PRELIMINARY OFFICIAL STATEMENT DATED __________, 2025

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: Moody's: ___
S&P: ___
Fitch: ___
(See "RATINGS" herein)

In the opinion of Anzel Galvan LLP, San Francisco, California, Bond Counsel, under existing law and subject to certain qualifications described herein, the interest on the 2025A Bonds is excludable from gross income for federal income tax purposes. In addition, interest on the 2025A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the 2025A Bonds may affect the federal alternative minimum tax applicable to certain corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

$[PAR]*
CITY OF SAN JOSE FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 2025A
(CIVIC CENTER GARAGE AND MUNI WATER BUILDING PROJECTS)

Dated: Date of Delivery **Due: June 1, as shown on inside cover**

The City of San José Financing Authority Lease Revenue Bonds, Series 2025A (Civic Center Garage and Muni Water Building Projects) (the "2025A Bonds") are payable from and secured by a first pledge of and lien on "Revenues" (as defined in this Official Statement) received by the Authority under the Lease, dated as of August 1, 2025, by and between the Authority, as lessor, and the City, as lessee (the "Lease"), consisting primarily of lease payments (the "Lease Payments") made by the City under the Lease with respect to the lease of certain real property. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS."

The 2025A Bonds are being issued to (i) refund the outstanding City of San José Financing Authority Lease Revenue Bonds, Series 2013B (Civic Center Garage), (ii) to finance and refinance the construction of a new Administration and Operations Building, and the acquisition, construction and installation of related capital improvements, for the Water Resources Division, and (iii) pay the costs incurred in connection with the issuance of the 2025A Bonds. See "FINANCING PLAN." The City has covenanted under the Lease to make all Lease Payments provided for therein, to include all such payments as a separate line item in its annual budgets, and to make all the necessary annual appropriations for such Lease Payments. The City's obligation to make Lease Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Leased Property, or any defects in title to the Leased Property, there is substantial interference with the City's right to use and occupy any portion of the Leased Property. See "CERTAIN RISK FACTORS – Abatement."

The Authority is not funding a debt service reserve fund for the 2025A Bonds.

The 2025A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on the 2025A Bonds is payable semiannually on [June 1 and December 1] of each year, commencing [December 1, 2025]. Purchasers will not receive certificates representing their interest in the 2025A Bonds. Individual purchases will be in principal amounts of $5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the 2025A Bonds will be paid by Wilmington Trust, National Association, as trustee (the "Trustee") to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the Beneficial Owners of the 2025A Bonds. See "THE 2025A BONDS —Book-Entry Only System" herein.

The 2025A Bonds will be issued pursuant to an Indenture of Trust, dated as of August 1, 2025 (the "Indenture") by and between the Authority and the Trustee. The 2025A Bonds and any additional bonds issued pursuant to the Indenture ("Additional Bonds") are collectively referred to as the "Bonds."

The 2025A Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity . See "THE 2025A BONDS – Redemption."

The 2025A Bonds are special obligations of the Authority, payable solely from Lease Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the 2025A Bonds.

The obligation of the City to make the Lease Payments does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation. The Authority has no power to tax.

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

The Bonds will be sold and awarded pursuant to a competitive bidding process to be held on August [12], 2025, as set forth in the Official Notice Inviting Bids. The 2025A Bonds will be offered when, as and if issued and received by the Purchaser and subject to the approval as to their legality by Anzel Galvan LLP, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Anzel Galvan LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney. It is anticipated that the 2025A Bonds will be delivered in book-entry form through the facilities of DTC on or about August [28], 2025.

The date of this Official Statement is ________, 2025.

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* Preliminary; subject to change.

MATURITY SCHEDULE

CITY OF SAN JOSE FINANCING AUTHORITY
Lease Revenue Bonds, Series 2025A
(Civic Center Garage and Muni Water Building Projects)
(Base CUSIP:† 798153)

Maturity Date (June 1)	***Principal Amount***	***Interest Rate***	***Yield***	***Price***	***CUSIP†***

$_____________ ______% Term Bonds due June 1, 20__ Yield: ______% Price: ______ [C] CUSIP† __
$_____________ ______% Term Bonds due June 1, 20__ Yield: ______% Price: ______ [C] CUSIP† __

[C] Priced to optional redemption date of June 1, 20__, at par.
† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright© 2025 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the Authority nor the City, or their agents or counsel, assume responsibility for the accuracy of such numbers.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the 2025A Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2025A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers or Owners of the 2025A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Purchaser has provided the following sentence for inclusion in this Official Statement. The Purchaser has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Purchaser does not guarantee the accuracy or completeness of such information.

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the 2025A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in Appendix A and "CERTAIN RISK FACTORS."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

THE PURCHASER MAY OFFER AND SELL THE 2025A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE PURCHASER.

THE 2025A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a number of websites. However, the information presented on the City's websites is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2025A Bonds.

CITY OF SAN JOSE FINANCING AUTHORITY
CITY OF SAN JOSE, CALIFORNIA

MEMBERS OF
THE GOVERNING BOARD AND COUNCIL

Matt Mahan
Mayor and Chair

District 1:	Rosemary Kamei, Member	District 6:	Michael Mulcahy, Member
District 2:	Pamela Campos, Member	District 7:	Bien Doan, Member
District 3:	Carl Salas, Member	District 8:	Domingo Candelas, Member
District 4:	David Cohen, Member	District 9:	Pam Foley, Vice Mayor
District 5:	Peter Ortiz, Member	District 10:	George Casey, Member

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OFFICIALS OF THE
AUTHORITY AND CITY
Jennifer A. Maguire, Executive Director and City Manager
Lee Wilcox, Assistant City Manager
Toni Taber, Secretary and City Clerk
Maria Öberg, Treasurer and Director of Finance
Nora Frimann, City Attorney [1]

CITY STAFF
Qianyu Sun, Deputy Director of Finance, Debt & Treasury Management Division
Tanner Warner, Debt Administrator

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL
Anzel Galvan LLP
San Francisco, California

MUNICIPAL ADVISOR
Public Resources Advisory Group
Oakland, California

FISCAL AGENT
Wilmington Trust, National Association
Costa Mesa, California

[VERIFICATION AGENT
____
_______, ______]

[1] Ms. Frimann plans to retire as City Attorney on or about September 2025. The City has begun a search for a new City Attorney.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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OFFICIAL STATEMENT

$[PAR]*
CITY OF SAN JOSE FINANCING AUTHORITY
Lease Revenue Bonds, Series 2025A
(Civic Center Garage and Muni Water Building Projects)

INTRODUCTION

This Official Statement (which includes the cover page and the appendices hereto) (this "Official Statement") provides certain information concerning the sale and delivery of $_____________ aggregate principal amount of City of San José Financing Authority Lease Revenue Bonds, Series 2025A (Civic Center Garage and Muni Water Building Projects) (the "2025A Bonds").

The net proceeds of the sale of the 2025A Bonds will be used to (i) refund the outstanding City of San José Financing Authority Lease Revenue Bonds, Series 2013B (Civic Center Garage) (the "2013B Bonds"), (ii) refinance Tax-Exempt Lease Revenue Commercial Paper Notes, Series 1 ("Series 1 Notes") issued by the City of San José Financing Authority (the "Authority") to finance, on an interim basis, the construction of a new Administration and Operations Building, and the acquisition, construction and installation of related capital improvements, for the Water Resources Division (the "Muni Water Project"), (iii) to finance additional costs of the Muni Water Project, and (iv) pay the costs incurred in connection with the issuance of the 2025A Bonds. See "FINANCING PLAN."

The 2025A Bonds will be issued pursuant to an Indenture of Trust, dated as of August 1, 2025 (the "Indenture"), by and between the Authority and Wilmington Trust, National Association, as trustee (the "Trustee"). Pursuant to the Indenture, the Authority may issue additional bonds (the "Additional Bonds") payable from the Lease Payments on a parity with the 2025A Bonds (the 2025A Bonds and any such Additional Bonds being collectively referred to as the "Bonds"). See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS – Additional Bonds."

The Bonds are payable from and secured by a first pledge of and lien on "Revenues" (as hereinafter defined). Revenues generally consist of lease payments (the "Lease Payments") to be made by the City of San José (the "City") for the right to use certain real property (collectively, the "Leased Property" and described further under the caption "THE LEASED PROPERTY") pursuant to a Lease Agreement dated as of August 1, 2025 (the "Lease"), between the City, as lessee, and the Authority, as lessor. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS."

Pursuant to a Site Lease, dated as of August 1, 2025 (the "Site Lease"), by and between the City and the Authority, the City has leased the Leased Property to the Authority. The Authority has subleased the Leased Property to the City under the Lease. The Lease obligates the City to make Lease Payments to the Authority.

The Trustee and the Authority have entered into an Assignment Agreement, dated as of August 1, 2025, pursuant to which the Authority has assigned to the Trustee for the benefit of the Bond Owners substantially all of the Authority's right, title and interest in and to the Site Lease and the Lease, including its right to receive the Lease Payments due under the Lease and to enforce any remedies in the event of a default by the City.

* Preliminary; subject to change.

The Leased Property leased under the Site Lease and the Lease will initially consist of ________________. The City also has the right to substitute or release all or a portion of the Leased Property subject to certain conditions precedent. See "THE LEASED PROPERTY."

The City will covenant under the Lease to take such action as may be necessary to include all Lease Payments and Additional Rental Payments (which include taxes and assessments affecting the Leased Property, administrative costs of the Authority relating to the Leased Property, fees and expenses of the Trustee and other amounts payable under the Lease) due under the Lease in its annual budgets and to make the necessary annual appropriations therefor, subject to abatement as described herein.

Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City's right to use and occupy the Leased Property or any portion thereof. See "CERTAIN RISK FACTORS – Abatement." Abatement of Lease Payments under the Lease, to the extent that payment is not made from alternative sources as set forth below, would result in all Bond Owners receiving less than the full amount of principal of and interest on the 2025A Bonds. To the extent that proceeds of insurance are available or moneys are available in certain funds and accounts pledged as security for the 2025A Bonds, Lease Payments (or a portion thereof) may be made during periods of abatement.

THE 2025A BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE 2025A BONDS. THE AUTHORITY HAS NO TAXING POWER.

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

The Authority is not funding a debt service reserve fund for the 2025A Bonds.

The City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission ("Rule 15c2-12") certain annual financial information and operating data and, in a timely manner, notice of certain listed events. These covenants have been made to assist the Purchaser in complying with Rule 15c2-12. See "CONTINUING DISCLOSURE" herein for a description of the Authority's and the City's compliance with its prior continuing disclosure undertakings pursuant to Rule 15c2-12 and "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE" for a description of the specific nature of the annual report and notices of listed events and the terms of the disclosure undertaking pursuant to which such reports are to be made.

Wilmington Trust, National Association, Costa Mesa, California, will act as Trustee with respect to the 2025A Bonds. The 2025A Bonds will be issued subject to the approval as to their legality by Anzel Galvan LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City of San José and by Anzel Galvan LLP, San Francisco, California, Disclosure Counsel.

The City's financial statements for the fiscal year ended June 30, 2024, included as Appendix C hereto have been audited by Macias Gini & O'Connell LLP (the "Auditor"). See "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2024" herein. Since the date of its audit reports included with the City's Basic Financial Statements, the Auditor has not been engaged to perform, nor has it performed any, additional procedures on the financial statements addressed in such reports. The Auditor also has not performed any procedures relating to this Official Statement, including any procedures or action intended to elicit information concerning the accuracy, completeness, or fairness of the statements made in this Official Statement.

Certain events could affect the ability of the City to make the Lease Payments when due. See "CERTAIN RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2025A Bonds.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for [a budget discussion of the proposed fiscal year 2025-26 budget and estimated fiscal year 2024-25 results], is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. See "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION – POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES" for financial and operating information related to the City.

The summaries or references to the Indenture, the Lease, the Site Lease, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the 2025A Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entireties by reference to each such document or statute. All capitalized terms used in this Official Statement (unless otherwise defined herein) that are defined in the Indenture or the Lease have the meanings set forth therein. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

FINANCING PLAN

2013B Bonds

The Authority issued the 2013B Bonds to refund the then outstanding City of San José Financing Authority Lease Revenue Bonds, Series 2008B (Civic Center Garage Refunding Project) (the "2008B Bonds"). The Authority issued the 2008B Bonds to finance and refinance the construction of a parking garage owned and operated by the City that is commonly known as the Civic Center Garage.

The outstanding 2013B Bonds are subject to optional redemption prior to maturity on any date at a redemption price equal to the principal amount of 2013B Bonds to be redeemed plus accrued but unpaid interest to the redemption date, without premium.

On the date the 2025B Bonds are issued (the "Closing Date"), the Authority and the City will deliver irrevocable refunding instructions to Computershare Trust Company, National Association, as successor trustee of the 2013B Bonds (the "2013B Bonds Trustee"). Pursuant to said instructions, on the Closing Date, a portion of the proceeds of the 2025A Bonds, together with other available funds, will be deposited in an escrow fund (the "2013B Bonds Escrow Fund") established and held by the 2013B Bonds Trustee. The 2013B Bonds Trustee will hold all amounts in the 2013B Bonds Escrow Fund uninvested, in cash. The 2013B Bonds Trustee will use the funds on deposit in the 2013B Bonds Escrow Fund to pay the scheduled payment of principal and interest due on the 2013B Bonds maturing on October 1, 2025, and, on ________, 2025 (the "Redemption Date"), the redemption price equal to the principal amount of 2013B Bonds maturing after October 1, 2025, plus accrued but unpaid interest to the Redemption Date, without premium

The amounts in 2013B Bonds Escrow Fund will be irrevocably pledged solely to the payment and redemption of the outstanding 2013B Bonds as described above and will not be available for payment of the 2025A Bonds. [See "VERIFICATION OF MATHEMATICAL ACCURACY."]

Muni Water Building Commercial Paper Notes

In 2004, the Authority established a commercial paper program under which the Authority provides financing for, among other things, certain public capital improvements of the City (the "Commercial Paper Program"). Under the Commercial Paper Program, the Authority from to time issues lease revenue commercial paper notes, including Series 1 Notes, at prevailing interest rates with maturities of up to 270 days.

The Series 1 Notes issued to finance the Muni Water Project (the "Muni Water Building Commercial Paper Notes") will mature on _______, 2025 (the "Commercial Paper Maturity Date"). The principal and interest on the Muni Water Building Commercial Paper Notes is supported by an irrevocable direct-pay letter of credit ("TD Bank Letter of Credit") issued by TD Bank, N.A. ("TD Bank"). On the Commercial Paper Maturity Date, in accordance with the trust agreement and issuing and paying agent agreement relating to the Series 1 Notes, Computershare Trust Company, National Association, as successor trustee and issuing and paying agent of the Series 1 Notes (in such capacities, "Computershare"), will draw on the TD Bank Letter of Credit an amount sufficient to pay the principal amount of the Muni Water Building Commercial Paper Notes plus unpaid interest accrued thereon to the Commercial Paper Maturity Date.
On the Closing Date, the Authority and the City will deliver irrevocable refunding instructions to Computershare. Pursuant to said instructions, on the Closing Date, a portion of the proceeds of the 2025A Bonds will be deposited with Computershare and used to reimburse TD Bank for the draw on the TD Bank Letter of Credit.

The amounts derived from the 2025A Bonds deposited with Computershare will be irrevocably pledged solely to the payment of principal and accrued interest on the Muni Water Building Commercial Paper Notes as described above and will not be available for payment of the 2025A Bonds. [See "VERIFICATION OF MATHEMATICAL ACCURACY."]

Muni Water Project

The Muni Water Project consists of the construction of a new Water Resources Administration and Operations Facility, and the acquisition, construction and installation of related capital improvements, for the Water Resources Division, to be located at 3025 Tuers Road in the City of San José.

The Water Resources Administration and Operations Facility will consist of one building totaling ____ square feet. It will house the City's Water Resources Division and infrastructure necessary to ensure continuous operation of the City of San José Municipal Water System. Site amenities will include conference and training rooms; a customer service and payment area; a water quality sampling and testing room; a map room for utility plans and records; 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.

The total cost of the Muni Water Project is estimated at $32 million. The Muni Water Project is estimated to be substantially complete by [August 2025].

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the 2025A Bonds are as follows:

<u>Sources of Funds:</u>	
Principal Amount of 2025A Bonds	
Net Original Issue [Premium][Discount]	
Funds Available with Respect to 2013B Bonds	
TOTAL SOURCES	
<u>Uses of Funds</u>:	
2013B Bonds Escrow Fund (1)	
Muni Water Building Reimbursement Account (2)	
Project Fund	
Costs of Issuance (3)	
Purchaser's Discount	
TOTAL USES	

(1) Represents funds to be used to redeem the 2013B Bonds.
(2) Represents funds to be used to reimburse TD Bank for the draw on the TD Bank Letter of Credit.
(3) Represents funds to be used to pay costs of issuance, which include municipal advisory fees, legal fees, printing costs, rating agency fees, trustee fees, title fees, and other costs of issuing the 2025A Bonds.

THE CITY OF SAN JOSE

The City of San José is a charter city that has operated under a council-manager form of government since 1916. The City is the oldest city in the State of California (the "State"), developing from a Spanish pueblo established in 1777, and is the county seat of the County of Santa Clara (the "County"). The City encompasses approximately 180 square miles, in the Santa Clara Valley at the southern tip of San Francisco Bay, approximately 48 miles south of San Francisco and 40 miles south of Oakland. As of January 1, 2025, the City's estimated population totaled approximately 980,000, making the City the third most populous city in the State and the twelfth most populous in the United States].

The City has transformed from the agricultural setting of its early years into the largest city in the Silicon Valley. Silicon Valley is a region in the Southern San Francisco Bay Area of Northern California which serves as a global center of high technology and innovation. Silicon Valley corresponds roughly to the geographical Santa Clara Valley. Silicon Valley is home to many of the world's largest technology companies, including Adobe Systems, Inc., Apple Inc., Cisco Systems, Inc., eBay, Inc., Google, Inc., Hewlett-Packard, IBM, Intel Corporation, Intuit Inc., LinkedIn, McAfee Corp., Meta Platforms, Inc., Netflix, Inc., Nvidia, PayPal Holdings, Inc., Super Micro, Tiktok, and Zoom Video Communications, Inc. Retail, professional, high-tech advanced manufacturing, electronic assembly, and service businesses all have a presence in the City.

See "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION" and "APPENDIX B – THE CITY OF SAN JOSE: RETIREMENT PLANS" for additional information regarding the City.

THE AUTHORITY

The Authority was created by a Joint Exercise of Powers Agreement, dated as of December 8, 1992 (the "Agreement"), between the City and the former Redevelopment Agency of the City of San José (the "Former Agency"). The Agreement was entered into pursuant to the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the State Government Code (the "Act"). The Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City. The Former Agency was dissolved as of February 1, 2012, and the Successor Agency to the Redevelopment Agency of the City of San José (the "Successor Agency") has become the successor agency of the Former Agency. The Agreement remains in effect.

The Authority is governed by an eleven-member Governing Board that consists of the members of the Council of the City. Under the Agreement and Article 4 of the Act, the Authority is authorized to assist in the financing of public capital improvements. The 2025A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged under the Indenture and certain funds held under the Indenture.

THE LEASED PROPERTY

Description and Location

Lease Payments will be made by the City under the Lease for the use and occupancy of the Leased Property, which will initially consist of the site of ________.

The Leased Property is utilized exclusively by the City for ________________________.

The City and the Authority have agreed and determined that based on the aggregate value of the land and improvements comprising the Leased Property as of the date of delivery of the 2025A Bonds, that the annual fair rental value of the Leased Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration was given to the uses and purposes that may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Lease Payments and Additional Rental Payments for the Leased Property during each Rental Period shall constitute the total rental for said Rental Period.

The City will lease the Leased Property to the Authority pursuant to the Site Lease. The Authority will then sublease the Leased Property to the City pursuant to the Lease.

[Description of Leased Property to come]

Modification of Leased Property

Under the Lease, the City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this provision of the Lease, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

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

Substitution of Property

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

(1) The City has filed with the Authority and the Trustee and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement that adds the legal description of

the Substitute Property and deletes therefrom the legal description of the Former Property, and has filed and caused to be recorded corresponding amendments to the Site Lease and Assignment Agreement.

(2) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate under the Lease in the Substitute Property, subject only to Permitted Encumbrances (as defined in the Lease), in an amount at least equal to the estimated value thereof.

(3) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California.

(4) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the useful life of the Substitute Property at least extends to at least the final maturity date of the 2025A Bonds, that the estimated value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the aggregate Outstanding principal amount of the 2025A Bonds, and the fair rental value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the Lease Payments thereafter coming due and payable under the Lease.

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

Release of Leased Property

General. Under the Lease, the City has the option at any time and from time to time to release any portion of the Leased Property from the Lease (the "Released Property") provided that the City has satisfied all of the requirements under the Lease that are conditions precedent to such release, consisting of the following:

(1) No Event of Default has occurred and is continuing, as certified in writing by the City.

(2) The City has filed with the Authority and the Trustee and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement which removes the Released Property from the Lease, the Site Lease and the Assignment Agreement.

(3) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

(4) The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease following such release is at least equal to the fair rental value of the property which remains subject to this Lease following such

release is at least equal to the Lease Payments thereafter coming due and payable under the Lease.

Upon the satisfaction of all the conditions precedent described above, the Term of the Lease will end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release.

Release of [Property Subject to Release]. The Lease provides that, notwithstanding the provisions for release of Lease Property summarized in the immediately preceding subsection entitled "– *General*," upon final completion of the Muni Water Building Project, the City shall have the absolute right to release from the Lease, the Site Lease and the Assignment Agreement, the portion of the original Leased Property consisting of the [Property Subject to Release] without meeting said conditions, upon satisfaction of the following conditions:

(1) The City shall deliver a certificate to the Authority certifying that the Muni Water Building Project is complete and the fair rental value of the Muni Water Building Project is at least equal to the Lease Payments thereafter coming due and payable hereunder.

(2) The City and the Authority shall execute a Notice of Release of Leased Property amending this Lease and the Site Lease (the "Notice of Release") and the City shall record the Notice of Release in the real property records of the County.

After the execution and recordation of the Notice of Release, and subject to any future substitution of property under the Lease or future removal of property, references to the Leased Property in the Lease, the Site Lease, and the Assignment Agreement will be deemed to include only the Muni Water Building Project and the related site, and shall not include the [Property Subject to Release] as so released.

Addition of Property

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

(1) The City has filed with the Authority and the Trustee and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement that adds the legal description of the Additional Property.

(2) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate under the Lease in the Additional Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.

(3) The City has certified in writing to the Authority and the Trustee that the Additional Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California.

(4) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the useful life of the Substitute Property at least extends to the remaining term of the Lease, that the estimated value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the aggregate Outstanding principal amount of the 2025A Bonds, and the fair rental value of the Leased Property, after the addition of the Additional Property, is at least equal to the Lease Payments thereafter coming due and payable under the Lease.

Amendments to the Lease

Under the Lease, the Authority and the City may at any time amend or modify any of the provisions of the Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of the Trustee or any of the Owners of the 2025A Bonds, but only if such amendment or modification is for any one or more of the purposes described in the Lease. Amendments or modifications that do not require the consent of the Trustee or any of the Owners of the 2025A Bonds include amendments or modifications to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property in the event of the issuance of Additional Bonds, but only to obligate the City to pay additional amounts of Lease Payments such that the scheduled amount of Lease Payments payable after such amendment is sufficient to pay the principal of and interest on the 2025A Bonds and all such Additional Bonds. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" for a summary of the Lease.

THE 2025A BONDS

General

The 2025A Bonds will be dated their date of delivery and issued in fully registered form without coupons in integral multiples of $5,000, so long as no Bond has more than one maturity date. Interest on the 2025A Bonds will be payable on June 1 and December 1 in each year, commencing [June 1, 2025] (each an "Interest Payment Date"). The 2025A Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Interest on the 2025A Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless: (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date; (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date; or (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest with respect to the 2025A Bonds will be computed on the basis of a 360-day year composed of 12 months of 30 days each.

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

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the 2025A Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the 2025A Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the 2025A Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of 2025A Bonds in an aggregate principal amount of at least $1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2025A Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which will remain in effect until rescinded in writing by the Owner.

The Trustee will pay principal and premium, if any, of the 2025A Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender of such 2025A Bonds at the Office of the Trustee.

While the 2025A Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the 2025A Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the 2025A Bonds. See "– Book-Entry Only System" below.

Redemption*

Optional Redemption. The 2025A Bonds maturing on or before June 1, 20__ are not subject to optional redemption prior to their respective maturity dates. The 2025A Bonds maturing on or after June 1, 20__, are subject to redemption, at the option of the Authority, as a whole or in part at the election of the Authority on June 1, 20__, and on any date thereafter, at a redemption price equal to the principal amount of 2025A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2025A Bonds maturing on June 1, 20__, and June 1, 20__ (collectively, the "2025A Term Bonds") are subject to mandatory sinking fund redemption in part prior to their stated maturity date, on each June 1 in accordance with the tables set forth below, respectively, at a redemption price equal to the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium provided.

* Preliminary; subject to change.

2025A Term Bonds Maturing June 1, 20__

Redemption Date (June 1)	Principal Amount of 2025A Bonds to be Redeemed
(maturity)	

2025A Term Bonds Maturing June 1, 20__

Redemption Date (June 1)	Principal Amount of 2025A Bonds to be Redeemed
(maturity)	

If some but not all of the 2025A Term Bonds have been redeemed under the optional redemption provisions of the Indenture described under the subcaption "– Optional Redemption" above or the special mandatory provisions of the Indenture described under the subcaption "– Special Mandatory Redemption from Insurance or Condemnation Proceeds" below, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the 2025A Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of $5,000.

Special Mandatory Redemption from Insurance or Condemnation Proceeds. The 2025A Bonds are subject to redemption as a whole, or in part on a pro rata basis among maturities, on any date, from any Net Proceeds required to be used for such purpose as provided in the Indenture, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of 2025A Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2025A Bonds of a single maturity, the Authority shall select the 2025A Bonds of that maturity to be redeemed by lot in any manner which the Authority in its sole discretion deems appropriate. For purposes of such selection, the Authority shall treat each Bond as consisting of separate $5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

Notice of Redemption. The Trustee shall mail notice of redemption of the 2025A Bonds by first class mail, postage prepaid, not less than 20 nor more than 60 days before any redemption date, to the respective Owners of any 2025A Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Municipal Securities Rulemaking Board as provided in the Continuing Disclosure Certificate. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the 2025A Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the 2025A Bonds to be redeemed and the maturity or maturities of the 2025A Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered to the Trustee. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

Rescission of Redemption. Redemption notices may be conditional. The Authority has the right to rescind any notice of optional redemption of the 2025A Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2025A Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Authority and the Trustee have no liability to the 2025A Bond Owners, or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the 2025A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2025A Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2025A Bonds so called for redemption will cease to accrue, said 2025A Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2025A Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry Only System

The 2025A Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple of $5,000, under the book-entry system maintained by DTC. While the 2025A Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the 2025A Bonds. Purchasers of the 2025A Bonds will not receive certificates representing their interests therein, which will be held at DTC. See "APPENDIX G – DTC AND THE BOOK-ENTRY ONLY SYSTEM" for further information regarding DTC and the book-entry system.

Transfer, Registration and Exchange

The following provisions regarding the exchange and transfer of the 2025A Bonds apply only during any period in which the 2025A Bonds are not subject to DTC's book-entry system. While the 2025A Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX G – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Bond Register. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2025A Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2025A Bonds as provided in the Indenture.

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

Exchange of Bonds. The 2025A Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee will require the Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The Authority will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

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

See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" for a further summary of certain provisions of the Indenture.

DEBT SERVICE SCHEDULE

The table below shows scheduled annual debt service payments on the 2025A Bonds, assuming no optional redemptions or special mandatory redemptions from insurance or condemnation proceeds.

Year Ending June 1	Principal	Interest	Total Debt Service
Total:			

SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS

Revenues; Pledge of Revenues

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

"Revenues" are defined in the Indenture to mean (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any Additional Rental Payments (consisting of certain administrative costs due to the Authority and the Trustee under the Lease), (b) excess investment earnings subject to rebate, if any, to the federal government, to the extent applicable to the Bonds, and (c) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

Assignment to Trustee. Under the Assignment Agreement, the Authority has transferred to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under the provisions of the Lease regarding Additional Rental Payments, advances, release and indemnification covenants, and agreement to pay attorneys' fees). The Authority has also assigned to the Trustee for the benefit of the Owners of all Bonds issued and Outstanding under the Indenture, all Special Tax Revenues.

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

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

Allocation of Revenues by Trustee; Application of Funds

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

All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Any surplus remaining in the Bond Fund, after payment in full of the principal of and interest on the 2025A Bonds or provision therefore under Indenture, and any applicable fees and expenses to the Trustee, will be withdrawn by the Trustee and remitted to the City at the written request of the City.

Allocation of Revenues. On or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts and subaccounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

(a) Deposit to Interest Account. The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(b) Deposit to Principal Account. The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including principal of any 2025A Term Bonds payable as a result of mandatory sinking fund redemption under a Supplemental Indenture. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates, including principal of any 2025A Term Bonds payable as a result of mandatory sinking fund redemption under the Indenture and any other 2025A Term Bonds payable as a result of mandatory sinking fund redemption under a Supplemental Indenture.

Lease Payments; Covenant to Appropriate

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

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date will be credited towards the Lease Payment then required to be paid under the Lease. The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee. The Lease Payments payable in any Rental Period are for the use of the Leased Property during that Rental Period.

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

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

Source of Payments; Covenant to Budget and Appropriate. Under the Lease, the Lease Payments are payable from any source of legally available funds of the City, subject to the provisions of the Lease regarding abatement. See "– Abatement" below. Subject to the provisions of the Lease regarding abatement, the City covenants in the Lease to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. This covenant of the City constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements agreed to be carried out and performed by the City under the Lease. Notwithstanding any other provision of the Lease, the City will in no event be obligated to pay any Lease Payments or Additional Rental Payments due hereunder in any Rental Period for any succeeding Rental Period.

Limited Obligation

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

Abatement

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

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

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

Abatement Due to Damage or Destruction. Under the Lease, the Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease continues in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage and destruction.

Additional Bonds

Under the Indenture, in addition to the 2025A Bonds, the Authority may, by Supplemental Indenture, establish one or more other issues of bonds on a parity with the 2025A Bonds ("Additional Bonds"), and may issue and deliver such Additional Bonds pursuant to a Supplemental Indenture in a principal amount as may be determined by the Authority, but only upon compliance by the Authority with the provisions of the Indenture which include the following:

(1) The Authority and the City must be in compliance with all covenants and undertakings set forth in the Indenture, the Lease and the Site Lease.

(2) The Supplemental Indenture authorizing issuance of Additional Bonds must establish such accounts and subaccounts within the various funds and accounts established thereby or that the Authority deems necessary or advisable.

(3) Additional Bonds shall be equally and ratably secured by the Revenues.

(4) The Authority must enter into an amendment to the Lease, in which the City obligates itself to make Lease Payments and Additional Rental Payments for the lease of the Leased Property at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Lease, and the City must certify in writing that such Lease Payments and Additional Rental Payments, as amended, in any Lease Year will not exceed the fair rental value of the Leased Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith.

(5) If necessary to ensure that the Lease Payments and Additional Rental Payments payable after the issuance of Additional Bonds do not exceed the fair rental value of the Leased Property in any Lease Year, the Authority and the City must amend the Lease to add additional property to the Leased Property.

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

Insurance

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

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

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

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

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

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

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

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The City currently maintains one rental interruption policy for multiple properties, including the Leased Property, in an aggregate amount of $300 million.

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

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

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

See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" for a further certain of certain provisions of the Indenture, the Lease and the Site Lease.

CONSTITUTIONAL AND STATUTORY PROVISIONS ON TAXES AND APPROPRIATIONS

Principal of and interest on the 2025A Bonds are payable from Lease Payments made from the City's General Fund. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS." Articles XIIIA, XIIIB, XIIIC and XIIID of the State Constitution, Propositions 62, 111, 218, 1A and 22, and certain other provisions of law discussed below are included in this Official Statement to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes.

Article XIIIA of the State Constitution

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

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

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property.

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

Article XIIIB of the State Constitution

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

however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

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

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

Articles XIIIC and XIIID of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

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

"(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.

(2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

...

(6) A charge imposed as a condition of property development.

(7) Assessments and property-related fees imposed in accordance with the provisions of Article XIIID."

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

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

Article XIIID. Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. If the City were unable to continue to collect the property-related fees or assessments currently collected by the City, the services and programs funded with these revenues would have to be curtailed and/or the City's General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Article XIIID or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

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

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

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

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

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

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

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

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

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

Subsequent to the *Capistrano* decision, the City conducted a cost of service study for San José Municipal Water and in fiscal year 2017-2018 implemented a new rate structure eliminating the prior tiered rate structure for residential customers, adjusting the percentage of costs recovered on a fixed basis through meter charges instead of the quantity charge for water, establishing quantity rates based on the cost of water supply in three service areas, and revising the reserves and reserve levels.

In the past, the City has made budgetary transfers from its municipal utilities to the City's General Fund similar to those described in the *Roseville* decision. The City has not made any such transfer after fiscal year 2007-2008.

Proposition 62

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

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

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

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

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

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

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

Proposition 1A

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

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

Proposition 22

Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 amended the state Constitution to eliminate or reduce the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues. Notwithstanding the passage of Proposition 22, the State successfully dissolved redevelopment agencies.

Possible Future Actions

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

CERTAIN RISK FACTORS

The following describes certain special considerations and risk factors affecting the payment of and security for the 2025A Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the 2025A Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2025A Bonds. There can be no assurance that other considerations will not materialize in the future.

General Considerations – Security for the 2025A Bonds

The 2025A Bonds are special obligations of the Authority, payable solely from Revenues consisting principally of Lease Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State, or any political subdivision thereof, is pledged to the payment of the 2025A Bonds. The Authority has no taxing power.

The obligation of the City to make the Lease Payments does not constitute a debt of the City, the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease to pay the Lease Payments and Additional Rental Payments from any source of legally available funds and the City has covenanted in the Lease that it will take such action as may be necessary to include all Lease Payments and Additional Rental Payments due under the Lease in its budgets and to make necessary annual appropriations for all Lease Payments and Additional Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues. See "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION − BONDED AND OTHER INDEBTEDNESS" and "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2024."

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Lease Payments and other payments due under the Lease. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIIIB of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIIB of the California Constitution."

Abatements

In the event of substantial interference with the City's right to use and occupy any portion of the Leased Property by reason of damage to, or destruction or condemnation of the Leased Property, or any defects in title to the Leased Property, Lease Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS – Abatement." In the event that a portion of the Leased Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Lease Payments, plus the period for which funds are available from the funds and accounts established under the Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Leased Property or redemption of the 2025A Bonds, there could be insufficient funds to make payments to Owners in full. The Authority has not funded a reserve fund for the 2025A Bonds.

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of the execution and delivery of the 2025A Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the 2025A Bonds.

The City is required under the Lease to maintain property insurance and rental interruption insurance with respect to the Leased Property, as well as a policy of title insurance (which is obtained on the Closing Date). See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS – Insurance." If damage, destruction, title defect or eminent domain proceedings with respect to the Leased Property results in abatement of the Lease Payments related to such Leased Property and if such abated Lease Payments, if any, together with moneys from any rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the 2025A Bonds during the period that the Leased Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease and the Indenture, no remedy is available to the 2025A Bond Owners for nonpayment under such circumstances.

Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Leased Property, ending with the substantial completion of the work of repair or replacement of the Leased Property, or the portion thereof so damaged or destroyed; and the term of the Lease will be extended as provided in the Lease, up to a maximum of ten years beyond the stated termination date of the Lease.

No Reserve Fund

No reserve fund will be established and maintained with respect to the 2025A Bonds. As a result, in the event on non-appropriation or non-payment of the Lease Payments in full when due, no other source of funds will be available to make payments of debt service on the 2025A Bonds while remedial actions are taken with respect to such non-appropriation or non-payment.

Effect of Economy on Revenues

The City relies substantially on property taxes and sales taxes. These revenues can be negatively affected by economic downturns in various ways. Property taxes are directly linked to the assessed value of property in the City and an economic recession affecting real estate markets can cause a significant decline in the City's property tax revenues. Similarly, a recession could cause a reduction in consumer spending and travel, which would have a material adverse impact on the City's sales tax. The City can provide no assurance that economic factors affecting the City, the State, or the nation will not cause a reduction in the City's General Fund tax revenues and a material adverse effect on the City's ability to pay Lease Payments.

Development Risks

General. Economic forces can affect the assessed value of taxable property in the City. The general economy of the City will also be subject to all of the risks generally associated with real estate development projects. Real estate development operations may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development operations within the City could be adversely affected by limitations of infrastructure or future governmental policies.

In addition, if there is a decline in the general economy of the City, the owners of property within the City may be less able or less willing to make timely payments of property taxes or petition to reduce assessed valuation causing a delay in or reduce the property taxes received by the City. At various times, the contraction of the technology business sector has led to significant reductions in property values both in the County and the City. The continued importance of technology business to the area economy may continue to affect property values.

Historical patterns in the City also suggest that assessed value increases and decreases in the City may lag economic conditions. For example, assessed values in the City continued to increase for two fiscal years following the significant economic decline that began in April 2000 (commonly referred to as the "dot com bust").

In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, charitable or religious purposes).

Governmental Policy Risks. Development in the City may be limited by the City's General Plan and subordinate land use policies that could affect when land may be developed for particular uses. Additionally, the City charges a number of area wide mitigation fees in addition to project-specific mitigation fees and may consider the imposition of other fees. Other issues, such as the availability of water supply to certain areas of the City, may also adversely affect the pace of development. See "– Water Supply Risks" below.

Water Supply Risks. Future development in the City could be impacted by the availability of water supply in the State and locally. The City imports water from wholesalers and utilizes local groundwater resources. Statewide and local conditions could impact the availability of water supply for future development in the City. Imported water supplies to portions of the City include: water that is delivered by the San Francisco Public Utilities Commission ("SFPUC") to the San José Municipal Water System ("SJMWS"); water from the State Water Project ("SWP") and Central Valley Project ("CVP") that is delivered by the Santa Clara Valley Water District (the "District") to water retailers in the City; and water transfers that may be delivered by both wholesalers to retailers in the City. All these sources of supply are subject to limitations during periods of drought (see "– Environmental Hazards – Drought" below). On a long-term basis, supplies may also be limited due to the impacts of climate change. The supply of SWP and CVP water is also subject to regulatory constraints imposed to manage flows and water quality in the Sacramento-San Joaquin River Delta.

In addition, the supply of SFPUC water to SJMWS for service in North San José is limited by two contracts: (i) an individual water sales contract between the City and County of San Francisco and the City; and (ii) a master wholesale contract between the City and County of San Francisco and all wholesale customers, including the City, which was amended and restated in 2018 and 2021. Under these contracts, the supply of water could be interrupted by the supplier thereof in certain circumstances. The City does not have a supply guarantee but has an interim supply allocation which requires a 10-year notice before interruption. For drought conditions, the agreement contains a Water Shortage Allocation Plan. The Water Shortage Allocation Plan contains two "tiers". The Tier 1 Plan allocates SFPUC's available water supplies between its Retail and Wholesale Customers (including San José), and applies only when the SFPUC determines that a system-wide water shortage exists and issues a declaration of a water shortage emergency under California Water Code Section 350. The Tier Two Plan is an agreed upon allocation method to be used to distribute available SFPUC supplies among the Wholesale Customers. Separate from a declaration of a water shortage emergency, the SFPUC may opt to request voluntary cutbacks from its Retail and Wholesale Customers to achieve necessary water use reductions during drought periods. During the drought of 2012-2016, SFPUC did not need to declare a shortage as required to implement the Water Shortage Allocation Plan. The City and other retailers adopted mandatory water use restrictions to reduce total water demands and manage available supplies. Projected supplies from the SFPUC are projected to remain available during multi-year dry conditions at levels ranging from 46% to 64% through 2045. However, imported and groundwater supplies from the District remain at 100% assuming implementation of demand reduction measures, therefore, a reduction of supply to SJMW from the SFPUC would result in a net reduction of 5 to 10%, which will be managed with mandatory conservation measures discussed above. The District has not yet projected supply reductions, but any such reduction may require additional mandatory conservation measures.

