



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Maria Öberg

SUBJECT: City of San José General
Obligation Bonds, Series
2025

DATE: May 27, 2025

Approved

Date:

6/3/25

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Adopt a resolution authorizing the issuance and sale of general obligation bonds in an aggregate principal amount not to exceed \$209,570,000, authorizing and directing the execution of a Fiscal Agent Agreement and Continuing Disclosure Certificate, authorizing the distribution of an Official Statement in connection with the offering of such bonds and authorizing the execution of necessary documents and certificates and related actions.

SUMMARY AND OUTCOME

Approval of the Authorizing Resolution will allow the City to, among other items, issue the following three series of general obligation bonds of the City (collectively, the 2025 Bonds):

1. City of San José General Obligation Bonds, Series 2025A (Disaster Preparedness, Public Safety, and Infrastructure) (the 2025A Bonds);
2. City of San José General Obligation Bonds, Series 2025B (Disaster Preparedness, Public Safety, and Infrastructure) (Federally Taxable) (the 2025B Bonds); and
3. City of San José Taxable General Obligation Bonds, Series 2025C (Disaster Preparedness, Public Safety, and Infrastructure) (Federally Taxable) (the 2025C Bonds).

2025 Bonds. The 2025 Bonds will be issued in a combined aggregate principal amount not to exceed \$209,570,000 and will constitute the third and final issuance of bonds under the Measure T authorization of \$650,000,000 for Disaster Preparedness, Public Safety, and Infrastructure, approved by the voters in November 2018. The first series of

bonds under the Measure T authorization were issued in July 2019 in the aggregate principal amount of \$239,900,000. In July 2021, the City issued its second series of bonds in the aggregated principal amount of \$200,530,000. Following the issuance of the 2025 bonds, no principal amount will remain authorized and unissued pursuant to the authorization under Measure T. The net proceeds of the 2025 Bonds are anticipated to be used to finance the following projects within three years following the bond issuance:

Measure T Public Safety and Infrastructure 2025 Bonds Use		
<u>Program</u>	<u>Net Proceeds</u>	<u>Federal Tax Status of Bonds</u>
Traffic (Bridges and Pavement Maintenance)	\$149,810,000	Tax-Exempt
Public Safety	28,870,000	Tax-Exempt
Storm Sewer	15,700,000	Tax-Exempt
Traffic (Bridges and Pavement Maintenance)	9,190,000	Federally Taxable
Community Centers/Emergency Shelters	6,000,000	Federally Taxable
Total Estimated Use of Financing Proceeds	\$209,570,000	

Source: Proposed 2026-30 Capital Improvement Program

The 2025 Bonds will be sold through a competitive bidding process with an anticipated final maturity on September 1, 2055. The proposed debt service structure varies by individual series but provides a level net debt service structure for the 2025 Bonds in the aggregate. This structure is optimized to provide for the most efficient amortization of debt by tax treatment, with tax-exempt bonds being lower cost and amortized in the longest maturities and taxable bonds being higher cost and amortized in the shortest maturities. The proposed debt structure permits the City to issue the tax-exempt 2025 Bonds with market-preferred couponing, thus minimizing interest costs.

BACKGROUND

Measure T. At the City's general election held on November 6, 2018, voters approved Measure T, which authorized the issuance of general obligation bonds in the not-to-exceed amount of \$650,000,000 for the purpose of acquiring property and constructing improvements in order to improve emergency and disaster response, repair deteriorating bridges vulnerable to earthquakes, repave streets and potholes in the worst condition, prevent flooding and water contamination including the acquisition of land in the Coyote Valley for these purposes, and repair other critical infrastructure.

On July 25, 2019, the City closed its first issuance of the general obligation bonds under the Measure T authorization. The City issued \$140,360,000 tax-exempt General

Obligation Bonds, Series 2019A-1, \$33,040,000 Taxable General Obligation Bonds, Series 2019A-2, and \$66,500,000 Taxable General Obligation Bonds, Series 2019B.

In conjunction with the 2019 Measure T bonds, the City also issued \$158,185,000 of General Obligation Bonds, Series 2019C (Refunding, Libraries, Parks, and Public Safety Projects) and \$103,935,000 Taxable General Obligation Bonds, Series 2019D (Refunding, Libraries, Parks, and Public Safety Projects) exhausting remaining unutilized authorization for Measure O (2000) and Measure O (2002). As a result, in 2019, the City issued five individual series general obligations in an aggregate principal amount of \$502,020,000.

