santa Clara County	37.36%	1,130,850	422,474
Santa Clara Unified School District	21.83%	956,350	208,809
Santa Clara Valley Water District Benefit Assessment District	37.36%	48,150	17,988
Union School District	72.77%	105,359	76,673
West Valley Community College District	31.75%	732,500	232,569
<b>Subtotal Overlapping Tax and Assessment Debt</b>		<u>8,884,385</u>	<u>4,410,578</u>
<b>Total Direct and Overlapping Tax and Assessment Debt</b>		<u>8,887,910</u>	<u>4,414,103</u>
<b>Overlapping Other Debt:</b>			
Alum Rock Union School District Certificates of Participation	77.29%	11,375	8,791
Berryessa Union School District Certificates of Participation	93.84%	2,948	2,766
Campbell Union High School District General Fund Obligations	59.54%	15,500	9,229
Campbell Union School District General Fund Obligations	47.30%	1,890	894
East Side Union High School District Post Employment Obligations	95.87%	25,760	24,695
Foothill-DeAnza Community College District General Fund Obligations	3.81%	21,380	815
Franklin-McKinley School District Certificates of Participation	0.00%	0	0
Gavilan Joint Community College District General Fund Obligations	4.95%	6,405	317
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.84%	755	6
Midpeninsula Regional Open Space Park District General Fund Obligations	0.01%	99,706	11
Morgan Hill Unified School District Certificates of Participation	11.51%	13,505	1,554
San José Unified School District Certificates of Participation	98.49%	6,450	6,353
San José-Evergreen Community College District Benefit Obligations	85.17%	47,450	40,415
Santa Clara County Board of Education Certificates of Participation	37.36%	1,820	680
Santa Clara County General Fund Obligations	37.36%	1,210,694	452,303
Santa Clara County Pension Obligation Bonds	37.36%	335,638	125,391
Santa Clara County Vector Control District Certificates of Participation	37.36%	1,505	562
Santa Clara Unified School District Certificates of Participation	21.83%	13,325	2,909
West Valley-Mission Community College District General Fund Obligations	31.75%	12,000	3,810
<b>Total Gross Direct and Overlapping General Fund Debt</b>		<u>1,828,106</u>	<u>681,501</u>
<b>Total Overlapping Debt</b>		<u>\$ 10,716,016</u>	
<b>Total Direct and Overlapping Debt</b>			<u>\$ 5,095,604</u>

**Note:**

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses in the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt, of each overlapping government. The City direct debt in this schedule includes bonds, notes, certificate of participation, loans, and capital leases.

Source: California Municipal Statistics, Inc.  
Finance Department, County of Santa Clara



## **APPENDIX G:**

### **SPECIAL TAX ANNUAL REPORT**

This information is provided in the CADR to the City Council pursuant to California Government Code Sections 50075, 50075.3, 53410 and 53411. California Government Code Section 50075 requires that on or after January 1, 2001, any local special tax measure that is subject to voter approval that would provide for the imposition of a special tax by a local agency shall provide accountability measures that include an annual report. California Government Code Sections 53410 and 53411 require the same type of annual report for voter approved bond measures.

Pursuant to Government Code Section 50075.3 and 53411, the Chief Financial Officer of the levying local agency shall file the annual report with its governing body no later than January 1, 2002, and at least once a year thereafter. The annual report shall contain both of the following: (a) the amount of funds collected and expended; and (b) the status of any project required or authorized to be funded as identified in the applicable measure.