The San José Municipal Code requires permanent water conservation measures to address a chronic water shortage, to protect the aquifers of the City, and to prevent land surface subsidence. These permanent measures include limits on the duration and frequency of irrigation. The City plans to increase public messaging and continue to work with other retailers and suppliers on the permanent water waste prevention measures required by the San Jose Municipal Code and may consider additional mandatory conservation measures in the future. See "– Environmental Hazards – Drought" below.

Environmental Hazards

The environmental hazards described below may adversely impact persons and property within the City, damage City infrastructure and adversely impact the City's finances and/or ability to provide municipal services.

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

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

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

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

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

On October 19, 2021, the Governor declared a drought emergency for the entire State. After two wet winters, the Governor lifted the drought state of emergency for 19 coastal and desert counties, including Santa Clara and San Francisco counties, on September 4, 2024. The drought emergency remains in effect for the remaining 39 counties.

See "– Development Risks – Water Supply Risks" above and "– Climate Change" below.

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

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

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

FEMA publishes Flood Insurance Rate Maps ("FIRMs") that delineate Special Flood Hazard Areas, flood zones and base flood elevations. The maps prepared by FEMA for the San José area indicate that during a 100-year flood event (area subject to a flood that has a one percent chance of being equaled or exceeded in any given year), sections of the City would be subject to flooding and FEMA considers a multitude of factors to assess flood risk, which include: creek overbanking, topographic elevations, hydrologic data, and levees or inundation from the San Francisco Bay. Approximately 16,000 parcels in the City are within the 100-year flood hazard area established by FEMA. This represents approximately 7 percent of the total number of properties within the City.

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

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

In response to the seismic study, Valley Water initiated a project to retrofit the Anderson Dam. Construction of the first phase, the Anderson Dam Tunnel Project, started in 2021 and is scheduled to be completed in 2025. Construction of the second phase, the Anderson Dam Seismic Retrofit project, a complete rebuild of the dam from the ground up, will follow and is scheduled to be completed in 2031. As of 2024, the total cost of the Anderson Dam Project has increased from $600 million to approximately $1.9 billion.

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

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

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

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

On October 26, 2011, Valley Water announced preliminary findings from a seismic study indicating that its Calero and Guadalupe dams could be subject to significant damage if a major earthquake occurred near either dam. In response to these preliminary findings, Valley Water has further restricted reservoir levels at the Calero and Guadalupe dams. Failure of either of these two dams would impact the City. In 2012, Valley Water initiated a project to retrofit Calero and Guadalupe Dams. In 2012, Valley Water initiated a project to retrofit Calero and Guadalupe Dams. The design phase of the project is ongoing. According to Valley Water, construction of both projects is currently anticipated to be completed by 2032.

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

Cherry Flat Reservoir and Dam, owned and operated by the City, is located in the upper reach of the Upper Penitencia Creek. Built in 1935, Cherry Flat Dam is a 230-feet long and 60-feet high earthfill structure with a 14 feet wide crest. Its total storage capacity is 500-acre feet. Its current purposes include flood control, releasing water for passive recreation in Alum Rock Park, providing habitat flow as requested by the California Department of Fish and Wildlife. The Dam is located at latitude 37.396761, longitude -121.758033.

Upper Penitencia Creek is one of the main tributaries of Coyote Creek. According to the Inundation Study, failure of the Cherry Flat Dam would result in the inundation of land adjacent to Upper Penitencia Creek, mostly less than three feet deep. Most of the areas would be flooded less than two feet deep, mainly confined to streets. The Inundation Study further shows that most of the neighborhood flooding would occur above Piedmont Avenue, with mostly street flooding below Piedmont Avenue. The study further shows some flooding on portions of Highway 680. On January 13, 2021, the California Division of Safety of Dams accepted the Cherry Flat Dam Inundation Study, and on October 7, 2022, the California Office of Emergency Management accepted the Dam's Emergency Action Plan in compliance with State regulations.

Wildfire Risk. The California Department of Forestry and Fire Protection ("CAL FIRE") classifies State Responsibility Areas as either Moderate, High, or Very High "Fire Hazard Severity Zones" ("FHSZ") based on factors such as fuel load, terrain, and historical fire weather patterns. The State Responsibility Area includes lands where the State of California, through CAL FIRE, has primary responsibility for wildfire prevention, protection, and suppression.

San José faces significant wildfire concerns across multiple FHSZs, particularly within zones of transition between wilderness and developed land commonly referred to as wildland interface areas or "WUI." The City estimates that there are roughly 30,000 acres of designated FHSZs within the City jurisdiction and Zone 1. Roughly 20% of that acreage is designated as "Moderate," 55% is designated as "High," and 25% is designated as "Very High" fire hazard severity. Approximately 10,215 addresses within the state-designated FHSZs in the City's Local Responsibility Area – with 5,175 in "Moderate" zones, 5,039 in "High" zones, and a single, uninhabited structure in "Very High" zones. Of these addresses, roughly 75% are single-family addresses, 15% are multi-family addresses, and the remaining 10% are other property types (such as business or recreational addresses).

The City's vegetation management strategies address significant fuel concerns across private and City property. The City conducts annual weed abatement programs in the Parks, Recreation, and Neighborhood Services Department, the Department of Transportation, and the Planning, Building and Code Enforcement Department to reduce fire hazards from overgrown vegetation. On private property, the City estimates that more than 2,100 acres of vacant, private parcels are within the WUI, with 25% of those parcels in "Moderate" zones and 75% in "High" zones. In 2024, Planning, Building and Code Enforcement's weed abatement program covered 427 acres in the WUI. On City property, the City estimates that there are over 925 acres of total open space and undeveloped parklands in WUI areas, with an estimated 30% in "Moderate" zones and 70% in "High" zones, predominantly in Alum Rock Park. The City maintains multiple radio towers located in the boundaries of an identified FHSZ, which are used to dispatch the City's 911 emergency response. In 2020, some of the City-owned radio towers experienced damage, none of which negatively impacted City operations or radio communications.

Despite the City's limited exposure to "Very High" FHSZs, the extensive acreage within "Moderate" and "High" zones—combined with challenging climate conditions and topographical vulnerabilities—requires ongoing multi-agency coordination. Importantly, FHSZ maps indicate hazard, not risk. Hazard refers to the inherent potential of an area to experience a wildfire based on factors like terrain and fire history. Risk refers to the created potential damage a fire could cause based on factors like defensible space, home hardening, and construction materials. It is possible for properties in "Moderate" hazard zones to have high risk; in contrast, it is possible for properties in "Very High" hazard zones to achieve low risk. Estimated fire hazard supports the City's targeted fuel reduction initiatives, multi-agency response planning, and community resilience programs to effectively reduce risk throughout San José.

The City has not been directly affected by a recent or current California wildfire. However, in 2021, the SCU Lightning Complex fire threatened the City's neighborhoods and resulted in evacuations of residents of unincorporated areas on the City's eastern limits. Ultimately, the SCU Lightning Complex fire burned 396,624 acres, destroyed 222 buildings, and impacted six counties.

The occurrence of wildfires in the State has increased in recent years. In January 2025, multiple wildfires occurred in Los Angeles County, including the Palisades fire in the City of Los Angeles, and the Eaton fire in the City of Altadena. These fires started in wildland areas; exacerbated by severe windstorms, the fires moved quickly through large, densely-populated urban areas and, in the case of the Palisades fire, reached and destroyed hundreds of structures along the coast. These fires destroyed more than 16,000 structures and resulted in at least 29 confirmed fatalities.

The Governor previously signed a number of measures into law intended to address a variety of issues related to mitigating the risk of wildfires, including forest management, mutual aid for fire departments, emergency alerts and other safety mandates, and it is expected that he will continue to do so. It is also expected that a variety of financial relief measures for affected communities and individuals will be considered. The City cannot predict and makes no representations regarding to the extent to which recent events may impact City facilities, construction schedules, the costs of building materials and contractors, the costs and availability of casualty and homeowner's insurance, or the assessed value of taxable property within the City, if at all.

Hazardous Substances

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

Clean Water Compliance

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

Natural Gas Transmission Pipelines

On September 9, 2010, a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. In a final Pipeline Accident Report, adopted by the National Transportation Safety Board (the "NTSB") on August 30, 2011, the NTSB found recurring deficiencies in PG&E's pipeline integrity management program, which the NTSB concluded were evidence of a systemic problem. There are numerous similar pipelines owned, operated and maintained by PG&E located throughout the City. PG&E's website www.pge.com (nothing contained in such website is incorporated in this Official Statement) provides information regarding its high-pressure natural gas transmission pipelines and its long-range natural gas transmission pipeline planning. PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high density populations, potential reliability impacts and environmentally sensitive areas and uses the data it collects to help plan and prioritize future work on its pipelines.

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

The City is not able to independently confirm the information set forth above or the information contained in the NTSB's Pipeline Accident Report or on PG&E's website, including the exact distances of any high-pressure transmission lines from the City, and can provide no assurances as to the accuracy or completeness of such information. None of the information available in the NTSB's Pipeline Accident Report and from PG&E's website is part of this Official Statement nor has such information been incorporated by reference herein, and such information should not be relied upon in making an investment decision with respect to the 2025A Bonds. Further, the City can provide no assurances as to the condition of PG&E pipelines and other facilities in the City nor can it predict the extent of the damage to the surrounding property that would occur if a PG&E pipeline located within the City were to experience any type of failure, including a possible fire or explosion.

PG&E Public Safety Power Shutoffs

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

As the third largest city in the State and the largest in Northern California, the City is PG&E's largest customer. The City serves a population of nearly 1 million people. Reliable electric service is essential to the residents, government operations, and businesses in the City's community. In the event of a PG&E Shutoff in the City or surrounding areas, the general economy of the City could be adversely affected and result in a reduction in tax revenues to the City, such as sales tax revenues resulting from the interruption of businesses within the City. See "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION – MAJOR GENERAL FUND REVENUE SOURCES" for a description of the City's major general fund sources, including sales tax revenues.

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

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

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

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

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

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

In the summer months of 2020, PG&E implemented two PG&E Shutoffs: October 14-16, 2020, that affected approximately 150 customers and October 25-27, 2020, that affected approximately 570 customers. The impacts of the two incidents were significantly mitigated by improvements PG&E implemented over the prior year. New switching equipment and better identification of outage area reduced the footprint of the outages.

PG&E Shutoff impacts have declined significantly since 2020 due to advanced technologies and improvements to the electric system infrastructure that PG&E has implemented. The City has not experienced a PG&E Shutoff since October 2020.

It is possible that there will be additional PG&E Shutoffs under current CPUC regulations, although PG&E has taken measures to reduce the geographic area and impacts of any future shutoffs. The impact that any PG&E Shutoffs in the City and surrounding areas will have on the City and its finances is unknown and the City cannot provide any assurance regarding the effect such shutoffs will have on the City or its finances.

See "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION – BUDGET AND FINANCIAL INFORMATION – Capital Improvement Program – Sustainability Initiatives" for further discussion regarding SJCE.

Public Health Emergencies

A pandemic, epidemic or outbreak of an infectious disease can have significant adverse health and financial impacts on global and local economies. For example, beginning in 2020, the COVID-19 pandemic negatively affected economic activity throughout the world, including the United States and the State of California. The initial impacts of stay-at home orders globally were unprecedented, with commerce, travel, asset values and financial markets experiencing disruptions worldwide. The COVID-19 pandemic had material adverse impacts on the City's economy and certain aspects of the City's financial condition.

While the declarations of COVID-19 as a public health emergency have been lifted, future pandemics and other widespread public health emergencies can and do arise from time to time. It is noted that on December 18, 2024, the Governor of the State of California proclaimed a State of Emergency to strengthen the State's response to avian influenza A (H5N1), commonly known as "Bird Flu." The proclamation came as cases were detected in dairy cows on farms in Southern California, signaling the need to further expand monitoring and build on the coordinated statewide approach to contain and mitigate the spread of the virus. [According to the California Department of Public Health (the "CDPH"), no person-to-person spread of Bird Flu has been detected in California to date, and the risk to the public remains low; however, the CDPH is monitoring infection data, evolving science and the people affected.]

The City cannot predict whether another national or localized outbreak of highly contagious or epidemic disease in the future could negatively impact the City's economy or finances.

Climate Change

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

On August 9, 2021, the United Nations' Intergovernmental Panel on Climate Change published its Sixth Assessment Report on the physical science basis of climate change (the "IPCC Report") summarizing the current state of the climate, including how it is changing and the role of humans in such change, and the state of knowledge about possible climate futures. The IPCC Report states, unequivocally, that human influence has warmed the atmosphere, ocean and land, causing widespread changes including weather and climate extremes across the globe. The IPCC Report estimates that global warming of 1.5°C and 2°C will be exceeded during the current century unless deep reductions in carbon dioxide and other greenhouse gas emissions occur in the coming decades. However, the IPCC Report also states that many changes in the climate system are irreversible for centuries to millennia due to past and future greenhouse gases, especially with respect to changes in the ocean, ice sheets and global sea level. Temperatures and extreme high temperatures are expected to continue to increase, and sea level rise is expected to continue to increase, along with associated flooding and erosion. With respect to western North America, where the City is located, the IPCC Report projects increases in drought and fire weather.

Projections of the impacts of climate change are complex and depend on many factors that are outside the City's control. The various scientific studies that forecast the amount and timing of the adverse impacts of global climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the City cannot predict the timing or precise magnitude of adverse economic effects resulting from climate change, including, without limitation, material adverse impacts on the business operations or the financial condition of the City and the local economy during the term of the 2025A Bonds. While the impacts of climate change may be mitigated by the City's past and future investment in adaptation strategies, the City can give no assurance about the net effects of those strategies and whether the City will be required to take additional adaptive mitigation measures. For more information regarding the City's sustainability initiatives, see "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION – BUDGET AND FINANCIAL INFORMATION – Capital Improvement Program – Sustainability Initiatives."

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

Cybersecurity

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

In 2017, the City established a Cybersecurity Office and in 2018 hired its first Chief/City Information Security Officer (the "CISO"), within the City's Information Technology Department, to coordinate cybersecurity preparation and response across City departments. Under the direction of the CISO, the City has developed and disseminated an administrative policy entitled "Information and Systems Security Policy" to set forth authorities, responsibilities, and procedures governing the use and security of the City's information and systems assets. The City's Information Security Standards Handbook further establishes the operational security baseline of the City's information systems. The Cybersecurity Office also worked with City departments to improve system and infrastructure changes by establishing a Citywide Change Control Board ("CCB") in August 2018. The CCB's main objective is to communicate and inform all impacted departments of changes made to business systems for detailed review as part of maintenance and/or upgrades. Additionally, a Cybersecurity Advisory Board, with cybersecurity leaders from the public and private sectors, helped validate and refine the City's cybersecurity strategies, policies approach, and roadmap.

The City has conducted training with City employees who handle credit card transactions for Payment Card Industry Data Security Standard compliance. The Cybersecurity Office also provides recurring cybersecurity training and testing for all City employees, including phishing email tests, social engineering tests, periodic cybersecurity newsletters, and workshops. These efforts have been coupled with ongoing information technology security assessments to help identify and remediate potential weaknesses in systems and networks. The Cybersecurity Office and Office of the City

Auditor jointly executed a review in the second half of 2021 to set assessment and risk management priorities for 2022-2023.

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

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

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

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

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

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

Other Financial Matters

Due to weakness in the economy of the State and the United States, it is possible that the general revenues of the City will decline. Such financial matters may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Lease Payments. See "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION."

Future Litigation

There can be no assurance that future lawsuits or governmental actions will not affect repayment of the 2025A Bonds. See the section entitled "POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DEGREES" in "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION."

Substitution, Addition and Removal of Property; Additional Bonds

The Authority and the City may amend the Lease to substitute alternate real property for any portion of or add additional real property to the Leased Property or to release a portion of the Leased Property from the Lease, upon compliance with all of the conditions set forth in the Lease. After a substitution or release, the portion of the Leased Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease. See "THE LEASED PROPERTY." Moreover, the Authority may issue Additional Bonds secured by Lease Payments which are increased from current levels. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS – Additional Bonds."

Although the Lease requires, among other things, that the Leased Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Lease Payments payable by the City in any Rental Period, it does not require that such Leased Property have an annual fair rental value equal to the annual fair rental value of the Leased Property at the time of substitution or release. Thus, a portion of the Leased Property could be replaced with less valuable real property or could be released altogether. Such a replacement or release could have an adverse impact on the security for the 2025A Bonds, particularly if an event requiring abatement of Lease Payments were to occur subsequent to such substitution or release. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – [The Lease – No Consequential Damages; Use of the Leased Property; Substitution or Release]."

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the Site Lease and the Lease will be amended, to the extent necessary, so as to increase the Lease Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Lease Payments, including any increase in the Lease Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Leased Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – [The Indenture – Issuance of Bonds; Application of Proceeds]."

Additional Obligations of the City

The City has existing obligations payable from its General Fund. See "APPENDIX A – THE CITY OF SAN JOSE: FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION − BONDED AND OTHER INDEBTEDNESS" and "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2024" for more information. The Lease does not limit the City's right to incur additional obligations payable from its General Fund.

City is permitted to enter into other obligations that constitute additional charges against its revenues without the consent of Owners of the 2025A Bonds. If the City were to incur additional obligations, the funds available to pay Lease Payments could be decreased.

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

Limited Recourse on Default; No Acceleration of Lease Payments

Failure by the City to make Lease Payments or other payments required to be made under the Lease, or failure to observe and perform any other terms, covenants or conditions contained in the Lease or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Lease and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Lease or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable, nor do the Authority or the Trustee have any right to re-enter or re-let the Leased Property except as described in the Lease.

The enforcement of any remedies provided in the Lease and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Lease Payments with respect to the Leased Property, the Trustee, as assignee of the Authority, may retain the Lease and hold the City liable for all Lease Payments thereunder on an annual basis and enforce any other terms or provisions of the Lease to be kept or performed by the City.

Alternatively, the Authority or the Trustee may terminate the Lease, retake possession of the Leased Property and proceed against the City to recover damages pursuant to the Lease. Due to the specialized nature of the Leased Property or any property substituted therefor pursuant to the Lease, no assurance can be given that the Trustee will be able to re-let the Leased Property so as to provide rental income sufficient to make all payments of principal of, interest and premium, if any, on the 2025A Bonds when due, and the Trustee is not empowered to sell the Leased Property for the benefit of the Owners of the 2025A Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS" and "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – [THE LEASE –Defaults and Remedies]."

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

Under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs bankruptcy proceedings of public entities such as the City, no involuntary bankruptcy petition may be filed against a public entity. However, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the City. The filing of a bankruptcy petition results in a stay against enforcement of remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the City could thus limit remedies under the Lease. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease. In the event of rejection of a lease by debtor lessee, the leased property is returned to the lessor and the lessor has a claim for a limited amount of the resulting damages.

Under the Indenture, the Trustee holds a security interest in the Revenues, which consist primarily of Lease Payments, for the benefit of the Owners of the 2025A Bonds, but such security interest as to Lease Payments arises only when the Lease Payments are actually received by the Trustee following payment by the City. The Leased Property is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a bankruptcy filed by the City and the subsequent rejection of the Lease by the City, the Authority would recover possession of the Leased Property and the Trustee, as assignee of the Authority, would have a claim for damages against the City. The Trustee's claim would constitute a secured claim only to the extent of Revenues in the possession of the Trustee; the balance of such claim would be unsecured.

Bankruptcy proceedings would subject the Owners of the 2025A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of their rights with respect to the 2025A Bonds. In a bankruptcy case, the amount recovered by Owners of the 2025A Bonds could be affected by whether the Lease is determined to be a "true lease" or a loan or other financing arrangement (a "financing lease"), and the Owners' recovery could be reduced in either case. If the Lease is determined by the bankruptcy court to constitute a "true lease" (rather than a financing lease), the City could choose not to perform under the Lease by rejecting it and the claim of the Owners could be substantially limited pursuant to Section 365 of the Bankruptcy Code to a fraction of the scheduled amount of Lease Payments, and that reduced claim amount could be impaired as an unsecured claim under a plan of adjustment. If a bankruptcy court were to treat the Lease as a financing lease then, under a plan of adjustment, the priority, payment terms, collateral, payment dates, payment sources, covenants and other terms or provisions of the Lease and the 2025A Bonds may be altered. Such a plan could be confirmed even over the objections of the Trustee and the Owners, and without their consent. For example, the amount of the Lease Payments from the City might be substantially reduced because of the power of the bankruptcy court under the Bankruptcy Code to adjust secured claims to the value of their collateral, which, as described above, could be limited to the Lease Payments held by the Trustee. In addition, there can be a substantial disparity in treatment based on the nature of the Leased Property. Whether the Lease is characterized by the bankruptcy court as a true lease or a financing lease, either scenario could result in the Owners not receiving the full amount of the principal and interest due on the 2025A Bonds.

The opinions of counsel, including Bond Counsel, delivered in connection with the issuance of the 2025A Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Possible Insufficiency of Insurance Proceeds

The Lease obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Leased Property in the event of damage, destruction or title defects, subject to certain exceptions. The Authority and the City make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the 2025A Bonds when due. In addition, certain risks, such as earthquakes and floods, are not required to be insured under the Lease, and therefore, are not carried by the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2025A BONDS — Insurance."

Loss of Tax Exemption/Risk of Audit of Municipal Issuer

As discussed under the caption "TAX MATTERS," interest on 2025A Bonds could fail to be excluded from gross income of the Owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the 2025A Bonds as a result of future acts or omissions of the City in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Additionally, subsequent to the issuance of the 2025A Bonds, there might be federal, state or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state or local tax treatment of the 2025A Bonds or the market value of the 2025A Bonds. Tax reform proposals are being considered by Congress. It is possible that legislative changes will be introduced in Congress that, if enacted, would cause interest on the 2025A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2025A Bonds. No assurance can be given that, after the issuance of the 2025A Bonds, such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Should such an event of taxability occur, the 2025A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Fiscal Agent Agreement. Before purchasing any of the 2025A Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and any collateral tax consequences relating to the 2025A Bonds.

The Internal Revenue Service (the "IRS") has a program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2025A Bonds or other obligations of the City may be selected for audit by the IRS. It is also possible that the market value of the 2025A Bonds could be affected as a result of such an audit or audits.

Federal Funding Risks

Federal policies on the federal debt ceiling, taxes, foreign trade and tariffs, immigration, climate change, clean energy, and other topics can shift dramatically from one administration to another. From time to time, such changes can result in dramatic shifts in the level of federal funding for various policy priorities, leading to unpredictability in near-term and future federal funding. The City can provide no certain assurances with respect to continued grant funding or other direct payments to the City and County in support of governmental services, whether previously made directly or by pass-through to the State.

No Liability of Authority to the Owners

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the 2025A Bonds with respect to the payment when due of the Lease Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

State Law Limitations on Appropriations

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

Change in Law

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

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2025A Bonds or, if a secondary market exists, that any Bonds can be sold for a particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

TAX MATTERS

General

In the opinion of Anzel Galvan LLP, San Francisco, California, Bond Counsel, under existing law and subject to certain qualifications described below, interest on the 2025A Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Tax Code"). Interest on the 2025A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. In the further opinion of Bond Counsel, interest on the 2025A Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the 2025A Bonds to be delivered on the date of issuance of the 2025A Bonds is set forth in Appendix D.

The Tax Code contains a number of requirements that apply to the 2025A Bonds, and the Authority and the City have made certain representations and have covenanted to comply with each such requirement. Bond Counsel's opinion assumes the accuracy of the representations made by the Authority and the City and is subject to the condition that the Authority and the City comply with the above-referenced covenants. If the Authority or the City fail to comply with such covenants or if the their representations are inaccurate or incomplete, interest on the 2025A Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2025A Bonds.

Except as expressly stated herein, Bond Counsel expresses no opinion regarding any tax consequences related to the ownership, sale or disposition of the 2025A Bonds, or the amount, accrual or receipt of interest on, the 2025A Bonds. Owners of the 2025A Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2025A Bonds.

Original Issue Premium and Discount

If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income to the extent properly allocable to each owner thereof subject to the limitations described in the limitation described herein. The original issue discount accrues over the term to maturity of the 2025A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2025A Bonds who purchase the 2025A Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under the federal alternative minimum tax.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2025A Bond (said term being the shorter of the 2025A Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2025A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the 2025A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax consequences of owning such Bonds.

Post Issuance Matters

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2025A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Tax Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

Bond Counsel's engagement with respect to the 2025A Bonds ends with the issuance of the 2025A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the City or the Owners regarding the tax-exempt status of the 2025A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2025A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2025A Bonds, and may cause the Authority or the Owners to incur significant expense.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2025A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2025A Bonds. Prospective purchasers of the 2025A Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

CERTAIN LEGAL MATTERS

The validity of the 2025A Bonds and certain other legal matters are subject to the approving opinion of Anzel Galvan LLP, Bond Counsel. Anzel Galvan LLP is also acting as Disclosure Counsel for the City and the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. Bond Counsel is not passing upon and undertakes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Anzel Galvan LLP will receive compensation from the Authority and the City contingent upon the sale and delivery of the 2025A Bonds. Certain legal matters will be passed upon for the City and the Authority by the City Attorney.

LITIGATION AND SIGNIFICANT CLAIMS

No litigation is pending against the Authority or the City with service of process accomplished or threatened in writing concerning the validity of the 2025A Bonds, or questioning the political existence of the Authority or the City or seeking to restrain or enjoin the execution or delivery of the 2025A Bonds, the Lease, the Site Lease or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the City taken with respect to any of the foregoing

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

COMPETITIVE SALE OF 2025A BONDS

The 2025A Bonds were sold pursuant to a competitive bidding process held on _________________, 2025, pursuant to the terms set forth in an Official Notice Inviting Bids for the 2025A Bonds (the "Official Notice Inviting Bids"), and were awarded to _______ (the "Purchaser"), whose proposal represented the lowest true interest cost for the 2025A Bonds as determined in accordance with the Official Notice Inviting Bids.

The Purchaser has agreed to purchase the 2025A Bonds at a price of $_________________ (being the principal amount of the 2025A Bonds plus original issue premium of $_________________ and less a purchaser's discount of $_________________).

The Purchaser will be obligated to take and pay for all of the 2025A Bonds if any are taken. The Purchaser intends to offer the 2025A Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Purchaser.

The Purchaser and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The

Purchaser and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the issuer for which they received or will receive customary fees.

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

RATINGS

The 2025A Bonds have received ratings of “___” by Moody's Investors Service, “__” by S&P Global Ratings, and “__” by Fitch. These ratings reflect only the views of the respective rating agency and any desired explanation of the significance of these ratings should be obtained from the rating agencies. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance that any ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings may have an adverse effect on the market price of the 2025A Bonds. Neither the City nor the Purchaser have the obligation to contest any revision or withdrawal by the rating agencies of any such ratings.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the 2025A Bonds to provide to the Electronic Municipal Market Access System (“EMMA System”) certain financial information and operating data relating to the City by not later than April 1 after the end of each fiscal year of the City (currently June 30th), commencing not later than April 1, 2026 with the report for the 2024-2025 fiscal year (the “Annual Report”), and to provide notices of the occurrence of certain listed events. The specific nature of the information to be contained in the Annual Report or the notices of listed events is summarized in “APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Purchaser in complying with the Rule. The Trustee has no obligation to enforce the undertakings of the City in the Continuing Disclosure Certificate, and a failure by the City to provide any information required thereunder shall not constitute an Event of Default under the Indenture.

The City engaged third-party consultants to conduct an analysis of the historical compliance of the City and the Successor Agency with their respective continuing disclosure obligations over the past five years. During this time, both the City and the Successor Agency were obligated to provide continuing disclosure. The City was obligated to provide continuing disclosure pursuant to undertakings for numerous bond issuances, including bond issuances of the City, the Authority, the San José-Santa Clara Clean Water Financing Authority, and various City of San José special assessment and community facilities districts and a convention center facilities district. However, the City was not obligated under the Successor Agency’s prior undertakings under the Rule, nor was the Successor Agency obligated under the City’s prior undertakings under the Rule. The Successor Agency is not obligated under the Continuing Disclosure Certificate for the 2025A Bonds.

During the five-year period preceding the date of this Official Statement, neither the City nor the Successor Agency failed to comply with their respective continuing disclosure undertakings under Rule 15c2-12, except that a notice of a change of trustee with respect to a series of bonds issued by the Authority was filed two days after the filing deadline.

MUNICIPAL ADVISOR

The City has retained Public Resources Advisory Group, Oakland, California, as municipal advisor (the "Municipal Advisor") in connection with the authorization and delivery of the 2025A Bonds. The Municipal Advisor has assisted the City in the City's review and preparation of this Official Statement and in other matters relating to the planning, structuring and sale of the 2025A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The fees and expenses of the Municipal Advisor are contingent upon the successful issuance and delivery of the 2025A Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

The Verification Agent, upon delivery of the 2025A Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the City, relating to the sufficiency of the anticipated amount of proceeds of the 2025A Bonds and other funds available to refinance the 2013B Bonds and the Muni Water Building Commercial Paper Notes.

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

FINANCIAL STATEMENTS OF THE CITY

The audited financial statements of the City as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's Basic Financial Statements, are attached to this Official Statement as Appendix C.

Macias Gini & O'Connell LLP (the "Auditor") served as independent auditor to the City in connection with the financial statements of the City as of and for the fiscal year ended June 30, 2024. Since the date of its audit reports included with the City's Basic Financial Statements, the Auditor has not been engaged to perform, nor has it performed any, additional procedures on the financial statements addressed in such reports. The Auditor also has not performed any procedures relating to this Official Statement, including any procedures or action intended to elicit information concerning the accuracy, completeness, or fairness of the statements made in this Official Statement. See "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2024."

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the 2025A Bonds, the Indenture, the Lease, the Site Lease, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Copies of the Indenture, the Lease, the Site Lease and other documents referenced in this Official Statement are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the Finance Department—Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, California 95113; Phone (408) 535 7010; or by e-mail at debt.management@sanjoseca.gov. The City may impose a charge for copying, mailing and handling.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the 2025A Bonds.

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

CITY OF SAN JOSE FINANCING AUTHORITY

By: ______________________________
Treasurer

CITY OF SAN JOSE

By: ______________________________
Director of Finance

APPENDIX A

THE CITY OF SAN JOSE:
FINANCIAL, DEMOGRAPHIC AND ECONOMIC INFORMATION[1]

[1] [All references in this draft Appendix A to the FY25-26 adopted operating budget are based on the FY25-26 proposed operating budget pending Council approval]

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INTRODUCTION

The information in this Appendix A is presented as general background information regarding the City of San José (the "City"). The Bonds are general obligations of the City payable from ad valorem taxes, and the City Council is empowered and is obligated to levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City without limitation of rate or amount (except certain personal property which is taxable at limited rates), as provided in the Fiscal Agent Agreement. Under the Fiscal Agent Agreement, the City is not obligated to pay debt service from any other sources, including, without limitation, the revenues of the City and other funds described in this Appendix A. See "THE BONDS – Security for the Bonds" in the forepart of this Official Statement.

The City maintains a number of websites. However, the information presented on the City's websites is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds. References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience.

PART 1: FINANCIAL INFORMATION

Certain statements included or incorporated by reference in this Appendix A constitute "forward-looking statements." Such forward-looking statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet City forecasts in any way, regardless of the level of optimism communicated in the information. The City has no plans to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, do not occur, or change.

In addition, this Appendix A contains historic financial, economic and demographic information regarding the City with a focus on the City's General Fund. Accordingly, information concerning the City's finances that does not materially impact the availability of moneys deposited in, or available for transfer to, the General Fund, or the expenditure of such moneys, and, in each case, material risks related thereto (including information relating to the City's proprietary funds (such as the Airport)), enterprise funds (such as the Wastewater Treatment System, Sewer Construction and Maintenance Fund and San José Clean Energy), and special funds (such as the Municipal Water System Fund), is generally not included in this Appendix A or, if included, is not described in detail.

The information provided in this Appendix A is limited to the time periods indicated and reflect data, assumptions and other information available as of the indicated dates. It is not possible to predict whether the trends shown continued beyond the historical data set forth herein (certain of which may be subject to subsequent adjustment) will continue.

Numbers in tables in this Appendix A may not sum to the total due to rounding.

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

Financial Results and Budget

During the five most recently completed fiscal years, the City's General Fund has performed positively in most fiscal years. Fiscal Years 2019-2020 through 2022-2023, saw a steady increase in General Fund revenues driven primarily by an increase in intergovernmental revenues consisting primarily of federal and State of California (the "State") funding for COVID-19 pandemic relief. During the same period, General Fund revenues that are sensitive to economic conditions such as property taxes and sales taxes also increased. However, in Fiscal Year 2023-2024, the City's General Fund revenues decreased because of decreases in COVID-19 pandemic relief funding and a softening in sales tax revenues. In addition, unlike the City's General Fund revenues, General Fund expenditures have steadily increased during the five-year period. In Fiscal Year 2020-2021 and 2023-2024, General Fund expenditures exceed General Fund revenues by approximately $9 million and $5 million, respectively. Despite the foregoing trends, the City's General Fund balance increased from approximately $460 million at June 30, 2020 to approximately $675 million at June 30, 2024.

The softening of market sensitive General Fund revenues has continued in Fiscal Year 2024-2025. Through the first [eight] months of the fiscal year, revenues and expenditures were generally tracking within the budgeted estimates in most City funds, though General Fund revenues are expected to fall short of budgeted estimates. As of [February] 2025, General Fund revenues are anticipated to fall below the budgeted estimate by approximately $10 million. The decrease in projected General Fund revenues is primarily due to lower than anticipated sales tax revenue (down by $20 to $25 million), partially offset by higher revenue collections in other categories (higher by $10 to $15 million), including property tax (higher by $9 to $10 million), utility tax (higher by $2 million) and use of money and property (higher by $2 to $3 million).

Through [February] 2025, General Fund expenditures (without encumbrances) totaled $1.1 billion or 24.0% above the prior year level of $894.4 million. On December 4, 2024, in response to the decline in sales tax revenue and a minimal level of expenditure savings that were anticipated at the time, the City Manager directed the City's Administration to implement measures to control costs to the extent possible without noticeably impacting high-priority services. Cost control measures included a hiring freeze (with exceptions), limiting overtime expenditures, a suspension of General Fund capital projects not yet started, and minimizing other discretionary expenditures. As a result of such cost cutting measures, as of [February] 2025, the City anticipates General Fund expenditures to end the fiscal year within budgeted levels, and produce savings of approximately $10 to $15 million.

Looking ahead, the City is projecting General Fund deficits in three of the next five fiscal years based on the City Manager's Five-Year Forecast and Revenue Projections for Fiscal Years 2025-2026 through 2029-2030 which was released in February 2025. Based on such forecast and projections, the City expects cumulative deficits (base case) of $45.7 million in 2025-2026, $52.9 million in 2026-2027 and $3.7 million in 2027-2028, followed by minor surpluses for the final two years of the Forecast period. To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts were developed in the forecast; optimistic and pessimistic assumptions. Whereas, for the five-year period, the base case had a five-year deficit of $97.1 million, the optimistic case had a five-year deficit of $15.1 million and the pessimistic case had a five-year deficit of $204.7 million. See "BUDGET AND FINANCIAL OPERATION – General Fund Budget Outlook."

In connection with the preparation of the City's proposed General Fund operating budget for Fiscal Year 2025-2026, the City adjusted its projections of the General Fund deficit for Fiscal Year 2025-2026 downward from $45.7 million to $35.6 million. The City's adopted General Fund operating budget, which was adopted in June 2025, is a balanced budget and includes a one-time use of $[7] million from the Budget Stabilization Reserve and $11.5 million from the Community and Economic Recovery Reserve.] See "BUDGET AND FINANCIAL OPERATION – Fiscal Year 2025-2026 Adopted Budget."

Certain Significant Challenges

Unsheltered Homelessness. The City estimates that over 4,000 people live in unmanaged, unsafe conditions on streets and along creeks within the City. Over the past two years, the City Council has committed significant resources to reducing unsheltered homelessness. For example, San José expects to double its shelter capacity bringing more than 1,000 net new placements, including hotel/motel conversions, and safe sleeping sites, online by the end of 2025. However, additional investment is necessary. The City estimates that it would need to fund approximately $225 million in one-time capital investments and $234 million in annual operating expenses to make it the first major West Coast city to end unsheltered homelessness.

Over the last several years, the City's interim housing portfolio has been sustained by significant influxes of external funding from the federal government and the State. In addition, the City's interim housing portfolio has been supported by one-time contributions from the General Fund and revenues from Measure E. Measure E is a real property transfer tax approved by San José voters in 2020 imposing a tiered level for property transfers (sales) over $2.0 million. However, the City expects all federal sources to be depleted by the end of Fiscal Year 2024-2025, all State funding to be depleted by the end of Fiscal Year 2028-2029, and most of the previous one-time City funded allocations to be spent by the end of Fiscal Year 2025-2026. As forecasted in the 2025-2026 City Manager's Budget Request and 2026-2030 Five-Year Forecast and Revenue Projections, the City projected that ongoing General Fund contributions to the interim housing portfolio would need to continue in Fiscal Year 2025-2026 in the amount of $25 million, rising to $66 million in 2026-2027, and to $92.0 million by Fiscal Year 2029-2030 under the then existing Measure E spending policy. [The 2025-2026 Proposed Operating Budget recommends eliminating the General Fund contribution of $25.0 million in 2025-2026 by shifting this entire cost into the Real Property Transfer Tax Fund (where Measure E revenues are collected), and decreasing the General Fund contribution in 2026-2027 by $39.3 million, from $66.0 million to $26.7 million.]

[Since the passage of Measure E, the City has maintained a policy of allocating 75% of Measure E revenues for the development of new affordable housing, 10% for homelessness prevention, and 15% for homeless support programs and shelter construction and operations. Given the immediate need to reduce unsheltered homelessness and to minimize reductions to community services previously authorized by City Council, the 2025-2026 Proposed Operating Budget recommends amending the existing Measure E policy to redirect revenues previously used for the development of new affordable housing to support the City's efforts to support unsheltered persons within the City. Under the amended policy, the City would allocate up to 90% of Measure E Revenues for homeless support programs and shelter construction and operations, and 10% for homelessness prevention. Any remaining funds will be used to fund new affordable housing development. The amended policy is projected to allow the City to redeploy up to $39.2 million of estimated Measure E revenues in Fiscal Year 2025-2026 and

$42.8 million in Fiscal Year 2026-2027 from new affordable housing development for homelessness support.]

Affordable Housing. San José faces a housing affordability crisis driven by decades of underbuilding housing across all income levels, culminating in a new record low for production in 2024: zero new market rate multifamily housing starts. In addition, there was a drop in both units entitled and units issued in 2024. For units issued, the most notable change was the decrease in market-rate units (an approximately 85% decrease). Affordable housing accounted for 92% of the total residential permits issued in 2024, resulting in a 20% increase in affordable units issued compared to 2023. Because of the City's housing shortfall, especially relative to regional job growth, the San José metro area is one of the most expensive places to rent or buy in the country.

To address the housing crisis in the City, the Mayor has directed the City Manager to take several actions in the future. Those actions include dedicating staff to achieve reforms to the review process under the California Environmental Quality Act ("CEQA") and propose changes to make the process more efficient and reduce the time projects take to be approved. The Mayor has also directed the City Manager to initiate a General Plan Four-Year Review starting in fall of 2025 and to conclude by the end of Fiscal Year 2025-2026 to address barriers to housing in the City's General Plan. The Mayor has also directed the City Manager to explore ways to reduce barriers in the City's Municipal Code and incentivize construction of single room occupancy housing and co-living housing.

Lack of federal, state, and local resources has made it increasingly difficult to finance affordable housing projects because they require deep subsidies. While the City has set aside land specifically for affordable projects, viable projects haven't moved forward due to financing challenges. The City's ability to support affordable housing projects going forward will also be affected as it balances the competing goals of eliminating homelessness within the City and providing other core community services. [The City is proposing to amend its Measure E policy to redirect Measure E revenues slated for affordable housing development to homelessness support without imposing deep cuts to other core community services and existing positions. To partially mitigate the impact of the Measure E revenue reallocation, the City is working to make available approximately $160 million from various sources to support new affordable housing development in the near term and helping the move forward previously committed affordable housing projects.]

Federal Defunding. Since January 20, 2025, President Trump and the Administration has issued numerous Executive Orders, agency directives and other administrative actions to compel local jurisdictions to conform to the current policy priorities with respect to various topics including immigration, LGBTQ+ rights, climate change, and DEI/DEIA programs. These actions include the potential withholding of federal funds from cities and counties that use these funds to serve vulnerable residents, promote public safety, and prepare for emergencies.

