PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER [18], 2022

NEW ISSUE - FULL BOOK-ENTRY

RATINGS: S&P: "__"
Fitch: "__"
Kroll: "__"
See "RATINGS"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2022B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2022B Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that, for tax years beginning after December 31, 2022, interest on the Series 2022B Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2022B Bonds. See "TAX MATTERS."

$[PAR]*
CITY OF SAN JOSE FINANCING AUTHORITY
WASTEWATER REVENUE BONDS, SERIES 2022B
(GREEN BONDS – CLIMATE BOND CERTIFIED)

[CBI Logo]

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

The bonds captioned above (the "Series 2022B Bonds") are being issued by the City of San José Financing Authority (the "Authority") to (i) refund all of the Authority's outstanding Subordinate Wastewater Revenue Notes, Series A, and (ii) pay the costs of issuing the Series 2022B Bonds. See "FINANCING PLAN" and "DESIGNATION OF THE SERIES 2022B BONDS AS GREEN BONDS – CLIMATE BOND CERTIFIED."

The Series 2022B Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on May 1 and November 1 of each year, commencing on [May 1, 2023], and will be issued in fully registered form without coupons in integral multiples of $5,000. The Series 2022B Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Series 2022B Bonds will not receive certificates representing their interests in the Series 2022B Bonds. Payments of the principal of and interest on the Series 2022B Bonds will be made to DTC, which is obligated in turn to remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Series 2022B Bonds. See "THE SERIES 2022B BONDS – Book-Entry Only System."

The Series 2022B Bonds are being issued pursuant to a Master Indenture, dated as of December 1, 2022, as supplemented by a First Supplemental Indenture, dated as of December 1, 2022, each between the Authority and Wilmington Trust, National Association, as trustee (the "Trustee") (as so supplemented, the "Indenture"). The Series 2022B Bonds are limited obligations of the Authority payable from and secured by a pledge of the Revenues (as defined herein) and amounts on deposit in certain funds and accounts established under the Indenture. "Revenues" generally consist of installment payments (the "2022B Installment Payments") made by the City of San José (the "City") pursuant to a Master Installment Purchase Contract, dated as of December 1, 2022, as supplemented by a First Supplemental Installment Purchase Contract, dated as of December 1, 2022, each between the Authority and the City (as so supplemented, the "Installment Purchase Contract"). The City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, are payable solely from, and secured by a pledge of, Net System Revenues (as defined herein) which generally consist of revenues less maintenance and operation costs of the City's sanitary sewer collection system and San José-Santa Clara Regional Wastewater Facility (excluding any revenues and costs of the South Bay Water Recycling Program System). The City is authorized to issue or create additional obligations payable from, and secured by the pledge of, Net System Revenues on a parity with the 2022B Installment Payments. **The Series 2022B Bonds will not be secured by a debt service reserve fund or account.** See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS." **The Series 2022B Bonds are subject to redemption before maturity. See "THE SERIES 2022B BONDS – Redemption."**

NONE OF THE SERIES 2022B BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL THEREOF OR INTEREST THEREON, AND THE OBLIGATION OF THE CITY TO MAKE THE 2022B INSTALLMENT PAYMENTS CONSTITUTES EITHER A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY OR THE AUTHORITY. THE CITY'S TAXING POWER IS NOT PLEDGED TO THE PAYMENT OF THE SERIES 2022B BONDS OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF SERIES 2022B BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE SERIES 2022B BONDS. INVESTMENT IN THE SERIES 2022B BONDS INVOLVES RISKS THAT MAY NOT BE APPROPRIATE FOR SOME INVESTORS. SEE "CERTAIN RISK FACTORS."

The Series 2022B Bonds will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority and the City by the City Attorney, and by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, ArentFox Schiff LLP, San Francisco, California. It is anticipated that the Series 2022B Bonds in definitive form will be available for delivery to DTC in New York, New York on or about December [15], 2022.

Wells Fargo Securities **Morgan Stanley**

Academy Securities **Ramirez & Co., Inc.** **Stifel**

The date of this Official Statement is: December __, 2022.

* Preliminary; subject to change.

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

MATURITY SCHEDULE

$[PAR]*
CITY OF SAN JOSE FINANCING AUTHORITY
WASTEWATER REVENUE BONDS, SERIES 2022B
(GREEN BONDS – CLIMATE BOND CERTIFIED)

Base CUSIP†: _____

Maturity (November 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Number

$____ - ____% Term Series 2022B Bonds due November 1, 20__; Yield ____%;
Price ____ ; CUSIP†: ___

$____ - ____% Term Series 2022B Bonds due November 1, 20__; Yield ____%;
Price ____ ; CUSIP†: ___

*Preliminary, subject to change.

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

BOARD AND CITY COUNCIL MEMBERS

Sam Liccardo, Mayor, Chair(1)

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

AUTHORITY AND CITY OFFICERS

Jennifer A. Maguire, Executive Director and City Manager
Toni Taber, Secretary and City Clerk
Julia H. Cooper, Treasurer and Director of Finance(2)
Nora Frimann, City Attorney

CITY STAFF

Luz Cofresí-Howe, Assistant Director, Department of Finance
Qianyu Sun, Deputy Director of Finance, Debt & Treasury Management
Kerrie Romanow, Director of Environmental Services
Napp Fukuda, Assistant Director, Environmental Services

PROFESSIONAL SERVICES

BOND COUNSEL
Orrick, Herrington & Sutcliffe LLP

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

MUNICIPAL ADVISOR
Public Resources Advisory Group, Inc.
Los Angeles, California

TRUSTEE
Wilmington Trust, National Association
Costa Mesa, California

(1) [Footnote to be added to reflect results of November 8, 2022 election].
(2) Ms. Cooper has announced plans to retire as Treasurer and Director of Finance effective on or about March 31, 2023. A recruitment process is currently underway. An interim Treasurer and Director of Finance has not yet been announced by the City.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Series 2022B Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Series 2022B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Series 2022B Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Document References and Summaries. All references to and summaries of the Indenture, the Installment Purchase Contract, the Master Resolution or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

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

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the Series 2022B Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. 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," "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 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. NEITHER THE CITY NOR THE AUTHORITY PLAN 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.

Internet Site. 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 Series 2022B 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. Such websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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

TABLE OF CONTENTS

TABLE OF CONTENTS
(Continued)

OFFICIAL STATEMENT

$[PAR][*]
CITY OF SAN JOSE FINANCING AUTHORITY
WASTEWATER REVENUE BONDS, SERIES 2022B
(GREEN BONDS – CLIMATE BOND CERTIFIED)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2022B Bonds (as defined herein) being offered and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The information and expressions of opinion herein speak only as of their date and are subject to change without notice.

*Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City of San José Financing Authority (the "**Authority**") or the City of San José (the "**City**") since the date hereof. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture, the Master Resolution and the Installment Purchase Contract (as such terms are defined herein).* See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

General

This Official Statement, including the cover and the Appendices attached hereto (the "**Official Statement**"), provides certain information concerning the sale and delivery of the City of San José Financing Authority Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified) (the "**Series 2022B Bonds**"). The Series 2022B Bonds are being issued pursuant to a Master Indenture, dated as of December 1, 2022, as supplemented by a First Supplemental Indenture, dated as of December 1, 2022, each between the Authority and Wilmington Trust, National Association, as trustee (the "**Trustee**") (as so supplemented, the "**Indenture**").

When delivered, the Series 2022B Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("**DTC**"), which will act as Depository for the Series 2022B Bonds. Purchases of the Series 2022B Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Series 2022B Bonds will not receive physical delivery of certificated securities. Principal of and interest on the Series 2022B Bonds will be payable by

[*] Preliminary; subject to change.

the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Series 2022B Bonds. See APPENDIX G – "BOOK-ENTRY ONLY SYSTEM."

The Series 2022B Bonds are being issued to (i) refund all of the Authority's outstanding Subordinate Wastewater Revenue Notes, Series A (the "**Prior Subordinate Notes**") in the aggregate principal amount of $300 million, and (ii) pay the costs of issuing the Series 2022B Bonds. See "FINANCING PLAN" and "DESIGNATION OF THE SERIES 2022B BONDS AS GREEN BONDS – CLIMATE BOND CERTIFIED."

The Series 2022B Bonds are subject to optional and mandatory sinking fund redemption prior to their stated maturities as described in this Official Statement. See "THE SERIES 2022B BONDS – Redemption."

The Authority

The Authority is a joint exercise of powers authority created pursuant to Section 6500 *et seq*., of the California Government Code and a joint exercise of powers agreement, dated December 8, 1992, by and between the City and the former Redevelopment Agency of the City of San José (the "**Former Agency**"). The Former Agency has been dissolved and the Successor Agency to the Redevelopment Agency of the City of San José (the "**Successor Agency**") has become the successor agency to the Former Agency. The Authority, the Successor Agency and the City are each separate and distinct legal entities, and the debts and obligations of one such entity are not the debts or obligations of the other entities. See "THE AUTHORITY."

The City

The City, with an estimated population as of January 1, 2022 of approximately 976,482 (as reported by the California Department of Finance), is the third most populous city in the State of California (the "**State**") and the tenth most populous city in the United States. The territory of the City encompasses approximately 180 square miles. Located at the southern end of the San Francisco Bay, the City is the county seat of the County of Santa Clara (the "**County**"). See "THE CITY" for additional information regarding the City and APPENDIX A – "THE CITY OF SAN JOSE: DEMOGRAPHIC AND ECONOMIC INFORMATION" for certain demographic and economic information regarding the City, the County and the State.

The Wastewater System

The City owns and operates a sanitary sewer collection and conveyance system (the "**Sanitary Sewer Collection System**") which provides wastewater collection service for the City. The Sanitary Sewer Collection System includes approximately 2,030 miles of wastewater collection system pipeline that ranges from 6 to 90 inches in diameter, and includes approximately 39,500 manholes, 17 sanitary lift stations, two soil beds, and one injection station. See "THE WASTEWATER SYSTEM – Sanitary Sewer Collection System Facilities."

The wastewater collected by the Sanitary Sewer Collection System is conveyed to the San José-Santa Clara Regional Wastewater Facility[1] by major interceptor pipelines located in

---

[1] The legal name of the Treatment Plant is the San José-Santa Clara Water Pollution Control Plant. Since 2013, the Treatment Plant is commonly known as the San José-Santa Clara Regional Wastewater Facility.

the northern part of San José. The San José-Santa Clara Regional Wastewater Facility is owned by the City and the City of Santa Clara and is the largest advanced wastewater treatment plant in the western United States.

The San José-Santa Clara Regional Wastewater Facility includes the South Bay Water Recycling Program System, which generally consists of reclamation facilities that produce and deliver recycled water that meets the standards to remove contaminants set forth in Chapter 3 of Division 4 of Title 22 of the California Code of Regulations. **As further described in this Official Statement, the revenues of the South Bay Water Recycling Program System will not be pledged, nor otherwise be available, to make 2022B Installment Payments and thereby pay debt service on the Series 2022B Bonds (see "– Security and Source of Payment for the Series 2022B Bonds" below)**. Accordingly, this Official Statement does not include information regarding the South Bay Water Recycling Program System Statement (financial or otherwise) and the facilities of the San José-Santa Clara Regional Wastewater Facility other than the South Bay Water Recycling Program System are referred to in this Official Statement as the "**Treatment Plant**."

The Treatment Plant is operated by the City of San José's Environmental Services Department on behalf of the City and the City of Santa Clara and their tributary partners, the City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, County Sanitation District 2-3, and Burbank Sanitary District (such tributary partners are hereinafter referred to as the "**Tributary Agencies**"). See "THE WASTEWATER SYSTEM – Treatment Plant – *General*."

The City, as the administering agency for the Treatment Plant, oversees the activities of the Treatment Plant. The Treatment Plant Advisory Committee (the "**TPAC**") is an advisory body, comprised of representatives of the City, Santa Clara and three of the Tributary Agencies that was established to provide policy and budget guidance to the City. See "WASTEWATER SYSTEM – Management and Operations – *Treatment Plant Advisory Committee*."

The Sanitary Sewer Collection System and the Treatment Plant are referred to collectively in this Official Statement as the "**Wastewater System**." See "THE WASTEWATER SYSTEM" for additional information regarding the Wastewater System.

Security and Source of Payment for the Series 2022B Bonds

The Series 2022B Bonds are limited obligations of the Authority payable from and secured by a pledge of the Revenues and amounts on deposit in the funds and accounts established under the Indenture, other than the Rebate Fund. The Authority is authorized to issue additional revenue bonds from time to time payable from Revenues on a parity with the Series 2022B Bonds ("**Additional Bonds**"). See "– Additional Bonds."

"**Revenues**" generally consist of the 2022B Installment Payments (the "**2022B Installment Payments**") made by the City pursuant to a Master Installment Purchase Contract, dated as of December 1, 2022, between the Authority and the City, as supplemented by a First Supplemental Installment Purchase Contract, dated as of December 1, 2022, between the Authority and the City (as so supplemented, the "**Installment Purchase Contract**"), and any other installment payments which may be payable pursuant to the Installment Purchase Contract in connection with Additional Bonds issued in the future (such other installment payments and the 2022B Installment Payments are hereinafter referred to as the "**Installment Payments**").

The City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, have been designated by the City as "**Parity Obligations**" within the meaning of the resolution entitled "A Resolution of the City Council of the City of San José Amending and Restating Resolution 78382 Providing for the Allocation of Wastewater System Revenues, the Pledge of Wastewater Net System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Wastewater Net System Revenues," adopted by the City Council of the City (the "**City Council**") on November 15, 2022 (as amended from time to time in accordance with its terms, the "**Master Resolution**"). As such, the City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, are payable solely from, and secured by a pledge of, Net System Revenues on a parity with certain outstanding obligations of the City as described in this Official Statement. The Master Resolution was adopted by the City Council to provide for the allocation of System Revenues and the pledge of Net System Revenues to secure Parity Obligations.

"**Net System Revenues**" generally consist of, for any period, the System Revenues for such period less Maintenance and Operation Costs (as defined herein) for such period.

"**System Revenues**" generally consist of all moneys received by the City from rents, rates, fees, charges and subsidies received for, and all other income and receipts derived by the City from, the operation of the Wastewater System.

System Revenues do not include, among other things, income, rents, rates, fees, charges, subsidies and receipts derived by the City from the ownership and operation of, or otherwise derived from or related to, the South Bay Water Recycling Program System. The South Bay Water Recycling Program System generally consists of the water reclamation facilities originally established in 1995 and pursuant to the National Pollutant Discharge Elimination System Permit for the Wastewater System and by the Silicon Valley Advanced Water Purification Center, and the conveyance system that delivers recycled water to customers of water retailers, as more particularly defined in the Master Resolution. Accordingly, no revenues of the South Bay Water Recycling Program System will be pledged, or otherwise available, to make 2022B Installment Payments (and thereby pay debt service on the Series 2022B Bonds) or to make any other Installment Payments payable by the City under the Installment Purchase Contract in the future.

See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Limited Obligations; Sources of Payment."

No Debt Service Reserve Fund

The Series 2022B Bonds will not be secured by a debt service reserve fund or account. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – No Debt Service Reserve Fund."

Rate Covenant

Pursuant to the Master Resolution, the City has agreed, while any Installment Payments (including the 2022B Installment Payments) remain unpaid, to fix and prescribe, or cause to be fixed and prescribed, rates and charges for the use of the Wastewater System in each Fiscal Year that are reasonably estimated to yield during each Fiscal Year Adjusted Net System Revenues for such Fiscal Year equal to at least 100% of all obligations of the City payable from Net System Revenues for such Fiscal Year.

In addition, pursuant to the Master Resolution, the City has agreed, while any Installment Payments (including the 2022B Installment Payments) remain unpaid, to fix and prescribe, or cause to be fixed and prescribed, rates and charges for the use of the Wastewater System in each Fiscal Year that are reasonably estimated to yield during each Fiscal Year Adjusted Net System Revenues for such Fiscal Year at least equal to 110% of the Debt Service on all Outstanding Parity Obligations, including the 2022B Installment Payments, for such Fiscal Year.

"**Adjusted Net System Revenues**" generally consist of, for any period, Net System Revenues less Subsidy Payments received or expected to be received in such period and the payments received or expected to be received in such period from other users of the Treatment Plant for debt service related to the Treatment Plant payable by other users of the Treatment Plant.

The City may transfer amounts from the Rate Stabilization Fund and deposit such amounts in the Wastewater Treatment System Fund within the period prescribed by the Master Resolution, and any amounts so transferred will be deemed System Revenues when so transferred. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Stabilization Fund" and "– Rate Covenant."

Additional Bonds

In addition to the Series 2022B Bonds, the Authority is authorized to issue Additional Bonds pursuant the Indenture, upon satisfaction of the conditions specified in the Indenture. Such Additional Bonds are referred to collectively with the Series 2022B Bonds as the "**Bonds**." See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – [Issuance of Additional Bonds]" for a description of such conditions.

Parity and Subordinate Obligations

Parity Obligations*.* The City may issue or create additional obligations payable from, and secured by the pledge of, Net System Revenues on a parity with the 2022B Installment Payments ("**Parity Obligations**"), upon satisfaction of the conditions specified in the Master Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Parity Obligations – *Conditions Precedent for Future Parity Obligations*." On the date the Series 2022B Bonds are issued, other than the 2022B Installment Payments, no Parity Obligations will remain outstanding under Master Resolution.

Subordinate Obligations*.* To assist the City to finance and refinance the acquisition, construction and installation of capital improvements to the Wastewater System, the Authority and the City previously entered into a Credit Agreement dated as of October 1, 2017 (as amended from time to time, the "**WFBNA Credit Agreement**"), among the City, the Authority and Wells Fargo Bank, National Association ("**WFBNA**"). Pursuant to the WFBNA Credit Agreement, WFBNA has agreed to make revolving loans to the Authority in the aggregate principal amount not to exceed $300 million outstanding at any one time. WFBNA's commitment to make revolving loans to the Authority pursuant to the WFB Agreement is scheduled to terminate on October 18, 2023. The Authority's repayment obligations under the WFBNA Credit Agreement are evidenced by subordinate wastewater revenue notes issued by the Authority from time to time and held by WFBNA pursuant to the terms of the WFBNA Credit Agreement.

As of the date of this Official Statement, the subordinate wastewater revenue notes delivered by the Authority under the WFBNA Credit Agreement are outstanding in the aggregate principal amount of $300 million, evidenced exclusively by the Prior Subordinate Notes. A portion of the net proceeds of the Series 2022B Bonds will be used to refund all of the outstanding Prior Subordinate Notes within 90 days of the date the Series 2022B Bonds are issued by the Authority (the "**Closing Date**"). The Prior Subordinate Notes financed the City's allocable share of the cost of certain capital improvements to the Treatment Plant. See "THE FINANCING PLAN – Refunding of Prior Subordinate Notes."

The Authority's payment obligations under WFBNA Credit Agreement are payable from installment payments (the "**2017 Installment Payments**") made by the City to the Authority under the Subordinate Installment Purchase Contract, dated as of October 1, 2017 (the "**2017 Contract**"), between the Authority and the City. The City has designated the 2017 Installment Payments as "**Subordinate Obligations**" under the Master Resolution and, as such, the 2017 Installment Payments are payable solely from, and secured by a pledge of and lien on, the Net System Revenues on a subordinate basis to the Installment Payments, including the 2022B Installment Payments, and any other Parity Obligations issued or created by the City pursuant to the terms of the Master Resolution. The City's outstanding 2017 Installment Payments will be repaid contemporaneous with the refunding of the Prior Subordinate Notes. Upon repayment, no 2017 Installment Payments will remain outstanding.

The City may incur or create additional Subordinate Obligations, including additional obligations to make 2017 Installment Payments in the event additional revolving loans are made by WFBNA under the WFBNA Credit Agreement, in the future upon satisfaction of the conditions specified in the Master Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Subordinate Obligations."

Limited Obligation

THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL AND INTEREST ON THE SERIES 2022B BONDS IS A LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM THE AMOUNTS PLEDGED THEREFOR. NONE OF THE SERIES 2022B BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL THEREOF OR INTEREST THEREON, AND THE OBLIGATION OF THE CITY TO MAKE THE 2022B INSTALLMENT PAYMENTS CONSTITUTES EITHER A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY OR THE AUTHORITY. THE CITY'S TAXING POWER IS NOT PLEDGED TO THE PAYMENT OF THE SERIES 2022B BONDS OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

Continuing Disclosure Information

The City has agreed to provide, or cause to be provided, in accordance with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "**Rule**"), certain annual financial information and operating data, including audited financial statements, and an update of certain information relating to the Wastewater System. Such annual information and data will not include updates regarding the status of the Projects (as hereinafter defined). See "CONTINUING DISCLOSURE."

Professionals Involved in the Offering

Public Resources Advisory Group, Inc., Los Angeles, California, has acted as municipal advisor to the Authority and the City (the "**Municipal Advisor**"). Wilmington Trust, National Association, Costa Mesa, California, will act as Trustee with respect to the Series 2022B Bonds. WFBNA on its own behalf and on behalf of Morgan Stanley & Co. LLC, Academy Securities, Inc., Samuel A. Ramirez & Co., Inc. and Stifel, Nicolaus & Company, Inc. (collectively, the "**Underwriters**"), are underwriting the Series 2022B Bonds.

The validity of the Series 2022B Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority and the City by the City Attorney, and by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, ArentFox Schiff LLP, San Francisco, California, as Underwriters' Counsel. *Payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Municipal Advisor, the Underwriters and Underwriters' Counsel is contingent upon the sale and delivery of the Series 2022B Bonds.*

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "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 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. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. Neither the Authority nor the City is obligated to issue any updates or revisions to the forward-looking statements if, or when, its expectations, or events, conditions or circumstances on which such statements are based change.

Risk Factors

Certain events could affect the ability of the Authority and the City to pay debt service on the Series 2022B Bonds and to make the 2022B Installment Payments, respectively, when due. See the caption "CERTAIN RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters that are set forth in this Official Statement, in evaluating an investment in the Series 2022B Bonds.

Miscellaneous

The descriptions herein of the Master Resolution, the Indenture, the Installment Purchase Contract and any other agreements relating to the Series 2022B Bonds are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2022B Bonds are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

FINANCING PLAN

Refunding of Prior Subordinate Notes

The Prior Subordinate Notes are subject to optional prepayment at any time. At closing, the net proceeds of the Series 2022B Bonds in an amount sufficient to prepay the Prior Subordinated Notes will be deposited with the Trustee. A portion of such proceeds will be invested in federal securities and the remainder will be held in cash, uninvested. Within 90 days of the Closing Date, from such amounts, an amount sufficient to prepay the Prior Subordinated Notes will be remitted to Wells Fargo Bank to prepay the Prior Subordinate Notes in full.

Projects

Pursuant to agreements with the City of Santa Clara and the Tributary Agencies, the Tributary Agencies pay for a portion of costs for capital improvements to the Treatment Plant based on their respective contractual capacity in the Treatment Plant. The balance of the costs are shared between the City of Santa Clara and the City on a pro rata basis determined on an annual basis by the ratio of each city's annual assessed valuation to the sum of both cities' assessed valuation. See "THE WASTEWATER SYSTEM – Treatment Plant – *Treatment Plant Ownership*" and "– *Master Agreements with Tributary Agencies*" for a discussion regarding the allocation of such costs.

The Prior Subordinate Notes financed the City's allocable share of the cost of certain capital improvements to the Treatment Plant (collectively, the "**Projects**") generally within the following categories (and approximate amounts financed with proceeds of the Prior Subordinate Notes): (i) facilities relating to biosolids (approximately $109 million); (ii) electrical systems and power generation (approximately $71 million); (iii) preliminary treatment facilities (approximately $52 million); (iv) site facility improvements and other improvements (approximately $32 million); (v) secondary treatment facilities (approximately $31 million); and (vi) tertiary treatment facilities (approximately $5 million).

Certain of the Projects have been completed or are substantially complete as of the date of this Official Statement. The City has received the capital contributions allocable to the City of Santa Clara and the Tributary Agencies and anticipates that all Projects will be completed by July 2026. The Projects include the capital improvements and facilities described below.

<u>Digester and Thickener Facilities Upgrade</u>. This project consisted of the rehabilitation of four digesters and modifies the system to operate as a two-phase Temperature Phased Anaerobic Digestion ("**TPAD**") system to provide the Treatment Plant with the ability to increase biogas production and produce Class A biosolids (if required by future regulations). This project also included the rehabilitation of dissolved air flotation units for sludge co-thickening, pressure saturation tanks, pipes, pumps, and ancillary equipment. A new odor control system, primary sludge screening facility, heat exchangers, biogas flare, polymer dosing facility, and new rack mounted digester gas conveyance system were also constructed above grade to replace existing piping in the digester tunnels.

This project was substantially complete in October 2022 at a total cost of approximately $219 million. The City's share of such cost was approximately $151 million, of which approximately $100 million was financed with proceeds of the Prior Subordinate Notes and the remaining approximately $51 million was financed with sewer service and use charges of the City. The remaining approximately $68 million was financed with capital contributions from the City of Santa Clara and the Tributary Agencies.

Energy Generation Improvements. This project consisted of the construction of a new building to house four new, advanced generation biogas internal combustion engines, electrical switchgear, heat recovery systems, control system, and monitoring system. A new digester gas treatment system, various appurtenances to support the engines and buildings, digester gas pipeline and natural gas pipeline were also constructed as part of this project. New emergency diesel generators and storage tanks were also installed at the Treatment Plant to provide backup power in the event of an extended power outage.

This project was substantially completed in December 2020 at a total cost of approximately $114 million. Of such amount, approximately $61 million was financed with proceeds of the Prior Subordinate Notes and the remaining $53 million was financed with sewer service and use charges of the City and capital contributions from the City of Santa Clara and the Tributary Agencies.

New Headworks. This project consists of the construction of a new headworks facility to serve as the Treatment Plant's long-term duty headworks. Upon arrival at the Treatment Plant, wastewater passes through headworks, where large screens remove debris such as sticks, rocks, trash, and rags. Wastewater then flows to grit chambers that remove heavier objects like sand and gravel. As part of this project, the emergency overflow basin will be lined and spray down systems will be installed to facilitate cleaning. The new headworks facility will also include new odor control mechanisms.

The City anticipates that this project will be completed in December 2023 at a total estimated cost of approximately $152 million. Of such amount, $44 million was financed with proceeds of the Prior Subordinate Notes and the remaining approximately $108 million will be financed with sewer service and use charges of the City and capital contributions from the City of Santa Clara and the Tributary Agencies.

Aeration Tank and Blower Rehabilitation. During the second stage of the treatment process at the Treatment Plant, aeration tanks pump air into the wastewater to nurture the growth of naturally occurring aerobic bacteria that remove organic pollutants in the water. This project includes the installation of new motors, new variable frequency drives/reduced voltage soft starters, new instrumentation and controls for ten existing blowers, as well as the decommissioning and demolition of four blowers. The City anticipates that this project will result in increased reliability, efficiency, and redundancy for the entire biological treatment process at the Treatment Plant using modern controls and instrumentation upgrades.

The City anticipates that this project will be completed by February 2023 at a total estimated cost of approximately $50 million. Of such amount, approximately $22 million was financed with proceeds of the Prior Subordinate Notes and the remaining approximately $28 million will be financed with sewer service and use charges of the City and capital contributions from the City of Santa Clara and the Tributary Agencies.

Nitrification Clarifier Rehabilitation. This project includes phased rehabilitation of the 16 nitrification clarifiers at the Treatment Plant. Structural improvements may include concrete repairs and coating, new clarifier mechanisms and baffle installations, pipe support, meter vault replacements, and walkway improvements. Mechanical improvements may also include piping, valve and actuator rehabilitations, spray water system rehabilitations, scum skimmer system upgrades, and return activated sludge piping lining. Electrical and instrumentation improvements may include motor control center rehabilitations, new wiring, and other electrical equipment upgrades. Other incidental work may include grouting, painting, coating, and other surface treatments.

The City anticipates that this project will be completed by August 2023 at a total estimated cost of approximately $52 million. Of such amount, approximately $9 million was financed with proceeds of the Prior Subordinate Notes and the remaining approximately $43 million will be financed with sewer service and use charges of the City and capital contributions from the City of Santa Clara and the Tributary Agencies.

Digested Sludge Dewatering Facility. This project consists of the construction of a new mechanical dewatering facility and support systems to replace the existing open-air sludge lagoons and open air solar drying beds at the Treatment Plant (see "WASTEWATER SYSTEM – Treatment Process – *Digesters*" for a description of the current digesters at the Treatment Plant). All new mechanical dewatering units, feed tank, storage, conveyance, and chemical dosing facilities will be housed in an odor-controlled building. Upon completion of this project, digested sludge (biosolids) will be pumped from the Treatment Plant's main operational area across Zanker Road where enclosed mechanical equipment (centrifuges) will remove some water from the biosolids to reduce the weight and volume of the material requiring transport.

Construction of the new dewatering facility is anticipated to (i) position the Treatment Plant to have multiple and diversified disposition options with the eventual closure of Newby Island Landfill, (ii) reduce the footprint of the biosolids processing area and enable other land uses, and (iii) reduce odors in the community. The existing open-air sludge lagoons and open air solar drying beds at the Treatment Plant consistently result in approximately 3,000 truck trips per fiscal year. In 2020, the Treatment Plant disposed of nearly 60,000 tons of biosolids. The future mechanical dewatering process is estimated to result in approximately 100,000 tons of biosolids, requiring 4,105 to 4,745 truck trips per year, or approximately 11 to 13 per day, to haul biosolids off-site. The larger number of truck trips and amount of biosolids, when compared with the current operation, is due to the higher water content in the dewatered biosolids as opposed to very dry biosolids produced as a result of the current three-and-a-half-year treatment process. In addition, the City anticipates having more options for managing the dewatered biosolids because there are more options for beneficially using biosolids with higher water content. For example, dewatered biosolids can be directly land applied or used as feedstock for compost and fertilizer manufacturing operations. The City is exploring options for putting dewatered biosolids to beneficial use with third parties, including the production of compost and fertilizer.

The new dewatering facility is also anticipated to provide the City with the flexibility to respond to regulatory changes governing the allowable disposal of treated biosolids, including California Code of Regulations Title 14, Division 7, Chapter 3 et seq. ("**SB 1383**") adopted in 2016 and related regulations. SB 1383 directed the State's Department of Resources Recycling and Recovery ("**CalRecycle**") to develop regulations that reduce the emission of short-lived climate pollutants, such as methane, resulting from the landfill disposal of organic material. SB

1383 set statewide targets to reduce 50% of organics going to landfill by 2020, and a 75% reduction by 2025.

The regulations adopted by CalRecycle in connection with SB 1383 (herein referred to as the "**CalRecycle Diversion Regulations**") require local jurisdictions, including the City, to implement specific actions to help the State meet the diversion targets in SB 1383. The diversion targets are not directly applicable to jurisdictions, like the City, on an individual basis. Biosolids diversion from landfills, in conjunction with solid waste management strategies for other organics, are anticipated to help the diversion requirements established by the CalRecycle Diversion Regulations as to the City and the County. The diversion of biosolids from the Treatment Plant is also anticipated to proportionally benefit the City of Santa Clara and the Tributary Agencies.

In 2020, approximately 62% of organics generated within the jurisdictional boundaries of the City were diverted from the landfill disposal, exceeding SB 1383's statewide diversion target of 50% for such year. The CalRecycle Diversion Regulations also require jurisdictions to procure a set amount of recovered organic waste products annually where the target is based on a jurisdiction's population. Using or giving away products made from recovered organic waste (e.g., compost made from biosolids) could fulfill a jurisdiction's procurement requirements. The procurement requirements apply to all cities and counties that provide solid waste collection services to its residents. Therefore, it is each jurisdiction's responsibility to document its compliance with the various SB 1383 regulatory requirements, including procurement targets (e.g., using contracts, invoices and/or similar records).

The Bay Area Air Quality Management District ("**BAAQMD**") has regulations and initiatives to reduce odors and emissions from industrial sources, including the Treatment Plant. For example, during the annual hauling period of the Treatment Plant's biosolids from the drying beds to Newby Island Landfill, BAAQMD typically sends inspectors to monitor the process. Also, BAAQMD has commissioned an odor study to evaluate odorous emissions from local facilities, including the Treatment Plant. Results of BAAQMD's study will be used in future rulemaking and enforcement actions. In late 2018, BAAQMD began the rulemaking process for Regulation 13: Climate Pollutants. Regulation 13 currently targets different sectors (e.g., organic material handling facilities, composting facilities, wastewater plants, and refineries) with a focus on regulating emissions of methane and nitrous oxide with secondary goals of reducing the emission of organic compounds and odors. The lagoons and the Treatment Plant have the potential to emit methane and could be impacted by the final regulations. Final regulations have not yet been adopted, but it is possible that the new dewatering facility will give the City the ability to comply with such regulations.

The City anticipates that this project will be completed by November 2025, at a total estimated cost of approximately $174 million. Of such amount, approximately $8 million was financed with proceeds of the Prior Subordinate Notes and the remaining approximately $166 million will be financed with sewer service and use charges of the City and capital contributions from the City of Santa Clara and the Tributary Agencies.

See "THE WASTEWATER SYSTEM – Treatment Plant" for additional information regarding the Treatment Plant and "THE WASTEWATER SYSTEM – Wastewater Treatment" for a description of the Treatment Plant's current treatment process.

As previously described, the City has agreed to provide, or cause to be provided, in accordance with the Rule, certain annual financial information and operating data, including audited financial statements, and an update of certain information relating to the Wastewater System with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("**EMMA**") system. The City will not be required to file additional information regarding the Projects with the EMMA system in the future. See "CONTINUING DISCLOSURE."

Estimated Sources and Uses of Funds

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

Sources:	
Principal Amount	$
Plus: [Net] Original Issue Premium	
TOTAL SOURCES	$
Uses:	
Refund Prior Subordinate Notes (1)	
Costs of Issuance (2)	
TOTAL USES	$

(1) Represents funds to prepay the Prior Subordinate Notes. See "FINANCING PLAN – Refunding of Prior Subordinate Notes."
(2) Includes underwriters' discount, bond and disclosure counsel fees, municipal advisor's fees, printing costs, fees of rating agencies, trustee fees and other costs of issuing the Series 2022B Bonds.

Debt Service Schedule

Scheduled debt service on the Series 2022B Bonds, assuming no redemptions prior to maturity, is shown in the following table.

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
2051			
2052			
2053			
Total			

DESIGNATION OF THE SERIES 2022B BONDS AS GREEN BONDS – CLIMATE BOND CERTIFIED

Designation

The information set forth below concerning (i) the Climate Bonds Initiative ("**CBI**") and the process for obtaining certification from CBI, and (ii) Kestrel Verifiers in its role as a verifier with respect to the certification of the Series 2022B Bonds as Climate Bond Certified, all as more fully described below, has been extracted from materials provided by CBI and Kestrel Verifiers. Additional information relating to CBI and the certification process can be found at www.climatebonds.net. The CBI website is included for reference only and the information contained therein is not incorporated by reference in this Official Statement. No representation is made by the City, the Authority or the Underwriters regarding the applicability of or suitability of the certification of the Series 2022B Bonds as Climate Bond Certified.

In connection with the Series 2022B Bonds and the Projects, the City applied to the CBI for designation of the Series 2022B Bonds as "Climate Bond Certified." CBI is an independent not-for-profit organization that works solely on mobilizing the bond market for climate change solutions. CBI has established a certification program that provides criteria for eligible projects to be considered a Certified Climate Bond. Rigorous scientific criteria ensure that financed activities are consistent with the 1.5 degrees Celsius warming target declared in the 2015 Paris Agreement which exists within the United Nations Framework Convention on Climate Change, to address greenhouse-gas-emissions mitigation, adaptation, and finance. The CBI certification program is used globally by bond issuers, governments, investors and the financial markets to prioritize investments which genuinely contribute to addressing climate change.

The CBI standards use credible, science-based, widely supported guidelines about what should and should not be considered a qualifying climate-aligned investment to assist investors in making informed decisions about the environmental credentials of a bond. In order to receive the CBI certification, the City engaged Kestrel Verifiers, a third-party CBI Approved Verifier, to provide verification to the CBI Certification Board that the Series 2022B Bonds meet the CBI standards and relevant sector criteria. Kestrel Verifiers reviewed and provided verification to CBI, and CBI certified the Series 2022B Bonds as Climate Bonds on November [__], 2022. Kestrel Verifiers will also provide a Post-Issuance Report to CBI as to whether the proceeds of the Series 2022B Bonds have been allocated properly.

The terms "Climate Bond Certified" and "Green Bonds" are solely for identification purposes and are not intended to provide or imply that the owners of the Series 2022B Bonds are entitled to any security other than that described under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS."

The certification of the Series 2022B Bonds as Climate Bonds by the Climate Bonds Initiative is based solely on the Climate Bond Standard and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the Series 2022B Bonds or the Project, including but not limited to the Official Statement, the transaction documents, the City, the Authority or their management.

The certification of the Series 2022B Bonds as Climate Bonds by the Climate Bonds Initiative was addressed solely to the City and is not a recommendation to any person to purchase, hold or sell the Series 2022B Bonds and such certification does not address the market price or suitability of the Series 2022B Bonds for a particular investor. The certification also does not address the merits of the decision by the City, the Authority or any third party to participate in any nominated project and does not express and should not be deemed to be an expression of an opinion as to the City, the Authority or any aspect of the Projects (including but not limited to the financial viability of the Projects) other than with respect to conformance with CBI's standards for Certified Climate Bonds.

In issuing or monitoring, as applicable, the certification, CBI and Kestrel Verifiers have assumed and relied upon and will assume and rely upon the accuracy and completeness in all material respects of the information supplied or otherwise made available to CBI and Kestrel Verifiers. CBI does not assume or accept any responsibility to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of any nominated project, the City or the Authority.

In addition, CBI does not assume any obligation to conduct (and it has not conducted) any physical inspection of any nominated project. The certification may only be used with the Series 2022B Bonds and may not be used for any other purpose without CBI's prior written consent.

The certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the Series 2022B Bonds and/or the payment of principal at maturity or any other date.

The certification may be withdrawn at any time in the Climate Bonds Initiative's sole and absolute discretion and there can be no assurance that such certification will not be withdrawn. Any such withdrawal could affect the market price of the Series 2022B Bonds.

Approved Verifier for Third Party Verification of Climate Bond

The City has engaged Kestrel Verifiers to provide a Verification on the Series 2022B Bonds' conformance with the Climate Bond Standard V3.0. Kestrel Verifiers has determined that the projects and activities to be financed with the proceeds of the Series 2022B Bonds satisfy the Climate Bond Standard V3.0 and the Water Infrastructure Sector Criteria (Version 3.2). Accredited as an "Approved Verifier" by the Climate Bonds Initiative, Kestrel Verifiers evaluates bonds against the Climate Bonds Initiative Standards and Criteria in all sectors worldwide. Kestrel's Climate Bond Verifier's Report is attached to this Official Statement as APPENDIX I – "CLIMATE BOND VERIFIER'S REPORT."

The Verification Report of Kestrel Verifiers reflects only the views of Kestrel Verifiers. Any explanation of the significance of the Verification Report may be obtained from Kestrel Verifiers. The City will not be required to file additional information regarding the Projects with the EMMA system in the future.

THE SERIES 2022B BONDS

General

The Series 2022B Bonds shall be dated as of their date of issuance, shall bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) at the rates per annum (payable semiannually on May 1 and November 1 in each year (each an "**Interest Payment Date**"), commencing on [May 1, 2023]) and shall mature and become payable on November 1 in each of the years in the principal amounts set forth on the inside cover hereof.

The Series 2022B Bonds shall be issued in fully registered form in denominations of $5,000 or any integral multiple thereof.

The Series 2022B Bonds shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is an Interest Payment Date or is during the period from the day after the Record Date preceding an Interest Payment Date to such Interest Payment Date, both days inclusive, in which event they shall bear interest from such Interest Payment Date, or unless such date of authentication is prior to the Record Date for the first Interest Payment Date, in which event they shall bear interest from their date; provided, that if at the time of authentication of any Series 2022B Bond interest is then in default on any Outstanding Serie 2022 Bonds, such Series 2022B Bonds shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on such Outstanding Series 2022B Bonds.

Payment of interest on the Series 2022B Bonds due on or before the maturity or prior redemption thereof shall be made to the person whose name appears in the bond registration books kept by the Trustee as the registered owner thereof as of the close of business on the Record Date for each Interest Payment Date, whether or not such day is a Business Day, and shall be paid by check mailed on such Interest Payment Date by first class mail to such Holder at the address of such Holder as it appears in such registration books; provided, that upon the written request of any Holder of $1,000,000 or more in aggregate principal amount of Series 2022B Bonds received by the Trustee prior to the applicable Record Date (which such request shall remain in effect until rescinded in writing by such Holder), interest shall be paid on each Interest Payment Date by wire transfer of immediately available funds to an account maintained in any state or national bank or trust company in the United States of America that is a member of the Federal Reserve System designated in writing by such Holder. Payment of the principal of the Series 2022B Bonds shall be made only to the person whose name appears in the registration books required to be kept by the Trustee pursuant to the Indenture as the registered owner thereof, such principal to be paid only on the surrender of the Series 2022B Bonds at the Corporate Trust Office of the Trustee at maturity or on redemption prior to maturity.

Redemption*

***Optional Redemption**.* The Series 2022B Bonds maturing on or after November 1, 20__, are subject to optional redemption prior to their respective maturity dates, at the option of the Authority, on any date on or after November 1, 20__, from any source of available funds, as a whole or in part, at a redemption price equal to the principal amount thereof called for redemption, plus accrued interest to the date fixed for redemption, without premium.

---

* Preliminary; subject to change.

Mandatory Sinking Fund Redemption. The Series 2022B Bonds maturing on November 1, 20__ (the "**2022B Term Bonds**") Term Bonds are subject to mandatory redemption by the Authority prior to their maturity date, in part by lot on November 1 of each year on and after November 1, 20__, from and in the amount of Sinking Fund Account Payments as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

Sinking Fund Payment Date (November 1)	Sinking Fund Account Payment
	$
(Final Maturity)	

If any Series 2022B Term Bonds have been optionally redeemed as described above under the subcaption "– *Optional Redemption*," the amounts of such Sinking Fund Account Payments shall be reduced in the manner determined by the Authority pursuant to the Indenture.

Selection of Bonds for Redemption. If less than all the Outstanding Series 2022B Bonds are to be redeemed at the option of the Authority at any one time, the Authority shall select the maturity date or dates of the Series 2022B Bonds to be redeemed, and (subject to the foregoing) if less than all the Outstanding Series 2022B Bonds maturing by their terms on any one maturity date are to be redeemed at any one time, the Trustee shall select by lot the Series 2022 Bonds or the portions thereof of such maturity date to be redeemed in integral multiples of $5,000.