**Special Tax Annual Report**  
FY 2021-22

Date of Election	Special Tax or Bond Measure	YTD	YTD Program	Status of Funded Projects
		Revenue Status by Fund <sup>1</sup>	Expense by Fund <sup>1</sup>	
11/07/2000	San José Neighborhood Libraries Bonds (Measure O – GO Bonds)	See Note 2	See Note 2	20 Completed, Misc. projects
11/07/2000	San José Neighborhood Parks and Recreation Bonds (Measure P – GO Bonds)	See Note 2	See Note 2	89 Completed, 1 Design
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act (Measure O – GO Bonds)	See Note 2	See Note 2	Project Completed
11/06/2018	Public Safety and Infrastructure Bonds (Measure T- GO Bonds)	See Note 2	See Note 2	3 Completed, 21 Design/Construction
03/27/2001	Community Facilities District No. 6 (Great Oaks-Route 85)	\$1,031,325	\$976,609	Project Completed
06/19/2001	Community Facilities District No. 5B (North Coyote Valley Services)	\$0	\$0	No Activity
09/03/2002	Community Facilities District No. 8 (Communications Hill)	\$956,867	\$861,183	On-going Maintenance
12/17/2002	Community Facilities District No. 9 (Bailey/Highway 101)	\$0	\$0	Project Completed
04/01/2003	Community Facilities District No. 10 (Hassler-Silver Creek)	\$1,047,325	\$1,067,622	Project Completed
06/07/2005	Community Facilities District No. 11 (Adeline-Mary Helen)	\$50,311	\$104,983	On-going Maintenance
11/08/2005	Community Facilities District No. 12 (Basking Ridge)	\$230,097	\$396,143	On-going Maintenance
06/16/2009	Convention Center Financing District (See Note 3)	\$8,511,087	\$4,144,453	On-going
09/20/2011	Community Facilities District No. 14 (Raleigh-Charlotte)	\$597,597	\$418,531	On-going Maintenance
10/02/2012	Community Facilities District No. 13 (Guadalupe Mines)	\$64,162	\$72,804	On-going Maintenance
06/03/2014	Library Parcel Tax (Measure B)	\$10,059,026	See Note 1	On-going
06/17/2014	Community Facilities District No. 15 (Berryessa-Sierra)	\$114,443	\$106,793	On-going Maintenance
06/06/2017	Community Facilities District No. 16 (Raleigh-Coronado)	\$427,793	\$348,946	On-going Maintenance
08/14/2018	Community Facilities District No. 17 (Raleigh-Coronado)	\$85,185	\$6,464	On-going Maintenance

<sup>1</sup> The fiscal year revenue by fund includes all revenue entries including special taxes collected for General Obligation Bonds, Community Facilities Districts, Convention Center Financing District, and library parcel tax (Measure B 2014). The fiscal year expenses by fund include debt service, administration, and maintenance service charge for General Obligation, Community Facilities Districts, and Convention Center Financing District bonds. A detailed annual report on the expenditure of library parcel taxes is prepared by the City's external auditor, which is available on the City Auditors website after the CADR has been approved and distributed.

<sup>2</sup> On July 25, 2019, the City issued \$502 million of General Obligation Bonds (2019 GO Bonds), to finance new projects under Measure T, and to refund all outstanding GO Bonds issued under prior authorizations of Measure O (2000) and P (2000) and Measure O (2002). The 2019 GO Bonds provided \$239.9 million for Measure T critical infrastructure and land acquisition projects; \$9.2 million for prior and remaining Measure O (2000 and 2002) library and public safety projects, San José 911, Fire, Police and Paramedic Neighborhood Security Act projects completed in FY2022 ; and \$252.9 million in GO refunding bonds that refunded all of the prior general obligation bonds issued under Measure O (2000), Measure P (2000) and Measure O (2002). On July 29, 2021, the City issued \$200.5 million to finance new projects under Measure T. The City's external auditor prepares a detailed annual report on each of the General Obligation Bond measures which is available on the City Auditor's website after the CADR has been approved and distributed.

<sup>3</sup> The Special Tax Bonds, Series 2011 and CSJFA Lease Revenue Bonds, Series 2011A were refunded in full by CSJFA Lease Revenue Bonds, Series 2022A in April 2022. Under the Pledge Agreement dated as of April 1, 2022, between the City, for and on behalf of the Convention Center Facilities District (CCFD), and the Authority, the City pledged a lien and security interest on the Special Taxes (4% hotel special tax levied by the CCFD for the benefit of the Authority as security for the City's obligations to make Lease Payments to the Authority.



## GLOSSARY

**Accrued Interest:** In general, interest that has been earned on a bond, but not yet paid – usually because it is not yet due. More specifically, this term is often used to refer to interest earned on a bond from its dated date to the closing date.