In February 2025, the City of San José joined as a plaintiff with the City and County of San Francisco and 15 other cities and counties in a federal court action against the Trump Administration challenging Executive Orders targeting jurisdictions that have adopted policies that limit the use of local resources to aid federal immigration officials in carrying out civil immigration enforcement, often referred to as "sanctuary" policies. On May 3, 2025, the U.S. District Court for the District of Northern California granted plaintiffs' request for a preliminary injunction order prohibiting the Administration from withholding federal funding on the basis of "sanctuary" policies. See "POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES – Potentially Significant Litigation – Federal Defunding."

Preliminarily, the City has identified approximately $6.2 million in grant funding expected to be received by the San José Police Department ("SJPD") through 2027 and approximately $52 million in grant funding expected to be received by the City's Housing Department through 2033 at risk of defunding pursuant to the President Trump's Executive Order. The Administration is reviewing grants to verify conformance with new policy priorities, and various federal departments have issued new terms and conditions that apply to both current and future grants. The City continues to evaluate whether other sources of federal funding may also be at risk of defunding because of such orders. The City's ability to maintain and access future federal funding remains an ongoing risk, and will be the subject of current and future litigation.

Community Safety. SJPD continues to grapple with a high vacancy rate that has strained the department. Currently, the department has less than 1,000 street-ready officers. Over the last two fiscal years, the City has invested in new recruitment and retention efforts to combat hiring challenges. And while the City has begun to see a positive trend in police academy applicants and class sizes, the City hasn't yet reached our goal of a fully staffed police force.

MUNICIPAL GOVERNMENT

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

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

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

The City also provides oversight in the management of convention, cultural event, sport, and hospitality facilities that include the San José McEnery Convention Center, Center for the Performing Arts, California Theatre, Mexican Heritage Plaza, Ice Centre at San José, and the SAP Center at San José, home of the San José Sharks of the National Hockey League and the San José Barracuda minor league hockey team. The City leases the San José Municipal Stadium to the San José Giants, a minor league baseball team. In 2026, SAP Center will host the NCAA Men's Basketball Championship West Regional and Super Bowl LX Media Day. The City will also play an integral part in supporting and celebrating Super Bowl LX and the 2026 FIFA World Cup.

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

BUDGET AND FINANCIAL OPERATION

Accounting Policies and Financial Reporting

The City prepares its financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") as promulgated by the Governmental Accounting Standards Board ("GASB").

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

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

The basis of accounting determines when transactions are reported in the financial statements. The government-wide, proprietary and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds, while reported using the accrual basis of accounting, do not have a measurement focus. Under the accrual basis, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use taxes, transient occupancy taxes, and utility user taxes are recognized when the underlying transactions take place. Similarly, grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus is on the determination of, and changes in financial resources, generally including only current assets and current liabilities in the balance sheet. Revenues are recognized in the accounting period in which they become both measurable and available to finance current period expenditures. For this purpose, the City considers revenues as available if they are collected within sixty days after the fiscal year-end. Expenditures are generally recorded when a liability is incurred. However, certain obligations such as principal and interest on long-term debt, as well as specific estimated liabilities such as compensated absences and self-insurance claims, are recognized when payment is due.

The basis of accounting for all funds is more fully explained in the "Notes to the Basic Financial Statements" contained in "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENED JUNE 30, 2024."

The City Council employs, at the conclusion of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she will determine, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

The City General Fund finances the legally authorized activities of the City not accounted for in other restricted funds. General Fund revenues are derived from a variety of sources including property taxes; sales taxes; and other revenue streams. General Fund expenditures are classified by key functions such as general government, public safety, capital maintenance, community services and sanitation.

The General Fund is the primary operating fund of the City, and the focus of this Appendix A. It is used to account for all financial resources of the general government, except those required to be accounted for in other funds.

Financial Statements; Fiscal Year 2023-2024 Results

The audited financial statements of the City as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's Basic Financial Statements, are attached to this Official Statement as Appendix C.

Macias Gini & O'Connell LLP (the "Auditor") served as independent auditor to the City in connection with the financial statements of the City as of and for the fiscal year ended June 30, 2024. Since the date of its audit reports included with the City's Basic Financial Statements, the Auditor has not been engaged to perform, nor has it performed any, additional procedures on the financial statements addressed in such reports. The Auditor also has not performed any procedures relating to this Official Statement, including any procedures or action intended to elicit information concerning the accuracy, completeness, or fairness of the statements made in this Official Statement. See "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2024."

The City's Basic Financial Statements as of and for the fiscal year ended June 30, 2024 reported a decrease in fund balance of approximately $10 million (or a decrease of 1.4%) compared to June 30, 2023. In addition, the City reported a deficiency of revenues over expenses of approximately $5 million (for the fiscal year ended June 30, 2024.

The following two tables summarize financial information for the General Fund prepared in accordance with GAAP for the periods indicated.

Table A-1
CITY OF SAN JOSE
BALANCE SHEETS OF THE GENERAL FUND
For Fiscal Years Ending June 30
($ in thousands)

	2019-2020	*2020-2021*	*2021-2022*	*2022-2023*	*2023-2024*
ASSETS					
Cash and pooled investments	$588,848	$567,062	$680,755	$682,998	$699,635
Receivables (net of allowance for uncollectibles)	79,924	102,797	111,921	103,450	109,756
Due from other funds	2,116	3,445	4,385	4,224	3,568
Loans receivable (net of allowance for uncollectibles)	1,241	1,241	1,241	2,203	6,035
Advances and deposits	121	104	88	375	55
Advances to other funds	3,297	3,297	3,297	3,297	--
Restricted assets:					
Cash and pooled investments	1,359	1,385	1,399	1,419	1,459
Other cash and investments	--	2,055	1,357	1,412	12
Leases receivable	--	--	13,767	12,985	19,451
Public-Private and public partnerships and availability arrangement receivable	--	--	--	5,405	5,293
Total Assets	$676,906	$681,386	$818,210	$817,768	$845,264
LIABILITIES					
Accounts payable	$21,886	$30,916	$30,487	$31,320	$54,338
Accrued salaries, wages and payroll taxes	37,209	38,026	43,229	26,497	29,172
Due to outside agency	373	373	373	373	373
Unearned revenue	113,514	153,751	116,100	11,257	12,705
Advance, deposits, and reimbursable credits	67	77	170	170	170
Other liabilities	41,545	38,257	38,695	43,201	47,920
Total Liabilities	$214,597	$261,400	$229,054	$112,818	$144,677
DEFERRED INFLOW OF RESOURCES					
Unavailable revenue	$2,080	$6,644	$2,957	2,957	3,019
Leases	--	--	13,142	11,756	17,565
Public-Private and public partnerships and availability arrangement	--	--	--	5,195	4,889
Total deferred inflows of revenues	$2,080	$6,644	$16,099	$19,908	$25,473
FUND BALANCES					
Nonspendable	$121	$104	$88	$88	$55
Restricted	2,007	307	303	300	300
Committed	95,414	73,580	67,343	98,507	108,515
Assigned	283,322	331,310	279,356	456,857	433,870
Unassigned	79,368	8,041	225,967	129,290	132,374
Total Fund Balances	$460,232	$413,342	$573,057	$685,042	$675,114
Total Liabilities and Fund Balances	$676,906	$681,386	$818,210	$817,768	$845,264

Source: City of San José Comprehensive Annual Financial Reports for fiscal years shown.

Table A-2
CITY OF SAN JOSE
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE GENERAL FUND
For Fiscal Years Ending June 30
($ in thousands)

	2019-2020	*2020-2021*	*2021-2022*	*2022-2023*	*2023-2024*
REVENUES					
Taxes and special assessments	$618,027	$684,866	$791,549	$801,084	$832,233
Sales taxes	260,558	284,020	323,144	343,472	333,411
Licenses, permits, and fines	77,747	28,344	37,206	35,469	36,014
Intergovernmental	90,822	120,702	153,495	125,080	28,577
Charges for current services	48,535	7,285	21,830	23,302	24,585
Investment income (loss)	14,512	1,561	(15,333)	10,468	30,822
Other Revenues	60,931	54,543	70,093	45,879	48,002
TOTAL REVENUES	$1,171,132	$1,181,321	$1,381,984	$1,384,754	$1,333,644
EXPENDITURES					
Current:					
General government	$225,598	$292,591	$243,052	$163,438	$206,020
Public safety	641,297	676,303	724,909	754,468	785,543
Community services	121,268	121,738	143,127	210,870	211,705
Sanitation	4,014	4,632	3,290	4,901	5,244
Capital maintenance	86,008	45,340	87,968	96,699	90,571
Capital outlay	23,471	35,103	14,304	26,084	28,652
Debt service:					
Principal	1,460	12,431	1,470	5,850	9,520
Interest	700	2,163	1,018	8,389	1,500
TOTAL EXPENDITURES	$1,103,816	$1,190,301	$1,219,138	$1,270,699	$1,338,755
Excess (Deficiency) of Revenues over Expenditures	$67,316	($8,980)	$162,846	$114,055	($5,111)
OTHER FINANCING SOURCES (USES)					
Bonds issued	$ --	$17,777	$12,654	$ --	$ --
Bond premium	--	--	2,346	--	--
Inception of lease	--	--	--	11,378	13,417
Inception of subscription based information technology arrangement	--	--	--	--	1,555
Proceeds from sale of capital assets	5,352	7,020	435	4,962	68
Transfers In	14,492	16,367	12,883	12,914	11,510
Transfers Out	(41,427)	(79,074)	(31,449)	(31,324)	(31,367)
TOTAL OTHER FINANCING SOURCES (USES)	($21,583)	($37,910)	($3,131)	($2,070)	($4,817)
Net change in fund balances	$45,733	($46,890)	$159,715	$111,985	($9,928)
Fund Balance - July 1	414,499	460,232	413,342	573,057	$685,042
Fund Balance - June 30	$460,232	$413,342	$573,057	$685,042	$675,114

Source: City of San José Annual Comprehensive Financial Reports for fiscal years shown.

City's Budgetary Process

The City is legally required to adopt a balanced budget before the beginning of each fiscal year. The City's fiscal year extends from July 1 through June 30.

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

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

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

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

Current City practice calls for the preparation of Bi-Monthly Financial Reports, which are presented to the City Council Public Safety, Finance, and Strategic Support Committee. Additionally, the Mid-Year Budget Review document is released in January and considered by the City Council in February. The Mid-Year Budget Review contains an assessment of the City's budget condition based on actual performance during the first six months of the fiscal year.

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

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

Projected Year-End Results for Fiscal Year 2024-2025

As previously described, the City's annual budget process includes a Mid-Year Budget Review. The Mid-Year Budget Review contains an assessment of the City's budget condition based on actual performance during the first six months of the fiscal year.

The 2024-2025 Mid-Year Budget Review Report was released on January 31, 2025, and was approved by the City Council on February 10, 2025. The 2024-2025 Mid-Year Budget Review Report provides an assessment of the City's budget condition in the fiscal year as compared to the 2024-2025 Adopted Operating Budget, as modified, based on actual performance during the first six months of Fiscal Year 2024-2025.

General Fund revenues through December 2024 totaled approximately $506.3 million, or 33.9% of the 2024-2025 Modified Operating Budget. The collection level is below 50% primarily due to the timing of when revenue is received for various sources, including sales tax revenues. Based on the available data through December 2024, the majority of General Fund revenues were anticipated to meet or slightly exceed budgeted estimates by fiscal year end. Those revenues include property tax revenues, utility tax revenues, property taxes, and business taxes. However, the first quarter payment of sales taxes was significantly below estimated levels, and 9% below prior year levels. As a result, the 2024-2025 Mid-Year Budget Review Report indicated that overall General Fund revenues were anticipated to end the year $25 million to $30 million below the budgeted estimate, predominantly due to the lower anticipated sales tax revenues.

General Fund expenditures through December 2024 totaled approximately $692.8 million, or 31.6% of the total 2024-2025 Modified Operating Budget, an increase of $23.8 million, or 3.6%, when compared to December 2023. The increase was primarily due to higher expenditures in the personal services category. General Fund encumbrances through December 2024 totaled approximately $115.1 million, a decrease of approximately $24.4 million when compared to December 2023. Expenditures and encumbrances through December 2024 totaled $807.9 million, representing 36.8% of the total 2024-2025 Modified Operating Budget (including reserves) of $2.2 billion. When excluding reserves of $307.3 million, expenditures and encumbrances through December 2024 represented 42.9% of the total 2024-2025 Modified Operating Budget.

On December 4, 2024, in response to the decline in sales tax revenue and a minimal level of expenditure savings that were then anticipated, the City Manager directed the Administration to implement measures to control costs to the extent possible without noticeably impacting high-priority services. Cost control measures included a hiring freeze (with exceptions), limiting overtime expenditures, a suspension of General Fund capital projects not yet started, and minimizing other discretionary expenditures.

Subsequent to the release of the 2024-2025 Mid-Year Report, the City has continued to monitor revenues and expenditures. Through the first [eight] months of the fiscal year, revenues and expenditures were generally tracking within the budgeted estimates in most City funds, though General Fund revenues are expected to fall short of budgeted estimates. As of [February] 2025, General Fund revenue is anticipated to fall below the budgeted estimate by approximately $10 million, primarily due to lower than anticipated sales tax revenue (down $20 to $25 million), partially offset by higher revenue collections in other categories (higher by $10 to $15 million), consisting primarily of property tax revenues (higher by $9 to $10 million).

Through [February] 2025, General Fund expenditures (without encumbrances) totaled $1.1 billion or 24.0% above the prior year level of $894.4 million. As a result of cost cutting measures, as of [February] 2025, the City anticipates General Fund expenditures to end the fiscal year within budgeted levels and produce savings of approximately $10 to $15 million.

As discussed under the caption "– General Fund Budget Outlook," in February 2025, the City Manager released the Five-Year Forecast and Revenue Projections for Fiscal Years 2025-2026 through 2029-2030. Based on such forecast and projections, City expects cumulative deficits for the five-year period ranging from $15.1 million to $204.7 million based on optimistic and pessimistic assumptions as of the date of the projections, respectively. Based on assumptions believed by the City to reflect the most probable outcome at the time the projections were prepared, the City Manager's Five-Year Forecast and Revenue Projections for Fiscal Years 2025-2026 through 2029-2030 projected a cumulative deficit of $97.1 million for the five-year period, including a deficit of $45.7 million for Fiscal Year 2025-2026.

In connection with the preparation of the City's proposed General Fund operating budget for Fiscal Year 2025-2026, the City adjusted its projections of the General Fund deficit for Fiscal Year 2025-2026 downward to approximately $35.6 million. [The City's adopted General Fund operating budget is balanced and includes a one-time use of $7 million from the Budget Stabilization Reserve and $11.5 million from the Community and Economic Recovery Reserve.] See "– Fiscal Year 2025-2026 Adopted Budget."

Fiscal Year 2025-2026 Adopted Budget

On June [17], 2025, the City Council adopted the City Manager's 2025-2026 Proposed Operating Budget (the "2025-2026 Proposed Operating Budget"), as modified by certain recommendation and changes proposed in the Mayor's June Budget and in connection with the City Council's adoption of the annual appropriation ordinance and related actions. The City Manager's 2025-2026 Proposed Operating Budget as so modified and adopted is referred to herein as the "2025-2026 Adopted Operating Budget." Below are brief descriptions of the 2025-2026 Proposed Operating Budget"), the Mayor's June Budget Message, and the City Council's modifications.

Proposed Operating Budget. On May 1, 2025, the City Manager released the 2025-2026 Proposed Operating Budget. It is a balanced budget totaling $5.6 billion for all City funds. The proposed budget for the General Fund totals $1.7 billion of such amount, representing a 21% decrease when compared to the adopted General Fund budget for Fiscal Year 2024-2025 of $2.1 billion.

The City prepares a five-year forecast annually to assist in projecting revenue levels and expenditures based on certain assumptions and expectations. On February 28, 2025, the City Manager released the 2026-2030 Five-Year Forecast and Revenue Projections for the General Fund and the Capital Improvement Fund (the "2026-2030 Forecast"). As of its date, the 2026-2030 Forecast showed a General Fund budget shortfall totaling $45.7 million and $54.9 million in for Fiscal Years 2025-2026 and 2026-2027, respectively. See "– General Fund Budget Outlook" below for a summary of the projections and assumptions in the 2026-2030 Forecast.

In connection with the 2025-2026 Proposed Operating Budget, the City revised the projected shortfall for Fiscal Year 2025-2026 downward to $35.6 million due to various factors, including increased estimates for property tax revenue and franchise fee revenue, a slight increase in retirement costs resulting from a lower discount for the pre-funding of retirement contribution, and other minor revisions to several revenue categories and expenditure components.

The 2025-2026 Proposed Operating Budget includes the following recommendations to resolve the $35.6 million shortfall on an ongoing basis in Fiscal Year 2025-2026 and resolve a portion of the additional $52.9 million shortfall in 2026-2027.

- *Reallocation of homeless sheltering and support costs from the General Fund to Measure E*. The 2025-2026 Proposed Operating Budget increases the ongoing allocation of Measure E revenues for homeless sheltering and support programs from 15% to 90%, which allows for the shift of ongoing General Fund costs to the Real Property Transfer Tax Fund of $39.2 million in Fiscal Year 2025-2026, increasing to $42.8 million in 2026-2027.

- *Identification of new revenue*. The 2025-2026 Proposed Operating Budget recognizes new revenues of $12.5 million in Fiscal Year 2025-2026, of which $9.0 million is ongoing. These actions include a one-time increase of Cardroom Business Tax revenues in Fiscal Year 2025-2026 due to a shift in the timing of regulatory proceedings of the State Gaming Commission, implementation of the First Responder Fee Program in the Fire Department, implementation of a two-year Business Tax Amnesty Program in the Finance Department, increases in various fees and charges to maintain cost recovery levels, and recognition of new grant revenue.

- *Cost and service reductions*. The 2025-2026 Proposed Operating Budget includes cost and service level reductions of $11.7 million in Fiscal Year 2025-2026 and $14.9 million ongoing. These actions include reductions to personal services, including vacant and filled positions; reductions to contractual services, supplies and materials and other non-personal/equipment allocations; and several reductions scheduled to take effect in Fiscal Year 2026-2027 to allow for sufficient transition time of impacted customers/service providers and employees.

- *Deferring full activation of new public safety facilities*. While new Measure T facilities will come online in Fiscal Year 2025-2026, the 2025-2026 Proposed Operating Budget defers the full activation of public safety facilities. Fire Station 32, a two-company station, is now scheduled to come online in spring 2026 as a one-company engine station; the activation of the second truck company is deferred, resulting in savings of $826,000 in Fiscal Year 2025-2026 and$5.6 million ongoing. Similarly, while the Police Training Center is scheduled to begin operating in spring 2026, the subsequent activation of the South San José Substation previously anticipated in 2026-2027 is also deferred, saving $1.9 million in 2026-2027.

- *Strategic use of limited reserve funding*. To address one-time funding needs – including replacement of the 9-1-1 dispatch back-up generators and replacement of mobile data computers in patrol vehicles, the 2025-2026 Proposed Operating Budget allocates $7.0 million from the Budget Stabilization Reserve and $11.5 million from the Community and Economic Recovery Reserve (thereby liquidating the reserve in its entirety), of which $10.0 million will be allocated as a backstop to potential denial of pandemic-era reimbursements from the Federal Emergency Management Agency.

After the release of the 2025-2026 Proposed Operating Budget, the City Administration released various Manager's Budget Addenda ("MBA") to supplement information in, and respond to Council inquiries regarding, the 2025-2026 Proposed Operating Budget.

Each year, the City Administration brings forward recommended adjustments to the Proposed Operating and Capital Budgets to ensure funding is carried over from the current year to the following year to complete projects and programs, recognize additional grants and reimbursements, revise budget allocations based on updated information, and correct errors in the Proposed Budgets. All appropriations automatically lapse at the end of each fiscal year, and all unspent funds become part of the following year's Beginning Fund Balance. Therefore, without City Council action to rebudget appropriations, funds budgeted in a fiscal year for various programs and projects still in progress are not available in the following fiscal year.

MBA No. 32 includes recommended amendments to the 2025-2026 Proposed Operating Budget. The amendments recommended for approval in MBA No. 32 are reflected in two categories: recommended budget adjustments and recommended clean-up/rebudget actions. For each of these categories, the transactions are detailed by the General Fund and by Special/Capital Funds.

The budget adjustments in MBA No. 32 primarily reflect the following:

(i) Budget adjustments identified after the 2025-2026 Proposed Operating Budget and 2025-2027 Proposed Biennial Capital Budget were released. These adjustments include, but are not limited to, recent grant awards, revised revenue and expenditure amounts based on updated information, and a reallocation of positions and resources between budgeted funds;

(ii) Changes to project budgets to reflect revised schedules or scopes of work; and

(iii) Actions to correct errors 2025-2026 Proposed Operating Budget and 2025-2027 Proposed Biennial Capital Budget.

The majority of the clean-up/rebudget category of MBA No. 32 are rebudgets that carryover 2024-2025 funding to Fiscal Year 2025-2026 to ensure previously approved projects or other expenditure items can be completed next year or to carryover reserve funding to ensure that those funds are in place next year. The final reconciliation of all the recommended rebudget actions would be brought forward as part of the 2024-2025 Annual Report that will be released at the end of September 2025.

Mayor's June Budget Message. On June 4, 2025, the Mayor released the Budget Message for 2025-2026, containing final recommendations and changes to the 2025-2026 Proposed Operating Budget. The public hearing on the Mayor's June Budget Message occurred on June [9], 2025, and the City Council completed the final review and approval of the message, with certain revisions, on June [10], 2025.

In the Mayor's June Budget Message, the Mayor recommended that the Council approve the 2025-2026 Proposed Operating Budget and the Manager's Budget Addenda. The Manager's Budget Addenda proposed changes across a variety of City matters, including changes to the City's Measure E policy. The Mayor also recommended approval of the recommended amendments to the 2025-2026 Proposed Operating Budget in MBA No. 32.

Modifications to Proposed Operating Budget. On June 17, 2025, the City Council adopted the 2025-2026 Proposed Operating Budget, the Mayor's June Budget Message, as modified by certain recommendations and changes proposed in the Mayor's June Budget Message, and certain other modifications by the City Council on such date (as modified the "2025-2026 Adopted Operating Budget"). The modifications include: [To come when available]

Adopted Budgets. The following table presents the 2025-2026 Adopted Operating Budget and the adopted operating budgets for the four preceding fiscal years. The table does not reflect changes made to the budgets subsequent to their original adoption, which have been substantial in each year.

The City does not prepare the budget based on GAAP classifications. As a result, historic revenues and expenditures in the table below will vary from those used in Table A-2 above, which is derived from the City's Annual Comprehensive Financial Reports and prepared on a GAAP basis. Besides the basic accounting basis of recognition of revenues on a cash basis (budget) rather than accrual basis (GAAP), inter-fund transfers and other transactions are classified in a different manner.

With respect to both the historical budgetary information and the projected budgetary information in this Appendix A, it is not possible to predict whether the trends set forth herein will continue in the future.

Table A-3
CITY OF SAN JOSE
GENERAL FUND ADOPTED OPERATING BUDGETS
For Fiscal Years Ending June 30
($ in thousands)

	2021-2022	*2022-2023*	*2023-2024*	*2024-2025*	*2025-2026*
Fund Balance					
Encumbrance reserve	$46,906	$57,028	$53,353	$84,474	
Carryover	321,188	507,134	629,627	576,481	
Total fund balance	$368,094	$564,161	$682,980	$660,955	
General Revenues					
Property tax	$395,500	$427,000	$460,400	$495,000	
Sales tax	280,200	331,000	336,400	352,000	
Transient occupancy tax	10,000	11,000	16,000	16,000	
Franchise fees	44,652	49,168	51,825	55,023	
Utility taxes	97,060	107,450	126,550	136,000	
Business taxes	74,500	86,000	87,500	87,000	
Real property transfer tax	40,000	65,000	50,000	0	
Telephone line tax	20,000	20,000	22,000	22,000	
Licenses and permits	21,003	20,933	22,006	21,818	
Fines, forfeitures and penalties	8,676	12,232	15,080	17,605	
Fees, rates and charges	14,833	23,914	22,373	27,809	
Revenue from use of money and property	9,304	8,779	14,864	18,735	
Revenue from local agencies	18,784	17,108	18,975	19,077	
Revenue from the State Government	13,247	26,890	22,111	36,803	
Revenue from the Federal Government	3,685	7,111	7,392	15,528	
Other revenue	9,243	16,823	10,258	9,560	
Total General Revenue	$1,060,686	$1,230,469	$1,283,733	$1,329,958	
Transfers and Reimbursements					
Overhead reimbursements	$68,482	$73,800	$78,155	$87,109	
Transfers to the General Fund	72,682	31,962	29,782	32,879	
Reimbursements for services	16,792	16,296	17,831	19,227	
Total interfund transfers reimbursements	$157,956	$122,059	$125,768	$139,215	
Total Source of Funds	$1,586,737	$1,916,689	$2,092,480	$2,130,127	
Use of Funds					
Departmental					
General government	$125,624	$134,801	$144,689	$151,452	
Public safety	749,069	757,846	786,074	840,391	
Capital maintenance	75,997	86,740	96,258	106,526	
Community services	144,264	169,064	193,825	220,514	
Total departmental	$1,094,954	$1,148,451	$1,220,846	$1,318,882	
Total Non-Departmental (1)	$491,783	$768,239	$871,634	$811,245	
Total Use of Funds	$1,586,737	$1,916,689	$2,092,480	$2,130,127	

(1) Includes City-wide expenses, capital contributions, earmarked, contingency and encumbrance reserves.
Source: City of San José Adopted Operating Budgets for fiscal years shown.

General Fund Budget Outlook

The City prepares a five-year forecast annually to assist in projecting revenue levels and expenditures based on certain assumptions and expectations. On February 28, 2025, the City Manager released the 2026-2030 Five-Year Forecast and Revenue Projections for the General Fund and the Capital Improvement Fund (the "2026-2030 Forecast"). The 2026-2030 Five-Year Forecast reflects the City Manager's best estimates of the projected revenues and expenditures over the next five fiscal years based on the information available as of February 28, 2025. It does not, however, incorporate several elements that would impact the General Fund over the forecast period, including: (i) costs associated with services that were funded on a one-time basis in Fiscal Year 2024-2025 (totaling approximately $8.5 million); (ii) costs associated with unmet/deferred infrastructure and maintenance (approximately $26.8 million annually to the General Fund as of April 2024) or the one-time backlog of infrastructure needs (approximately $151.1 million to the General Fund as of April 2024); and (iii) one-time revenue sources or expenditure needs.

The 2026-2030 Forecast consists of three five-year forecast scenarios: (i) Base Case; (ii) Optimistic Case; and (iii) Pessimistic Case. The Base Case is considered by the City to be the most likely projection, and the City Manager recommends it be used for the development of the Proposed Operating Budget for Fiscal Year 2025-2026.

Significant assumptions used by the City in the development of the three five-year forecast scenarios in the 2026-2030 Forecast include the following:

Base Case Assumptions:

- Slowing economy with signs of moderate levels of growth.
- Continued growth in property tax revenues (ranging between 3.5 to 4.8% annually), but at a slower rate than prior years.
- Continued growth in sales tax revenues for Fiscal Year 2025-2026 (3% annual growth in general sales tax revenues, 2.5% to 5% annual growth in local sales tax, and 1.8% to 3.2% annual growth in Proposition 172 sales tax revenues), but at a slower rate than prior years due to relatively low economic growth and to consumers spending less of their income on taxable goods. 10% increase in transient occupancy tax in fiscal year 2025-2026.
- Reduction of 65% to 80% in cardroom business taxes starting in Fiscal Year 2025-2026 due to recent State regulatory action; total business tax collections for Fiscal Year 2025-2026 are assumed at $25 million.
- Increase in personnel expenses at an average annual rate of approximately 3.1%.
- Average City contribution to retirement plans of approximately 23% budgeted costs for each fiscal year.
- General Fund Contingency Reserve of $53 million in Fiscal Year 2025-2026, increasing to $59 million in Fiscal Year 2029-2030.

Optimistic Case Assumptions:

- Slowdown in growth is temporary and the local economy grows faster than the national economy.

- Higher than forecasted local employment, consumer spending, and local business investments result in higher tax revenues than the Base Case.
- Due to boosted economic activity, housing prices increase to higher levels through the entire forecast period.
- Increase in collections in the economically sensitive revenue categories, such as property tax, sales tax, and transient occupancy tax.

Pessimistic Case Assumptions:

- Local economy grows at a slower rate than the national economy.
- Decreases in several key drivers of the City's revenues, including employment levels, home prices, and property sales.
- No economic crash at local or national levels.
- Economically sensitive revenues (i.e. property tax and sales tax revenues) are significantly negatively impacted.

In addition, the 2026-2030 Forecast considers projected operating and maintenance costs relating to actions previously approved by the City Council.

While the City believes that the assumptions used in the development of the 2026-2030 Forecast are reasonable, actual reports will likely differ, and such differences may be material and adverse. There can be no assurance circumstances not reflected in the 2026-2030 Forecast will not arise which could materially adversely impact the financial condition of the City.

Following is a summary of General Fund revenues and expenditures in the 2026-2030 Five-Year Forecast under the Base Case.

Table A-4a
CITY OF SAN JOSE
2026-2030 FIVE-YEAR FORECAST FOR GENERAL FUND (1)
Base Case Scenario
For Fiscal Years Ending June 30
($ in millions)

	2025-2026	*2026-2027*	*2027-2028*	*2028-2029*	*2029-2030*
Projected Revenues	$1,541.0	$1,586.6	$1,639.7	$1,690.2	$1,752.8
Projected Expenditures	1,586.7	1,685.2	1,742.0	1,788.5	1,850.0
Total Cumulative Surplus/(Shortall)	(45.7)	(98.6)	(102.3)	(98.3)	(97.1)
Total Incremental Surplus/(Shortall)	(45.7)	(52.9)	($3.7)	4.0	1.2
% of Budget (2)	(2.9%)	(3.1%)	(0.2%)	0.2%	0.1%

(1) Does not include (i) costs associated with services that were funded on a one-time basis in Fiscal Year 2024-2025; (ii) costs associated with unmet/deferred infrastructure and maintenance needs; and (iii) one-time revenue sources or expenditure needs.
(2) Based on projected expenditures.
Source: City of San José 2026-2030 Five-Year Forecast.

Following is a summary of the operating margins for the General Fund under the Base, Optimistic, and Pessimistic Cases.

Table A-4b
CITY OF SAN JOSE
2026-2030 FIVE-YEAR FORECAST FOR GENERAL FUND [(1)]
General Fund Operating Margins By Scenario
For Fiscal Years Ending June 30
($ in millions)

	2025-2026	*2026-2027*	*2027-2028*	*2028-2029*	*2029-2030*	*Five-Year Deficit*
Base Case	($45.7)	($52.9)	($3.7)	$4.0	$1.2	($97.1)
Optimistic Case	(29.8)	(39.3)	16.6	23.0	14.4	(15.1)
Pessimistic Case	(66.2)	(67.4)	(22.5)	(17.7)	(30.9)	(204.7)

Source: City of San José 2026-2030 Five-Year Forecast.

The 2026-20230 Forecast was used to prepare the 2026-2027 Proposed Operating Budget and predates the 2025-2026 Adopted Operating Budget, which reflects several budget balancing actions. Accordingly, Tables A-4a and A-4b, do not reflect the 2025-2026 Adopted Operating Budget and the balancing actions therein.

[As previously described, in connection with the 2025-2026 Proposed Operating Budget, the City adjusted its projections of the General Fund deficit for Fiscal Year 2025-2026 downward to approximately $35.6 million. The 2025-2026 Adopted Operating Budget includes a one-time use of $7 million from the Budget Stabilization Reserve and $11.5 million from the Community and Economic Recovery Reserve.] See "– Fiscal Year 2025-2026 Adopted Budget."

Financial Management Policies

The City has adopted several policies with respect to the City's finances. Below is a summary of certain of those policies.

General Fund Contingency Reserve. The City has a policy of a maintaining a contingency reserve, within the General Fund, of a minimum of 3% of the General Fund operating budget ("General Fund Contingency Reserve"), including replenishment of any amounts expended or appropriated to another fund during the previous year. The purpose of the General Fund Contingency Reserve is to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. Any use of the General Fund Contingency Reserve requires two-thirds vote of approval by the City Council.

As of June 30, 2024, the balance in the General Fund Contingency Reserve was approximately $[53] million, or 3% of the General Fund operating budget for Fiscal Year 2023-2024. As of June 1, 2025, the balance in the General Fund Contingency Reserve was approximately $[57] million, or 3% of the General Fund operating budget for Fiscal Year 2024-2025.

Budget Stabilization and Workers' Compensation Reserves. The City has a policy of maintaining a budget stabilization reserve, within the General Fund, at a level determined from time to time by the City Council to be adequate (the "Budget Stabilization Reserve"). The purpose of the Budget Stabilization Reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. The Budget Stabilization Reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. Any use of the Budget Stabilization Reserve requires majority vote by the City Council through the adoption of the operating budget or by appropriation action during the fiscal year. The City Council sets the reserve amount annually as part of the City Council's adoption of the operating budget. The replenishment or use of this reserve is required to be incorporated into the annual adopted operating budget as resources are available to replenish and/or increase this reserve, or as funds are needed to address a budget shortfall.

The City also has a policy of maintaining a reserve relating to workers' compensation and general liability claims, within the General Fund, at a level determined from time to time by the City Council to be adequate (the "Workers' Compensation/General Liability Catastrophic Reserve"). The purpose of this reserve is to provide funding for potential workers' compensation or general liability claims that exceed the budgeted amounts. Any use of the General Fund Workers' Compensation/General Liability Catastrophic Reserve requires majority vote by the City Council through the adoption of the operating budget or by appropriation action during the fiscal year. The City Council sets the reserve amount annually as part of the City Council's adoption of the operating budget. The replenishment of the Workers' Compensation/General Liability Catastrophic Reserve is incorporated into the annual adopted operating budget as resources are available to replenish and/or increase this reserve.

The City currently has a goal of maintaining a combined balance in the Budget Stabilization Reserve and the Workers' Compensation/General Liability Catastrophic Reserve, that when combined with the General Fund Contingency Reserve, total a minimum of 10% of the General Fund operating budget.

For Fiscal Year 2024-2025, the combined General Fund Contingency Reserve, Budget Stabilization Reserve and Workers' Compensation/General Liability Catastrophic Reserve target level was $___, or 10% of the General Fund operating budget for such fiscal year. As of June 1, 2025, the combined balance of such reserves was approximately $___, or ___% of the of the General Fund operating budget for Fiscal Year 2024-2025.

Emergency Reserve Fund. As required by the Charter, the City maintains an emergency reserve fund (the "Emergency Reserve Fund") in an amount determined and maintained at a level set by the City Council from time to time. The purpose of this reserve fund is to meet any public emergency involving or threatening the lives, property, or welfare of the people of the City or property of the City.

For Fiscal Year 2024-2025, the Emergency Reserve Fund target level is $7.5 million. As of June 1, 2025, the balance in the Emergency Reserve Fund was approximately $______.

Insurance and Self-Insurance Programs

The City's insurance and self-insurance programs fall into three categories: citywide insurance, insurance relating to the Airport, and insurance relating to the San José-Santa Clara Regional

Wastewater Facility (the "Plant"). The City reassesses its insurance coverage annually. Accordingly, no assurance can be provided that the City will maintain the types of insurance and coverage limits that are described below in the future.

Citywide Insurance. The City's citywide insurance is summarized below.

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

All-Risk Property Insurance. The City maintains an all-risk property insurance policy with coverage for property owned by the City. The following table summarizes the City's current all-risk property insurance. The City does not maintain earthquake insurance.

Table A-5
CITY OF SAN JOSE
SUMMARY OF CITYWIDE PROPERTY INSURANCE

Type	***Limits Per Occurrence*** (1)	***Deductible Per Occurrence*** (2)
Property (3)	$1,000,000,000	$500,000
Business Interruption	$300,000,000	$500,000
Flood (4)(5)	$10,000,000 Annual Aggregate	$500,000 per Location

(1) Other sub-limits apply.
(2) Other deductibles apply.
(3) Covers "Certified Act of Terrorism" under the Terrorism Risk Insurance Act of 2002, as amended.
(4) The Airport and McEnery Convention Center are subject to a $10 million per Location deductible for flood.
(5) The San José – Santa Clara Regional Wastewater Facility is subject to a $5 million per Location deductible for flood.
Source: City of San José, Finance Department – Risk Management Unit.

Aircraft (Hull & Liability) Policy. The City maintains an aircraft policy covering physical damage coverage for City aircraft used by SJPD's Air Support Unit and liability coverage for bodily injury and property damage arising from the use of covered aircraft. The aircraft policy provides up to $50 million in aggregate liability coverage for bodily injury, personal injury, or property damage caused by war and other perils and is subject to a deductible of $0 per occurrence. The City also maintains a policy for the unmanned aerial systems of SJPD's and San José Fire Department. It provides $5 million in aggregate liability coverage for bodily injury, personal injury, or property damage.

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

The City also maintains the City physical damage coverage for scheduled SJPD grant funded vehicles. For vehicles with insurable value under $300,000, the policy is subject to a $2,000 deductible. Vehicles with insurable values of $300,000 or greater are subject to a $10,000 deductible.

Fiduciary Liability Policies. The City maintains fiduciary liability insurance policies covering the respective board members of the City's Deferred Compensation Plans, the Voluntary Employees' Beneficiary Association Plans and the Defined Contribution 401(a) Plan. The policies protect the City and the members of the applicable Board from legal liability arising from fiduciary obligations to plan beneficiaries. The policy relating to the Deferred Compensation Plans provides $10 million in aggregate limits subject to a $25,000 per claim retention except a $250,000 per claim retention for Class Action Claims (as defined in such policy). The policy relating to the Voluntary Employees' Beneficiary Association Plans provides $5 million in aggregate limits subject to a $25,000 per claim retention. The policy relating to the Defined Contribution 401(a) Plan provides $1 million in aggregate limits subject to a $25,000 per claim retention.

The City also carries fiduciary dishonesty coverage for all three fiduciary liability policies providing $500,000 in aggregate limits.

Crime Coverage. The City maintains government fidelity/crime coverage for City losses arising from employee dishonesty. Coverage is for financial or property losses and provides a $5 million per occurrence limit for losses resulting from employee theft, forgery, or alteration and inside the premises theft of money and securities. The policy also provides a $1 million per occurrence limit for computer fraud, funds transfer fraud, money orders and counterfeit currency. All coverages are subject to a deductible of $250,000 per occurrence. The City also purchases liability insurance covering cyber risks to complement the City's cybersecurity efforts.

Workers' Compensation. The City is self-insured for workers' compensation. Every year, the City reviews a five-year forecast for worker's compensation expenditures based on the prior year payout. Based on this review, the City has budgeted expenditures totaling $26.9 million in Fiscal Year 2025-2026. Overall, Workers' Compensation Claims payments are projected to gradually decrease over the 5-Year Forecast period from $26.9 million to $26.0 million to reflect a downward trend in claims and the impact of recently reached one-time settlements, which will decrease Workers' Compensation costs (excluding the workers' compensation budget for special funds programs).

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

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

Generally, third party liability claims are handled by the City Attorney's Office. The City maintains a budgeted allocation for the potential payment of third-party liability claims – this amount is $___ million in the 2025-2026 Adopted Operating Budget. The City also maintains an emergency reserve to provide funding for potential workers' compensation or general liability claims that exceed the budgeted amounts as the City, for the most part, is self-insured. As of June 30, 2024, the workers' compensation and general liability catastrophic reserve totaled $15 million. $_____ million has been budgeted for Fiscal Year 2025-2026.

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

With respect to the general liability accrual in the City's financial statements, the City has numerous unsettled lawsuits filed or claims asserted against it. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated. As of June 30, 2024, such provision totaled approximately $200 million. The City does not maintain a cash reserve for such loss contingencies. See "POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES" below for a description of certain claims and lawsuits filed against the City.

Airport Insurance. The City's insurance relating to the Airport is summarized below.