On July 29, 2021, the City closed its second issuance of the general obligation bonds under Measure T authorization. The second issuance consisted of the City's \$151,210,000 tax-exempt General Obligation Bonds, Series 2021A, \$8,450,000 Taxable General Obligation Bonds, Series 2021B, and \$40,870,000 Taxable General Obligation Bonds, Series 2021C.

Presented below is a summary of the City's previous and anticipated Measure T general obligation bond issuances and outstanding balances.

City of San José				
General Obligation Bonds				
Issuance Amounts and Outstanding Balances				
Issuance	Final Maturity	Issuance Amount		Principal Outstanding As of June 1, 2025
		Measure T	2019 Refunding	
Series 2019A-1	9/1/2049	\$140,360,000		\$140,360,000
Series 2019A-2	9/1/2019	33,040,000		
Series 2019B	9/1/2027	66,500,000		63,030,000
Series 2019C	9/1/2035		\$158,185,000	148,955,000
Series 2019D	9/1/2024		103,935,000	
Series 2021A	9/1/2051	151,210,000		144,920,000
Series 2021B	9/1/2022	8,450,000		
Series 2021C	9/1/2021	40,870,000		
Series 2025A ⁽¹⁾	9/1/2055	183,790,000		
Series 2025B ⁽¹⁾	9/1/2031	15,190,000		
Series 2025C ⁽¹⁾	9/1/2025	10,590,000		
Total		\$650,000,000	\$262,120,000	\$497,265,000

■ (1) Preliminary estimate of expected issuance and subject to change

The 2025 Bonds will constitute the third and final issuance of the general obligation bonds authorized under Measure T. Following the issuance of the 2025 Bonds, no

principal amount will remain authorized and unissued pursuant to the authorization under Measure T.

ANALYSIS

The following section addresses staff's recommendation to adopt the Authorizing Resolution and includes the plan of finance, descriptions of the bond documents, financing team participants, and the financing schedule.

Plan of Finance

Competitive Sale of 2025 Bonds. The 2025 Bonds are expected to be sold on a competitive basis. The Finance Department will oversee the competitive sale with assistance from the municipal advisor selected for this financing, Public Resources Advisory Group, Inc. (PRAG). The 2025 Bonds will be sold in a single bid to the underwriter presenting the lowest aggregate true interest cost for all three series. The current financing schedule calls for the competitive sale of the 2025 Bonds to be conducted on or about July 9, 2025, with an expected closing on July 24, 2025. The 2025 Bonds are expected to be sold in three series, as described below.

2025A Bonds – will be issued as tax-exempt bonds. In the current bond market, assuming a 5% coupon for all bonds, PRAG estimates that, due to the amortization of 2025 Bonds to be issued, more bond premium may be generated than permitted to be used for capitalized interest (i.e., to pay interest on the 2025A Bonds in the future which is limited to three years) under the safe harbor provisions in the federal tax regulations. Therefore, PRAG recommends the issuance of a short-term taxable bond (Series 2025C Bonds), to be fully redeemed on September 1, 2025, using the excess premium generated from the 2025A and 2025B Bonds. The net proceeds of the Series 2025C Bonds will be used to finance Measure T projects that are eligible to be financed on a tax-exempt basis. Even if the capitalized interest maximum is not exceeded, using this structure can produce lower total net debt service than a structure that does not make use of a short taxable bond.

2025B Bonds– will be issued on a federally taxable basis to finance costs authorized under Measure T, which are not eligible for tax-exempt financing.

2025C Bonds – will be issued on a federally taxable basis to finance costs authorized under Measure T that are nevertheless eligible for tax-exempt financing to absorb the premium on the 2025A Bonds in excess of the safe harbor provisions in the federal tax regulations.

Together, the net proceeds of the 2025A Bonds \$183.8 million, the 2025B Bonds \$15.2 million, and the 2025C Bonds \$10.6 million are anticipated to fund \$209,570,000 of the Measure T projects. This is expected to be the most cost-effective structure for this competitive bond sale.