**Ad Valorem Tax:** A tax which is based on the value (assessed value) of property.

**Advance Refunding:** A refinancing of tax exempt bonds from the proceeds of a new bond issue more than ninety (90) days prior to the date on which the outstanding bonds (refunded bonds) become due or are callable. Federal legislation, the Tax Cuts and Jobs Act, enacted on December 22, 2017, eliminated the use of tax-exempt proceeds to advance refund bonds. Advanced refundings using taxable proceeds are still permitted and as of the date of this report, Congress is considering legislation which would, if signed into law, potentially allow tax exempt proceeds to be used for advance refundings.

**Alternative Minimum Tax (AMT):** An income tax based on a separate and alternative method of calculating taxable income and separate and alternative schedule of rates. With respect to bonds, the interest on certain types of qualified tax-exempt private activity bonds is included in income for purposes of the individual and corporate alternative minimum tax.

**Amortization:** The process of paying the principal amount of an issue of securities by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

**Arbitrage:** With respect to municipal bonds, arbitrage is the profit made from investing the proceeds of tax-exempt bonds in higher-yielding securities.

**Arbitrage Rebate:** Payment of arbitrage profits to the United States Treasury by a tax-exempt bond issuer.

**Assessed Valuation or Assessed Value:** The value of a property as set by a taxing authority for purposes of ad valorem taxation. The method of establishing assessed valuation varies from state to state. In California, Assessed Valuation is typically less than Market Value as the State's constitution limits the growth in A.V. to the lesser of 2% or actual growth.

**Basis Point:** One basis point is equal to 1/100 of one percent or 0.01%. If interest rates increase from 4.50% to 4.75%, the difference is referred to as a 25 basis point increase.

**Bond:** An interest-bearing or discounted government or corporate security that obligates the issuer (borrower) to pay the bondholder a specific sum of money (interest), usually at specific intervals, and to repay the principal amount of the loan at maturity.

**Bond Counsel:** An attorney (or a firm of attorneys), retained by the issuer, who provides the legal opinion delivered with the bonds confirming that (i) the bonds are valid and binding obligations of the issuer; (ii) the issuer is authorized to issue the proposed securities; (iii) the issuer has met all legal requirements necessary for issuance, and; (iv) and in the case of tax-exempt bonds, that interest on the bonds is exempt from federal and/or state income taxes.

**Bond Insurance:** Non-cancellable insurance purchased from a bond insurer by the issuer or purchaser of a bond or series of bonds pursuant to which the insurer promises to make scheduled payments of interest, principal and mandatory sinking fund payments on an issue if the issuer fails to make timely payments. When an issue is insured, the investor relies on the creditworthiness of the insurer rather than the issuer. Payment of an installment by the insurer does not relieve the issuer of its obligation to pay that installment; the issuer remains liable to pay that installment to the insurer.

**Bond Insurer:** A company that pledges to make all interest and principal payments when due if the issuer of the bonds defaults on its obligations. In return, the bond issuer or purchaser pays a premium (bond insurance premium) to the insurance company. Insured bonds generally trade on the rating of the bond insurer rather than the rating on the underlying bonds, since the bond insurer is ultimately at risk for payment of the principal and interest due on the bonds.

**Bond Purchase Contract or Agreement:** In a negotiated sale, the bond purchase contract is an agreement between an issuer and an underwriter or group of underwriters in a syndicate or selling group who have agreed to purchase the issue pursuant to the price, terms and conditions outlined in the agreement.

**Bond Series:** An issue of bonds may be structured as multiple bond series reflecting differences in tax status, priority of debt service payment, or interest rate mode, as well as to facilitate marketing of the bonds.

**Bondholder:** The owner of a bond. Bondholders may be individuals or institutions such as banks, insurance companies, mutual funds, and corporations. Bondholders are generally entitled to receive regular interest payments and return of principal when the bond matures.

**Call:** The terms of the bond giving the issuer the right to redeem or call all or portion of an outstanding issue of bonds prior to their stated date of maturity at a specified price, usually at or above par.

**Certificates of Participation (COPs):** An instrument evidencing a pro rata share in a specific pledged revenue stream, usually lease payments by the issuer that are typically subject to annual appropriation. The certificate generally entitles the holder to receive a share, or participation, in the payments from a particular project. The payments are passed through the lessor to the certificate holders. The lessor typically assigns the lease and the payments to a trustee, which then distributes the payments to the certificate holders. While the City currently does not issue COPs, as reflected in the overlapping debt report in this report, many overlapping agencies do issue such COPs.