Liability Coverages. The City maintains an airport liability policy (the "Airport Liability Policy"), which provides a $200 million combined single limit for bodily injury and property damage subject to a deductible of $0 per occurrence and annual aggregate with a sublimit of $25 million per occurrence and in the annual aggregate for personal and advertising injury, and a limit of $50 million per occurrence and in the annual aggregate as respects to war liability.

In addition, the Airport Liability Policy provides excess auto liability coverage with a limit of $25 million in excess of the underlying limit of $1 million, which is provided by a separate automobile liability policy issued to provide coverage for the off-premise operations of scheduled Airport vehicles including shuttle bus fleets with a limit of $1 million per occurrence, combined single limit for bodily injury and property damage and subject to a $250,000 per accident retention. Physical damage coverage is available for the Airport shuttle bus fleet and is subject to certain deductibles ranging from $5,000 to $10,000 per occurrence.

Airport Owner Controlled Insurance Program – Terminal Area Improvement Program. The City maintains liability insurance for major components of the Airport's Terminal Area Improvement Program ("TAIP") through an Owner Controlled Insurance Program procured through American International Group (the "TAIP OCIP"). The coverage for this program is summarized in the following table.

Table A-6
CITY OF SAN JOSE
SUMMARY OF AIRPORT INSURANCE

Type	***Limits Per Occurrence***	***Deductible Per Occurrence***
General Liability	$2,000,000 ($4,000,000 aggregate)	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$1,000,000	$250,000
Excess Liability	$200,000,000	None

Source: City of San José.

The TAIP OCIP provides an aggregate maximum loss exposure to the City of $8.9 million. Under the TAIP OCIP, the AIG maintains a claims loss reserve fund, on behalf of the City, to pay claims relating to the TAIP project, which was initially established in the amount of $8.9 million. As of June 30, 2024, the balance in the claims loss reserve fund was approximately $83,000. AIG will continue to hold the claims loss reserve until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Regional Wastewater Facility Coverages: OCIP I and OCIP II. Below is a summary of the insurance maintained by the City in connection with the Plant.

OCIP I. Pursuant to an agreement executed between the City and City of Santa Clara in 1959 (the "1959 Agreement"), the City is co-owner and administering agency of the Plant. The City maintains liability insurance coverage for the major components of the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program through an Owner-Controlled Insurance Program ("RWF OCIP I") with the primary carrier Old Republic General Insurance Corporation ("Old Republic").

The RWF OCIP I is a single insurance program that the City sponsors and provides commercial general liability, excess liability, and worker's compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site. In addition, the City procured builder's risk, and contractor's pollution liability insurance to cover liabilities associated with the work. Old Republic maintains a cash collateral fund on behalf of the City to pay claims within the City's deductible of up to $250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of $4,385,000. As of June 30, 2024 and June 1, 2025, the balance in the cash collateral fund was approximately $1.9 million and $___ million, respectively.

The coverage under the RWF OCIP I program is summarized in the following table.

Table A-7
CITY OF SAN JOSE
SUMMARY OF RWF OCIP I INSURANCE

Type	*Limits Per Occurrence*	*Deductible Per Occurrence*
General Liability	$2,000,000 ($4,000,000 aggregate)	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$1,000,000	$250,000
Excess Liability	$100,000,000	None

Source: City of San José.

The premiums of the RWF OCIP I are calculated based on the estimated hard cost of construction valued at $535 million for the covered capital improvement projects to be enrolled and for work to be performed up to May 31, 2025.

OCIP II. The City also maintains liability insurance coverage for the major components of the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program through an Owner-Controlled Insurance Program ("RWF OCIP II") with the primary carrier Ace American Insurance Company ("Chubb").

The RWF OCIP II is a single insurance program that the City sponsors and provides commercial general liability, excess liability, and worker's compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site. Coverage under the RWF OCIP II program is summarized in the following table.

Table A-8
CITY OF SAN JOSE
SUMMARY OF RWF OCIP II INSURANCE

Type	*Limits Per Occurrence*	*Deductible Per Occurrence*
General Liability	$2,000,000 ($4,000,000 aggregate)	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$1,000,000	$250,000
Excess Liability	$100,000,000	None

Source: City of San José.

The City also maintains the following insurance coverages for the RWF OCIP II program:

- Builder's risk insurance providing property coverage for scheduled RWF OCIP II capital projects with construction start dates commencing April 1, 2024 through April

1, 2026, with a project liability limit in the amount of $125,000 per occurrence, subject to a minimum $50,000 per occurrence deductible.

- Contractor's Pollution Liability insurance providing project-specific coverage to the City arising from pollution conditions arising from contractor operations on the specific projects, with aggregate coverage in the amount of $10 million subject to a $100,000 per occurrence deductible.

- Excess Professional Liability coverage providing claims-made, project-specific coverage to the City for liabilities and exposures resulting from breach of the performance of professional services providers, including design, architecture and engineering work, with coverage of $10 million in excess of the individual policies of these professionals, subject to a minimum of $2 million after exhaustion of proceeds from individual (primary) policies.

Chubb maintains a cash collateral fund on behalf of the City to pay claims within the City's deductible of up to $250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of $2,559,441. As of June 30, 2024 and June 1, 2025, the balance in the cash collateral fund was approximately $1.1 million and $_______, respectively.

The premiums of the RWF OCIP II are calculated based on the estimated hard cost of construction valued at $310.6 million for the covered capital improvement projects to be enrolled and for work to be performed during the period commencing February 1, 2022 through February 1, 2028.

Investment Policy and Practices

The City and its related entities are required to invest all funds under the Director of Finance's control in accordance with principles of sound treasury management and in accordance with the provisions of the California Government Code, the Charter, the City Municipal Code and the City Investment Policy (the "Investment Policy").

The Investment Policy was originally adopted by the City Council on April 2, 1985, and is reviewed annually by the City Council. Investments are required to comply with Sections 53600 et seq. of the California Government Code and other limitations contained therein. Such limitations include the trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates.

The following table summarizes the City's pooled investment fund as of the most recent quarterly investment report available. The General Fund portion of the investment fund pool was approximately 19% as of March 31, 2025.

Table A-9
CITY OF SAN JOSE
POOLED INVESTMENT FUND – GENERAL POOL INVESTMENTS (1)
As of March 31, 2025

Description	*Par Value*	*Market Value*	*Percent of Total Funds (Market Value)*	*Average Days to Maturity*
LAIF (State Pool)	29,673,695	29,673,695	1.11	1
California Asset Management Program Pool	161,562,849	161,562,849	6.05	1
Corporate Medium-Term Notes	481,954,000	474,872,787	17.72	923
Commercial Paper	30,000,000	29,673,300	1.11	91
Federal Agency Coupon Securities	77,500,000	76,887,800	2.90	531
Federal Agency Discounts Securities	220,000,000	217,429,600	8.15	102
Treasury Coupon Securities	185,000,000	184,956,550	6.91	438
Treasury Discounts	35,000,000	34,933,850	1.31	16
Federal Agency Callable Securities (2)	685,956,000	679,512,869	25.64	713
Supranational Securities (3)	132,420,000	130,024,246	4.92	578
Asset Backed Securities	28,145,752	28,197,216	1.05	839
Municipal Bonds	369,890,279	364,573,452	13.67	469
Agency Floaters	3,000,000	3,000,720	0.11	21
Mortgage Backed Securities	250,626,152	250,717,699	9.32	1,164
Total	$2,690,728,727	$2,666,016,633	100.00%	612

(1) Excludes funds invested in separate, segregated accounts as part of City held invested funds; excludes bond proceeds held by fiscal agents/trustees.
(2) Includes securities issued by Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association (i.e. Fannie Mae).
(3) Includes securities issued by International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank.
Source: City of San José.

Capital Improvement Program

Proposed Budgets. The City's Five-Year Capital Improvement Program ("CIP") includes capital improvements that are new construction, replacement, and/or renovation of City facilities or infrastructure. The CIP also includes services that indirectly lead to the construction of capital improvements, such as feasibility studies, master planning, and real estate transactions.

The CIP is approved by the City Council and published annually in the Adopted Capital Budget and Capital Improvement Program budget documents. Projects are recommended based on approved budgets, policies, guidelines, public safety and/or economic development urgency, approved master plans, and external regulatory agencies.

New this year is the transition to a two-year presentation of the budget: the Proposed *Biennial* Capital Budget for 2025-2026 and 2026-2027. Given the long-term nature of planning for City infrastructure investments, the Proposed Biennial Capital Budget allows the City to highlight strategic investments planned to move forward in the first two years of the CIP. A Biennial Capital Budget improves funding certainty for priority capital projects and allows City Council and staff to focus more on long-term strategic and fiscal planning. The City Council will still approve and adopt the annual capital budget, but the full published document of the Proposed Capital Budget and Capital Improvement Program will be released every two years. In the intervening years, staff will present updates to the second year of the Biennial Capital Budget to City Council as part of the annual budget process for consideration and adoption. The allocation of estimated funding for the new fifth year will also be presented to ensure that the City Council is annually approving a five-year capital spending plan consistent with the City Charter.

On April 26, 2025, the City Manager released the City's 2025-2027 Proposed Biennial Capital Budget (the "2025-2027 Proposed Biennial Capital Budget") and the 2026-2030 Capital Improvement Program (the "2026-2030 CIP"). On June [17] 2025, the City Council adopted the 2025-2027 Proposed Biennial Capital Budget and the 2026-2030 CIP (as so adopted, the "2025-2027 Adopted Biennial Capital Budget" and the "2026-2030 Adopted CIP," respectively).

Table A-10
CITY OF SAN JOSE
CAPITAL IMPROVEMENT PROGRAM
SUMMARY OF PROJECTS
For Fiscal Years Ending June 30

	2025-2026	***2026-2027***	***2027-2028***	***2028-2029***	***2029-2030***	***Total***
Airport	$19,869,000	$37,445,000	$103,505,000	$104,219,000	$1,330,000	$266,368,000
Developer Assisted Projects	2,588,000	2,088,000	3,238,000	2,938,000	481,000	11,333,000
Library	14,868,084	500,000	800,000	800,000	800,000	17,768,084
Municipal Improvements	19,064,246	12,487,000	10,334,000	3,488,000	2,270,000	47,643,246
Parking	9,855,000	1,875,000	2,075,000	2,075,000	2,075,000	17,955,000
Parks and Community Facilities	35,682,797	5,506,000	2,875,000	100,000		44,163,797
Public Safety	27,696,000	14,685,000	688,000	385,000	385,000	43,839,000
Sanitary Sewer System	58,278,000	42,735,000	30,350,000	57,100,000	33,400,000	221,863,000
Service Yards	5,175,000	800,000	900,000	900,000	900,000	8,675,000
Storm Sewer System	40,231,000	6,101,000	850,000	850,000	850,000	48,882,000
Traffic	219,189,934	130,297,500	81,749,500	65,702,500	61,078,500	558,017,934
Water Pollution Control	39,147,000	50,310,000	148,565,000	30,818,000	218,976,000	487,816,000
Water Utility System	23,302,000	9,330,000	3,050,000	3,070,000	3,070,000	41,822,000
Total Construction Projects	**$514,946,061**	**$314,159,500**	**$388,979,500**	**$272,445,500**	**$325,615,500**	**$1,816,146,06**

Source: City of San José 2026-2030 Proposed Capital Improvement Program.

The following table summarizes the 2026-2030 CIP by source of funds.

Table A-11
CITY OF SAN JOSE
CAPITAL IMPROVEMENT PROGRAM
SUMMARY OF SOURCE OF FUNDS
For Fiscal Years Ending June 30

	2025-2026	*2026-2027*	*2027-2028*	*2028-2029*	*2029-2030*	*Total*
Beginning Fund Balance	$472,168,492	$225,829,514	$166,210,694	$211,938,714	$220,494,854	$472,168,492
Financing Proceeds	263,101,000	13,500,000	442,000,000	140,000,000	5,000,000	863,601,000
Revenue from Other Agencies:						
Federal Government	45,152,736	55,299,000	18,452,000	5,080,000	1,612,000	125,595,736
State Government	73,073,571	39,278,000	27,350,000	26,850,000	26,850,000	193,401,571
Water Pollution Control Plant	17,227,000	21,140,000	53,283,000	12,391,000	77,218,000	181,259,000
Other Agencies	37,128,000	30,792,000	25,134,000	25,134,000	25,134,000	143,322,000
Total Revenue from Other Agencies:	**172,581,307**	**146,509,000**	**124,219,000**	**69,455,000**	**130,814,000**	**643,578,307**
Taxes, Fees and Charges:						
Building and Structure Construction Tax	18,000,000	20,000,000	20,000,000	22,000,000	23,000,000	103,000,000
Construction Excise Tax	14,000,000	17,000,000	16,000,000	19,000,000	20,000,000	86,000,000
Construction and Conveyance Tax	47,000,000	50,000,000	55,000,000	55,000,000	60,000,000	267,000,000
Residential Construction Tax	200,000	200,000	200,000	200,000	200,000	1,000,000
Sanitary Sewer Connection Fees	500,000	500,000	500,000	500,000	500,000	2,500,000
Storm Drainage Fees	100,000	100,000	100,000	100,000	100,000	500,000
Water Utility Fees	55,000	55,000	55,000	55,000	55,000	275,000
Airport Passenger Facility Charge	21,800,000	22,000,000	22,300,000	22,500,000	22,700,000	111,300,000
Other Taxes, Fees and Charges	100,000	150,000	200,000	200,000	200,000	850,000
Total Taxes, Fees and Charges	**101,755,000**	**110,005,000**	**114,355,000**	**119,555,000**	**126,755,000**	**572,425,000**
Contributions, Loans and Transfers						
General Fund	17,910,000	7,815,000	8,520,000	9,025,000	10,030,000	53,300,000
Special Fund	124,032,000	138,010,000	112,034,000	114,094,000	119,418,000	607,588,000
Capital Funds	7,377,000	7,487,000	11,986,000	11,117,000	13,623,000	51,590,000
Total Contributions, Loans and Transfers	**149,319,000**	**153,312,000**	**132,540,000**	**134,236,000**	**143,071,000**	**712,478,000**
Interest Income	26,224,000	25,258,000	28,344,000	24,911,000	22,570,000	127,307,000
Developer Contributions	710,000	710,000	782,000	746,000	710,000	3,658,000
Miscellaneous Revenue	489,000	489,000	489,000	489,000	489,000	2,445,000
Total Source of Funds	**$1,186,347,799**	**$675,612,514**	**$1,008,939,694**	**$701,330,714**	**$649,903,854**	**$3,397,660,799**

Source: City of San José 2026-2030 Proposed Capital Improvement Program.

Infrastructure Backlog. The City's financial condition has historically limited, and continues to limit, the City's ability to expand services to City residents and fully address the backlog of the City's deferred infrastructure and maintenance needs. Every two years, the City prepares a status report on the City's deferred infrastructure maintenance backlog and presents the report to the City's Transportation and Environment Committee.

The following table summarizes the City's most recent deferred maintenance and infrastructure backlog (the "2024 Backlog Report") as of March 18, 2024.

Table A-12
CITY OF SAN JOSE
SUMMARY OF INFRASTRUCTURE BACKLOG
As of March 18, 2024
($ in millions)

	One Time Backlog			***Annual Ongoing Unfunded Needs***		
Program	***2022***	***2024***	***Change***	***2022***	***2024***	***Change***
Airport	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
City Operated Buildings (1)	$246.50	$293.80	$47.30	$20.10	$33.07	$12.97
Cultural Facilities Operated by Others	$13.80	$38.74	$24.94	$6.80	$10.00	$3.20
Sports Facilities Operated by Others	TBD	$26.87	TBD	TBD	$7.90	TBD
Convention Facilities	$73.50	$75.00	$1.50	TBD	TBD	TBD
Fleet	$7.70	$17.40	$9.70	$1.40	$1.20	($0.20)
Parks, Pools and Open Space (2)	$284.90	$339.80	$54.90	$36.50	$38.80	$2.30
Sanitary Sewer	$50.00	$65.00	$15.00	$0.90	$0.30	($0.60)
Service Yards	$14.10	$14.10	$0.00	$0.70	$5.80	$5.10
Storm Sewer (3)	$180.00	$180.00	$0.00	$5.00	$13.20	$8.20
Information Technology (4)	$47.50	$45.80	($1.70)	$5.70	$3.30	($2.40)
Radio Communications (5)	$3.80	$7.70	$3.90	$0.40	$3.50	$3.10
Transportation Infrastructure (3)	$736.90	$552.20	($184.70)	$14.00	$12.00	($2.00)
Regional Wastewater Facility	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Water Utility	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total	**$1,658.70**	**$1,656.41**	**($29.16)**	**$91.50**	**$129.07**	**$29.67**

(1) For Parks, Recreation and Neighborhood Services annual ongoing is $22.6 million for Parks Buildings and $10.47 million for other facilities. Note that in the 2022 report, the annual ongoing number was for Parks Buildings only; other facilities annual ongoing number was not included.
(2) The one-time backlog number for parks and open space may significantly increase in future years as a result of aging system.
(3) Measure T investments include over $38 million for Storm Sewer, $30 million in Transportation Infrastructure's streetlights and bridges, and $300 million in on-going pavement annualized over 10 years.
(4) Technology needs within departments not managed by the Information Technology Department are not included. Those departments present their technology needs within their program costs and plans.
(5) The one-time backlog cost is to replace only the radios that will be no longer supported. The annual ongoing need is based on replacing all SJPD radios in a long-term contract with Motorola to receive the highest discount.
Source: City of San José Status Report on Deferred Maintenance and Infrastructure Backlog dated March 18, 2024.

As shown above, the 2024 Backlog Report identified a transportation infrastructure backlog of approximately $1.7 billion, with an additional $129.1 million needed annually to maintain the City's infrastructure. Compared to the previous status report, the backlog reflected a decrease of nearly $29.2 million in one-time needs, largely due to the implementation of projects funded by Measure T.

However, compared to the previous status report, ongoing additional capital project needs increased by approximately $29.7 million.

The following table summarizes the City's deferred maintenance and infrastructure backlog by fund as reported in the 2024 Backlog Report as of March 18, 2024. The figures under the heading "One-Time Backlog of Deferred Deeds" represent the unfunded cost to restore a given asset to a satisfactory and serviceable condition rating. The figures under the heading "Annual Ongoing Unfunded Needs" describe the additional funding needed to maintain the asset in satisfactory and serviceable condition or to establish a sinking fund for strategic asset maintenance or rehabilitation.

Table A-13
CITY OF SAN JOSE
SUMMARY OF INFRASTRUCTURE BACKLOG BY FUND
As of March 18, 2024

GENERAL FUND	*Current Backlog of Deferred Needs*	*Annual Ongoing Unfunded Needs*
Building Facilities (1)	$46,300,000	$3,870,000
Technology (2)	42,800,000	2,550,000
Fleet Replacement	10,440,000	720,000
Sports Facilities Operated by Others	22,513,000	7,900,000
Transportation Infrastructure	29,000,000	11,800,000
Total General Fund Unmet/Deferred Infrastructure and Maintenance Needs	**$151,053,000**	**$26,840,000**
SPECIAL FUNDS/CAPITAL FUNDS	*Current Backlog of Deferred Needs*	*Annual Ongoing Unfunded Needs*
Airport	$ --	$ --
Building Facilities (2)	247,500,000	29,200,000
Sports Facilities Operated By Others	4,357,000	--
Convention Facilities and Cultural Facilities Operated By Others	113,740,000	10,000,000
Fleet Replacement	6,960,000	480,000
Parks, Pools & Open Space	339,800,000	38,800,000
Sanitary Sewer System	65,000,000	300,000
Service Yards	14,100,000	5,800,000
Storm Sewer System	180,000,000	13,200,000
Radio Communications	7,700,000	3,500,000
Technology (4)	3,000,000	750,000
Transportation Infrastructure	523,200,000	200,000
Water Pollution Control Plant	--	--
Water Utility System	--	--
Total Potential Other Fund Unmet/Deferred Infrastructure and Maintenance Needs	**$1,505,357,000**	**$102,230,000**
Total Unmet/Deferred Infrastructure and Maintenance Needs	**$1,656,410,000**	**$129,070,000**

(1) Police, Communications, City Hall, Animal Care and Services.
(2) Infrastructure & Software Upgrades.
(3) Fire, Library, Parks Recreation and Neighborhood Services.
Source: City of San José Status Report on Deferred Maintenance and Infrastructure Backlog dated March 18, 2024.

Sustainability Initiatives. The City is committed to achieving the goals in the Paris Climate Accord and adopted Climate Smart San José, a community wide greenhouse gas reduction climate action plan. The City has also adopted a goal to be carbon neutral by 2030, 15 years ahead of the State's goal of 2045. The City's Pathway to Carbon Neutrality by 2030 includes recommended strategies and supporting actions to accelerate Climate Smart San José and put the City on a course to carbon neutrality by 2030.

The City has taken several steps to meet its climate related goals. Among such steps, the City established SJCE in 2017 which launched service in September 2018 and achieved full operation in June 2019. SJCE is the community choice aggregation program of the City and serves most of the electrical demand in the city. It was established to support the City's transition to clean energy and provide its residents and businesses local control over electricity prices, resources, and quality of service, as further described herein. SJCE, which aims to provide 75% renewable energy by 2030, 87% renewable energy by 2040, and 100% renewable energy by 2050, plays a critical role in enabling the City of San José to meet its decarbonization targets. SJCE is administered by the City's Energy Department and its financial activities are recorded in the SJCE enterprise fund of the City.

Labor Relations

General. The City has 12 recognized employee bargaining units. The table below shows the representation and agreement expiration dates for the units.

Table A-14
CITY OF SAN JOSE
SUMMARY OF LABOR AGREEMENTS

Bargaining Unit	***Agreement Expiration Date***	***Full-Time Equivalent Employment*** (1)(2)
Association of Maintenance Supervisory Personnel	6/30/2026	144
Association of Engineers and Architects	6/30/2026	349
City Association of Management Personnel	6/30/2026	599
International Brotherhood of Electrical Workers	6/30/2027	79
Municipal Employees Federation	6/30/2026	2,438
San José Police Officers' Association (3)	6/30/2025	1,161
San José Police Dispatchers' Association	6/30/2026	161
Assoc. of Building, Mechanical and Electrical Inspectors	6/30/2026	81
International Association of Firefighters, Local 230	6/30/2027	729
Peace Officer Park Rangers Association	6/30/2027	20
Association of Legal Professionals	6/30/2026	48
International Union of Operating Engineers, Local #3	6/30/2027	795
Total		6,604

(1) Full-time Equivalents ("FTE's") are the combined total number of budgeted full-time positions. For example, one full-time position equals one FTE. Similarly, two half-time positions equal one FTE. The FTE numbers are budgeted for Fiscal Year [2025-2026], rounded to the nearest FTE. [To be updated with FY2025-2026 figures when available]
(2) The total number of employees does not include [395] unrepresented positions budgeted for Fiscal Year [2025-2026]. [To be updated with FY2025-2026 figures when available]

Footnotes continued:

(3) The City and the San José Police Officers' Association ("SJPO") are currently engaged in negotiations over a successor bargaining agreement. SJPO members will continue to work under the terms of the existing bargaining agreement until a new agreement is reached.

Source: City of San José.

As of June 17, 2025, of the full-time equivalent employees budgeted for Fiscal Year 2025-2026 [____] were vacant.

The City and its bargaining units are currently in good standing under their respective labor agreements as currently in effect.

Labor Negotiation Requirements. The City is required to comply with the applicable requirements under California law and the City's Charter when negotiating with its bargaining units. Following a summary of those requirements.

<u>State Law Requirements</u>. Under California law, sworn police and fire employees are not permitted to strike. Under the Charter, police and fire bargaining units have the right to binding interest arbitration of labor disputes once the City or the applicable bargaining unit declares that the negotiations are at impasse. In addition, the labor agreements with all of the City's bargaining units, include "no strike" clauses.

Also, under California law, the City and the bargaining units have the mutual obligation to meet and confer promptly upon request by either party and to endeavor to reach agreement on matters within the scope of representation, which generally include wages, hours, benefits and other terms and conditions of employment. Some bargaining units have limitations in their contracts on whether or not they are required to meet and confer on certain items during the term of a contract. In the event that the City and a bargaining unit are unable to reach an agreement, the parties are required to follow the impasse procedures in the City's resolution governing employer-employee relations which specifies mediation of the dispute. The non-public safety bargaining units do not have the right to binding interest arbitration of disputes.

Under State law, before the City Council may impose a last, best and final offer, a non-binding fact-finding process upon election by a bargaining unit is required. A three-person fact-finding panel, comprised of representatives selected by the employer, bargaining unit and a chairperson selected by the Public Employee Relations Board or by mutual agreement of the parties, is charged with making written findings of fact and advisory recommendations covering unresolved issues during negotiations. The panel is empowered to conduct investigations, hold hearings, and issue subpoenas requiring the attendance and testimony of witnesses and the production of evidence. After applicable mediation and fact-finding procedures have been exhausted, but no earlier than 10 days after the issuance of the panel's written findings and recommendations, a public agency may implement its last, best and final offer. Prior to doing so, the City must hold a public hearing regarding the impasse. It is expected that the fact-finding process could significantly lengthen the negotiation process.

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

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

The primary factors in decisions regarding compensation are the City's financial condition and its ability to pay for employee compensation from on-going revenues without reducing City services. No arbitration award may be issued unless a majority of the Arbitration Board determines, based upon a fair and thorough review of the City's financial condition and a cost analysis of the parties' last offers, that the City can meet the cost of the award from on-going revenues without reducing City services. The arbitrators are also required to consider and give substantial weight to the rate of increase or decrease of compensation approved by the City Council for other bargaining units.

Additionally, the Arbitration Board cannot issue an award that would, among other things, increase the projected cost of compensation at a rate that exceeds the rate of increase in revenues from the sales tax, property tax, utility tax and telephone tax averaged over the prior five fiscal years, or retroactively increase or decrease compensation, excluding base wages.

Retirement Plans

The City maintains retirement plans for eligible current and former employees. See APPENDIX B – "THE CITY OF SAN JOSE: RETIREMENT PLANS – RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS" for a description of such plans.

MAJOR GENERAL FUND REVENUE SOURCES

More than 80% of the General Fund revenues for Fiscal Year 2023-2024 were derived from major taxes: property taxes, sales taxes, utility taxes and business taxes, all of which are susceptible to changing economic conditions.

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

The table below presents the audited General Fund revenues of the City based on actual results for Fiscal Years 2020-2021 through 2023-2024, estimated revenues for Fiscal Year 2024-2025 and budgeted revenues for Fiscal Year 2025-2026.

Table A-15
CITY OF SAN JOSE
GENERAL FUND REVENUES
For Fiscal Years Ending June 30
($ in thousands)

	2020-2021	*2021-2022*	*2022-2023*	*2023-2024*	*Estimated 2024-2025 (1)*	*% of Total (2)*	*[Adopted] Budget 2025-2026*
GENERAL FUND REVENUES							
Property taxes	$434,046	$521,185	$505,294	$524,473	$495,000	37.2%	$536,500
Utility taxes	127,844	124,906	145,361	152,063	136,000	10.2	143,800
State of California in-lieu tax	770	1,190	1,041	1,255	--	--	--
Franchise taxes	45,628	48,378	44,824	52,476	55,023	4.1	58,988
Business taxes	71,169	85,375	89,627	86,072	87,000	6.5	85,000
Miscellaneous taxes	5,409	10,515	14,937	15,894	38,000	2.9	40,000
Sales taxes	284,020	323,144	343,472	333,411	352,000	26.5	340,000
Licenses, permits, and fines	28,344	37,206	35,469	36,014	39,423	3.0	37,800
Intergovernmental (2)	120,702	153,495	125,080	28,577	90,143	6.8	52,727
Charges for current services	7,285	21,830	23,302	24,585	27,809	2.1	31,841
Interest and investment income	1,561	(15,333)	10,468	30,822	--	--	--
Other revenues	54,543	70,093	45,879	48,002	9,560	0.7	11,066
TOTAL	$1,181,321	$1,381,984	$1,384,754	$1,333,644	$1,329,958	100.0%	1,337,722

(1) Estimated; subject to change.
(2) Reflects percentage of total estimated Fiscal Year 2024-2025 General Fund Revenues of approximately $1.3 billion.
(3) Increase in intergovernmental revenues in Fiscal Year 2021-2022 were primarily due to funding from federal, State and local sources in response to the COVID-19 pandemic.
Source: City of San José.

For purposes of the City's various budget documents, revenues are reported on a "cash" basis, meaning receipts are recognized when cash is received. This method differs from GAAP, which recognizes revenues on a "modified accrual" basis. See "Notes to the Basic Financial Statements" contained in "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENED JUNE 30, 2024." Accordingly, the following section of this Appendix A also includes information regarding historical, budgeted and projected cash receipts for the four largest sources of General Fund revenues: property taxes, sales taxes, utility taxes and business taxes.

Property Taxes

General. As shown in Table A-15, property taxes represent the largest source of revenues for the City's General Fund in the previous four fiscal years. In Fiscal Year 2023-2024, property taxes comprised approximately 36% of the City's total General Fund revenues. General Fund property tax revenues of approximately $495 million are estimated to be received during Fiscal Year 2024-2025, which represents 37% of the City's total estimated General Fund revenues. Actual property tax revenues for Fiscal Year in 2024-2025 are expected to exceed budgeted revenues by approximately $10 million.

Property taxes have been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13, property tax revenues were first curtailed in 1978 when they were reduced by two-thirds and thereafter limited to 2% annual increases or the consumer price index, whichever was less.

Levy and Collection. The assessed valuation of property is established by the Assessor (the "County Assessor") of the County of Santa Clara (the "County") as of January 1, except for public utility property, which is assessed by the State Board of Equalization. Real property is reassessed at market value on the date the property changes ownership (with limited exceptions) or upon completion of new construction. Upon such reassessment, a supplemental tax is collected for the remainder of the tax year. Under the State Constitution and legislation, ad valorem taxes on real property (other than taxes relating to certain voter approved indebtedness) are limited as described under "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Article XIIIA of the State Constitution" in the forepart of this Official Statement.

A property owner may apply for a reduction of the property tax assessment for that owner's property (known as a "Proposition 8" appeal). The County Assessor may also reduce valuations based on current economic value, without a taxpayer appeal.

The State Constitution and statutes provide exemption from reassessment of property upon certain changes of ownership, such as between spouses or certain intergenerational transfers, and from ad valorem property taxation for certain classes of property, such as local governments, churches, colleges, nonprofit hospitals, and charitable institutions. State law also allows exemptions from ad valorem property taxation at $7,000 of full value of owner-occupied dwellings and 100% of business inventories. Revenue losses to the City from the homeowner's exemption are replaced by the State.

The County collects the ad valorem taxes. Taxes arising from the 1% levy are apportioned among local taxing agencies on the basis of a formula established by State law. Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. The County deducts the pro-rata cost of collecting property taxes from the City's allocation.

All taxable real and personal property is classified as either "secured" or "unsecured." The "secured roll" contains real property (land and improvements), certain taxable personal property (such as business equipment on business-owned property), and possessory interests (a leasehold on otherwise exempt government property). The "unsecured roll" contains all other taxable property, the majority of which is business equipment on leased or rented premises, other taxable personal property such as boats and aircraft, and delinquent possessory interests. The balance of personal property has been exempted by State law from property taxes.

Property taxes on the secured roll are due in two installments, which become delinquent after December 10 and April 10, respectively. A 10% penalty is added to delinquent taxes. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, title to the property passes to the State and is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll become delinquent on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. The County has several ways of collecting delinquent unsecured personal property taxes.

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

The County Board of Supervisors has approved the implementation of an alternative method of distribution of tax levies and collections of tax sale proceeds (a "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the County's Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions for which the County acts as the tax-levying or tax-collecting agency. Those entities include the City. The County then receives all future delinquent payments, penalties, and interest. The Teeter Plan was effective in the County beginning the fiscal year commencing July 1, 1993. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and tax levy for certain 1915 Act assessment bonds.

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

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

Assessed Valuation. All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS" in the forepart of this Official Statement. Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

The following table shows the City's assessed valuations for Fiscal Year 2024-2025 and the previous ten fiscal years. Since Fiscal Year 2014-2015, assessed values within the City have increased approximately 89%.

Table A-16
CITY OF SAN JOSE
ASSESSED PROPERTY VALUES
For Fiscal Years Ending June 30

Fiscal Year	*Secured Assessed Valuation*	*Utility Assessed Valuation*	*Unsecured Assessed Valuation*	*Total Assessed Valuation*	*Percentage Change*
2014-2015	$133,127,553,979	$512,333,924	$ 7,100,987,856	$140,740,875,759	--
2015-2016	142,446,316,948	535,153,009	7,058,420,687	150,039,890,644	6.6%
2016-2017	152,706,308,586	469,766,088	7,371,619,434	160,547,694,108	7.0
2017-2018	162,195,122,108	425,626,413	7,840,070,787	170,460,819,308	6.2
2018-2019	173,497,937,003	397,655,311	8,030,931,860	181,926,524,174	6.7
2019-2020	186,157,577,548	395,027,160	8,597,949,056	195,150,553,764	7.3
2020-2021	197,416,222,634	418,799,170	8,597,459,466	206,432,481,270	5.8
2021-2022	206,285,368,640	372,421,706	8,648,963,587	215,306,753,933	4.3
2022-2023	220,481,629,983	336,293,218	9,432,856,498	230,250,779,699	6.9
2023-2024	234,285,942,416	330,706,109	10,551,336,503	245,167,985,028	6.5
2024-2025	245,729,177,836	317,236,709	11,243,574,199	257,289,988,744	4.9

Source: California Municipal Statistics, Inc.

Prior to Fiscal Year 2010-2011, a portion of the property taxes collected in the City were allocated to the City's former redevelopment agency as tax increment. As part of the State's budget for fiscal year 2011-12, legislation was approved to eliminate redevelopment agencies. While a portion of property tax increment revenue is still allocated to pay previously incurred enforceable obligations, a portion of the funds previously allocated to the City's former redevelopment agency, including the proceeds from the sale of property, is now allocated to overlapping taxing jurisdictions, including the City, pursuant to the provisions of Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484, enacted as Chapter 26, Statutes of 2012, and as subsequently amended. As enforceable obligations of the former redevelopment agency and its successor agency are paid and retired, residual amounts of property tax revenues attributable to redevelopment project area incremental value are expected to increase over time.

Property taxes arising from the 1% levy are apportioned among local taxing agencies on the basis of a formula established by State law. Over the years, State budget pressures have resulted in various reallocations of property tax revenues, including transfers to school and community college districts by means of an Educational Revenue Enhancement Fund, the dissolution of redevelopment, the "Triple Flip" of property tax and sales tax receipts to secure certain State bonds (which ended in Fiscal Year 2016-2017), and the "backfill" of reallocated Vehicle License Fee revenues with an increased allocation of property taxes. While limits on such reallocations have been instituted, no assurance can be given that property tax reallocations will not occur in the future. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Proposition 1A" and "– Proposition 22" in the forepart of this Official Statement.

Property Tax Receipts. The following table summarizes the City's actual[, estimated] and budgeted receipt of the 1% property tax and those reallocations received as property tax for the fiscal years shown. The table includes property tax attributable to the dissolution of the City's former redevelopment agency but excludes the ad valorem tax levied to pay debt service on the City's general obligation bonds (which is not reported in the General Fund).

Table A-17
CITY OF SAN JOSE
GENERAL FUND PROPERTY TAX RECEIPTS
($ in thousands)

Fiscal Year	***Receipts*** [(1)]	***Percentage Change***
2020-2021	$390,897	N/A
2021-2022	414,123	6%
2022-2023	449,014	8%
2023-2024	473,724	6%
2024-2025 Estimated	504,400	6%
2025-2026 [Adopted] Budget	536,500	6%

(1) Cash basis.
Source: City of San José.

Largest Secured Property Taxpayers. The following table shows the twenty largest property taxpayers for Fiscal Year 2024-2025 based on secured assessed valuations within the City, which collectively account for approximately 6% of the total secured assessed property valuation for 2024-2025.

Table A-18
CITY OF SAN JOSE
TWENTY LARGEST LOCAL SECURED PROPERTY TAXPAYERS
Fiscal Year 2024-2025 (1)

	Property Owner	***Primary Land Use***	***Secured Assessed Valuation***	***% of Total (2)***
1.	Google LLC	Office Building	$1,418,226,304	0.58%
2.	Essex Portfolio LP	Apartments	1,221,616,875	0.50
3.	Adobe Systems Inc.	Office Building	1,201,881,502	0.49
4.	Cisco Technology Inc.	Manufacturing	1,095,284,174	0.45
5.	San Jose Water Works	Water Company	1,054,523,915	0.43
6.	VF Mall LLC	Shopping Center	996,231,597	0.41
7.	FRIT San Jose Town & Country Village	Apartments/Ret	880,400,752	0.36
8.	SJCCRE1 LLC	Office Building	786,230,280	0.32
9.	River View Apartments	Apartments	727,054,853	0.30
10.	SJ Park Almaden LLC	Office Building	695,137,574	0.28
11.	Sobrato Interests	Apartments	628,248,046	0.26
12.	Apple Inc.	Office Building	579,776,988	0.24
13.	KRE HQ at First Owner LLC	Office Building	556,613,999	0.23
14.	SI SVY01-02 ABS LLC	Industrial	483,096,470	0.20
15.	Tishman Speyer Archstone-Smith	Apartments	464,679,209	0.19
16.	Samsung Semiconductor Inc.	Office Building	444,910,742	0.18
17.	China Mobile International	Industrial	407,307,040	0.17
18.	Del Rey Investment Co	Office Building	371,398,519	0.15
19.	CAP OZ 34 LLC	Office Building	368,130,132	0.15
20.	SJSC Properties LLC	Apartments	357,407,864	0.15
		Total	$14,738,156,835	6.00%

(1) Table does not reflect any changes in ownership since January 1, 2024.
(2) Reflects percentage of total Fiscal Year 2024-2025 Local Secured Valuation of approximately $245,729,177,836
Source: California Municipal Statistics, Inc.

Potential Impacts of Increased Office Vacancies. The COVID-19 pandemic resulted in significant changes to the way people work. More employees are working from home at least a portion of the time, resulting in reduced requirements for commercial office space. As a result, vacancies in commercial office buildings in many major metropolitan areas, including the City, have increased, which may result in reduced rental rates and reduced market valuations of such property. According to Cushman and Wakefield, the overall office vacancy rate in Silicon Valley was 22.5% for the fourth quarter of 2024, relatively unchanged from the 22.6% for the fourth quarter of 2023. Office vacancies in the City for the fourth quarter of 2024 ranged from approximately 6% to 31% depending on the submarket. According to Cushman and Wakefield, the highest office vacancies were seen in Downtown San José and the area surrounding the Airport with vacancies of 31.4% and 30.3%, respectively, for the fourth quarter of 2024, compared to 30.5% and 34.2%, respectively, for the fourth quarter of 2023.

Office space constituted approximately 7% of the total secured assessed valuation of property in the City for Fiscal Year 2024-2025. While the City has no direct data on the current rate of vacancies in commercial office buildings or information regarding commercial office buildings that are under financial stress (including facing potential defaults on loans and foreclosures), there can be no assurances that the pressures facing owners of commercial office buildings will not result in significant declines in the value of such properties. Any such reductions in valuation would result in reduced property tax revenues with respect to such properties.

Sales and Use Taxes

General. As shown in Table A-15, sales taxes represent the second largest source of revenues for the City's General Fund in the previous four fiscal years. In Fiscal Year 2023-2024, sales taxes comprised approximately 25% of the City's total General Fund revenues. General Fund sales tax revenues of approximately $352 million are estimated to be received during Fiscal Year 2024-2025, which represents 27% of the City's total estimated General Fund revenues.

A sales tax is imposed on retail sales or consumption of personal property. The basic sales tax rate is established by the State Legislature, and local overrides may be approved by voters. The current total sales tax rate in the City is 9.375%, which includes the 7.75% sales tax rate established by the State Legislature (of which 0.50% is diverted to cities pursuant to Proposition 172) and the 0.25% transactions and use tax imposed by the City's Measure B.

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

At the June 2016 election, Measure B was approved by voters in the City amending the City's Municipal Code to enact a 0.25% transactions and use tax, also referred to as the Local Sales Tax, in the City beginning October 1, 2016 for 15 years to fund essential City services, such as: improving public safety; maintaining and repairing major streets (e.g., increase pavement maintenance funding for major streets to significantly slow the incidence of pothole formation and general pavement deterioration); and increasing neighborhood services (e.g., additional resources for reducing homelessness, increasing youth and senior services, and other high priority neighborhood services, such as blight eradication and gang prevention). The 0.25% transactions and use tax will terminate automatically on September 30, 2031, unless extended by voters.