May 27, 2025

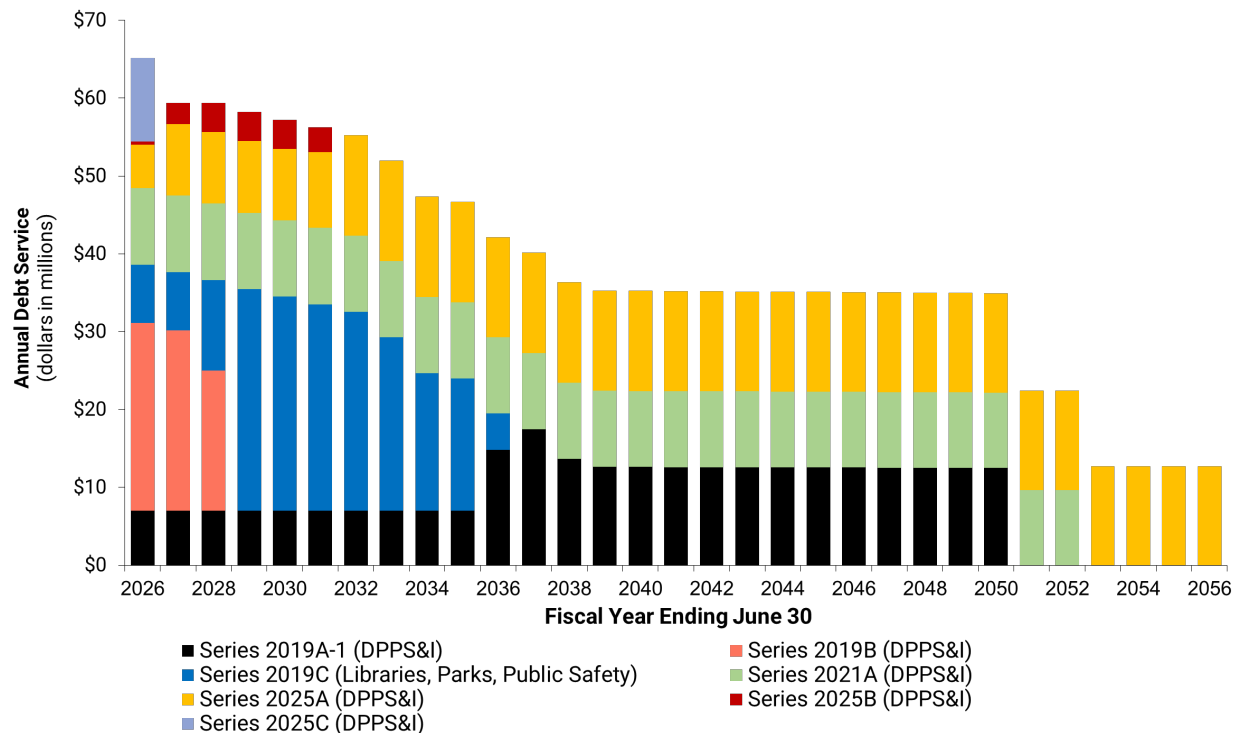
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Aggregate Debt Service Structure. The 2025 Bonds will be sold with an anticipated final maturity of September 1, 2055. The proposed debt service structure varies by individual series but provides for aggregate level debt service on the 2025 Bonds. Lower-cost tax-exempt bonds are amortized in the longer maturities, and higher-cost taxable bonds are amortized in the shorter maturities. The estimated true interest cost for the 2025 Bonds is approximately 4.52% based on market rates as of May 8, 2025.

The graph below provides an illustration of the debt service structure for 2025 Bonds and City's outstanding 2019 and 2021 Bonds.

General Obligation Bonds, Series 2019, Series 2021 and Series 2025 Actual and Estimated Debt Service Schedule



The initial “spike” of debt service in fiscal year 2025-2026 relates to the Series 2025C Bonds and will not be paid from levies of ad valorem property taxes on taxable property in the City. Instead, the debt on the Series 2025C Bonds will be paid from the proceeds of 2025A and 2025B Bonds, representing premium generated from the sale of such bonds.