**CSJFA:** City of San José Financing Authority, a joint powers authority.

**Closing Date (Delivery Date):** The date on which an issue is delivered by the issuer to, and paid for by, the original purchaser (underwriter), also called the delivery date. This date may be a different date than the sale date or the dated date.

**Commercial Paper:** Short-term, unsecured promissory notes, usually backed by a line of credit and/or LOC with a bank, with maturities between 1 day through 270 days.

**Competitive Sale:** One of three ways bonds may be sold to investors in the primary issuance market (competitive, negotiated and direct placement. The competitive sale is the sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale (also called a public sale).

**Coupon:** Interest rate on a bond or note that the issuer promises to pay to the bondholder until maturity, expressed as an annual percentage of the face value of the bond.

**CUSIP:** The acronym for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, United States government and corporate securities. A separate CUSIP number is assigned for each maturity of each issue and is printed on each bond and generally on the cover of the Official Statement.

**CWFA:** San José-Santa Clara Clean Water Financing Authority.

**Dated Date:** The date on which interest on the bonds begins to accrue to the benefit of bondholders.

**Debt Retirement:** Repayment of debt.

**Debt Service:** The total interest, principal and mandatory sinking fund payments due at any one time.

**Debt Service Coverage:** The ratio of pledged revenues available annually to pay debt service on the annual debt service requirement. Pledged revenues are either calculated before operating and maintenance expenses (Gross Revenue) or net of operating and maintenance expenses (Net Revenue). This ratio is one indication of the margin of safety for payment of debt service.

**Debt Service Reserve Fund/Account:** An account from which moneys may be drawn to pay debt service on an issue of bonds if pledged revenues and other amounts available to satisfy debt service are insufficient. The size of the debt service reserve fund and investment of moneys in the fund/account are subject to restrictions contained in federal tax law for tax-exempt bonds.

**Default or Event of Default:** Failure to make prompt debt service payment or to comply with other covenants and requirements specified in the financing agreements for the bonds.

**Defeasance:** Usually occurs in connection with the refunding of an outstanding issue by final payment or provision for future payment of principal and interest on a prior issue. In an advance refunding, the defeasance of the bonds being refunded is generally accomplished by establishing an escrow of high quality securities to provide for payment of debt service on the bonds to redemption or maturity.

**Direct Placement or Direct Purchase:** See Private Placement.

**EMMA:** Electronic Municipal Market Access (EMMA) is the municipal disclosure website sponsored by the Municipal Securities Rule Making Board (MSRB). As of July 1, 2009, municipal

issuers are required to file disclosure through EMMA in lieu of filing disclosure with the NRMSIRs.

**Federal Open-Market Committee (FOMC):** Committee that sets interest and credit policies for the Federal Reserve Board (the Fed), the United States' central bank. The Committee's decisions are closely watched and interpreted by economists and stock and bond markets analysts, who try to predict whether the Fed is seeking to tighten credit to reduce inflation or to loosen credit to stimulate the economy.

**Financial Industry Regulatory Authority (FINRA):** A self-regulatory organization, formerly known as the National Association of Securities Dealers (NASD), that enforces MSRB rules applicable to the municipal securities activities of its member broker-dealers, administers the MSRB's professional qualification examinations and handles arbitration proceedings relating to municipal securities for its member broker-dealers and for bank dealers. FINRA also adopts rules governing the conduct of its members with respect to most types of securities other than municipal securities.

**Fiscal Agent:** A commercial bank or trust company designated by an issuer under the Indenture or Bond Resolution to act as a fiduciary and as the custodian of moneys related to a bond issue. The duties are typically limited to receiving moneys from the issuer which is to be held in funds and accounts created under the Indenture or Bond Resolution and paying out principal and interest to bondholders.