The components of the sales taxes collected in the City are shown in the following table.

Table A-19
CITY OF SAN JOSE
SALES TAX RATES
As of [June] 1, 2025

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

(1) Approximately 0.18% of this tax is allocated to the City.
(2) Approved by voters in June 2016, and effective October 1, 2016, (limited to 15 years) to fund essential City services.
(3) Approved by voters in 1976; does not expire. Imposed by VTA.
(4) Approved by voters in November 2000, and effective April 1, 2006 (expires March 31, 2036). Imposed by VTA.
(5) Approved by voters in November 2008 to support BART was implemented on July 1, 2012 (expires June 30, 2042). Imposed by VTA.
(6) Approved by voters in November 2012 and effective April 1, 2013 (does not expire).
(7) Approved by voters in June 2016, and effective April 1, 2017 (expires March 31, 2047). Imposed by VTA.
(8) Approved by voters in November 2020, and effective July 1, 2021 (expires June 30, 2050). Imposed by the Peninsula Corridor Joint Powers Board.
Source: California Department of Tax and Fee Administration; City of San José.

Collection Procedures. Collection of the sales and use tax is administered by the California Department of Tax and Fee Administration (the "CDTFA"). Under the Sales and Use Tax Law, all sales and use taxes collected by the CDTFA under a contract with any city, city and county, or county are required to be transmitted by the CDTFA to such city, city and county, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the CDTFA projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the CDTFA's quarterly projection. During the last month of each quarter, the CDTFA adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

Sales Tax Receipts. The following table summarizes the City's actual[, estimated] and budgeted sales tax receipts for the fiscal years shown.

Table A-20
CITY OF SAN JOSE
GENERAL FUND SALES TAX RECEIPTS
($ in thousands)

Fiscal Year	***Receipts (1)***	***Percentage Change***
2020-2021	$284,020	N/A
2021-2022	323,144	34%
2022-2023	343,472	6%
2023-2024	333,411	(3%)
2024-2025 [Estimated]	330,000	(1%)
2025-2026 [Adopted] Budget	340,000	3%

(1) Cash basis.
Source: City of San José.

Utility Taxes

As shown in Table A-15, utility taxes represent the third largest source of revenues for the City's General Fund in the previous four fiscal years, except in Fiscal Year 2021-2022 when utility taxes were the fourth largest source behind intergovernmental revenues. In Fiscal Year 2023-2024, utility taxes comprised approximately 10% of the City's total General Fund revenues. General Fund utility tax revenues of approximately $136 million are estimated to be received during Fiscal Year 2024-2025, which represents 10% of the City's total estimated General Fund revenues.

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

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

In February 2009, the City Council adopted an ordinance amending the telecommunications user's tax to cap the maximum amount of the tax payable by customers that meet certain threshold requirements to mitigate any disproportionate financial impact on customers. The telecommunications user's tax cap expired on December 31, 2022.

The following table summarizes the City's actual[, estimated] and budgeted utility tax receipts for the fiscal years shown.

Table A-21
CITY OF SAN JOSE
GENERAL FUND UTILITY TAX RECEIPTS
($ in thousands)

Fiscal Year	***Receipts*** [(1)]	***Percentage Change***
2020-2021	$106,971	N/A
2021-2022	103,592	(3%)
2022-2023	124,267	20%
2023-2024	129,771	4%
2024-2025 [Estimated]	137,800	6%
2025-2026 [Adopted] Budget	143,800	4%

(1) Cash basis.
Source: City of San José.

Business Taxes

General. As shown in Table A-15, business taxes represent the fourth largest source of revenues for the City's General Fund in the previous four fiscal years, except in Fiscal Year 2021-2022 when business taxes were the fifth largest source behind utility tax revenues. In Fiscal Year 2023-2024, business taxes comprised approximately 7% of the City's total General Fund revenues. General Fund utility tax revenues of approximately $87 million are estimated to be received for Fiscal Year 2024-2025, which represents 6.5% of the City's total estimated General Fund revenues.

The City's business tax revenues are derived from four general categories of taxes: general, cardroom, cannabis and disposal facility. The following table shows business tax revenues by category based on actual results for Fiscal Years 2020-2021 through 2023-2024, estimated revenues for Fiscal Year 2024-2025, and budgeted revenues for Fiscal Year 2025-2026.

Table A-22
CITY OF SAN JOSE
BUSINESS TAX REVENUES BY CATEGORY
For Fiscal Years Ending June 30
($ in thousands)

Category	*2020-2021*	*2021-2022*	*2022-2023*	*2023-2024*	*Estimated 2024-2025* [1]	*% of Total* [1]	*Adopted Budget 2025-2026*
General Business	$26,502	$25,723	$29,754	$27,425	$29,000	1.9%	$31,000
Cardroom	11,072	28,864	29,948	30,067	30,000	2.0	25,000
Disposal Facility	13,783	12,731	13,327	12,902	13,000	0.9	12,000
Cannabis Business	19,812	18,056	16,598	15,679	15,000	1.0	12,000
Total	$71,169	$85,375	$89,627	$86,072	$87,000	5.8%	$85,000

(1) Estimated; subject to change.
(2) Reflects percentage of total estimated Fiscal Year 2024-25 General Fund Revenues of approximately $1.3 billion.
Source: City of San José.

General Business Tax. As shown in the previous table, business taxes in the previous four years have consisted of predominantly general business taxes and cardroom business taxes. In Fiscal Year 2023-2024, general business taxes comprised approximately 2.1% of the City's total General Fund revenues.

On November 8, 2016, voters approved Measure G, a ballot measure to increase the general business tax imposed on all persons (broadly defined) engaged in business in San José. The general business tax is an excise tax based on the number of persons employed or on the number of units, lots or square feet leased in the City, as applicable. It is not a tax on gross receipts. Measure G enacted an ordinance, effective on July 1, 2017, that: (1) increased the minimum base tax from $150 to $195, set graduated rates for businesses with more employees paying higher rates, increased rates for landlords who pay more per unit, lot and square feet of leased space, (2) raised the annual cap on the maximum amount of tax payable to $150,000; and (3) instituted an annual adjustment for inflation based on the consumer price index beginning on July 1, 2018, subject to certain limits. Measure G maintained various exemptions for nonprofits and a financial hardship exemption for small business owners, while adding a financial hardship exemption for certain small businesses with limited household incomes

Cardroom Business Tax. As shown in the previous table, cardroom business taxes in the previous four years were either the largest or second largest source of business taxes. In Fiscal Year 2023-2024, cardroom business taxes comprised approximately 2.3% of the City's total General Fund revenues.

The City imposes a tax on all cardrooms in the City. Currently, there are two cardrooms. The cardroom tax imposes a 15% tax on gross revenues and a tax on the gross revenues of the entities that bank the card games played at the cardrooms ranging from 5% for annual gross revenue up to $25 million to 10% for annual gross revenues above $30 million.

Cannabis Business Tax. As shown in the previous table, cannabis business taxes in the previous four years were the third largest source of general business taxes. In Fiscal Year 2023-2024, cannabis business taxes comprised approximately 1.2% of the City's total General Fund revenues.

The City's cannabis business tax revenues are derived from a tax imposed by the City on all cannabis business in the City based on gross receipts. Cannabis business taxes were approved by the voters in the City pursuant to Measure U at the November 2, 2010 election. While the maximum tax rate on all cannabis businesses approved by the voters in the City is 10% of gross receipts, the City Council has discretion to set a lower tax rate for different categories of cannabis activities. Currently, the tax is set at 7% of gross receipts. For certain cannabis business related activities (e.g. cultivation and distribution), the City Council has set the maximum tax ranging from 2% to 4% of gross receipts.

Disposal Business Tax. As shown in the previous table, disposal business taxes in the previous four years were the fourth largest source of general business taxes. In Fiscal Year 2023-2024, disposal business taxes comprised approximately 1.0% of the City's total General Fund revenues. The City's disposal business tax is based on the weight of solid waste disposed. The tax rate is $13.00 per ton and is assessed on landfills located in the City.

Business Tax Receipts. The following table summarizes the City's actual[, estimated] and budgeted business tax receipts for the fiscal years shown.

Table A-23
CITY OF SAN JOSE
GENERAL FUND BUSINESS TAX RECEIPTS
($ in thousands)

Fiscal Year	***Receipts*** [(1)]	***Percentage Change***
2020-2021	$70,036	N/A
2021-2022	85,375	22%
2022-2023	89,627	5%
2023-2024	86,072	(4%)
2024-2025 [Estimated]	85,000	(1%)
2025-2026 [Adopted] Budget	85,000	0%

(1) Cash basis.
Source: City of San José.

State Budget

Certain of the City's revenues are collected or subvened by the State (e.g. sales tax and motor-vehicle license fees) or allocated in accordance with State law (e.g. property taxes and sales taxes). Therefore, State budget decisions can have an impact on City finances. Approximately 75% of the City's General Fund revenues are collected by the State or otherwise allocated in accordance with State law. In addition, each of Fiscal Years 2024-2025 and 2025-2026, the City estimated that approximately 3% and [1%], respectively, of the City's General Fund revenues will come from State sources, which includes State grant revenue, Tobacco Settlement funds, and other State reimbursements.

During prior State fiscal crises, the State has reallocated a portion of such revenues to assist in its own budget balancing, or taken other actions that adversely impacted the financial condition of local governments, including the City. Proposition 1A, adopted in 2004, amended the State Constitution to impose limits on the State's ability to reallocate local revenue. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Proposition 1A" and "– Proposition 22" in the forepart of this Official Statement.

Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the State Department of Finance website, www. dof.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references. There can be no assurance that State budget actions will not materially adversely impact the City's finances in the future.

BONDED AND OTHER INDEBTEDNESS

Introduction

The City has issued, or caused the City of San José Financing Authority (the "Authority") to issue, of a variety of bonded and other debt obligations as provided for under the State Constitution, judicial interpretation of the State Constitution, State statutes, and its Charter powers. Following is a summary of such obligations.

Debt Management Policy

The City Council adopted a Debt Management Policy for the City on May 21, 2002, which is reviewed annually by the City Council and was last amended on March 11, 2025. The policy allocates responsibility for debt management activities to the Finance Department, describes the purposes for which debt may be issued, establishes overall parameters for issuing and administering the City's debt. The topics covered in the Debt Management Policy include initial and continuing disclosure as required under the City's undertakings entered into pursuant to Securities and Exchange Commission Rule 15c2-12.

General Obligation Bonds

The City may issue general obligation bonds for the acquisition and improvement of real property subject to the approval of the voters voting on the bond proposition. In accordance with all relevant provisions of law, the City is obligated to levy ad valorem taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property that is taxed at limited rates), for the payment of all outstanding general obligation bonds and the interest thereon. Amounts levied for the payment of debt service on the City's outstanding general obligation bonds may not be used except to pay debt service on those bonds. The City is obligated to direct the County to collect such ad valorem taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the general obligation bonds.

The following table summarizes City's outstanding general obligation bonds. The Bonds are not reflected in Tables A-24 and A-25.

Table A-24
CITY OF SAN JOSE
GENERAL OBLIGATION BONDS
As of April 1, 2025
($ in thousands)

Series	*Purpose*	*Amount Issued*	*Amount Outstanding*	*Final Maturity*
2019A-1	Disaster Preparedness, Public Safety, and Infrastructure	$140,360	$140,360	9/1/2049
2019B	Disaster Preparedness, Public Safety, and Infrastructure	66,500	63,030	9/1/2027
2019C	Refunding, Libraries, Parks, Public Safety	158,185	148,955	9/1/2035
2021A	Disaster Preparedness, Public Safety, and Infrastructure	151,210	144,920	9/1/2051
	Total	**$516,255**	**$497,265**	

Source: City of San José.

The Charter limits bonded indebtedness for general obligation bonds to 15% of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2024-2025 tax roll was approximately $257 billion, which results in a total debt limit of approximately $39 billion. As of April 1, 2025, the City's outstanding bonded indebtedness for general obligation bonds totaled $497.3 million. Immediately after the issuance of the Bonds, the City will not have authority to issue general obligation bonds.

The following table shows the ad valorem property tax rate levied to pay debt service on the City's general obligation bonds and the overlapping property tax rates levied in the City for Fiscal Year 2024-2025. The rates shown are for one of the five largest taxing areas within the City, as measured by assessed valuation.

Table A-25
CITY OF SAN JOSE
2024-2025 TYPICAL TAX RATE PER $100 OF ASSESSED VALUATION (1)

County-wide	1.0000%
County Retirement Levy	0.0388
County Hospital & Housing Bonds	0.0098
Union School District Bonds	0.1220
West Valley – Mission Community College District Bonds	0.0259
Campbell Union High School District Bonds	0.0362
City of San José General Obligation Bonds	0.0157
Total Tax Rate	1.2484%
Santa Clara Valley Water District State Water Project	0.0041
Total Land and Improvement Tax Rate	0.0041%

(1) Rates in Tax Rate Area 17-076.
Source: California Municipal Statistics, Inc.

Lease Obligations

The City has authority to enter into long-term lease obligations without first obtaining voter approval, so long as the related agreements meet the requirements of State law. The City has entered into various lease arrangements under which the City must make annual payments to occupy public buildings for City operations. All lease financings of the City have been with the Authority, a joint exercise of powers authority formed by the City and the City's former redevelopment agency. The lease financings have involved the issuance of lease revenue bonds, on which debt service is paid from annual lease payments primarily from the City's General Fund.

The following table summarizes the outstanding long-term lease obligations of the City payable, in whole or in part, from the City's General Fund.

Table A-26
CITY OF SAN JOSE
GENERAL FUND LEASE REVENUE BONDS
As of April 1, 2025
($ in thousands)

Series	***Purpose***	***Amount Issued***	***Amount Outstanding***	***Final Maturity***
Series 2013B (Civic Center Garage Project)	Refunding	$ 30,445	$21,815	6/1/2039
Series 2020A (Civic Center Refunding Project)	Refunding	355,620	287,325	6/1/2039
Series 2020B (Ice Centre Expansion)	Ice Centre Expansion, Refunding	146,535	140,820	6/1/2051
Series 2021A (Fire Training Center and Central Service Yard Project)	Community Facilities	22,825	18,410	10/1/2034
Series 2022A (Convention Center Refunding)	Refunding	165,815	163,115	5/1/2052
Total		$721,240	$631,485	

Source: City of San José.

Commercial Paper Program

In 2004, the City and the Authority established a commercial paper program authorizing the Authority to issue lease revenue commercial paper notes to, among other things, finance capital improvements of the City and make working capital advances to the City for cash flow needs (the "Commercial Paper Notes"). The City's commercial paper program may be increased or decreased from time to time by the City Council and the Governing Board of the Authority. Currently, the Authority is authorized to issue Commercial Paper Notes in the maximum principal amount of $175 million. The City expects to cause the Authority to issue additional lease revenue bonds from time to time to refund Commercial Paper Notes. As of June 1, 2025, approximately [$45] million in Commercial Paper Notes were outstanding.

To support the Commercial Paper Notes, the City has arranged for TD Bank, N.A. (“TD Bank”) to issue an irrevocable direct-pay letter of credit (the “Letter of Credit”) and has entered into a reimbursement agreement with TD Bank. Unless extended, the Letter of Credit will expire on May 17, 2030. Under the reimbursement agreement with TD Bank, the City is required to reimburse TD Bank for draws on the Letter of Credit over time, but the annual payments thereunder cannot exceed the annual fair rental value of the leased properties. The leased properties consist of various properties that are owned by the City. The reimbursement agreement includes covenants on the part of the City and specifies the events of default and the remedies of TD Bank upon and during the continuance of such events.

The City generally pays interest, letter of credit fees, and other program costs as they become due from its own funds rather than paying such costs from proceeds of Commercial Paper Notes.

Revenue Bonds

The Charter and State law provide for the issuance of revenue bonds and the incurrence of debt obligations that are secured by and are payable from revenues generated by enterprise and special fund operations. From time to time, the City and the Authority have issued revenue bonds or incurred obligations that are secured by and are payable from wastewater, Airport, or SJCE revenues. Such bonds and obligations do not represent obligations of the City, nor are they secured by taxes. See “Appendix C – Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2024, Note III.F” for a description of such debt as of June 30, 2024.

Conduit Debt

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. The City’s conduit obligations are not obligations of the General Fund or other revenues of the City.

Tax and Revenue Anticipation Notes

The City began prefunding certain employer retirement contributions in 2008 for budgetary savings through the issuance tax and revenue anticipation notes (“TRAN”). The following table summarizes the City’s TRANs for the fiscal years shown.

Table A-27
CITY OF SAN JOSE
TAX AND REVENUE ANTICIPATION NOTES

	Fiscal Year	*Par Amount*
	2020-2021	$130,000,000
	2021-2022	285,000,000
	2022-2023	--
	2023-2024	--
	2024-2025	--
Total		$415,000,000

Source: City of San José.

Summary of Long-Term Borrowings

The table below presents a statement of the City's debt. Direct Debt is usually defined as the total amount outstanding of "tax-supported" obligations, including general obligation bonds, lease revenue bonds, and other obligations paid from property tax or other general revenues. Net Direct Debt excludes any general obligation bonds and lease obligations that are self-supporting from non-General Fund sources; no such deductions are included below. Overall Net Debt is usually defined to be the combination of City Net Direct Debt plus the net tax-supported debt of overlapping counties, school districts and special districts, including assessment and Mello-Roos special tax bonds.

Table A-28
CITY OF SAN JOSE
NET DIRECT DEBT
As of April 1, 2025
($ in thousands)

	Amount Outstanding
General Obligation Bonds [(1)]	$497,265
Lease Obligations [(2)]	631,485
Gross Direct Debt Subtotal	1,128,750
Revenue Bonds and Special Fund Obligations	
Wastewater Revenue	260,250
Airport Revenue	990,568
Revenue Bonds and Special Fund Obligations Subtotal	1,250,818
TOTAL CITY DEBT	2,379,568
Less: Revenue Bonds	(1,250,818)
NET DIRECT DEBT	1,128,750
Plus: Overlapping Debt [(3)]	5,949,003
NET OVERALL DEBT	**$7,077,753**

(1) See Table A-24.
(2) See Table A-26. Does not include Commercial Paper Notes.
(3) Overlapping debt information provided by California Municipal Statistics, Inc. as of April 1, 2025. See Table A-30.
Source: City of San José.

See "Appendix C – Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2024, Note III.F" for a summary of the City's outstanding debt obligations, including annual amortization requirements, as of June 30, 2024.

Variable Rate Obligations and Swap Agreements

The only variable-rate obligations paid from the City's General Fund revenues are the Commercial Paper Notes. The City has not entered into any swap agreements payable from the General Fund.

Projected Additional Financings

The City currently anticipates the completion of some or all of the financings summarized in the table below secured in whole or in part by the City's General Fund or other revenues and taxes. Lease revenue bonds or other borrowings in addition to those listed below may be approved for refundings or to finance real and personal property acquisitions and improvements.

Table A-29
CITY OF SAN JOSE
ESTIMATED SCHEDULE OF BOND ISSUANCES [1]
As of June 1, 2025

	Expected Sale Date	***Estimated Par Amount***
Fiscal Year 2025-2026 Debt Issuance		
Lease Revenue Refunding Bonds	September 2025	$65 million
Fiscal Year 2026-2027 Debt Issuance	April 2027	$509 million
Airport Revenue Refunding Bonds		

(1) Subject to change. Does not include issuance of Commercial Paper Notes.
Source: City of San José.

Overlapping Bonded Debt

Contained within the City are overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics, Inc is shown in the following table. The City makes no representations as to the completeness or accuracy of such statement. The City anticipates issuing additional bonded debt. See "– Projected Additional Financings" above. The City also anticipates that new special assessment and special tax districts may be created in the future within the City, and that debt supported by these special assessments and special taxes may be issued.

Table A-30
CITY OF SAN JOSE
STATEMENT OF DIRECT AND OVERLAPPING DEBT
As of April 1, 2025

2024-2025 Assessed Valuation: $257,289,988,744

Overlapping Debt Paid with Property Taxes and Assessments	% Applicable	Debt 4/1/25
Santa Clara County	36.994%	$450,551,776
Foothill-DeAnza Community College District	3.787	22,449,358
Gavilan Joint Community College District	4.676	10,845,748
San Jose-Evergreen Community College District	85.367	803,051,299
West Valley Community College District	31.336	197,810,067
Morgan Hill Unified School District	11.065	17,529,726
San Jose Unified School District	98.526	406,458,200
Santa Clara Unified School District	20.381	195,277,494
Campbell Union High School District	60.137	191,298,804
East Side Union High School District	95.630	656,685,256
Fremont Union High School District	8.464	60,724,975
Los Gatos-Saratoga Joint Union High School District	0.802	581,009
Alum Rock Union School District	76.872	128,799,036
Berryessa Union School District	92.389	148,329,345
Cambrian School District	65.501	74,507,351
Campbell Union School District	48.067	116,655,881
Cupertino Union School District	15.750	34,642,645
Evergreen School District	99.430	114,842,617
Franklin-McKinley School District	99.630	186,118,820
Los Gatos Union School District	1.616	839,754
Luther Burbank School District	19.734	3,269,566
Moreland School District	74.851	103,464,384
Mount Pleasant School District	88.453	41,767,911
Oak Grove School District	99.933	262,913,325
Orchard School District	100.000	33,866,728
Union School District	72.753	97,819,778
Midpeninsula Regional Open Space District	0.010	11,492
Santa Clara Valley Water District Benefit Assessment District	36.994	9,226,304
OTHER OVERLAPPING DEBT:		
Santa Clara County General Fund Obligations	36.99%	$382,830,163
Santa Clara County Pension Obligation Bonds	36.994	117,513,287
Santa Clara County Board of Education Certificates of Participation	36.994	4,466,179
San Jose-Evergreen Community College District Benefit Obligations	85.367	39,759,680
West Valley-Mission Community College District General Fund Obligations	31.336	789,667
Morgan Hill Unified School District Certificates of Participation	11.065	1,494,328
San Jose Unified School District Certificates of Participation	98.526	1,660,163
Santa Clara Unified School District Certificates of Participation	20.381	2,213,173
Campbell Union High School District General Fund Obligations	60.137	7,817,810
East Side Union High School District Post Employment Obligations	95.630	21,483,280
Berryessa Union School District Certificates of Participation	92.389	1,378,112

Table A-30 Continued

Campbell Union School District General Fund Obligations	48.067	502,300
Cupertino Union School District Certificates of Participation	15.750	6,336,753
Franklin-McKinley School District Certificates of Participation	99.630	10,047,686
Midpeninsula Regional Open Space Park District General Fund Obligations	0.010	7,407
Less: Santa Clara County supported obligations		(895,255)
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	100.000	$981,260,000
SUBTOTAL OVERLAPPING DEBT		$5,949,003,382
City of San Jose General Obligation Bonds (1)	100.000	497,265,000
City of San Jose General Fund Obligations	100.000	631,485,000
TOTAL CITY OF SAN JOSE DIRECT DEBT		1,128,750,000
TOTAL DIRECT AND OVERLAPPING DEBT (2)		$7,088,753,382

(1) Excludes the issuance of the Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES

The City is routinely a party to a variety of pending and threatened lawsuits and administrative proceedings that may affect the General Fund of the City. The City is required to accrue liabilities arising from claims, litigation and judgments when it is probable that a liability has been incurred, and the amount of the loss can be reasonably estimated. See "BUDGET AND FINANCIAL OPERATIONS – Insurance and Self-Insurance Programs."

There are a number of pending cases or claims that could result in litigation that are anticipated to be scheduled for trial or appellate court hearing during the next twelve to twenty-four months in which the City's potential exposure for damages or attorneys' fees, collectively, could total $13 million or more. For all the matters described below, the City is unable to predict their actual outcome or when they will be resolved.

Potentially Significant Litigation

Clean Water Act- Stormwater Permit Compliance. The federal Clean Water Act (the "CWA") establishes the structure for federal regulation of the discharge of pollutants into the waters of the United States. Under the CWA, it is unlawful to discharge any pollutant into these waters unless the discharger has a permit under the National Pollutant Discharge Elimination System (the "NPDES") and the permittee abides by its terms. The Regional Water Board and private parties can enforce the CWA and the terms of the Stormwater Permit. Violations can result in significant civil penalties per pollutant per day, plus criminal fines, and attorney's fees. The City is a permittee under an NPDES permit (the "Stormwater Permit") issued by the Regional Water Quality Control Board – San Francisco Bay Region (the "Regional Water Board"). This Regional Stormwater Permit governs 76 entities, including the City. On May 11, 2022, the Regional Water Board adopted a new permit that was effective as of July 1, 2022 and is set to expire on June 30, 2027. The Storm Sewer Service and Use Charge rate has not increased since FY 2012. There are specific provisions in the Stormwater Permit that will increase the cost for the City and private property owners to comply. These permit requirements include green stormwater infrastructure for new development and redevelopment, roadway, trail and utility projects; regional level water quality monitoring for green infrastructure, trash outfall and in-stream monitoring; regulating polychlorinated biphenyls during demolition and certain industrial properties; water quality impacts due to firefighting emergency response operations; mapping and regulation of the impact from unhoused populations near stormwater systems and waterways near receiving waters; an annual report analyzing the ongoing programmatic, capital, operation and maintenance cost to comply with the Stormwater Permit; and development of an asset management plan that includes operations and maintenance with life cycle costs to comply with the Stormwater Permit.

Federal Defunding Litigation. On February 27, 2025, San Jose joined as a plaintiff in the case of *City and County of San Francisco, et al., v. Donald J. Trump, et al*. which was filed in the U.S. District Court for the District of Northern California. In this action, sixteen cities and counties across the country challenge Executive Orders that threaten federal funding to jurisdictions with "sanctuary" policies.

On March 17, 2025, Plaintiffs filed a motion for preliminary injunction, seeking to enjoin the federal government from withholding or conditioning funds based on local policies related to immigration enforcement. In support of this motion, San José submitted declarations identifying approximately $6.2 million in grant funding expected to be received by SJPD through 2027 and approximately $52 million in grant funding expected to be received by the City's Housing Department through 2033. Other potential sources of federal funding are being evaluated.

On April 24 and May 3, 2025, the U.S. District Court (Northern District of California) issued Orders granting preliminary injunction to restrain and enjoin the Administration including all who are in active concert or participation from directly or indirectly taking any action to withhold, freeze, or condition federal funds from the cities and counties that filed the lawsuit based on certain provisions of the Attorney General's Memorandum dated February 25, 2025 entitled "Sanctuary Jurisdictions Directives", and Executive Orders 14159 and 14218 on the basis that these cities and counties have "sanctuary" policies. The Order would not prelude the withholding of federal funds based on other policy priorities or new conditions that have not been specifically litigated. On May 9, 2024, the Court issued another Order clarifying the preliminary injunction would also enjoin, in part, Executive Order 14287 issued on April 28, 2024, and any agency directive to the extent that it would attempt to cut off federal funding from Plaintiff cities and counties that are deemed "sanctuary" jurisdiction.

On May 2, 2025, eight counties and cities sought a preliminary injunction in the case of *King County, et al., v. Scott Turner, et al.* which was filed in the U.S. District Court for the Western District of Washington. The lawsuit challenged new grant conditions on Continuum of Care and transit grants imposed by the United States Department of Housing and Urban Development, and the Federal Transit Administration, respectively. The federal agencies conditioned federal funding on compliance with new conditions including immigration enforcement, and elimination of diversity equity and inclusion policies and programs. The court held a hearing on May 21, 2025 and granted the motion for preliminary injunction. That same day, San Jose joined as a plaintiff in an amended complaint for declaratory and injunctive relief to include grants administered by the Department of Transportation and all subagencies. The case now comprises of 31 plaintiff public agencies including counties, cities, and authorities across the country.

Retirement Benefits Litigation. On November 30, 2016, twenty-one individuals who are retired members of the Federated City Employees' Retirement System (the "Federated Plan") and their spouses, a surviving spouse of a Federated Plan retiree and an association representing Federated Plan retired members or to-be-retired Federated Plan members, their qualified spouses, domestic partners, dependents and beneficiaries filed a claim against the City and the Federated Plan Board and have since filed a lawsuit against the City and the Board. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Internal Revenue Code Section 415 ("Section 415"). The lawsuit alleges that the City has failed to provide the plaintiffs with their fully earned vested retirement pension benefits as a result of the application of Section 415 limitations. The lawsuit further alleges that the City should have established a separate plan as allowed under Section 415 or should have taken other action to pay the plaintiffs with the amount of the compensation that would exceed the Section 415 limitations. The City has accepted the tendered defense of the Board.

Following a series of motions challenging the sufficiency of the allegations and the legal basis for the claims, on July 30, 2020, a Third Amended Complaint was filed, and the City answered that complaint. In June 2021, the Court granted summary judgment for the City as to all but two plaintiffs. Discovery continues and the remaining claims by these two plaintiffs are set for a court trial in May 2022. Those plaintiffs whose claims the Court denied have appealed the summary judgment ruling. Currently, the City is unable to state the potential exposure for damages in this case.

Measure H Litigation. The cardroom business and the City entered into a settlement agreement that was approved by the City Council on September 22, 2020. The settlement was contingent upon City voters approving a ballot measure presented in the November 3, 2020 election pertaining to cardroom operations and taxation, amendments to the City's gaming regulations under Title 16 of the Municipal Code, and approval from the City for at least fifteen (15) additional tables. The foregoing contingencies were met as of March 2, 2021; however, the cardroom has not dismissed the lawsuit. On July 18, 2023, the City filed a lawsuit for breach of the settlement agreement.

Measure H is the ballot measure which was part of the settlement of the regulatory fee litigation described above in the section entitled "Cardroom Litigation" which amended the City's Municipal Code to: increase the total number of tables permitted in the City from 98 to 128 and increase the number permitted at each cardroom from 49 to 64; increase the existing tax on gross revenues of the City's two cardrooms from 15% to 16.5% and impose a tax on the gross revenues of the entities that bank the card games played at the cardrooms, referred to as third party providers of proposition player services at varying rates depending on the amount of gross revenues, up to a maximum rate of 10%.

The voters approved the measure and on December 8, 2020, the City Council certified the results of the November 3, 2020 election. By its terms, the ordinance enacted by Measure H became effective 10 days after the City Council certified the results of the election with the tax provisions taking effect on January 1, 2021.

Since the passage in November 2020 of the City's Measure H, both cardrooms in the City and a third-party provider of proposition player services have filed separate reverse validation actions in the Santa Clara County Superior Court to stop the City from imposing the taxes described in the Measure. The Court issued an order on November 21, 2021, consolidating the three cases. The complaints allege that the Gambling Control Commission will likely reject any applications from cardroom businesses to increase the number of cardroom tables at their establishments, based on the comment letter provided by the State Department of Justice to the City. (The Gambling Control Commission did reject the cardrooms' applications on April 26, 2021.) The plaintiffs contend that the entire Measure therefore should be invalidated, and the City should not be allowed to impose the increased tax rate on the cardroom businesses or the applicable tax rates on third party providers of proposition player services. All of the complaints cite and attach a City staff report which estimated that the increased cardroom tax rate could generate $2 million and the tax on third party providers of proposition player services could generate $4 million in potential annual revenue for the City. [A further case management conference is scheduled for May 20, 2025.]

FLSA Litigation and Claims. Seven individual lawsuits pending in federal court cases brought by firefighters have been consolidated in the case entitled Barnett v. City of San Jose. Approximately 290 firefighters allege that the City failed to pay them adequate overtime under the Fair Labor Standards Act ("FLSA"). The trial took place on May 28, 2024, and on March 4, 2025, the Court issued its judgment in favor of Plaintiffs in the amount of $276,194.03. Plaintiffs made a motion for attorney's fees and costs in the amount of approximately $500,000. [The City must file any appeal on or before April 3, 2025.]

Police Civil Rights Cases. The City is defending several cases involving claims of police excessive force, wrongful arrest and/or other civil rights and state law violations. These include, but are not limited to, a lawsuit brought by several individuals alleging injuries attributed to police crowd control activity during protests in late May and early June 2020 after the death of George Floyd. Generally, these lawsuits allege various constitutional violations involving excessive use of force, failure to protect, failure to intervene, and violation of plaintiffs' First Amendment right to peacefully assemble and unlawful crowd control tactics including shooting projectiles at demonstrators.

The other civil rights cases involving the police department are in various procedural stages with trial dates in the next couple of years or in discovery and subject to motion practice. The cases, collectively, pose significant damages exposure if the City and/or officers are found liable or reach a settlement in those actions. Additionally, the City has exposure to the payment of the plaintiffs' attorneys' fees and costs.

Constitutional and Preemption challenges. The City is currently defending several lawsuits in which the City has a potential exposure to the payment of the attorneys' fee and costs if the City does not prevail. These include a lawsuit challenging the City's sign ordinance and multiple lawsuits challenging City's rental property ordinances on various Constitutional grounds. Currently, these cases are at various stages of litigation. The lawsuit involving the City's sign ordinance is in federal district court. The district court granted partial summary judgment in favor of the City, and the plaintiffs, with the remaining issues proceeding to trial. Two of the lawsuits concerning the City's rental property ordinances are stayed in federal district court while a third lawsuit also involving the City's rental property ordinances, in which the City prevailed in the trial court and on appeal in the Ninth Circuit. Plaintiffs have filed a petition with the U. S. Supreme Court seeking review of the appellate decision. Collectively, the City's exposure to attorneys' fees and costs could be significant should the City ultimately not prevail in the various cases.

Dangerous condition of public property cases. The City frequently receives claims and lawsuits by individuals alleging City owned or controlled property, including roads, intersections, sidewalks, lighting, trees, wastewater and stormwater systems, and other City activity, caused or contributed to property damage, injury, or death. Collectively, these cases have the potential for significant exposure to liability for personal injury and property damages; however, the City is unable to estimate the likelihood or quantify its potential exposure due to such claims.

Other Significant Proceedings

State Tax Revenue. The City was informed by the State of California in October 2021 that a portion of the City's previous and current tax revenues could be significantly lower. While the City disputes and appealed the State's initial determination, this action could negatively impact the City's General Fund outlook in the short and long-term. Although the appeal process may extend beyond next fiscal year, the City budgeted for the potential loss in the ongoing revenue for FY 2025-2026 and put resources in place to be in a better position to absorb any loss over the next year.

Clean Water Compliance The federal Clean Water Act (the "CWA") establishes the structure for federal regulation of the discharge of pollutants into the waters of the United States. Under the CWA, it is unlawful to discharge any pollutant into these waters unless the discharger has a permit under the National Pollutant Discharge Elimination System (the "NPDES") and the permittee abides by its terms. The City is a permittee under an NPDES permit (the "Stormwater Permit") issued by the Regional Water Quality Control Board – San Francisco Bay Region (the "Regional Water Board"). The current Stormwater Permit was adopted by the Water Board on May 11, 2022, became effective July 1, 2022, and is set to expire on June 30, 2027. The Stormwater Permit specifies actions necessary to prohibit non-stormwater discharges into the municipal storm sewer system and waterways to protect local creeks and the San Francisco Bay. The Regional Water Board and private parties can enforce the CWA and the terms of the Stormwater Permit. Violations can result in significant civil penalties per pollutant per day, plus criminal fines, and attorney's fees.

Consent Decrees

Consent Decree with San Francisco Baykeeper. San Francisco Baykeeper ("Baykeeper") filed a lawsuit in federal district court against the City in February 2015. Baykeeper's complaint alleged violations of the Clean Water Act ("CWA") and the Stormwater Permit. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements, and that there were CWA violations resulting from the discharge of sewage from the City's Sanitary Sewer System that infiltrated into the City's municipal separate storm sewer systems ("MS4"). To settle the lawsuit, the City and Baykeeper agreed to a consent decree that was approved by the U.S. District Court in August 2016 (the "Consent Decree"). The Consent Decree has a 10-year term expiring in August 2026 and will require the City to:

- Comply with trash provisions of the current Stormwater Permit including installing full trash capture devices, supporting additional creek cleanup efforts, and monitoring of trash in receiving waters;
- Rehabilitate, replace, or repair 65 miles of high-risk sanitary sewer system pipes at an average of 6.5 miles per year, based on the City's existing program with some changes in the priority of segments of this work;
- Monitor and report fecal indicator bacteria ("FIB") in receiving waters for a five-year period;
- Comply with green infrastructure planning as required in the Stormwater Permit, adding FIB as a pollutant for planning purposes;
- Bring forward new revenue measure options for Council consideration by December 31, 2017;
- Appropriate, contingent upon the receipt of sufficient new revenues, $100,000,000 over a ten-year period for acquisition of land, review, design, construction,

maintenance, and operation of various green infrastructure projects with the goal of reducing pollutants and/or flows from the City's urban areas into receiving waters, with expenditures anticipated to occur as follows:

- Identify and design $25,000,000 in total projects by September 2024;
- Award $25,000,000 in total projects by September 2025;
- Identify and design an additional $10,000,000 ($35,000,000 in the aggregate) in total projects by September 2025;
- Award an additional $10,000,000 ($35,000,000 in the aggregate) in total projects by the termination date of the consent decree; and
- Identify and design an additional $15,000,000 ($50,000,000 aggregate) in total projects by the termination date of the consent decree.

In addition to the expenditures outlined above, the City has incurred or will incur the following expenditures during the Consent Decree's term: (1) lump sum payment of attorney's fees and costs to Baykeeper in the amount of $425,000, which payment has been made; (2) ongoing oversight costs payable to Baykeeper in the amount of $10,000 per year for a total of $100,000; and (3) $200,000 per year for five years (a total of $1 million) for supplemental environmental mitigation for trash clean up grants, habitat restoration, or projects that generally improve the water quality in the Guadalupe and Coyote creeks and associated watershed areas. The City is in compliance with these payments under the Consent Decree.

The City and Baykeeper entered into a First Amendment and Second Amendment to the Consent Decree in 2017 and 2019, respectively. Both Amendments were approved by the Court and made technical changes to the terms of the Consent Decree but did not modify the substantive requirements itemized above.

The Consent Decree requires that by December 31, 2020, the City identify funding sufficient to implement the green infrastructure projects and meet the FIB load reduction standard. If it did not meet this deadline, the parties were required to meet and confer to discuss what measures the City will take to insure funding. In addition, by December 31, 2020, the City was required to obtain funding to implement the green infrastructure projects. The City believes it has identified funds to implement the Consent Decree, and fulfilled its meet and confer obligations, but is unable to make any representations regarding Baykeeper's interpretation of the Consent Decree. In the event of a dispute between Baykeeper and the City, the Consent Decree provides for a resolution process that includes ongoing judicial oversight. The Consent Decree also specifies limits on the ability to pursue additional litigation against the City during its 10-year term and caps litigation fees for dispute resolution at $200,000.

On December 19, 2017, the City Council considered a report from City staff concerning potential new revenue sources to fund the green infrastructure requirements specified in the Baykeeper Consent Decree described above. The City identified potential revenues of general obligation bonds and a parcel tax, both of which would require voter approval by a two-thirds margin. In November 2018, voters approved Measure T by the appropriate margin, and the City Council subsequently approved $25 million of these funds to be allocated for clean water projects, including green infrastructure improvements. There are Consent Decree obligations that would be ineligible for funding from general obligation bond proceeds and staff continues to assess additional funding mechanisms.

Potential projects identified in the Green Infrastructure Plan (the "GIP") require further review and approval. The total construction and maintenance costs will be dependent on several factors including, among others, future costs of construction, whether the project will be on City-owned property or required as part of a future private development. The City's GIP forecasts green stormwater projects and goals through 2050. The City further estimates that complete implementation and maintenance of the potential projects over the course of the thirty-year plan may be on the magnitude of $6.85 billion. The new Stormwater Permit (effective July 1, 2022) includes requirements for green infrastructure sufficient to treat 5 acres, which the City will be able to meet based on the existing projects and the schedule in the Consent Decree. The City will continue to explore funding opportunities and strategies for the implementation of the GIP.

The City is not able to predict the projects that will ultimately be approved or whether they will be funded for the GIP. In addition, the City is unable to predict whether Baykeeper's interpretation of the Consent Decree will align with the City's interpretations or the Regional Water Board's NPDES Permit.