Debt service on all series of the general obligation bonds is payable from *ad valorem* taxes upon all property within the City subject to taxation by the City. Staff and the financing team have structured the financing with coupons that appeal to investors while retaining future refunding opportunities for the City and to amortize higher cost taxable bonds as quickly and efficiently as possible. While actual rates will be determined

through the market bidding process in July, this structure is designed to achieve the lowest lifecycle cost for the 2025 Bonds and the most efficient financing possible. It will be modified based on the actual bids for the 2025 Bonds.

To pay for the debt service of 2025 Bonds, the City will levy approximately \$8 a year per \$100,000 of assessed value, or \$59, on a single-family and condominium of an assessed valuation of approximately \$736,000¹. In fiscal year 2025-2026, only partial-year interests on 2025 Bonds are due, and the increase to the general obligation tax levy on an average home in the City is estimated at \$27.29.

2025 Bonds Estimated Sources and Uses of Funds. The estimated sources and uses of funds for the financing are shown below.

City of San José General Obligation Bonds, Series 2025 Estimated Sources and Uses of Funds ⁽¹⁾				
Sources:	Series 2025A	Series 2025B	Series 2025C	Total
Bond Proceeds:				
Par Amount	\$183,790,000.00	\$15,190,000.00	\$10,590,000.00	\$209,570,000.00
Premium	11,925,902.25	153,148.65	69,788.10	12,148,839.00
Total Sources of Funds:	\$195,715,902.25	\$15,343,148.65	\$10,659,788.10	\$221,718,839.00
Uses:	Series 2025A	Series 2025B	Series 2025C	Total
Project Fund Deposits:				
Construction Fund	\$183,790,000.00	\$15,190,000.00	\$10,590,000.00	\$209,570,000.00
Other Fund Deposits:				
Capitalized Debt Service	\$10,716,792.59	\$53,217.34	\$119.07	\$10,770,129.00
Delivery Date Expenses ⁽²⁾ :				
Cost of Issuance	\$657,739.66	\$54,361.31	\$37,899.03	\$750,000.00
Underwriter's Discount	<u>551,370.00</u>	<u>45,570.00</u>	<u>31,770.00</u>	<u>628,710.00</u>
Subtotal Delivery Date Expenses	\$1,209,109.66	\$99,931.31	\$69,669.03	\$1,378,710.00
Total Uses of Funds:	\$195,715,902.25	\$15,343,148.65	\$10,659,788.10	\$221,718,839.00

⁽¹⁾ Preliminary; subject to change.

⁽²⁾ Includes Bond Counsel/Disclosure Counsel fees and expenses, Municipal Advisor fees and expenses, rating agencies fees, fiscal agent fees and expenses, and printing costs.

2025 Bonds Good Faith Estimates. On May 8, 2025, PRAG provided the following good faith estimates with respect to the 2025 Bonds in compliance with Section 5852.1

¹ Per the Santa Clara County Assessor's 2024-2025 Annual Report (p. 44), the average assessed value for single-family and condominium housing in San José is \$735,992.85.

of the California Government Code and has estimated the following, all of which are subject to changing market conditions and may be higher or lower than estimated:

True interest cost for the 2025 Bonds is approximately 4.52%.

- Finance charge of the 2025 Bonds is estimated to be \$1,378,710 (assumes \$750,000 in Cost of Issuance for Bond Counsel/Disclosure Counsel fees and expenses, Municipal Advisor fees and expenses, rating agencies fees, fiscal agent fees and expenses, and printing costs and \$628,710 for underwriters' discount).
- Estimated proceeds of the 2025 Bonds expected to be received by the City for deposit to the Project Fund, net of proceeds for Costs of Issuance as noted above to paid, capitalized interest, transferred premium to redeem the Series 2025C Bonds from the principal amount of the Bonds: \$209,570,000.
- Total payment amount, not paid with proceeds of the 2025 Bonds, is estimated to be \$389,998,375 to the final maturity of the bonds.

Security for the 2025 Bonds. The 2025 Bonds will be general obligations of the City payable from *ad valorem* taxes. In accordance with all relevant provisions of law, the City will be 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 the 2025 Bonds and the interest thereon. The City will be obligated to direct the County of Santa Clara to collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the 2025 Bonds.