Notice of Redemption*.* Notice of redemption shall be mailed by first-class mail by the Trustee, not less than 20 nor more than 60 days prior to the redemption date, to the respective Holders of the Series 2022B Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Each notice of redemption shall state the date of such notice, the Series 2022B Bonds to be redeemed, the date of the Series 2022B Bonds, the redemption date, the redemption price, the place of redemption (including the name and appropriate address of the Corporate Trust Office of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive numbers of the Series 2022B Bonds of such maturity to be redeemed and, in the case of Series 2022B 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 the Series 2022B Bonds to be redeemed the redemption price thereof, and in the case of a Series 2022B Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and each such notice shall require that such Series 2022B Bonds be then surrendered at the address of the Trustee specified in the redemption notice; provided, that neither failure to receive any such notice nor any immaterial defect contained therein shall invalidate any of the proceedings taken in connection with such redemption.

Rescindable and Conditional Notices*.* Any notice of redemption may be rescinded by written notice given to the Trustee by the Authority no later than 2 Business Days prior to the date specified for redemption, and the Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as the notice of such redemption was given as described above.

With respect to any notice of optional redemption of Series 2022B Bonds, unless, upon the giving of such notice, such Series 2022B Bonds shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium (if any) and interest on, such Series 2022B Bonds to be redeemed and that if such amounts shall not have been so received the notice shall be of no force and effect and the Authority shall not be required to redeem such Series 2022B Bonds. The Authority may also instruct the Trustee to provide conditional notice of optional redemption, which may be conditioned on the occurrence of any other event if such notice states that if such event does not occur the notice shall be of no force and effect and the Authority shall not be required to redeem such Series 2022B Bonds. In the event that such notice of optional redemption contains such a condition and such amounts are not so received or such event does not occur, the optional redemption shall not be made and the Trustee shall, within a reasonable time thereafter, give notice to the Holders to the effect that such amounts were not so received or such event did not occur and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given. Such failure to optionally redeem such Series 2022B Bonds shall not constitute an Event of Default.

Partial Redemptions. Upon surrender of any Series 2022B Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the registered owner thereof (at the expense of the Authority) a new Series 2022B Bond or Series 2022B Bonds and maturity date and of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Series 2022B Bond surrendered.

Effect of Redemption. If notice of redemption has been duly given as required under the Indenture and money for the payment of the principal of, together with interest to the redemption date on, the Series 2022B Bonds or portions thereof so called for redemption is held by the Trustee, then on the redemption date designated in such notice the Series 2022B Bonds or such portions thereof shall become due and payable, and from and after the date so designated interest on the Series 2022B Bonds or such portions thereof so called for redemption shall cease to accrue and the Holders of such Series 2022B Bonds shall have no rights in respect thereof except to receive payment of the principal of such portions thereof and the interest accrued thereon to the redemption date.

Book-Entry Only System

The Series 2022B Bonds will be delivered in fully registered form, will be transferable and exchangeable as set forth in the Indenture and, when delivered, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as Depository for the Series 2022B Bonds. Ownership interests in the Series 2022B Bonds may be purchased in book-entry form only, in authorized denominations. So long as the Series 2022B Bonds are registered in the name of Cede & Co., all payments with respect to principal of and interest on the Series 2022B Bonds will be made by the Trustee to DTC, which is obligated in turn to remit such payments to its Direct Participants for subsequent disbursement to the Beneficial Owners of the Series 2022B Bonds. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS

Limited Obligations; Sources of Payment

The Series 2022B Bonds are limited obligations of the Authority payable from and secured by a pledge of the Revenues and amounts on deposit in certain funds and accounts established under the Indenture.

"**Revenues**" generally consist of the Installment Payments, including the 2022B Installment Payments, payable by the City under the Installment Purchase Contract. The City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, are payable solely from, and secured by a pledge of, Net System Revenues of the Wastewater System.

The City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, have been designated by the City as "**Parity Obligations**" within the meaning of the Master Resolution. As such, the City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, are payable solely from, and secured by a pledge of, Net System Revenues as provided in the Installment Purchase Contract and the Master Resolution. The Master Resolution was adopted by the City Council to provide for the allocation of System Revenues and the pledge of Net System Revenues to secure Parity Obligations. See "– Pledge of Net System Revenues" below.

"**Net System Revenues**" are defined in the Master Resolution to mean, for any period, the System Revenues for such period less Maintenance and Operation Costs for such period

"**System Revenues**" are defined in the Master Resolution to mean all income, rents, rates, fees, charges, subsidies and receipts derived by the City from the ownership and operation of the Wastewater System, determined in accordance with generally accepted accounting principles, including (1) sewer service and use charges imposed by the City with respect to the Wastewater System; (2) connection charges imposed for the cost of connecting to the Treatment Plant to the extent lawfully available for the payment of Obligations; (3) connection fees imposed for the cost of connecting to the Sanitary Sewer Collection System to the extent lawfully available for the payment of Obligations; and (4) payments received from other users of the Treatment Plant for (i) Maintenance and Operation Costs of the Treatment Plant or (ii) debt service related to the Treatment Plant payable by other users of the Treatment Plant pursuant to any agreement entered into by such users. System Revenues also include all interest, profits or other income derived from the deposit or investment of any moneys in any fund or account established by the City for the deposit of System Revenues and all repayments of any loans made for customer retrofits required for connection to the Treatment Plant.

System Revenues do not include (a) refundable deposits made to establish credit, lease deposits and security deposits; (b) the proceeds of any Obligations or indebtedness; (c) insurance proceeds or condemnation awards; (d) grants to the City which are designated by the grantor for a specific purpose and are therefore not available to be treated as System Revenues; (e) payments by users of the Wastewater System made to cover Capital Costs of the Wastewater System; (f) moneys received from the levy of ad valorem taxes by the City; and (g) all income, rents, rates, fees, charges, subsidies and receipts derived by the City from the ownership and operation of, or otherwise derived from or related to, the South Bay Water Recycling Program System. **Accordingly, no revenues of the South Bay Water Recycling Program System will be pledged, or otherwise be available, to make 2022B Installment**

Payments (and thereby pay debt service on the Series 2022B Bonds) or to make any other Installment Payments payable by the City under the Installment Purchase Contract in the future.

The Master Resolution provides that there shall be deducted from current System Revenues any amounts transferred into the Rate Stabilization Fund from current System Revenues and there shall be added to current System Revenues any amounts transferred out of the Rate Stabilization Fund, in each case as provided in the Master Resolution. See "– Rate Stabilization Fund."

"**Maintenance and Operation Costs**" are defined in the Master Resolution to mean the City's reasonable and necessary costs of and charges for maintenance and operation of the Wastewater System, determined in accordance with generally accepted accounting principles, including (among other things) the City's reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, reasonable amounts for administration, overhead, taxes (if any) and other similar costs.

Maintenance and Operation Costs also include (1) all fees, compensation or expenses required to be paid by the City pursuant to any Contract or other agreement relating to an Obligation, including fees, compensation or expenses of trustees, paying agents, credit enhancement providers, liquidity providers, hedge providers, remarketing agents or similar entities (for the avoidance of doubt, payments made under any such Contract that is or may be taken into account in connection with the calculation of Debt Service shall be excluded from Maintenance and Operation Costs and any payment owed pursuant to a Hedge Agreement by reason of an event of default under or termination of such Hedge Agreement shall be excluded from Maintenance and Operation Costs) and (2) Qualified Take or Pay Obligations. Hedge Agreements, as defined in the Master Resolution, generally consists of interest rate swaps, caps, collars, options, floors, forwards, derivatives, or other hedging agreements, arrangements, or security, however denominated, entered into between the City and a counterparty in connection with or incidental to the issuance, incurrence, or carrying of Obligations.

Maintenance and Operation Costs do not include (a) depreciation or obsolescence charges or reserves therefor, (b) capital asset expenditures, (c) amortization of intangibles or other bookkeeping entries of a similar nature, (d) interest charges and charges for the payment of bonded or other indebtedness, (e) losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Wastewater System, (f) such property-items which are capitalized pursuant to then-existing accounting practices of the City, (g) Maintenance and Operation Costs payable from direct payments by users of the Wastewater System made to cover capital costs of the Wastewater System, (h) Capital Costs of the Wastewater System, or (i) any costs of or charges for or relating to the South Bay Water Recycling Program System.

"**Capital Costs of the Wastewater System**" are defined in the Master Resolution to mean costs, or charges made therefor, for capital additions, replacement (except for capital expenditures for obtaining and installing equipment, accessories or appurtenances which are necessary during the service life of the Treatment Plant to maintain the capacity and performance for which the Treatment Plant was designed and constructed and do not constitute major rehabilitation needed as individual unit processes or other facilities near the end of their useful lives, structural rehabilitation, or Treatment Plant expansions or upgrades to meet future user demands), betterments, extensions or improvements to or retirements from the Wastewater System.

Assignment and Pledge of Revenues

Under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Authority pledges and assigns to the Trustee for the benefit of the Holders of the Bonds all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) to secure the payment of the principal of, redemption premiums, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Revenues and such other amounts shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, that out of the Revenues there may be applied such sums for such purposes as are permitted under the Indenture. Said pledge constitutes a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

In order to secure the pledge of the Revenues under the Indenture, the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Holders, all of the Authority's rights under the Installment Purchase Contract, including all Supplemental Contracts (excepting any of its rights to indemnification thereunder), including the right to receive the Installment Payments from the City, and the right to exercise any remedies provided therein in the event of a default by the City thereunder. The Trustee accepts said assignment for the benefit of the Holders subject to the provisions of the Master Indenture.

Receipt and Deposit of Revenues in the Revenue Fund

In order to carry out and effectuate the pledge, charge and lien contained in the Indenture, the Authority agrees and covenants that all Revenues when and as received by it will be forthwith transferred by it to the Trustee for deposit in the "City of San José Financing Authority Wastewater Revenue Bonds Revenue Fund" (the "**Revenue Fund**"), which fund is established under the Indenture and will be maintained by the Trustee so long as any Bonds are Outstanding under the Indenture. All money in the Revenue Fund shall be accounted for through and held in trust in the Revenue Fund by the Trustee, and the Authority shall have no beneficial right or interest in any money in the Revenue Fund except only as provided in the Indenture. The Indenture provides that all Revenues, whether received by the Authority or deposited with the Trustee as provided in the Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Use of the Revenue Fund

All money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Revenue Fund in the following order of priority: (a) Interest Account (which is created by the Indenture and which the Trustee covenants and agrees to cause to be maintained so long as any Bonds are Outstanding), (b) Redemption Account (including the Principal Subaccount and the Sinking Fund Subaccount therein) (which is created by the Indenture and which the Trustee covenants and agrees to cause to be maintained so long as any Bonds are Outstanding), and (c) Reserve Accounts, if any (established pursuant to any Supplemental Indenture). All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the following purposes:

(i) Interest Account. On each Interest Payment Date, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account an amount of money equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date; provided, that no such deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

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

(ii) Redemption Account. On each Principal Payment Date, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Subaccount in the Redemption Account (which subaccount the Trustee covenants and agrees in the Indenture to cause to be maintained so long as any Serial Bonds shall be Outstanding) an amount of money equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on such Principal Payment Date, and on each Sinking Fund Payment Date, the Trustee shall set aside from the Revenue Fund and deposit in the Sinking Fund Subaccount in the Redemption Account (which subaccount the Trustee covenants and agrees in the Indenture to cause to be maintained so long as any Term Bonds shall be Outstanding) an amount of money equal to the aggregate Sinking Fund Account Payments required to be deposited therein on such Sinking Fund Payment Date for all Outstanding Term Bonds; provided, that the aforesaid payments into the Redemption Account shall be made without priority of any one payment over any other payment, and in the event that the money in the Revenue Fund on any Principal Payment Date or Sinking Fund Payment Date is not equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on such Principal Payment Date plus the aggregate Sinking Fund Account Payments required to be deposited in the Sinking Fund Subaccount on such Sinking Fund Payment Date, then such money shall be applied pro rata in the proportion that such principal and Sinking Fund Account Payments bear to each other; and provided further, that no such deposit need be made in the Redemption Account if the amount contained in the Principal Subaccount therein is at least equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on such Principal Payment Date and the amount contained in the Sinking Fund Subaccount therein is at least equal to the aggregate Sinking Fund Account Payments required to be deposited therein on such Sinking Fund Payment Date for all Outstanding Term Bonds.

All money in the Principal Subaccount in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Serial Bonds as they shall become due and payable, whether at maturity or on prior redemption upon the notice and in the manner provided in the Indenture, and all money in the Sinking Fund Subaccount in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming the Term Bonds, and with respect to the Sinking Fund Subaccount, on each Sinking Fund Payment Date the Trustee shall apply the Sinking Fund Account Payment required to be made on such date to the redemption of the Term Bonds upon the notice and in the manner provided in the Indenture or for the payment at maturity of the Term Bonds; provided, that at any time prior to selection of Term Bonds for such redemption the Trustee shall, upon receipt of a Written Request of the Authority, apply any money in the Sinking Fund Subaccount to the purchase for cancellation of Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in such Written Request of the Authority, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for the Term Bonds upon redemption by application of such Sinking Fund Account Payment, and if during the twelve-month period immediately preceding any Sinking Fund Payment Date the Trustee has purchased for cancellation any Term Bonds with money in the Sinking Fund Subaccount, the principal amount of such Term Bonds so purchased for cancellation shall be applied to the extent of the full principal amount thereof to reduce the Sinking Fund Account Payment due on such Sinking Fund Payment Date.

(iii) Reserve Accounts. On each Interest Payment Date, the Trustee shall set aside from the remaining money in the Revenue Fund and deposit in each Reserve Account, if any, an amount of money equal to the amount, if any, necessary to restore the amount on deposit in such Reserve Account to the applicable Reserve Requirement (including any amounts necessary to reinstate the amount of any Reserve Facility held in any such Reserve Account). The Series 2022B Bonds will not be secured by a debt service reserve fund or account. See "– No Debt Service Reserve Fund" below.

Pledge of Net System Revenues

In the Master Resolution, the City pledges the Net System Revenues to secure the payment of all Parity Obligations, including the Installment Payments, and Subordinate Obligations with the priorities set forth therein; provided that out of Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Master Resolution as summarized under the subcaption "– Allocation of System Revenues" below. Such pledge constitutes a first and exclusive pledge on Net System Revenues.

Allocation of System Revenues; 2022B Installment Payments

Allocation of Net System Revenues. The Master Resolution further provides that, in order to carry out and effectuate the pledge of Net System Revenues therein, the City agrees and covenants that all System Revenues shall be accounted for in the Wastewater Treatment System Fund, which fund the City agrees and covenants to maintain on its books and records so long as any Parity Obligations or Subordinate Obligations remain Outstanding, and all System Revenues accounted for in the Wastewater Treatment System Fund shall be applied and used only in the following order as provided in the Master Resolution:

(1) The City shall pay all Maintenance and Operation Costs as they become due and payable and shall make such deposits to the Rate Stabilization Fund as it may determine from time to time in accordance with the Master Resolution (and as summarized under the subcaption "– Rate Stabilization Fund" below);

(2) The City shall pay all payments that are Parity Obligations and make any deposits or transfers required to be made by the City pursuant to all Parity Obligation Contracts, in each case at the times and in the amounts required by each Parity Obligation Contract; and

(3) The City shall pay all payments that are Subordinate Obligations and make any deposits or transfers required to be made by the City pursuant to all Subordinate Obligation Contracts, in each case at the times and in the amounts required by each Subordinate Obligation Contract.

So long as all payments required to be paid by the City pursuant to the provisions of the Master Resolution described immediately above have been paid and all deposits or transfers required to be made by the City pursuant to the provisions of the Master Resolution described immediately above have been made at the times and in the amounts required by the Master Resolution, System Revenues accounted for in the Wastewater Treatment System Fund may be applied and used by the City for any lawful purpose.

2022B Installment Payments. Under the Installment Purchase Contract, the City is required to pay the principal installments of the 2022B Installment Payments on each November 1 in the years and amounts set forth on the insider cover of this Official Statement, and interest installments of the 2022B Installment Payments on each May 1 and November 1, beginning on [May 1, 2023], in the respective amounts due on the Series 2022B Bonds on each Interest Payment Date. The 2022B Installment Payments constitute Parity Obligations under the Master Resolution.

No Debt Service Reserve Fund

The Series 2022B Bonds will not be secured by a debt service reserve fund or account.

Rate Stabilization Fund

Under the Master Resolution, from time to time the City may deposit into a fund previously denominated by the City as the "**Rate Stabilization Fund**," from current System Revenues, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. The City may also deposit amounts in the Rate Stabilization Fund from any lawfully available source other than current System Revenues and the amount of available current System Revenues shall not be reduced by the amounts so transferred. Amounts may be transferred from the Rate Stabilization Fund and deposited in the Wastewater Treatment System Fund, and any amounts so transferred shall be deemed System Revenues when so transferred. Deposits to and transfers from the Rate Stabilization Fund for each Fiscal Year shall be made within 270 days after the end of such Fiscal Year. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues. As of June 30, 2022, approximately $2 million was on deposit in the Rate Stabilization Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to, and do not otherwise secure, the payment of debt service on the Series 2022B Bonds or any Parity Obligations.

Rate Covenant

Pursuant to the Master Resolution, the City has agreed, while any of the Installment Payments (including the 2022B Installment Payments) remain unpaid, to fix and prescribe, or cause to be fixed and prescribed, rates and charges for the use of the Wastewater System in each Fiscal Year that are reasonably estimated to yield during each Fiscal Year an amount of Adjusted Net System Revenues for such Fiscal Year equal to at least (1) 110% of the Debt Service on all Outstanding Parity Obligations for such Fiscal Year, (2) 100% of the Debt Service on all Outstanding Parity Obligations and Outstanding Subordinate Obligations for such Fiscal Year, and (3) 100% of all obligations of the City payable from Net System Revenues in such Fiscal Year (collectively, the "**Coverage Requirement**"). The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Adjusted Net System Revenues from such reduced rates and charges will at all times be sufficient to meet such requirements. As previously described, the City may transfer amounts from the Rate Stabilization Fund and deposit such amounts in the Wastewater Treatment System Fund within the period prescribed by the Master Resolution, and any amounts so transferred will be deemed System Revenues when so transferred. See "– Rate Stabilization Fund" above.

So long as the City has complied with its obligations described in the immediately preceding paragraph, the failure of the Adjusted Net System Revenues for any Fiscal Year to be equal to at least the Coverage Requirement for such Fiscal Year shall not constitute a default by the City under the Master Resolution.

"**Adjusted Net System Revenues**" are defined in the Master Resolution to mean, for any period, Net System Revenues for such period less: (1) to the extent included in the calculation of Net System Revenues for such period and taken into account in the calculation of Debt Service in accordance with the Master Resolution, all Subsidy Payments received or expected to be received in such period; and (2) to the extent included in the calculation of Net System Revenues for such period and taken into account in the calculation of Debt Service in accordance with the Master Resolution, payments received or expected to be received in such period from other users of the Treatment Plant for debt service related to the Treatment Plant payable by other users of the Treatment Plant pursuant to any agreement entered into by such users.

"**Subsidy Payments**" are defined in the Master Resolution to mean payments with respect to the principal or interest or other regularly scheduled payment due on an Obligation made by the United States Treasury or other entity to the City or a trustee or fiduciary pursuant to Section 54AA of the Code, Section 6431 of the Code, or Section 1400U-2 of the Code or any successor to or extension or replacement of any of such provisions of the Code, or pursuant to any other statutory or regulatory framework providing for a subsidy, reimbursement, grant or other payment from a governmental entity.

Parity Obligations

No Existing Parity Obligations. On the date the Series 2022B Bonds are issued, other than the 2022B Installment Payments, no Parity Obligations will remain outstanding under Master Resolution.

Conditions Precedent for Future Parity Obligations. Under the Master Resolution, the City may at any time and from time to time create any Parity Obligations in the future, on the terms and upon satisfaction of the conditions precedent set forth in the Master Resolution, including the following:

(1) There shall not have occurred and be continuing any "Event of Default" under the terms of any Parity Obligation Contract (including the Installment Purchase Contract) or Subordinate Obligation Contract that will not be cured in connection with the creation of such additional Parity Obligations and the creation of such additional Parity Obligations will not constitute either an "Event of Default" under any Parity Obligation Contract or Subordinate Obligation Contract or an event which, with the giving of notice or the passage of time or both, would constitute an "Event of Default" under any Parity Obligation Contract or Subordinate Obligation Contract; and

(2) The City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that either:

(A) the Adjusted Net System Revenues for either the most recent Fiscal Year for which audited financial statements are available or any 12 consecutive calendar month period (selected by the City) during the 18 consecutive calendar month period ending immediately prior to the creation of such additional Parity Obligations were at least equal to the Coverage Requirement for the most recently completed Fiscal Year, including in the calculation of the Coverage Requirement for this purpose the Average Annual Debt Service for the additional Parity Obligations to be created; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the Adjusted Net System Revenues for such Fiscal Year or 12 calendar month period, as the case may be, to reflect:

(i) an allowance for Net System Revenues that would have been derived from each new connection to the Wastewater System, or any part thereof, that was made prior to the creation of such additional Parity Obligations but which was not in existence during all or any part of such Fiscal Year or 12 calendar month period under consideration, in an amount equal to the estimated additional Net System Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12 calendar month period,

(ii) an allowance for Net System Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for use of the Wastewater System which became effective prior to the creation of such additional Parity Obligations but which was not in effect during all or any part of such Fiscal Year or 12 calendar month period, in an amount equal to the estimated additional Net System Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or 12 calendar month period; and

(iii) an allowance for Net System Revenues that would have been derived from any increase in the amounts chargeable to other users of the Treatment Plant pursuant to any contract with those users, which increase became effective prior to the creation of such additional Parity Obligations but which was not in effect during all or any part of such Fiscal Year or 12 calendar month period, in an amount equal to the estimated additional Net System Revenues that would have been derived from such increase if it had been in effect prior to the beginning of such Fiscal Year or 12 calendar month period; or

(B) the estimated Adjusted Net System Revenues for each of the five full Fiscal Years next following the earlier of (i) the end of the period during which interest on such additional Parity Obligations is to be capitalized or, if no interest is capitalized, the Fiscal Year in which such additional Parity Obligations are incurred, or (ii) the date on which substantially all projects financed with the proceeds of such additional Parity Obligations plus all projects financed with all existing Parity Obligations are expected to commence operations, will be at least equal to the Coverage Requirement for each such Fiscal Year; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the foregoing estimated Adjusted Net System Revenues to reflect:

(i) an allowance for Net System Revenues that are estimated to be derived from any increase in the rates, fees and charges for use of the

Wastewater System which have been adopted and which will be in effect during all or any portion of the period for which such estimates are provided;

(ii) an allowance for Net System Revenues that are estimated to be derived from new connections to the Wastewater System, or any part thereof, reasonably expected during all or any portion of the period for which such estimates are provided in an amount equal to the additional Net System Revenues that are estimated to be derived from such connections; and

(iii) an allowance for Net System Revenues that are estimated to be derived from any increase in the amounts chargeable to other users of the Treatment Plant pursuant to any contract with those users, which increase will be in effect during all or any portion of the period for which such estimates are provided.

For purposes of paragraph (B) above, with respect to Maintenance and Operation Costs, the City or the City's Consultant, as applicable, shall use such assumptions (which shall be set forth in such certificate or certificates) as such believes to be reasonable, taking into account: (i) historical Maintenance and Operation Costs, (ii) Maintenance and Operation Costs associated with any additions, improvements or betterments to or extensions or rehabilitations of the Wastewater System to be financed with the proceeds of such additional Parity Obligations and any other new additions, improvements or betterments to or extensions or rehabilitations of the Wastewater System during the period for which such estimates are provided and (iii) such other factors, including inflation and changing operations or policies, as the City or the City's Consultant, as applicable, believes to be appropriate.

Without regard to the conditions precedent described above, the City may at any time create Parity Obligations for the purpose of refunding, refinancing or prepaying any obligation payable from Net System Revenues (including the payment of any costs incurred in connection with such refunding, refinancing or prepayment and the creation of such Parity Obligations and the creation of reserve funds, if any, for such Parity Obligations) provided that (i) there shall not have occurred and be continuing an "Event of Default" under the terms of any Parity Obligation Contract or Subordinate Obligation Contract that will not be cured in connection with the creation of such Parity Obligations and (ii) the creation of such Parity Obligations will not constitute either an "Event of Default" under any Parity Obligation Contract or Subordinate Obligation Contract or an event which, with the giving of notice or the passage of time or both, would constitute an "Event of Default" under any Parity Obligation Contract or Subordinate Obligation Contract.

See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" for a further description of the conditions precedent in the Master Resolution with respect to the issuance or incurrence of additional Parity Obligations in the future.

Subordinate Obligations

Under the Master Resolution, the City may create additional Subordinate Obligations without regard to the requirements of the Master Resolution described in paragraph (2) under the subcaption "– Parity Obligations – *Conditions Precedent for Future Parity Obligations*" above as long as there shall not have occurred and be continuing an "Event of Default" under the terms of any Parity Obligation Contract or Subordinate Obligation Contract that will not be cured in connection with the creation of such Subordinate Obligations and the creation of such Subordinate Obligations will not constitute either an "Event of Default" under any Parity Obligation Contract or Subordinate Obligation Contract or an event which, with the giving of notice or the passage of time or both, would constitute an "Event of Default" under any Parity Obligation Contract or Subordinate Obligation Contract.

As previously described, to assist the City to finance and refinance the acquisition, construction and installation of capital improvements to the Treatment Plant, the Authority and the City previously entered into the WFBNA Credit Agreement with Wells Fargo Bank. Pursuant to the WFBNA Credit Agreement, Wells Fargo Bank agreed to make loans to the Authority from time to time on a revolving basis in the aggregate principal amount not to exceed $300 million outstanding at any one time. The Authority's repayment obligations under the WFBNA Credit Agreement are evidenced by subordinate wastewater revenue notes issued by the Authority from time to time and held by Wells Fargo Bank pursuant to the terms of the WFBNA Credit Agreement. Wells Fargo Bank's commitment to make revolving loans to the Authority pursuant to the WFB Agreement is scheduled to terminate on October 18, 2023.

As of the date of this Official Statement, the subordinate wastewater revenue notes delivered by the Authority under the WFBNA Credit Agreement are outstanding in the aggregate principal amount of $300 million, evidenced exclusively by the Prior Subordinate Notes. A portion of the net proceeds of the Series 2022B Bonds will be used to refund all of the outstanding Prior Subordinate Notes within 90 days of the Closing Date. The Prior Subordinate Notes financed the City's allocable share of the cost to acquire certain capital improvements to the Treatment Plant. See "THE FINANCING PLAN – Refunding of Prior Subordinate Notes."

The Authority's payment obligations under the WFBNA Credit Agreement are payable from 2017 Installment Payments made by the City to the Authority under the 2017 Contract. The City has designated the 2017 Installment Payments as "**Subordinate Obligations**" under the Master Resolution and, as such, the 2017 Installment Payments are payable solely from, and secured by a pledge of and lien on, the Net System Revenues on a subordinate basis to the Installment Payments, including the 2022B Installment Payments, and any other Parity Obligations issued or created by the City pursuant to the terms of the Master Resolution. The City's outstanding 2017 Installment Payments will be repaid contemporaneous with the refunding of the Prior Subordinate Notes. Upon the repayment, no 2017 Installment Payments will remain outstanding. The City may incur or create additional Subordinate Obligations, including additional obligations to make 2017 Installment Payments in the event additional revolving loans are made by WFBNA under the WFBNA Credit Agreement, in the future upon satisfaction of the conditions specified in the Master Resolution.

Other Covenants

In the Installment Purchase Contract, the City agrees to faithfully observe and perform all the agreements, conditions, covenants and terms contained therein, in any Supplemental Contract and in the Master Resolution required to be observed and performed by it, and will not terminate the Installment Purchase Contract or the Master Resolution for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Wastewater System or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Contract required to be observed and performed by it, whether express or implied. The City will, so long as any Installment Payments remain unpaid, apply the Net System Revenues as provided in the Master Resolution. See "– Allocation of System Revenues; 2022B Installment Payments" above.

The Master Resolution contains various covenants and agreements of the City relating to financial and operational aspects of the Wastewater System, including the setting and collection of rates and charges at specified levels. See "– Rate Covenant" above. The Master Resolution also contains covenants relating to the following matters, among others: the establishment of accounts and payment priorities for Maintenance and Operation Costs and other expenses of the Wastewater System; conditions precedent to the incurrence of Parity Obligations; payment of taxes and compliance with governmental regulations; and adherence to insurance requirements. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

THE AUTHORITY

The Authority is a joint exercise of powers authority created pursuant to Section 6500 *et seq*., of the California Government Code and a joint exercise of powers agreement, dated December 8, 1992, by and between the City and the Successor Agency, as successor to the Former Agency. The Authority, the Successor Agency and the City are each separate and distinct legal entities, and the debts and obligations of one such entity are not the debts or obligations of the other entities.

Pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as amended (the "**Act**"), the Authority is authorized to issue bonds for the purpose of financing, refinancing or providing reimbursement for costs incurred in connection with the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of public capital improvements of public entities such as the City. The Act provides for the issuance of revenue bonds by joint exercise of powers authorities, such as the Authority, to be repaid from the proceeds of certain public obligations, such as the Installment Purchase Contract. The intent of the California Legislature, as stated in the Act, is to assist in the reduction of local borrowing costs, help accelerate the construction, repair and maintenance of public capital improvements, and promote greater use of existing and new financial instruments and mechanisms such as bond pooling by local agencies.

THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL AND INTEREST ON THE SERIES 2022B BONDS IS A LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM THE AMOUNTS PLEDGED THEREFOR. NONE OF THE SERIES 2022B BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL THEREOF OR INTEREST THEREON, AND THE OBLIGATION OF THE CITY TO MAKE THE 2022B INSTALLMENT PAYMENTS CONSTITUTES EITHER A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY OR THE AUTHORITY. THE CITY'S TAXING POWER IS NOT PLEDGED TO THE PAYMENT OF THE SERIES 2022B BONDS OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

THE CITY

General

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. Situated between the Diablo and Santa Cruz mountain ranges, the City encompasses approximately 180 square miles at the south end of the San Francisco Bay.

The City was incorporated on March 27, 1850 and is a charter city. As a charter city, the City may regulate municipal affairs, subject only to restrictions and limitations provided in the city's Charter. In matters other than municipal affairs or in matters of statewide concern, the City is subject to State law. The form of municipal government established by the Charter is known as the "Council-Manager" form of government.

The City has transformed from the agricultural setting of its early years into the largest city in the Silicon Valley. Silicon Valley is a region in the Southern San Francisco Bay Area of Northern California which serves as a global center of high technology, innovation, and social media. Silicon Valley corresponds roughly to the geographical Santa Clara Valley. See APPENDIX A – "THE CITY OF SAN JOSE: DEMOGRAPHIC AND ECONOMIC INFORMATION" for certain demographic and economic information regarding the City.

THE WASTEWATER SYSTEM

General

The Wastewater System consists of the Sanitary Sewer Collection System and the Treatment Plant. The City is the exclusive provider of wastewater service within the City. As of June 30, 2022, the Sanitary Sewer Collection System had approximately 334,000 residential, 9,000 commercial, 600 industrial and 380 institutional accounts. The service area of the Sanitary Sewer Collection System covers approximately 180 square miles and is conterminous with the jurisdictional boundaries of the City.

The Sanitary Sewer Collection System includes approximately 2,030 miles of wastewater collection system pipelines. See "– Sanitary Sewer Collection System Facilities." The wastewater collected by the Sanitary Sewer Collection System is conveyed to Treatment Plant by major interceptor pipelines located in the northern part of the City. The Treatment Plant is owned by the City and the City of Santa Clara and is the largest advanced wastewater treatment plant in the western United States. As of January 1, 2022, the Treatment Plant served 1.4 million residents and over 17,000 businesses in eight cities and four sanitation districts, as described below. See "– Treatment Plant."

Management and Operations

General. The Sanitary Sewer Collection System is managed by the Infrastructure Maintenance Division of the City's Department of Transportation ("**DOT**"). The Infrastructure Maintenance Division consists of approximately 130 budgeted full time equivalent ("**FTE**") employees for Fiscal Year 2022-2023. DOT staff perform the day-to-day operations and maintenance of the Sanitary Sewer Collection System.

The Treatment Plant is managed by the City's Environmental Services Department ("**ESD**"). ESD provides a spectrum of services, including refuse collection, provision of drinking water, wastewater collection and treatment, stormwater protection and the provision of recycled water for the City. For Fiscal Year 2022-2023, the City has budgeted approximately 350 FTE employees from ESD to operate the Treatment Plant. ESD is also responsible for planning, designing, and constructing capital improvements at the Treatment Plant.

The wastewater infrastructure of the Wastewater System is designed and built by, or under the supervision of, the City's Department of Public Works ("**DPW**"). For Fiscal Year 2022-2023, the City has budgeted approximately 15 FTE employees from DPW to the Sanitary Sewer Collection System and approximately 25 FTE employees from DPW to the Treatment Plant.

Except for 29 employees, all ESD, DPW and DOT employees are represented by bargaining units. The remaining 29 employees are unrepresented management personnel, and their salary and benefits are determined by the San José City Council. See APPENDIX A – "THE CITY OF SAN JOSE: DEMOGRAPHIC AND ECONOMIC INFORMATION – Labor Relations – Overview" for information regarding the bargaining units that represent ESD, DPW and DOT employees and the City's labor relations. All ESD, DPW and DOT employees participate in the City's Federated City Employees Retirement System (the "**Federated Plan**"). See also APPENDIX B – "THE SAN JOSE FEDERATED RETIREMENT PLAN" for a description regarding the City's retirement plans.

Treatment Plant Advisory Committee. The City acts as the administering agency for the Treatment Plant under the terms of the Sewage Treatment Plant Agreement, dated May 6, 1959 (the "**1959 Agreement**"), between the City and the City of Santa Clara, and under separate agreements among the respective Tributary Agencies, the City and the City of Santa Clara (as amended from time to time, each, a "**Master Agreement**," and collectively, the "**Master Agreements**").

As the administering agency, the City has the authority and responsibility for operating the Treatment Plant and determining annual operating and capital costs. The TPAC, required by the 1959 Agreement and the Master Agreements, advises the City and the City of Santa Clara on operation, maintenance, repair, and improvement of the Treatment Plant, the development and administration of related programs and policies. The TPAC also advises the City and the City of Santa Clara on administrative matters including amendments to contracts and agreements, the sale of capacity rights in the Treatment Plant, and other matters, including the annual budget process. See "– Treatment Plant – *Master Agreements with Tributary Agencies.*"

The TPAC meets monthly and consists of nine members. Pursuant to the 1959 Agreement, members include three members from the City Council of the City of San José, two members from the City Council of the City of Santa Clara, and one representative of the City Manager's Office of the City. The remaining members consist of representatives from the City of Milpitas, Cupertino Sanitary District, and the West Valley Sanitation District. The TPAC members are appointed by, and serve at the pleasure of, the governing body of such members.

The City regulates wastewater generated within its jurisdictional boundaries by ordinance. Pursuant to the Master Agreements, each Tributary Agency is required to adopt and enforce ordinances, resolutions, rules, and regulations to conform to the City's ordinance. Any waiver of such ordinances, resolutions, rules, and regulations of the Tributary Agencies must be authorized by written resolution of the city councils of the City and the City of Santa Clara. The

Tributary Agencies have also agreed to comply with the applicable statues, ordinances, rules and regulations of agencies of the United States of America, and the State of California, including the NPDES Permit (as hereinafter defined).

Management Systems. The City currently uses Geographical Information System ("**GIS**") and a Computerized Maintenance Management System ("**CMMS**") to manage the collection system of the Wastewater System. GIS is a computer mapping system that links databases of geographically based information to maps that display the information. Over the past decade, the City has converted all its sanitary sewer collection mapping and infrastructure inventory data into a GIS format. Location, pipe, and manhole inventory data, including length, diameter, material, rim/invert elevations, street address, and other information, are maintained by the City. The City currently uses an in-house developed CMMS to track performance metrics and sanitary asset maintenance history. The primary functions of the City's CMMS include maintaining service request and maintenance history information for sanitary collection assets, producing work orders and regularly updating the maintenance schedules for sanitary mains based on data collected from cleaning operations, and providing documentation for use in regulatory compliance reporting. See "– Regulatory Matters – *Sanitary Sewer Overflows*." DOT is migrating to an internally developed Salesforce-based, GIS connected platform which is anticipated to be completed by June 30, 2023.

In addition, to manage the capacity needs of the Sanitary Sewer Collection System, DPW staff has developed a trunk sanitary sewer system hydraulic computer model (the "**Master Planning Program**") for sewers of 10 inches or larger in diameter. Staff uses a systematic process that incorporates population data, land use development and planning information, water use and flow monitoring data, and design criteria to estimate sewer flows in the model. The model is used to assess system performance for existing, near-term (five- to ten-year horizon) and long-term under dry and wet weather flow scenarios, identify areas for system improvements, and recommend capacity improvement projects. The Master Planning Program also supports economic development in the City by providing sewer capacity review and planning using the models. See "– Future Wastewater System Improvements – Sanitary Sewer Collection System."

Sanitary Sewer Collection System Facilities

The Sanitary Sewer Collection System consists of approximately 2,030 miles of wastewater collection system pipeline that ranges from six to 90 inches in diameter, and includes approximately 39,500 manholes, 10 miles of force mains, 17 pump stations, two filtration stations (soil beds), one odor control dosing station, and approximately 202,000 lateral connections. Approximately 85% of the City sewer collection system is at least 40 years old. The wastewater collected by the Sanitary Sewer Collection System is conveyed to the Treatment Plant by major interceptor pipelines located in the northern part of the City. See "– Treatment Plant."

Treatment Plant

General. The Treatment Plant is owned by the City and the City of Santa Clara and is the largest advanced wastewater treatment plant in the western United States. As of January 1, 2022, the Treatment Plant served 1.4 million residents and over 17,000 businesses in eight cities and four sanitation districts, as described below.

The Treatment Plant is operated by the ESD on behalf of the City, as the administering agency. The City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, County Sanitation District 2-3, and Burbank Sanitary District (previously defined as the "**Tributary Agencies**") use the Treatment Plant based on capacity rights set by contract. See "– Treatment Plant – *Master Agreements with Tributary Agencies.*"

The City of Milpitas provides wastewater services within its jurisdictional boundaries. West Valley Sanitation District provides wastewater services within the cities of Campbell, Los Gatos, Monte Sereno, and Saratoga and the intervening unincorporated areas of Santa Clara County. Cupertino Sanitary District serves the City of Cupertino and portions of the cities of Saratoga, Sunnyvale and Los Altos and unincorporated areas within Santa Clara County. Burbank Sanitary District provides wastewater services within unincorporated areas of Santa Clara County. County Sanitation District 2-3 is a county sanitation district within the unincorporated areas of East San José in the vicinity of the Alum Rock area and unincorporated areas of Santa Clara County including the County Fairgrounds and southern areas.

The Treatment Plant has an average five-day dry weather flow design capacity of 167 millions of gallons per day ("**mgd**") and a peak weather flow design capacity of 261 mgd. For 2021, the average dry weather influent flow and average dry weather effluent flow were 97 mgd and 75 mgd, respectively. Of the Treatment Plant's total five-day average dry weather flow design capacity of 167 mgd, the Tributary Agencies collectively hold rights to 35.211 mgd (or approximately 21% of total dry weather flow design capacity) and the remainder is shared by the City and the City of Santa Clara on a pro rata basis determined on an annual basis by the ratio of each city's annual assessed valuation to the sum of both cities' assessed valuations. As of June 30, 2022, the City and the City of Santa Clara held dry weather flow design capacity rights in the Treatment Plant of 106.141 mgd (or approximately 64% of total dry weather flow design capacity) and 25.648 mgd (or approximately 15% of total dry weather flow design capacity), respectively. See "– Treatment Plant – *Master Agreements with Tributary Agencies.*"

The Treatment Plant is located on 2,600 acres at the South San Francisco Bay shoreline in the Alviso area of the City and approximately six miles from the downtown business district. The 2,600-acre site includes a 175-acre wastewater processing area, a 750-acre sludge-drying area, and an 850-acre former salt production pond. The remaining 825 acres consist of open land that buffers adjacent communities from odors and hazardous operations. The "bufferlands" were purchased over the past 50 years to provide a buffer that limits the community's exposure to odors emanating from the Treatment Plant's treatment processes, limit risk in the event of an accidental chemical release, support compliance with the NDPES Permit (as hereinafter defined), and protect existing biological resources.

The City and the City of Santa Clara anticipate considering a proposed conservation easement in favor of the Santa Clara Habitat Agency for 201 acres to protect habitat for the Western Burrowing owl in the coming months. The Wester Burrowing owl is federally protected by the Migratory Bird Treaty Act in the U.S. and Mexico, and is listed as endangered, threatened, or as a Species of Concern in nine states, including California, where it is considered a Species of Special Concern by the California Department of Fish and Game. Under the Santa Clara Valley Habitat Plan, the City may dedicate a conservation easement over land within a target conservation area in lieu of paying development fees that would otherwise be required for certain construction projects.

Approximately 80% of the treated water from the Treatment Plant is piped to an outfall channel in the vicinity of the Treatment Plant. From there, it flows to Artesian Slough, through

Coyote Creek, and eventually into the South San Francisco Bay. The remaining 20% of the treated water flows to the South Bay Water Recycling Program System. The Treatment Plant operates pursuant to a National Pollutant Discharge Elimination System permit issued by the State of California Water Quality Control Board (the "**NPDES Permit**"). See "– Regulatory Matters."

In 2021, a 14-millwatt cogeneration facility was added to the Treatment Plant (the "**Cogeneration Facility**") replacing an older cogeneration facility. The Cogeneration Facility is one of the largest in the United States and provides reliable on-site power and heat. The Cogeneration Facility uses a biogas engine with digester gas treatment, natural gas blending, oxidation catalyst, and selective catalyst reduction to operate. The Cogeneration Facility uses methane gas produced by naturally occurring anaerobic bacteria in digester tanks used in the wastewater treatment process. The design was based on a lean-burn engine tuned to maximize electrical output for biogas use that could also blend natural gas. The biogas-based engine is estimated to allow for 27% more capacity and the flexibility to use no natural gas, which supports the City's efforts to meet its greenhouse gas goals.