**General Obligation Bond:** A bond which is secured either by a pledge of the full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. With very few exceptions, local agencies in California are not authorized to issue full faith and credit bonds. Typically, general obligation bonds of a city are payable only from ad valorem property taxes which are required to be levied in an amount sufficient to pay debt service. Under the State Constitution, a city's authority to issue general obligation bonds must be approved by a two-thirds vote of the electorate and the bond proceeds are limited to the acquisition and improvement of real property.

**Indenture/Trust Agreement:** An agreement executed by an issuer and a fiscal agent/trustee who pledges certain revenues and other property as security for the repayment of the bonds, sets forth the terms of the bonds and contains the responsibilities and duties of the trustee and the rights of the bondholders. The rights of the bondholders are set forth in the indenture provisions relating to the timing of the interest and principal payments, interest rate setting mechanisms (in the case of variable-rate bonds), redemption provisions, events of default, remedies and the mailing of notices of various events.

**Issuance:** Sale and delivery of a series of bonds or other securities.

**Issue:** One or more bonds or series of bonds initially delivered by an issuer in a substantially simultaneous transaction, and which are generally designated in a manner that distinguishes them from bonds of other issues. Bonds of a single issue may vary in maturity, interest rate, redemption and other provisions.

**Issuer:** An entity that borrows money through the sale of bonds or notes and is committed to making timely payments of interest and principal to bondholders.

**Lease Agreement:** The document, in a Lease Revenue Bond or lease backed Certificates of Participation issue, is the means by which the issuer leases to another public entity (the obligor) the facility or project to be acquired or constructed with the proceeds of the bond issue and by which the obligor agrees to make periodic lease payments to the issuer, generally for the period of time the bond issue is outstanding.

**Lease Revenue Bonds:** A lease revenue bond is a bond secured by rental payments, generally pledged from the General Fund, for the beneficial use and occupancy of assets, such as a building. Lease rental bonds do not require voter approval, by virtue of a legal exception to the Constitutional debt limitation. These payments are included in the City Budget as part of the annual appropriation process based on a bond covenant to budget and appropriate in the lease documents.

**Letter of Credit (LOC):** Letters of Credit are irrevocable obligations of a financial institution that obligate it to provide sufficient funds to make all required payments of principal, interest (premium, if any) and purchase price due to bondholders or holders of CP in a full and timely manner. Letters of Credit, Lines of Credit and Standby Purchase Agreements (SBPAs) are also referred to as liquidity facilities in connection with obligations such as commercial paper and variable-rate bonds.

**LIBOR:** An acronym for London Interbank Offered Rate, a rate that the most creditworthy international banks dealing in Eurodollars charge each other for large loans. The LIBOR rate is usually the basis for other large Eurodollar loans to less creditworthy corporate and government borrowers. This rate is often used as a benchmark for short-term taxable municipal securities.

**Line of Credit:** Also referred to as a liquidity facility, is a contract between the issuer and a bank that provides a source of borrowed moneys to the issuer in the event that moneys available to pay debt service, for example on commercial paper are insufficient.

**Liquidity:** The ease with which an investment may be converted to cash.

**Liquidity Facility:** See Letter of Credit and Line of Credit or Standby Bond Purchase Agreement.

**Maturity:** With respect to a single bond, the date upon which the principal of the bond is due; with respect to an issue, all of the bonds of an issue which are due on a single date.

**Municipal Securities Rulemaking Board (MSRB):** An independent, self-regulatory organization established by Congress in 1975 having general rulemaking authority over municipal securities market participants, generally brokers and dealers. The MSRB is required by federal law to propose and adopt rules in the areas which include professional qualification standards, rules of fair practice, record keeping, the scope and frequency of compliance examinations, the form and content of municipal bond quotations, and sales to related portfolios during the underwriting period. While the MSRB is the principal regulator of the municipal securities market, the MSRB does not carry out the enforcement of its rules or conduct compliance examinations.



**Municipal Advisor:** A person or entity (with certain exceptions) who (a) advises to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues, or (b) solicits a municipal entity, for compensation, on behalf of an unaffiliated municipal securities dealer, municipal advisor, or investment adviser to engage such party in connection with municipal financial products, the issuance of municipal securities, or investment advisory services. A consultant who advises the issuer on matters pertinent to a bond issue, such as structure, cash flow, timing, marketing, fairness of pricing, terms, bond ratings, and at times investment of bond proceeds. A municipal advisor may also be hired to provide analysis relating to an issuer's debt capacity or future debt issuance. A Municipal Advisor is subject to fiduciary duty in dealing with their clients. This means the adviser must hold the client's interest above its own in all matters.