The amount of the annual *ad valorem* tax levied by the City to repay all outstanding general obligation bonds and the Series 2025 Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the aggregate amount of debt service due on the City's general obligation bonds. Fluctuations in the annual debt service on the general obligation bonds, future general obligation bond issuances, and changes in the assessed value of taxable property in the City will cause the annual tax rate to vary each year. Factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by an earthquake, flood, or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate.

Financing Documents

The Authorizing Resolution authorizes a competitive sale of the 2025 Bonds pursuant to the Official Notice of Sale, provided that (a) the true interest costs of the 2025 Bonds shall not exceed 8.0% per annum, (b) the principal amount of the 2025 Bonds shall not exceed \$209,570,000, and (c) the final maturity date of the 2025 Bonds shall not be more than 40 years from the date of issuance.

The Authorizing Resolution also approves the proposed forms of the following documents relating to the 2025 Bonds: (i) the Fiscal Agent Agreement for the 2025 Bonds (the Fiscal Agent Agreement), (ii) the form of the 2025 Bonds as set forth in appendices to the Fiscal Agent Agreement, (iii) the Official Notice Inviting Bids for the competitive sale of the 2025 Bonds, and (iv) the Preliminary Official Statement with respect to the 2025 Bonds (the POS). Under the Authorizing Resolution, the City Manager, the Director of Finance, or the Deputy Director of Finance responsible for managing the City's debt program (each an "Authorized Officer" and, collectively, the "Authorized Officers") are authorized and directed to execute and deliver such documents in substantially the forms posted to the agenda webpage for this meeting, together with any changes therein or additions thereto approved by an Authorized Officer upon consultation with the City Attorney's Office. All the documents described below, in substantially final form, will be posted on the City's website with this Council memorandum.

Official Statement. The draft POS was reviewed and approved by the Disclosure Working Group on June 2, 2025. The distribution of the POS by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the POS to include all facts that would be material to an investor in the 2025 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of a reasonable investor when deciding whether to buy or sell the 2025 Bonds. If the City Council concludes that the POS includes all facts that would be material to an investor in the 2025 Bonds, and authorizes staff to proceed with the issuance of the 2025 Bonds, then one of the actions the City Council will take in the Authorizing Resolution is to authorize staff to execute a certificate to the effect that the POS has been "deemed final."

The Securities and Exchange Commission (the SEC) is the agency with regulatory authority over the City's compliance with the federal securities laws and has issued guidance as to the duties of the City with respect to its approval of the POS. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the Release), the SEC stated that, if a member of the authorizing board has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the bonds proposed to be sold, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the preliminary official statement for such bonds. In the Release, the SEC stated that the steps that a member of the Council could take include becoming familiar with the preliminary official statement and questioning staff and consultants about the disclosure of such facts.

Specifically for the 2025 Bonds, the steps that a member of the Council could take including becoming familiar with the POS and consultants about the disclosure of such facts concerning the following areas:

Purpose of Financing	Risks Relating to Repayment and Tax-Exempt Status of the 2025 Bonds, as applicable
Documents for Approval; Security for the 2025 Bonds	Requested Approvals

The information to address these areas in the Preliminary Official Statement can be found in the body of the document in the INTRODUCTION section, which describes the purpose of the 2025 Bonds and the source of repayment, among other things. More detailed information on these topics and on the risks related to repayment of the bonds are contained in the CERTAIN RISK FACTORS section as well as in Appendix A. Appendix A provides financial, economic, and demographic information about the City. Appendix B, which provides detailed information regarding the retirement plans, is included in order to give investors an understanding of the impact of retirement costs on the City's budget.

Staff recommends that Council approve the POS in substantially the form posted to the agenda webpage for this meeting, with such additions thereto or changes therein as any of the Authorized Officers, acting alone, shall deem necessary, desirable, or appropriate upon consultation with the City Attorney. Staff further recommends that each Authorized Officer be authorized and directed, for and on behalf of the City, to execute all certificates necessary to deem final the POS as of its date, with the exception of certain final pricing and related information. Staff has carefully reviewed the information contained in the draft POS and believes it to be accurate and complete in all material aspects. The Authorized Officers are further authorized and directed, each acting alone for and on behalf of the City, pursuant to the Authorizing Resolution, to execute and deliver the Official Statement with such additions thereto or changes therein.