Emissions from power generation at the Treatment Plant have decreased as a result of the construction of the Cogeneration Facility emissions when comparing the baseline period of 2017 through 2019 and the 12-months emissions ending in September 2022. In addition to the decrease in mass emissions, the new engines reduce greenhouse gas emissions through improved efficiency. The old cogeneration engines provided between 32% and 37% of heat input as electricity depending on the mix of engines used. The new cogeneration engines at the Cogeneration Facility have provided nearly 41% of fuel heat input as electricity.

The Cogeneration Facility currently produces approximately 60% of the electric power required to operate the Treatment Plant. The remainder of the Treatment Plant's electric power needs are derived from electricity delivered by the Pacific Gas & Electric Company. The City anticipates that the amount of electricity produced onsite at the Treatment Plant will fluctuate from time to time as energy needs of the Treatment Plant change over time and new facilities are constructed or rehabilitated, including the new digested sludge dewatering facility (see "FINANCING PLAN – Projects – Digested Sludge Dewatering Facility"), and offset by alternative sources of energy identified in the future such as landfill gas.

In addition, the City maintains emergency diesel generators at the Treatment Plant. The City estimates that such generators are capable of providing the Treatment Plant with up to 48 hours of continuous power, without refueling, during a catastrophic or prolonged power outage.

History of the Treatment Plant. The City constructed the original portion of the Treatment Plant in 1956, which consisted only of primary treatment facilities with a capacity of 36 mgd designed to treat organic waste from canneries. In 1959, the City and the City of Santa Clara entered into the 1959 Agreement pursuant to which, among other things, the City of Santa Clara became a co-owner of the Treatment Plant and helped to finance improvements to expand the capacity of the Treatment Plant to 54 mgd.

A secondary treatment plant was completed in 1964, and minor additions were made in 1965, 1966 and 1968. Additional primary, secondary and chlorination facilities were completed in 1970. In early 1979, the advanced wastewater treatment facilities including nitrification and filtration processes were completed. In the mid-1980s, the treatment facilities expanded to the present 167 mgd capacity and the Master Agreements were executed with the Tributary Agencies to memorialize their participation in the expansion. The Master Agreements with each of the Tributary Agencies were amended over the years to memorialize participation in South Bay Water Recycling Program System and the sale and purchase of contract capacity.

In addition to the original construction and subsequent treatment process expansions described above, several significant infrastructure investments have been made at the Treatment Plant over the past 25 years. Such improvements include the wet weather reliability improvement project (2007), the sodium hypochlorite disinfection facility which converted to sodium hypochlorite for the disinfection process, greatly reducing the public safety risk from the Treatment Plant (2011), electrical reliability improvements (2004-2013), digester gas storage rehabilitation (2016), digester gas compressor upgrades (2017), emergency diesel generators (2017), iron salt feed station (2018), and the Cogeneration Facility (2021).

Treatment Plant Ownership. Pursuant to the 1959 Agreement, the City and the City of Santa Clara jointly own and operate the Treatment Plant and the City acts as the administering agency. As the administering agency, the City has the authority and responsibility for operating the facility and determining annual operating and capital costs.

Pursuant the 1959 Agreement, rights to capacity of the Treatment Plant in excess of the capacity rights of the Tributary Agencies is shared by the City and the City of Santa Clara on a pro rata basis determined by the ratio of each city's annual assessed valuation to the sum of both cities' annual assessed valuations. As June 30, 2022, the City and the City of Santa Clara held dry weather flow design capacity rights in the Treatment Plant of 106.141 mgd (or approximately 64% of total dry weather flow design capacity) and 25.648 mgd (or approximately 15% of total dry weather flow design capacity), respectively. The respective capacity rights of the City, the City of Santa Clara and the Tributary Agencies are shown in Table 1.

Pursuant to the 1959 Agreement, the City and the City of Santa Clara share in the capital and operating costs on a pro rata basis determined by the ratio of each city's annual assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the years ended June 30, 2021 and June 30, 2022, the City's portion of the capital and operating costs was approximately 81% and the City's interest in the net position of the Treatment Plant was approximately 81%. For Fiscal Year 2022-2023, the City has budgeted its portion of the capital and operating costs at approximately 81%.

The City of Santa Clara has paid the City for its share of capital and operating costs of the Treatment Plant on a timely basis for each of the previous five fiscal years. The contributions received by the City from the City of Santa Clara for maintenance and operation costs of the Treatment Plant constitute "System Revenues" under the Master Resolution. Such contributions accounted for approximately 8% of System Revenues for Fiscal Year 2021-2022. See Table 2b below for a description of the contribution received by the City from the City of Santa Clara for maintenance and operation costs of the Treatment Plant in Fiscal Year 2021-2022. See also "CERTAIN RISK FACTORS – Concentration of System Revenues."

Master Agreements with Tributary Agencies. The Treatment Plant provides wastewater treatment services to the Tributary Agencies under the Master Agreements.

Contractual Capacity. Pursuant to the Master Agreements, each of the Tributary Agencies has the right to discharge wastewater into the Treatment Plant for treatment and disposal up to certain specified volumes (i.e. capacity rights) during the term of their Master Agreements. The respective capacity rights of the Tributary Agencies may be adjusted from time to time under certain conditions specified in the Master Agreements, including changes to capacity rights as a result of changes in the total capacity of the Treatment Plant.

The following table shows the respective capacity rights of the Tributary Agencies under the Master Agreements as of June 30, 2022.

Table 1
Wastewater System
Treatment Plant Capacity Rights
Fiscal Year 2021-2022

Entity	Allocated Percentages[1]	Treatment Plant Flow[2] MGD	Treatment Plant Flow[2] % of total MGD
City of San José	80.539%	106.141	63.557%
City of Santa Clara	19.461	25.648	15.358
Subtotal:	100.000%	131.789	78.915%
West Valley Sanitation District		11.697	7.004%
Cupertino Sanitary District		7.850	4.701
City of Milpitas		14.250	8.533
County Sanitation District 2-3		1.014	0.607
Burbank Sanitary District		0.400	0.240
Subtotal:		35.211	21.085%
Grand Total:		167.000	100.000%

(1) Represents percentage of capacity rights held by the City and the City of Santa Clara in excess of capacity rights of the Tributary Agencies.
(2) Represents dry weather flow.
Source: City of San José.

Required Contributions. Pursuant to the Master Agreements, each Tributary Agency is required to make contributions to pay for a portion of the maintenance and operation costs and capital expenditures of the Treatment Plant. Each Tributary Agency is required to adopt an annual sewer revenue program and to provide a copy of such program to the City and the City of Santa Clara by August 1 of each year. During the first quarter of each fiscal year, the TPAC reviews each Tributary Agency's total discharge to the Treatment Plant for the preceding fiscal year to determine whether any adjustments to prior year contributions are necessary. By December of 1 of each year, each Tributary Agency is required to provide the City and the City of Santa Clara data indicating expected discharge for the ensuing fiscal year. Maintenance and operation costs and capital expenditures of the Treatment Plant are estimated annually by ESD. By no later March 1 of each year, the City and the City of Santa Clara are required to provide each Tributary Agency with a preliminary estimate of the amount required to operate and maintain the Treatment Plant for the ensuing fiscal year. The estimates are reviewed, adjusted and recommended as a proposed budget for the Treatment Plant by the TPAC to the City Council of the City, as the administering agency. The City Council of the City reviews and adopts the proposed budget during its annual budget deliberations.

In June 2022, the TPAC approved the Treatment Plant's operating budget for Fiscal Year 2022-23 and five-year capital improvement program (with a ten-year forecast of contributions for capital costs for each of the City, the City of Santa Clara and the Tributary

Agencies). See "– Future Wastewater System Improvements – Treatment Plant" below for a description of the latter.

The Tributary Agencies are required to make all payments for operation and maintenance expenses of the Treatment Plant pursuant to their Master Agreements on a quarterly basis, with the first quarter beginning July 1 of each fiscal year. Invoices are presented by the City at the beginning of the quarter. All invoices are required to be paid to the City within 45 days of presentation. Interest is charged on any late or unpaid bills. Adjustments in any payments are made on the basis of actual payment to actual expenditures and are required to be made no later than the third quarter billing of the following fiscal year.

Costs for capital improvements to the Treatment Plant are allocated to the Tributary Agencies based on each agency's contractual capacity in the Treatment Plant. Maintenance and operations costs are allocated to the Tributary Agencies proportionally based on each agency's reported flow, and residential, commercial, institutional, and industrial properties to apportion the cost of wastewater treatment services to properties in proportion to their relative contribution of flow and strength to the Wastewater System. The remainder of the costs for capital improvements and costs for maintaining and operating the Treatment Plant are shared between the City and the City of Santa Clara based on their respective annual assessed property value relative to the total annual assessed value in their jurisdictions (see the subcaption "– *Treatment Plant Ownership*" above). The Tributary Agencies are required to make payments to the City for their share of maintenance and operation costs and capital costs of the Treatment Plant on a quarterly basis. All of the Tributary Agencies are current on their payment obligations to the City.

For each fiscal year, it is possible that a Tributary Agency will be responsible for a share of maintenance and operations costs of the Treatment Plant that is greater than the respective share of such costs of Tributary Agencies that hold greater contractual capacity rights because maintenance and operations costs of the Treatment Plant are allocated based on reported flow instead of contractual capacity as described above. For example, for Fiscal Year 2021-2022, the City of Milpitas is the largest holder of contractual capacity rights among the Tributary Agencies, but was the third largest contributor of operating and maintenance costs for such fiscal year because its reported flows to the Treatment Plant were the third largest among the Tributary Agencies. See Table 1 and 2b.

The contributions received by the City from the Tributary Agencies for maintenance and operation costs of the Treatment Plant constitute "System Revenues" under the Master Resolution. Such contributions accounted for approximately 11% of System Revenues for Fiscal Year 2021-2022. The Tributary Agencies have paid the City for their respective share of capital and operating costs of the Treatment Plant on a timely basis for each of the previous five fiscal years. See Table 2b below for a description of the contributions for received by the City from the Tributary Agencies for maintenance and operation costs of the Treatment Plant in Fiscal Year 2021-2022. See also "CERTAIN RISK FACTORS – Concentration of System Revenues."

The following table shows the allocation of estimated maintenance and operation costs of the Treatment Plant among the City, the City of Santa Clara and the Tributary Agencies for Fiscal Years 2021-2022 and 2022-2023. In the experience of the City, such allocations are not subject to material fluctuations from year to year.

Table 2a
Wastewater System
Allocation of Estimated Maintenance and Operation Costs
Fiscal Years 2021-2022 and 2022-2023

	Allocated Percentages	
Entity	**FY 2021-2022**	**FY 2022-2023**
City of San José	63.451%	63.149%
City of Santa Clara	15.332	15.263
Subtotal:	78.783%	78.412%
West Valley Sanitation District	9.192%	9.155
Cupertino Sanitary District	5.384	5.659
City of Milpitas	5.458	5.578
County Sanitation District 2-3	0.954	0.964
Burbank Sanitary District	0.229	0.232
Subtotal:	21.217%	21.588%
Grand Total:	100.000%	100.000%

Source: City of San José.

The following table shows actual contributions received by the City from the City of Santa Clara and the Tributary Agencies for maintenance and operation costs of the Treatment Plant for Fiscal Year 2021-2022. See "CERTAIN RISK FACTORS – Concentration of System Revenues."

Table 2b
Wastewater System
Maintenance and Operation Costs Contributions
Fiscal Year 2021-2022
(in thousands)

Entity	**Allocable Share**	**% of Total System Revenues**[(1)]
City of Santa Clara	$17,343	8.2%
West Valley Sanitation District	10,192	4.8
Cupertino Sanitary District	5,832	2.7
City of Milpitas	5,244	2.5
County Sanitation District 2-3	1,069	0.5
Burbank Sanitary District	249	0.1
Total	$39,929	18.8%
FY 2021-2022 Total System Revenues	$212,718	

Source: City of San José.

See “WASTEWATER SYSTEM FINANCIAL INFORMATION – Historical Net System Revenues and Debt Service Coverage” for a description of the contributions received by the City from the City of Santa Clara and the Tributary Agencies for maintenance and operation costs in the previous five fiscal years. See also “WASTEWATER SYSTEM FINANCIAL INFORMATION – Projected Net System Revenues and Debt Service Coverage” for a description of the contributions projected to be received by the City from the City of Santa Clara and the Tributary Agencies for maintenance and operation costs in the next five fiscal years.

As previously described, a portion of the proceeds of the Series 2022B Bonds will be used to refund the Prior Subordinate Notes, which similarly financed the City’s allocable share of the cost to acquire certain capital improvements to the Treatment Plant. See “FINANCING PLAN.” Neither the City of Santa Clara nor any of the Tributary Agencies have agreed to make contributions towards the payment of 2022B Installment Payments.

The failure by any Tributary Agency to pay for its share of the costs of the Treatment Plant to the City, as and when due, pursuant to the Master Agreements will not affect the City’s obligation to make the 2022B Installment Payments when due. Nor will any failure by the Tributary Agencies to comply with the provisions of their Master Agreements constitute a default under the Indenture or the Installment Purchase Contract. In the event any Tributary Agency fails to pay for its share of the costs of the Treatment Plant to the City, the obligation to pay such costs would be borne by the City and the City of Santa Clara. In such event, the City and the City of Santa Clara would have the right to bring an action in court for breach of contract or inequity, subject to compliance with the provisions of the Master Agreements relating to dispute resolution, as hereinafter described.

Scheduled Termination Dates. The Master Agreements are scheduled to terminate on January 1, 2031. The Master Agreements may be terminated prior to January 1, 2031 by mutual written agreement of the respective Tributary Agency, the City and the City of Santa Clara, by operation of law or because of a material breach by a party thereto. The term of the Master Agreements may be extended or renewed by mutual written agreement of the parties thereto. In addition, under each Master Agreement, the Tributary Agencies, the City and the City of Santa Clara agree to meet and confer in good faith to negotiate revised or new agreements in 2030.

The Master Agreements further provide that if for any reason the agreements cannot be renewed in 2031, or subsequent to the termination date, the applicable Tributary Agency has the right to continue discharging wastewater to the Treatment Plant at the same volume and strength at which such Tributary Agency was discharging on the date of the expiration of its Master Agreement, provided such Tributary Agency has made all payments for its share of Treatment Plant costs.

Dispute Resolution Provisions. The Master Agreements require that any allegation of breach of contract or inequity be filed with the legislative bodies of the agencies that committed the alleged breach, and with the TPAC. The TPAC is required to hold a hearing on the allegations within two months of such findings and, upon conclusion of the hearing, deliver to the legislative bodies of the parties a full report of its findings and recommendations. Such findings and recommendations are advisory only, and not binding on the parties. If any party is dissatisfied with or disagrees with the TPAC’s findings and recommendations, the legislative bodies are required to meet jointly within two months to attempt to reach resolution. The complaining party is required to give the other party three months from the conclusion of said joint meeting to cure any breach or alleged breach. No action for breach of the Master

Agreements may be brought by the City or any other party to the Master Agreements until such procedures are followed.

Disputes between the City and the City of Santa Clara and the Tributary Agencies regarding the allocation of maintenance and operating costs and capital improvements have occurred from time to time. Most recently, on January 22, 2016 and September 7, 2016, the City, as the administering agency, received claims from all Tributary Agencies alleging a breach of contract and inequity under the Master Agreements. See "LITIGATION AND SIGNIFICANT CLAIMS" for further information regarding such claims and status of pending litigation.

Regulatory Matters

To provide a consistent, statewide regulatory approach to address sanitary sewer overflows, the State Water Resources Control Board adopted Statewide General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003-DWQ on May 2, 2006, which was subsequently amended by Order No. WQ 2008-0002-EXEC on February 2, 2008 (as so amended, the "**General Order**"). In 2013, the State Water Resources Control Board adopted a Monitoring and Reporting Program pursuant to Order No. WQ 2013-0058-EXEC. The General Order requires public agencies that own or operate sanitary sewer systems comprised of more than one mile of pipes or sewer lines to develop sanitary sewer management plans and report all sanitary sewer overflows ("**SSOs**"). The City is operating the Wastewater System in compliance with the terms of the General Order and has a certified sanitary sewer management plan (the "**SSMP**").

The Wastewater System is also subject to the requirements contained in the following state and federal regulations and orders:

- Federal Water Pollution Control Act, as amended (33 U.S.C. §1311 et seq.) for any sewer spills that reach waters of the United States.
- Resource Conservation and Recovery Act (42 U.S.C. §6901 et seq.).
- State of California Porter-Cologne Water Quality Control Act of 1969, as amended.
- Order No. R2-2020-0001, NPDES Permit No. CA0037842 (previously defined as the "**NPDES Permit**") adopted by the California Regional Water Quality Control Board of the California State Water Resources Control Board on February 18, 2020, effective on April 1, 2020, with a stated expiration date of March 31, 2025.

Other Permitting Requirements. In addition to the federal and state laws and orders set forth above, the Treatment Plant is subject to other regulatory requirements.

The Treatment Plant operates under a Title V Air Permit issued by BAAQMD, which expires in May 2027. In addition, the Treatment Plant operates under a Permit to Operate issued by BAAQMD for the operation of various equipment (consisting generally of emergency electrical generators, the chlorination facility, and odor control systems) issued annually by BAAQMD, and which expires in July 2023.

Sanitary Sewage Overflow. SSOs occur when wastewater leaves the collection system and discharges from the Wastewater System. SSOs are categorized into one of three categories and reported to the State Water Resources Control Board in accordance with regulatory requirements set forth in the General Order and the accompanying Monitoring and Reporting Program mentioned above.

SSOs can be caused by broken or clogged public sewer mains and private laterals, by debris improperly disposed of in the sewer system, and by excessive wet weather flows from inflow and infiltration or other flows that exceed the sewer's design capacity. Aging infrastructure can also contribute to SSOs. Past SSOs have not resulted in regulatory enforcement actions against the City. The City anticipates making investments in infrastructure towards the goal of reducing the frequency and volume of SSOs. See "THE WASTEWATER SYSTEM – Future Wastewater System Improvements – *Sanitary Sewer Collection System*."

To meet the regulatory requirements of the General Order, DOT has made significant investments for additional equipment, personnel, and contractual resources in the implementation of several critical SSO reduction strategies over the past ten years. These strategies include increased sewer line cleaning productivity, proactive cleaning of problematic sewer lines, implementation of an SSO first responder program, chemical treatment or mechanical cleaning of sewer lines identified as having heavy root intrusion and growth, and continued collaboration with the ESD to address commercial areas that have evidence of excessive fats, oils and grease ("**FOG**") in sewer mains. See also "-Fats, Oils, and Grease Program." The State Water Resources Control Board is in the process of updating the statewide waste discharge requirements and the draft order released in February 2022 proposes many new requirements related to spill prevention and reporting. The fiscal impact of the new requirements on the City is not yet fully known. However, the City does not currently expect the impact to materially adversely affect its ability to make 2022B Installment Payments when due.

The following table summarizes the number and total quantity of SSO's for Fiscal Years 2017-2018 through 2021-2022. With respect to Fiscal Years 2020-2021 and 2021-2022, the 35 SSOs in each of those fiscal years are equivalent to approximately 1.7 SSOs per 100 miles of sewer main per year.

Table 3
Wastewater System
Historical Sanitary Sewer Overflows
Fiscal Years 2017-2018 through 2021-2022

Fiscal Year	Category 1(1)	Category 2(2)	Category 3(3)	Total
2017-2018	5	1	16	22
2018-2019	12	3	27	42
2019-2020	8	2	21	31
2020-2021	9	2	24	35
2021-2022	11	4	20	35

(1) Represent all discharges of sewage of any volume resulting from the failure of the Wastewater System that reach (i) surface water or (ii) the City's storm system and is not fully captured and returned to the collection system of the Wastewater System.
(2) Represent all discharges of sewage of 1,000 gallons or greater resulting from a failure of the Wastewater System that do not reach surface water or a drainage channel, unless the entire SSO discharged is fully recovered and returned to the collection system of the Wastewater System.
(3) Represent all other discharges of sewage resulting from a failure of the Wastewater System.

Source: City of San José.

The City maintains an operation and maintenance program for the Wastewater System, which includes proactive, preventive, and corrective maintenance of gravity sewers, and regular inspection and preventive maintenance of the lift stations and force mains. Cleaning cycles currently range from 7 days to 96 months. Cycles dynamically update every time a new maintenance entry is recorded based on the amount of grease, debris, etc. found and the length of time since the last cleaning.

City staff responds to sewer blockages and spills 24 hours a day, 7 days a week. In addition, the City investigates reports of a leaking or spilled sanitary sewer at no charge to the caller. If a problem affecting a resident is determined to lie within City jurisdiction, all work needed to clear, restore service, and clean up any spills is performed by the City at no charge to the resident. Some City-owned sewer lines travel underneath private property. In these locations, the City maintains easements that provide City crews with access rights.

Since 2010, the City has utilized closed-circuit television ("**CCTV**") to assess the structural integrity of the collection system including pipes, force mains, manholes, junction structures, and pump stations. Between July 1, 2017 and June 30, 2022, of the 2,030 miles of the Wastewater System's collection pipelines, approximately 1,900 miles of pipelines have been inspected by the City via CCTV. DPW staff currently manages sewer video inspection data and coding standards utilizing InfoMaster to analyze and prioritize repair and/or rehabilitation work. DPW staff is currently managing several contracts to perform pipeline inspection utilizing closed circuit television. Likewise, DOT manages sewer video inspection and coding standards using GraniteNet as part of its operations and maintenance program to assist the City's Sanitary Sewer Condition Assessment Program ("**SSCA Program**").

Coupled with defect coding analysis and sewer repairs, all of the City's small diameter sewer collection system (under 12 inches in diameter) have been inspected and the City is in the process of cleaning up some of the older assessment data and developing a long-term strategy to assess the condition of larger diameter pipes. As of October 2020, the most recent date as of which data is available, as part of the SSCA Program, approximately 145 miles of sewer mains have been identified for repair and rehabilitation with an estimated cost $103 million. As more information is collected through the CCTV program, the number of defected pipes and repair needs may increase, and the recommended annual investment will be re-evaluated and reported in future years. See "THE WASTEWATER SYSTEM – Future Wastewater System Improvements – *Sanitary Sewer Collection System*."

Inflow and Infiltration. Inflow and infiltration ("**I&I**") of storm water, groundwater, chemicals and other substances into the Wastewater System may occur from time to time. In general, causes of I&I include grease blockages, root blockages, sewer line flood damage, manhole structure failures, vandalism, pump station mechanical failures, power outages, excessive storm or ground water inflow/infiltration, debris blockages, sanitary sewer system age and construction material failures, lack of proper operation and maintenance, insufficient capacity and contractor-caused damages.

The City has established an I&I Reduction Program that is intended to rehabilitate portions of the Wastewater System where groundwater, stormwater, and other sources of water enter the sewers. The goal of the I&I Reduction Program is to decrease the flow to the Treatment Plant and help continue to meet its discharge flow cap. The I&I Reduction Program operates in conjunction with the City's Master Planning Program to identify areas of the system that have substantial I&I and construct improvements to reduce I&I.

Fats, Oils, and Grease Program. FOG is produced from residential and commercial food preparation activities and are pollutants of concern due to their potential clogging impact on the Wastewater System.

The City has adopted a FOG Control Program as part of its SSMP. The goal of the FOG Control Program is to reduce the number of SSOs caused by FOG in the Wastewater System by minimizing FOG discharged into the Wastewater System. DOT and ESD implement various programs to address FOG, including public outreach and education.

Chapter 15.14 of Title 15 of the San José Municipal Code gives the FOG Control Program authority to administer the FOG Control Program in the City. The FOG Control Program requirements are implemented and enforced through plan checks, inspections, and education. Inspections are unannounced and occur during business hours. Inspectors ask to see documentation indicating the food service facility is managing its FOG correctly, inspect indoor and outdoor areas and review cleaning practices with staff. Upon completion, a written inspection report is provided and, if needed, inspectors conduct follow-up inspections to verify that violations are corrected. Uncorrected, repeated, and/or serious violations result in escalated enforcement, up to and including fines.

Regulatory Compliance. Except as described below, the City is not aware of any pending or ongoing environmental or regulatory issues that are reasonably anticipated to materially adversely affect its ability to provide wastewater service or recycled water service as described in this Official Statement.

<u>Per- and Poly-fluoroalkyl substances</u>. Per- and Poly-fluoroalkyl substances ("**PFAS**"), which include perfluorooctanoic acid (commonly known as PFOA) and perfluorooctane sulfonic acid (commonly known as PFOS), are synthetic chemical substances with properties that do not break down in the environment. Due to their water-resistant properties, they were commonly used in cleaners, textiles, papers, paint, firefighting foam and insulation. PFAS is very persistent in the environment and has been found in the blood of fish, animals, and humans. The United States Environmental Protection Agency (the "**EPA**") issued a proposed rule (40 C.F.R. Part 302) (the "**Proposed Rule**") which designates PFAS as hazardous under the Comprehensive Environmental Response, Compensation, and Liability Act which would ultimately facilitate the cleanup of contaminated sites. The Proposed Rule identifies wastewater treatment facilities as a category of business likely to be impacted thereby.

The Treatment Plant may receive wastewater that contains PFAS or PFAS may be concentrated in the biosolids located at the Treatment Plant. In addition, the State Water Resources Control Board is conducting a phased approach for investigating the existence of PFAS including wastewater treatment facilities. The State has increased notification and response levels for PFAS in drinking waters. It is unknown how these potential requirements may impact future operations at the Treatment Plant. However, the City believes that it is likely that some remediation will be required in the future.

<u>Polychlorinated Biphenyls</u>. Beginning in 2017, certain portions of the Treatment Plant underwent remediation of Polychlorinated Biphenyls ("**PCBs**") pursuant to methods approved by the EPA in accordance with the Toxic Substances Control Act. The remediation was undertaken in response to the presence of PCBs in caulk between concrete joints in several of the Dissolved Air Floatation Thickener ("**DAFT**") tanks, vertical joints that cross DAFT tanks, wall joints and foundations of digesters, and adjacent concrete and soils. The remediation activities included: (1) excavation and off-site disposal of impacted soils, concrete, shotcrete and PCB containing caulk; (2) construction of a concrete barrier over PCB contaminated subsurface soils; (3) scarification of the concrete and application of a rubberized barrier over the digester and DAFT joints where caulking was removed and replaced; (4) complete removal of tunnel stubs that connected the main tunnel to the digesters; (5) application of an epoxy coating over the

remediated tunnel joints; and (6) recording of a covenant in the real property records of the County to limit disturbance of the barriers and impacted materials that remain at the property where the digesters were located. Future renovations or phases of the DAFT tanks will require similar remediation and are included in project estimates.

Wastewater Treatment

After wastewater enters the Treatment Plant, it undergoes a three-step treatment process to remove solids, pollutants, and harmful bacteria. Machinery and gravity separate solids from the wastewater. Added bacteria remove pollutants before the wastewater enters the advanced filter process. The treatment process produces water that is 99% purified and then discharged into South San Francisco Bay.

Following is a summary of the current wastewater treatment process at the Treatment Plant and do not reflect changes in the treatment process at the Treatment Plant as a result of the completion of the Projects. See "FINANCING PLAN – Projects" for a description of such projects.

Headworks (Pretreatment). Upon arrival, wastewater passes through headworks, where large screens remove debris such as sticks, rocks, trash, and rags. Wastewater then flows to grit chambers that remove heavier objects like sand and gravel. Debris and objects removed at this stage are then taken to the Newby Island Landfill, which is located within the jurisdictional limits of the City.

Primary Treatment. Wastewater is then transferred to large primary tanks where the flow is slowed to allow gravity to separate large particles. This process mimics the natural process of creeks and rivers, where sediments settle to the bottom. Fiberglass bars, or flights, rotate to skim off fats, oils and grease from the surface of the water and scrape solids that sink to the bottom. Primary treatment lasts approximately one hour. Water is approximately 50% cleaner at the completion of this stage.

Secondary Treatment. During the second stage of the treatment process, aeration tanks pump air into the wastewater to nurture the growth of naturally occurring aerobic bacteria that remove organic pollutants in the water. After aeration, the wastewater is piped into clarifiers, where the aerobic bacteria settle. Mechanical arms scrape away the settled material to transfer to the digester tanks or reuse again in the aeration tanks. Secondary treatment lasts approximately six hours. Water is approximately 95% cleaner at the completion of this stage. See "– *Digesters*" below.

Tertiary Treatment. Tertiary treatment is the third and final step in the treatment process at the Treatment Plant. During tertiary treatment, wastewater flows through several filter beds composed of gravel, sand and anthracite coal to remove small, suspended solids. The water flows through serpentine tanks where chlorine is used to kill any remaining viruses or bacteria. The chlorine is then neutralized to protect aquatic life. This advanced treatment is needed to ensure that water treated by the Treatment Plant meets state and federal water quality regulations for the shallow waters and sensitive ecosystem of South San Francisco Bay. The tertiary treatment lasts approximately eight hours. Water is 99% pure after tertiary treatment.

Outfall Channel. After tertiary treatment, about 80% of the treated water is piped to the outfall channel. From there, it flows to Artesian Slough, through Coyote Creek, and eventually into the South San Francisco Bay. The remaining 20% of the treated water is sent to the South

Bay Water Recycling Program System and used to irrigate food crops, parks, schools, golf courses, street medians and business park landscaping.

Digesters. The pollutants and solid material removed during the three treatment steps are put in digester tanks. In the digester tanks, naturally occurring anaerobic bacteria digest sludge and produce methane gas that is used by the Cogeneration Facility (see "– Treatment Plant" above for a description of the Cogeneration Facility). Sludge is pumped into open-air lagoons where it stabilizes for approximately three years, and covered with water to control odors. Sludge is then moved to open-air drying beds to be dried by the sun for approximately six months, which produces high-quality Class A biosolids. All sundried biosolids are then hauled to the Newby Island Landfill and used as alternative daily cover to prevent wind-blown debris and discourage animal scavengers. Newby Island Landfill's operating permit was recently extended to 2040.

The City is currently procuring service agreements with third-parties with the goal of putting all dewatered biosolids from the Treatment Plant to beneficial use and thereby avoid the need to send biosolids to Newby Island Landfill prior to its anticipated closure in 2040. See "FINANCING PLAN – Projects" for a description of the digested sludge dewatering facility currently under construction. Until the lagoons and drying beds can be fully retired, it is anticipated there will be several years with the new dewatering facility and existing lagoons and drying beds in concurrent operation.

Historical Accounts and Wastewater Flow By User Classification

The following table shows the number of customer accounts and sewage flow in millions of gallons of the Wastewater System, as a whole and on the basis of residential, commercial, industrial and institutional use for the previous five fiscal years.

Table 4
Wastewater System
Historical Accounts and Flow By User Classification
Fiscal Years 2017-2018 through 2021-2022

	Residential		Commercial		Industrial		Institutional		Total	
Fiscal Year	Accounts	Annual Flow(1)	Accounts	Annual Flow(1)	Accounts	Annual Flow(1)	Accounts	Annual Flow(1)	Accounts	Annual Flow(1)
2017-2018	326,981	20,447	9,086	3,101	622	987	377	434	337,066	24,970
2018-2019	331,008	20,651	9,155	2,974	622	884	389	417	341,174	24,926
2019-2020	331,347	20,667	8,947	3,228	594	922	377	427	341,265	25,244
2020-2021	333,088	20,754	9,011	2,949	604	948	378	355	343,081	25,007
2021-2022	333,988	20,793	9,030	3,227	602	966	378	514	343,998	25,499

(1) In millions of gallons per year; represents wastewater flow of the Wastewater System only.
Source: City of San José.

Historical Wastewater Flow

The following table shows the volume of wastewater flow of the Wastewater System and the volume of wastewater treated by the Treatment Plant (including wastewater generated within the jurisdictional boundaries of the Tributary Agencies) in the preceding five fiscal years in millions of gallons ("**mg**") per year, mgd and the peak flow for such years.

Table 5
Wastewater System
Historical Wastewater Flow
Fiscal Years 2017-2018 through 2021-2022

	Wastewater System Only(1)		All Wastewater Flow(2)		
Fiscal Year	Total Wastewater Flow(3)	Daily Average Flow(4)	Total Wastewater Flow(3)	Daily Average Flow(4)	Peak Flow(4)
2017-2018	24,970	68.4	38,214	104.7	129.1
2018-2019	24,926	68.3	39,922	109.4	171.9
2019-2020	25,244	69.2	37,737	103.1	123.6
2020-2021	25,007	68.5	35,530	97.3	137.7
2021-2022	25,499	69.9	32,119	88.0	131.6

(1) Represents wastewater flow of the Wastewater System only.
(2) Represents all wastewater treated at the Treatment Plant.
(3) In millions of gallons per year.
(4) In millions of gallons per day. The Treatment Plant has a peak weather flow design capacity of 261 mgd.
Source: City of San José.

Historical Sewer Service Charge Revenues

The following table shows the total sewer service and use charges of the Wastewater System by account classification for the previous five fiscal years.

Table 6
Wastewater System
Historical Sewer Service and Use Charge Revenues(1)
Fiscal Years 2017-2018 through 2021-2022

	Residential		Commercial		Industrial		Institutional		Total	
Fiscal Year	Charges	% of Total	Charges	% of Total	Charges	% of Total	Charges	% of Total	Charges	% of Total
2017-2018	$128,358,00	82.9	$19,795,000	12.8	$4,081,000	2.6%	$2,681,000	1.7%	$154,915,00	100%
2018-2019	132,100,000	81.0	22,283,000	13.7	5,769,000	3.5	2,999,000	1.8	163,151,000	100
2019-2020	136,511,000	83.0	20,639,000	12.6	4,570,000	2.8	2,715,000	1.7	164,435,000	100
2020-2021	142,144,000	82.0	23,113,000	13.3	5,421,000	3.1	2,569,000	1.5	173,247,000	100
2021-2022	140,195,000	82.1	20,951,000	12.3	6,376,000	3.7	3,194,000	1.9	170,716,000	100

(1) Rounded to nearest whole one-thousand dollars.
Source: City of San José.

Sewer service and use charges, which are collected from ratepayers in the City, accounted for approximately 80% of System Revenues for Fiscal Year 2021-2022. The remaining System Revenues for Fiscal Year 2021-2022 were derived primarily from contributions for maintenance and operation costs of the Treatment Plant. See "– Treatment Plant – *Master Agreements with Tributary Agencies.*"

Ten Largest Payers of Sewer Service and Use Charges

The following table shows the ten largest wastewater service customers of the Wastewater System as of June 30, 2022, as determined based on their respective sewer service and use charges. All of such customers consisted of non-residential users discharging more than 25,000 gallons of sewage per day or discharging sewage of widely varying strength and are billed on a monthly basis by the City.

Table 7
Wastewater System
Ten Largest Sewer Service and Use Charge Payers [1]
Fiscal Year 2021-2022
(in thousands)

	Customer	Total Charges	% of Total
1.	Lumileds LLC (Philips Lumileds Lighting) [2]	$966	0.6%
2.	Western Digital Technologies Inc #050	903	0.5
3.	Metcalf Energy Center	400	0.2
4.	Gordon Biersch Brewing Co., Inc.	386	0.2
5.	Suez Water Treatment and Technologies	291	0.2
6.	Sanmina Corp Plant I	267	0.2
7.	Western Digital Technologies Inc #013	264	0.2
8.	Sanmina Corp Plant II	254	0.1
9.	Adobe Systems Inc. (Almaden)	116	0.1
10.	TTM Technologies, Inc. (VIA Systems Corp)	112	0.1
	Ten Largest Total	$3,959	2.3%
	Total FY 2021-2022 Sewer Service and Use Charges	$170,716	

(1) Non-residential user billed annually; sewer service and use charges are not covered by the County's Teeter Plan. See "– Rates and Charges – *Current Rates and Charges* – Industrial" and "– Billing Procedures and Collections."
(2) On August 19, 2022, Lumileds LLC and certain of its affiliates filed voluntary petitions for relief under chapter 11 of the United States Code in the United States Bankruptcy Court for the Southern District of New York. The City does not currently believe the failure by Lumileds LLC, if any, in the future to pay sewer service and use charges to the City when due or its departure from the City will materially adversely affect the City's ability to make 2022B Installment Payments when due.
Source: City of San José.

Rates and Charges

General. The City Council has the power to set sewer service and use charges by resolution, and the collection of such charges for the purpose of deriving revenue for acquisition, construction, reconstruction, maintenance and operation of the Wastewater System. The rates of the Wastewater System are not subject to review or approval by the California Public Utilities Commission or any other agency. However, the City is required to comply with the notice, hearing and majority protest provisions of Article XIIID of the State Constitution, which is popularly known as Proposition 218. See "CERTAIN RISK FACTORS – Limitations on Rate Setting Under the California Constitution" for a discussion of limitations on the rate setting authority of the City under Proposition 218. The City determines the adequacy of the Wastewater System rate structure after full consideration of expected operations, maintenance and capital costs.

The projected operating results of the Wastewater System which are set forth under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION – Projected Net System Revenues and Debt Service Coverage" assume increases in sewer service and use charges averaging approximately 4% per annum for the next four fiscal years commencing June 1, 2023 which have not yet been adopted. See the subcaption "– *Historical Average Rate Increases*" for a description of the increases in sewer service and use charges for each of the current fiscal year and each of the previous four fiscal years on an average basis for all customer categories on a combined basis. All rate adjustments are subject to City Council approval after a public hearing in accordance with Proposition 218 and there can be no assurance that sewer service and use charges will be increased as projected herein. In the event that the City Council does not adopt such rate increases as currently contemplated, Net System Revenues could be materially different from the projections in this Official Statement.

The City is subject to certain covenants with respect to the 2022B Installment Payments which require the City to fix and prescribe, or cause to be fixed and prescribed, rates and charges for the use of the Wastewater System in each Fiscal Year that are reasonably estimated to yield during each Fiscal Year Adjusted Net System Revenues for such Fiscal Year at least equal to 110% of the Debt Service on all Outstanding Parity Obligations, including the 2022B Installment Payments, for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Stabilization Fund" and "– Rate Covenant."

Rate Setting Process*.* Each year, City staff reviews the sewer service and use charges to determine whether adjustments are necessary to align revenue with program costs. Sewer service and use charges are paid by residential, commercial, institutional, and industrial users of the Wastewater System.

The sewer service and use charges cover costs associated with the Treatment Plant and the City's 2,030-mile of wastewater collection system pipelines, including operations and maintenance and capital and equipment improvements. Section 15.12.450 of the San José Municipal Code restricts revenue derived by the City from sewer service and use charges to the "acquisition, construction, reconstruction, maintenance and operation of the sanitary sewer system of the City of San José, to repay principal and interest on any bonds which may hereafter be issued for the construction or reconstruction of sanitation or sewerage facilities, and to repay federal or state loans or advances which may hereafter be made to the city for the construction or reconstruction of sanitary or sewerage facilities."

Current Rates and Charges*.* On June 7, 2022, the City Council approved the rates and charges for Fiscal Year 2022-2023, effective July 1, 2022 (the "**Current Rate Plan**"), in accordance with Proposition 218. There can be no assurance that the City Council will not repeal or modify the rates that are set forth in the Current Rate Plan in the future. See "CERTAIN RISK FACTORS – Limitations on Rate Setting Under the California Constitution." See APPENDIX H – "Adopted Rate Resolution" for a description of charges for wastewater service and other charges under the Current Rate Plan.

Sewer service and use charges rates are based on the volume of flow and the strength of the wastewater from residential, commercial, institutional, and industrial properties. Flow is measured as the annualized average winter water usage, and strength is measured in terms of biochemical oxygen demand, suspended solids, and ammonia. The rate structure was designed to apportion the cost of wastewater treatment services to properties in proportion to their relative contribution of flow and strength to the Wastewater System. This structure allows rates to reflect the costs of providing service to residential and non-residential properties. Rates are assigned by groupings, based on the type of use.

Residential Rates. Residential customers are assigned a flat rate based on an existing sanitary sewer flow and rate study, the most recent of which was completed in Fiscal Year 2014-2015. Residential service charges are placed on the property tax roll and collected by the Santa Clara County tax collector's office. See "– Billing Procedures and Collection" below. Residential sewer service and use charge rates for Fiscal Year 2022-2023 are set forth in the following table.

Table 8
Wastewater System
Residential Rates
Fiscal Year 2022-2023

Customer Class	Monthly Charge[1]	Annual Charge
Single-Family Residence[2]	$45.49	$545.88
Multiple-Family Residence (Per Unit)	30.48	365.75
Mobile Home (Per Unit)	34.34	412.08

(1) Monthly charge is used to prorate partial years.
(2) Annual charges for Fiscal Years 2019-2020, 2020-2021 and 2021-2022 were $480.84 (or $40.07 on a monthly basis), $499.68 (or $41.64 on a monthly basis) and $499.68 (or $41.64 on a monthly basis), respectively.
Source: City of San José.

Commercial, Institutional & Light Industrial. Commercial, institutional (including governmental users), and light industrial rate classes include non-residential users discharging sewage of uniform strength or discharging less than 25,000 gallons per day. The sewer service and use charge rate structure for these classes is based on adjusted water consumption data reflecting the difference in sewage strength among 63 standard classifications of users. Annual water consumption is estimated by averaging water consumption for the months of January, February and March of the previous fiscal year and annualizing that data to estimate sewage flow for the following year. The winter months (during which precipitation has generally occurred in the City) are selected to minimize the effects of landscaping and garden irrigation. An annual charge is computed for non-residential users using unit rates set forth in the Current Rate Plan. See APPENDIX H – "Adopted Rate Resolution" for a description of such rates. With exception of governmental users, annual charges for non-residential users in this category are placed on the property tax rolls for collection by the Santa Clara County Tax Collector's Office. Governmental users are billed monthly. See "– Billing Procedures and Collection" below.

Monitored Industries. Non-residential users discharging more than 25,000 gallons of sewage per day or discharging sewage of widely varying strength are billed a capital cost recovery charge and a maintenance cost recovery charge (such users are hereafter referred to as "**Monitored Industries**"). Such charges are billed monthly on the basis of samples collected during the billing month. Monthly sewage flow is derived from actual sewage flow meter data or estimated from potable water consumption. See APPENDIX H – "Adopted Rate Resolution" for a description of such rates.

Connection Fees. New users or existing customers wishing to connect to the Wastewater System must pay a connection fee ("**Sanitary Sewer Collection System Connection Fees**"). The Sanitary Sewer Collection System Connection Fees for residential, non-residential and schools are shown in the following table. Additional charges apply for connections in excess of 25,000 gallons per day (peak flow).