Curb Ramp Consent Decree. Plaintiffs filed a class action lawsuit in the case of *Lashbrook v. City of San Jose* in the United States District Court for the Northern District of California. This lawsuit alleged that the City violated federal and state disability access laws by failing to ensure that its pedestrian right of way contains curb ramps that are necessary to ensure that the pedestrian right of way is accessible to individuals with mobility disabilities. On April 14, 2020, the City Council approved a proposed settlement of this case in the form of a consent decree whereby Mr. Lashbrook will recover a total of $55,000. The City will pay attorney's fees and costs in the amount of $725,253.09. The City will be required to expend $13 million each year until 2030 to remediate curb ramps, and after 2030 will expend 10% of its pavement maintenance budget to remediate curb ramps, which is accounted for within the City's pavement maintenance budget. The Court preliminarily approved the consent decree on May 27, 2020. At a Fairness Hearing on September 2, 2020, the Court granted final approval of the consent decree. The City is in compliance with the terms of this consent decree.

PART 2: DEMOGRAPHIC AND ECONOMIC INFORMATION

Introduction

The City of San José is a charter city that has operated under a council-manager form of government since 1916. The City is the oldest city in the State, developing from a Spanish pueblo established in 1777, and is the county seat of the County. The City encompasses approximately 180 square miles, in the Santa Clara Valley at the southern tip of San Francisco Bay, approximately 48 miles south of San Francisco and 40 miles south of Oakland. As of January 1, 2025, the City's estimated population totaled approximately 980,000, making the City the third most populous city in the State and the thirteenth most populous in the United States.

The City has transformed from the agricultural setting of its early years into the largest city in the Silicon Valley. Silicon Valley is a region in the Southern San Francisco Bay Area of Northern California which serves as a global center of high technology and innovation. Silicon Valley corresponds roughly to the geographical Santa Clara Valley. Silicon Valley is home to many of the world's largest technology companies, including Adobe Systems, Inc., Apple Inc., Cisco Systems, Inc., eBay, Inc., Google, Inc., Hewlett-Packard, IBM, Intel Corporation, Intuit Inc., LinkedIn, McAfee Corp., Meta Platforms, Inc., Netflix, Inc., Nvidia, PayPal Holdings, Inc., Super Micro, Tiktok, and

Zoom Video Communications, Inc. Retail, professional, high-tech advanced manufacturing, electronic assembly, and service businesses all have a presence in the City.

The economic and demographic information below is provided as general background. Although it has been collected from sources that the City considers to be reliable, the City has made no independent verification of the information provided by non-City sources and the City takes no responsibility for the completeness or accuracy thereof. The current state of the economy of the City, the County, the State and the United States of America may not be reflected in the data discussed below, because more up-to-date information is not publicly available.

Population

The following table presents population statistics for the City, the County and the State for calendar year 2000, and the five most recent calendar years available.

TABLE A-31
CITY, COUNTY AND STATE POPULATION STATISTICS (1)

Year	*City of San José*	*County of Santa Clara*	*State of California*
2000	895,131	1,682,585	33,873,086
2021	994,319	1,913,594	39,369,530
2022	970,089	1,894,827	39,179,680
2023	978,546	1,915,165	39,228,444
2024	980,714	1,921,406	39,420,663
2025	979,415	1,922,259	39,529,101

(1) As of April 1 for 2000 based on the Census benchmarks for such years. Estimated as of January 1 for other years with 2020 Census Benchmark.
Source: U.S. Census Bureau (1960-2010), California Department of Finance (2021-2025).

Employment

The following table summarizes the average number of employed and unemployed residents of the City and the County, based on the annual "benchmark," an annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. "Benchmark" data is typically released in March for the prior calendar year.

TABLE A-32
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF RESIDENT LABOR FORCE (1)
(in thousands)

	2020	***2021***	***2022***	***2023***	***2024***
<u>Civilian Labor Force</u>					
City of San José					
Employed	487,800	490,800	510,100	511,400	508,900
Unemployed	44,600	28,600	15,500	19,700	23,300
Total(2)	532,400	519,300	525,500	531,100	531,900
County of Santa Clara					
Employed	929,100	938,600	981,200	985,800	980,900
Unemployed	72,900	48,700	28,100	36,200	42,300
Total(2)	1,002,000	987,300	1,006,200	1,021,900	1,023,200
<u>Unemployment Rates</u>					
City	8.2%	5.4%	2.9%	3.7%	4.3%
County	7.1%	4.8%	2.7%	3.5%	4.1%
State	10.1%	7.3%	4.3%	4.8%	5.4%
United States	8.5%	5.2%	3.6%	3.6%	4.0%

(1) Not seasonally adjusted.
(2) Totals may not add due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division for City, State and County; United States Department of Labor, Bureau of Labor Statistics for the U.S.

The County is included in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (the "MSA"). The distribution of employment in the MSA is presented in the following table for the most recent calendar years available. These figures are multi county-wide statistics and may not necessarily accurately reflect employment trends in the County.

TABLE A-33
SAN JOSE-SUNNYVALE-SANTA CLARA MSA
INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES

	2020	*2021*	*2022*	*2023*	*2024*
Civilian Labor Force	1,033,900	1,020,000	1,043,000	1,056,200	1,057,600
Civilian Employment	957,800	969,100	1,013,300	1,018,100	1,013,100
Civilian Unemployment	76,100	51,000	29,700	38,100	44,400
Civilian Unemployment Rate	7.4%	5.0%	2.9%	3.6%	4.2%
Agriculture	5,300	5,000	4,800	4,700	4,800
Mining & Logging	200	200	200	200	200
Construction	50,100	51,700	53,800	53,900	53,200
Manufacturing	125,600	125,700	133,200	131,100	125,300
Trade, Transportation & Utilities	116,800	117,200	119,200	119,400	117,300
Information	105,900	107,100	106,000	97,700	94,000
Financial Activities	38,000	38,400	38,100	37,800	36,600
Professional & Business Services	277,800	284,100	295,700	290,400	286,000
Private Education & Health Services	172,700	178,400	187,000	197,100	208,700
Leisure & Hospitality	73,100	79,000	96,700	101,900	103,400
Other Services	22,100	22,800	25,400	26,500	27,400
Government	93,900	93,300	95,800	98,000	100,100
Total, All Industries	1,081,500	1,102,800	1,155,800	1,158,700	1,157,000

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found in this Appendix A. 2024 data is preliminary, partially reflecting March 2024 Benchmark.

Source: State of California, Employment Development Department, San José-Sunnyvale-Santa Clara Metropolitan Statistical Area Industry Employment & Labor Force - by Annual Average, March 2024 Benchmark.

Major Employers

The following table provides a listing of the ten largest employers based on number of employees in the City as of June 30, 2024.

TABLE A-34
CITY OF SAN JOSE
TEN LARGEST EMPLOYERS
AS OF JUNE 30, 2024

Employer	*Number of Employees*	*Percent of Total Employment*
County of Santa Clara	22,732	4.39%
City of San José	8,262	1.60%
Cisco Systems	7,500	1.45%
Adobe Systems Inc.	4,100	0.79%
San José State University	4,086	0.79%
Kaiser Permanente	3,969	0.77%
San José Unified School	3,609	0.70%
eBay Inc.	3,088	0.60%
Paypal Inc.	2,808	0.54%
Broadcom	2,736	0.53%
TikTok	2,601	0.50%
Target Stores	2,437	0.47%
Super Micro Computer	2,422	0.47%
IBM Corporation	2,300	0.44%
Western Digital	2,159	0.42%

Source: City of San José Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024.

Personal Income

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

The following table summarizes the personal income for the MSA for 2014 through 2023.

TABLE A-35
SAN JOSE-SUNNYVALE-SANTA CLARA MSA
PERSONAL INCOME [(1)]

Year	*San José-Sunnyvale-Santa Clara MSA*	*Percentage Change*
2014	$148,809,515	N/A
2015	164,046,558	10.24%
2016	177,759,101	8.36
2017	193,230,025	8.70
2018	210,975,411	9.18
2019	222,231,270	5.34
2020	239,211,165	7.64
2021	275,499,612	15.17
2022	272,265,064	(1.17)
2023	288,043,225	5.80

(1) All dollar estimates are in thousands of current dollars (not adjusted for inflation). Statistics presented in thousands of dollars do not indicate more precision than statistics presented in.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following table summarizes the personal income for the County for 2014 through 2023.

TABLE A-36
COUNTY OF SANTA CLARA
PERSONAL INCOME [1]

Year	*County of Santa Clara*	*Percentage Change*
2014	$146,464,866	N/A
2015	161,471,908	10.25%
2016	175,007,448	8.38
2017	190,293,049	8.73
2018	207,881,196	9.24
2019	218,812,289	5.26
2020	235,302,372	7.54
2021	271,348,449	15.32
2022	268,052,614	(1.21)
2023	283,522,548	5.77

(2) All dollar estimates are in thousands of current dollars (not adjusted for inflation). Statistics presented in thousands of dollars do not indicate more precision than statistics presented in.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following table summarizes per capita personal income for the MSA, the County, California and the United States for 2014 through 2023. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

TABLE A-37
PER CAPITA PERSONAL INCOME
SAN JOSE-SUNNYVALE-SANTA CLARA MSA, COUNTY OF SANTA CLARA
STATE OF CALIFORNIA AND THE UNITED STATES

Year	*San José-Sunnyvale-Santa Clara MSA*	*County of Santa Clara*	*California*	*United States*
2014	$79,956	$77,043	$50,617	$46,289
2015	82,588	83,758	53,816	48,062
2016	88,787	90,091	55,862	48,974
2017	96,161	97,638	58,214	51,006
2018	104,819	106,551	60,984	53,311
2019	110,733	112,573	64,219	55,567
2020	119,863	121,845	70,098	59,153
2021	141,146	143,938	76,882	64,460
2022	139,912	142,708	76,941	66,244
2023	148,036	151,003	91,255	69,810

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Retail Sales

Commercial activity is an important contributor to the City's economy. The following table shows taxable sales within the City for the five most recent calendar years available.

Table A-38
CITY OF SAN JOSE
TAXABLE SALES BY BUSINESS TYPE
($ in thousands)

Business Type	*2019*	*2020*	*2021*	*2022*	*2023*
Motor Vehicle and Parts Dealers	$2,309,185	$2,026,211	$2,379,039	$2,358,499	$2,200,185
Home Furnishings and Appliance Stores	753,316	655,593	891,991	1,138,681	1,440,170
Building Material, Garden Equip. & Supplies	1,049,711	1,142,685	1,229,331	1,299,220	1,161,079
Food and Beverage Stores	612,960	660,987	647,448	663,754	678,316
Gasoline Stations	1,194,716	745,609	1,069,656	1,390,881	1,213,792
Clothing and Clothing Accessories Stores	1,013,635	584,696	1,059,339	1,171,435	1,157,398
General Merchandise Stores	1,359,673	1,196,342	1,416,889	1,617,722	1,595,912
Food Services and Drinking Places	2,249,724	1,461,387	1,958,852	2,395,353	2,581,925
Other Retail Group	1,804,540	4,982,003	5,064,453	4,620,494	4,563,202
Total Retail and Food Services	12,347,459	13,455,513	15,716,996	16,655,939	16,591,979
All Other Outlets	4,804,076	39,811,878	4,786,291	6,174,572	6,236,855
Total All Outlets	$17,151,535	$17,436,701	$20,503,288	$22,830,512	$22,828,834

Source: California Department of Tax and Fee Administration.

Construction Activity

The following table provides a summary of residential and nonresidential building permit valuations, and total number of building permit valuations in the City during the past five years for which information is available.

TABLE A-39
CITY OF SAN JOSE
BUILDING PERMIT ACTIVITY
($ in thousands)

	2020	*2021*	*2022*	*2023*	*2024*
Permit Valuation (1)					
Residential	$372,385,615	$369,999,596	$356,849,721	$490,907,751	$488,513,548
Non-Residential	1,920,231,132	785,971,334	1,362,697,648	784,840,238	2,196,376,223
Total	$2,292,616,748	$1,155,970,929	$1,719,547,369	$1,275,747,989	$2,684,889,771
New Dwelling Units					
Single Family	504	584	546	507	602
Multi-Family	1,196	1,105	1,448	1,588	1,520
Total	1,700	1,689	1,994	2,095	2,122

(1) Valuation figures are adjusted to 2024 dollars (December 2024 San Francisco-Oakland-Hayward Consumer Price Index).
Source: City of San José, Department of Planning, Building and Code Enforcement.

Home Sale Prices

The following table shows the average monthly median price for a single-family home in the City for the ten previous calendar years for which information is available.

TABLE A-40
CITY OF SAN JOSE
AVERAGE MONTHLY MEDIAN PRICE OF SINGLE-FAMILY HOME

Calendar Year-End	*Average Median Price*	*Percentage Change*
2014	$ 755,000	8.9%
2015	835,000	10.6
2016	890,000	6.6
2017	1,000,000	12.4
2018	1,180,000	18.0
2019	1,100,000	(6.8)
2020	1,230,000	11.8
2021	1,415,000	15.0
2022	1,550,000	9.5
2023	1,525,000	(1.6)
2024	1,660,888	8.9

Source: Santa Clara County Association of Realtors.

Education

Residents of the City are highly educated. According to the United States Census Bureau's American Community Survey for 2023, approximately 48% of the City's population aged 25 and older have a bachelor's degree or higher, compared to approximately 38% in the State and approximately 36% in the United States.

The California Department of Education lists about 320 public, charter and private schools serving the residents of San Jose. They are distributed across 21 districts, many of which cross municipal boundaries, and the Santa Clara County Office of Education.

In addition, there are seven community colleges in the County, including two located in the City. The colleges are within four community college districts (San José-Evergreen, Foothill-DeAnza, Gavilan Joint, and West Valley-Mission). Major universities in the County include Stanford University, Santa Clara University, and San José State University.

Transportation

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

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

Public Transportation. The Santa Clara Valley Transportation Authority (the "VTA") provides public transit service throughout the County. VTA partners with Altamont Commuter Express and Caltrain, a commuter rail service, to provide commuter rail service, with Santa Cruz Metro to provide regional bus service from Santa Cruz to Downtown San José, and with the Dumbarton Express for bus services between the East Bay and northern Santa Clara County work centers and communities.

Caltrain runs from Gilroy through the City and north to San Francisco. Caltrain's weekday trains include Baby Bullet express route trains that travel from the City to San Francisco in less than an hour.

In 2019-2020, the Bay Area Rapid Transit District ("BART") completed the first phase of its extension into Santa Clara County, opening stations at Milpitas and Berryessa/North San José. The second phase of BART's extension project consists of a six-mile extension from the Berryessa/North San José station through downtown San José, and includes stations at 28th Street/Little Portugal, Downtown San José, Diridon Station, and Santa Clara. The second phase is currently anticipated to be completed in 2036.

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

For fiscal year 2023-2024, the Airport served a total of 11.9 million passengers, comprising approximately 5.9 million enplanements and 6 deplanements, which represents a decrease of 1.5% from the previous fiscal year. As of June 30, 2024, 10 carriers provided scheduled passenger service to 41 destinations, including eight mainline carriers and two international carriers. During Fiscal Year 2023-2024, passengers flying through the Airport represented approximately 16% of the Bay Area market share, while San Francisco International Airport and Oakland International Airport represented approximately 69% and 15%, respectively, of the Bay Area market share.

Recent Economic Development Activities

The following information is provided as general background. Although it has been collected from sources that the City considers to be reliable, the City has made no independent verification of the information provided by non-City sources and the City takes no responsibility for the completeness or accuracy thereof. No assurance can be provided that the projects described below will be completed nor that the described trends are indicative of future results.

Recent Trends. In recent years, San José has experienced development in the residential, retail and industrial sectors. However, commercial office development faces uncertainty due to weak demand for office space and high vacancy rates.

Residential new construction assessed values totaled $382 million in Fiscal Year 2023-2024, representing an increase of 64% compared to the prior year and above the five-year historical average. Since July 2022, more than 3,000 housing units have been completed across the City. The City estimates that an additional 5,000 housing units are under construction. The increase in residential construction has been driven by affordable multifamily housing development.

Industrial permit activity increased in Fiscal Year 2023-2024. The City estimates that over 1.2 million square feet of industrial properties are currently under construction. Demand for warehouse, logistics, and advanced manufacturing development also appears to remain high. As the fourth quarter of 2024, industrial and research and development properties had vacancy rates of 3.5% and 13.5%, respectively.

As of the fourth quarter of 2024, retail space vacancy declined to about 4.5%, signaling potential demand for retail development. Data centers are expected to drive new commercial development, particularly in response to artificial intelligence (AI) infrastructure demand. Remote work, corporate layoffs, and evolving business models have contributed to stagnant office demand. Office vacancy rates remain elevated at approximately 22.5%.

The City's annual Development Activity Highlights and Five-Year Forecast report (dated February 2025) predicts minimal growth in residential development for the next five years. Single-family home construction is projected to remain below historical averages. In the commercial sector, overall new construction is expected to be positively impacted by demand for data centers with modest increases. However, new office construction is expected to remain weak if vacancy rates remain high. The logistics, warehousing, and advanced manufacturing sectors are expected to drive demand for industrial construction, particularly for facilities supporting retail, tech, manufacturing and innovation economies.

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

The San Jose City Council recently approved both a Downtown Highrise Residential Incentive program for 10,000 units and a Downtown Office Incentive program that waives business tax and parking fees for leases or purchases over 2,500 square feet. Since 2020, approximately 2,000 residential units including affordable and market-rate have been built. There is an estimated 4,000 approved residential units proposed for development in Downtown.

Other recent developments in the downtown district include the following:

- *Keystone Hotel.* In April 2025, the Keystone Hotel, a Marriott TownePlace Suites branded hotel, with 175 rooms opened to the public. It is the first new hotel property in the Downtown area since 2017.

- *The Fay.* The Fay completed construction in December 2024, rising 23 stories with 336 market-rate rental units.

- *200 Park*. In 2023, the Jay Paul Co., a privately held real estate development firm, completed construction of a 16-story tower comprising 875,000 square feet, making it the largest single office building in Downtown. The building remains unleased.

- *Adobe North Tower.* In 2023, Adobe completed construction of a fourth office tower in Downtown San José, to serve as office space for Adobe's employees. Adobe, a provider of cloud-based software and services, already owns a three-tower campus in the Downtown area that serves as Adobe's headquarters. It provides enough capacity for up to 4,000 Adobe employees.

North San José. North San José, the City's main employment district traditionally known for housing major companies like Broadcom, Maxim Integrated Products, and Cadence Design Systems continues to see significant development activity with over 1.62 million square feet of industrial and research and development space under review, and substantial commercial, residential, and office spaces progressing through various planning stages.

The STACK Infrastructure Data Center, under construction since 2022, includes two data centers totaling 522,000 sq ft, a 137,000 sq ft manufacturing building, a parking structure, an electrical substation, and 15 commercial condominiums. The construction of the STACK Infrastructure Data Center is anticipated to be completed in 2026.

Several data centers are also located in North San José, including leases of Supermicro Computer (over 380,000 sq ft), Equinix Data Center (over 240,000 sq ft), Nutanix (over 215,000 sq ft), Astera Labs (over 154,000 sq ft), Sanmina Corporation (over 120,000 sq ft), and NVIDIA (over 100,000 sq ft).

West San José. West San José is anchored by retail and mixed-use developments. Valley Fair Mall, a central retail hub with over 200 shops, completed a 650,000 square-foot expansion in mid-2020. Anchor tenants include department stores such as Nordstrom and Macy's, a flagship Apple Store, Eataly—a 40,000-square-foot Italian market and food hall destination—and brands like Louis Vuitton, Tiffany & Company, Gucci, and Prada. Additionally, the mall features several restaurants including Din Tai Fung and Maestro's Steakhouse. A portion of Valley Fair lies within the City of Santa Clara.

Directly across from Valley Fair, the mixed-use Santana Row development continues its growth under Federal Realty Investment Trust, featuring 622 residential units, a 212-room hotel (Hotel Valencia), 360,000 square feet of office space, and 650,000 square feet of retail space. Santana Row is home to various corporate tenants, including Cisco and NetApp headquarters. It also includes several restaurants and retail shops. Federal Realty Investment Trust has also entitled a nearly 1-million-square-foot office campus named Santana West, located on a 13.4-acre site across from Santana Row to be completed in multiple phases. The first phase of the campus consisting of a 350,000-square-foot office building, was completed in 2022. The City is informed that the building's current occupancy rate is approximately 85% and that the tenants include PwC and Couchbase.

Bascom Gateway Station is a mixed-use development in West San José that is anticipated to be completed in 2025. When completed, Bascom Gateway Station is expected to include over 200,000 square feet of commercial space and approximately 500 residential units.

Other significant projects underway in West San José include a new Costco near Westgate mall, Cambrian Plaza (378 residential units, 115,000 square feet commercial), and multiple residential projects along West San Carlos Street for around 1,000 new units (including approximately 80 affordable units). Federal Realty is also working towards further expansions of Santana Row for over 125,000 square feet of commercial and over 250 housing units.

South San José. South San José includes the Edenvale industrial district and Silver Creek Business Park. Recent development in South San José includes an Equinix Data Center totaling approximately 550,000 square feet. An additional 750,000 square feet of industrial space is under construction along Piercy Road.

Other recent development in South San José includes the 127 room Home2 Suites Hotel by Hilton on Silver Creek Valley Road Hotel completed construction in 2024. The semiconductor company Renesas is also completing an almost 250,000 square foot remodel of their facility on Silver Creek Valley Road and consolidating their Milpitas operation into this location.

Other significant projects underway include two new six story medical buildings along Samaritan Drive (314,000 square feet) and a new Kaiser Permanente outpatient facility (686,000 square feet).

East San José. While East San José does not currently anticipate new major industrial or office projects, the area continues to experience steady, community-focused economic growth, highlighted by ongoing commercial and residential development. Recent rezoning efforts have boosted allowable commercial space from 344,000 to 369,000 square feet, accommodating projects such as the newly completed Costco warehouse store and gas station. Additionally, Tesla, Inc. received approval for a 43,630-square-foot automotive sales and service facility.

Residential development, particularly mixed-use and affordable housing projects, continues to play a significant role in the development of East San José. Several mixed-use developments are currently under construction, including Villa Del Sol (194 affordable units and 3,000 square feet of commercial space), 1860 Alum Rock (60 affordable units and 3,200 square feet of commercial space), and 2884 Alum Rock (164 affordable units and 2,392 square feet of commercial space). In total, East San José has 382 market-rate units and over 1,220 affordable housing units in various stages of development, demonstrating the city's ongoing commitment to addressing housing affordability and density goals.

APPENDIX B

THE CITY OF SAN JOSE RETIREMENT PLANS

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INTRODUCTION

The information in this Appendix B is presented as general background information regarding the City of San José (the "City"). The Bonds are general obligations of the City payable from ad valorem taxes, and the City Council is empowered and is obligated to levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City without limitation of rate or amount (except certain personal property which is taxable at limited rates), as provided in the Fiscal Agent Agreement. Under the Fiscal Agent Agreement, the City is not obligated to pay debt service from any other sources. See "THE BONDS – Security for the Bonds" in the forepart of this Official Statement.

The information contained in this Official Statement concerning the Federated City Employees Retirement System (the "Federated Plan") and Police and Fire Department Retirement Plan ("Police and Fire Plan" and together with the Federated Plan, the "Retirement Plans") is derived in part from, among other sources, public information provided by the Retirement Plans and its independent accountants, actuaries and investment advisors. The Retirement Plans have not reviewed this Official Statement or approved its distribution, and no inference is intended or should be drawn that the Retirement Plans have reviewed or approved the distribution of this Official Statement or the issuance of the Bonds. The statements made in this Official Statement are solely the responsibility of the City.

Certain statements included or incorporated by reference in this Appendix B constitute "forward-looking statements." Such forward-looking statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet such forecasts in any way, regardless of the level of optimism communicated in the information. The City has no plans to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, do not occur, or change.

The information provided in this Appendix B is limited to the time periods indicated and reflect data, assumptions and other information available as of the indicated dates. It is not possible to predict whether the trends shown continued beyond the historical data set forth herein (certain of which may be subject to subsequent adjustment) will continue.

This Appendix B summarizes certain documents relevant to the Retirement Plans, including the City's Annual Comprehensive Financial Reports and the Retirement Plans' actuarial valuation reports. Such summaries do not purport to be comprehensive or definitive. All references in this Official Statement to documents are qualified in their entirety by reference to such documents. Copies of documents referred to in this Appendix B are available from the Finance Department – Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, California 95113; Phone (408) 535-7010; email: debt.management@sanjoseca.gov.

The City maintains several websites, including a website for the Office of Retirement Services. However, the information presented on the City's websites is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds. References to *website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience.*

See the caption entitled "GLOSSARY" at the end of this Appendix B for definitions and descriptions of certain terms used in relation to pension and healthcare plans.

SUMMARY OF RETIREMENT PLANS

General

All regular full-time employees of the City and certain part-time employees, except for certain unrepresented employees, participate in one of the two Retirement Plans established pursuant to the City Charter: the Federated Plan for non-sworn employees, and the Police and Fire Plan for sworn employees. The City does not participate in the Federal Social Security System.

Each Retirement Plan consists of a single-employer tax-qualified defined benefit pension plan and a postemployment healthcare plan. The single-employer tax-qualified defined benefit pension plans offered under the Federated Plan and the Police and Fire Pension Plan are referred to in this Appendix B as, the "Federated Pension Plan," and the "Police and Fire Pension Plan," respectively; and collectively, the "Pension Plans." The postemployment healthcare plan offered under the Federated Plan is referred to in this Appendix B as the "Federated Healthcare Plan." The respective postemployment healthcare plans offered for sworn police and fire personnel are referred to collectively as the "Police and Fire Healthcare Plan" and, together with the Federated Healthcare Plan, the "Healthcare Plans."

Each Retirement Plan is administered by its own Board of Administration (each, a "Board" and collectively, the "Boards"), and day-to-day operations are carried out by the City's Office of Retirement Services staff under the oversight by the Boards.

The Pension Plans offer a monthly pension benefit based on salary and length of service and, depending on the tier, provide either fixed or index-based cost of living increases. The Healthcare Plans are defined benefit plans that pay all, or a portion of, health and dental insurance premiums for eligible retirees and their survivors and dependents. The Healthcare Plans are closed to new members.

The Healthcare Plans consist of trusts (herein referred to as the Federated 115 Trust, the Police 115 Trust and the Fire 115 Trust and, collectively, the "Section 115 Trusts") formed under Section 115 of the Internal Revenue Code (the "Code") to supplement accounts previously established by the City under Section 401(h) of the Code (collectively, the "401(h) accounts" and each, a "401(h) account"). A single 401(h) account was established for each of the Federated Healthcare Plan and the Police and Fire Healthcare Plan. The 401(h) account for the Federated Healthcare Plan was depleted in Fiscal Year 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust.

Participation by covered employees in the Pension Plans is mandatory, except for employees excluded under the City Charter and executive management and professional staff hired after February 2013 who can make an irrevocable election into a 401(a)-retirement plan in lieu of the defined benefit retirement plans. For those employees who participate in the Pension Plans, participation in the Healthcare Plans is mandatory, except for members who participate in a Voluntary Employees'

Beneficiary Association (a "VEBA") or are hired or rehired after certain specified dates. See "– Healthcare VEBA Plans" below.

To fund healthcare and retirement benefits, the objective of the Retirement Plans is to meet their respective obligations through investment income and contributions. The City and its covered employees make regular contributions to the Retirement Plans. Contributions to the Pension Plans by the City and covered employees are actuarially determined. The San José Municipal Code (the "Municipal Code") specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City. Contributions to the Healthcare Plans by the City are actuarially determined while contributions by employees are determined based on rates established by the Municipal Code and the frameworks of the settlements entered by the City in connection with litigation relating to Measure B. See "– Measure B and Related Litigation."

Each Retirement Plan separately retains Cheiron, Inc. as actuary (the "Plan Actuary") to calculate and value current and future benefits, contribution rates, assets, liabilities, and other necessary information. The Plan Actuary provides annual actuarial valuation reports for each Retirement Plan and contributes to each Retirement Plan's Annual Comprehensive Financial Report.

Copies of the actuarial valuations of the Plan Actuary (including the actuarial reports for the Retirement Plans described herein) and other financial reports relating to the Retirement Plans are available from the Office of Retirement Services' website at https://www.sjretirement.com/. The information presented on such website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds. Reference to such website is for informational purposes only.

Governance

Each Retirement Plan is governed by a separate independent Board. The Retirement Plans are administered as entities separate from the City and for the benefit of the members of the Retirement Plans and their beneficiaries. The City Charter provides that the City Council shall establish by ordinance one or more retirement boards to administer the Retirement Plans in accordance with the fiduciary duties and obligations established by law, the City Charter, and as further prescribed by the Municipal Code. Additionally, the City Charter specifies that the term of membership, qualifications of the members and the size of each retirement board shall be prescribed by ordinance and that the members of each Board shall be appointed and removed by the City Council in a manner prescribed by ordinance.

The Board of the Police and Fire Plan (the "Police and Fire Board") consists of nine members appointed by the City Council. The Police and Fire Board's membership is composed of: (i) two City employees, one employed in the Police Department and one employed in the Fire Department, each recommended through an election of the employees of the respective departments who are members of the Police and Fire Plan; (ii) two retired Police and Fire Plan members, one retired from the Police Department and one retired from the Fire Department; and (iii) five public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the five public members is subject to interview and the recommendation of the Police and Fire Board.

The Board of the Federated Plan (the "Federated Board") consists of seven members appointed by the City Council. The Federated Board's membership is composed of: (i) two City employees recommended through an election of the members; (ii) a retired Federated Plan member; and (iii) four public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the four public members is subject to the recommendation of the Federated Board.

Members of the Boards serve four-year terms and may only be removed for cause as defined under the Municipal Code. Retired members on the Boards may not serve more than two consecutive terms unless no other retired member is recommended.

The Boards are authorized to perform the functions necessary to carry out the operation of the Retirement Plans, consistent with their fiduciary duties to the Retirement Plans. Under the Constitution of the State of California (the "State") and the Municipal Code, the assets of the Retirement Plans may only be used to provide benefits to plan participants and their beneficiaries and defray reasonable costs of administration. The Boards are empowered to make certain decisions regarding investment of funds, management of assets, disbursement of benefits, hiring of legal counsel and financial advisors. Under the City Charter, each Board is required to adopt a budget approved by the City Council covering the entire aggregate expense of administration of the respective Retirement Plan.

The Office of Retirement Services is administered by its Chief Executive Officer. Staff of the Office of Retirement Services includes the Chief Investment Officer who is broadly responsible for supporting the Boards in the execution of their investment programs. The Chief Executive Officer and Chief Investment Officer are City employees retained by, and serve at the pleasure of, the Boards. The Chief Executive Officer has appointing authority over the other staff in the Office of Retirement Services. The Charter excludes the Chief Executive Officer, Chief Investment Officer and the other investment professional staff within the Office of Retirement Services from participating in the City's Retirement Plans.

Each Board assigns subsets of board members to committees for audit, disability, governance, and investment. The committees meet at regular intervals to discuss matters of financial management, disability approvals, board governance and policies, and investment management. The Boards also share a joint personnel committee to discuss human resources related topics. The committees are authorized to decide on certain operational matters and make policy recommendations to the full Boards.

Measure B and Related Litigation

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act ("Measure B") amending the City's Charter to reform the City's retirement benefit plans to address rising costs. Measure B was subsequently the subject of various legal challenges. In November 2016, the voters approved the Alternative Pension Reform Act ("Measure F") that the City Council placed on the ballot as a result of settlement frameworks entered with the City's bargaining groups related to Measure B. The City Council adopted ordinances to implement the terms of the settlement frameworks and Measure F in February and May 2017. The City also approved a settlement in November 2017 in connection with a lawsuit brought by individual retirees and a retiree association. The legal challenges to Measure B have been resolved. Subsequent claims for attorneys' fees related to the settlement of the Measure B litigation brought by bargaining units against the City have also been settled and, to the knowledge of the City, no claims for attorneys' fees relating to such litigation remain outstanding. The City's current retirement system reflects the implementation of the related settlements, including the settlement frameworks approved under Measure F.

Healthcare VEBA Plans

In connection with the implementation of the settlements of litigation related to Measure B and the implementation of Measure F, the Healthcare Plans (which provide defined benefits to members) were closed to new members. In addition, the City established a defined contribution Voluntary Employee Benefit Association for eligible members of the Federated Healthcare Plan (the “Federated VEBA”) and eligible members of the Police and Fire Healthcare Plan (the “Police and Fire VEBA” and together with the Federated VEBA, the “VEBAs” and each a “VEBA” plan).

A VEBA is a tax-qualified healthcare trust fund under Section 501(c)(9) of the Internal Revenue Code. Funds placed in a VEBA account may be used to reimburse post-retirement out-of-pocket health care costs incurred by the participating member, their spouse and their qualified dependents. The funds that are contributed or reimbursed from a VEBA are pre-tax and are portable.

Members of the Retirement Plans are categorized into membership tiers based on the date the member entered the applicable Retirement Plan and whether certain prior service requirements were met at such time. See “– Membership Tiers.”

Tier 2 members of the Police and Fire Plan were automatically placed into the Police and Fire VEBA. Tier 1 members of the Federated Plan (except for Tier 1 Classic members hired on or after September 27, 2013), Tier 2A members of the Federated Plan, and Tier 1 members of the Police and Fire Plan were given an option to make a one-time irrevocable election to remain in the Police and Fire Healthcare Plan or opt into the applicable VEBA plan. The opt-in election period commenced on October 18, 2017, and ended on December 15, 2017. The retiree healthcare contributions of members who were automatically enrolled or elected to opt into a VEBA plan, as described above, were transferred from the applicable Healthcare Plan into individual VEBA accounts for each member.

Generally, Retirement Plan members who were hired before July 2013 and did not elect to opt into, or were not automatically transferred to, the applicable VEBA plan are eligible for defined benefit retiree healthcare benefits under the applicable Healthcare Plan. Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provided through the Healthcare Plan until the member is eligible for Medicare after exhausting all funds in their individual VEBA account. The City does not make contributions to the VEBAs.

In November 2017, the Internal Revenue Service (“IRS”) and City entered into a Closing Agreement whereby Tier 1 members of both the Police and Fire Healthcare Plan and the Federated Healthcare Plan, and Tier 2A members of Federated Healthcare Plan, were eligible for an irrevocable opt-out of the applicable Healthcare Plan into the VEBAs. The transfer of their retiree healthcare contributions (medical and dental) from the applicable Healthcare Plan to their individual VEBA accounts remained subject to further IRS approval. The IRS approved allowing eligible employees who are hired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the applicable Healthcare Plan to their individual VEBA accounts.

The VEBAs are not subject to the jurisdiction of the Boards and are instead administered by a five-member advisory committee, of which one member is appointed by the City Manager and four members are appointed by the City Council.

IRS Code Limitations on Pension Payments

The Retirement Plans are tax qualified plans and are subject to the Code requirements. The Code places limits on the amount of compensation on which a pension may be calculated for employees who are members of the Retirement Plans. Members of the Retirement Plans who became members before January 1, 1996, are not subject to the foregoing limit. Additionally, the Code caps the annual maximum pension payment that is subject to periodic adjustment based on a consumer price index. For 2025, the maximum annual payment is $280,000; however, the maximum amount is adjusted downward for certain employees, including for non-public safety employees who retire before the age of 62, depending on the employee’s age at retirement. Exceeding the maximum benefit payment limits places a pension plan at risk of receiving unfavorable tax treatment, which in turn, could subject the pension plan’s income to the payment of income taxes that would reduce the amount available for retirement benefits.

See “SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES – Potentially Significant Litigation – Retirement Benefits Litigation” in Appendix A of this Official Statement for information about pending litigation against the City and the Board regarding pension payments.

Membership Tiers

Members of the Retirement Plans are categorized into membership tiers based on the date the member entered the applicable Retirement Plan and whether certain prior service requirements were met at such time.

The following tables summarize the membership tiers within the Retirement Plans.

Table B-1
CITY OF SAN JOSE
FEDERATED PLAN
MEMBERSHIP TIERS

Tier	***Hire Date***	***Pension***	***Defined Benefit Retiree Healthcare (Medical/Dental)***
Tier 1	• On or before September 29, 2012 • Former Tier 1 rehired on or after June 18, 2017, who did not take a return of contributions	Tier 1	Medical/Dental(2)(4)
Tier 1 Rehire	• Former Tier 1 rehired on or after September 30, 2012, through June 17, 2017	Tier 1(1)	Medical/Dental(2)(4)(5)
Tier 1 Classic	• "Classic" membership with CalPERS /reciprocal agency hired on or after June 18, 2017	Tier 1(6)	Medical/Dental
	• "Classic" membership with CalPERS/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013	Tier 1(6)	Not Eligible(3)(4)
Tier 2 (or Tier 2A)	• Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013	Tier 2	Medical/Dental(2)(4)
Tier 2B	• Hired/rehired/reinstated on or after September 27, 2013, and have not met City's eligibility for retiree healthcare	Tier 2	Not Eligible(3)(4)

(1) Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.
(2) Employees in these tiers were provided a one-time irrevocable election to remain in the Federated Healthcare Plan or opt into the Federated VEBA. Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.
(3) Employees in these tiers were mandatorily placed into the Federated VEBA.
(4) Unrepresented employees were eligible to opt into the Federated VEBA but are not eligible to make ongoing contributions to the Federated VEBA.
(5) All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan on March 25, 2018.
(6) Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.

Source: City of San José Annual Comprehensive Financial Report for fiscal year ended June 30, 2024.

Table B-2
CITY OF SAN JOSE
POLICE AND FIRE PLAN
MEMBERSHIP TIERS

Tier	*Hire Date*	*Pension*	*Defined Benefit Retiree Healthcare (Medical/Dental)*
Police Tier 1	• Before August 4, 2013 • Former Tier 1 rehired on or after June 18, 2017, who did not take a return of contributions	Tier 1	Medical/Dental(2)(4)
Police Tier 1 Rehire	• Tier 1 employee rehired between August 4, 2013, through June 17, 2017	Tier 1(1)	Medical/Dental(2)(4)
Fire Tier 1	• Before January 2, 2015 • Former Tier 1 rehired on or after June 18, 2017, who did not take a return of contributions	Tier 1	Medical/Dental(2)(4)
Fire Tier 1 Rehire	• Tier 1 employee rehired between January 2, 2015, through June 17, 2017	Tier 1(1)	Medical/Dental(2)(4)
Tier 1 Classic	• "Classic" membership with CalPERS/reciprocal agency hired on or after August 4, 2013, for Police and January 2, 2015 for Fire	Tier 1(5)	Not Eligible
Police Tier 2	• On or after August 4, 2013	Tier 2	Not Eligible(3)(4)
Fire Tier 2	• On or after January 2, 2015	Tier 2	Not Eligible(3)(4)

(1) Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.
(2) Employees in these Tiers were provided a one-time irrevocable election to remain in the Police and Fire Healthcare Plan or opt into the Police and Fire VEBA. Employees that opted into the Police and Fire VEBA are not eligible for the Police and Fire Healthcare Plan. The Police and Fire VEBA was implemented on March 25, 2018.
(3) Employees in these tiers were mandatorily placed into the Police and Fire VEBA.
(4) Unrepresented employees were eligible to opt into a Police and Fire VEBA but are not eligible to make ongoing contributions to the Police and Fire VEBA.
(5) Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.
Source: City of San José Annual Comprehensive Financial Report for fiscal year ended June 30, 2024.

PENSION PLANS

Membership

The following table summarizes the membership of the Pension Plans as of June 30 of the years shown.

Table B-3
CITY OF SAN JOSE
PENSION PLANS
MEMBERSHIP

	June 30, 2023	*June 30, 2024*	*% Change*
Federated Pension Plan			
Retirees and beneficiaries receiving benefits (1)	4,626	4,657	0.7%
Terminated members (2)	2,019	2,131	5.5
Active members	4,048	4,301	6.3
Total	10,693	11,089	3.7
Police and Fire Pension Plan			
Retirees and beneficiaries receiving benefits (1)	2,598	2,651	2.0
Terminated members – Deferred vested	362	412	13.8
Active members	1,695	1,640	(3.2)
Total	4,655	4,703	1.0

(1) Retiree counts do not include combined domestic relations orders.
(2) Includes vested members entitled to future benefits and non-vested members that are due a refund of their contributions.
Source: City of San José Federated City Employees' Retirement System Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023, for Federated Pension Plan; City of San José Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023, for Police and Fire Pension Plan.