**Negotiated Sale:** The sale of bonds, the terms and price of which are negotiated by the issuer through an exclusive agreement with a previously selected underwriter and/or underwriting syndicate. One of three methods of sale, including Competitive Sales and Private Placements.

**Non-AMT Bond:** Interest on such bonds is not subject to the federal alternative minimum tax.

**NRMSIR:** An acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs were the repositories for all annual reports and event notices filed under SEC Rule 15c2-12; however, as of July 1, 2009 issuers are required to file such disclosure with the MSRB's EMMA system. See *EMMA*.

**Official Statement:** A document containing information about the bonds being offered, the issuer, and the sources of repayment of the bonds. Federal securities law generally requires that if an Official Statement is used to market an issue of bonds, it must fully and accurately disclose all facts that would be of interest (material) to a potential buyer of bonds. The issuer of bonds typically issues a Preliminary Official Statement to market the bonds and a Final Official Statement prior to the delivery of the bonds to investors. The City's Final Official Statements are available on EMMA.

**Par/Par Value:** Refers to the principal amount of a bond or the total principal amount of a bond series or issue.

**Parity Bonds:** Two or more issues of bonds which have the same priority of claim or lien against the issuer's pledge of particular revenues, e.g., revenues from an enterprise such as an airport or parking garage. With respect to the initial issue of bonds, called the prior issue, the indenture or bond resolution normally provides the requirements which must be satisfied before subsequent issues of bonds, called additional parity bonds may be issued.

**Present Value:** The current value of a future payment, or stream of payments, calculated by discounting the future payments by an appropriate interest rate. Alternatively, present value is the amount of money which should be invested today to return a certain sum at a future time.

**Private Placement:** The sale of bonds by the issuer directly to one or more investors rather than through an underwriter. Often, the terms of the issue are negotiated directly between the issuer and the investor. Sometimes, an investment banker will act as the placement agent; bring

parties together and act as an intermediary in the negotiations. Instead of an Official Statement, an Offering Circular, Offering Memorandum or Private Placement Memorandum may be prepared.

**Proceeds:** Funds received by the issuer upon sale of the bonds which may include accrued interest and a premium. For tax purposes bond proceeds include interest earnings on the sale proceeds.

**Ratings:** An opinion by a rating agency of the credit-worthiness of a bond denoted by a combination of letters and/or numbers/symbols.

**Rating Agencies:** The organizations which provide, for a fee customarily paid by the issuer, an independent appraisal of the credit quality and likelihood of timely repayment of a bond issue. The term is most often used to refer to the four nationally recognized bond rating agencies, Moody's Investor Services, Inc., S&P Global Ratings, Fitch Ratings and Kroll Bond Rating Agency (KBRA).

**Redemption:** The payment of principal of a bond, whether at maturity, or, under certain circumstances described in the bond, prior to maturity. Redemption of a bond by the issuer prior to maturity is sometimes referred to as calling the bond.

**Refunding:** An issue of new bonds (the refunding bonds) to pay debt service on a prior issue (the refunded bonds). Generally, the purpose of a refunding is either to reduce the debt service on the financing or to remove or replace restrictive covenant imposed by the terms of the refunded bonds. The proceeds of the refunding bonds are either deposited in a defeasance escrow to pay the refunded bonds on a date more than 90 days after the issuance (Advance Refunding) or applied to the payment of the refunded bonds within 90 days of the issuance (Current Refunding). As noted above under Advance Refunding, the Tax Cuts and Jobs Act, enacted on December 22, 2017, eliminated the use of tax exempt proceeds for advance refunding bonds issued after December 31, 2017.

**Reserve Fund/Account:** See Debt Service Reserve Fund/Account

**Revenue Bond:** A bond which is payable solely from a specific source of revenue. Revenue bonds do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. Revenue bonds are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.