Table 9
Wastewater System
Connection Fees
Fiscal Year 2022-2023

Use	Parcel Size	Connection Fee
Residential - Single Family & Duplex	Less than 9,780 S.F.	$447 per lot
	Greater than 9,780 S.F.	$1,991 per acre
Residential - Multi-Family	Less than 9,780 S.F.	$447 per lot + $194 for each living unit over 2 units per lot
	Greater than 9,780 S.F.	$1,991 per acre + $194 for each living unit over 7 units per acre
Non-Residential	Less than 9,720 S.F.	$447 per lot + $194 for each "living unit equivalent" over 2 units per lot
	Greater than 9,720 S.F.	$1,991 per acre (for each of the first 10 acres) + $861 for each acre over 10 acres + $194 for each "living unit equivalent" over 7 units per acre
Schools		$1,475 per acre or $333 per lot, whichever is greater

Source: City of San José.

In some cases, the City may impose an additional connection or capacity fee based on the type and size of the facility connecting to the Wastewater System (the "**Treatment Plant Connection Fees**"). For residential projects, the Treatment Plant Connection Fees are calculated based on the number and type of residential units. For non-residential projects, the Treatment Plant Connection Fee is calculated on a square footage basis. These fees range from approximately $0.25 per square foot for retail uses, $5.00 per square foot for a full-service restaurant, and up to $8.50 per square foot for a coin operated laundry merchant.

As previously described, System Revenues include connection fees imposed for the cost of connecting to the Sanitary Sewer Collection System to the extent lawfully available for the payment of Obligations and connection fees imposed for the cost of connecting to the Treatment Plant to the extent lawfully available for the payment of Obligations. **Because the net proceeds of the Series 2022B Bonds will be used to refund all of the outstanding Prior Subordinate Notes and the Prior Subordinate Notes financed the City's allocable share of the cost to acquire certain capital improvements to the Treatment Plant, Sanitary Sewer Collection System Connection Fees are not anticipated to be lawfully available to make 2022B Installment Payments when due**. See "THE FINANCING PLAN – Refunding of Prior Subordinate Notes" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Limited Obligations; Sources of Payment." The projected operating results of the Wastewater System which are set forth under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION – Projected Net System Revenues and Debt Service Coverage" assume that Sanitary Sewer Collection System Connection Fees are not available to make 2022B Installment Payments when due.

Comparative Wastewater Rates. The following table compares the City's current monthly sewer service and use charge for a single-family residence to the wastewater rates of other nearby wastewater service providers as of September 15, 2022.

Table 10
Wastewater System
Comparative Monthly Wastewater Charges
As of September 15, 2022

City	Monthly Charge
City of Fremont	$44.18
City of Palo Alto	44.62
City of San José	**45.49**
City of Mountain View	50.10
City of Sunnyvale	57.19

Source: City of San José.

Historical Average Rate Increases. The following table shows the increases in sewer service and use charges for each of the current fiscal year and each of the previous four fiscal years on an average basis for all customer categories on a combined basis.

Table 11
Wastewater System
Historical Sewer Service and Use Charge Increases
Fiscal Years 2018-2019 through 2022-2023

Fiscal Year	Average Rate Increase
2018-2019	3%
2019-2020	4%
2020-2021	3%
2021-2022	--
2022-2023	9%

Source: City of San José.

Billing Procedures and Collection

The City collects sewer service and use charges from all users of the Wastewater System, other than governmental users and Monitored Industries, by placing such charges on the County's secured property tax roll. Sewer service and use charges collected through the property tax roll appear as a single line item with the storm sewer service charges. Storm sewer service charges are not pledged, or otherwise available for, the payment of 2022B Installment Payments when due. Pursuant to an agreement between the City and the County, the County will remit 100% of the charges placed on the County's secured property tax roll back to the City in two payments, typically in January and June. The County charges a 0.3% administration fee for this service which is deducted from the first payment remitted to the City.

The County Board of Supervisors has approved the implementation of an alternative method of distribution of tax levies and collections of tax sale proceeds (a "**Teeter Plan**"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the County's Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The sewer service and use charges that are collected by the City through the County's secured property tax roll are covered under the County's Teeter Plan.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may, by resolution adopted no later than July 15 of the fiscal year for which it is to apply, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any political subdivision in the County if the rate of secured property tax delinquency in that political subdivision in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that political subdivision. If the Teeter Plan were discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency. According to the County of Santa Clara, delinquency rates for property taxes collected on the secured roll on a countywide basis ranged from 0.24% to 1.05% in Fiscal Years 2016-2017 to 2020-2021.

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

Governmental users and monitored Industries (i.e. non-residential users discharging more than 25,000 gallons of sewage per day or discharging sewage of widely varying strength) are billed monthly and are not covered by the County's Teeter Plan. Such users are given 45 days to pay the bill. A 10% late payment charge is assessed against any payment received on or after the due date. The City does not shut off wastewater service to delinquent accounts.

For Fiscal Year 2021-22, approximately 95% of the City's sewer service and use charges were collected through the County's Teeter Plan, and the remaining 5% were billed directly by the City. The ten largest payers of sewer service and use charges for Fiscal Year 2021-22 were billed directly by the City. See "– Ten Largest Payers of Sewer Service and Use Charges." The City's annual delinquency rate for non-teetered sewer service and use charges has averaged 0.80% over the last five fiscal years.

Wastewater System Master Plans

Sanitary Sewer Collection System Master Plan*.* The City has conducted multiple master plan capacity assessments of its trunk sewer system since 2002. The purpose of the assessments was to determine whether the collection system of the Sanitary Sewer Collection System has adequate capacity to convey peak dry and wet weather flows, identify capacity constraints that might contribute to SSOs or other hydraulic deficiencies, and develop solutions. See "– Regulatory Matters – *Sanitary Sewage Overflow*."

In 2013, the City completed the Citywide Trunk Sewer System Master Plan and North San José Detailed Master Plan (collectively, the "**Sanitary Sewer Collection System Master Plan**") which analyzed capacity needs for three planning scenarios: (i) then existing (2008), near-term (2015-2020), and long-term (2040). The Sanitary Sewer Collection System Master Plan identified 105 sewer capacity improvement projects totaling approximately $188 million (in 2013 dollars). Such projects were prioritized and assigned a fluid project schedule of 1-5 years, 6-10 years, 11-20 years, and beyond 20 years. In recognition of the City's need to balance other capital projects and budget constraints, the Sanitary Sewer Collection System Master Plan did not assign specific years for implementation for such projects. Approximately, $146 million of such project costs are related to capacity improvements. Since Fiscal Year 2008-2009, the City has included 53 of these projects into its capital improvement programs, and to date, more than 45 of these projects have been completed, and five other projects are included in the City's 2023-2027 Capital Improvement Program. In addition to the Trunk Sewer System Master Plan, the City is in the process of completing the Citywide All-Pipe Network Wastewater System Master Plan, which has identified 70 additional sewer capacity improvement projects totaling approximately $138 million (in 2021 dollars). The City currently anticipates that projects identified in such plan will be strategically prioritized and added to capital improvement programs in the future. See "THE WASTEWATER SYSTEM – Future Wastewater System Improvements – *Sanitary Sewer Collection System*."

Treatment Plant Master Plan*.* In 2013, the City completed the Plant Master Plan (the "**Treatment Plant Master Plan**"). The Treatment Plant Master Plan is the product of a three-year planning process to evaluate the Treatment Plant, and serves as a planning document to guide improvements at the Treatment Plant through the year 2040. The Treatment Plant Master Plant provides both a roadmap to help determine the projects and funding needed to repair and rehabilitate the Treatment Plant's aging facilities and processes as well, as a land use plan that defines the future treatment needs along with zoning designations and guidelines for the future development, restoration, and use of the Treatment Plant's four-and-a-half square mile site. The Treatment Plant Master Plan project team was guided by the Plant Master Plan Steering Committee, made up of staff from the Treatment Plant's two co-owning cities (San José and Santa Clara) and from the Tributary Agencies, as well as representatives from various City departments, including ESD.

The Treatment Plant Master Plan does not address the Sanitary Sewer Collection System, recycled water distribution, development of water efficiency programs, or any area outside of the Treatment Plant's property. It does, however, consider several external factors potentially impacting planned wastewater treatment capacity, level of treatment, and selected technologies. These factors include community concerns regarding traffic, odor, noise, and aesthetic impacts to adjacent land uses; potential impacts to flows and loads of upstream stormwater diversion, recycled water demand, water conservation, and upstream source reductions; and the need to address both the Treatment Plant's contribution to and the consequences of global climate change.

The Treatment Plant Master Plan recommends more than 114 capital improvement projects over a 30-year planning period, with an estimated total cost of approximately $2 billion. The City is currently implementing the first phase of the recommendation with a 10-year, $1.5 billion capital improvement program to address critical rehabilitation needs and ensure operational reliability, improved process performance through newer technologies, and compliance with regulations to protect the environment and southern San Francisco Bay. See "– Future Wastewater System Improvements – Treatment Plant" below. The City is generally on track with the completion of the first phase of capital improvements set forth in the Treatment Plant Master Plan. The Projects are part of the first phase of capital improvements. See "FINANCING PLAN – Projects."

Future Wastewater System Improvements

Sanitary Sewer Collection System. The City's 2023-2027 Capital Improvement Program (the "**2023-2027 Capital Improvement Program**") includes capital improvement projects for the Sanitary Sewer Collection System totaling approximately $220 million. Approximately $80 million is budgeted for Fiscal Year 2022-2023. The 2023-2027 Capital Improvement Program with respect to the Sanitary Sewer Collection System (hereinafter referred to as the "**2023-2027 Sanitary Sewer Collection System CIP**") reflects several strategic priorities, including to ensure adequate capacity within the Sanitary Sewer Collection System, reduce SSOs, and rehabilitate existing sewers with a higher priority given to those with extensive, severe deterioration. The following table provides a summary of the capital improvement projects in the 2023-2027 Sanitary Sewer Collection System CIP.

Table 12
Wastewater System
Summary of 2023-2027 Sanitary Sewer Collection System CIP
(in thousands)

	Fiscal Year Ending June 30					
	2023	**2024**	**2025**	**2026**	**2027**	**Total**
Construction Projects						
Sewer Rehabilitation Projects	$24,700	$22,200	$20,700	$19,700	$16,700	$104,000
Capacity Improvement Projects	17,522	13,450	6,900	6,800	6,800	51,472
Subtotal	$42,222	$35,650	$27,600	$26,500	$23,500	$155,472
Non-Construction and Other						
Sanitary Sewer – Non-Construction(1)	$8,030	$6,060	$7,095	$7,130	$7,166	$35,481
Reserves for future projects(2)	17,400	--	--	--	--	17,400
Other(3)	2,938	2,650	2,037	1,977	1,813	11,415
Subtotal	$28,368	$8,710	$9,132	$9,107	$8,979	$64,296
Grand Total	$70,590	$44,360	$36,732	$35,607	$32,479	$219,768

(1) Consists capital improvements unrelated to construction projects, including expenditures relating to program management and condition assessments.
(2) Represent reserves for future capital improvements to be undertaken outside 5-year planning period.
(3) Predominantly consists of costs relating to support services and infrastructure management systems.
Source: City of San José.

The 2023-2027 Sanitary Sewer Collection System CIP is guided by several interrelated plans and chief among them is the Envision San José 2040 General Plan (the "**General Plan**"). The General Plan provides a guide for all capital improvement programs to align public infrastructure investment with the City's plans for future growth. Accordingly, the projects in the 2023-2027 Sanitary Sewer Collection System CIP are intended to ensure adequate sewer reliability to safely convey sewage city-wide. The land uses and growth included in the General Plan were also used in the development of the Sanitary Sewer Collection System Master Plan.

As shown in the table above, the capital improvement projects in the 2023-2027 Sanitary Sewer Collection System CIP consist predominantly of (i) sewer rehabilitation projects (totaling approximately $104 million) and (ii) capacity improvement projects (totaling approximately $52 million), which are described further below.

The sewer rehabilitation projects in the 2023-2027 Sanitary Sewer Collection System CIP (totaling approximately $104 million) are planned for older neighborhoods within the City facing structural deterioration or changes in sewage flow patterns. Rehabilitation projects were selected based on hydrogen sulfide studies that analyze pipe corrosion, condition assessment studies, CCTV inspections, maintenance records and reports, and actual pipe failures, whether due to pipe corrosion or other physical deficiencies. Sewer rehabilitation projects in the 2023-2027 Sanitary Sewer Collection System CIP include (i) projects in need of urgent rehabilitation (totaling $26.5 million), (ii) removal and replacement of cast iron pipes (totaling $25 million), and repairs identified by the SSCA Program (totaling $30 million).

The capacity improvement projects in the 2023-2027 Sanitary Sewer Collection System CIP (totaling approximately $51.5 million) are aimed at improving the capacity of the Sanitary Sewer Collection System. The capacity improvement projects in the 2023-2027 Sanitary Sewer Collection System CIP were selected by the City with the assistance of the Master Planning Program. These projects include $20 million of site-specific projects, and $32 million for diversion and other immediate projects. The capacity improvement projects in the 2023-2027 Sanitary Sewer Collection System (totaling approximately $52 million) include $5 million for the design of the fourth major interceptor of the North Interceptor System. The North Interceptor System is a collection of very large sanitary sewer pipes with diameters ranging from 54 to 90 inches. In general, an interceptor is a large pipe serving as a primary sewage collector. Interceptors carry flows from the sub-collector sewers in the drainage basin to the point of treatment or disposal of the wastewater. When completed, the fourth major interceptor will allow one of the three older interceptors to be removed from service during dry weather periods for the purpose of routine maintenance or rehabilitation. Such flexibility is currently not available in all reaches of the Sanitary Sewer Collection System.

The City currently anticipates funding the capital projects in the 2023-2027 Sanitary Sewer Collection System CIP primarily with revenues derived from sewer service and use charges, connection fees of the Sanitary Sewer Collection System (see "– Rates and Charges"), and contributions from the Tributary Agencies pursuant to their Master Agreements (see "– Treatment Plant – *Master Agreements with Tributary Agencies*").

Treatment Plant. The 2023-2027 Capital Improvement Program provides funding of approximately $1 billion for capital improvements to the Treatment Plant, of which $494 million is allocated in Fiscal Year 2022-2023. The 2023-2027 Capital Improvement Program with respect to the Treatment Plant (hereinafter referred to as the "**2023-2027 Treatment Plant CIP**") was developed by City staff, reviewed by the TPAC, and approved by the City Council of the City. The budgeted costs are allocated to the City, the City of Santa Clara and each of the Tributary Agencies based on their contracted-for capacity in the Treatment Plant. See "– Treatment Plant – *Master Agreements with Tributary Agencies.*" The following table provides a summary of the capital improvement projects in the 2023-2027 Treatment Plant CIP.

Table 13a
Wastewater System
Summary of 2023-2027 Treatment Plant CIP
(in thousands)

	Fiscal Year Ending June 30					
	2023	**2024**	**2025**	**2026**	**2027**	**Total**
Construction Projects						
Preliminary Treatment	$3,884	$ --	$ --	$ --	$ --	$ --
Primary Wastewater Treatment	1,000	10,885	94,530	686	684	107,785
Secondary Wastewater Treatment	13,389	24,692	2,136	19,447	23,760	83,424
Tertiary Wastewater Treatment	8,158	13,705	449	952	6,179	29,443
Biosolids	17,260	7,560	3,520	54,319	1,655	84,314
Maintenance and Improvements(1)	110,207	24,179	39,154	17,062	4,191	194,793
Subtotal	$150,014	$81,021	$139,789	$92,466	$36,469	$499,759
Non-Construction and Other						
Non-Construction Projects(2)	$20,773	13,660	14,405	12,197	5,788	190,048
Reserves(3)	3,666	--	--	--	--	3,666
Debt Service Repayment(4)	315,338	29,159	31,285	33,515	35,401	444,698
Subtotal	$339,777	$42,819	$45,690	$45,712	$41,189	$638,412
Grand Total	$493,675	$123,840	$185,479	$138,178	$77,658	$1,019

(1) Fiscal Year 2022-2023 figures include $4.745 million for electrical, advanced process control and automation projects.
(2) Consists of engineering costs and program management costs.
(3) Represents reserves for future capital improvements to the South Bay Water Recycling Program System outside the 5-year planning period.
(4) Assumes the payment of debt service payments in the amount of approximately $315 million to repay the Prior Subordinate Notes in full in Fiscal Year 2022-2023, and does not reflect the issuance of the Series 2022B Bonds. The City anticipates making adjustments to the 2023-2027 Treatment Plant CIP to reflect the issuance of the Series 2022B Bonds during its midyear budget review. See "WASTEWATER SYSTEM FINANCIAL INFORMATION – Projected Net System Revenues and Debt Service Coverage Ratio" for projected debt service on the Series 2022B Bonds for the current fiscal year and the next four fiscal years. Other costs in this line item include.

Source: City of San José.

The development of the 2023-2027 Treatment Plant CIP was guided by the Treatment Plant Master Plan. As previously described, the Treatment Plant Master Plan recommends more than 114 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately $2 billion. The Treatment Plant Master Plan assumed an implementation schedule of 2010 through 2040.

On September 24, 2013, the City Council approved a multi-year master services agreement with MWH Americas, Inc. (which has since merged with Stantec Consulting Services, Inc.) for program management consultant services to assist with managing and implementing the capital improvement program for the Treatment Plant. By February 2014, the consultant program management team, along with City staff, completed a project validation process that included a review and prioritization of the projects in the Treatment Plant Master Plan, along with gap projects identified through discussions with staff. The projects included in the 2023-2027 Treatment Plant CIP are based on the outcome of that project validation and the completion of various programmatic studies. On October 17, 2017, the City Council approved an amendment to extend the consultant program management services through 2023 to align with the implementation of the ten-year capital program (which program is described in the following paragraph).

In early 2014, staff began working with representatives from the City of Santa Clara and the Tributary Agencies to develop a ten-year funding strategy for capital improvements to the Treatment Plant. On May 14, 2015, the TPAC recommended approval of the Ten-Year Funding Strategy and the City Council approved it on June 2, 2015. An update on the Ten-Year Funding Strategy was recommended for approval by TPAC on December 10, 2015 and approved by the City Council on January 12, 2016.

In addition to the Projects (see "FINANCING PLAN – Projects"), major capital improvements to the Treatment Plant in the 2023-2027 Treatment Plant CIP include the following:

- Rehabilitation of existing primary clarifiers, seismic retrofit and odor control (totaling approximately $100 million through Fiscal Year 2026-2027).
- Upgrades to anaerobic digesters, including installation of new covers and mixers, upgrades to the existing sludge distribution piping, and upgrades to the digester heat supply system (totaling approximately $60 million through Fiscal Year 2026-2027).
- Phased rehabilitation of the 16 nitrification clarifiers (totaling approximately $31 million rehabilitation of secondary and nitrification aeration tanks including structural, mechanical, electrical, and instrumentation upgrades (totaling approximately $20 million through Fiscal Year 2026-2027).
- Design and construction of a new pump station to hydraulically push the Treatment Plant's final treated effluent to Coyote Creek (totaling approximately $15 million).

The City currently expects to fund the capital projects in the 2023-2027 Treatment Plant CIP in part with proceeds of the Prior Subordinate Notes, contributions from the City of Santa Clara and the Tributary Agencies. The 2023-2027 Treatment Plant CIP assumes contributions from the City of Santa Clara and the Tributary Agencies in the total amount of $165 million (see Table 13b) Below.

The City anticipates funding its share of the capital projects in the 2023-2027 Treatment Plant CIP with cash on hand derived from sewer service and use charges of the Wastewater System, operating reserves, and proceeds of subordinate notes delivered by the City pursuant to the WFBNA Credit Agreement or a similar interim financing program. In the 2023-2027 Treatment Plant CIP, to pay for its share of capital costs of the Treatment Plant, the City is projected to use cash on hand derived from sewer service and use charges of the Wastewater System in the amount of $30 million annually in Fiscal Years 2022-2023 and 2023-2024, and $35 million annually in Fiscal Years 2024-2025 through 2026-2027. Such projected contributions are consistent with actual contributions by the City of cash on hand for its share of capital costs in Fiscal Years 2019-2020 through 2021-2022 in the amount of $30 million annually. Additional debt financing, in the form of notes and bonds, will likely be needed to fund project costs beyond Fiscal Year 2026-2027.

In June 2022, the TPAC approved the 2023-2027 Treatment Plant CIP with a ten-year forecast of contributions for capital costs for each of the City, the City of Santa Clara and the Tributary Agencies (based on their contractual capacity rights in the Treatment Plant under their respective Master Agreements). The following table shows such ten-year forecast.

Table 13b
Wastewater System
Ten-Year Forecast of Capital Cost Allocations
(in millions)

	Fiscal Year Ending June 30											
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**5-Year Total**	**10-Year Total**
City of San José[1]	$57.40	$62.17	$100.87	$70.58	$27.83	$21.47	$13.88	$35.10	$14.80	$10.01	$318.85	$414.11
City of Santa Clara[1]	13.87	15.03	24.38	17.06	6.73	5.19	3.35	8.48	3.58	2.42	77.07	100.10
Subtotal:	$71.28	$77.20	$125.25	$87.64	$34.56	$26.67	$17.24	$43.59	$18.38	$12.43	$395.92	$514.21
West Valley Sanitation District	5.76	6.04	9.97	6.13	2.67	2.17	1.41	3.81	1.51	1.02	30.58	40.51
Cupertino Sanitary District	3.79	3.9	6.48	3.82	1.72	1.43	0.93	2.55	1.00	0.68	19.71	26.30
City of Milpitas	6.66	6.84	11.33	6.38	3.01	2.52	1.63	4.61	1.76	1.19	34.21	45.92
County Sanitation District 2-3	0.48	0.49	0.82	0.48	0.22	0.18	0.12	0.33	0.13	0.09	2.49	3.33
Burbank Sanitary District	0.21	0.21	0.34	0.21	0.09	0.08	0.05	0.13	0.05	0.04	1.06	1.41
Subtotal:	$16.90	$17.48	$28.95	$17.02	$7.70	$6.39	$4.13	$11.43	$4.45	$3.01	$88.05	$117.46
Grand Total:	$88.17	$94.68	$154.20	$104.67	$42.26	$33.05	$21.37	$55.02	$22.83	$15.44	$483.97	$631.67

(1) Based on Fiscal Year 2022-2023 assessed valuations, assuming no growth thereafter.
Source: City of San José.

The City has bound certain liability insurance coverage for the major components of the capital improvement program of the Treatment Plant through owner-controlled insurance programs. See APPENDIX A – "THE CITY OF SAN JOSE: DEMOGRAPHIC AND ECONOMIC INFORMATION – INSURANCE AND SELF-INSURANCE PROGRAMS – Regional Wastewater Facility Coverages: OCIP I and OCIP II" for a description of such coverage.

Projected Wastewater System Usage

The following table shows the volume of wastewater that is projected to be treated by the Treatment Plant for the current and next four fiscal years.

Table 14
Wastewater System
Projected Wastewater Flow
Fiscal Years 2022-2023 through 2026-2027

Fiscal Year	Total Wastewater Treated[1]	Daily Average Flow[2]
2022-2023	39,643	108.5
2023-2024	40,071	109.7
2024-2025	40,504	110.9
2025-2026	40,942	112.1
2026-2027	41,384	113.3

(1) In millions of gallons per year; includes wastewater generated within the jurisdictional boundaries of the Tributary Agencies.
(2) In millions of gallons per day.
Source: City of San José.

Wastewater System usage is affected by a number of factors, including but not limited to the number of connections to the Wastewater System and water conservation efforts. The projected wastewater flows shown above do *not* reflect lower winter water usage in the winter of Fiscal Year 2022-2023 or any future fiscal years, if any, in response to drought conditions. See "CERTAIN RISK FACTORS – Environmental Hazards – *Drought*." However, as previously described, the City's sewer service and use charges to are set to align revenue with program costs and therefore, reductions in wastewater usage are not anticipated to materially adversely affect System Revenues in the foreseeable future. See "– Rates and Charges."

WASTEWATER SYSTEM FINANCIAL INFORMATION

Financial Statements

A copy of the City's Basic Financial Statements for the period ended June 30, 2022 is attached hereto as Appendix C. The City accounts for the operations of the Wastewater System in the Wastewater Treatment System Fund, an enterprise fund of the City. The City's Basic Financial Statements include the financial statements of the Wastewater Treatment System Fund.

The City's Basic Financial Statements provide both government-wide financial statements with a long-term perspective on the City's activities while retaining the more traditional fund-based financial statements that focus on near-term inflows, outflows, and balances of spendable financial resources. The government-wide financial statements report on a full accrual basis and include comprehensive reporting of the City's infrastructure and other fixed assets. See APPENDIX C – "BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSÉ FOR THE FISCAL YEAR ENDED JUNE 30, 2022, Note I" for a summary of the City's significant accounting policies.

Macias Gini & O'Connell LP (the "**Auditor**"), served as independent auditor to the City for such financial statements. The City has not requested nor did the City obtain permission from the Auditor to include the City's Basic Financial Statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the Authority. Further, the Auditor has not taken any action intended to elicit information concerning the accuracy, completeness, or fairness of the statements made in this Official Statement.

The City's Basic Financial Statements are included in this Official Statement solely because the financial statements of the Wastewater Treatment System Fund are included therein. As previously described, the Series 2022B Bonds are limited obligations of the Authority payable from and secured by a pledge of the Revenues and amounts on deposit in certain funds and accounts established under the Indenture. Revenues generally consist of the Installment Payments, including the 2022B Installment Payments, payable by the City under the Installment Purchase Contract. The City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, are payable solely from, and secured by a pledge of, Net System Revenues of the Wastewater System on a parity with certain outstanding obligations of the City as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS."

The following tables summarize the Wastewater System's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position for the last five fiscal years.

Table 15
Wastewater System
Statement of Net Position
Fiscal Years 2017-2018 through 2021-2022
(in thousands)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
ASSETS					
Current assets:					
Equity in pooled cash and investments held in City Treasury	$420,471	$441,802	$494,051	$452,055	$481,285
Receivables (net of allowance for uncollectibles)	5,764	8,607	7,659	5,912	4,366
Prepaid expenses, advances and deposits	--	--	--	1	--
Inventories	697	773	784	770	--
Total unrestricted current assets	426,932	451,182	502,493	458,738	485,651
Restricted assets:					
Equity in pooled cash and investments held in City Treasury	8,070	8,308	8,622	--	--
Other cash and investments	2,204	2,255	2294	--	--
Total restricted current assets	10,274	10,563	10,916	--	--
Total current assets	437,206	461,745	513,409	458,738	485,651
Noncurrent assets:					
Capital assets (net of accumulated depreciation):					
Nondepreciable	211,402	273,342	373,771	488,670	633,125
Depreciable	506,470	552,373	561,232	570,747	552,002
Total noncurrent assets	717,872	825,715	935,003	1,059,417	1,185,128
Total assets	**$1,155,078**	**$1,287,460**	**$1,448,412**	**$1,518,155**	**$1,670,778**
DEFFERED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions	$71,897	$46,841	$46,290	$41,954	$10,782
Deferred outflows of resources related to other postemployment benefits	4,801	5,814	7,234	6,526	37,606
Total deferred outflows of resources	**$76,698**	**$52,655**	**$53,524**	**$48,480**	**$48,388**
LIABILITIES					
Current liabilities:					
Accounts payable	$23,708	$21,983	$31,257	$41,415	$43,730
Accrued liabilities	3,110	3,229	3,682	4,107	4,382
Interest payable	90	285	174	300	236
Accrued vacation, sick leave and compensatory time	3,768	3,829	4,042	4,102	3,905
Estimated liability for self-insurance	469	428	432	394	361
Loans payable	1,772	--	--	--	--
Total current liabilities unrestricted	32,917	29,754	39,587	50,318	52,614
Current liabilities payable from restricted assets:					
Interest payable	80	59	29	--	--
Current portion of bonds payable, net	5,090	5,300	5,457	--	--
Total current liabilities payable from restricted assets	5,170	5,359	5,486	--	(5,419)
Total current liabilities	38,087	35,113	45,073	50,318	47,195

Table 15
(Continued)
Wastewater System
Statement of Net Position
Fiscal Years 2017-2018 through 2021-2022
(in thousands)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Noncurrent liabilities:					
Accrued vacation, sick leave and compensatory time	611	434	710	903	963
Estimated liability for self-insurance	2,676	1,875	1,572	1,254	1,136
Advance contributions from participating agencies	1,639	1,663	1,700	1,738	--
Pollution remediation obligation	--	--	33,058	28,187	28,180
Notes payable	18,490	89,076	106,920	150,368	236,870
Bonds payable (net of premium/discount)	10,756	5,456	--	--	--
Net pension liability[1]	221,898	216,365	232,776	234,310	167,898
Net other postemployment benefits liability	76,245	57,049	57,138	48,406	40,742
Total noncurrent liabilities	**$332,315**	**$371,917**	**$433,875**	**$465,166**	**$475,789**
Total liabilities	**$370,402**	**$407,030**	**$478,947**	**$515,484**	**$522,984**
DEFFERED INFLOWS OF RESOURCES					
Deferred inflows of resources related to pensions	$338	$163	$2,310	$4,511	$55,644
Deferred inflows of resources related to other postemployment benefits	84	7,821	5,181	4,616	11,682
Total deferred inflows of resources	**$422**	**$7,984**	**$7,491**	**$9,127**	**$67,326**
NET POSITION					
Net investment in capital assets	$700,254	$725,883	$822,627	$908,735	$947,709
Restricted for debt service	2,140	2,140	2,139	--	--
Restricted for capital projects and other agreements	6,476	6,695	6,965	--	--
Unrestricted	152,082	190,896	184,133	133,389	180,598
Total net position	**$860,952**	**$925,614**	**$1,015,865**	**$1,042,123**	**$1,128,307**

(1) See APPENDIX B – "THE SAN JOSE FEDERATED RETIREMENT PLAN" for a description regarding the City's retirement plans, including net pension liability, on a Citywide basis.
Source: City of San José audited financial statements for the fiscal years shown.

Table 16
Wastewater System
Statement of Revenues, Expenses and Changes in Net Position
Fiscal Years 2017-2018 through 2021-2022
(in thousands)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
OPERATING REVENUES					
Charges for services	$172,690	$180,725	$183,990	$193,495	$192,127
Rentals and concessions	124	139	149	169	145
Service connection, engineering and inspection	4,572	4,050	4,396	2,173	1,782
Operating contributions from participating agencies	63,276	45,605	114,539	24,862	84,578
Other	849	4,382	5,153	2,131	1,320
Total operating revenues	**$241,511**	**$234,901**	**$308,227**	**$222,830**	**$279,953**
OPERATING EXPENSES					
Operations and maintenance	$127,396	$122,679	$171,621	$134,081	$119,618
General and administrative	36,711	32,672	33,614	31,147	30,793
Depreciation	29,226	29,616	31,315	31,755	32,359
Materials and supplies	537	540	415	488	479
Total operating expenses	**$193,870**	**$185,507**	**$236,965**	**$197,471**	**$183,249**
Operating income (loss)	**$47,642**	**$49,395**	**$71,262**	**$25,359**	**$96,704**
NONOPERATING REVENUES (EXPENSS					
Investment income	$3,014	$11,435	$17,451	$572	$(8,062)
Interest expense	(656)	(1,690)	(2,226)	(2,031)	(2,442)
Contributions for maintenance reserves	85	--	--	(38)	--
Loss on disposal of capital assets	(51)	(25)	(36)	(13)	--
Other revenues, net	140	201	164	316	284
Net nonoperating revenues (expenses)	**$2,532**	**$9,921**	**$15,353**	**$(1,374)**	**$(10,219)**
Income (loss) before capital contributions and transfers	**$50,173**	**$59,316**	**$86,615**	**$23,986**	**$86,484**
Capital contributions	$5,009	$5,653	$3,221	$2,209	$1,090
Transfers in	--	327	--	--	--
Transfers out	(2,468)	(5,775)	415	64	(1,391)
Changes in net positions	$52,714	$59,521	$90,251	$26,259	$86,184
Net position - beginning	**810,772**	**866,093**	**925,614**	**1,015,864**	**1,042,123**
Net position - ending	**$863,486**	**$925,614**	**$1,015,864**	**$1,042,123**	**$1,128,307**

Source: City of San José audited financial statements for the fiscal years shown.

Available Cash

As of June 30, 2022, the Wastewater System had available cash on hand totaling approximately $493 million, including approximately $304 million in reserves that are currently allocated to future capital projects but can be reallocated to other purposes in the City's discretion. This amount was equivalent to approximately 1,378 days of Maintenance and Operation Costs during Fiscal Year 2021-2022.

Investment Policy and Practices

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

The Investment Policy was originally adopted by the City Council on April 2, 1985, and is reviewed annually by the City Council. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy. Most recently, on March 15, 2022, the City Council approved various updates to the Investment Policy.

The primary objectives of the Investment Policy, in their order of priority, are to (1) provide for the safe preservation of principal, (2) ensure that there is sufficient liquidity for operating needs, and (3) attain the maximum yield possible as long as investment practices are consistent with the first two stated objectives. The City has not entered into any interest rate or commodity swap or hedging agreements and does not currently expect to enter into any such agreements in the foreseeable future.

Debt Management Policy

The City Council adopted a Debt Management Policy for the City on May 21, 2002, which is reviewed annually by the City Council and was last amended on March 7, 2017. The policy allocates responsibility for debt management activities to the Finance Department, describes the purposes for which debt may be issued, establishes overall parameters for issuing and administering the City's debt, including initial and continuing disclosure as required under the City's undertakings entered into pursuant to the Rule.

Historical Net System Revenues and Debt Service Coverage

The following table presents historical Net System Revenues and debt service coverage for Fiscal Years 2017-2018 through 2021-2022. Net System Revenues were calculated in accordance with the Master Resolution which differs from the presentation of revenues and expenditures in the financial statements of the Wastewater Treatment System Fund.

Table 17
Wastewater System
Historical Net System Revenues and Debt Service Coverage
Fiscal Years 2017-2018 through 2021-2022
(in thousands)

	Fiscal Year Ended June 30				
	2018	**2019**	**2020**	**2021**	**2022**
System Revenues:					
Sewer Service and Use Charges					
Industrial	$4,081	$5,769	$4,570	$5,421	$6,376
Commercial	19,795	22,283	20,639	23,113	20,951
Institutional	2,681	2,999	2,715	2,569	3,194
Residential	128,358	132,100	136,511	142,144	140,195
Total Sewer Service and Use Charges	154,915	163,151	164,435	173,247	170,716
Sewage Treatment Plant Connection Fees	4,573	4,050	4,396	2,173	1,782
Other Revenue	1,255	4,585	5,337	2,367	290
Participating Agency Revenue					
Maintenance and Operations – Santa Clara	12,342	12,905	13,320	13,340	17,344
Maintenance and Operations – Tributary	17,776	17,574	19,555	20,248	22,586
Total Participating Agency Revenue	30,118	30,479	32,875	33,588	39,930
Total System Revenues	**$190,861**	**$202,265**	**$207,043**	**$211,375**	**$212,718**
Maintenance and Operations Costs					
Administrative Expenses	$887	$696	$967	$1,110	$1,143
Sewage Collection System Management & Maintenance Costs	33,217	36,876	33,344	30,670	30,415
Treatment Plant Operating Costs	113,951	135,229	157,530	144,991	130,560
Total Maintenance and Operation Costs	$148,055	$172,801	$191,841	$176,770	$162,118
Net System Revenues	**$42,805**	**$29,464**	**$15,201**	**$34,605**	**$50,601**
Parity Obligations Debt Service					
2009 Bonds (1)	$5,176	$5,502	$5,497	$5,497	--
Parity Obligations Debt Service Coverage Ratio	**8.27 x**	**5.49 x**	**6.76 x**	**6.44 x**	**--**
Subordinate Obligations Debt Service					
WFNBA Short-Term Revenue Notes Base	$67	$1,278	$2,028	$1,991	$2,442
Total Debt Service	**$5,243**	**$6,647**	**$7,400**	**$7,362**	**$2,442**
All-in Debt Service Coverage Ratio	**8.16 x**	**4.43 x**	**4.90 x**	**4.70 x**	**20.72 x**

(1) Represents net debt service on the San José-Santa Clara Clean Water Financing Authority (the “Clean Water Financing Authority”) issued its Sewer Revenue Refunding Bonds, Series 2009A (the “2009 Bonds”) allocable to the City. A portion of the debt service on the 2009 Bonds was payable by the Tributary Agencies because the net proceeds of the 2009 Bonds were used to refinance capital improvements to the Treatment Plant, a portion of which were allocable to the Tributary Agencies. The portion of the debt service on the 2009 Bonds allocable to the Tributary Agencies is not shown. The 2009 Bonds matured on November 15, 2020.

Source: City of San José.

Projected Net System Revenues and Debt Service Coverage

The City has prepared projections of Net System Revenues calculated in accordance with the terms of the Master Resolution for Fiscal Years 2022-2023 through Fiscal Year 2026-2027, which projections are set forth in the following table.

Table 18
Wastewater System
Projected Net System Revenues and Debt Service Coverage
Fiscal Years 2022-2023 through 2026-2027
(in thousands)

	Fiscal Year Ended June 30				
	2023	**2024**	**2025**	**2026**	**2027**
System Revenues:					
Sewer Service and Use Charges[1]					
Industrial	$7,132	$7,560	$7,514	$7,794	$8,004
Commercial	19,691	20,899	21,153	21,982	22,891
Institutional	4,914	3,432	3,538	3,657	3,688
Residential	156,911	164,489	176,805	188,933	188,914
Total Sewer Service and Use Charges	188,648	196,380	209,010	222,366	223,497
Sewage Treatment Plant Connection Fees	2,200	2,200	2,200	2,300	2,300
Other Revenue	349	349	318	367	440
Participating Agency Revenue[2]					
Maintenance and Operations – Santa Clara	19,568	21,231	19,339	20,082	21,053
Maintenance and Operations – Tributary	27,677	30,029	26,941	27,904	29,858
Total Participating Agency Revenue	47,245	51,260	46,280	47,986	50,911
Total System Revenues	**$238,442**	**$250,189**	**$257,808**	**$273,019**	**$277,148**
Maintenance and Operations Costs:					
Administrative Expenses[3]	$1,143	$1,216	$1,268	$1,324	$1,500
Sewage Collection System Management & Maintenance Costs[4]	41,817	37,223	35,190	36,806	38,459
Treatment Plant Operating Costs[5]	123,985	141,353	133,368	145,224	141,222
Total Maintenance and Operation Costs	$166,945	$180,269	$169,826	$183,354	$181,181
Net System Revenues	**$71,497**	**$69,920**	**$87,982**	**$89,665**	**$95,967**
Parity Obligations Debt Service					
2022B Installment Payments*	$5,159	$17,577	$17,581	$17,578	$17,876
Parity Obligations Debt Service Coverage Ratio	**13.86 x**	**3.98 x**	**5.00 x**	**5.10 x**	**5.37 x**
Subordinate Obligations Debt Service					
WFNBA Short-Term Revenue Notes Base	$336	$747	$2,489	$6,203	$9,577
Total Debt Service	**$5,495**	**$18,324**	**$20,070**	**$23,781**	**$27,453**
All-in Debt Service Coverage Ratio	**13.01 x**	**3.82 x**	**4.38 x**	**3.77 x**	**3.50 x**

(1) Assumes rate increases averaging approximately 4% per annum commencing July 1, 2023 which have not yet been adopted.
(2) Projected contributions based on current budgeted figures.
(3) Assumes increases due primarily to projected salary increases and other inflationary factors.
(4) Assumes increase due primarily to projected salary increases and approved budgeted projects.
(5) Assumes increases in energy and costs of chemicals, salaries, changes in costs relating to changes in operations (including the new mechanical digested sludge dewatering facility), and one-time environmental remediation costs of legacy lagoons in the estimated amount of $26 million in Fiscal Year 2023-2024 (and for which the City holds a fully-funded reserve), and other inflationary factors.
* Preliminary; subject to change.
Source: City of San José.

The projected Net System Revenues for Fiscal Years 2022-2023 through Fiscal Year 2026-2027 reflect certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based on a variety of assumptions, including the assumptions set forth in the footnotes to the previous table, and assumed rate increases averaging approximately 4% per annum commencing July 1, 2023 which have not yet been adopted, as discussed under the caption "THE WASTEWATER SYSTEM – Rates and Charges." All such assumptions are material to the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See the caption "CERTAIN RISK FACTORS – Accuracy of Assumptions."

Pursuant to the Master Resolution, the City has agreed, while any of the 2022B Installment Payments remain unpaid, to fix and prescribe, or cause to be fixed and prescribed, rates and charges for the use of the Wastewater System in each Fiscal Year that are reasonably estimated to yield during each Fiscal Year Adjusted Net System Revenues for such Fiscal Year at least equal to 110% of the Debt Service on all Outstanding Parity Obligations, including the 2022B Installment Payments, for such Fiscal Year. The City may transfer amounts from the Rate Stabilization Fund and deposit such amounts in the Wastewater Treatment System Fund within the period prescribed by the Master Resolution, and any amounts so transferred will be deemed System Revenues when so transferred. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Stabilization Fund" and "– Rate Covenant."

CERTAIN RISK FACTORS

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

Limited Liability

THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL AND INTEREST ON THE SERIES 2022B BONDS IS A LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM THE AMOUNTS PLEDGED THEREFOR. NONE OF THE SERIES 2022B BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL THEREOF OR INTEREST THEREON, AND THE OBLIGATION OF THE CITY TO MAKE THE 2022B INSTALLMENT PAYMENTS CONSTITUTES EITHER A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY OR THE AUTHORITY. THE CITY'S TAXING POWER IS NOT PLEDGED TO THE PAYMENT OF THE SERIES 2022B BONDS OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

The Authority is not required to advance any moneys derived from any source of income other than the Revenues and other sources specifically identified in the Indenture for the payment of amounts due thereunder or for the performance of any agreements or covenants required to be performed by it contained therein.

The Series 2022B Bonds are not secured by, and the Holders thereof have no security interest in or mortgage on, the Wastewater System or any other assets of the City or any assets of the Authority. Default by the Authority under the Indenture or the City under the Installment Purchase Contract will not result in loss of the Wastewater System or any other assets of the City or any assets of the Authority.

The City's obligation to pay the 2022B Installment Payments and any other amounts coming due and payable under the Installment Purchase Contract is a special obligation of the City limited solely to the Net System Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than the Net System Revenues and other sources specifically identified in the Installment Purchase Contract for the payment of the 2022B Installment Payments and such other amounts. No other funds or property of the City are liable for the payment of the 2022B Installment Payments and any other amounts coming due and payable under the Installment Purchase Contract.