If any councilmember has any personal knowledge that any of the material information in the POS is false or misleading, the councilmember must raise these issues prior to approval of the distribution of the document to potential investors in the 2025 Bonds.

City staff, representatives of Anzel Galvan LLP, the City's bond and disclosure counsel for the 2025 Bonds, and representatives of PRAG, the Municipal Advisor, will be available at the Council meeting on June 17, 2025, to address any questions, issues, and/or concerns.

Fiscal Agent Agreement. The Fiscal Agent Agreement is by and between the City, as the issuer of the 2025 Bonds, and Wilmington Trust, National Association, as the Fiscal Agent for the 2025 Bonds. This agreement sets forth terms of the 2025 Bonds and contains the responsibilities and duties of the Fiscal Agent and the rights of the bondholders. Wilmington Trust was selected to be the Fiscal Agent since it currently serves as Fiscal Agent for all the City's outstanding general obligation bonds. Retaining

a single bank to serve as fiscal agent for all the City's outstanding general obligation bonds allows for administrative efficiency.

Official Notice Inviting Bids/Notice of Intention to Sell Bonds. The Official Notice Inviting Bids describes the competitive bidding process, the bidding parameters governing the submission of bids by potential underwriters for the 2025 Bonds, and the basis for awarding the 2025 Bonds to an underwriter. This document is provided to potential bidders with the Preliminary Official Statement. In addition, pursuant to Section 53692 of the California Government Code, because the 2025 Bonds will be sold via competitive sale and will exceed \$10 million, the City must publish a notice of the intention to the 2025 Bonds at least five days prior to the proposed sale date in a financial publication generally circulated throughout the State of California or reasonably expected to be disseminated among prospective bidders for the 2025 Bonds. To meet such requirement, the City plans to arrange a Notice of Intention to Sell Bonds to be published in *The Bond Buyer* on or about June 23, 2025. The Authorizing Resolution ratifies and approves the publication of the Notice of Intention to Sell Bonds.

Continuing Disclosure Certificate. Pursuant to the Continuing Disclosure Certificate, the form of which is appended to the POS, the City will covenant for the benefit of owners of the 2025 Bonds to provide to the Electronic Municipal Market Access 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 on 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 described in the Continuing Disclosure Certificate. These covenants in the Continuing Disclosure Certificate will be made by the City in order to assist the underwriters of the 2025 Bonds in complying with SEC Rule 15c2-12(b)(5).

Financing Team Participants

The financing team participants consist of:

- City's Municipal Advisor: Public Resources Advisory Group, Inc.
- Bond and Disclosure Counsel: Anzel Galvan, LLP
- Fiscal Agent: Wilmington Trust, N.A.

The purchaser of the 2025 Bonds will be determined on the date bids are accepted by the City through a competitive sale process.

Financing Schedule

The current proposed schedule for the issuance of the 2025 Bonds is as follows:

City Council:	June 17, 2025
Bond Pricing:	July 9, 2025
Document closing:	July 23, 2025

EVALUATION AND FOLLOW-UP

This memorandum presents a recommendation for the City Council's approval of various actions related to the issuance of the 2025 Bonds and requires no follow-up to the City Council.

COST SUMMARY/IMPLICATIONS

The 2025 Bonds will be general obligations of the City, payable in whole from *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 the 2025 Bonds and the interest thereon. The City will be obligated to direct the County of Santa Clara to collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the 2025 Bonds.

Professional services (bond/disclosure counsel fees, municipal advisor fees, and rating agency fees) and other related costs are estimated to be approximately \$750,000 and will be paid from proceeds of the 2025 Bonds. The underwriter's discount is estimated to be approximately \$628,710 but will be determined based on the winning bid for the 2025 Bonds. The underwriter, municipal advisor, and bond/disclosure counsel work on a contingency basis and are only paid upon the successful closing of the 2025 Bonds.

COORDINATION

This memorandum was coordinated with the the City Attorney's Office, the City Manager's Budget Office, and the financing team participants.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 17, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-004, Government Funding Mechanism, or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

Maria Öberg
Director of Finance

For questions, please contact Qianyu Sun, Deputy Director of Finance – Debt and Treasury Management, at qianyu.sun@sanjoseca.gov or (408) 535-7832.