**Successor Agency:** Successor Agency to the Redevelopment Agency of the City of San José created in 2012.

**Sale Date:** In the case of a negotiated sale, the date on which the bond purchase agreement is signed, and in the case of a competitive sale, the date on which the bonds are awarded to the winning bidder.

**Serial Bonds:** Bonds of an issue which are payable as to principal in amounts due at successive regular intervals, generally annual or semiannual and generally in the early years of the term of the issue. An issue may consist of both serial bonds and term bonds.

**SIFMA Index:** An index published by the Securities Industry and Financial Markets Association (SIFMA). The index is produced from Municipal Market Data and is a 7-day high-grade market index comprised of tax-exempt variable-rate demand obligations. SIFMA was formed through the merger between the Securities Industry Association (SIA) and the Bond Market Association (BMA). Formerly referred to as the BMA Index.

**Sinking Fund:** An account, sometimes called a debt service fund or sinking fund to provide for the redemption or payment at maturity of term bonds. Generally, sinking fund payments are mandatory in a specified amount for each payment period to provide for the periodic redemption of term bonds prior to their final maturity. The individual term bonds to be redeemed each year are customarily selected at random by the trustee.

**SOFR:** Secured Overnight Financing Rate a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. SOFR is a secured interbank overnight interest rate and reference rate established as an alternative to Libor and it is based on transactions in the U.S. Treasury repurchase market where investors offer banks overnight loans backed by their bond assets.

**Standby Bond Purchase Agreement (SBPA):** a type of liquidity facility provided by a bank or other qualified financial institution (Liquidity Provider) to purchase variable rate demand obligations that are not remarketed.

**Surety:** In the public finance context, a surety policy is a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issue. Under this arrangement, instead of depositing cash in a reserve fund, the issuer buys a surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. If the reserve fund is needed to make a debt service payment, the trustee notifies the surety provider and the provider makes the payment, up to the face amount of the policy. The issuer then has an obligation to reimburse the provider for the payment, plus interest.

**Tax Allocation Bonds:** Bonds secured by the incremental property tax revenues generated from a redevelopment project area. As usually structured, a project area is designated, its property tax base frozen, and revenue from the incremental growth of the property tax base is used to provide additional funds for further redevelopment or for debt service on bonds issued for redevelopment purposes.

**Tax and revenue anticipation note (TRAN):** Note issued in anticipation of receiving future tax receipts and revenues at a future date, but which must be repaid from current year revenues. Such notes are not subject to State voter approval requirements.

**Tax-Exempt Bonds:** Bonds whose interest is exempt from federal income taxation. In California, the interest on bonds issued by a California governmental entity is also exempt from state income tax. Certain bonds may be exempt from State taxes, while remaining subject to Federal taxes.

**Tax Equity and Fiscal Responsibility Act (TEFRA):** As a pre-condition for the exclusion from gross income for federal income tax purposes of interest on all qualified private activity bonds, TEFRA requires, among other things, that the issue be approved (a TEFRA approval) either by an elected official or body of elected officials of the applicable governmental entity after a public hearing (a TEFRA hearing) following reasonable public notice (a TEFRA notice) or by voter referendum of such governmental entity.

**Term Loan:** A loan from a bank for a specific amount that has a specified repayment schedule. Term loans generally accrue interest at a floating rate and mature between one and ten years.

**Term Bonds:** Bonds coming due in a single maturity. The issuer generally agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

**Trust Agreement:** See Indenture/Trust Agreement in glossary.

**Trustee:** Financial institution, with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the Trust Agreement or Indenture.

**Underwriter:** An investment banking firm which, singly or as a member of an underwriting group or syndicate, agrees to purchase a new issue of bonds from an issuer for resale and distribution to investors. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of competitive sale.

**Underlying Rating:** The rating assigned by a rating agency to a credit enhanced security, on a stand-alone basis, without regard to the credit enhancement.

**Variable Rate:** An interest rate which periodically changes based upon an index or remarketing procedure. Variable-rate bonds or notes generally have a demand feature allowing the bondholder to demand that the issuer or another party repurchases the bond upon a specified number of days' notice or at certain times which reflect the intervals at which the rate varies.

**Yield:** In general, rate of return on bonds or on any capital investment. Technically, yield is the discount rate which makes the present value of all future streams of payments equal to the present value.