Additionally, the failure by the City of Santa Clara or any Tributary Agency to pay for their respective share of the costs of the Treatment Plant to the City, as and when due will not affect the City's obligation to make the 2022B Installment Payments when due. Nor will any failure by the Tributary Agencies to comply with the provisions of their Master Agreements constitute a default under the Indenture or the Installment Purchase Contract. There can be no guaranty that the City of Santa Clara or the Tributary Agencies will pay for such costs as and when due to the City.

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Installment Purchase Contract and to generate Net System Revenues sufficient to pay the 2022B Installment Payments may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "– Limitations on Rate Setting Under the California Constitution" below. Furthermore, any remedies available to the owners of the Series 2022B Bonds upon the occurrence of an event of default under the Installment Purchase Contract or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies of the Holders of the Series 2022B Bonds contained in the Indenture, the rights and obligations under the Series 2022B Bonds, the Installment Purchase Contract and the Indenture may be subject to the following: the United States 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 equity 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 serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Holders of the Series 2022B Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Limited Recourse on Default; No Acceleration Upon Default

If the Authority defaults on its obligation to pay debt service on the Series 2022B Bonds, the Trustee, does not have the right to declare the principal of the Series 2022B Bonds to be immediately due and payable. Similarly, if the City defaults on its obligation to make 2022B Installment Payments, the Trustee does not have the right to declare all principal components of the unpaid 2022B Installment Payments to be immediately due and payable. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

Accuracy of Assumptions

To estimate the revenues that will be available to pay debt service on the Series 2022B Bonds, the City has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Wastewater System and other matters. The City believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Net System Revenues available to pay the 2022B Installment Payments, and therefore Revenues available to pay debt service on the Series 2022B Bonds, will, in all likelihood, be less than those projected herein. See "WASTEWATER SYSTEM FINANCIAL INFORMATION – Projected Net System Revenues and Debt Service Coverage." In such event, Net System Revenues may generate amounts which are less than 110% of the Debt Service on all Outstanding Parity Obligations, including the 2022B Installment Payments, for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Covenant."

System Demand

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reductions in demand could require an increase in rates or charges in order to comply with the rate covenant. Demand for wastewater services could be reduced as a result of hydrological conditions, new technology, conservation efforts (including in response to drought), an economic downturn (including as a result of the spread of the novel strains of coronavirus that cause the disease known as COVID-19 ("**COVID-19**"), other public health emergencies, or other factors. See the captions "THE WASTEWATER SYSTEM – Rates and Charges" and "CERTAIN RISK FACTORS – Accuracy of Assumptions" and "– Public Health Emergencies."

System Expenses

There can be no assurance that Maintenance and Operation Costs will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, and increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Purchase Contract. Such rate increases could drive down demand for wastewater and related services or otherwise increase the possibility of nonpayment of the Series 2022B Bonds.

There can be no assurance that the Maintenance and Operation Costs will be consistent with the descriptions in this Official Statement. Maintenance and Operation Costs may vary with labor costs (including costs related to pension liabilities and the costs of retaining qualified personnel with the proper certifications to operate Wastewater System and other facilities), treatment costs, energy costs, regulatory compliance costs and other factors. Increases in expenses could require an increase in rates or charges in order to comply with the rate covenant. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Covenant.” In addition, no assurance can be provided that the Tributary Agencies will pay for their respective share of the costs of the Treatment Plant to the City, as and when due, pursuant to the Master Agreements. In the event the City were unable to recover such costs from any defaulting Tributary Agency, the obligation to pay such costs would be borne by the City and the City of Santa Clara as described in this Official Statement. Rate increases are subject to the provisions of Proposition 218 and there can be no assurance that the City will be able to increase rates as needed to address increases in Maintenance and Operation Costs. See the caption “– Limitations on Rate Setting Under the California Constitution.”

Concentration of System Revenues

As previously described, pursuant to the 1959 Agreement, the City and the City of Santa Clara share in the capital and operating costs on a pro rata basis determined by the ratio of each city's annual assessed valuation to the sum of both cities’ assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. In addition, pursuant to the Master Agreements, each Tributary Agency is required to make contributions to pay for a portion of the maintenance and operation costs and capital expenditures of the Treatment Plant. The contributions received by the City from the City of Santa Clara and the Tributary Agencies for maintenance and operation costs of the Treatment Plant constitute “System Revenues” under the Master Resolution. Such contributions accounted for approximately 19% of System Revenues for Fiscal Year 2021-2022.

As described under the caption “THE WASTEWATER SYSTEM – Treatment Plant – *Master Agreements with Tributary Agencies*,” the City of Santa Clara was the largest contributor of maintenance and operation costs of the Treatment Plant in Fiscal Year 2021-2022 accounting for approximately 8% of System Revenues for such fiscal year. The West Valley Sanitation District was the second largest contributor of maintenance and operation costs of the Treatment Plant in Fiscal Year 2021-2022 accounting for approximately 5% of System Revenues for such fiscal year.

The City of Santa Clara and the Tributary Agencies have paid the City for their respective share of capital and operating costs of the Treatment Plant on a timely basis for each of the five fiscal years. However, no assurances can be provided regarding the willingness and ability of the City of Santa Clara or any of the Tributary Agencies to pay their share of maintenance and operation costs of the Treatment Plant when due in the future.

Significant reductions in contributions from the City of Santa Clara and/or any of the Tributary Agencies for their respective share of capital and operating costs of the Treatment Plant could, by itself or in combination with other factors, have a material adverse effect on the City’s ability to pay make 2022B Installment Payments when due.

Future Parity Obligations

As described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Parity Obligations," the Master Resolution permits the City to issue or create additional Parity Obligations which would be payable on a parity with the City's obligation to make 2022B Installment Payments.

The coverage tests described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Covenant" involve, to some extent, projections of Net System Revenues. If additional Parity Obligations are issued or incurred by the City in the future, the debt service coverage for the Series 2022B Bonds could be diluted below what it otherwise would be. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net System Revenues may be less than projected, and the actual amount of Net System Revenues may be insufficient to provide for the payment of the Series 2022B Bonds and any future Parity Obligations.

Limitations on Rate Setting Under the California Constitution

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "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. 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 XIII D."

Property-Related Fees and Charges. Under Article XIIID, before a public agency may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The public agency must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the public agency may not impose or increase the property-related fee or charge.

Further, under Article XIIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative and Referendum Powers. In addition, Article XIIIC states that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives."

Moreover, Article II, section 9, subdivision (a) states, "[t]he referendum is the power of the electors to approve or reject statutes or parts of statutes except urgency statutes, statutes calling elections, and statutes providing for tax levies or appropriations for usual current expenses of the State." In *Wilde v. City of Dunsmuir*, involving a plaintiff that sought to challenge the City of Dunsmuir's water rate master plan, the Court of Appeal of California, Third Appellate District, held that Proposition 218 does not curtail the voters' referendum powers under Article II to challenge local resolutions and ordinances. In addition, the Court rejected the City's allegation that its rate schedule was not subject to referendum under the "essential government service exception" to the voter's referendum power. In general, referendum that would preclude the functioning of essential government services is not permissible. *Hunt v. Mayor and Council of City of Riverside (1948) 31 Cal.2d 619, 628-29*. But the Court held that the City of Dunsmuir's water rate schedule did not affect the functioning of essential government services.

Judicial Interpretation of Article XIIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three subsequent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, wastewater and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), 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 court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery 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, 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. (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.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

San Juan Capistrano Litigation. In August 2013, an Orange County Superior Court judge ruled that the tiered pricing model of San Juan Capistrano, which charges higher rates to customers who use more water, violates Proposition 218. The City of San Juan Capistrano appealed the decision, to the 4th District Court of Appeal, which published its decision on April 20, 2015. The court's decision found that the City of San Juan Capistrano's tiered rates were not sufficiently cost justified, but that the Constitution does allow for tiered rates. A rehearing petition was filed with the court on May 6, 2015. The 4th District Court of Appeal subsequently modified its unpublished opinion on May 19, 2015, without change in the judgment. In July 2015, the California Supreme Court denied a request to depublish the case. The City believes that its rate structure for the Wastewater System is distinguishable from the structure deemed unconstitutional in San Juan Capistrano and is consistent with Proposition 218 and the Constitution, because the City's tiered wastewater rates correlate with the actual costs for the various tiers.

The City believes that Proposition 218 does not apply to wholesale recycled water charges established under its agreements with its customers because these are contractual agreements, not "property-related" fees or charges imposed on end users or property owners.

However, it is possible that some or all elements of Proposition 218 could be held to apply to retail recycled water rates established by the wholesale customers, which are municipal water utilities that provide recycled water to end users.

Compliance by the City with Article XIIIC and Article XIIID. The City believes its service charges for the Wastewater System do not constitute a "tax" under Article XIIIC. The City believes neither its connection fees nor any similar fees relating to the Wastewater System is a "tax" as defined by Proposition 26 because it is a charge to a landowner that is imposed (typically as a condition of property development) for a specific privilege and does not exceed the reasonable costs of conferring the privilege.

The City will continue to comply with the provisions of Articles XIIIC and XIIID and implementing legislation in connection with future rate increases, as such requirements may be interpreted by state courts.

Conclusion. It is not possible to predict how courts will further interpret Article XIIIC and Article XIIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn and Wilde v. City of Dunsmuir* cases, local voters could adopt an initiative or referendum measure that reduces or repeals the City's wastewater rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIIC and Article XIIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

Furthermore, there can be no assurance that the City Council will not repeal or modify the rates that are set forth in the Current Rate Plan in the future or that the City's ratepayers will not approve an initiative to repeal or modify any increase in wastewater rate and charges approved by the City Council.

Public Health Emergencies

The spread of the novel strains of COVID-19 and local, state and federal actions in response to COVID-19, have impacted the City's operations and finances with respect to the Wastewater System. On February 11, 2020, the World Health Organization ("**WHO**") announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The COVID-19 pandemic has had an adverse effect on, among other things, the world economy, global supply chain, international travel and a number of travel-related industries. The temporary and permanent business closures caused by the COVID-19 pandemic have led to an increase in unemployment across State and the nation. Depending on the length and the breadth of the impacts of the COVID-19 pandemic, the economic costs may be significant for the City and the region's economy. In addition, domestic and international stock markets have experienced volatility and declines in market value following the onset of the COVID-19 pandemic.

The Wastewater System is deemed federally designated critical infrastructure, entitled to exemptions under governmental "stay-at-home" orders as needed to maintain continuity of operations. City personnel necessary for the operation of the Wastewater System have remained onsite. The City did modify its operations to implement remote work opportunities for certain employees performing administrative functions at Wastewater System and to provide related City services online. City Council meetings were initially conducted via online virtual meeting platforms and other electronic means. Consistent with State directives, the City Council has resumed in-person meetings and continues to provide for public participation via commercially available online virtual meeting software systems. The City has maintained continuity of service of the Wastewater System throughout the COVID-19 pandemic, without any impact or pandemic related interruptions to services provided by the Wastewater System. With improvements in local COVID-19 case rates, the City has phased in the resumption of normal operations and activities at the Wastewater System while complying with public health orders and California Occupational Safety and Health Administration COVID-19 Prevention Plan mandates.

Since Spring 2020, ESD has partnered with Stanford University and the County of Santa Clara Health Department in the Sewer Coronavirus Alert Network project. The program helps health officials track the spread of COVID-19 and improve the County's public health response to the coronavirus. Staff at the Treatment Plant collect samples of wastewater known as settled solids on a daily basis and provide them to scientists who analyze the samples looking for genetic markers of COVID-19. This method enables health officials to track coronavirus trends and see dips or spikes in coronavirus infections coming seven to 10 days before they show up in COVID-19 test results.

The COVID-19 pandemic is ongoing, and the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the Wastewater System is unknown. The City reports that Net System Revenues for Fiscal Years 2019-20 through 2021-22 were not materially affected by the COVID-19 pandemic. See "WASTEWATER SYSTEM FINANCIAL INFORMATION – Historical Net System Revenues and Debt Service Coverage." The City continues to actively monitor usage, payment delinquencies, and its revenues and expenditures from the Wastewater System. The City does not currently expect that the COVID-19 pandemic will have a material adverse effect on its ability to make 2022B Installment Payments when due.

Further, there could be future COVID-19 outbreaks or other public health emergencies that could have material adverse effects on the operations or finances of the Wastewater System. To support continued operation during any future emergency, the City is currently building a comprehensive Continuity of Operations Plan and program. Continuity of services is a priority on the City's Roadmap, adopted by the City Council in May 2022.

Statutory and Regulatory Compliance

Laws and regulations governing the treatment and disposal of wastewater are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

Claims against the Wastewater System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Wastewater

System or from other legally available sources. In addition to claims by private parties, changes in the standards for public agency wastewater systems such as that operated by the City may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders could also impose substantial additional costs on the City. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the City to generate Net System Revenues sufficient to pay the 2022B Installment Payments when due.

Casualty Losses

The Master Resolution obligates the City to obtain and keep in force certain forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Wastewater System in the event of damage or destruction to such portion of the Wastewater System. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Wastewater System. Significant damage to the Wastewater System could cause the City to be unable to generate sufficient Net System Revenues to make 2022B Installment Payments when due. See APPENDIX A – "THE CITY OF SAN JOSE: DEMOGRAPHIC AND ECONOMIC INFORMATION – INSURANCE AND SELF-INSURANCE PROGRAMS – Regional Wastewater Facility Coverages: OCIP I and OCIP II."

Seismic

According to the safety element of 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. 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 any 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.

The Wastewater System has facilities located in various parts of the City, as well as in Santa Clara and in the neighboring city of Milpitas. The potential for surface rupture is considered to be low as no currently identified active fault appears to pass through the pipeline alignments.

Treatment Plant facilities and structures were rated for seismic vulnerability in May 2007 using the scoring system from the Federal Emergency Management Agency ("**FEMA**") 154 document. According to such scoring, most Treatment Plant facilities have a likelihood of collapse due to a seismic event between 0.3% and 1%. A few structures built before modern seismic codes had been enacted received scores indicating such structures have a greater than 1% chance of failure during a seismic event.

Capital improvements to the Treatment Plant are designed in accordance with the California Building Code. Facilities and equipment are evaluated for certain risks and an importance factor is applied for seismic load calculations. Higher importance factors are applied as required by code or by project-specific design criteria.

Drought

On January 17, 2014, the Governor declared a drought state of emergency (the "**Declaration**") with immediate effect. The Declaration included an order encouraging local urban water suppliers to implement their local water shortage contingency plans. On April 7, 2017, after significant improvement in water supply conditions across California, the Governor issued Executive Order B-40-17, which rescinded mandatory conservation measures for most California counties.

In 2018, the California Governor signed Senate Bill 606 and Assembly Bill 1668 into law. These bills relate to water conservation and drought planning and empower State of California Department of Water Resources and the State of California Water Resources Control Board to adopt long-term standards for the following: (i) indoor residential water use; (ii) outdoor residential water use; (iii) commercial, industrial and institutional water use for landscape irrigation; and (iv) water loss. The indoor water use standard has been defined as 55 gallons per person per day ("**GPCD**") until January 2025; the standard will decrease over time to 50 GPCD in January 2030. Standards for outdoor residential water use and commercial, industrial and institutional water use for landscape irrigation are still being developed. Urban water suppliers will be required to stay within annual water budgets, based on these standards, for their service areas.

The City is unable to predict the effect on the Wastewater System of the implementation of Senate Bill 606 and Assembly Bill 1668 or any future legislation with respect to water conservation. Existing and future water conservation measures are not expected to significantly impact Net System Revenues because the City's wastewater rates are set to recover the costs of operating the Wastewater System.

On October 19, 2021, the Governor declared a Statewide drought state of emergency and requested that all water users voluntarily reduce water use by 15%. The declaration encouraged water agencies to draw upon supplies other than groundwater and to implement their water shortage contingency plans and authorized the State Water Resources Control

Board to adopt regulations that prohibit wasteful water use (such as the use of potable water to wash paved surfaces or to irrigate landscaping during the two days following rainfall). On March 28, 2022, the Governor issued Executive Order N-7-22, which directs new state and local efforts related to the ongoing drought. The Governor has called on local water suppliers to move to Level 2 of their Water Shortage Contingency Plans, which require locally-appropriate actions that will conserve water across all sectors. In most cases, Level 2 requires 10-20% conservation within a district though local discretion is allowed. The Governor also ordered the State Water Resources Control Board to evaluate the adoption of regulations banning irrigation of "non-functional" turf (or grass), such as decorative grass adjacent to large industrial and commercial buildings. The ban would not include residential lawns or grass used for recreation, such as school fields, sports fields and parks. The Department of Water Resources estimates this ban alone would result in potential water savings of several hundred thousand acre-feet. An acre-foot of water serves the needs of approximately three households for a year. The City Council has declared a water shortage of 15% citywide and implementing certain water conservation measures through May 31, 2024.

The projected operating results of the Wastewater System that are set forth under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION – Projected Net System Revenues and Debt Service Coverage" do not reflect any reductions in wastewater service demand as a result of drought. The City does not currently expect that any drought restrictions imposed by the State or the City will have a material adverse effect on its ability to make 2022B Installment Payments when due. The City has covenanted to set rates and charges of the Wastewater System in amounts that it expects to be sufficient to pay the 2022B Installment Payments from Net System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Covenant."

Climate Change and Sea Level Rise

The State has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere as a result of economic activity, climate change is expected to intensify, increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. 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 that human influence has warmed the atmosphere, ocean and land.

The Treatment Plant is located within a Federal Emergency Management Agency flood zone that will experience significant regional flooding during the 100 Year and 500 Year floods, and is vulnerable to effects of future sea-level rise. The Treatment Plant also has experienced localized flooding caused by runoff during heavy rainfall events. The latest projections anticipate an increase in the Bay's sea level by at least 8 inches by 2050.

In 2016, the City prepared a flood protection study (the "**Flood Protection Study**") to identify and document critical surface flood elevations the Treatment Plant due to regional riverine and tidal flooding. Among other items, the Flood Protection Study identified alternatives to protect the Treatment Plant from flooding and developed flood protection guidelines for future capital improvements to the Treatment Plant. According to the Flood Protection Study, over 100 (approximately 79%) of the structures in the operational area across the Treatment Plant would be impacted under a 500-year flood event at the time of the study (with no sea level rise), assuming no regional, Treatment Plant or area protection measures are in place. The Flood Protection Study found that the depth of such flooding would range from less than 0.5 feet at some locations, to almost 5 feet at others. The average depth of flooding expected across all locations was 2.4 feet. The Flood Protection Study also found that a majority of the Treatment Plant facilities were largely at risk to flooding during conditions present at the time of the study, with no sea level rise.

The Flood Protection Study also found that, with an upper range estimate of sea level rise expected in 2040, all key facilities at the Treatment Plant will be in the flood zone. The Flood Protection Study further noted that the depth of flooding would range from less than 0.5 feet at some locations, to over 7 feet at others, and the average depth of flooding expected across all locations was 3.3 feet. The Flood Protection Study further noted that, by 2070, the depth of flooding from a 500-year event will increase by 1.6 feet to an average of 4.9 feet across the entire site if no protection is in place. At the time of the Flood Protection Study, 99% of the operational facilities were estimated to be impacted, either directly by physical inundation, indirectly via interconnections with other impacted assets, or via unprotected utilities adjacent to the Treatment Plant.

The Flood Protection Study recommended two flood protection alternatives. The first alternative consisted of the construction of a new engineered "ring-levee" system of protection around the main operational area of the Treatment Plant to address coastal and riverine flood risk assuming that the South San Francisco Bay Shoreline Project (the "**Shoreline Levee Project**") would not be constructed. The second alternative consisted of the construction of a new engineered "ring-levee" system of protection combined with existing high ground around the main operational facilities of the Treatment Plant to address the residual riverine flood risk assuming that the Shoreline Levee Project would be constructed (this second alternative is hereinafter referred to as the "**Flood Protection Project**"). The estimated costs of such alternatives were approximately $30 million and $12 million (in 2016 dollars), respectively.

In December 2021, the United States Army Corps of Engineers began construction of the first three of five reaches of the Shoreline Levee Project. When complete, the Shoreline Levee Project is anticipated to provide coastal flood protection from sea level rise and will restore and enhance the tidal marsh, for the urban area of North San José, the community of Alviso, and the Treatment Plant, by using a combination of flood protection levees, wetlands and transitional zone habitats. At completion, the Shoreline Levee Project is anticipated to consists of five reaches. Reaches 1 through 3 extend from the Alviso Marina to the Artesian Slough. Construction of such reaches is expected to continue through January 2024. Reaches four and five extend over property of the Treatment Plant and are anticipated to reduce the risk of flooding at the legacy lagoons at the Treatment Plant. However, funding for the construction of reaches four and five has not been secured and those portions of the Shoreline Levee Project are currently on hold. Prior to being put on hold, 60% design plans and specifications were completed in October 2020. The City is not participating in the design, construction or funding of the Shoreline Levee Project and cannot provide any assurance that the Shoreline Levee Project will be completed in its entirety, including over the land of the Treatment Plant.

In light of the Shoreline Levee Project, the City is currently proceeding with the construction of the Flood Protection Project. The City anticipates that the Flood Protection Project will include berms along the south and west borders of the Treatment Plant to form a ring-levee to protect against riverine flooding from Coyote Creek. The City anticipates that construction of the Flood Protection Project will commence in mid-2024 and be completed by the end of 2024. In addition, some capital improvement projects at the Treatment Plant include measures to protect equipment from flooding prior to the completion of the Shoreline Levee Project and the Flood Protection Project. Such measures elevating certain small but critical gear such as electrical switchgear in order to provide interim protection.

The Flood Protection Study also recommended addressing flood risks from storm events within the Treatment Plant's operational area. In response, the City initiated a Storm Drain Systems Improvement Project in late 2017. The scope of the project includes rehabilitating and upgrading the existing storm drain system to protect Treatment Plant's critical infrastructure, including equipment, tunnel entrances, and buildings, from flooding during 10-year 24-hour to 100-year 24-hour storm events. Construction began in April 2022 and is anticipated to be completed before the end of 2023.

The Flood Protection Study noted that the Treatment Plant will be at risk until the Shoreline Levee Project is fully built and residual risk will remain after its completion. As noted above, funding for the construction of reaches four and five (which would be constructed on the property of the Treatment Plant) has not been secured and those portions of the Shoreline Levee Project are currently on hold. This residual risk includes the risk of flood events in excess of the 100 year protection provided by the Shoreline Levee Project and the 100-year level of protection at the Coyote Creek and Guadalupe River projects. The Flood Protection Study further noted that the likelihood of a flood event in excess of a 100-year event occurring at one of these nearby levee facilities is low, but the consequence of such an event is significant.

The City has adopted an emergency contingency plan for operations at the Treatment Plant in the event a 100-year flood or 500-year flood were to occur at the Treatment Plant. However, no assurance can be provided that the Shoreline Levee Project, the Flood Protection Project or any other measures taken to protect the Treatment Plant from flooding (in each case if and when completed) will adequately protect the Treatment Plant from flooding or that any such flooding will not materially adversely affect the operations of the Treatment Plant. Moreover, the future fiscal impact of climate change on the Wastewater System is difficult to predict, but it could be significant and it could have a material adverse effect on the Wastewater System by requiring greater expenditures to counteract the effects of climate change or by changing the operations and activities of residents and business establishments within the jurisdictional boundaries of the City, the City of Santa Clara and the Tributary Agencies.

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 City has upgraded its servers and workstations to help guard against various strains of Cryptoware, implemented a solution to guard against compromise of business email 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.

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.

The City's information technology systems were made vulnerable by cyberattacks against SolarWinds Exchange and Log4j in 2020. 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.

In 2022, the City has continued to 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. Additionally, a Cybersecurity Review Committee was assembled with key leaders at the City to manage and accept risk on a quarterly basis.

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.

Rate Covenant Not a Guarantee

The Series 2022B Bonds are payable from and secured by a pledge of and lien upon Revenues received by the Authority under the Installment Purchase Contract, consisting primarily of 2022B Installment Payments made by the City under the Installment Purchase Contract. The 2022B Installment Payments are payable from and secured by Net System Revenues of the Wastewater System. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS."

The City's ability to make 2022B Installment Payments depends on its ability to generate Net System Revenues at the levels required by the Installment Purchase Contract. Although the City has covenanted in the Installment Purchase Contract to impose rates and charges as more particularly described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS – Rate Covenant" and although the City expects that sufficient Net System Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net System Revenues in amounts that are sufficient to make 2022B Installment Payments when due. Among other matters, the demand for wastewater services and changes in law and government regulations could adversely affect the amount of Net System Revenues realized by the City. The failure to generate sufficient Net System Revenues to make 2022B Installment Payments when due does not constitute a default or Event of Default under the Installment Purchase Contract, provided that the City makes such payments when due and has set rates and charges at levels that it reasonably expects will generate sufficient Net System Revenues at the beginning of each Fiscal Year.

Construction Risk

The City has entered into agreements for the construction of the Projects. The City anticipates that such contracts will be subject to adjustment for a variety of circumstances, including higher than anticipated costs of labor and materials or subcontractor bids, changes in scope, unforeseen site conditions and force majeure events. The estimated costs of, and the projected schedule for, the Projects are subject to a number of uncertainties. The ability of the City to complete the Projects may be adversely affected by various factors including but not limited to: (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the Projects, (4) material and/or labor shortages, (5) unforeseen site conditions, (6) adverse weather conditions and other force majeure events, (7) contractor defaults, (8) labor disputes, (9) unanticipated levels of inflation, and (10) environmental issues. No assurance can be provided that the Projects will not cost more than the current budget therefor. Any schedule delays or cost increases could result in the need to issue additional indebtedness and may result in increased costs, thereby making the Wastewater System less economically competitive. There can be no assurances that significant increases in costs over the amounts projected by the City will not materially adversely affect the financial condition or operations of the Wastewater System.

Future Litigation

There can be no assurance that future lawsuits or governmental actions will not affect the City's ability to make 2022B Installment Payments when due under the Installment Purchase Contract. See "LITIGATION AND SIGNIFICANT CLAIMS" for a description of potentially significant litigation pending against the City which claims would be payable from System Revenues.

Loss of Tax-Exemption

Interest on the Series 2022B Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2022B Bonds were issued, as a result of future acts or omissions of the City or the Authority in violation of their covenants in the Installment Purchase Contract and the Indenture, respectively. Should such an event of taxability occur, the Series 2022B Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Secondary Market for Series 2022B Bonds

There can be no guarantee that there will be a secondary market for the Series 2022B Bonds or, if a secondary market exists, that any Series 2022B Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. 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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("**Bond Counsel**"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2022B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "**Code**") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2022B Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that, for tax years beginning after December 31, 2022, interest on the Series 2022B Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2022B Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2022B Bonds is less than the amount to be paid at maturity of such Series 2022B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2022B Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2022B Bonds which is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2022B Bonds is the first price at which a substantial amount of such maturity of the Series 2022B Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2022B Bonds accrues daily over the term to maturity of such Series 2022B Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2022B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2022B Bonds. Beneficial Owners of the Series 2022B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2022B Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2022B Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2022B Bonds is sold to the public.

Series 2022B Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2022B Bonds. The Authority and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2022B Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2022B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2022B Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2022B Bonds may adversely affect the value of, or the tax status of interest on, the Series 2022B Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2022B Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2022B Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2022B Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state 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 or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2022B Bonds. Prospective purchasers of the Series 2022B Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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 Series 2022B Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("**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 the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2022B Bonds ends with the issuance of the Series 2022B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the City or the Beneficial Owners regarding the tax-exempt status of the Series 2022B Bonds in the event of an audit examination by the IRS. Under current procedures, Beneficial 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 or the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2022B 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 Series 2022B Bonds, and may cause the Authority, the City or the Beneficial Owners to incur significant expense.

Payments on the Series 2022B Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate Beneficial Owner of Series 2022B Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Series 2022B Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2022B Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("**TIN**") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a Beneficial Owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain Beneficial Owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

CERTAIN LEGAL MATTERS

The validity of the Series 2022B Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement

Certain legal matters will be passed upon for the Authority and the City by the City Attorney, and by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, ArentFox Schiff LLP, San Francisco, California, as Underwriters' Counsel. *Payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Municipal Advisor, the Underwriters and Underwriters' Counsel is contingent upon the sale and delivery of the Series 2022B Bonds.*

LITIGATION AND SIGNIFICANT CLAIMS

General. No litigation is pending, with service of process having been accomplished, or to the City's knowledge, threatened in writing concerning, which if determined adversely to the City would, in the opinion of the City, materially impair the ability of the City to make 2022B Installment Payments as they become due, or in any way questioning or contesting (i) the validity of the Series 2022B Bonds, (ii) political existence of the City or the Authority, (iii) the City's power to fix wastewater rates and charges, (iv) the proceedings under which the Series 2022B Bonds are to be issued; (v) the validity of any provision of the Series 2022B Bonds, the Indenture or the Installment Purchase Contract; or (vi) the pledge of Net System Revenues by the City under the Installment Purchase Contract.

Potentially Significant Claims. 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 payable from System Revenues, collectively, could total $10 million or more. For all the matters described below, the City is unable to predict their actual outcome or when they will be resolved.

<u>Tributary Agencies' Litigation</u>. As previously described, the Master Agreements require that any allegation of breach of contract or inequity be filed with the legislative bodies of the agencies that committed the alleged breach, and with the TPAC. See "THE WASTEWATER SYSTEM – Treatment Plant – *Master Agreements with Tributary Agencies.*"

On January 22, 2016 and September 7, 2016, the City, as the administering agency, received claims from the Tributary Agencies alleging a breach of contract and inequity under the Master Agreements. The TPAC conducted two administrative hearings, on March 24, 2016 and

September 7, 2016, regarding such claims and issued reports as required by the Master Agreements. The Tributary Agencies disagreed with the reports and the parties attempted to mediate such claims, but were unable to reach resolution. All parties agreed to waive the hearings before their respective joint legislative bodies.

The Tributary Agencies filed a complaint in Santa Clara County Superior Court against the City and the City of Santa Clara on March 23, 2018. The allegations in the complaint are substantially similar to the claims raised by the Tributary Agencies and heard through the administrative hearing process in 2016. In the complaint, the Tributary Agencies allege the City breached their respective Master Agreements by, among other allegations, the City charging them for capital and operating expenditures that the Tributary Agencies allege are not authorized under the Master Agreements and, the Tributary Agencies assert, are beyond the requirements to operate the Treatment Plant. The Tributary Agencies also allege that the City has improperly concealed how the funds paid by the Tributary Agencies for Treatment Plant capacity are used. They also allege the City breached the implied covenant of good faith and fair dealing and violated certain California Constitutional provisions limiting local agencies' imposition of property related fees, charges, and taxes. The Tributary Agencies further allege their payments resulted in unjust enrichment to the City and the City of Santa Clara, and that the court should provide declaratory relief in support of their allegations.

The City filed and served a cross-complaint against each Tributary Agency seeking declaratory relief from the court as to each of the causes of action alleged by the Tributary Agencies in their complaint. The Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Treatment Plant to date. The City cannot predict the outcome or the timeline for resolution of this litigation. Discovery in the case has been extensive, involving millions of documents and dozens of depositions. Discovery is ongoing, and a trial date has been set for January 2023.

Sanitary Sewer Main Dispute. In 2019, the City installed a new 21-inch sanitary sewer main on Bollinger Road in the City. As part of the project, the City diverted the sewage from a 151-home tract on the south side of Bollinger Road into the new pipe, with the sewage flow eventually leading to the Treatment Plant. Prior to this diversion, and since the tract was developed in the 1950s pursuant to a map approved by Santa Clara County prior to City annexation, sewage from the tract had flowed across Bollinger Road and eventually to the City of Sunnyvale's sewage treatment plant. After discovering this diversion in late 2020, Sunnyvale filed a claim against the City, alleging damages of $2.78 million (net present value) based on anticipated loss of sanitary sewer service use charge revenue over the next 30 years. The two cities are in discussions concerning how to resolve the claim.

RATINGS

S&P Global Ratings ("**S&P**"), Fitch Ratings ("**Fitch**") and Kroll Bond Rating Agency, LLC ("**Kroll**") have assigned their municipal bond ratings of "__," "__," and "__" respectively, to the Series 2022B Bonds. Future events, including the impacts of the COVID-19 pandemic on the City, could have an adverse impact on the ratings of the Series 2022B Bonds, and there is no assurance that any credit rating that is given to the Series 2022B Bonds will be maintained for any period of time or that a rating may not be qualified, downgraded, lowered or withdrawn entirely by S&P, Fitch or Kroll, if, in their judgment circumstances so warrant, nor can there be any assurance that the criteria required to achieve the ratings on the Series 2022B Bonds will not change during the period that the Series 2022B Bonds remain outstanding.

Any qualification, downward revision, lowering or withdrawal of the ratings on the Series 2022B Bonds may have an adverse effect on the market price of the Series 2022B Bonds. The ratings reflect only the views of S&P, Fitch and Kroll, and an explanation of the significance of the ratings, and any outlook assigned to or associated with the ratings, should be obtained from S&P, Fitch and Kroll. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to S&P, Fitch and Kroll (some of which does not appear in this Official Statement).

In providing a rating on the Series 2022B Bonds, S&P, Fitch and Kroll may have performed independent calculations of coverage ratios using their own internal formulas and methodology, which may not reflect the provisions of the Master Resolution. The City makes no representations as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

The City has covenanted in the Continuing Disclosure Certificate to file notices of any rating changes on the Series 2022B Bonds with EMMA, currently located at www.emma.msrb.org (which website is not incorporated into this Official Statement by reference). See the caption "CONTINUING DISCLOSURE" and Appendix F. Notwithstanding such covenant, information relating to rating changes on the Series 2022B Bonds may be publicly available from the rating agencies prior to such information being provided to the City and prior to the date by which the City is obligated to file a notice of rating change. Purchasers of the Series 2022B Bonds are directed to S&P, Fitch and Kroll and their websites and official media outlets, for the most current ratings with respect to the Series 2022B Bonds after their initial sale and delivery. No information on such websites or outlets are incorporated herein by reference.

CONTINUING DISCLOSURE

The City has covenanted in its Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Series 2022B Bonds to provide certain financial information and other operating data on an annual basis by not later than April 1 after the end of each fiscal year of the City (currently June 30th), commencing not later than April 1, 2023, commencing on April 1, 2023, and to provide notice of certain enumerated events as required by the Rule. The specific nature of the information to be contained in the annual report or the notices of enumerated events is summarized under the caption APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made to assist the Underwriters in complying with the Rule.

Any failure by the City to comply with the provisions of its Continuing Disclosure Certificate will not constitute a default under the Indenture (although owners of the Series 2022B Bonds will have any remedy available at law or in equity as provided in the Continuing Disclosure Certificate). Nevertheless, such a failure to comply must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2022B Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2022B Bonds.

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, 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. As of September 1, 2022, no bond issuances for special assessment and community facilities districts or the convention center facilities district were outstanding. 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 Series 2022B Bonds.

During the five year period preceding the date of this Official Statement, the City failed to file, on a timely basis, notices of rating changes, or insurer-related rating changes or rating withdrawals with respect to numerous series of bonds. In addition, the assessed value of taxable property and top ten real property tax assessee's information contained in the City's Annual Reports for fiscal year 2017-2018 reflects information as of the "prior" fiscal year instead of the "current" fiscal year, as could be interpreted to be required by the terms of the City's undertakings relating to issues of general obligation bonds that were defeased in July 2019.

UNDERWRITING

The Series 2022B Bonds will be purchased by the Underwriters, pursuant to a bond purchase agreement, dated the date of this Official Statement (the "**Purchase Agreement**"), by WFBNA on its own behalf and on behalf of Morgan Stanley & Co. LLC, Academy Securities, Inc. Samuel A. Ramirez & Co., Inc. and Stifel, Nicolaus & Company, Inc., and the City. Under the Purchase Agreement, the Underwriters have agreed to purchase all, but not less than all, of the Series 2022B Bonds for an aggregate purchase price of $________ (representing the principal amount of the Series 2022B Bonds, plus an original issue premium of $________, and less an Underwriters' discount of $________). The Purchase Agreement provides that the Underwriters will purchase all of the Series 2022B Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside cover page of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2022B Bonds to certain dealers (including dealers depositing Series 2022B Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

Wells Fargo Corporate & Investment Banking (which may be referred to elsewhere as "**CIB**," "**Wells Fargo Securities**" or "**WFS**") is the trade name used for the corporate banking, capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including WFBNA, a member of the National Futures Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, N.A. Municipal Finance Group, a separately identifiable department of WFBNA, registered with the U.S. Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

WFBNA, acting through its Municipal Finance Group, the senior underwriter of the Series 2022B Bonds, has entered into an agreement (the "**WFA Distribution Agreement**") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "**Wells Fargo Advisors**") ("**WFA**"), for the distribution of certain municipal securities offerings, including the Series 2022B Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2022B Bonds with WFA. WFBNA has also entered into an agreement (the "**WFSLLC Distribution Agreement**") with its affiliate Wells Fargo Securities, LLC ("**WFSLLC**"), for the distribution of municipal securities offerings, including the Series 2022B Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

A portion of the proceeds of the Series 2022B Bonds will be used to make a payment in connection with an extension of credit made to the Authority and the City, evidenced by the Prior Subordinate Notes, by WFBNA. See "FINANCING PLAN – Refunding of Prior Subordinate Notes."

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

MUNICIPAL ADVISOR

Public Resources Advisory Group, Inc., Los Angeles, California, has served as Municipal Advisor to the City and the Authority with respect to the sale of the Series 2022B 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 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 Bonds.

MISCELLANEOUS

Quotations from and summaries and explanations of the Series 2022B Bonds, the Master Resolution, Indenture, the Installment Purchase Contract, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

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

This Official Statement has been approved by the City Council and the Governing Board of the Authority.

CITY OF SAN JOSE FINANCING AUTHORITY

By: ________________________________
Treasurer

CITY OF SAN JOSE

By: ________________________________
Director of Finance

By: ________________________________
Director of Environmental Services

APPENDIX A

THE CITY OF SAN JOSE: DEMOGRAPHIC AND ECONOMIC INFORMATION

TABLE OF CONTENTS

Page

INTRODUCTION TO APPENDIX A

*The obligation of the City of San José Financing Authority (the "**Authority**") to pay principal and interest on the Series 2022B Bonds is a limited obligation of the Authority, payable solely from the amounts pledged therefor. None of the Series 2022B bonds, the obligation of the Authority to pay principal thereof or interest thereon, and the obligation of the City of San José (the "**City**") to make the 2022B Installment Payments constitutes either a debt or a liability of the authority, the City, the State of California (the "**State**") or any of their respective political subdivisions within the meaning of any constitutional limitation on indebtedness, or a pledge of the full faith and credit of the City or the Authority. The City's taxing power is not pledged to the payment of the Series 2022B Bonds or interest thereon. The Authority has no taxing power.*

The City notes that the below information is the latest available but does not in all instances reflect the impact of the COVID-19 pandemic. Accordingly, the historical information below does not necessarily reflect present economic conditions and future information could be significantly different from the historical information below.

GENERAL AND LOCATION

The City is the oldest city in the State, developing from a Spanish pueblo established in 1777, and is the county seat of Santa Clara County (the "**County**"). Situated between the Diablo and Santa Cruz mountain ranges, the City encompasses approximately 180 square miles at the south end of the San Francisco Bay. The Coyote and Guadalupe rivers run through the City. The City is in the Santa Clara Valley at the southern tip of San Francisco Bay, 48 miles south of San Francisco and 40 miles south of Oakland. The area is known as the Southern Peninsula. As of January 1, 2022, the City's estimated population totaled approximately 976,482, making the City the third most populous city in the State and the tenth most populous in the United States as of such date (based on information published by the California Department of Finance). See "DEMOGRAPHIC AND ECONOMIC INFORMATION – Population."

The City has transformed from the agricultural setting of its early years into the largest city in the Silicon Valley. Silicon Valley is a region in the Southern San Francisco Bay Area of Northern California which serves as a global center of high technology, innovation, and social media. Silicon Valley corresponds roughly to the geographical Santa Clara Valley. The San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (the "**San José MSA**") in the Silicon Valley has a large concentration of high-tech employment with 239,000 workers out of a total civilian employment level of 1.06 million, which includes workers in computer electronics manufacturing and information, according to the California Employment Development Department's July 2022 Industry by Employment Data report. Silicon Valley is home to many of the world's largest technology companies and is a global center of technology innovation. Retail, professional, high-tech manufacturing, electronic assembly, and service businesses all have a presence in the City. On the international front, historically the City has attracted significant foreign investment from throughout the globe.

MUNICIPAL GOVERNMENT

General

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

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

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

The City also provides oversight in the management of convention, cultural event, sport, and hospitality facilities that include the San José McEnery Convention Center, Center for the Performing Arts, California Theatre, Mexican Heritage Plaza, Ice Centre at San José, and the SAP Center at San José, home of the San José Sharks of the National Hockey League and the San José Barracuda minor league hockey team. The City leases the San José Municipal Stadium to the San José Giants, a minor league baseball team. The City has served as host City for major sporting events, including the 2019 College Football Playoff National Championship, the 2019 National Hockey League All-Star Game, and the first and second rounds of the 2019 NCAA Men's Division I Basketball Championship.

Charter Review Commission

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

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

The City Council discussed the Charter Review Commission's recommendations on January 11, 2022 and agreed to move forward with the recommendation to amend the City Charter to move the Mayoral election from the gubernatorial election cycle to the presidential election cycle beginning in 2024. This amendment, which required approval of a majority of the qualified voters in the City, was approved at the election on June 7, 2022.

The City Council convened a meeting on April 11, 2022, to review various Charter Review Commission recommendations, and has directed City administration to draft proposed revisions to the Charter for their consideration to place on the November 2022 ballot. On June 14, 2022, the City Council submitted a ballot measure to amend the Charter to (1) add the City's ethics and elections commission (Board of Fair Campaign And Political Practices) to the Charter; (2) remove requirements that members of the Planning, Civil Service and Salary Setting Commissions be electors and/or citizens; (3) remove gender-specific language; and (4) require the City Council to adopt equity values, standards and assessments in making certain decisions. This amendment requires approval of a majority of qualified voters in the City and will be voted on at the election on November 8, 2022.

City Service Areas

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

As of January 1, 2022, the City was, by population, the third largest city in the State (after Los Angeles and San Diego), the tenth largest city in the nation, and the largest city in Silicon Valley (based on information published by the California Department of Finance). As of January 1, 2022, the City's estimated population totaled 976,482. As shown in the following table, City residents account for over half of the population of the County, which is the most populous of the San Francisco Bay Area counties. While the period from 1960 to 1980 was characterized by extremely rapid population growth in both the City and County, the last three decades reflect a trend of slower but steady growth, with 2021 and 2022 seeing a decline in population.