Benefits

The Pension Plans offer service retirement, disability retirement, survivor, and death benefits for members and their beneficiaries. The benefits available under the Pension Plans accrue throughout the time an employee engages in covered work for the City. Even though the benefits accrue during employment, certain age and service requirements must be attained to generate a retirement or other benefit upon retirement or termination of City employment. If met, an employee may elect to receive a monthly pension benefit, calculated by taking into account years of service, final compensation, and in certain instances, age at retirement.

The terms of the final benefit calculation and subsequent cost-of-living increases, if any, during retirement depend on the employee's membership tier within a Pension Plan. The pension benefits for employees in Tier 2 differ from those in Tier 1. In addition, the contribution rates for Tier 2 members are calculated based on a 50/50 split of all costs, including the unfunded actuarial liability (sometimes referred to herein as the "UAL"). Members in Tier 1 of a Pension Plan share a portion of the normal cost but generally do not contribute towards UAL costs.

The following tables summarize the benefit formulas (excluding early retirement) for the Pension Plans as of June 30, 2024.

Table B-4
CITY OF SAN JOSE
FEDERATED PENSION PLAN
BENEFIT FORMULAS

	Normal Retirement Age	*Minimum Vesting* [(1)]	*Allowance*	*Final Compensation*
Tier 1	55 with 5 years of service 30 years of service at any age	10 years of service	2.5% x years of service x final compensation (75% max)	Average monthly base pay in highest one year compensation [(2)]
Tier 2	62 with 5 years of Federated Plan covered service 55 with 5 years of Federated Plan covered service with reduction factor of 5% per year prior to age 62 prorated to closest month	5 years of Federated Plan covered City service	2.0% x years of Federated city service x final compensation (70% max)	Average monthly (or biweekly) base pay in highest consecutive three years of Federated City service compensation [(3)]

(1) Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from the plan.
(2) For separations that take place prior to July 1, 2001, final compensation is the highest average monthly base pay in highest consecutive three-year compensation.
(3) Excludes premium pay or any other forms of additional compensation.
Source: City of San José Federated City Employees' Retirement System Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Table B-5
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
BENEFIT FORMULAS

	Normal Retirement Age	*Minimum Vesting (1)*	*Allowance*	*Final Compensation*
Police Tier 1	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity must be 50 years of age) Mandatory retirement at 70 years of age	10 years of service	First 20 years of Service: 50% of final compensation (2.5% per year) 21-30 years of service: 4% per year of service x final compensation (90% max)	[Highest one-year average compensation, limited to 108% of second year prior to retirement]
Fire Tier 1	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity must be 50 years of age) Mandatory retirement at 70 years of age	10 years of service	First 20 years of service: 50% of final compensation (2.5% per year) Beginning 21st year of service: 3% x years of service x final compensation (90% max). All years convert to 3% after 20 years	[Highest one-year average compensation, limited to 108% of second year prior to retirement]
Police and Fire Tier 2	57 with 5 years of Police and Fire Department Plan covered service 50 with 5 years of Police and Fire Department Plan covered service with reduction by a factor of 7% per year prior to age 57 prorated to closest month	5 years of Police and Fire Department Plan covered service	First 20 years of service: 2.4% per year of service x final compensation. Beginning of 21st year: 3.0% x years of service x final compensation. Beginning of 26th year: 3.4% x years of service x final compensation. Maximum benefit is 80% of final compensation	Average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service

(1) Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from plan.

Source: City of San José Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Actuarial Liability

The following information is derived primarily from the City of San José Federated City Employees' Retirement System Actuarial Valuation Report as of June 30, 2024, prepared by the Plan Actuary (the "2024 Federated Pension Plan Actuarial Report") and the City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2024, prepared by the Plan

Actuary (the "2024 Police and Fire Pension Plan Actuarial Report"), the most recent actuarial valuations available for the Pension Plans.

Funded Status. To prepare the actuarial valuations, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates). In addition, when measuring assets, the Pension Plans "smooth" gains and losses to reduce the volatility of contribution rates over a five-year period to reduce the impact of short-term investment volatility on employer contribution rates. See "– Actuarial Assumptions" below for additional information regarding the assumptions and methods employed by the Plan Actuary.

The Pension Plans utilize an actuarial value of assets (sometimes referred to herein as "AVA") to determine on-going funding requirements, smoothing year-to-year value of returns to reduce volatility in contribution rates. The actuarial value of assets is calculated by recognizing the deviation of actual investment returns to the expected return (e.g. 6.75% for Fiscal Year 2019-2020, and 6.625% for Fiscal Years 2020-2021 through 2023-2024). The dollar amount of the expected return on the market value of assets is determined using the actual contributions, benefit payments, and administrative expenses during the year. Any difference between the expected return and the actual net investment earnings is considered a gain or loss.

The actuarial liability represents the expected amount of money needed today, if all assumptions are met, to pay for benefits attributed to service prior to the valuation date under the Entry Age actuarial cost method. As such, it is the amount of assets targeted by the actuarial cost method for the Pension Plans to hold as of the valuation date. It is not the amount necessary to settle the obligation. The funded status or funded percentage of a plan represents the proportion of the actual assets as of the valuation date compared to the actuarial liability as of the valuation date.

The actuarial and market value of assets and actuarial liability are intended to be used to assess contributions for an ongoing pension plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the obligations of a pension plan, like the Pension Plans, on a risk-free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial valuations and such deviations may be material.

The following tables summarize the actuarial liability and funded status of the Pension Plans as of June 30 of the years shown based on the market value and actuarial value of assets.

According to the Plan Actuary, if all assumptions are met in the future, including an expected return of 6.625% each year, the funding ratio of Federated Pension Plan is expected to reach about 97% by 2039. The Plan Actuary further reports that, if all assumptions are met, the funded status of the Police and Fire Pension Plan is expected to reach 100% by 2037.

Table B-6
CITY OF SAN JOSE
FEDERATED PENSION PLAN
ASSETS AND LIABILITIES ON ACTUARIAL BASIS
($ in thousands)

	June 30, 2023	*June 30, 2024*	*% Change*
Actuarial Liability	$4,965,668	$5,137,938	3.5%
Market Value of Assets ("MVA")	2,907,314	3,154,441	8.5
Unfunded Actuarial Liability – MVA Basis	2,058,354	1,983,497	(3.6)
Funded Percentage – MVA Basis	58.5%	61.4%	
Actuarial Value of Assets ("AVA")	2,889,956	3,116,847	7.9
Unfunded Actuarial Liability – AVA Basis	2,075,712	2,021,091	(2.6)
Funded Percentage – AVA Basis	58.2%	60.7%	

Source: City of San José Federated City Employees' Retirement System Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

Table B-7
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
ASSETS AND LIABILITIES ON ACTUARIAL BASIS
($ in thousands)

	June 30, 2023	*June 30, 2024*	*% Change*
Actuarial Liability	$5,908,554	$6,132,829	3.8%
Market Value of Assets	4,721,488	5,096,460	7.9
Unfunded Actuarial Liability – MVA Basis	1,187,066	1,036,369	(12.7)
Funded Percentage – MVA Basis	79.9%	83.1%	
Actuarial Value of Assets	4,739,742	5,013,631	5.8
Unfunded Actuarial Liability – AVA Basis	1,168,812	1,119,198	(4.2)
Funded Percentage – AVA Basis	80.2%	81.8%	

Source: City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

The following tables show the changes in the market value of assets of the Pension Plans for the Fiscal Years shown.

Table B-8
CITY OF SAN JOSE
FEDERATED PENSION PLAN
MARKET VALUE OF ASSETS
($ in thousands)

	June 30, 2023	*June 30, 2024*
Market Value, Beginning of Year	$2,708,026	$2,907,313
Plus: Contributions		
Member	30,561	33,933
City	199,440	218,313
Total	230,001	252,246
Plus: Net Investment Earnings	222,101	257,583
Less: Benefit Payments	(247,356)	(256,566)
Less: Administrative Expenses	(5,459)	(6,136)
Market Value, End of Year	2,907,313	3,154,440
Estimated Rate of Return	8.0%	8.9%

Source: City of San José Federated City Employees' Retirement System Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

The net investment earnings of the Federated Pension Plan for the year ended June 30, 2024, represent approximately an 8.9% return on the market value of assets compared to an assumed return of 6.625%. This return produced an investment gain of $65.3 million for the year ending June 30, 2024. For the year ended June 30, 2023, the net investment return was approximately 8.0% (6.625% was assumed), which produced an investment gain of $37.4 million.

Table B-9
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
MARKET VALUE OF ASSETS
($ in thousands)

	June 30, 2023	*June 30, 2024*
Market Value, Beginning of Year	$4,409,869	$4,721,488
Plus: Contributions		
Member	32,661	34,439
City	201,750	202,700
Total	234,411	237,139
Plus: Net Investment Earnings	359,863	437,637
Less: Benefit Payments	(275,823)	(291,954)
Less: Administrative Expenses	(6,832)	(7,850)
Market Value, End of Year	4,721,488	5,096,460
Estimated Rate of Return	8.0%	9.2%

Source: City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

The net investment earnings for the year ended June 30, 2024, represent approximately a 9.2% return on the market value of assets compared to an assumed return of 6.625%. For the year ended June 30, 2023, the net investment return was approximately 8.0% (6.625% was assumed).

The following tables show the funding progress for the Pension Plans as of June 30 for the years shown.

Table B-10
CITY OF SAN JOSE
FEDERATED PENSION PLAN
SCHEDULE OF FUNDING PROGRESS
($ in thousands)

Valuation Date (June 30)	***Actuarial Value of Assets***	***Actuarial Liability***	***UAL***	***Funded Percentage***	***Covered Payroll***	***UAL as % of Covered Payroll***
2015 (1)	$2,004,481	$3,569,898	$1,565,417	56%	$251,430	623%
2016 (2)	2,034,741	3,786,730	1,751,989	54	266,823	657
2017 (3)	2,101,435	3,923,966	1,822,531	54	287,339	634
2018 (4)	2,179,488	4,100,821	1,921,333	53	298,985	643
2019 (5)	2,228,802	4,200,708	1,971,906	53	313,310	629
2020 (6)	2,301,469	4,401,083	2,099,614	52	341,552	615
2021 (7)	2,513,095	4,562,981	2,049,886	55	359,061	571
2022 (8)	2,709,625	4,750,646	2,041,021	57	384,197	531
2023 (9)	2,889,956	4,965,668	2,075,712	58	436,391	476
2024 (10)	3,116,847	5,137,938	2,021,091	61	486,216	416

Source: City of San José Federated City Employees' Retirement System Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

Since 2014, the Federated Pension Plan's UAL increased approximately $697.8 million. The increase is primarily attributable to changes in assumptions (resulting in an increase of approximately $357 million), losses of actuarial liability (resulting in an increase of approximately $280 million), and net investment losses (resulting in an increase of approximately $165 million), offset by contributions in excess of normal cost plus interest on the UAL (resulting in a decrease of approximately $120 million).

Table B-11
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS
($ in thousands)

Valuation Date (June 30)	*Actuarial Value of Assets*	*Actuarial Liability*	*UAL*	*Funded Percentage*	*Covered Payroll*	*UAL as % of Covered Payroll*
2015	$3,212,776	$4,058,410	$845,634	79.2%	$184,733	458%
2016	3,303,550	4,355,990	1,052,440	75.8	194,072	542
2017	3,439,922	4,464,402	1,024,480	77.1	203,816	503
2018	3,596,590	4,696,428	1,099,838	76.6	218,429	504
2019	3,706,302	4,988,427	1,282,125	74.3	235,818	544
2020	3,851,948	5,235,335	1,383,387	73.6	240,798	575
2021	4,210,447	5,441,660	1,231,213	77.4	252,558	487
2022	4,495,687	5,650,481	1,154,794	79.6	263,395	438
2023	4,739,742	5,908,554	1,168,812	80.2	271,893	430
2024	5,013,631	6,132,829	1,119,198	81.8	285,349	392

Source: City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

Since 2014, the Police and Fire Pension Plan's UAL increased approximately $330 million. The increase is primarily attributable to changes in assumptions (an increase of approximately $280 million), losses of actuarial liability (an increase of approximately $252 million), and net investment losses (an increase of approximately $261 million), offset by contributions in excess of normal cost plus interest on the UAL (a decrease of approximately $468 million).

Methods and Assumptions. The Plan Actuary employs a variety of actuarial methods and assumptions to prepare actuarial valuations. To prepare the actuarial valuations for the Pension Plans, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates). Experience studies are performed by the Plan Actuary periodically to determine appropriate revisions to the actuarial assumptions. Actual results are compared with past expectations and new estimates are made about the future.

The following tables summarize certain methods and assumptions that were employed by the Plan Actuary in connection with the 2024 Federated Pension Plan Actuarial Report and the 2024 Police and Fire Pension Plan Actuarial Report.

Table B-12
CITY OF SAN JOSE
FEDERATED PENSION PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2024
Methods:	
Actuarial cost method	Entry Age
Amortization method	Level percent of pay, closed, layered
Amortization payment growth rate	2.75% compounded annually
Asset valuation method	5-year smoothing of return
Assumptions:	
Amortization payment growth rate	2.75% compounded annually
Discount Rate	6.625% net of investment expenses
Wage inflation(1)	Bargained increases for fiscal year 2024-2025, 3.5% effective July 1, 2025, and 3.00% thereafter
Price inflation	2.50%, compounded annually
Cost-of-Living Adjustments(2)	Tier 1-3.0% per year; Tier 2-1.25% - 2.0% per year depending on years of service

(1) In addition, merit salary increases ranging from 0.25% to 3.25% based on a participant's years of service are also assumed.
(2) Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with consumer price index and are capped at 1.25% to 2.0% depending on service.

Source: City of San José Federated City Employees' Retirement System Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Table B-13
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2024
Methods:	
Actuarial funding method	Entry Age
Amortization payment growth rate	2.50% per annum
Asset valuation method	5-year smoothing of return
Assumptions:	
Amortization payment growth rate	2.50% per annum
Discount Rate	6.625% net of investment expenses
Wage inflation (1)	Bargained increases and 3.00% per annum thereafter
Price inflation	2.50% per annum
Cost-of-Living Adjustments (2)	Tier 1-3.0% per year; Tier 2- CPI capped at 2.0% per year

(1) In addition, merit salary increases ranging from 0.60% to 6.50% based on a participant's years of service are also assumed.
(2) Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with consumer price index and are capped at 2.0%.

Source: City of San José Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Certain actuarial methods and assumptions listed in the previous tables are described below.

Actuarial Cost Method. The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. The normal cost and actuarial liability are calculated on an individual basis.

Amortization Method. The Tier 1 unfunded actuarial liability of the Federated Pension Plan as of June 30, 2009, is amortized over a closed 30-year period commencing June 30, 2009. Tier 1 actuarial gains and losses and plan changes are amortized over 20-year periods and Tier 1 assumption changes are amortized over 25-year periods beginning with the valuation date in which they first arise. Effective June 30, 2017, all prior assumption amortization base periods were increased by 5 years, so they have the same remaining period as if they had originally been amortized over 25 years. Amortization payments are scheduled to increase 2.75% each year.

The Tier 2 unfunded actuarial liability of the Federated Pension Plan as of June 30, 2017, is amortized over a closed 10-year period. Future Tier 2 actuarial gains and losses, assumption changes, and plan changes will be amortized over 10-year periods beginning with the valuation date in which they first arise. Amortization payments are scheduled to increase 2.75% each year.

For the Police and Fire Pension Plan, actuarial gains and losses and plan changes are amortized over a 15-year period (16 years prior to June 30, 2016) beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized over a 20-year period (16 years prior to June 30, 2011) beginning with the valuation date on which they are effective. Amortization payments are assumed to increase 2.5% each year.

Smoothing Methodology. When measuring assets, the Pension Plans "smooth" gains and losses to reduce the volatility of contribution rates over a five-year period to reduce the impact of short-term investment volatility on employer contribution rates. If in the one-year period prior to the annual actuarial valuation, the actual net investment return on the market value of assets of the respective Pension Plans is lower or higher than the actuarial assumed net rate of return, then 20% of the shortfall or excess is recognized each year when determining the recommended contribution rates for that actuarial valuation. As a result, the respective smoothed assets of the Pension Plans will be lower or higher than the plan's market value of assets, depending upon whether the remaining amount to be smoothed is a net gain or a net loss.

Discount Rate. The discount rate (or the assumed net rate of return) represents the long-term expected rate of return on investments net of investment expenses and is used to measure the total pension liability. The Plan Actuary assumed that member contributions and City contributions will be made based on the actuarially determined rates based on the Board's funding policy. Based on those assumptions, the net position of each Pension Plan is expected to be available to make all their respective projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied by the Plan Actuary to all periods of projected benefit payments to determine the total pension liability. The discount rate used to measure the total pension liability of the Pension Plans was 6.625% for the June 30, 2024 valuation date.

The following table shows the discount rates for each of the Pension Plans for the fiscal years shown.

Table B-14
CITY OF SAN JOSE
PENSION PLANS
HISTORICAL DISCOUNT RATES

As of June 30 Valuation Date	*Federated Pension Plan*	*Police and Fire Pension Plan*
2015	7.000%	7.000%
2016	6.875	6.875
2017	6.875	6.875
2018	6.750	6.750
2019	6.750	6.750
2020	6.625	6.625
2021	6.625	6.625
2022	6.625	6.625
2023	6.625	6.625
2024	6.625	6.625

Source: City of San José Federated City Employees' Retirement System Actuarial Valuation Report as of June 30, 2024, for Federated Pension Plan; City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2024, for Police and Fire Pension Plan.

The Plan Actuary reports that discount rate declines over the last decade or more have been largely driven by declines in interest rates, which affect expectations of future investment returns. Recent increases in interest rates have eased the pressure to continue reducing the discount rate.

Actuarial Valuation Risks. According to the Plan Actuary, the economic and demographic assumptions in the 2024 Federated Pension Plan Actuarial Report and 2024 Police and Fire Pension Plan Actuarial Report represent reasonable estimates of future experience, but actual future experience will be different, and the differences may be significant. The Plan Actuary states that investment risk, interest rate risk, assumption change risks are the primary risks to the Pension Plans that actual experience will differ from estimates.

Investment risk is the potential for investment returns to be different than expected. Lower investment returns than anticipated will increase the UAL thereby resulting in higher contributions in the future unless other gains offset such losses. The potential volatility of future investment returns is determined by the allocation of assets and the affordability of the investment risk is determined by the amount of assets invested relative to the size of the City. Losses recognized as a result of actual investment returns below the discount rate have been a significant contributor to the growth of UAL of the Pension Plans.

Interest rate risk is the potential for interest rates to be different than expected. For public plans like the Pension Plans, short-term fluctuations in interest rates have little or no effect as the plan's liability is usually measured based on the expected return on assets. Longer-term trends in interest rates, however, can have a significant effect to the extent they affect future expected investment earnings.

Assumption change risk is the potential for the environment to change such that future valuation assumptions are different than the current assumptions. For example, according to the Plan Actuary, declines in interest rates over the last three decades resulted in higher investment returns for fixed-income investments, but lower expected future returns necessitating either a change in investment policy, a reduction in discount rate, or some combination of the two. Assumption change risk is an extension of the other risks identified above, but rather than capturing the risk as it is experienced, it captures the cost of recognizing a change in environment when the current assumption is no longer reasonable.

Leverage and Support Ratios. In the 2024 Federated Pension Plan Actuarial Report and 2024 Police and Fire Pension Plan Actuarial Report, the Plan Actuary notes that the support and leverage ratios are substantially higher compared to other plans tracked by the Public Plans Data database, which is maintained by the Center for Retirement Research at Boston College in partnership with the MissionSquare Research Institute, the National Association of State Retirement Administrators, and the Government Finance Officers Association.

The support ratio is the ratio of number of inactive members (those receiving benefits or entitled to a deferred benefit) to the number of active employees. According to the Plan Actuary, through 2009, the Pension Plans were in the middle of the distribution even as the support ratio increased. However, after the Great Recession, their support ratios have increased dramatically and are now in the upper quartile of the plans in the Public Plans Data database.

Leverage or volatility ratios measure the size of the plan compared to its revenue base more directly. They include the asset leverage and actuarial liability leverage ratios. The leverage ratios for the Pension Plans are higher than most plans, indicating that the Pension Plans are much more sensitive to risk than most plans.

Net Pension Liability

The City calculates and discloses the net pension liability of each of the Pension Plans annually in its annual comprehensive financial reports. Net pension liability is the difference between the actuarial present value of projected benefit payments attributed to past periods of employee service calculated using methods and assumptions (i.e. "Total Pension Liability") and the fair market value of plan assets (i.e. "fiduciary net position").

The following tables show the City's net pension liability for the Pension Plans measured as of June 30, 2023 and June 30, 2024.

Table B-15
CITY OF SAN JOSE
FEDERATED PENSION PLAN
COMPONENTS OF NET PENSION LIABILITY

	June 30, 2023	*June 30, 2024*	*% Change*
Total pension liability	$4,882,494	$5,113,959	4.7%
Plan fiduciary net position	2,907,315	3,154,443	8.5
Net pension liability	$1,975,179	$1,959,516	(0.0)
Plan fiduciary net position as a percentage of the total pension liability	59.5%	61.7%	

Source: City of San José Federated City Employees' Retirement System Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Table B-16
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
COMPONENTS OF NET PENSION LIABILITY
($ in thousands)

	June 30, 2023	*June 30, 2024*	*% Change*
Total pension liability	$5,838,544	$6,097,406	4.4%
Plan fiduciary net position	4,721,487	5,096,459	7.9
Net pension liability	$1,117,057	$1,000,947	(10.3)
Plan fiduciary net position as a percentage of the total pension liability	80.9%	83.6%	

Source: City of San José Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Contributions

General. There are two components to the annual City and employee contributions: (i) the normal cost (including administrative expenses); and (ii) the UAL contribution. Annual contributions are based upon actuarial calculations that take into account economic and demographic assumptions, including assumed investment earnings on the assets of the Pension Plans that are used to pay benefits. The components represent amounts determined by the Plan Actuary to be sufficient to provide adequate assets to pay benefits when due. Contributions to the Pension Plans for a fiscal year are based on the actuarial valuations performed two years prior (e.g. Fiscal Year 2023-2024 contributions were based on the actuarial valuations as of June 30, 2022).

Funding Policy. The Pension Plans employ a "floor funding method" for setting the City's funding policy contribution amount for Tier 1 for the normal cost portion (which includes administrative expenses). Under such method, beginning in fiscal year 2016-2017, the City's normal cost contribution is the greater of: (1) the dollar amount recommended by the Plan Actuary in the annual valuation report and approved by the Boards (adjusted for time of contribution) or, (2) the dollar amount determined by applying the normal cost as a percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year if actual payroll exceeds the actuarial payroll. The portion of the City's contribution relating to the UAL is set at the dollar amount recommended by the Plan Actuary and adopted by the Boards in the annual actuarial valuation. The City's contribution for Tier 2 members of the Pension Plans is based on the contribution rate determined by the Plan Actuary and approved by the Boards multiplied by the actual Tier 2 member payroll for each Pension Plan.

The required contributions as determined by the Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. However, the City may elect to prefund all or part of its total required contributions to the Pension Plans at the beginning of each fiscal year. The prefunded annual contributions are made based on estimated bi-weekly payroll in the actuarial valuation for the fiscal year and may be increased at the end of the fiscal year based on actual bi-weekly payroll. The amount of the prefunded annual contribution is the actuarial equivalent of contributions made regularly over the course of a year as established by the Boards. To the extent contributions are made after the beginning of the fiscal year, the amounts are adjusted for interest. To determine the City's "prefunded" annual contribution amount, the Boards, based on the advice of the Plan Actuary and outside investment consultants, set an interest discount rate to be applied by the Plan Actuary to the required contributions to account for the timing of the contributions. The City prefunded its contributions for Tier 1 employees in the Police and Fire Pension Plan for fiscal year 2024-2025 with funds on hand and will prefund the same again for fiscal year 2025-26. The City contributions in this Appendix B do not reflect such prefunding or any other prefunding that may occur in the future.

In October 2014, the Boards approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contributions to the Retirement Plans when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to reduce the City's incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%. In March 2022, the Boards approved a modification to the incremental reduction approach that added market valuations as an additional criterion for triggering a reduction in the prefunding discount rate.

Contribution Rates. The member contribution rate for Tier 1 of the Federated Pension Plan is a proportion (3/11ths) of the normal cost (excluding administrative expenses and reciprocity). The remaining 8/11ths of the normal cost is allocated to the City. The City does not make normal cost contributions for employees with 30 or more years of service credit. In addition to the 8/11ths of the normal cost, the City pays the reciprocity normal cost (i.e., the cost of funding reciprocity with other California pension plans), administrative expenses and an amortization payment on the UAL.

Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service. The Federated Board sets a contribution rate of 3.0% of pay that applies to each such individual member until such member has paid off their individual UAL amount for reclassification.

For Tier 2, the members and the City each pay half of the total contribution rate. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member. The member and City contribution rates each cannot be less than 50% of the normal cost rate.

For the Police and Fire Pension Plan, the member contribution rate for Tier 1 is a proportion (3/11ths) of the normal cost (excluding reciprocity). In addition, employee members pay a portion of the UAL attributable to certain benefit improvements. The remaining 8/11ths of the normal cost is allocated to the City. In addition to the 8/11ths of the normal cost, the City is allocated all the Reciprocity Rate (the cost of funding reciprocity with other California pension plans), administrative expenses, and the remaining portion of the UAL rate.

For Tier 2 members of the Police and Fire Pension Plan, members and the City share the total contribution rate equally, except that increases in the contributions of members relating to the UAL are limited to one-third of one percent of compensation each year.

Historical Contributions. The following tables show the City's actuarially determined annual contribution and actual contribution to the Pension Plans for the fiscal years shown.

Table B-17
CITY OF SAN JOSE
FEDERATED PENSION PLAN
HISTORICAL CITY CONTRIBUTIONS (1)
($ in thousands)

	2019-2020	***2020-2021***	***2021-2022***	***2022-2023***	***2023-2024***
Actuarially Determined Contribution	$181,327	$183,964	$207,598	$199,440	$218,313
Actual Contribution	181,327	183,964	207,598	199,440	218,313
Contribution Deficiency (excess)	--	--	--	--	--
Percentage of covered payroll	56.67%	54.85%	59.60%	51.63%	50.28%

(1) Unaudited.
Source: City of San José Annual Comprehensive Financial Report for fiscal year ended June 30, 2024, for fiscal years 2020-2021 through 2023-2024; City of San José for fiscal year 2024-2025.

Table B-18
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
HISTORICAL CITY CONTRIBUTIONS (1)
($ in thousands)

	2019-2020	***2020-2021***	***2021-2022***	***2022-2023***	***2023-2024***
Actuarially Determined Contribution	$188,481	$201,370	$212,046	$201,750	$202,700
Actual Contribution	188,841	201,370	212,046	201,750	202,700
Contribution Deficiency (excess)	--	--	--	--	--
Percentage of covered payroll	81.81%	84.80%	84.47%	79.32%	76.32%

(1) Unaudited.
Source: City of San José Annual Comprehensive Financial Report for fiscal year ended June 30, 2024, for fiscal years 2020-2021 through 2023-2024; City of San José for fiscal year 2024-2025.

City's Actuarially Determined Contributions – FY 2025 and 2026. The following tables show the actuarially determined contributions allocated to the City for the Pension Plans for the fiscal years shown, assuming such contributions are made throughout the year and all assumptions are met. The City prefunded its contributions for Tier 1 employees in the Police and Fire Pension Plan for fiscal year 2024-2025 with funds on hand and will prefund the same again for fiscal year 2025-26. The City contributions in this Appendix B do not reflect such prefunding or any other prefunding that may occur in the future.

Table B-19
CITY OF SAN JOSE
FEDERATED PENSION PLAN
ACTUARIALLY DETERMINED CITY CONTRIBUTIONS
($ in thousands)

	2024-2025	***2025-2026***
Tier 1		
UAL Payment	$176,758	$180,067
Administrative Expenses	5,314	5,877
Normal Cost	24,376	23,608
Total Tier 1 Contribution	$206,448	$209,552
Tier 2 Contribution	27,878	32,205
Total City Contribution	$234,326	$241,757

Source: City of San José Federated City Employees' Retirement System Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

According to the Plan Actuary, the City's Tier 1 UAL payment increased $3.3 million from fiscal year 2024-2025 to 2025-2026, primarily reflecting the scheduled increase in UAL payments, offset by the credit for the fiscal year 2023-2024 actuarial gains. The Tier 1 normal cost rate declined slightly due to demographic changes, and the Tier 1 normal cost dollar amount decreased slightly due to the decline in Tier 1 active members, offset by the higher-than-expected salary increases. The Tier 2 contribution amount increased due to the growing Tier 2 population and the higher-than-expected salary increases. In aggregate, the City's contribution amount increased by about $7.4 million, while its contribution rate decreased by 3.86% of payroll.

Table B-20
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
ACTUARIALLY DETERMINED CITY CONTRIBUTIONS
($ in thousands)

	2024-2025	***2025-2026***
Tier 1		
UAL Payment	$148,110	$153,343
Administrative Expenses	7,026	8,012
Normal Cost	42,130	40,187
Total Tier 1 Contribution	$197,266	$201,542
Tier 2 Contribution	19,809	22,607
Total City Contribution	$217,075	$224,149

Source: City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2024, prepared by Cheiron, Inc.

The Plan Actuary reports that Tier 1 City contributions increased as a dollar amount, but decreased as a percentage of pay, while Tier 2 City contributions increased on a dollar basis due to the increase in active membership and payroll but remained relatively level as a percentage of pay.

Projected City Contributions. Annually, the Plan Actuary prepares five-year and 20-year projections (which include the five-year projections) of City contributions for the Pension Plans. The following tables show the Plan Actuary's five-year and 20-year projections for the Federated Pension Plan and the Police and Fire Pension Plan, as of January 7, 2025, and January 29, 2025, respectively, the most recent projections available. The projections are based on the June 30, 2024, actuarial valuations for the Pension Plans and projected payroll. They assume that contributions are made in the middle of the year, and that all assumptions were exactly met since June 30, 2024, and are exactly met each year in the future.

The following tables show the Plan Actuary's 20-year projections of City contributions as of the dates, and based on the assumptions, described in the preceding paragraph.

Table B-21
CITY OF SAN JOSE
FEDERATED PENSION PLAN
20-YEAR PROJECTIONS OF CITY CONTRIBUTIONS [(1)]

Fiscal Year Ending June 30	*Payroll*	*Projected City Contribution*	*Projected City Contribution Rate (% of Payroll)*
2026	$500,803,000	$241,757,000	48.27%
2027	515,827,000	242,714,000	47.05
2028	531,302,000	251,887,000	47.41
2029	547,241,000	255,077,000	46.61
2030	563,658,000	259,790,000	46.09
2031	580,568,000	265,755,000	45.78
2032	597,985,000	264,533,000	44.24
2033	615,924,000	271,388,000	44.06
2034	634,402,000	267,949,000	42.24
2035	653,434,000	262,712,000	40.20
2036	673,037,000	272,353,000	40.47
2037	693,228,000	280,130,000	40.41
2038	714,025,000	249,350,000	34.92
2039	735,446,000	247,031,000	33.59
2040	757,509,000	239,108,000	31.57
2041	780,235,000	122,323,000	15.68
2042	803,642,000	86,217,000	10.73
2043	827,751,000	86,212,000	10.42
2044	852,584,000	88,052,000	10.33
2045	878,161,000	78,538,000	8.94

(1) Assumes contributions are made by the City throughout the year.
Source: 5-Year and 20-Year Budget Projections for Federated Plan, prepared by Cheiron, Inc., dated January 7, 2025.

Table B-22
CITY OF SAN JOSE
POLICE AND FIRE PENSION PLAN
20-YEAR PROJECTIONS OF CITY CONTRIBUTIONS (1)
($ in thousands)

Fiscal Year Ending June 30	*Police Amount*	*Police Amount*	*Fire Amount*	*Fire Rate (2)*	*Total Police and Fire Amount*	*Total Police and Fire Rate (2)*
2026	$182,562	100.3%	$41,587	37.2%	$224,149	76.3%
2027	194,126	103.5	31,384	27.3	225,510	74.5
2028	197,240	102.1	27,565	23.2	224,805	72.1
2029	196,179	98.6	27,324	22.4	223,503	69.6
2030	183,639	89.6	27,295	21.7	210,934	63.8
2031	160,976	76.3	27,325	21.1	188,301	55.3
2032	152,998	70.4	27,294	20.4	180,292	51.4
2033	135,802	60.6	27,042	19.7	162,844	45.1
2034	108,506	47.0	26,618	18.8	135,124	36.3
2035	100,830	42.4	26,258	18.0	127,088	33.1
2036	75,534	30.9	26,086	17.4	101,620	25.7
2037	55,106	21.9	26,036	16.8	81,142	19.9
2038	61,164	23.6	26,157	16.4	87,321	20.8
2039	78,980	29.5	26,405	16.1	105,385	24.4
2040	59,457	21.6	26,703	15.8	86,160	19.4
2041	44,727	15.8	30,426	17.5	75,153	16.4
2042	42,970	14.7	27,712	15.4	70,682	15.0
2043	45,463	15.1	28,447	15.4	73,910	15.2
2044	47,982	15.5	30,839	16.2	78,821	15.8
2045	49,446	15.5	34,126	17.4	83,572	16.2

(2) Assumes contributions are made by the City throughout the year.
(3) Represents City contribution rate as a percentage of payroll.
Source: 5-Year and 20-Year Budget Projections for Police & Fire Pension and OPEB, prepared by Cheiron, Inc., dated January 29, 2025.

The Plan Actuary notes that actual experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time.

Investments

The State Constitution and the Municipal Code provide that the Boards have exclusive control over the investment of the assets of their Retirement Plans. The Municipal Code also specifies that the Boards are to manage the investments for the purpose of providing benefits to the members and their beneficiaries, maintaining the actuarial soundness of the plans, and defraying reasonable expenses of administering the plan.

Investment Policy and Asset Allocations. The Boards have adopted investment guidelines and policies for the Pension Plans consistent with the conditions and limitations in the Municipal Code and have also retained investment consultants to advise them.

Annually, the Boards receive projections from its investment consultants for the expected net rates of return based on approved target asset allocations. Investment returns and the subsequent risk associated with those returns are partially a function of the underlying assets of the Pension Plans. The Boards, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with its diversification goals and risk tolerance.

The Federated Pension Plan's investment policy and target asset allocation were most recently updated by the Board on February 20, 2025, and April 18, 2024, respectively. The Police and Fire Pension Plan's investment policy and target asset allocation were most recently updated on October 5, 2023, and March 6, 2025 (for implementation on July 1, 2025), respectively. The targets represent the ultimate allocation goals of the Pension Plans. The following table shows the Pension Plan's target asset allocations as most recently updated.

Table B-23
CITY OF SAN JOSE
PENSION PLANS
TARGET ASSET ALLOCATIONS

Asset Class	*Federated Pension Plan*	*Police and Fire Pension Plan*
Growth	**75.0%**	73.5%
Public Equity	49.0	42.0
Total Private Markets	21.0	27.5
Private Equity	8.0	10.0
Venture/Growth Capital	4.0	4.5
Growth Real Estate	3.0	4.0
Private Debt	3.0	5.0
Private Real Assets	3.0	4.0
Emerging Markets Bonds	3.0	2.0
High Yield Bonds	2.0	2.0
Low Beta	**8.0**	**13.5**
Cash	0	5.5
Market Neutral Strategies	3.0	3.0
Bonds (Immunized Cash Flows)	5.0	5.0
Other	**17.0**	**13.0**
Core Real Estate	5.0	5.0
Long-Term Government Bonds	4.0	1.5
Investment Grade Bonds	6.0	4.5
TIPS	2.0	2.0
10-Year Expected Return	7.2	7.2
20-Year Expected Return	8.6	8.5
Standard Deviation	11.5	11.1

Source: City of San José Federated City Employees' Retirement System Investment Policy Statement, updated as of February 20, 2025, with updated target asset allocations as of April 18, 2024, for Federated Pension Plan; San José Police and Fire Department Retirement Plan Investment Policy Statement, updated as of October 5, 2024, with updated target asset allocations as of March 6, 2025 (for implementation on July 1, 2025). Expected returns and standard deviations updated as of March 20, 2025 for Federated Pension Plan, and March 6, 2025 for Police and Fire Department Retirement Plan.

Copies of the current investment policies of the Federated Pension Plan and the Police and Fire Pension Plan are available in the respective "Investment & Reports" webpages of the Retirement Plans at https://www.sjretirement.com. The information presented on such website and webpages is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds. References to website addresses presented herein are for informational purposes only.

Historical Investment Returns. The following table shows the historical annual investment returns for the Pension Plans at the identified interval as of March 31, 2025.

Table B-24
CITY OF SAN JOSE
PENSION PLANS
HISTORICAL INVESTMENT PERFORMANCE
As of March 31, 2025

Measurement Period	*Federated Pension Plan Rate of Return*	*Police and Fire Pension Plan Rate of Return*
Since Inception	6.83	8.24
5 Years	10.74	9.97
3 Years	4.28	4.32
1 Year	5.24	5.66

Source: Bank of New York; provided by Cheiron, Inc.

For the fiscal years ended June 30, 2024 and 2023, the annual money-weighted rate of return on Federated Pension Plan investments, net of pension plan investment expenses, was 9.75% and 7.31%, respectively. For the fiscal years ended June 30, 2024 and 2023, the annual money-weighted rate of return on Police and Fire Pension Plan investments, net of pension plan investment expenses, was 9.53% and 7.94%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts invested.

HEALTHCARE PLANS

Membership

The following table summarizes the membership of the Healthcare Plans as of June 30 of the years shown. The Healthcare Plans are closed to new members.

Table B-25
CITY OF SAN JOSE
HEALTHCARE PLANS
MEMBERSHIP

	June 30, 2023	*June 30, 2024*	*% Change*
Federated Healthcare Plan			
Retirees and beneficiaries receiving benefits (1)	3,767	3,746	(0.6)%
Terminated members – Deferred vested	150	141	(6.0)
Active members	1,145	1,077	(5.9)
Total	5,062	4,964	(1.9)
Police and Fire Healthcare Plan			
Retirees and beneficiaries receiving benefits (1)	2,396	2,437	1.7
Terminated members – Deferred Vested	6	7	16.7
Active members	796	708	(11.1)
Total	3,198	3,152	(1.4)

(1) Payees that have health and/or dental coverage.
Source: City of San José Federated City Employees' Retirement System Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023, for Federated Healthcare Plan; City of San José Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023, for Police and Fire Healthcare Plan.

Benefits

The Healthcare Plans provide eligible retirees, their dependents, and survivors with health and dental benefits. For health benefits, the Healthcare Plans pay that portion of the premium that is equivalent to the premium for the lowest-priced medical plan with which the City contracts for medical benefits for active City employees. If the retiree elects a medical plan that is not the lowest priced plan, the eligible retiree or survivor pays any difference between the portion paid by the Healthcare Plans and that charged by the medical care provider. In the case of dental benefits, the Healthcare Plans pay the entire premium. Retired members eligible for medical and/or dental benefits may elect annually not to receive benefits for the plan year and participate in the in-lieu credit program, providing a credit equal to 25% of the lowest cost plan for that year which may be applied to member premiums in future years.

Establishment of Section 115 Trusts

The Section 401(h) of the Code permits a pension plan to provide retiree healthcare benefits under certain conditions, including when: (1) a separate account (i.e., a 401(h) account) is maintained for the healthcare benefits; and (2) the healthcare benefits are subordinate to the pension benefits. Under IRS regulations, subordination means that the contributions for healthcare benefits do not exceed 25% of the aggregate contributions excluding contributions to fund past service credits. Exceeding the subordination limit puts a pension plan at risk of losing its tax-exempt status, which in turn would subject the pension plan's income to the payment of income tax and reduce the assets available for the payment of benefits.