Table A-1
City, County and State Population Statistics

	City of San José	% Change	County of Santa Clara	% Change	State of California	% Change
1960	204,196	--	642,315	--	15,717,204	--
1970	459,913	125.23%	1,064,714	65.76%	19,953,134	26.95%
1980	629,442	36.86	1,295,071	21.64	23,667,902	18.62
1990	782,248	24.28	1,497,577	15.64	29,760,021	25.74
2000	895,131	14.43	1,682,585	12.35	33,873,086	13.82
2010	945,942	5.68	1,781,642	5.89	37,253,956	9.98
2016	1,037,952	9.73	1,931,565	8.41	39,131,307	5.04
2017	1,045,047	0.68	1,942,176	0.55	39,398,702	0.68
2018	1,048,875	0.37	1,951,088	0.46	39,586,646	0.48
2019	1,047,871	(0.10)	1,954,833	0.19	39,695,376	0.28
2020	1,049,187	0.13	1,961,969	0.37	39,782,870	0.22
2021	991,144	(5.53)	1,907,693	(2.77)	39,303,157	(1.21)
2022	976,482	(1.48)	1,894,783	(0.07)	39,185,605	(0.03)

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

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

Employment

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

The San José MSA unemployment rate was 2.2 percent in July 2022, down from a revised 2.3 percent in June 2022, and below the year-ago estimate of 5.1 percent. This compares with an unadjusted unemployment rate of 3.9 percent for California and 3.8 percent for the nation during the same period. For further comparison, the City's unemployment rate increased from 6.7% in 2008 to 11.8% in 2010 during the time of the Great Recession of 2008.

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

Table A-2
Estimated Average Annual Employment and Unemployment of Resident Labor Force [1]

Civilian Labor Force *(in thousands)*	**2018**	**2019**	**2020**	**2021**
City of San José				
Employed	534	537	499	508
Unemployed	15	15	45	28
Total	549	552	544	537
County of Santa Clara				
Employed	1,014	1,023	948	966
Unemployed	28	27	74	48
Total	1,042	1,050	1,022	1,014
Unemployment Rates				
City	2.8%	2.7%	8.3%	5.3%
County	2.7	2.5	7.2	4.7
State	4.3	4.1	10.2	7.3
United States	3.9	3.7	8.1	5.4

[1] Data is not seasonally adjusted. Only US unemployment rates are seasonally adjusted.
Source: California Employment Development Department, Labor Market Information Division; United States Department of Labor, Bureau of Labor Statistics.

The following table shows the composition of employment in the San José MSA by general category for the most recent three years available.

Table A-3
San José-Sunnyvale-Santa Clara Metropolitan Statistical Area
Estimated Average Annual Employment by Industry[1]

Industry	2019	Percent of Total	2020	Percent of Total	2021	Percent of Total
Farm	5,600	0.5%	5,300	0.5%	5,000	0.5%
Natural Resources & Mining	200	0.0%	200	0.0%	200	0.0%
Construction	53,000	4.6%	50,100	4.6%	51,800	4.7%
Manufacturing	171,900	14.9%	168,300	15.5%	169,200	15.3%
Wholesale Trade	31,400	2.7%	29,200	2.7%	28,300	2.6%
Retail Trade	83,100	7.2%	73,100	6.7%	74,500	6.7%
Transportation, Warehousing, Utilities	16,100	1.4%	15,800	1.5%	16,500	1.5%
Information	100,600	8.7%	105,900	9.8%	106,900	9.6%
Financial Activities	37,900	3.3%	38,000	3.5%	38,200	3.4%
Professional & Business Services	243,100	21.0%	237,500	21.9%	244,400	22.1%
Educational & Health Services	178,700	15.5%	172,700	15.9%	178,100	16.1%
Leisure & Hospitality	107,500	9.3%	73,100	6.7%	79,200	7.1%
Other Services	28,900	2.5%	22,100	2.0%	22,300	2.0%
Government	97,300	8.4%	93,900	8.7%	93,200	8.4%
Total [1]	**1,155,400**		**1,085,200**		**1,107,800**	

[1] Totals may not add due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division.

Major Employers

The following table shows fifteen selected major employers in the City, ranked by the number of their employees, estimated as of March 31, 2022. Because there is no official source for this information, it has been gathered by the City's Office of Economic Development on an informal basis from sources believed to be reliable. However, the City can provide no assurances as to the accuracy or completeness of the information shown in the following table.

Table A-4
City of San José
Selected Major Employers as of March 31, 2022

	Company/Organization	Approximate Number of Employees	Percent of Total City Employment
1	County of Santa Clara	19,900	5.0%
2	Cisco Systems	7,500	1.9
3	City of San Jose	6,647	1.7
4	San Jose State University	4,512	1.1
5	PayPal	4,250	1.1
6	Adobe Systems	3,825	1.0
7	Kaiser Permanente	3,673	0.9
8	Western Digital	2,892	0.7
9	Broadcom	2,753	0.7
10	eBay	2,700	0.7
11	Target Stores	2,437	0.6
12	Super Micro Computer	2,180	0.5
13	IBM	2,070	0.5
14	Cadence Design Systems	1,956	0.5
15	Good Samaritan Health System	1,850	0.4

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

Household Income

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

Table A-5
United States
2021 Top Ten Median Household Income

1.	San Jose-Sunnyvale-Santa Clara, CA Metro Area	$ 139,892
2.	San Francisco-Oakland-Berkeley, CA Metro Area	116,005
3.	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	110,355
4.	California-Lexington Park, MD Metro Area	108,397
5.	Seattle-Tacoma-Bellevue, WA Metro Area	101,721
6.	Bridgeport-Stamford-Norwalk, CT Metro Area	100,810
7.	Boston-Cambridge-Newton, MA-NH Metro Area	100,750
8.	Napa, CA Metro Area	97,213
9.	Oxnard-Thousand Oaks-Ventura, CA Metro Area	96,454
10.	Santa Rosa-Petaluma, CA Metro Area	94,295
	U.S. Median	$ 69,717

Source: U.S. Census Bureau, American Community Survey 2021 1-Year Estimates (in 2021 inflation adjusted numbers).

Retail Sales

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

Table A-6
City of San José
Taxable Sales
Calendar Years 2018 to 2021
(in thousands)

	2018	2019	2020	2021
Motor Vehicle and Parts Dealers	$2,416,279	$2,309,185	$2,026,211	$2,379,039
Home Furnishings and Appliance Stores	852,104	753,316	655,593	891,991
Bldg. Matrl. and Garden Equip. and Supplies	1,041,664	1,049,711	1,142,685	1,229,331
Food and Beverage Stores	588,124	612,960	660,987	647,448
Gasoline Stations	1,188,590	1,194,716	745,609	1,069,656
Clothing and Clothing Accessories Stores	1,001,151	1,013,635	584,695	1,059,339
General Merchandise Stores	1,328,742	1,359,673	1,196,342	1,416,889
Food Services and Drinking Places	2,130,239	2,249,724	1,461,387	1,958,852
Other Retail Group	1,009,174	1,804,540	4,982,003	5,064,453
Total Retail and Food Services	$11,556,068	$12,347,460	$13,455,513	$15,716,996
All Other Outlets	4,872,501	4,804,076	3,981,188	4,786,291
Total All Outlets	$16,428,568	$17,151,536	$17,436,701	$20,503,288

Source: California Department of Tax and Fee Administration.

Construction Activity

Overall construction activity for Fiscal Year 2021-2022, measured by permit valuation, decreased 20.5% from prior fiscal-year levels. The decrease was primarily due to lower valuation in the industrial and commercial sectors.

Through June 2022, residential permit valuation has decreased 5.8% from prior-year levels ($367.4 million through June 2022 versus $390.1 million through June 2021). Residential activity through June 2022 included the construction of 1,279 multi-family units and 608 single-family homes for a total of 1,887 units.

Commercial construction permit valuation for the fiscal year ended June 30, 2022 declined 27.2% from the prior fiscal year ($821.6 million through June 2022, down from $1.13 billion through June 2021). Modest commercial activity in the first half of Fiscal year 2021-2022 ($235.7 million) was followed by stronger activity in the second half ($585.8 million).

Industrial construction valuation for the fiscal year through June 2022 was 15.7% lower than prior-year levels, with revenues totaling $325.9 million versus $386.5 million through June 2021. Similar to fiscal year 2020-2021, Fiscal Year 2021-2022 saw ten of the twelve months registering no new industrial projects commencing construction, though industrial alterations continued.

The following table shows construction valuation and new dwelling units for the most recent five calendar years.

Table A-7
City of San José
Construction Valuation and New Dwelling Units
(in thousands)

	2018	2019	2020	2021	2022[2]
Valuation:[1]					
Residential	$547,029	$510,890	$324,266	$335,720	270,813
Non-Residential.........	811,018	1,721,756	1,672,103	713,154	952,476
Total	$1,358,047	$2,232,646	$1,996,369	$1,048,875	1,223,289
New Dwelling Units:					
Single Family............	315	568	504	584	425
Multi-Family..............	2,658	1,881	1,196	1,105	1312
Total	2,973	2,449	1,700	1,689	1737

(1) Valuation figures are adjusted to 2021 dollars (December 2021 San Francisco-Oakland-Hayward Consumer Price Index).
(2) Includes calendar year data through August 2022.
Source: City of San José, Department of Planning, Building and Code Enforcement.

Home Sale Prices

The local real estate market continued to perform strongly through Fiscal Year 2021-2022, recording record high median single home prices. According to data from the Santa Clara County Association of Realtors, the number of property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranging from 10% to 54% between the beginning of the shelter-in-place in March 2020 through June 2020. However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains.

As of June 2022, the median single-family home price in the City totaled $1.6 million, which is 5.6% above the June 2021 price of $1.5 million. The average days-on-market through June 2022 totaled 14 days, which is significantly below the average of 23 days experienced year-to-date through June 2021. Property sales, however, have begun to slow down. In the first half of 2021-2022, Property sales for single family and multi-dwelling homes grew 15% compared to the prior year. However, total sales for January through June 2022 dropped 12% compared to the same time period in 2021.

The following table shows the average monthly median price for a single-family home in the City for Fiscal Years 2012-2013 through 2021-2022.

Table A-8
City of San José
Average Monthly Median Price of Single-Family Home

Fiscal Year	Average Median Price	Percentage Change
2012-2013..................	630,001	26.1%
2013-2014..................	724,450	15.0
2014-2015..................	781,708	7.9
2015-2016..................	870,042	11.3
2016-2017..................	921,019	5.9
2017-2018..................	1,131,704	22.9
2018-2019..................	1,120,042	(1.0)
2019-2020..................	1,136,729	1.5
2020-2021..................	1,316,287	15.8
2021-2022..................	1,546,211	17.5

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 2021, approximately 45.8% of the City's population aged 25 and older have a bachelor's degree or higher, compared to approximately 36.2% in the State and approximately 35% in the United States.

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

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

Transportation

General. The City and the surrounding area are served by a network of freeways providing regional, national, and international access. Bayshore Freeway (Highway 101), a major north-south highway between San Francisco and Los Angeles, provides access to air passenger and cargo facilities at the Airport and San Francisco International Airport. Interstate 880 connects the City with the Oakland International Airport and the Port of Oakland. Interstates 280 and 680 provide access to the peninsula and eastern regions of the San Francisco Bay Area, respectively, and State Route 17 serves to connect the City with the Pacific Coast at Santa Cruz. Additional freeways serving the local area include State Routes 85, 87 and 237.

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

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

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

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

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.

From Fiiscal Years 2013 through December 2019, the Airport experienced an increase in passenger activity, resulting in a total of approximately 15.7 million passengers traveling through the Airport and passenger traffic growth of 9.3% on a rolling twelve-month basis as of December 2019, representing a 9.9% compound annual growth rate from Fiscal Year 2012-2013 through Fiscal Year 2018-2019.

To accommodate the large increase in air traffic, the Airport added two gates at the south end of Terminal B and a 6-gate interim facility at the south end of Terminal B (the "**Interim**

Facility"). The Interim Facility, completed in June 2019, includes boarding bridges as well as food and beverage concessions. The Interim Facility was designed and built as a temporary facility that can operate during construction of the future Terminal C in the same area.

Following the outbreak of COVID-19 and the resulting stay-at-home directives, passenger levels at the Airport dropped in Fiscal Years 2019-2020 and 2020-2021 to 11.3 million (a decrease of 24.2%) and 4.2 million (a decrease of 62.7%), respectively. Passenger levels recovered in part in Fiscal Year 2021-2022 with 9.8 million passengers, nearly 5.6 million more than Fiscal Year 2020- 2021. Compared to Fiscal Year 2018-2019, total passenger levels in Fiscal Year 2021-2022 were down 34.4%.

Airport revenues depend on the level of aviation activity and passenger traffic at the Airport and has seen a steady rebound in passenger levels since the low in April 2020. The Airport expects to continue to experience recovery from the impacts of the COVID-19 pandemic over the next few years. The City cannot predict the extent and duration of changes in air traffic volume because of the COVID-19 pandemic and its associated economic impacts on the Airport.

CITY'S BUDGETARY PROCESS

The City is legally required to adopt a balanced budget before the beginning of each fiscal year. The City Council adopted a balanced budget for Fiscal Year 2022-2022 on June 14, 2022 and adopted the Annual Appropriation Ordinance and Funding Sources Resolution implementing the 2021-2022 Operating and Capital Budgets on June 21, 2022.

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

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

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

Parking, and Convention Center facilities). The City Council holds a number of study sessions in mid-May to discuss the proposed Operating and Capital Budgets and the Fees and Charges Report, and holds two public hearings on the budget, the first of which generally occurs in mid-May and the second of which generally occurs in early June.

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

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

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

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

FINANCIAL OPERATIONS

Financial Statements

A copy of the City's Basic Financial Statements for the period ending June 30, 2022 is attached hereto as Appendix C. The City accounts for the operations of the Wastewater System in the Wastewater Treatment System Fund, an enterprise fund of the City. The City's Basic Financial Statements include the financial statements for the Wastewater Treatment System Fund.

The City's Basic Financial Statements are included in this Official Statement solely because the financial statements for the Wastewater Treatment System Fund. As previously described, the Series 2022B Bonds are limited obligations of the Authority payable from and secured by a pledge of the Revenues and amounts on deposit in certain funds and accounts established under the Indenture. "Revenues" generally consist of the Installment Payments, including the 2022B Installment Payments, payable by the City under the Installment Purchase Contract. The City's Installment Payments under the Installment Purchase Contract, including the 2022B Installment Payments, are payable solely from, and secured by a pledge of, Net System Revenues of the City's Wastewater System. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022B BONDS" in forepart of this Official Statement.

Financial and Accounting Information

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

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

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

City Audit and Management Report

[The City Council engages an independent certified public accountant (the "**Accountant**") who examines books, records, inventories and reports of all officers and employees who receive, control, handle, or disburse public funds and of any other officers, employees or departments as the City Council directs. These duties are performed both annually and upon request. For Fiscal Years 2017-2018 through 2020-2021 the City engaged Macias Gini & O'Connell LLP as the

Accountant. Within 180 days following the end of each fiscal year, City staff submits the financial statements audited by the Accountant to the City Council. The City publishes the City's audited financial statements as of the close of the fiscal year in the Annual Comprehensive Financial Report.

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

In the Fiscal Year 2020-2021 Management Report, the Accountant noted two deficiencies relating to internal controls over the financial reporting process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of financial statements will not be prevented, or detected and corrected, on a timely basis.

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

The City's audited Basic Financial Statements for Fiscal Year 2021-2022 are included as Appendix C to this Official Statement. The Accountant has not reviewed this Official Statement, has not been requested to consent to the inclusion herein of the audited financial statements and has not performed any post audit review of the financial condition or operations of the City.]

INSURANCE AND SELF-INSURANCE PROGRAMS

The following section describes the City's insurance and self-insurance programs on a Citywide basis and the San José-Santa Clara Regional Wastewater Facility (the "**Treatment Plant**"). The City also maintains insurance that is specific to the Airport, which is not described below. The City reassesses its insurance coverage annually. Therefore, the City makes no representations that the insurance coverages described below will be maintained in the future.

Citywide Insurance

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

***All-Risk Property Insurance**.* The City currently maintains an all-risk property insurance policy with coverage for property owned by the City. This policy also provides coverage for boiler and machinery exposures and loss due to business interruption resulting from a covered property loss. The City generally does not carry earthquake insurance as it is not reasonably available. A summary of insurable coverage for the policy period October 1, 2022 to October 1, 2023 is provided in the following table.

Table A-9
City of San José
Summary of Citywide Property Insurance Coverage
(For Policy period October 1, 2022 – October 1, 2023)

	Limits Per Occurrence[1]	Deductible Per Occurrence[2]
Property[3]	$1,000,000,000	$500,000
Business Interruption	$300,000,000	$500,000
Flood – All Locations [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 San José – Santa Clara Regional Wastewater Facility is subject to a $5,000,000 per location deductible for flood.
[5] The Airport and McEnery Convention Center are subject to a $10,000,000 per Location deductible for flood.
Source: City of San José, Finance Department - Risk Management Unit.

To mitigate the impact of the reduction to the base flood coverage from $25,000,000 to $10,000,000 as of October 1, 2019, the City has obtained an excess flood policy applicable to all City locations. The excess flood policy provides $15,000,000 in limits excess of the primary property policy on a 50/50 quota share basis, where the City and excess insurer share the financing of losses on a 50/50 basis.

Aircraft (Hull & Liability) Policy. The City maintains an aircraft policy covering physical damage coverage for City aircraft used by the San José Police Department's Air Support Unit as well as liability coverage for bodily injury and property damage arising from the use of covered aircraft. The aircraft policy provides up to $50,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage caused by war and other perils and is subject to a deductible of $0 per occurrence. To supplement the aircraft insurance program, the City purchased an additional aircraft policy effective June 17, 2020, to include liability and physical damage coverage for the unmanned aerial systems ("**UAS**") used in the San José Police Department's and San José Fire Department's UAS programs ("**Drone Coverage**"). The Drone Coverage, which has been renewed to June 21, 2023, provides up to $2,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage.

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

Fiduciary Liability Coverage. The City also maintains fiduciary liability insurance policies covering the City's defined contribution employee benefit plans: the Deferred Compensation Plans, the Voluntary Employees' Beneficiary Association ("**VEBA**") Plans; and the Defined Contribution 401(a) Plan. The policies protect the City and the members of the applicable Board from legal liability arising from fiduciary obligations to plan beneficiaries. The policy covering the Deferred Compensation Plans provides $5,000,000 in aggregate limits subject to a $25,000 per claim retention except a $250,000 per claim retention for Class Action Claims as defined in such policy. The policy covering the VEBA Plans provides $5,000,000 in aggregate limits subject to a $25,000 per claim retention. The policy covering the Defined Contribution 401(a) Plan provides $1,000,000 in aggregate limits subject to a $25,000 per claim retention.

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

Workers' Compensation. The City is self-insured for workers' compensation, with all claims administered by third party administrator Intercare Holdings Services, Inc. ("**Intercare**"). Every year, the City reviews a five-year forecast for worker's compensation expenditures based on the prior year payout. Based on this review, the City's budget for the Treatment Plant for 2021-2022 is $700,000 and the budget for 2022-2023 is $700,000.

The City entered a three-year agreement with Intercare beginning July 1, 2019, to provide comprehensive workers' compensation services including claims administration services, bill review, utilization review, medical case management, and other ancillary services at a total compensation not to exceed $15,963,931 based on an estimated caseload of 2,330 to 2,850 claims. In June 2022, the City extended the term of the agreement with Intercare to June 30, 2024 at a total compensation not to exceed $32,582,834. As of June 30, 2022, the open claims inventory handled by Intercare was 2,575 of which 86 were Treatment Plant claims.

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

Generally, third party liability claims are handled by the City Attorney's Office. The City maintains a budgeted allocation for the potential payment of third-party liability claims – this amount is $15.7 million in the 2022-2023 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, 2022, the workers' compensation and general liability catastrophic reserve currently totals and has historically totaled $15.0 million of the unassigned fund balance and was re-budgeted in the same amount for 2022-2023.

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

With respect to the general liability accrual in the City's financial statements, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2022. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated. As of June 30, 2022, such provision totaled approximately $144 million. The City does not maintain a cash reserve for such loss contingencies.

See "LITIGATION AND SIGNIFICANT CLAIMS" in the forepart of the Official Statement for a description of certain claims and lawsuits filed against the City that would be payable from System Revenues.

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.

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

Regional Wastewater Facility Coverages: OCIP I and OCIP II

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

The City purchased Contractor's Pollution Liability insurance for RWF OCIP I, which provides project-specific coverage to the City arising from pollution conditions arising from contractor operations on the specific projects. The $10 million in Contractor's Pollution Liability coverage is subject to a $100,000 per occurrence deductible.

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

Table A-10
City of San José
Summary of San José-Santa Clara Regional Wastewater Facility Capital Improvement Program
RWF OCIP I

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

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

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

On January 25, 2022 the City bound certain liability insurance coverage for the major components of the capital improvement program of the Treatment Plant through a second 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.

The City secured Builder's Risk insurance to provide replacement cost property coverage for scheduled RWF OCIP II capital projects with construction start dates from April 1, 2022, to April 1, 2024. The City purchased Contractor's Pollution Liability insurance for RWF OCIP II, which provides project-specific coverage to the City arising from pollution conditions arising from contractor operations on the specific projects. The $10 million in Contractor's Pollution Liability coverage is subject to a $100,000 per occurrence deductible.

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

The City was also required to establish and post a cash collateral fund of $1,496,471, to be paid in four annual installments and subject to Chubb's quarterly requests to adjust based on expenditure of funds up to the maximum aggregate loss of $2,559,441. The cash collateral fund is available to Chubb to pay claims within the City's deductible of up to $250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of $2,559,441. As of June 30, 2022, the City has provided Chubb with $374,118 for the cash collateral fund.

The coverage for the RWF OCIP II is as follows:

Table A-11
City of San José
Summary of San José-Santa Clara Regional Wastewater Facility Capital Improvement Program RWF OCIP II

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

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

The premiums of the RWF OCIP II are calculated based on the estimated hard cost of construction valued at $310,600,000 for the covered capital improvement projects to be enrolled and for work to be performed during the policy period February 1, 2022 through February 1, 2028.

LABOR RELATIONS

Overview

The City has 12 recognized employee bargaining units. The following table shows the representation and agreement expiration dates for the units. In addition to its represented employees, the City has 373 unrepresented employees budgeted for Fiscal Year 2022-2023.

Table A-12
City of San José
Summary of Labor Agreements

	Agreement Expiration Date	Full-Time Equivalent Employment [1][2]
Assoc. Of Building, Mechanical and Electrical Inspectors	6/30/23	90
Association of Engineers and Architects	6/30/23	350
Association of Legal Professionals	6/30/24	47
Association of Maintenance Supervisory Personnel	6/30/23	120
City Association of Management Personnel	6/30/23	564
International Association of Firefighters, Local 230	6/30/23	714
International Brotherhood of Electrical Workers	6/30/24	76
Municipal Employees' Federation	6/30/23	2,430
International Union of Operating Engineers, Local #3	6/30/24	777
San Jose Police Dispatchers' Association	6/30/23	161
San José Police Officers' Association [3]	6/30/22	1,167
Peace Officer Park Rangers Association	6/20/23	15
Total		6,511

(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.
(2) The total number of employees does not include 373 unrepresented positions budgeted in Fiscal Year 2022-2023.
(3) The San Jose Police Officers' Association and the City are currently in negotiations regarding a successor Memorandum of Agreement. The parties have been discussing the terms of a successor contract since March 2022.
Source: City of San José, Office of Employee Relations, City Manager's Budget Office.

State Law Requirements Related to Labor Negotiations

Under California law, sworn police and fire employees are not permitted to strike. The City Charter provides that police and fire bargaining units have the right to binding interest arbitration of labor disputes once either the City or the applicable bargaining unit declares that the negotiations are at impasse. A summary of the City Charter's binding interest arbitration provisions is set forth below in "– City Charter Binding Interest Arbitration Provisions." The agreements with the Association of Building, Mechanical and Electrical Inspectors, the Association of Engineers and Architects, Association of Legal Professionals, the International Brotherhood of Electrical Workers, the Municipal Employees' Federation, the Association of Maintenance Supervisory Personnel, the City Association of Management Personnel, the Peace Officer Park Ranger Association and the International Union of Operating Engineers, Local 3, include "no strike" clauses during the terms of their respective agreements.

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

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

City Charter Binding Interest Arbitration Provisions

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

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

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

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

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

Additionally, the Arbitration Board cannot issue an award that would (1) increase the projected cost of compensation at a rate that exceeds the rate of increase in revenues from the sales tax, property tax, utility tax and telephone tax averaged over the prior five fiscal years; (2) retroactively increase or decrease compensation, excluding base wages; (3) create a new or additional unfunded liability for which the City would be obligated to pay; or (4) deprive or interfere with the discretion of the Police or Fire Chiefs to make managerial, operational or staffing decisions, rules, order and policies in the interest of the effective and efficient provision of police and fire services to the public.

APPENDIX B

THE CITY OF SAN JOSE FEDERATED RETIREMENT PLAN

TABLE OF CONTENTS

INTRODUCTION TO APPENDIX B

This Appendix B provides investors with information concerning the Retirement Plans (as defined below) for the City of San José (the "**City**"). Investors are advised to read the entire Official Statement, including this Appendix B, to obtain information essential to making an informed investment decision.

The Retirement Plans have required that the following statements in this paragraph be included in this Official Statement: The information contained in this Official Statement concerning the Federated City Employees Retirement System (the "**Federated Plan**") and Police and Fire Department Retirement Plan ("**Police and Fire Plan**" and together with the Federated Plan, the "**Retirement Plans**") is derived in part from, among other sources, public information provided by the Retirement Plans and its independent accountants, actuaries and investment advisors. The Retirement Plans have not reviewed this Official Statement or approved its distribution, and no inference is intended or should be drawn that the Retirement Plans have reviewed or approved the distribution of this Official Statement or the issuance of the Series 2022A Bonds. The statements made in this Official Statement are solely the responsibility of the City.

As described in the forepart of this Official Statement, the Sanitary Sewer Collection System is managed by the Infrastructure Maintenance Division of the City's Department of Transportation ("**DOT**"). The Treatment Plant is managed by the City's Environmental Services Department ("**ESD**"). The wastewater infrastructure of the Wastewater System is designed and built by, or under the supervision of, the City's Department of Public Works ("**DPW**"). All DOT, ESD and DPW employees participate in the Federated Plan. The Wastewater System does not contribute to the Police and Fire Plan. Accordingly, with exception of certain general information relating to the Police and Fire Plan that is intended to provide background information relating to such plan, the discussion of the Retirement Plans in this Appendix B is limited to the Federated Plan. See "THE WASTEWATER SYSTEM – Management and Operations" in the forepart of this Official Statement for a further description regarding the management and operations of the Wastewater System.

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

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

This Appendix B summarizes portions of the certain documents relating to the Federated Plan, including the following:

- City's Basic Financial Statements for the Fiscal Year Ended June 30, 2022 included in the City's Annual Comprehensive Financial Report ("**City of San José Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2022**");

- City of San José Federated City Employees' Retirement System Actuarial Valuation Report as of June 30, 2021 (the "**Federated 2021 Pension Plan Actuarial Report**");

- City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2021, as revised in March 2022 (the "**Federated 2021 Healthcare Plan Actuarial Report**"); and

- City of San José Federated City Employees' Retirement System Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2022 and June 30, 2021 (the "**Federated 2022 Annual Comprehensive Financial Report**").[1]

In addition, certain other documents relevant to the Retirement Plans are referenced or described in this Appendix B. The summary of the documents listed above and such other documents in this Appendix B do not purport to be comprehensive or definitive. All references in this Official Statement to such documents are qualified in their entirety by reference to such documents.

In instances where information relating to the Federated Plan in this Appendix B is available from an annual comprehensive financial report and an actuarial report, the information in this Appendix B has been derived from such annual comprehensive financial report. In some instances, there may be differences in such information because the annual comprehensive financial reports are based on a valuation one year prior to the measurement date that is used in the actuarial reports rolled forward using roll-forward procedures. However, the City does not believe that such differences are material.

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

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

---

[1] Note to draft: Tables in this appendix that source information from the Federated ACFR will be updated to reflect the Federated 2022 ACFR prior to distribution of the POS. Certain tables have been updated based on GASB 67/68 and 74/75 reports for FY21-22, which will be reflected in the Federated 2022 ACFR.

RETIREMENT PLANS IN GENERAL

Overview

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

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

Each Retirement Plan is administered by its own Board of Administration (each, a "**Board**" and collectively, the "**Boards**"), and day-to-day operations are carried out by the City's Office of Retirement Services staff under the oversight by the Boards. The Pension Plans offer a monthly pension benefit based on salary and length of service and, depending on the tier, provide either fixed or index-based cost of living increases. The Healthcare Plans pay all, or a portion of, health and dental insurance premiums for eligible retirees and their survivors and dependents. The Healthcare Plans consist of trusts (herein referred to as the Federated 115 Trust, the Police 115 Trust and the Fire 115 Trust and, collectively, the "**Section 115 Trusts**") formed under Section 115 of the Internal Revenue Code (the "**Code**") to supplement accounts previously established by the City under Section 401(h) of the Code (collectively, the "**401(h) accounts**" and each, a "**401(h) account**"). A single 401(h) account was established for each of the Federated Healthcare Plan and the Police and Fire Healthcare Plan. The 401(h) account for the Federated Healthcare Plan was depleted in Fiscal Year 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. See "FEDERATED HEALTHCARE PLAN – Establishment of Federated 115 Trust; Internal Revenue Code Limitations" for a discussion regarding the Section 115 Trust for the Federated Healthcare Plan.

Participation by covered employees in the Pension Plans is mandatory, except for employees excluded under the City Charter as described below in "RETIREMENT PLANS IN GENERAL – Governance" and executive management and professional staff hired after February 2013 who can make an irrevocable election into a 401(a) retirement plan in lieu of the defined benefit retirement plans. For those employees who participate in the Pension Plans, participation in the Healthcare Plans is mandatory, except for (i) Federated members hired or rehired after the dates specified in Table B-1 or who elected to opt-in to the VEBA, and (ii) Police and Fire members hired or rehired after certain specified dates or who elected to opt-in to the VEBA. See "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS – Implementation of Measure F and Settlement Frameworks – VEBA Establishment" for a discussion of the establishment of the VEBAs.

To fund such healthcare and retirement benefits, the objective of the Retirement Plans is to meet their respective obligations through investment income and contributions. The City and its covered employees make regular contributions to the Retirement Plans. Contributions to the Pension Plans by the City and covered employees are actuarially determined. The San José Municipal Code (the "**Municipal Code**") specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City. Contributions to the Healthcare Plans by the City are actuarially determined while contributions by employees are determined based on rates established by the Municipal Code and the Settlement Frameworks (as hereinafter defined).

See "FEDERATED PENSION PLAN – Contributions" and "FEDERATED HEALTHCARE PLAN – Contributions" for a discussion of historical and projected contributions to the Federated Pension Plan and the Federated Healthcare Plan, respectively.

Implementation of Certain Accounting Changes Relating to Retirement Plans. In June 2012, the Governmental Accounting Standards Board ("**GASB**") issued Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25 ("**GASB Statement No. 67**") and Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 ("**GASB Statement No. 68**"), which address the accounting and financial reporting requirements for pensions. The provisions of GASB Statements No. 67 and 68 separate accounting and financial reporting from how pensions are funded and require changes in the notes to the financial statements and required supplementary information. They also provide for comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and the pension expense and related deferred outflows/inflows of resources disclosures. The City implemented GASB Statements No. 67 and 68 in Fiscal Years 2013-2014 and 2014-2015, respectively. Contemporaneous with the implementation of GASB Statement No. 68, the City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which resolves transition issues in GASB Statement No. 68.

In June 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans ("**GASB Statement No. 74**"). This statement replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended ("**GASB Statement No. 43**"), and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, GASB Statement No. 43, and GASB Statement No. 50, Pension Disclosures. The City implemented GASB Statement No. 74 in Fiscal Year 2016-2017.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("**GASB Statement No. 75**"). This statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended ("**GASB Statement No. 45**"), and Statement No. 57, for OPEB. GASB Statement No. 75 addresses accounting and financial reporting for OPEB and establishes standards for recognizing and measuring liabilities, deferred outflows/inflows of resources, and expenses/expenditures. The City implemented GASB Statement No. 75 in Fiscal Year 2017-2018. Because GASB Statements No. 74 and 75 have been implemented, the annual required contribution formerly required under GASB Statements No. 43 and 45 is no longer applicable to OPEB plans such as the Healthcare Plans.

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

Governance

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

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

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

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

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

The Office of Retirement Services is administered by its Chief Executive Officer. Both the Chief Executive Officer and Chief Investment Officer for the Retirement Plans are employees of the City who are retained by and serve at the pleasure of the Boards. The Chief Executive Officer has appointing authority over the other staff in the Office of Retirement Services. The Charter excludes the Chief Executive Officer, Chief Investment Officer and the other investment professional staff within the Office of Retirement Services from participating in the City's Retirement Plans.

Internal Revenue Code Limitations on Pension Payments

The Retirement Plans are tax qualified plans and are subject to the Code requirements. The Code places limits on the amount of compensation on which a pension may be calculated ($305,000 for 2022) for employees who are members of the Retirement Plans. Members of the Retirement Plans who became members before January 1, 1996 are not subject to the foregoing limit. Additionally, the Code caps the annual maximum pension payment that is subject to periodic adjustment based on a consumer price index. For 2022, the maximum annual payment is $245,000; however, the maximum amount is adjusted downward for certain employees, including for non-public safety employees who retire before the age of 62, depending on the employee's age at retirement.

The Office of Retirement Services conformed benefit payments to certain retirees within the Federated Plan to the applicable Code limits as of July 1, 2015 after becoming aware of pension overpayments to such retirees. The Federated Plan submitted an invoice to the City during Fiscal Year 2015-2016 for $882,007, being the total prior pension overpayments plus interest, and subsequently filed a lawsuit against the City for the amounts claimed in the invoice. The City and the Federated Plan thereafter entered into a settlement under which the overpayment amount of $866,000 as of June 2016 was included as an actuarial loss in the calculation of the Federated Plan's unfunded actuarial accrued liability, and as a result, paid by the City through its employer contributions and earnings on contributions over the amortization period set by the Federated Board in the ordinary course of the Board's determination of the City's required employer contribution.

Exceeding the maximum benefit payment limits places a pension plan at risk of receiving unfavorable tax treatment, which in turn, could subject the pension plan's income to the payment of income taxes that would reduce the amount available for retirement benefits. The Federated Plan took steps to voluntarily correct the overpayment errors under Internal Revenue Service ("**IRS**") guidance and preserve the tax-qualified status of the Federated Plan. However, the City has not independently verified whether the Federated Plan's corrective actions are sufficient under the Code or current IRS guidance.

On November 30, 2016, certain retired members and beneficiaries of the Federated Plan as well as an association representing a group of retired or to be retired Federated Plan members and beneficiaries (the "**Claimants**"), filed a claim against the City and the Federated Plan Board and have since filed a lawsuit against the City and the Board. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Section 415 of the Code ("**Section 415**"). The lawsuit alleges that the City 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 lawful action as appropriate 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 and subsequently filed a motion for summary judgment that is pending before the court. The City is unable to state the potential exposure for damages in such action.

2019 Grand Jury Report on Unfunded Pension Liabilities

On June 19, 2019, the 2018-2019 Santa Clara County Civil Grand Jury (the "**Grand Jury**") released publicly its final report entitled, "SAN JOSE – UNFUNDED PENSION LIABILITIES – A Growing Concern" (the "**Grand Jury Report**"). Under the California Constitution and Penal Code, the Grand Jury, a body composed of volunteer citizens, may at its discretion investigate the operations of cities within the County, including the City, and make such recommendations as it sees fit. However, the Grand Jury's recommendations are not binding on the City or the Boards.

In the Grand Jury Report, the Grand Jury made six findings with respect to the Pension Plans and provided seven recommendations for consideration by the City and the Boards. The Grand Jury requested responses from the City and each of the Boards, to selected findings and recommendations in accordance with the Penal Code. The City and the Boards submitted their respective responses in September 2019. In their responses, the City and the Boards disagreed with certain of the findings and recommendations for various reasons, including that certain of the recommendations were legally impossible to implement by the City and/or the Boards. To date, only some of the accepted recommendations have been implemented by the City and the Boards, as applicable.

A copy of the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: https://www.scscourt.org/documents/San%20Jos%C3%A9%20-%20Unfunded%20Pension% 20Liabilities%20-%20Rev.%2006.19.19_Signed.pdf. A copy of the City's responses to the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: https://www.scscourt.org/court_divisions/civil/cgj/2019/Responses /City%20of%20San%20Jose%2009.23.19.pdf. A copy of the joint responses by the Boards to the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: https://www.scscourt.org/court_divisions/civil/cgj/2019/Responses/Federated%20City%20 Retirement%20System.pdf. The foregoing websites are referenced for informational purposes only and none are incorporated into this Appendix B by reference. The City makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

Retirement Stakeholder Solutions Working Group

In November 2019, the City formed the Retirement Stakeholder Solutions Working Group (the "**Working Group**") with the stated purpose of developing a shared understanding of the issues facing the City's retirement systems and to collaboratively develop a list of recommendations to be presented to City Council for review and consideration. The Working Group was comprised of representatives from a range of active and retired stakeholder groups representing active City bargaining groups, Federated and Police and Fire retirees, community groups, City Council, two members of each Retirement Board and City staff. The Working Group met nine times between November 2019 and February 2021. The Working Group explored various options and avenues to reduce the City's unfunded pension liability, \including the issuance of pension obligation bonds. A summary of the options explored by the Working Group are summarized in a final report dated April 2, 2021. A copy of such report can be found at https://www.sanjoseca.gov/Home/Components/News/News/2706/5167. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference.

On April 23, 2021 a Council Study Session was held. At the Study Session, City staff presented options it had evaluated for financing the unfunded pension obligations of the City's Retirement Plans, including the possibility of issuing pension obligation bonds as requested by the Mayor and Council in December 2020. The Working Group's final report was included in the materials provided to the City Council in advance of the April 23 Study Session. At the conclusion of the Study Session, staff provided a plan for next steps that included potential recommendations for Council to consider on May 11, 2021. The City Council approved the staff's recommendations on May 11 and directed the City Administration and the City Attorney to proceed with planning and preparation of the necessary bond documents and court validation documents to confirm the City's authority to issue pension obligation bonds.

A validation action to confirm the City's authority to issue pension obligation bonds to refund the City's unfunded actuarial liability was filed in Santa Clara Superior Court on November 18, 2021. The validation action is pending and the City cannot predict the outcome of the validation action at this time. If the City receives a favorable judgment, the City Council must still approve actual issuance depending on market conditions.

APPENDIX B DEFINITIONS

The following terms are used in this Appendix B:

***Actuarial Liability ("AL")**:* That portion of the present value of future benefits not provided for by future Normal Costs. The Actuarial Liability can be thought of as the present value of benefits attributed to employees' past service. It is used in the actuarial valuation as a funding target. This measure is not appropriate for assessing the sufficiency of plan assets to settle the plan's benefit obligations on a risk free basis because actual events and plan experience may deviate from the assumptions used in the actuarial liability calculations.

***Actuarial Value of Assets**:* The value of cash, investments, and other property of the applicable plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an actuarial value of assets is to smooth out fluctuations in market value of assets to dampen the impact on contributions.

***Actuarially Determined Contribution ("ADC")**:* The payment to a pension plan as determined by the actuary using a contribution allocation procedure. It may or may not be the actual amount contributed to a pension plan. A contribution allocation procedure typically uses an actuarial cost method, an asset valuation method, and an amortization method to develop the Actuarially Determined Contribution. Under the contribution allocation procedure employed by the Retirement Plans, there are two components to the contribution: (i) the Normal Cost (including administrative expenses), and (ii) an amortization payment on the Unfunded Actuarial Liability.

Amortization Payment: The portion of the contribution for pension or OPEB benefits that is designed to pay interest and principal on the UAL in a given number of years.

Entry Age Normal Actuarial Cost Method: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level percentage of pay from the individual's date of entry into the plan to the individual's assumed cessation of employment.

Fiduciary Net Position: The fair or market value of assets in the pension plan trust or healthcare plan trust.

Funded Ratio: Either the Market Value of Assets or Actuarial Value of Assets divided by the AL. This ratio is not appropriate for assessing the sufficiency of plan assets to cover the costs of settling the plan's benefit obligations on a risk free basis because actual events and plan experience may deviate from the assumptions used in the actuarial calculations.

Market Value of Assets: The market value of assets is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The market value of assets is adjusted for accruals at the end of each fiscal year and is reported in the Annual Comprehensive Financial Report of the plan.

Net OPEB Liability: The liability reported by the City for the Federated 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 the Federated Pension Plan on its statement of net position. It is calculated as the Total Pension Liability less the Fiduciary Net Position.

Normal Cost: Normal Cost is the portion of the contribution that is expected to cover the present value of benefits that are attributable to current service by covered employees under the actuarial cost method adopted by the applicable plan.

Other Postemployment Benefits ("OPEB"): Certain benefits provided after the employees' services have ended. OPEB includes postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately or provided through a defined benefit pension plan. OPEB arises from an exchange of salaries and benefits for employee services, and it is part of the compensation that employers offer for services received.

Smoothing: When measuring assets for determining contributions, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates.

Total OPEB Liability: The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statements No. 74 and 75 for plans providing OPEB to more than 100 employees. The Total OPEB Liability is the AL calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes.

Total Pension Liability: The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statements No. 67 and 68. The Total Pension Liability is the AL calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes.

Unfunded Actuarial Liability ("UAL"): The UAL is the excess of the AL over the Actuarial Value of Assets. The UAL typically results from gains and losses recognized as a result of investment returns that differ from the discount rate and changes in actuarial assumptions, benefit improvements and other experiences that differ from those anticipated by the actuarial assumptions. The purpose of the UAL calculation is to determine, as of the date of the calculation, the sufficiency of the assets in the Retirement Plans compared to the funding target (i.e., the AL) and the additional contributions needed to achieve the funding target. The funding status is typically expressed as the ratio of the Actuarial Value of Assets to the AL. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAL.

For a description of assumptions and methods employed for purposes of the actuarial valuations of the Federated Pension Plan and Federated Healthcare Plan, please see "FEDERATED PENSION PLAN – Actuarial Assumptions" and "FEDERATED HEALTHCARE PLAN – Actuarial Assumptions," respectively.

CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS

Overview

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act ("**Measure B**"). Among other changes, Measure B amended the City Charter to: (1) increase pension contribution requirements for then current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for then current employees subject to IRS approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the COLA if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within each Retirement Plan that had provided supplemental pension benefits to retirees under certain circumstances; (6) codify in the City Charter contribution requirements for then current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within each Retirement Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

Measure B was subsequently the subject of various legal challenges. In November 2016, the voters approved the Alternative Pension Reform Act ("**Measure F**") that the City Council placed on the ballot as a result of settlement frameworks entered into with the City's bargaining groups related to Measure B. The City Council adopted ordinances to implement the terms of the settlement frameworks and Measure F in February and May 2017. The City also approved a settlement in November 2017 in connection with a lawsuit brought by individual retirees and a retiree association. The legal challenges to Measure B have been resolved as described below. Subsequent claims for attorneys' fees related to the settlement of the Measure B litigation brought by bargaining units against the City have also been settled and, to the knowledge of the City, no claims for attorneys' fees relating to such litigation remain outstanding.

Measure B - Settlements

Settlement of the legal challenges brought in connection with Measure B are discussed below.

Settlement Frameworks. In August 2015, the City Council formally approved an Alternative Pension Reform Settlement Framework agreement related to Measure B ("**Public Safety Settlement Framework**") with the San José Police Officers Association and San José Fire Fighters, International Association of Firefighters, Local 230. On December 15, 2015 and January 12, 2016, the City and the bargaining units representing employees in the Federated Plan agreed to a Federated Alternative Pension Reform Settlement Framework agreement related to Measure B (the "**Federated Settlement Framework**"). The terms of the Federated Settlement Framework also applied to unrepresented employees, including unrepresented management and executive employees.

The Public Safety Settlement Framework and the Federated Settlement Framework (together, the "**Settlement Frameworks**") include, among other things: (i) revised Tier 2 pension benefits that increased pension benefits for Tier 2 employees while preserving the 50/50 cost sharing between the City and Tier 2 employees; (ii) closed the defined benefit retiree healthcare benefit under the Healthcare Plans to new employees, as well as agreement on a new lowest cost medical plan associated with retiree healthcare; (iii) allowed Tier 1 and some Tier 2 employees to opt out of the applicable Healthcare Plan to a Voluntary Employee Benefit Association ("**VEBA**") for retiree healthcare subject to legal and IRS approval (since received); (iv) allowed Tier 1 employees who terminated employment with the City and either subsequently returned, or that return in the future, to return as Tier 1 employees; and (v) continued the elimination of the Supplemental Retiree Benefit Reserve ("**SRBR**"). In the Settlement Frameworks, the City also agreed that a ballot measure regarding the Settlement Frameworks would be placed on the November 2016 election. The City submitted the approval of the Settlement Frameworks to voters in the City through Measure F on the November 2016 election, as described below.

The Settlement Frameworks also contemplated that the City and the respective bargaining units within each Retirement Plan would enter into retirement memorandums of agreement ("**MOA**") memorializing the terms of the Settlement Frameworks, with each such MOA having an expiration date of June 30, 2025. The City and such bargaining units have agreed upon the forms of the MOAs, but have not entered into any MOAs to date. The City, the San Jose Police Officers' Association (SJPOA) and the International Association of Fire Fighter, Local 230 (IAFF, Local 230) recently agreed to a five (5) year extension of the sworn retirement MOA. Once approved by Council and ratified by the SJPOA and IAFF, Local 230 membership, the sworn MOA will expire in 2030. The City has proposed the same five (5) year extension to the Federated bargaining units.

Measure F – Passage. The City and its eleven bargaining units reached agreement on the provisions of Measure F to amend the City Charter to supersede the provisions implemented by Measure B consistent with the provisions agreed to in the Settlement Frameworks. On November 8, 2016, the voters approved Measure F. Measure F included, among other things: a prohibition on any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closure of the defined benefit retiree healthcare plan; and a prohibition on retroactive defined retirement benefit enhancements.

San José Retired Employees Association Litigation Settlement. In July 2014, the Retirees' Association, along with four individually named retirees, filed, and subsequently served, a verified complaint against the City in the Santa Clara County Superior Court. The complaint alleged that the City changed the basic retiree healthcare benefit to a new plan that "fundamentally alters" the nature and quality of the benefit provided to retirees, because the plan has increased co-pays and deductibles. The complaint further alleged that the affected retirees had a vested right to the plan in existence when they were employed by the City, and to the premium amount paid by the City for their healthcare benefit. The action sought monetary damages for the increase in co-pays, deductibles and premium payments made by the affected retirees, as well as injunctive and writ relief prohibiting the City from continuing to provide the new health benefit to retirees.

On November 7, 2017, the City Council approved a settlement agreement (the "**Retirees' Association Settlement Agreement**") with the Retirees' Association and the individual plaintiffs. The Retirees' Association Settlement Agreement provided for the dismissal of the respective appeals in the Measure B litigation by the Retirees' Association and the City, the dismissal by the Retirees' Association of its stayed lawsuit with prejudice and the dismissal of the stayed lawsuit by the individual plaintiffs without prejudice.

The Retirees' Association Settlement Agreement also included the following terms, among others:

- provides for the implementation of a new lowest cost healthcare plan for retirees who are members of the Healthcare Plans and additionally provides that the lowest cost plan for current and future retirees will be permanently set such that it is neither higher nor lower than the "Silver" level as specified in the Patient Protection and Affordable Care Act ("**ACA**") in effect as of July 2015;

- specifies that the healthcare plan must provide at least 70% but no more than 79% of the then current ACA "Silver" definition;

- continues the elimination of the SRBR and, in lieu of the SRBR, establishes a "Guaranteed Purchasing Power" provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;

- creates a health-in-lieu premium credit option so that retirees can choose to receive 25% of the monthly premium of the lowest priced healthcare and dental plan (that cannot be taken in cash) in lieu of receiving healthcare coverage; and

- reimburses specific retirees (i.e., those earning a pension of $54,000 or less in 2016, and who were enrolled in pre-Medicare health plan between January 1, 2013 and December 31, 2016) for a portion of their additional contributions towards retiree medical premiums up to a maximum total amount of $1.25 million.

The Retirees' Association Settlement Agreement excludes the settlement of claims related to the payment of pensions in excess of limits established under Section 415 of the Code. For more information regarding such limits, please see "RETIREMENT PLANS IN GENERAL – Internal Revenue Code Limitations on Pension Payments."

Implementation of Measure F and Settlement Frameworks

The City Council adopted Ordinance No. 29879 on February 14, 2017, amending the Municipal Code to reflect the terms of Measure F and the Public Safety Settlement Framework. Such changes to the Municipal Code became effective thirty days after February 14, 2017. The City Council adopted Ordinance No. 29904 on May 16, 2017, amending the Municipal Code to reflect the terms of Measure F and the Federated Settlement Framework. Such changes to the Municipal Code became effective thirty days after May 16, 2017. Most of the terms of Measure F and the Settlement Frameworks were implemented on June 18, 2017, being the first pay period of Fiscal Year 2017-2018.

Subsequent ordinances amending the Municipal Code to implement the terms of Measure F and the Settlement Frameworks have since been adopted by the City Council. As implementation issues arise, minor modifications to the Retirement Plans in the Municipal Code have been made to address these issues. In October 2017, to address various implementation issues, the City Council and the bargaining units entered into side letters amending the terms of the Settlement Agreements and the City Council approved ordinances further amending the terms of both Retirement Plans and the VEBA provisions. The City and the bargaining units also agreed to the terms and methodology for the amortization costs associated with reclassifying Tier 2 employees with previous Tier 1 service.

Previously, employees who separated from City service as Tier 1 employees, but were rehired or reinstated after the implementation of Tier 2, would be placed into Tier 2. The Settlement Frameworks included a provision that these employees would be reclassified as Tier 1, however, they would split the costs of the reclassification of their Tier 2 service on a 1:1 basis with the City. The employees' portion of liability for reclassifications costs are paid over individually determined amortization periods and includes payment of interest set by the Boards. The side letter agreements with the bargaining units were agreed to in June 2018, and the Municipal Code amendments were approved by the City Council in December 2018. In June 2020, the City and the bargaining units agreed that the City will pay future interest costs on the UAL attributable to Tier 1 Rehire employees effective September 2020. Tier 1 Rehire employees will continue to be responsible for any interest accrued prior to the effective date of such agreement.

VEBA Establishment. Measure F provides for the closure of the Healthcare Plans to Tier 2 employees of the Retirement Plans and Tier 1 Classic members of the Federated Plan. The Settlement Frameworks allowed Tier 1 members of the Federated Plan (with the exception of Tier 1 Classic members hired on or after September 27, 2013), Tier 2A members of the Federated Plan, and Tier 1 members of the Police and Fire Plan to make a one-time irrevocable election to remain in the defined benefit postemployment Healthcare Plan or opt into a defined contribution VEBA for employees of the respective Retirement Plan. Unrepresented Tier 1 and Tier 2 members of the Healthcare Plans were eligible to opt into a VEBA, but are not eligible to make ongoing contributions to the applicable VEBA. The City does not make contributions to the VEBAs. The VEBAs are not subject to the jurisdiction of the Boards and are instead administered by a five-member advisory committee, of which one member is appointed by the City Manager and four members are appointed by the City Council.

The Settlement Frameworks also provided that an amount estimated to be equal to the members' retiree healthcare contributions without interest would be transferred from the applicable Section 115 Trust to their VEBA accounts (see "FEDERATED HEALTHCARE PLAN – Establishment of Federated 115 Trust; Internal Revenue Code Limitations" for a discussion regarding such trusts). For members who opted out of the applicable Healthcare Plan into a VEBA, an amount estimated to be equal to the member's prior contributions to such Healthcare Plan, without interest, was required to be contributed to the member's VEBA account from the applicable Section 115 Trust. Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provided through the applicable Healthcare Plan until the member is eligible for Medicare or obtains alternative employment with healthcare coverage after exhausting all funds in their individual VEBA account. A VEBA member with at least five years of service may be eligible to purchase into the applicable Healthcare Plan at the retiree rate and not the blended rate with active employees. No amounts attributable to City contributions to the Healthcare Plans have been transferred to VEBA accounts.

VEBA Election and Postretirement Healthcare Contribution Transfer. At the time the Settlement Frameworks were executed, the City contemplated seeking IRS approval of the establishment of the VEBA accounts, the opt-in by employees who are members of the Healthcare Plans, and the transfer of Section 115 Trust funds to the applicable VEBA. The IRS reviewed the issues related to the VEBA establishment, employee opt-in, and transfer of funds under separate administrative processes.

Consistent with the terms of the Settlement Frameworks, as more fully described in "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS – Implementation of Measure F and Settlement Frameworks – VEBA Establishment," the City established the Federated VEBA Health Savings Plan (the "**Federated VEBA**") for eligible members of the Federated Healthcare Plan, and the Police and Fire VEBA Health Savings Plan (the "**Police and Fire VEBA**" and together with the Federated VEBA, the "**VEBAs**") for eligible members of the Police and Fire Healthcare Plan in Fiscal Year 2017-2018.

With the implementation of Measure F and establishment of the Police and Fire VEBA, Tier 2 members of the Police and Fire Plan were automatically placed into the Police and Fire VEBA. The City Manager on August 2, 2017, exercised discretion provided under the Municipal Code to terminate the Police and Fire Plan Tier 2 members' participation in the Police and Fire Healthcare Plan. On August 3, 2017, the Police and Fire Board took action to terminate the Police and Fire Healthcare Plan for Tier 2 Police and Fire members effective July 30, 2017. After July 30, 2017, the Police and Fire Plan Tier 2 members no longer make contributions to the Police and Fire Healthcare Plan.

In November 2017, the IRS and City entered into a Closing Agreement whereby Tier 1 members of both the Police and Fire Healthcare Plan and the Federated Healthcare Plan, and Tier 2A members of Federated Healthcare Plan, were eligible for an irrevocable opt-out of the applicable Healthcare Plan into the VEBAs. The transfer of their retiree healthcare contributions (medical and dental) from the applicable Healthcare Plan to their individual VEBA accounts remained subject to further IRS approval. The VEBA opt-in election period commenced on October 18, 2017, and ended on December 15, 2017.

In February 2018, the IRS issued favorable private letter rulings with respect to the transfer of retiree healthcare contributions from both of the Healthcare Plans for those employees of the Healthcare Plans opting into the VEBAs and in March 2018, the retiree healthcare contributions of members of the Healthcare Plan who opted into the VEBAs were transferred from the applicable Healthcare Plan into their individual VEBA accounts. See "FEDERATED HEALTHCARE PLAN – General" for a description of the number of Federated Healthcare Plan members that opted into the VEBAs and the amounts transferred from the Federated Healthcare

Plan to its VEBA. The IRS also approved allowing eligible employees who are rehired by the City during calendars years 2018 through 2022 to opt into the applicable VEBA if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the applicable Healthcare Plan to their individual VEBA accounts.

Retirement Plan Tiers

As a result of the Settlement Frameworks and implementation of Measure F, members of each Retirement Plan are now categorized into membership categories based on when the member entered the respective Retirement Plan and whether certain prior service requirements are met. Following the passage of Measure B, but prior to the Settlement Frameworks, the Federated Plan included Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B and Tier 2C had the same reduced pension benefits as compared to Tier 1.

Tier 2 had the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B originally consisted of employees who were newly hired or rehired on or after September 27, 2013, and they were not eligible for the defined benefit retiree health care benefits; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid had those employees been eligible.

Tier 2C had retiree dental benefits but no retiree medical benefits. Tier 2C included employees who were previously Tier 1 members that separated from City service and returned on or after September 30, 2012, but before June 18, 2017. The Settlement Frameworks provided that all previous Tier 1 employees who were placed in Tier 2 would be classified as Tier 1. As a result, employees in Tier 2C have subsequently been moved to Tier 1.

The membership categories for the Federated Plan are summarized in the following table.

Table B-1
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 California Public Employees' Retirement System ("**CalPERS**")/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013	Tier 1(6)	Medical/Dental
	• "Classic" membership with CalPERS/reciprocal agency hired on or after 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, 2021.

SUMMARY OF FEDERATED PLAN

Membership

Table B-2 shows the change in total membership in the Federated Pension Plan and Federated Healthcare Plan from June 30, 2020 to June 30, 2021. As of June 30, 2021, the ratio of retired and vested terminated members to active members within the Federated Plan was approximately 1.65 to 1. The Plan Actuary has indicated that the Federated Plan ratio appears to have stabilized after the increase following the recession, but there is no indication yet of a return to a lower ratio. The Plan Actuary further notes that because there are more retired and vested terminated members to be supported by each active member, future contributions may vary more significantly year-to-year due in part to increased sensitivity to investment gains and losses. Following is a summary of the membership within the Federated Plan as of June 30, 2021:

- For the Federated Pension Plan, 68.8% of total members were in Tier 1, and 31.2% of total members were in Tier 2;
- For the Federated Pension Plan, 37.4% of active members were Tier 1, and 62.6% of active members were Tier 2; and
- For the Federated Healthcare Plan, 98.5% of total members eligible for full retiree medical benefits were in Tier 1 and 1.5% were in Tier 2.

Table B-2
Federated Plan
Membership

	June 30, 2020	**June 30, 2021**	**% Change**
Federated Pension Plan			
Retirees & beneficiaries receiving benefits[1]	4,441	4,511	1.6%
Terminated vested members not yet receiving benefits	1,614	1,663	3.0
Active members	3,742	3,775	0.9
Total	**9,797**	**9,949**	**1.6**
Federated Healthcare Plan[3]			
Retirees & beneficiaries receiving benefits[2]	3,733	3,752	0.5
Terminated vested members not yet receiving benefits	156	153	(1.9)
Active members	1,445	1,345	(6.9)
Total[1]	**5,334**	**5,250**	**(1.6)**

(1) The combined domestic relations orders are not included in the count above as their benefit is included in the member count.
(2) Payees that have health and/or dental coverage.
(3) Eligible for full retiree medical benefits.
Source: Federated 2022 Annual Comprehensive Financial Report. [Update to come for FY21-22]

Summary of Historical and Projected Contributions

Forward Looking Statements. Investors are cautioned that the UAL, the Funded Ratio, and the calculations of Normal Cost as reported by the Federated Plan and the resulting pension and healthcare contributions are "forward looking" information prepared by the Federated Plan for its own purposes. Such "forward looking" information reflects the judgment of the Federated Board and the Plan Actuary as to the assets which the Federated Plan will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, existing retired employees, and their beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the Federated Plan. The actuarial methods and assumptions could be changed by the Federated Board at any time. Such changes could cause the City's actual obligations to the Federated Plan to be higher or lower than those projected by the Plan Actuary in any particular year.

Historical and Projected Contributions. Contributions to the Federated Plan are actuarially determined. The Municipal Code specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City. With respect to the Federated Healthcare Plan, contributions by the City are actuarially determined and contributions by employees are made at rates established by the Municipal Code and the Settlement Frameworks. See "FEDERATED PENSION PLAN – Contributions" and "FEDERATED HEALTHCARE PLAN – Contributions."

The City's estimated contributions to the Federated Plan for Fiscal Year 2021-2022 and the actual contributions for the previous 10 fiscal years are shown in Table B-3a. The City's annual dollar contributions to the Federated Plan have increased significantly since Fiscal Year 2011-2012 primarily due to losses recognized as a result of actual investment returns below the discount rate and assumption changes. See tables B-11 for the components of the City's contributions to the Federated Plan for Fiscal Year 2021-2022.

Table B-3a
Federated Plan
Historical Contributions

Fiscal Year Ended June 30	Total Contribution
2012	$112,916,000
2013	124,360,000
2014	126,842,000
2015	141,710,000
2016	159,921,000
2017	170,388,000
2018	189,167,000
2019	199,416,000
2020	207,860,000
2021	210,200,000
2022	237,863,000

Source: City of San José.

In January 2022, as directed by the Federated Plan, the Plan Actuary provided five-year budget projections for the City's contributions for the Federated Plan based on the June 30, 2021 actuarial valuations. The projections for the Federated Plan were revised by the Plan Actuary at the direction of the Federated Board to include certain additional changes in demographic assumptions in March 2022. The projections of the City's actuarially determined contributions to the Federated Plan for Fiscal Years 2022-2023 through 2026-2027, are shown in Table B-3b. These projections do not include the investment returns of the Federated Plan for Fiscal Year 2021-2022. The City's actual contributions will depend on various factors, including the actual returns of the Federated Plan over the course of this five-year projection period.

Table B-3b
Federated Plan
Projected City Contributions
(in millions)

Fiscal Year Ended June 30	Federated Payroll	Federated Pension Plan Contribution	Pension Rate	Federated Healthcare Plan Contribution	Healthcare Rate	Total Contribution	Total Rate
2023	$ 369.8	$ 208.8	56.46%	$ 18.8	5.08%	$ 227.6	61.53%
2024	380.9	205.0	53.82	18.4	4.83	223.4	58.65
2025	392.4	201.4	51.33	17.3	4.42	218.7	55.75
2026	404.1	197.2	48.79	17.5	4.34	214.7	53.13
2027	416.3	192.6	46.27	17.7	4.26	210.3	50.53

Source: Cheiron 5-Year and 20-Year Budget Projections for Federated Plan, March 8, 2022.

The foregoing projections assume that all valuation assumptions were exactly met since June 30, 2021, and are exactly met each and every year for the projection period. In reality, actual experience will deviate from the assumptions. If all assumptions are met, contributions equal to the Normal Cost plus interest on the UAL are needed to prevent UAL from growing as a dollar amount. In January 2022, the Plan Actuary also prepared 20-year projections of the City's contributions to the Federated Pension Plan. Many factors influence the projections of the City's contributions to the Federated Pension Plan, including, without limitation, changes in actuarial assumptions or methods, and differences between actual and anticipated investment performance. See "FEDERATED PENSION PLAN – Contributions – Projected City Contributions."

Federated Pension Plan Risks*.* According to the Plan Actuary, the fundamental risk to the Federated Pension Plan is that contributions needed to pay benefits become unaffordable. The Plan Actuary further notes that there are a number of factors that could lead to contributions becoming unaffordable. The Plan Actuary believes the primary risks for the Federated Pension Plan are investment risk, interest rate risk, and assumption change risk. The following discussion is only a summary of the risks identified by the Plan Actuary in the Federated 2021 Pension Plan Actuarial Report. For a further discussion of such risks see such report.

Investment Risk. Investment risk is the potential for investment returns to be different than expected. Lower investment returns than anticipated will increase the UAL thereby resulting in higher contributions in the future unless other gains offset such losses. The potential volatility of future investment returns is determined by the allocation of assets and the affordability of the investment risk is determined by the amount of assets invested relative to the size of the City. Losses recognized as a result of actual investment returns below the discount rate have been a significant contributor to the growth of UAL of the Federated Pension Plan in the last 10 years.

Interest Rate Risk. Interest rate risk is the potential for interest rates to be different than expected. For public plans like the Federated Pension Plan, short-term fluctuations in interest rates have little or no effect as the plan's liability is usually measured based on the expected return on assets. Longer-term trends in interest rates, however, can have a powerful effect. As interest rates have declined, pension plans have faced the choice of maintaining the same level of risk and reduce the expected rate of return or maintain the same expected rate of return and take on additional investment risk or some combination of the two strategies.

Assumption Change Risk. Assumption change risk is the potential for the environment to change such that future valuation assumptions are different than the current assumptions. Assumption rate risk is an extension of the other risks described above, but rather than capturing the risk as it is experienced, it captures the cost of recognizing a change in the environment when the current assumption is no longer reasonable. In the previous 10 years, there have been substantial changes in actuarial assumptions with respect to the Federated Pension Plan that have caused its UAL to increase. Most of the changes are due to the reduction in the discount rate for the Federated Pension Plan, but it also includes changes to demographic assumptions such as mortality and retirement rates. The reductions in the discount rate largely reflect the impact of declining interest rates on future expected investment returns.

In addition, in the Federated 2021 Pension Plan Actuarial Report, the Plan Actuary notes that the future financial condition of a mature plan is more sensitive to each of the risks described above when compared to less mature plans. The Plan Actuary identified the support ratio and leverage ratios as two measures of the maturity of a plan, as follows:

Support Ratio. The support ratio is the ratio of number of inactive members (those receiving benefits or entitled to a deferred benefit) to the number of active employees. The Plan Actuary notes the support ratio of the Federated Pension Plan has increased dramatically from approximately 0.50 in 2001 (in the 25th to 50th percentile of support ratios for plans in the Public Plans Database) to approximately 1.60 in 2021 (in 75th to 95th percentile of support ratios for plans in the Public Plans Database).

Leverage Ratios. Leverage or volatility ratios measure the size of the plan compared to its revenue base more directly. Such ratios include the asset leverage ratio and actuarial liability ratio. The Plan Actuary notes that the leverage ratio for the Federated Pension Plan is higher than most plans, indicating that the Federated Pension Plan is much more sensitive to risk than most pension plans. This sensitivity worked to the City's advantage in Fiscal Year 2020-2021 as the investment returns of Fiscal Year 2020-2021 had a more dramatic impact on the City's contribution rates than for other plans. However, this growth in assets has further heightened the sensitivity to investment returns.

For additional information regarding the contributions to the Federated Pension Plan and the Federated Healthcare Plan, please see "FEDERATED PENSION PLAN – Contributions" and "FEDERATED HEALTHCARE PLAN – Contributions," respectively. For the Federated Healthcare Plan, the projections of the Plan Actuary include changes to the benefits offered to active employees as described in "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS."

FEDERATED PENSION PLAN

The Federated Pension Plan offers service retirement, disability retirement, survivor, and death benefits for members and their beneficiaries. The benefits available under the Federated Pension Plan accrue throughout the time an employee engages in covered work for the City. Even though the benefits accrue during employment, certain age and service requirements must be attained to generate a retirement or other benefit upon retirement or termination of City employment. If met, an employee may elect to receive a monthly pension benefit, calculated by taking into account years of service, final compensation, and in certain instances, age at retirement.

The terms of the final benefit calculation and subsequent cost of living increases, if any, during retirement depends on the employee's membership tier within the Federated Pension Plan. The pension benefits for employees in Tier 2 differ substantially from the Tier 1, as shown in Table B-4. In addition, the contribution rates for Tier 2 members are calculated based on a 50/50 split of all costs, including UAL. Members in Tier 1 of the Federated Pension Plan share a portion of the Normal Cost, but generally do not contribute towards UAL costs. The Plan Actuary expects that as more employees join Tier 2 and contributions are made to pay down the UAL of the Federated Pension Plan, the funding levels of the Federated Pension Plan will generally increase and the contribution rates of the City will decrease over time.

Table B-4 below provides a general description of service retirement pension benefit formulas (excluding early retirement) for each Tier in the Federated Pension Plan as of June 30, 2022. For more additional information regarding such formulas, please see in APPENDIX C – "BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2022," Notes to Financial Statements, Note IV.A, and Title 3 of the Municipal Code.

Table B-4
Federated Plan Service Pension Formulas

	Normal Retirement Age	Minimum Vesting Service[1]	Pension Allowance	Final Compensation
Tier 1	• 55 with 5 years service • 30 years service at any age	5 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 by a 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 service x final compensation (70% max)	Average monthly (or biweekly) base pay in highest consecutive three year compensation[3]

(1) Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from the plan.
(2) For separations that take place prior to July 1, 2001, final compensation is the highest average monthly base pay in highest consecutive three year compensation.
(3) Excludes premium pay or additional compensation.
Source: [Federated 2022 Annual Comprehensive Financial Report].

Funding Status

General. The funding objective for the Federated Pension Plan is to meet long-term benefit obligations through contributions and investment income. Following is a summary of the funded status of the Federated Pension Plan on an actuarial and financial statement basis.

Actuarial Funded Status. The Federated 2021 Pension Plan Actuarial Report is the most recent actuarial valuation available for the Federated Pension Plan as of the date of this Official Statement. The following information is derived primarily from such report. To determine on-going funding requirements for pension benefits, most pension plans utilize an actuarial value of pension assets that differs from the market value of those assets. The actuarial value of pension assets is based on smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions. The market value represents the value of the pension assets if they were liquidated on the valuation date. For a further description of the methodology used by the Federated Pension Plan for valuing its pension plan assets, please see "FEDERATED PENSION PLAN – Actuarial Assumptions." Table B-5a and Table B-5b show the Market Value of Assets and Actuarial Value of Assets of the Federated Pension Plan. Table B-5a also shows the actuarially determined value of all current and future benefits to be paid by the Federated Pension Plan (the "**Total Actuarial Liability**") as of June 30, 2020 and June 30, 2021. The Market Value of Assets, Actuarial Value of Assets and Total Actuarial Liability are intended to be used to assess contributions for an ongoing pension plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the obligations of a pension plan, like the Federated Pension Plan, on a risk-free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial valuations and such deviations may be material.

Table B-5a
Federated Pension Plan
Assets & Liabilities
(*in millions)*

	June 30, 2020	June 30, 2021	% Change
Total Actuarial Liability	$ 4,401	$ 4,563	3.7%
Market Value Assets	2,208	2,884	30.6
Actuarial Value Assets	2,301	2,513	9.2
Unfunded Actuarial Liability- MV(1)	2,193	1,679	(23.5)
Unfunded Actuarial Liability - AV(2) (3)	2,100	2,050	(2.4)
Funded Ratio – Market Value	50.2%	63.2%	25.9
Funded Ratio – Actuarial Value	52.3%	55.1%	5.3

(1) UAL amount based on Market Value of Assets, which is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.
(2) UAL amount based on Actuarial Value of Assets, which is calculated by recognizing the deviation of actual investment returns compared to the expected return for the period ending on the valuation date over a five-year period. See "– Actuarial Assumptions – Actuarially Assumed Investment Rates of Return" for the actuarially expected or assumed investment returns for the previous 10 fiscal years.
(3) Decrease from June 30, 2020 to June 30, 2021 is primarily due to gains recognized as a result of actual investment returns above the discount rate (reducing the UAL by approximately $76 million) and contributions in excess of the Normal Cost plus interest on the UAL (further reducing the UAL by approximately $14 million), offset by liability losses (of approximately $31 million, including a $21 million loss due to salaries being higher than expected) and changes in assumptions (of approximately $10 million). See "FEDERATED PENSION PLAN – Funding Status" below for a discussion of the funding status of the Federated Pension Plan.
Source: Federated 2021 Pension Plan Actuarial Report.

Table B-5b
Federated Pension Plan
Market and Actuarial Value of Assets
(in thousands)

	June 30, 2020	**June 30, 2021**
Market Value, Beginning of Year	$ 2,132,152	$ 2,208,016
Contributions		
Member	$ 25,082	$ 25,725
City	181,327	183,964
Total	$ 206,409	$ 209,689
Net Investment Earnings[(1)]	$ 90,909	$ 698,606
Benefit Payments	(216,728)	(227,205)
Administrative Expenses	(4,725)	(4,762)
Market Value, End of Year	**$ 2,208,017**	**$ 2,884,344**
Actuarial Value of Assets	$ 2,301,469	$ 2,513,095

[(1)] Gross investment earnings less investment expenses.
Source: [Federated 2022 Annual Comprehensive Financial Report for Market Value of Assets]; Federated 2021 Pension Plan Actuarial Report for Actuarial Value of Assets. [Update to come for FY21-22 Market Value of Assets]

Table B-6 shows the historical dollar amount of the UAL and the Funded Ratio for the Federated Pension Plan as of June 30, 2011 through June 30, 2021 calculated using the actuarial (smoothed) value of assets. See "FEDERATED PENSION PLAN – Actuarial Assumptions – Smoothing Methodology" for a description of the smoothing methodologies employed for the Federated Pension Plan.

As shown in Table B-6, the UAL of the Federated Pension Plan as of the June 30, 2021 valuation date increased approximately $1.1 billion (or 110%) when compared to the UAL as of the June 30, 2011 valuation date. According to the Plan Actuary, the net increase is due primarily to the following:

- Unfavorable investment returns on the actuarial (smoothed) value of assets in eight of the previous 10 years (resulting in an increase in the UAL of approximately $416 million over the last 10 years notwithstanding positive investment returns in seven of those years);
- Changes in actuarial assumptions primarily related to reductions in the discount rate (resulting in an increase in the UAL for the Federated Pension Plan of approximately $501 million over the last 10 years);
- Contributions less than the Normal Cost plus interest on the UAL through Fiscal Year 2017-2018 offset by contributions greater than the Normal Cost plus interest on the UAL since Fiscal Year 2017-2018 (resulting in an increase in the UAL of approximately $43.4 million over the last 10 years); and
- Actuarial gains and losses on the Actuarial Liability (resulting in an increase in the UAL of approximately $135 million over the last 10 years).

As shown in Table B-6, the Federated Pension Plan's UAL was 571% of total covered annual payroll as of the June 30, 2021 valuation date of the Federated 2021 Pension Plan

Actuarial Report. In other words, to fully fund the UAL of the Federated Pension Plan as of June 30, 2021, contributions would need to be nearly 6 times the covered payroll for Fiscal Year 2020-2021.

Table B-6
Federated Pension Plan
Schedule of Pension Funding Progress
(in thousands)

Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio[1]	Covered Payroll	UAL as % of Covered Payroll[1]
2011	$ 1,788,660	$ 2,770,227	$ 981,567	65%	$ 228,936	429%
2012	1,762,973	2,841,000	1,078,027	62	225,859	477
2013	1,783,270	3,013,763	1,230,493	59	225,779	545
2014	1,911,773	3,235,065	1,323,292	59	234,677	564
2015	2,004,481	3,569,898	1,565,417	56	251,430	623
2016	2,034,741	3,786,730	1,751,989	54	266,823	657
2017	2,101,435	3,923,966	1,822,531	54	287,339	634
2018	2,179,488	4,100,821	1,921,333	53	298,985	643
2019	2,228,802	4,200,708	1,971,906	53	313,310	629
2020	2,301,469	4,401,083	2,099,614	52	341,552	615
2021	2,513,095	4,562,981	2,049,886	55	359,061	571

[1] Rounded to the nearest whole percent.
Source: Federated 2020 Pension Plan Actuarial Report; Federated 2021 Pension Plan Actuarial Report.

The Plan Actuary projects that, if all assumptions are met in the future including an expected return of 6.625%, the Federated Pension Plan will achieve a funded status on an actuarial basis of approximately 93% by 2036.

Net Pension Liability. For purposes of financial reporting, the City is required under GASB Statement No. 68 to calculate and disclose the Net Pension Liability of the Federated Pension Plan. The Net Pension Liability is the difference between the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated using methods and assumptions known as the "Total Pension Liability" and the fair market value of the Federated Pension Plan's assets known as the "Fiduciary Net Position." For purposes of its financial statements, the City calculates the Net Pension Liability of the Federated Pension Plan using a measurement date that is one fiscal year prior to the Net Pension Liability measurement date used for the financial statements of the Federated Plan.

Table B-7 presents the funded status of the Federated Pension Plan calculated in accordance with the assumptions and methodology set forth in GASB Statement No. 68 as of the June 30, 2021 and the June 30, 2022 measurement dates. The Total Pension Liability of Federated Pension Plan as of June 30, 2021 and June 30, 2022 shown in Table B-7 is based on results of actuarial valuations dated as of June 30, 2020 and June 30, 2021, respectively, and rolled-forward to June 30, 2021 and June 30, 2021 using standard roll forward procedures.

Table B-7
Federated Pension Plan
Components of Net Pension Liability
(in thousands)

	June 30, 2021	June 30, 2022	% Change
Total pension liability	$ 4,526,849	$ 4,689,424	3.6%
Plan fiduciary net position	2,884,345	2,708,026	(6.1)
Net pension liability	$ 1,642,504	$ 1,981,398	(20.6)
Plan fiduciary net position as a percentage of the total pension liability	63.7%	57.7%	(6.0)

Source: [Federated 2022 Annual Comprehensive Financial Report].

Actuarial Assumptions

General. Annually, actuarial valuations are prepared to measure the financial position of the Federated Pension Plan to determine the amounts to be contributed to the plan by active members and the City. The Plan Actuary employs a variety of actuarial methods and assumptions in these calculations. To prepare the actuarial valuations, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates) to produce the necessary information. Experience studies are performed by the Plan Actuary periodically to determine appropriate revisions to the actuarial assumptions. Actual results are compared with past expectations and new estimates are made about the future. In 2019, the Federated Board adopted certain economic and demographic changes based on experience studies of the Federated Pension Plan performed by the Plan Actuary. The Plan Actuary determined that the changes in the assumptions based on the experience studies decreased the UAL of the Federated Pension Plan by $2.9 million or 0.1% of the Actuarial Liability. Table B-8 below summarizes actuarial assumptions employed by the Plan Actuary in the Federated 2021 Pension Plan Actuarial Report.

Table B-8
Federated Pension Plan
Actuarial Assumptions

Valuation Date	June 30, 2021
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Amortization payment growth rate	2.75% compounded annually
Asset valuation method	5-year smoothing of return
Actuarial Assumptions:	
Discount Rate	6.625%
Wage inflation(1)	3.00% compounded annually
Cost-of-Living Adjustments(2)	Tier 1-3.0% per year; Tier 2-1.25% - 2.0% per year depending on years of service

(1) Additional merit salary increases of 0.10% to 3.75% based on a participant's years of service are also assumed.
(2) Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.25% to 2.0% depending on service.
Source: Federated 2021 Pension Plan Actuarial Report.

The Federated 2021 Pension Plan Actuarial Report is the most recently available actuarial valuation of the Federated Pension Plan. Please see Tables B-5a and B-5b above for a summary of certain of the conclusions set forth in the Federated 2021 Pension Plan Actuarial Report.

Actuarial Funding Method*.* The Federated Pension Plan uses the individual Entry Age Normal Actuarial Cost Method. Under this method, the Normal Cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed termination of employment.

Amortization Method and Period. The Tier 1 UAL for the Federated Pension Plan as of June 30, 2009 is amortized over a 30-year closed period, and changes in the Tier 1 UAL are amortized over 20-year closed periods beginning with the valuation period in which they arise. Tier 1 assumption changes are amortized over 25-year periods beginning with the valuation date in which they first arise. For members who were reclassified under Measure F from Tier 2 to Tier 1, a portion of the increase in liability for the reclassification is to be paid by members. Rehired members who were reclassified pay an additional contribution rate of 3.0 percent of payroll until the amount they owe has been paid off. All Classic members pay an additional contribution rate based on a 20-year amortization of the increase in liability for Classic members who were reclassified from Tier 2 to Tier 1 under Measure F.

The Tier 2 UAL for the Federated Pension Plan as of June 30, 2017, is amortized over a closed 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes thereafter are amortized over 10-year periods beginning with the valuation date in which they first arise. Amortization payments for the Federated Pension Plan are scheduled to increase 2.75% each year while aggregate payroll is expected to grow 3.00% each year. As a result, contributions to the Federated Pension Plan are expected to become a slightly smaller percentage of combined Tier 1 and Tier 2 payroll each year.

Smoothing Methodology*.* When measuring assets, the Federated Pension Plan "smooths" 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 Federated Pension Plan 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 smoothed assets of the Federated Pension Plan will be lower or higher than the plan's Market Value of Assets depending upon whether the remaining amount to be smoothed is a net gain or a net loss.

Actuarially Assumed Investment Rates of Return*.* The net rate of return assumed by the Federated Pension Plan represents the long-term expected rate of return on the plan's investments net of investment expenses. In November 2020, the Federated Board adopted changes to the economic assumptions for the Federated 2021 Pension Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate, from 6.75% to 6.625%.

Table B-9 shows the historical discount rates for the Federated Pension Plan from the June 30, 2012 valuation through the June 30, 2021 valuation.

Table B-9
Federated Pension Plan
Historical Discount Rates

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.750%	6.750%	6.625%	6.625%

Source: Federated 2021 Pension Plan Actuarial Report.

Contributions

General. Annual contributions to the Federated Pension Plan by the City and employees are amounts actuarially determined to be sufficient to provide adequate assets to pay benefits when due. When the Federated Board approves contribution rates and amounts, such rates and amounts become the legally required contribution rates and amounts of the City and employees for the fiscal year beginning one year after the valuation date. There are two components to the annual City and employee contributions: (i) the Normal Cost (including administrative expenses); and (ii) the UAL contribution. Annual contributions are based upon actuarial calculations that take into consideration a number of economic and demographic assumptions, including assumed investment earnings on the assets of the Federated Pension Plan that are used to pay benefits. For a description of the assumptions utilized in the actuarial valuations for the Federated Pension Plan, please see "FEDERATED PENSION PLAN – Actuarial Assumptions."

Funding Policy. The Federated Pension Plan employs 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 Federated Board (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 Federated Board in the annual actuarial valuation.

The Federated Pension Plan does not employ a "floor funding method" for determining the City's contribution for Tier 2 members. The City's contribution for Tier 2 members of the Federated Pension Plan are based on the contribution rate determined by the Plan Actuary and approved by the Federated Board multiplied by the actual Tier 2 member payroll for the Federated Pension Plan.

The required contributions as determined by the Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City may elect to prefund all or part of its total required contributions to the Federated Pension Plan at the beginning of each fiscal year. The prefunded annual contributions are made on the basis of estimated bi-weekly payroll in the actuarial valuation for the fiscal year and may be increased at the end of the fiscal year based on actual bi-weekly payroll. The amount of the prefunded annual contribution is the actuarial equivalent of contributions made regularly over the course of a year as established by the Federated Board. 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 Federated Board, based on the advice of the Plan Actuary and outside investment consultants, sets an interest discount rate to be applied by the Plan Actuary to the required contributions to account for the fact that contributions are made and invested at the beginning of the year instead of made throughout the year and invested thereafter by the Federated Pension Plan. The Federated Board has implemented an "incremental reduction approach" to set the interest discount rate in a given year. The approach applies the discount rate for the year of the contribution reduced incrementally based on certain broad economic and market benchmarks. This approach is intended to incentivize the City to prefund contributions to the Federated Pension Plan when market valuations may be lower and an economic cycle may be in early stages of expansion and disincentivize for prefunding contributions when market valuations and/or economic expansions may exceed historic patterns.

The City has from time to time prefunded its contributions for Tier 1 employees under the Federated Pension Plan and may elect to do so in the future. The projected contributions set forth in this Appendix B do not take into account any such prefunding.

Historical City and Employee Contributions. Table B-10 shows the City's actuarially determined annual contribution and actual contribution to the Federated Pension Plan for Fiscal Years 2016-2017 through 2020-2021.

Table B-10
Federated Pension Plan
Schedule of City Contributions
(*in thousands*)

	2016-2017	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**
Actuarially Determined Contribution	$ 138,483	$ 156,770	$ 173,006	$ 181,327	$ 183,964
Actual Contribution	138,483	156,770	173,006	181,327	183,964
Contribution Deficiency (excess)	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**

Source: City of San José Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021.

The member contribution rate for Tier 1 of the Federated Pension Plan is a proportion (3/11ths) of the Normal Cost (including administrative expenses, but excluding reciprocity) with the remaining 8/11ths of the Normal Cost allocated to the City. On June 29, 2021, the City Council introduced an ordinance amending the Municipal Code to cease the Normal Cost contribution of Tier 1 members of the Federated Pension Plan with 30 or more years of service credit as of the effective date of the ordinance. The change is intended by the City to incentivize such members to continue working for the City by increasing their take-home pay. Such members will not be eligible for any return of the amount of Normal Cost contributions made between obtaining 30 years of service credit and the effective date of the ordinance. The ordinance became effective on September 2, 2021. See Table B-4 for a general description of service retirement pension benefit formulas (excluding early retirement) for Tier 1 members of the Federated Pension Plan as of June 30, 2021.

In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Normal Cost (i.e., the cost of funding reciprocity with other California pension plans), plus an amortization payment on the UAL. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service. The Federated Board set a contribution rate of 3.0% of pay that applies to each such individual member until such member has paid off their individual UAL amount for reclassification. For Tier 2, the members and the City each pay half of the total contribution rate. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member. The member and City contribution rates each cannot be less than 50% of the Normal Cost rate. According to the Plan Actuary, the most significant portion of the City's contribution to the Federated Pension Plan is the portion of the contribution attributable to the UAL for Tier 1, which is substantially attributable to members who no longer work for the City.

Table B-11a below summarizes the pension contribution rates for employee members of the Federated Pension Plan for Fiscal Years 2021-2022 and 2022-2023. For Fiscal Year 2022-2023, the Plan Actuary projects payroll to total $132.6 million for Tier 1 and $237.2 million for Tier 2.