To avoid exceeding the subordination limit for the 401(h) accounts held in the Pension Plans, the City Council enacted an ordinance to establish a separate trust under Section 115 of the Code for the Federated Plan effective June 2011 (the "Federated 115 Trust"), an ordinance to establish a separate trust under Section 115 of the Code for the Police members effective June 2012 (the "Police 115 Trust"), and an ordinance to establish a separate trust under Section 115 of the Code for the Fire members effective June 2012 (the "Fire 115 Trust" and together with the Police 115 Trust, the "Police and Fire 115 Trust" and each a "115 Trust"). The Police 115 Trust and Fire 115 Trust operate as sub trusts of a single trust under Section 115 of the Code. The Federated Board serves as the board of trustees for the Federated 115 Trust, and the Police and Fire Board serves as the board of trustees for the Police 115 Trust and Fire 115 Trust.

The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Assets in a trust established by the City under Section 115 of the Code are not available to satisfy liabilities of any other trust.

The Boards received private letter rulings from the IRS on the tax-exempt status of the Federated 115 Trusts, the Police 115 Trust, and the Fire 115 Trust. The IRS also issued a private letter ruling indicating that employee contributions into the Federated 115 Trust, the Police 115 Trust, and the Fire 115 Trust may be made as employer contributions and therefore are excludable from the employee's gross income and are not subject to income or other employment taxes. Employee contributions to the Federated 115 Trust commenced on December 22, 2013. To date, employee contributions to the Police 115 Trust and the Fire 115 Trust have not commenced.

The Boards have been advised that the contributions to the 115 Trusts must be treated as non-refundable to maintain the tax-exempt status of such trusts. The Retirement Plans permit employee pension and retiree healthcare contributions held in the 401(h) accounts to be refunded. Retiree healthcare contributions are refunded from the respective pension funds of the Pension Plans, not their respective 401(h) accounts. Federated employees are only eligible to receive the portion of their retiree healthcare contributions that were made to the 401(h) account before January 1, 2014. After such date, all employee contributions were placed into the Federated 115 trust. Employees must take a return of contributions from the pension and retiree healthcare plans to receive previous 401(h) account contributions.

Actuarial Liability

The following information is derived primarily from the City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by the Plan Actuary (the "2024 Federated Healthcare Plan Actuarial Report") and the City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by the Plan Actuary (the "2024 Police and Fire Healthcare Plan Actuarial Report"), the most recent actuarial valuations available for the Healthcare Plans.

Funded Status. To prepare the actuarial valuations for the Healthcare Plans, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates). See "– Actuarial Assumptions" for information regarding the assumptions and methods employed by the Plan Actuary in the 2024 Federated Healthcare Plan Actuarial Report and 2024 Police and Fire Healthcare Plan Actuarial Report.

The Healthcare Plans utilize the actuarial liability and the market value of assets to determine on-going funding requirements. The actuarial liability represents the expected amount of money needed today, if all assumptions are met, to pay for benefits attributed to service prior to the valuation date under the Entry Age actuarial cost method. As such, it is the amount of assets targeted by the actuarial cost method for the Healthcare Plans to hold as of the valuation date. It is not the amount necessary to settle the obligation.

The benefits under the Healthcare Plans have two components: the explicit subsidy and the implicit subsidy. The explicit subsidy (or premium subsidy) is paid from the applicable 115 Trust and is the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees. The implicit subsidy is the difference between the expected claims cost for retiree or spouse and the total (retiree plus city) premium. The funded status based on the implicit subsidy is not shown because the subsidy is paid directly by the City and is not intended to be prefunded. Accordingly, certain tables herein regarding the actuarial liability of, and contributions to, the Healthcare Plans show information for the explicit and implicit subsidy separately.

In addition, with the implementation of Measure F, member contributions became fixed at 8.0% of pay, and the City's contribution toward the explicit subsidy became actuarially determined separately for Police and Fire. The City has the option to limit its contribution for the explicit subsidy to 11% of the Police and Fire payroll.

The funded status of a plan represents the proportion of the actual assets as of the valuation date compared to the actuarial liability as of the valuation date. These measures are for contribution budgeting purposes and are not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

According to the Plan Actuary, if all assumptions are met in the future, including an expected return of 6.00% each year, the actuarial liability for the explicit subsidy relating to the Federated Healthcare Plan is expected to peak within 10 years, and the funded percentage is expected to reach 100% by 2043. As for the Police and Fire Healthcare Plan, if all assumptions are met in the future, including an expected return of 6.00% each year, and the City does not impose its optional contribution cap, the funded percentage for the explicit subsidy is expected to reach 98% by 2044. If the City imposes its optional contribution cap every year, the funded percentage for the explicit subsidy is only expected to reach 95% by 2044.

The following tables summarize the actuarial liability and funded status of the Healthcare Plans as of June 30 of the years shown. The tables relating to the Police and Fire Healthcare Department show information for the Police and Fire departments separately because the Police 115 Trust and Fire 115 Trust operate as sub trusts of a single trust under Section 115 of the Code.

Table B-26
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
ASSETS AND LIABILITIES ON ACTUARIAL BASIS (1)
($ in thousands)

	June 30, 2023	*June 30, 2024*	*% Change*
Actuarial Liability	$633,973	$643,635	1.5%
Market Value of Assets	374,611	413,541	10.4
Unfunded Actuarial Liability	259,362	230,094	(11.3)
Funded Percentage	59.1%	64.3%	
Actuarial Liability – Implicit	$79,013	$76,750	(2.9)

(1) Explicit subsidy only unless otherwise noted.
Source: City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Table B-27
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
ASSETS AND LIABILITIES ON ACTUARIAL BASIS (1)
($ in thousands)

	June 30, 2023	*June 30, 2024*	*% Change*
Police Department			
Actuarial Liability	$495,312	$501,880	1.3%
Market Value of Assets	191,682	218,894	14.2
Unfunded Actuarial Liability	303,630	282,986	(6.8)
Funded Percentage	38.7%	43.6%	
Fire Department			
Actuarial Liability	$296,203	$297,844	0.6
Market Value of Assets	107,682	125,313	16.4
Unfunded Actuarial Liability	188,521	172,531	(8.5)
Funded Percentage	36.4%	42.1%	
Aggregate Unfunded Actuarial Liability	$492,151	$455,517	(7.4)
Aggregate Funded Percentage	37.8%	43.0%	
Actuarial Liability – Implicit	$84,723	$85,443	(0.9)

(1) Explicit subsidy only unless otherwise noted.
Source: City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

The following tables show the changes in the market value of assets of the Healthcare Plans for the Fiscal Years shown. Police and Fire are shown separately because the Police 115 Trust and Fire 115 Trust operate as sub trusts of a single trust under Section 115 of the Code.

Table B-28
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
MARKET VALUE OF ASSETS

	June 30, 2023	***June 30, 2024***
Market Value, Beginning of Year	$349,124,320	$374,611,276
Plus: Contributions		
Member	9,841,192	9,890,542
City	17,626,466	18,950,280
Implicit Subsidy	5,370,230	6,406,373
Total	32,837,888	35,247,195
Plus: Net Investment Earnings	24,268,269	37,149,298
Less: Benefit Payments		
Explicit Subsidy	25,498,496	26,228,611
Implicit Subsidy	5,370,230	6,406,373
Total	30,868,726	32,634,984
Less: Administrative Expenses	750,475	831,537
Market Value, End of Year	347,611,276	413,541,248
Estimated Rate of Return	6.8%	9.9%

Source: City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

The net investment earnings of the Federated Healthcare Plan for the year ended June 30, 2024, represent approximately 9.9% return on the market value of assets compared to an expected rate of return of 6.0%, resulting in an investment gain of approximately $14.6 million.

Table B-29
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
POLICE DEPARTMENT
MARKET VALUE OF ASSETS
($ in thousands)

	June 30, 2023	*June 30, 2024*
Market Value, Beginning of Year	$171,369	$191,682
Plus: Contributions		
Member	6,000	5,734
City	16,951	17,672
Implicit Subsidy	2,112	2,980
Total	$25,063	$26,386
Plus: Net Investment Earnings	12,676	20,201
Less: Benefit Payments		
Explicit Subsidy	15,247	16,312
Implicit Subsidy	2,112	2,980
Total	$17,359	$19,292
Less: Administrative Expenses	67	83
Market Value, End of Year	$191,682	$218,894
Estimated Rate of Return	6.9%	9.9%

Source: City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Table B-30
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
FIRE DEPARTMENT
MARKET VALUE OF ASSETS
($ in thousands)

	June 30, 2023	*June 30, 2024*
Market Value, Beginning of Year	$93,904	$107,682
Plus: Contributions		
Member	5,299	5,086
City	10,574	11,050
Implicit Subsidy	1,126	1,464
Total	$16,999	$17,600
Plus: Net Investment Earnings	6,984	11,485
Less: Benefit Payments		
Explicit Subsidy	9,043	9,942
Implicit Subsidy	1,126	1,464
Total	$10,169	$11,406
Less: Administrative Expenses	36	48
Market Value, End of Year	$107,682	$125,313
Estimated Rate of Return	6.8%	9.9%

Source: City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

The net investment earnings of the Police and Fire Healthcare Plan for the year ended June 30, 2024 were approximately 9.9% compared to an expected rate of return of 6.00%, resulting in a total investment gain of approximately $12.5 million.

The following table shows the funding progress for the Federated Healthcare Plan as of June 30 for the years shown.

Table B-31
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
SCHEDULE OF FUNDING PROGRESS
($ in thousands)

Valuation Date (June 30)	*Actuarial Value of Assets*	*Actuarial Liability*	*UAL*	*Funded Percentage*	*Covered Payroll*	*UAL as % of Covered Payroll*
2015	$209,761	$817,673	$607,912	26%	$251,430	242%
2016	225,845	764,261	538,416	30	266,823	202
2017	248,583	630,452	381,869	39	287,339	133
2018	277,256	650,114	372,858	43	298,985	125
2019	294,489	631,752	337,263	47	299,002	113
2020	303,313	650,419	347,106	47	322,850	108
2021	384,613	662,860	278,247	58	339,546	82
2022	349,124	650,670	301,546	54	360,936	84
2023	374,611	712,986	338,375	53	409,009	83
2024	413,541	720,385	306,844	57	454,295	68

Source: City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Since 2014, the UAL for the explicit subsidy of the Federated Healthcare Plan has been reduced by $155.4 million. According to the Plan Actuary, the decrease is primarily due to a combination of contributions to the Federated Healthcare Plan and health premiums not growing as much as anticipated. The Plan Actuary further reports that changes in the UAL are becoming more dependent on investment returns as the level of assets grows, but fluctuations in health premiums will also remain a significant factor.

Additionally, as previously described, the Plan Actuary reports that, if all assumptions are met in the future, including an expected return of 6.00% each year, the actuarial liability for the explicit subsidy relating to the Federated Healthcare Plan is expected to peak within 10 years, and the funded percentage is expected to reach 100% by 2043.

The following tables show the funding progress for the Police and Fire Healthcare Plan as of June 30 for the years shown, broken down by department.

Table B-32
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
POLICE DEPARTMENT
SCHEDULE OF FUNDING PROGRESS
($ in thousands)

Valuation Date (June 30)	*Actuarial Value of Assets*	*Actuarial Liability*	*UAL*	*Funded Percentage*	*Covered Payroll*	*UAL as % of Covered Payroll*
2015	$85,322	$470,323	$385,001	18.1%	$109,783	351%
2016	97,412	495,943	398,531	19.6	111,029	359
2017	99,926	431,338	331,412	23.2	120,299	275
2018	111,659	471,817	360,158	23.7	131,888	273
2019	124,990	435,438	310,448	28.7	146,865	211
2020	137,789	468,102	330,314	29.4	147,269	224
2021	180,002	481,704	301,702	37.4	157,594	191
2022	171,369	475,753	304,384	36.0	165,637	184
2023	191,682	550,140	358,459	34.8	169,293	212
2024	218,894	557,632	338,738	39.3	176,794	192

Source: City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Table B-33
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
FIRE DEPARTMENT
SCHEDULE OF FUNDING PROGRESS
($ in thousands)

Valuation Date (June 30)	*Actuarial Value of Assets*	*Actuarial Liability*	*UAL*	*Funded Percentage*	*Covered Payroll*	*UAL as % of Covered Payroll*
2015	$29,243	$269,430	$240,187	10.9%	$74,950	320%
2016	37,795	282,929	245,134	13.4	83,043	295
2017	42,591	248,908	206,317	17.1	83,517	247
2018	50,861	275,456	224,595	18.5	86,541	260
2019	60,967	257,890	196,924	23.6	88,953	221
2020	70,743	270,912	200,169	26.1	93,529	214
2021	96,311	276,504	180,193	34.8	95,841	188
2022	93,904	276,304	182,399	34.0	97,758	187
2023	107,682	326,097	218,415	33.0	102,599	213
2024	125,313	327,535	202,222	38.3	108,555	186

Source: City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Since 2014, the UAL for the explicit subsidy for Police and Fire Healthcare Plan has decreased by $2.6 million. According to the Plan Actuary, since 2014, assets increased by $247 million, and the actuarial liability increased by $244 million. The Plan Actuary reports that the increase in actuarial liability includes the impact of reducing the discount rate from 7.00% in 2014 to 6.00% in 2024. The Plan Actuary further reports that the asset increase has been primarily attributable to contributions and investment returns. In the future, the Plan Actuary expects asset growth to become more dependent on investment returns as benefit payments grow to equal or exceed contributions.

Additionally, as previously described, according to the Plan Actuary, if all assumptions are met in the future, including an expected return of 6.00% each year, and the City does not impose its optional contribution cap (see "– Contributions" below), the funded percentage for the Police and Fire Healthcare Plan's explicit subsidy is expected to reach 98% by 2044. If the City imposes its optional contribution cap every year, the funded percentage for the explicit subsidy is only expected to reach 95% by 2044.

Methods and Assumptions. The Plan Actuary employs a variety of actuarial methods and assumptions to prepare actuarial valuations. To prepare the actuarial valuations for the Healthcare Plans, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates). Experience studies are performed by the Plan Actuary periodically to determine appropriate revisions to the actuarial assumptions. Actual results are compared with past expectations and new estimates are made about the future.

The following tables summarize certain methods and assumptions that were employed by the Plan Actuary in connection with the 2024 Federated Healthcare Plan Actuarial Report and 2024 Police and Fire Healthcare Plan Actuarial Report.

Table B-34
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2024
Methods:	
Actuarial cost method	Entry Age
Amortization method	Level percent of payroll, closed, layers
Amortization period	20 Years with 3-year phase-in and phase-out
Asset valuation method	Fair value of assets
Assumptions:	
Amortization payment growth rate	0.00%
Payroll growth rate	Bargained increases for FYE 2025, 3.5% effective July 1, 2025, and 3.00% thereafter
Discount Rate	6.00% net of investment expenses

Source: City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Table B-35
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2024
Methods:	
Actuarial cost method	Entry Age
Amortization method	Level percent of payroll, closed, layers
Amortization period	25 Years with 3-year phase-in and phase-out
Asset valuation method	Fair value of assets
Assumptions:	
Amortization payment growth rate	3.00%
Payroll growth rate	Bargained increases and 3.00% per annum thereafter
Discount Rate	6.00% net of investment expenses

Source: City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Following are summaries of certain actuarial methods and assumptions described in the previous tables.

Actuarial Cost Method. The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. The normal cost and actuarial liability are calculated on an individual basis.

Amortization Method and Period. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2017, was amortized as a level percent of payroll over a closed 20-year period for Federated and a closed 25-year period for Police and Fire. All future amortization bases will be amortized over 20-year periods for Federated and 25-year periods for Police and Fire with a 3-year phase-in and phase-out for both.

Asset Valuation Method. The actuarial value of assets equals the market value of assets. Fluctuations in the market value of assets are not smoothed to dampen the impact on contributions.

Discount Rate. The discount rate (or the assumed net rate of return) represents the long-term expected rate of return on investments net of investment expenses and is used to measure the actuarial liability as of the valuation date.

In the 2024 Federated Healthcare Plan Actuarial Report, it is assumed that plan member contributions remain fixed at 7.5% of pay for eligible employee participants and the City contributes the actuarially determined contribution toward the explicit subsidy (i.e. the City does not impose its optional contribution cap of a maximum of 14% of total payroll). In addition, the City pays the implicit subsidy on a pay-as-you-go basis.

For the 2024 Police and Fire Healthcare Plan Actuarial Report, the Plan Actuary assumed that plan member contributions are 8.0% of pay for employees eligible to participate in the postemployment healthcare plan, and the City contributes the actuarially determined contribution toward the explicit subsidy (i.e. the City does not impose its optional contribution cap of a maximum of 11.0% of the total Police and Fire payroll). The City also contributes the implicit subsidy on a pay-as-you-go basis. The discount rate used to measure the total actuarial liability of the Healthcare Plans was 6.00% for the June 30, 2024 valuation date.

Based on those assumptions, the fiduciary net position of the Healthcare Plans is expected to be available to make all projected future benefit payments of their respective current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total actuarial liability.

The following table shows the discount rates for each of the Healthcare Plans for the fiscal years shown.

Table B-36
CITY OF SAN JOSE
HEALTHCARE PLANS
HISTORICAL DISCOUNT RATES

As of June 30 Valuation Date	***Federated Healthcare Plan***	***Police and Fire Healthcare Plan***
2015	7.000%	7.000%
2016	6.875	6.875
2017	6.875	6.875
2018	6.750	6.500
2019	6.750	6.500
2020	6.250	6.250
2021	6.000	6.000
2022	6.000	6.000
2023	6.000	6.000
2024	6.000	6.000

Source: City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, for Federated Healthcare Plan; City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, for Police and Fire Healthcare Plan.

Actuarial Valuation Risks. The assumptions in the 2024 Federated Healthcare Plan Actuarial Report and 2024 Police and Fire Healthcare Plan Actuarial Report represent estimates about future experience. However, actual future experience will be different, and the differences may be significant. The likelihood that actual future experience will be different than projected is impacted by risks substantially the same as the actuarial valuations for the Pension Plans (e.g. investment risk, interest rate risk and assumption change risks). See "PENSION PLANS – Actuarial Valuations – Actuarial Valuation Risks."

Net OPEB Liability

The City calculates and discloses the net Other Postemployment Benefit ("OPEB") liability (i.e. "net OPEB Liability") of each of the Healthcare Plans annually in its annual comprehensive financial reports. The net OPEB liability is the difference between the projected cost of health care through the death of all eligible recipients (i.e. "total OPEB liability") and the value of assets net of liabilities available to fund the plan's obligations (i.e. "fiduciary net position"). In other words, it is the portion of the OPEB liability that is unfunded. Previously, this was referred to as the unfunded actuarial accrued liability.

The following tables show the City's net OPEB liability for the Healthcare Plans measured as of June 30, 2023 and June 30, 2024.

Table B-37
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
COMPONENTS OF NET OPEB LIABILITY

	June 30, 2023	*June 30, 2024*	*% Change*
Total OPEB liability	$655,107	$729,703	11.4%
Plan fiduciary net position	374,608	413,538	10.4
Net OPEB liability	290,499	316,165	8.8
Plan fiduciary net position as a percentage of the total OPEB liability	56.3%	56.7%	

Source: City of San José Federated City Employees' Retirement System Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Table B-38
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
COMPONENTS OF NET OPEB LIABILITY
($ in thousands)

	June 30, 2023	*June 30, 2024*	*% Change*
Total OPEB liability	$781,307	$909,860	16.5%
Plan fiduciary net position	299,364	344,205	15.0
Net OPEB liability	481,943	565,655	17.4
Plan fiduciary net position as a percentage of the total OPEB liability	38.3%	37.8%	

Source: City of San José Police and Fire Department Retirement Plan Annual Comprehensive Financial Report for fiscal years ended June 30, 2024 and 2023.

Contributions

General. The annual contribution costs for the benefits of the Healthcare Plans are allocated to both the City and the active employee members. With the implementation of Measure F, member contributions are fixed as a percentage of pay, and the City's contribution toward the explicit subsidy (premium subsidy) is an actuarially determined contribution. The City has an option to limit its actuarially determined contribution to a fixed percentage of the payroll of all active members eligible for full benefits or catastrophic disability benefits under the Healthcare Plans.

Funding Policy. The City pays the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees. The implicit subsidy is included in the actuarial valuations of the Healthcare Plans. The implicit subsidy is shown as both a contribution and payment from the respective Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Healthcare Plans. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The Plan Actuary separately calculates the total unfunded actuarial liability (that includes implicit and explicit subsidies), and the unfunded actuarial liability for only the explicit subsidy. The UAL for the explicit subsidy is used to calculate the City's actuarially determined contribution to the Federated Healthcare Plan (i.e. the Federated 115 Trust).

As previously described, in October 2014, the Boards approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contributions to the Retirement Plans when on September 1 of a given year, the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. The incremental reduction approach was further modified in February 2022 to include a third trigger, when the cyclically adjusted price earning ratio on the S&P 500 is two standard deviations above the historical average. The incremental reduction to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%.

Contribution Rates. Effective March 25, 2018, the Tier 1 and Tier 2 members in the Federated Healthcare Plan who opted to remain in the Federated Healthcare Plan contribute 7.5% of pay. The City makes the actuarially determined contribution adopted by the Federated Board subject to a cap of 14% of the payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan.

Members in the Police and Fire Healthcare Plan make contributions fixed at 8.0% of pay effective March 25, 2018. The City's contribution toward the explicit subsidy is actuarially determined separately for Police and Fire. The City pays the implicit subsidy on a pay-as-you-go basis as a part of the active health premiums. In addition, the City has an option to limit its contribution for the explicit subsidy to 11% of Police and Fire Retirement Plan total payroll.

Historical Contributions. The following tables show the City's actuarially determined annual contribution and actual contribution to the Healthcare Plans for the fiscal years shown.

Table B-39
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
HISTORICAL CITY CONTRIBUTIONS [1] [2]
($ in thousands)

	2019-2020	*2020-2021*	*2021-2022*	*2022-2023*	*2023-2024*
Actuarially Determined Contribution	$26,533	$26,236	$24,787	$22,997	$25,357
Actual Contribution	(26,533)	(26,236)	(24,787)	(22,997)	(25,357)
Contribution Deficiency (excess)	--	--	--	--	--
Percentage of covered payroll	6%	6%	7%	8%	8%

(1) Unaudited.
(2) Explicit subsidy only.
Source: City of San José Annual Comprehensive Financial Report for fiscal year ended June 30, 2024.

Table B-40
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
HISTORICAL CITY CONTRIBUTIONS [1] [2]
($ in thousands)

	2019-2020	*2020-2021*	*2021-2022*	*2022-2023*	*2023-2024*
Actuarially Determined Contribution	$27,350	$28,397	$30,763	$30,762	$33,166
Actual Contribution	(27,350)	(28,397)	(30,763)	(30,762)	(33,166)
Contribution Deficiency (excess)	--	--	--	--	--
Percentage of covered payroll	12%	12%	12%	12%	12%

(1) Unaudited.
(2) Explicit subsidy only.
Source: City of San José Annual Comprehensive Financial Report for fiscal year ended June 30, 2024.

See APPENDIX C – "BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2024," Required Supplementary Information.

City's Actuarially Determined Contributions – FY 2025 and 2026. The following tables show the City's actuarially determined contributions for the explicit subsidy for the Healthcare Plans for the fiscal years shown, assuming such contributions are made throughout the year and all assumptions are met. As previously described, the City prefunded its contributions for employees in the Healthcare Plans for fiscal year 2025-2026 with funds on hand. Accordingly, the actuarially determined contributions shown in the following tables for fiscal year 2025-2026 are greater than actual City contributions for such fiscal year.

Table B-41
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
ACTUARIALLY DETERMINED CITY CONTRIBUTIONS
($ in thousands)

	2024-2025	*2025-2026*
Normal Costs	$5,694	$5,431
Administrative Expenses	817	871
UAL Payment	22,524	24,116
Total Contribution	$29,035	$30,418
Less: Projected Member Contributions	8,683	8,489
City's actuarially determined contribution	$20,352	$21,929
Projected payroll	421,279	467,924
As percentage of payroll	4.8%	4.7%

Source: City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Table B-42
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
ACTUARIALLY DETERMINED CITY CONTRIBUTIONS [(1)]
($ in thousands)

	2024-2025	*2025-2026*
Police Department		
Normal Costs	$5,069	$4,333
Administrative Expenses	90	86
UAL Payment	18,600	19,779
Total Contribution	$23,759	$24,198
Less: Projected Member Contributions	5,252	4,783
City's actuarially determined contribution	$18,507	$19,415
Projected payroll	174,372	182,097
As percentage of payroll	10.6%	10.7%
Fire Department		
Normal Costs	$5,314	$4,902
Administrative Expenses	53	53
UAL Payment	11,451	12,184
Total City Contribution	$16,818	$17,139
Less: Projected Member Contributions	4,548	4,501
City's actuarially determined contribution	$12,270	$12,638
Projected payroll	105,677	111,812
As percentage of payroll	11.6%	11.3%
Grand Totals		
City's actuarially determined contribution	$30,777	$32,053
Projected total payroll	280,049	293,909
City's actuarially determined contribution percentage	11.0%	10.9%
City's optional cap	$30,805	$32,330

(1) Explicit subsidy only.
Source: City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2024, prepared by Cheiron, Inc.

Projected City Contributions. Annually, the Plan Actuary prepares five-year projections of City contributions for the explicit subsidy for the Healthcare Plans. The following tables show the Plan Actuary's five-year projections for the Federated Healthcare Plan and the Police and Fire Healthcare Plan as of January 7, 2025, and January 29, 2025, respectively, the most recent projections available. The projections are based on the June 30, 2024 actuarial valuations for the Healthcare Plans and projected payroll. They assume that all assumptions were exactly met since June 30, 2024, and are exactly met each year thereafter. The estimated full benefit payroll is for the closed group of members entitled to full OPEB benefits. The total payroll also includes members only eligible for catastrophic disability benefits. The estimated optional City cap is 14% of total payroll. Unlike the pension contributions, the City contributions for the Healthcare Plans are strictly payments toward the UAL. Consequently, there is no separate breakout of normal cost in the projections.

Table B-43
CITY OF SAN JOSE
FEDERATED HEALTHCARE PLAN
FIVE-YEAR PROJECTIONS OF CITY CONTRIBUTIONS
($ in millions)

	Payroll			***City Contribution***		
Fiscal Year Ending June 30	***Full Benefit***	***Total***	***Estimated City Cap***	***Throughout Year***	***Beginning of Year***	***Semi-Annual***
2026	$113.2	$500.8	$65.5	$21.9	$21.3	$21.6
2027	102.6	515.8	67.5	22.7	22.1	22.4
2028	93.0	531.3	69.5	22.4	21.7	22.0
2029	83.0	547.2	71.6	22.7	22.0	22.4
2030	73.1	563.7	73.7	23.0	22.4	22.7

Source: 5-Year and 20-Year Budget Projections for Federated Plan, prepared by Cheiron, Inc., dated January 7, 2025.

Table B-44
CITY OF SAN JOSE
POLICE AND FIRE HEALTHCARE PLAN
FIVE-YEAR PROJECTIONS OF CITY CONTRIBUTIONS (1)
($ in millions)

		Police			***Fire***			***Total Police and Fire***	
Fiscal Year Ending June 30	***Payroll***	***Amount***	***Rate (2)***	***Payroll***	***Amount***	***Rate (2)***	***Payroll***	***Amount***	***Rate (2)***
2026	$182.1	$19.4	10.65%	$111.8	$12.6	11.27%	$ 293.9	$ 32.0	10.89%
2027	187.6	20.8	11.09	115.2	13.4	11.63	302.8	34.2	11.29
2028	193.2	21.1	10.92	118.6	13.5	11.38	311.8	34.6	11.10
2029	199.0	21.9	11.01	122.2	13.9	11.37	321.2	35.8	11.15
2030	205.0	22.7	11.07	125.8	14.4	11.45	330.8	37.1	11.22

(1) Explicit subsidy only.
Source: 5-Year and 20-Year Budget Projections for Police & Fire Pension and OPEB, prepared by Cheiron, Inc., dated January 29, 2025.

Investments

The State Constitution and the Municipal Code provide that the Boards have exclusive control over the investment of the assets of their Retirement Plans. The Municipal Code also specifies that the Boards are to manage the investments for the purpose of providing benefits to its members and beneficiaries, maintaining the actuarial soundness of the plans, and defraying reasonable expenses of administering the plan.

Investment Policy and Asset Allocations. The Boards have adopted investment guidelines and policies for the Healthcare Plans that are consistent with the conditions and limitations in the Municipal Code and have also retained investment consultants to advise them.

The Boards receive projections from its investment consultants for the expected net rates of return based on approved target asset allocations. Investment returns and the subsequent risk associated with those returns are partially a function of the underlying assets of the plans. The Boards, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with its diversification goals and risk tolerance.

The Federated Healthcare Plan's investment policy and asset allocation were most recently updated by the Federated Board on January 20, 2022 and April 21, 2022, respectively. The Police and Fire Healthcare Plan's investment policy and asset allocation were most recently updated and approved by the Police and Fire Board on January 6, 2022 and April 7, 2022, respectively.

The following table shows the target allocations for the Federated Healthcare Plan (i.e. investment of funds in the Federated 115 Trust) and the Police and Fire Healthcare Plan (i.e. investment of funds in the Police and Fire 115 Trust) as most recently updated.

Table B-45
CITY OF SAN JOSE
HEALTHCARE PLANS
TARGET ASSET ALLOCATIONS

Asset Class	*Federated Healthcare Plan*	*Police and Fire Healthcare Plan*
Growth	**58**	**58**
Public Equity	58	58
Low Beta	**6**	**6**
Short-Term Investment-Grade Bonds	6	6
Other	**36**	**36**
Investment Grade Bonds	14	14
Core Real Estate	12	12
Commodities	5	5
Long-Term Government Bonds	5	5
20-Year Expected Return	6.4	6.4
Standard Deviation	11.9	11.9

Source: City of San José Federated City Employees' Retiree Health Care Trust Funds Investment Policy Statement, updated as of January 20, 2022, with target asset allocations updated as of April 21, 2022, for Federated Healthcare Plan; San José Police and Fire Retiree Health Care Trust Fund Investment Policy Statement, updated as of January 6, 2022, with target asset allocations updated as of April 7, 2022, for Police and Fire Healthcare Plan.

Copies of the current investment policies of the Federated Healthcare Plan and the Police and Fire Healthcare Plan are available in the respective Investment & Reports webpages of the Retirement Plans at https://www.sjretirement.com. The information presented on such website and webpages is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds. References to website addresses presented herein are for informational purposes only.

Historical Investment Returns. The following table shows the historical annual investment returns for the Healthcare Plans at the identified interval as of March 31, 2025.

Table B-46
CITY OF SAN JOSE
HEALTHCARE PLANS
HISTORICAL INVESTMENT PERFORMANCE
As of March 31, 2025

Measurement Period	***Federated Healthcare Plan Rate of Return***	***Police and Fire Healthcare Plan Rate of Return***
Since Inception	5.07	5.35
5 Years	8.90	9.01
3 Years	3.70	3.82
1 Year	5.54	5.70

(1)
Source: Bank of New York, provided by Cheiron Inc.

For the fiscal years ended June 30, 2024 and 2023, the annual money-weighted rate of return on Federated Pension Plan investments, net of pension plan investment expenses, was 8.23% and 8.21%, respectively. For the fiscal years ended June 30, 2024 and 2023, the annual money-weighted rate of return on Police and Fire Pension Plan investments, net of pension plan investment expenses, was 9.53% and 8.22%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts invested.

GLOSSARY

Actuarial Liability: That portion of the present value of future benefits not provided for by future normal costs. The actuarial liability can be thought of as the present value of benefits attributed to employees' past service. It is used in the actuarial valuation as a funding target. This measure is not appropriate for assessing the sufficiency of plan assets to settle the plan's benefit obligations on a risk-free basis because actual events and plan experience may deviate from the assumptions used in the actuarial liability calculations.

Actuarial Value of Assets: The value of cash, investments, and other property of the applicable plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an actuarial value of assets is to smooth out fluctuations in market value of assets to dampen the impact on contributions.

Actuarially Determined Contribution: The payment to a pension plan as determined by the actuary using a contribution allocation procedure. It may or may not be the actual amount contributed to a pension plan. A contribution allocation procedure typically uses an actuarial cost method, an asset valuation method, and an amortization method to develop the Actuarially Determined Contribution. Under the contribution allocation procedure employed by the Retirement Plans, there are two components to the contribution: (i) the normal cost (including administrative expenses), and (ii) the amortization payment on the unfunded actuarial liability.

Amortization Payment: The portion of the contribution for pension or OPEB benefits that is designed to pay interest and principal on the UAL in a given number of years.

Entry Age Normal Actuarial Cost Method: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level percentage of pay from the individual's date of entry into the plan to the individual's assumed cessation of employment.

Fiduciary Net Position: The fair or market value of assets in the pension plan trust or healthcare plan trust.

Funded Percentage: Either the market value of assets or actuarial value of assets divided by the actuarial liability. This ratio is not appropriate for assessing the sufficiency of plan assets to cover the costs of settling the plan's benefit obligations on a risk-free basis because actual events and plan experience may deviate from the assumptions used in the actuarial calculations.

Market Value of Assets: The market value of assets is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The market value of assets is adjusted for accruals at the end of each fiscal year and is reported in the Annual Comprehensive Financial Report of the plan.

Net OPEB Liability: The liability reported by the City for a Healthcare Plan on its statement of net position. It is calculated as the Total OPEB Liability less the fiduciary net position.

Net Pension Liability: The liability reported by the City for a Pension Plan on its statement of net position. It is calculated as the total pension liability less the fiduciary net position.

Normal Cost: The portion of the contribution that is expected to cover the present value of benefits that are attributable to current service by covered employees under the actuarial cost method adopted by the applicable plan.

Other Postemployment Benefits ("OPEB"): Certain benefits provided after the employees' services have ended. OPEB includes postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately or provided through a defined benefit pension plan. OPEB arises from an exchange of salaries and benefits for employee services, and it is part of the compensation that employers offer for services received.

Smoothing: When measuring assets for determining contributions, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates.

Total OPEB Liability: The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes in accordance with generally accepted accounting principles.

Total Pension Liability: The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes in accordance with generally accepted accounting principles.

Unfunded Actuarial Liability ("UAL"): The excess of the actuarial liability over the actuarial value of assets. The UAL typically results from gains and losses recognized as a result of investment returns that differ from the discount rate and changes in actuarial assumptions, benefit improvements and other experiences that differ from those anticipated by the actuarial assumptions. The purpose of the UAL calculation is to determine, as of the date of the calculation, the sufficiency of the assets in the Retirement Plans compared to the funding target (i.e., the actuarial liability) and the additional contributions needed to achieve the funding target. The funding status is typically expressed as the ratio of the actuarial value of assets to the actuarial liability. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAL.

APPENDIX C

BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

APPENDIX D

SUMMARY OF
CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2025A Bonds, Anzel Galvan LLP, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

City of San José Financing Authority
City of San José, California

Re: City of San José Financing Authority Lease Revenue Bonds, Series 2025A (Civic Center Garage and Muni Water Building Projects)

Ladies and Gentlemen:

We have acted as bond counsel to the City of San José Financing Authority (the "Authority") in connection with the issuance by the Authority of $______ City of San José Financing Authority Lease Revenue Bonds, Series 2025A (Civic Center Garage and Muni Water Building Projects) (the "Bonds"), pursuant to the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code, and pursuant to an Indenture, dated as of August 1, 2025 (the "Indenture"), by and between the Authority and Wilmington Trust, National Association, as Trustee. The Bonds will be principally secured by lease payments to be made by the City of San José, California (the "City) pursuant to a Lease Agreement, dated as of August 1, 2025 (the "Lease"), by and between the Authority and the City.

In our capacity as bond counsel, we have examined such law and such certified proceedings, certifications, opinions and other documents as we have deemed necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the Authority, the City and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us. Regarding certain questions of law material to our opinion, we have assumed the correctness of certain legal conclusions contained in the written opinions of the City Attorney dated the date hereof regarding the due adoption of the Resolution No. __ adopted by the Governing Board of the Authority on June 17, 2025 and Resolution No. __ adopted by the Council of the City on June 17, 2025, without undertaking to verify the same by independent investigation.

Based upon our examination of the foregoing, and in reliance thereon, we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California with the full power to enter into the Indenture and the Lease, to perform the agreements on its part contained therein and to issue the Bonds.

2. The City is duly organized and validly existing as a charter city under the Constitution and laws of the State of California, with the full power to enter into the Lease and to perform the agreements on its part contained therein.

3. The Indenture and the Lease have each been duly authorized and approved by the Authority and the Indenture and the Lease constitute the valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms. The Indenture creates a valid pledge of the Lease Payments and other moneys pledged under the Indenture, subject to the provisions of the Indenture.

4. The Indenture and the Lease have each been duly authorized and approved by the City and the Indenture and the Lease constitute the valid and binding obligations of the City enforceable against the City in accordance with their respective terms.

5. The Bonds have been duly and validly authorized by the Authority and are legal, valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture. The Bonds are limited obligations of the Authority payable solely from the Lease Payments and other moneys pledged under the Indenture as provided in the Indenture, but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof. The Authority has no taxing power.

6. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the Bonds is taken into account in determining annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Authority and the City must comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the date hereof in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the City have covenanted to comply with all applicable requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date hereof.

7. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Except as expressly stated in paragraphs 6 and 7, we express no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction. The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Lease are limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws affecting creditors' rights, by the application of equitable principles, whether considered at law or in equity, and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California and laws relating to conflicts of interest.

We express no opinion as to any provision in the Bonds, the Indenture or the Lease with respect to the priority of any pledge or security interest, indemnification, or governing law. We also express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement or other offering material.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Moreover, our opinions are not a guarantee of a particular result and are not binding on the Internal Revenue Service or any court; rather, our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations, opinions, and covenants referenced above. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$________
CITY OF SAN JOSE FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 2025A
(CIVIC CENTER GARAGE AND MUNI WATER BUILDING PROJECTS)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of San José (the "City") in connection with the issuance by the City of San José Financing Authority (the "Authority") of the bonds captioned-above (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Authority on June 17, 2025, and an Indenture of Trust, dated as of August 1, 2025, by and between the Authority and Wilmington Trust, National Association, as trustee (the "Trustee"), as supplemented or amended from time to time in accordance with the provisions thereof (the "Indenture").

The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

"*Annual Report Date*" means the date not later than April 1 after the end of each fiscal year of the City (currently June 30th).

"*Current Fiscal Year"* means the then current fiscal year as of an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2026, the Current Fiscal Year means the 2025-2026 fiscal year.

"*Dissemination Agent*" means the City or any other Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. As of the date of this Disclosure Certificate, the City is acting as Dissemination Agent.

"*Listed Events*" means any of the events listed in Section 5(a).

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" means the final official statement dated ___________, 2025, executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means any of the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Preceding Fiscal Year*" means the most recently ended fiscal year preceding an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2026, the Preceding Fiscal Year means the 2024-2025 fiscal year.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2026, with the report for the 2024-2025 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate.

Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) notice in a timely manner to the MSRB.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board for the Preceding Fiscal Year. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the Preceding Fiscal Year or Current Fiscal Year, as specified below, substantially similar to that provided in the corresponding tables in the Official Statement, as follows:

(i) The City's adopted operating budget for the Current Fiscal Year, substantially in the form set forth in Table A-3 to the Official Statement.

(ii) The City's General Fund balance sheet for the Preceding Fiscal Year substantially in the form set forth in Table A-1 to the Official Statement.

(iii) The City's General Fund revenues by source for the Preceding Fiscal Year substantially in the form set forth in Table A-15 of the Official Statement.

(vi) Assessed valuation of property in the City substantially in the form set forth in Table A-16 of the Official Statement for the Preceding Fiscal Year.

(vii) A description of any event of default under the Indenture.

(viii) A description of any event resulting in the abatement of Lease Payments under the Lease.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. <u>Reporting of Significant Events</u>.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or an obligated person, any of which affect security holders, if material.

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(b) Upon the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(e) For purposes of Section 5(a)(15) and (16), "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

City of San José - Finance
Debt Management
200 East Santa Clara Street, 13th Floor Tower
San José, California 95113-1905
Debt.Management@sanjoseca.gov

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[Signature Page Follows]

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date:

CITY OF SAN JOSE

By: ____________________________________
Director of Finance

APPROVED AS TO FORM:

By:____________________________________
Chief Deputy City Attorney

APPENDIX G

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the 2025A Bonds, payment of principal, interest and other payments on the 2025A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2025A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the Authority (the "Issuer") nor the Trustee (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2025A Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2025A Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2025A Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct

Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions

and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.