Table B-11a
Federated Pension Plan
Member Contribution Rates

	2021-2022			**2022-2023**		
	Basic	**COLA**	**Total**	**Basic**	**COLA**	**Total**
Tier 1						
Total Member Normal Cost/Admin Rate[(1)]	5.25%	2.14%	7.39%	5.24%	2.17%	7.41%
Tier 2						
Member Normal Cost/Admin Rate[(2)]	6.66%	1.12%	7.78%	6.72%	1.13%	7.85%
Member UAL Rate[(3)]	0.26	0.13	0.39	0.16	0.12	0.28
Total Member Rate	**6.92%**	**1.25%**	**8.17%**	**6.88%**	**1.25%**	**8.13%**

(1) Determined by dividing the total Normal Cost plus assumed administrative expenses determined by the Plan Actuary by the payroll expected for members active on the valuation date.
(2) Excludes additional reclassified rate (UAL) for Classic and Reclassified Tier 1 Members. According to the Plan Actuary, the increase in the Tier 1 member contribution rate for Fiscal Year 2020-2021 is primarily due to the discount rate change.
(3) Determined by dividing the UAL payment by total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).
Source: Resolution No. 9097 approved by the Federated Board on May 20, 2021; Resolution No. 9098 approved by the Federated Board on May 20, 2021; Federated 2021 Pension Plan Actuarial Report.

Table B-11b shows the City's contributions in dollars to the Federated Pension Plan for Fiscal Years 2021-2022 and 2022-2023. Because Tier 1 is closed, the City's total Normal Cost contribution for Tier 1 is expected to decrease over time as active Tier 1 members decrease. The portion of the City's contribution rate attributable to the UAL for Tier 1 members is not expected to decrease as Tier 1 members retire or otherwise leave the system, because the City is responsible for all such contributions. The contributions set forth in Table B-11b assume the City makes such contributions in installments throughout the year.

Table B-11b
Federated Pension Plan
City Contribution Amounts
(in thousands)
(throughout the year)

	2021-2022			2022-2023		
	Basic	**COLA**	**Total**	**Basic**	**COLA**	**Total**
Tier 1						
City Normal Cost/Admin[1]	$ 19,736	$ 8,056	$ 27,792	$ 19,027	$ 7,875	$ 26,903
City UAL Cost[2]	84,804	75,890	160,694	85,400	77,202	162,602
Total City Contribution	**$ 104,540**	**$ 83,946**	**$ 188,486**	**$ 104,427**	**$ 85,077**	**$ 189,505**
Tier 2						
Total City Contribution[3]	**$ 14,847**	**$ 2,682**	**$ 17,529**	**$ 16,322**	**$ 2,966**	**$ 19,288**

(1) Includes the reciprocity rate for the prefunding of the liability for reciprocal benefits with certain other California public pension plans. The Plan Actuary reports that the decrease in the City's Normal Cost Tier 1 contribution in Fiscal Year 2021-2022 is due to the decline in Tier 1 active members.
(2) Includes the deficiency rate for the amortization of the funding deficiency and the golden handshake rate for the cost for funding additional benefits granted in the past to certain retiring employees.
(3) The Plan Actuary reports that the increase in the City's total contribution for Tier 2 is due primarily to the growth in Tier 2 membership.
Source: Resolution No. 9097 approved by the Federated Board on May 20, 2021; Resolution No. 9098 approved by the Federated Board on May 20, 2021; Federated 2021 Pension Plan Actuarial Report.

Projected City Contributions. Table B-12 provides 20-year projections of City contributions calculated by the Plan Actuary for the Federated Pension Plan as of March 8, 2022, assuming such contributions are made by the middle of the year and that all assumption are exactly met each and every year in the future.

Table B-12
Federated Pension Plan
20-Year Projections of Contributions
(middle of the year)

Fiscal Year Ended June 30	Projected City Contribution Amount	Projected Total Contribution Rate (% of Payroll)
2023	$ 208,793,000	56.46%
2024	205,028,000	53.82
2025	201,389,000	51.33
2026	197,191,000	48.79
2027	192,579,000	46.27
2028	196,800,000	45.90
2029	200,746,000	45.46
2030	205,194,000	45.11
2031	209,850,000	44.79
2032	207,752,000	43.05
2033	213,038,000	42.86
2034	208,591,000	40.75
2035	204,543,000	38.79
2036	213,662,000	39.34
2037	220,472,000	39.41
2038	188,152,000	32.65
2039	184,276,000	31.05
2040	174,641,000	28.57
2041	56,114,000	8.91
2042	51,684,000	7.97

Source: Cheiron 5-Year and 20-Year Budget Projections for Federated Plan, dated March 8, 2022.

The relatively rapid decrease in the City contribution rates (as a percentage of payroll) in the first few years shown above is driven by the recognition of the deferred investment gains from Fiscal Year 2020-2021 in the actuarial value of assets. The more gradual decrease thereafter is due to the gradual decrease in the Normal Cost rate as Tier 2 becomes a greater proportion of the active membership and the gradual decrease in the UAL rate as payroll is expected to grow slightly faster than amortization payments. There is a more rapid decline in the contribution rates from 2038 to 2042 primarily due to paying off certain amortization bases.

It is certain that not all assumptions in the 20-year projections for the Federated Pension Plan will be exactly met each and every year. In the Federated 2021 Pension Plan Actuarial Report, the Plan Actuary notes that there is a significant level of uncertainty in projections of the future, the largest source of which is the projection of investment returns. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates. See "SUMMARY OF FEDERATED PLAN – Summary of Historical and Projected Contributions – Plan Risks."

Investments

The State Constitution and the Municipal Code provide that the Federated Board has exclusive control over the investment of the assets of the Federated Pension Plan. The Municipal Code also specifies that the Federated Board manages the investments for the purpose of providing benefits to its members and beneficiaries, maintaining the actuarial soundness of the Federated Pension Plan, and defraying reasonable expenses of administering the plan. The Federated Board has retained investment consultants to advise it.

Table B-13 shows the historical annual returns for the Federated Pension Plan at the identified interval as reported by the Federated Board's investment consultant in its quarterly reports as June 30, 2022.

Table B-13
Federated Pension Plan
Historical Investment Performance
(As of June 30, 2022)

Measurement Period	Rate of Return[1,2,3]
Since Inception	6.8%
10 Years	6.3
5 Years	7.2
3 Years	8.6
1 Year	(4.4)

[1] The returns for certain investments (Public Equity Aggregate) are gross of fees through June 2015 and net of fees thereafter.
[2] Net of fees.
[3] Measurement Period Beginning January 1994.
Source: Meketa Investment Group Quarterly Review for the Federated Pension Plan as of June 30, 2022.

Annually, the Federated Board receives 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 Federated Pension Plan. The Federated Board, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with its diversification goals and risk tolerance.

Table B-14 shows the asset allocation targets for the Federated Pension Plan. Asset allocation targets represent the ultimate allocation goals of the Federated Pension Plan. However, during periods of allocation transition, asset allocation target objectives may not be achieved. The Federated Pension Plan is in the process of transitioning the asset allocations to new asset allocation targets shown in Table B-14. Changes to the allocations of illiquid asset classes may take several quarters to implement.

Table B-14
Federated Pension Plan
Target Asset Allocations

Asset Class	Target %
Growth	**75.0%**
Public Equity	49.0
Private Markets	21.0
Private Equity	8.0
Venture/Growth Capital	4.0
Private Debt	3.0
Growth Real Estate	3.0
Private Real Assets	3.0
Emerging Markets Bonds	3.0
High Yield Bonds	2.0
Low Beta	**8.0**
Market Neutral Strategies	3.0
Bonds (Immunized Cash Flows)	5.0
Other	**17.0**
Core Real Estate	5.0
Commodities	0.0
Long-Term Government Bonds	2.0
Investment Grade Bonds	8.0
TIPS	2.0
10-Year Expected Return (1)	*6.2*
20-Year Expected Return(1)	*7.2*
Standard Deviation (1)	*11.6*

(1) As of March 17, 2022. The City provides no assurance that actual returns will not be less than those expected by the Federated Board.
Source: Federated City Employees' Retirement System Investment Policy Statement approved May 19, 2022.

For a description of the types of investments in each asset class identified in Table B-14, please see the Investment Policy Statement for the Federated Pension Plan as approved by the Federated Board on May 19, 2022, a copy of which may be found at https://www.sjretirement.com/investments-and-reports/investments-and-reports-federated /investments-and-reports-federated-investment/. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. The City makes no representation as to the accuracy or completeness of any of the information on such website. See also the Federated 2022 Annual Comprehensive Financial Report.

FEDERATED HEALTHCARE PLAN

General

The Federated Healthcare Plan provides eligible retirees, their dependents, and survivors with health and dental benefits. For health benefits, the Federated Healthcare Plan pays that portion of the premium that is equivalent to the premium for the lowest-priced medical plan with which the City contracts for medical benefits for active City employees. If the retiree elects a medical plan that is not the lowest priced plan, the eligible retiree or survivor pays the difference between the portion paid by the Federated Healthcare Plan and that charged by the medical care provider. In the case of dental benefits, the Federated Healthcare Plan pays the entire premium. Retired members of the Federated Healthcare Plan eligible for medical and/or dental benefits may elect annually not to receive benefits for the plan year and participate in the in-lieu credit program, providing a credit equal to 25% of the lowest cost plan for that year which may be applied to member premiums in future years.

As described in "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS," the Federated Healthcare Plan is closed to new members. Generally, members of the Federated Plan that were hired before July 2013 and did not elect to opt into the Federated VEBA are eligible for defined benefit retiree healthcare benefits from the Federated Healthcare Plan. Subject to certain eligibility requirements, a Federated 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 Federated Healthcare Plan until the member is eligible for Medicare after exhausting all funds in their individual Federated VEBA account.

The contributions for the members who opted into the Federated VEBA and opted out of the Federated Healthcare Plan were transferred to the Federated VEBA for the Federated Healthcare Plan in March 2018. Eligible employees who are rehired by the City during calendars years 2018 through 2022 may opt into the Federated VEBA if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the Federated Healthcare Plan to their VEBA account.

The financial reporting, disclosure, and accounting for costs and obligations related to the Federated Healthcare Plan are consistent with the requirements of GASB Statement No. 74 and GASB Statement No. 75. The Federated Healthcare Plan provides financial reporting according to the requirements of GASB Statement No. 74. The City provides financial reporting, disclosure, and accounting for costs and obligations related to the Federated Healthcare Plan according to the requirements of GASB Statement No. 75. GASB Statement No. 74 and GASB Statement No. 75 require the liability for OPEB obligations, known as the Net OPEB Liability, and an OPEB expense to be recognized in the financial statements of the Federated Healthcare Plan and the City. OPEB expense under GASB Statement No. 74 and GASB Statement No. 75 recognizes deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period. See "RETIREMENT PLANS IN GENERAL – Implementation of Certain Accounting Changes Relating to Retirement Plans."

Establishment of Federated 115 Trust; Internal Revenue Code Limitations

The Section 401(h) of the Code permits a pension plan to provide retiree healthcare benefits under certain conditions, including when: (1) a separate account (i.e., a 401(h) account) is maintained for the healthcare benefits; and (2) the healthcare benefits are subordinate to the pension benefits. Under IRS regulations, subordination means that the contributions for healthcare benefits do not exceed 25% of the aggregate contributions excluding contributions to fund past service credits. Exceeding the subordination limit puts a pension plan at risk of losing its tax-exempt status, which in turn, would subject the pension plan's income to the payment of income tax and reduce the assets available for the payment of benefits.

To avoid exceeding the subordination limit for the 401(h) accounts held in the Federated Healthcare Plan, 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**"). The Federated Board serves as the board of trustees for the Federated 115 Trust. The 401(h) account for the Federated Healthcare Plan was depleted in Fiscal Year 2018-2019, leaving only the Federated 115 Trust in the Federated Healthcare Plan. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Assets in other trusts established by the City under Section 115 of the Code are not available to satisfy liabilities of the Federated 115 Trust, and vice versa.

The Federated Board received a private letter ruling from the IRS on the tax-exempt status of the Federated 115 Trusts. Additionally, on August 6, 2013, in response to the City's request, the IRS issued a private letter ruling indicating that employee contributions into the Federated 115 Trust 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.

The Federated Board has been advised that the contributions to the Federated 115 Trust must be treated as non-refundable in order to maintain the tax-exempt status of such trust. The Federated Plan permits employee pension and retiree healthcare contributions held in the 401(h) accounts to be refunded. To date, retiree healthcare contributions have been refunded from the pension fund of the Federated Pension Plan, not the 401(h) account therein. Federated employees are only eligible to receive the portion of their retiree healthcare contributions that were made to the 401(h) account before January 1, 2014. After such date, all employee contributions were placed into the Federated 115 trust. Employees have to take a return of contributions from the pension and retiree healthcare plans in order to receive the amount that they previously contributed into the 401(h) account.

Funding Status

General. Following is a summary of the funded status of the Federated Healthcare Plan on an actuarial and financial statement basis.

Actuarial Funded Status. The Federated 2021 Healthcare Plan Actuarial Report is the most recent actuarial valuation available for the Federated Healthcare Plan as of the date of this Official Statement. The following information is derived primarily from such report.

Tables B-15 and B-16 show the Market Value of Assets, the Actuarial Value of Assets and Total Actuarial Liability of the Federated Healthcare Plan as of June 30, 2020 and June 30, 2021. Actuarial valuations of a plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about claim costs, health care trend rates and dependent coverage elections. These measures, including the UAL and funded ratio as described in this Appendix B, are intended to be used to assess contribution amounts for an ongoing other post-employment benefits plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the obligations of the

Federated Healthcare Plan on a risk-free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial calculations and such deviations may be material.

Table B-15
Federated Healthcare Plan
Assets and Liabilities
(in thousands)

	June 30, 2020	June 30, 2021	% Change
Total Actuarial Liability	$ 650,419	$ 662,860	1.9%
Market Value Assets	303,313	384,613	26.8
Explicit Subsidy Unfunded Actuarial Liability	255,764	205,774	(19.5)
Explicit Subsidy Funded Percentage	54.3%	65.1%	10.8
Total Unfunded Actuarial Liability[1]	$ 347,106	$ 278,247	(19.8)
Total Funded Percentage	46.6%	58.0%	11.4

[1] According to the Plan Actuary, the net decrease in the UAL is primarily due to investment experience (resulting in a decrease of approximately $57.6 million), liability experience mainly due to lower-than-expected premiums for dental and Medicare eligible health plans offset by demographic experience (resulting in a decrease of approximately $28.6 million), and contributions in excess of the amount needed to pay the normal cost and interest on the UAL (resulting in a decrease of approximately $10 million), offset by assumption changes (resulting in an increase of approximately $46.3 million) mainly due to the reduction in the discount rate from 6.25% to 6.00%.
Source: Federated 2021 Healthcare Plan Actuarial Report.

Table B-16
Federated Healthcare Plan
Market Value of Assets
(in thousands)

	June 30, 2020	June 30, 2021
Market Value, Beginning of Year	$ 294,488	$ 303,310
Contributions		
Member	$ 10,692	$ 10,275
City	21,790	20,949
Implicit Subsidy	4,743	5,287
Total	$ 37,225	$ 36,512
Net Investment Earnings[1]	$ 3,075	$ 77,360
Benefit Payments[2]	(30,779)	(31,871)
Admin Expense	(686)	(697)
VEBA Transfer	(13)	(5)
Market Value, End of Year	**$ 303,310**	**$ 384,608**

[1] Gross investment earnings less investment expenses.
[2] Includes both explicit and implicit subsidies. The implicit subsidy is shown as both a contribution and a payment from the plan, but it is not actually contributed to the trust or paid from the trust. It is paid by the City as a part of active health plan premiums.
Source: Federated 2022] Annual Comprehensive Financial Report. [update to come for FY21-22]

In the Federated 2021 Healthcare Plan Actuarial Report, the Plan Actuary further notes that if all assumptions are met in the future, including an expected return of 6.00% each year, the funded percentage for the explicit subsidy is expected to reach 100% by 2037.

The 401(h) account for the Federated Healthcare Plan was depleted in Fiscal Year 2018-2019 as a result of Federated Healthcare Plan contributions having been made solely to the Federated 115 Trust while at the same time benefits having been paid only from the Federated Healthcare Plan 401(h) account. All Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. The expected investment returns for the Federated Healthcare Plan will be based solely on the investment policy of the Section 115 Trust.

Table B-17 shows the UAL and Funded Ratio of the Federated Healthcare Plan from as of June 30 of the years 2012 through 2021.

Table B-17
Federated Healthcare Plan
Schedule of OPEB Funding Progress
(in thousands)

Valuation Date (June 30)	Market Value of Assets	Actuarial Liability	UAL	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
2012	$ 137,798	$ 1,096,620	$ 958,822	13%	$ 225,859	425%
2013	157,695	870,872	713,177	18	226,098	315
2014	199,776	729,406	529,630	27	234,677	226
2015	209,761	817,673	607,912	26	251,430	242
2016	225,845	764,261	538,416	30	266,823	202
2017	248,583	630,452	381,869	39	287,339	133
2018	277,256	650,114	372,858	43	298,985	125
2019	294,489	631,752	337,263	47	299,002	113
2020	303,313	650,419	347,106	47	322,850	108
2021	384,613	662,860	278,247	58	339,546	82

Source: Federated 2021 Healthcare Plan Actuarial Report.

As shown in Table B-17, the UAL of the Federated Healthcare Plan decreased approximately $680 million from approximately $960 million as of the June 30, 2012 valuation date to approximately $280 million as of the June 30, 2021 valuation date, a decrease of 73%. The Plan Actuary further reports that, over the last 10 years, the UAL of the Federated Healthcare Plan for the explicit subsidy decreased approximately $307 million. According to the Plan Actuary, such decrease is due to a combination of a reduction in the Actuarial Liability of $60.2 million and an increase in assets of $246.8 million. The reduction in Actuarial Liability was primarily due to plan changes and favorable medical cost trend experience. The increase in the assets has been primarily attributable to contributions and recent investment returns. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions. See “FEDERATED HEALTHCARE PLAN – Contributions – General” for a discussion regarding the implicit subsidy.

In December 2021, the Federated Board adopted changes to the economic assumptions for the Federated 2021 Healthcare Plan Actuarial Report, which included a reduction in the discount rate from 6.25% to 6.00%. See "– Actuarial Assumptions"

As further shown in Table B-17, the Federated Healthcare Plan's UAL was 82% of total covered annual payroll as of the June 30, 2021 valuation date of the Federated 2021 Healthcare Plan Actuarial Report. In other words, to fully fund the UAL of the Federated Healthcare Plan contributions would need to be nearly equal to the covered payroll for Fiscal Year 2020-2021.

Net OPEB Liability. For purposes of financial reporting, GASB Statements No. 74 and 75 require the Federated Healthcare Plan and the City, respectively, to report Net OPEB Liability in their respective financial statements. Net OPEB Liability is measured as the Total OPEB Liability less the OPEB plan fiduciary net position. The City's financial statements calculate Net OPEB Liability using a measurement date that is one year prior to the measurement date used for the financial statements of the Federated Healthcare Plan. As a result, the financial statements of the Federated Healthcare Plan show Net OPEB Liability one year later in date.

Table B-18 shows the Total OPEB Liability of the Federated Healthcare Plan as of June 30, 2021 and June 30, 2022 based on results of actuarial valuations dated as of June 30, 2020 and June 30, 2021, respectively, rolled-forward to June 30, 2021 and June 30, 2022, respectively, using generally accepted actuarial procedures.

Table B-18
Federated Healthcare Plan
Components of Net OPEB Liability
(in thousands)

	June 30, 2021	June 30, 2022	% Change
Total OPEB Liability	$ 665,452	$ 678,386	1.9%
Plan fiduciary net position	384,608	349,124	(9.2)
Net OPEB Liability	$ 280,844	$ 329,262	17.2
Plan fiduciary net position as a percentage of the Total OPEB Liability	57.8%	51.5%	(6.3)

Source: [Federated 2022 Annual Comprehensive Financial Report]. [Update to come for FY21-22]

Actuarial Assumptions

Actuarial assumptions used for the valuations for the health and dental benefits provided by the Federated Healthcare Plan are generally the same as are used for the valuations of the Federated Pension Plan. In addition to such assumptions, the Plan Actuary employs assumptions with respect to future healthcare utilization and inflation. See “FEDERATED PENSION PLAN – Actuarial Assumptions.” Table B-19 summarizes the actuarial valuation methods and assumptions employed by the Plan Actuary in the Federated 2021 Healthcare Plan Actuarial Report.

Table B-19
Federated Healthcare Plan
Healthcare Actuarial Assumptions

Valuation Date	June 30, 2021
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed, layers
Amortization period	20 Years -3 year phase in and out
Asset valuation method[1]	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	3.00%
Discount Rate	6.00%

[1] The market value of assets means the actual value of assets, and not the smoothed value, is used.
Source: Federated 2021 Healthcare Plan Actuarial Report.

The net rate of return assumed by the Federated Healthcare Plan represents the long-term expected rate of return on the plan’s investments net of investment expenses. In December 2021, the Federated Board adopted changes to the economic assumptions for the Federated 2021 Healthcare Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate from 6.25% to 6.00%.

Table B-20 shows the historical discount rates for the Federated Healthcare Plan from the June 30, 2012 valuation through the June 30, 2021 valuation.

Table B-20
Federated Healthcare Plan
Historical Discount Rates

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.75%	6.75%	6.25%	6.00%

Source: Federated 2021 Healthcare Plan Actuarial Report.

Contributions

General. The annual contribution costs for the benefits of the Federated Healthcare Plan are allocated to both the City and the active employee members. Historically, member and City contributions to the Federated Healthcare Plan were negotiated through collective bargaining and were not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions by the City and the participating employees to the Federated Healthcare Plan were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution for the retiree health and dental benefits provided by the Federated Healthcare Plan as calculated pursuant to GASB Statements No. 43 and 45 as then in effect. However, the contribution rates for the City and members of the Federated Healthcare Plan were capped before the full annual required contribution was reached.

With the implementation of Measure F, member contributions are fixed as a percentage of pay, and the City's contribution toward the explicit subsidy (premium subsidy) is an Actuarially Determined Contribution. The City has an option to limit its Actuarially Determined Contribution to a fixed percentage of the payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan. The Plan Actuary commenced calculating the Actuarially Determined Contribution for the Federated Healthcare Plan in Fiscal Year 2018-2019. See "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS" for a discussion of Measure F.

According to the Plan Actuary, because new entrants to the Federated Healthcare Plan are only entitled to catastrophic disability benefits and do not contribute to the Federated Healthcare Plan, member contributions are expected to decline as current active members eligible for full benefits retire or otherwise leave active employment with the City. In addition, because member contributions pay all of the Normal Cost plus a portion of the UAL, the City's Actuarially Determined Contribution is expected to increase slightly as the member contributions decrease.

The City pays the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees. The liabilities for the implicit subsidy have been included in the GASB Statements No. 74 and 75 disclosure calculations reported in the financial statements of the Federated Healthcare Plan and the City, and are also included in the actuarial valuations of the Federated Healthcare Plan. The implicit subsidy is shown in such statements as both a contribution and payment from the Federated Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Federated Healthcare Plan. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The Plan Actuary separately calculates the total UAL, being the aggregate UAL for both implicit and explicit subsidies, and the UAL for only the explicit subsidy. The UAL for the explicit subsidy is used to calculate the City's Actuarially Determined Contribution to the Federated 115 Trust. The total implicit subsidy relating to the Federated Healthcare Plan for Fiscal Year 2021-2022 is approximately $5 million.

Effective March 25, 2018, the Tier 1 and Tier 2 members in the Federated Healthcare Plan who opted to remain in the Federated Healthcare Plan contribute 7.5% of pay. The City continued to pay the phased-in contribution rate until the beginning of Fiscal Year 2018-2019.

Currently, the City makes the Actuarially Determined Contribution determined by the Federated Board subject to a cap of 14% of payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan, not just active members of the Federated Healthcare Plan. For purposes of calculating the City's contribution to the explicit subsidy UAL, the UAL as of June 30, 2017, is amortized as a level dollar amount over a closed 20-year period. All future UAL amortization bases will be amortized over 20-year periods with a 3-year phase-in and phase-out.

Historical City and Member Contributions. Table B-21 shows the components of the Actuarially Determined Contribution for the Federated Healthcare Plan for Fiscal Years 2021-2022 and 2022-2023.

Table B-21
Federated Healthcare Plan
Actuarially Determined Contribution
Explicit Subsidy Only
(*in thousands)*

	2021-2022	**2022-2023**	**% Change**
Normal Cost	$ 5,815	$ 6,536	12.4%
UAL Payment	23,197	21,051	(9.2)
Total Contribution	$ 29,012	$ 27,587	(4.9)
Projected Member Contributions	(9,076)	(8,807)	(3.0)
City ADC Amount	$ 19,936	$ 18,780	(5.8)
Projected Total Payroll	$ 332,536	$ 349,732	5.2
City ADC Percentage	6.0%	5.4%	(0.6)

Source: Resolution No. 9094 approved by the Federated Board on May 21, 2020; Resolution No. 9095 approved by the Federated Board on May 21, 2020 Resolution No. 9097 approved by the Federated Board on May 20, 2021; Federated 2021 Healthcare Plan Actuarial Report.

Projected City Contributions. In January 2022, as directed by the Federated Plan, the Plan Actuary provided five-year budget projections for the City's contributions for the Federated Healthcare Plan based on the Federated 2021 Healthcare Plan Actuarial Report. The projections for the Federated Healthcare Plan were revised by the Plan Actuary at the direction of the Federated Board to include certain additional changes in demographic assumptions in March 2022. The projections assume that all valuation assumptions were exactly met since June 30, 2021, and are exactly met each and every year for the projection period. Such projections together with a projection of OPEB payroll are summarized in the following table.

Unlike the pension contributions, the City contributions to the Federated Healthcare Plan are strictly payments toward the UAL. Consequently, there is no separate breakout of normal cost. According to the Plan Actuary, City contributions to the Federated Healthcare Plan are expected to increase in the future as members retire or otherwise leave the plan.

Table B-22
Federated Healthcare Plan
5-Year Projections of Contributions
(*in thousands)*
(Throughout the Year)

Fiscal Year Ended June 30	Full Benefit Payroll	Total Payroll	Estimated City Contribution Cap	Actuarially Determined Contribution
2023	$ 117.4	$ 369.8	$ 49.0	$ 18.8
2024	108.7	380.9	50.4	18.4
2025	100.1	392.4	51.9	17.3
2026	91.9	404.1	53.5	17.5
2027	84.0	416.3	55.1	17.7

Source: Cheiron 5-Year and 20-Year Budget Projections for Federated Plan, March 8, 2022.

The estimated full benefit payroll is for the closed group of members entitled to full OPEB benefits. The total payroll also includes members only eligible for catastrophic disability benefits. According to the Plan Actuary, City contributions for the Federated Healthcare Plan represent payments solely toward the UAL, as member contributions are sufficient to cover Normal Costs during this period. The Plan Actuary further notes that, if all assumptions are met in the future, including an expected return of 6.00% each year the funded percentage of the Federated Healthcare Plan for the explicit subsidy is expected to reach 100% by 2037.

It is certain that not all assumptions will be exactly met each and every year. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates.

Investments

The Federated Healthcare Plan is funded through the Federated 115 Trust as the 401(h) account within the Federated Pension Plan was depleted in 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Table B-23 shows the historical annual returns net of fees for the Federated Section 115 Trust at the identified interval as reported by the investment consultants of the Federated Healthcare Plan in the quarterly report for the period ending June 30, 2022.

Table B-23
Federated 115 Trust
Historical Investment Performance
(As of June 30, 2022)

Measurement Period	Net Rate of Return
Since Inception[1]	4.4%
5 Years	4.2
3 Years	3.9
1 Year	(10.0)

[1] Measurement Period Beginning July 2011
Source: Meketa Investment Group Quarterly Review for the Federated Retiree Healthcare 115 Trust as of June 30, 2022.

The most recent target allocations for the Federated 115 Trust are shown in the following table.

Table B-24
Section 115 Trusts
Target Asset Allocation

Asset Class	Target %
Growth	**58.0%**
US Equity	30.0
Developed Market Equity (non-US)	16.0
Emerging Market Equity	12.0
Low Beta	**6.0**
Short-Term Investment-Grade Bonds	6.0
Other	**36.0**
Investment Grade Bonds	14.0
Long Term Government Bonds	5.0
Core Real Estate	12.0
Commodities	5.0
20-Year Expected Return (1)	*6.4*
Standard Deviation (1)	*11.9*

(1) As of April 21, 2022. The City can provide no assurance that actual returns will not be less than those expected by the Federated Board.

Source: Meketa Investment Group, Health Care Trust Asset Allocation Analysis for the San José Federated City Employees' Retiree Health Care Trust Fund, April 21, 2022

For a description of the types of investments in each asset class for the target asset allocations identified in Table B-24, please see the Investment Policy Statement for the Federated 115 Trust as approved by the Federated Board on January 20, 2022, a copy of which may be found at https://www.sjretirement.com/investments-and-reports/investments-and-reports-federated /investments-and-reports-federated-investment/. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. The City makes no representation as to the accuracy or completeness of any of the information on such website.

APPENDIX C

BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSÉ FOR THE FISCAL YEAR ENDED JUNE 30, 2022

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$[PAR]
CITY OF SAN JOSE FINANCING AUTHORITY
WASTEWATER REVENUE BONDS, SERIES 2022B
(GREEN BONDS – CLIMATE BOND CERTIFIED)

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 November 15, 2022, and a Master Indenture, dated as of December 1, 2022, as supplemented by a First Supplemental Indenture, dated as of December 1, 2022, each 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. <u>Purpose of the Disclosure Certificate</u>. 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. <u>Definitions</u>. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

"*Annual Report Date*" means the date not later than April 1 after the end of each fiscal year of the City (currently June 30th).

"*Current Fiscal Year*" means the then current fiscal year as of an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2023, the Current Fiscal Year means the 2022-2023 fiscal year.

"*Dissemination Agent*" means the City or any other Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. As of the date of this Disclosure Certificate, the City is acting as Dissemination Agent.

"*Listed Events*" means any of the events listed in Section 5(a).

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" means the final official statement dated ____________, 2022, executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means any of the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Preceding Fiscal Year*" means the most recently ended fiscal year preceding an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2023, the Preceding Fiscal Year means the 2021-2022 fiscal year.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. <u>Provision of Annual Reports</u>.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2023, with the report for the 2021-2022 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate; provided, however, that the requirement to file the Annual Report for the 2021-2022 fiscal year by no later than April 1, 2023, shall be satisfied by the filing of the Official Statement with the MSRB.

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, substantially similar to that provided in the corresponding tables in the Official Statement, as follows:

(1) Table 4 – Historical Accounts and Flow by User Classification

(2) Table 5 – Historical Wastewater Flow

(3) Table 6 – Historical Sewer Service and Use Charge Revenues

(4) Table 7 – Ten Largest Sewer Service and Use Charge Payers

(5) Table 17 – Historical Net System Revenues and Debt Service Coverage

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or an obligated person, any of which affect security holders, if material.

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(b) 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.

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

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 Series 2022B Bonds, payment of principal, interest and other payments on the Series 2022B Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series 2022B 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 City of San José Financing Authority (the "Issuer") nor Wilmington Trust, National Association (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2022B Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2022B Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2022B Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants, Direct Participants or 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 an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Direct and Indirect 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 effect 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect 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 Direct or Indirect 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 Direct or Indirect Participant, to the Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Direct or Indirect 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 Enterprise 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.

APPENDIX H

ADOPTED RATE RESOLUTION

APPENDIX I

CLIMATE BOND VERIFIER'S REPORT

KESTREL VERIFIERS™

Verifier's Report
EXECUTIVE SUMMARY

CLIMATE BONDS STANDARD APPROVED VERIFIER

ISSUER
City of San José Financing Authority

OPINION ON
Wastewater Revenue Bonds, Series 2022B (Green Bonds - Climate Bond Certified)

STANDARD AND SECTOR CRITERIA
Climate Bonds Standard
Version 3.0

- Water Infrastructure

PAR
$275,570,000 (Preliminary, subject to change)

KEYWORDS
Wastewater treatment, sustainable management of natural resources, pollution prevention, odor control, energy efficiency, net zero aligned, San Francisco Bay, California

EVALUATION DATE
November 2, 2022

SUMMARY OF FINDINGS
Kestrel Verifiers is of the opinion that the City of San José Financing Authority's (the "Authority") Wastewater Revenue Bonds, Series 2022B (Green Bonds - Climate Bond Certified) ("Series 2022B Bonds") are impactful, net zero aligned, conform with the four core components of the Sustainability Bond Guidelines 2021, and conform with the Climate Bonds Standard (Version 3.0) as follows:

- **Use of Proceeds**
  The Series 2022B Bonds refund the Authority's Subordinate Wastewater Revenue Notes, Series A ("Notes") that financed improvements ("Treatment Plant Projects") to the San José-Santa Clara Regional Wastewater Facility (the "Treatment Plant"). The projects incorporate best available technologies to improve treatment processes, reduce emissions from wastewater treatment, and reuse biosolids. The financed activities support climate resilience, sustainability, and environmental stewardship. The Series 2022B Bonds align with the *Water Infrastructure* Sector Criteria under the Climate Bonds Standard.

- **Process for Evaluation and Selection of Projects & Assets**
  The Treatment Plant Projects are part of a comprehensive Master Plan adopted in 2013 to address aging infrastructure, regulations related to effluent quality, projected increase in flows and loads, and sea level rise. Priorities identified in the Plant Master Plan have been incorporated into the City's long-term Capital Improvement Plan.

- **Management of Proceeds**
  The Series 2022B Bond proceeds will refund the Subordinate Wastewater Revenue Notes, Series A and pay costs of issuance. Proceeds will directly refund the Notes in full within 90 days of issuance and will be held in temporary permitted investments prior to spending.

- **Reporting**
  The City will post certain financial and operating information to the Municipal Securities Rulemaking Board ("MSRB") annually through the Electronic Municipal Market Access ("EMMA") system. Voluntary updates on the Series 2022B projects will be available in the City's quarterly Capital Improvement Program reports located on the website: https://www.sanjoseca.gov/your-government/departments-offices/environmental-services/water-utilities/regional-wastewater-facility/capital-improvement-program/cip-document-library. Kestrel Verifiers will provide one post-issuance report.

- **Impact and Alignment with United Nations Sustainable Development Goals**
  By financing improvements to the wastewater system that increase redundancy, prevent negative impacts to the environment and human health, and increase energy efficiency, the Series 2022B Bonds advance UN SDG Goals 6: *Clean Water and Sanitation*, 7: *Affordable and Clean Energy*, 9: *Industry, Innovation, and Infrastructure*, 12: *Responsible Consumption and Production,* and *13: Climate Action*.

- **Assurance Conclusion**
  Based on the Reasonable Assurance procedures we have conducted, in our opinion, the Series 2022B Bonds conform, in all material respects, with the Climate Bonds Standard, and the bond-financed activities are aligned with the *Water Infrastructure* Sector Criteria.

KESTREL
VERIFIERS™

Verifier's Report

Legal Name of Issuer:	**City of San José Financing Authority**
Issue Description:	Wastewater Revenue Bonds, Series 2022B (Green Bonds - Climate Bond Certified)
Project:	Wastewater System Capital Improvements
Standard:	Climate Bonds Standard (Version 3.0)
Sector Criteria:	Water Infrastructure
Keywords:	Wastewater treatment, sustainable management of natural resources, pollution prevention, odor control, energy efficiency, net zero aligned, San Francisco Bay, California
Par:	$275,570,000*
Evaluation Date:	November 2, 2022

*Preliminary, subject to change

CLIMATE BONDS DESIGNATION

City of San José Financing Authority (the "Authority") will issue Wastewater Revenue Bonds, Series 2022B (Green Bonds - Climate Bond Certified) ("Series 2022B Bonds") to finance improvements to the Wastewater System, including the San José-Santa Clara Regional Wastewater Facility (the "Treatment Plant").

This report reflects Kestrel Verifiers' view of the City's projects and financing, allocation and oversight, and conformance of the Series 2022B Bonds with the Climate Bonds Standard (Version 3.0) and *Water Infrastructure* Sector Criteria. In our opinion, the Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified) are impactful, net zero aligned, and conform with the internationally accepted Climate Bonds Standard (Version 3.0) and the *Water Infrastructure* Sector Criteria (Version 3.2).

ABOUT THE ISSUER

The City of San José Financing Authority was created in 1992 to provide financial assistance to construction of public capital improvement projects in the city of San José. Located at the southern end of the San Francisco Bay, San José is the third most populated city in California with a population of approximately 976,482. The City of San José (the "City") owns and operates a sanitary sewer collection system which provides wastewater collection, treatment, and disposal service for the city. The sewer collection system includes 2,030 miles of wastewater collection pipeline, 39,500 manholes, 17 sanitary lift stations, two soil beds, one injection station, and a 2,600 acre treatment plant site with buffer land lagoons and saltwater ponds. Collected wastewater is transported to the San José Water Pollution Control Plant (commonly known as the San José-Santa Clara Regional Wastewater Facility) (the "Treatment Plant"), the largest advanced wastewater treatment plant in the western United States. The facility serves 1.4 million residents, more than 17,000 businesses in eight cities, and four sanitation districts in Silicon Valley.

The Treatment Plant was originally constructed in 1956, upgraded in 1964 and 1979, and has capacity to manage up to 167 million gallons of wastewater per day. Jointly owned by the City of San José and the City of Santa Clara, and the Treatment Plant is operated by the City of San José Environmental Services

Department. The primary purpose of the facility is to protect the health, environment, and economy of the South San Francisco Bay by cleaning wastewater to near drinking water standards before it is discharged to the Bay. Approximately 20% of treated water is used by South Bay Water Recycling for beneficial reuse. The regional water recycling program produces recycled water for irrigation and in doing so, reduces the amount of freshwater that is discharged to the native salt marshes surrounding South San Francisco Bay. This helps to protect salt marshes from conversion to brackish and freshwater marshes.

The City of San José has set ambitious goals to address climate change through the *Envision San José 2040 General Plan* which integrates goals from the City's earlier sustainability plans: *Green Vision (2007-2014)* and *Climate Smart San José*. The City aims to reach carbon neutrality by 2030, receive 100% of electrical power from renewable sources, recycle or beneficially reuse 100% of wastewater, and divert solid waste from landfills.[1]

To address targets related to sustainable wastewater management, aging infrastructure, and climate risk, the City developed the Plant Master Plan. The Plant Master Plan outlines a $2 billion effort to update 30-year-old infrastructure at the facility and prioritizes a sustainable approach to wastewater management, including:

- Improving biogas efficiency, with a goal of using biogas to become 100% energy self-sufficient;
- Producing 45,000 tons of biosolids which are applied to adjacent landfills to mitigate windblown debris and meet goals for biosolids diversion;
- Protecting 201 acres of buffer land as habitat for Western Burrowing Owls and restoring wetland habitat for endangered fish species such as steelhead and longfin trout;[2] and
- Planning for sea level rise through regional partnerships.

The Treatment Plant has received many awards for building improvements and design, including the 2022 Organizational Excellence Award and the 2021 Resiliency and Innovation Excellence Award from the California Association of Sanitation Agencies. Additionally, the Treatment Plant was awarded the 2021 National Award of Merit from the Design Build Institute of America in the Water/Wastewater category.

CONFORMANCE WITH CLIMATE BONDS STANDARD AND SECTOR CRITERIA

The Authority engaged Kestrel Verifiers to provide an independent verification on alignment of the Series 2022B Bonds with the Climate Bonds Standard (Version 3.0) and Certification Scheme, and the *Water Infrastructure* Sector Criteria. The Climate Bonds Initiative ("CBI") administers the Standard and Sector Criteria. Additionally, Kestrel Verifiers examined alignment of the Series 2022B Bonds with the United Nations Sustainable Development Goals ("UN SDGs").

Kestrel Verifiers is a Climate Bonds Initiative Approved Verifier. The Kestrel Verification Team included environmental scientists, social scientists, and financial professionals. We performed a Reasonable Assurance engagement to independently verify that the Series 2022B Bonds meet relevant criteria, in all material respects.

For this engagement, Kestrel Verifiers reviewed the Authority's bond disclosure documentation, Green Bond Framework, documentation on the allocation and uses of bond proceeds, as well as relevant plans and alignment with the Authority's overarching climate objectives. We examined public and non-public information and interviewed key staff from the City. Our goal was to understand the planned use of proceeds, procedures for managing proceeds, and plans and practices for reporting in sufficient detail to verify the bonds.

Relevant Climate Bonds Sector Criteria and Other Standards

The Series 2022B Bonds align with the Climate Bonds Standard (Version 3.0) and *Water Infrastructure* Criteria (Version 3.2).

1 "San José Green Vision," City of San José, 2007, https://www.sanjoseca.gov/your-government/environment/climate-smart-san-jos/green-vision.

2 "Protecting our Environment," City of San José, accessed October 18, 2022, https://www.sanjoseca.gov/your-government/environment/water-utilities/regional-wastewater-facility/protecting-our-environment.

Assurance Approach

Kestrel Verifiers' responsibility was to conduct a Reasonable Assurance engagement to determine whether the Series 2022B Bonds meet, in all material respects, the requirements of the Climate Bonds Standard. Our Reasonable Assurance was conducted in accordance with the Climate Bonds Standard (Version 3.0) and the *International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Information relating to this engagement and the Verifier's and Issuer's Responsibilities, and Independence and Quality Control are available in Appendix C.

Kestrel Verifiers has relied on information provided by the City and the Authority. There are inherent limitations in performing assurance, and fraud, error or non-compliance may occur and not be detected. Kestrel Verifiers is not responsible or liable for any opinions, findings or conclusions if based on information provided by the City and the Authority that is incorrect. Our assurance is limited to the review of the City's and the Authority's policies and procedures that are, in Kestrel's view, relevant to the key components of the Climate Bonds Standard (Version 3.0). The distribution and use of this verification report are at the sole discretion of the Authority. Kestrel Verifiers does not accept or assume any responsibility for distribution to any other person or organization.

Use of Proceeds

The 2022B Bonds refund the Authority's Subordinate Wastewater Revenue Notes, Series A ("Notes") that financed improvements to the San José-Santa Clara Regional Wastewater Facility (the "Treatment Plant"). The improvements (collectively the "Treatment Plant Projects") incorporate best available technologies to improve treatment processes, reduce emissions, provide recycled water, and reuse biosolids. The Treatment Plant Projects are part of the $2 billion Plant Master Plan and support climate resilience, sustainability, and environmental stewardship. Table 1 includes construction status and budgets for the Treatment Plant Projects. The Series 2022B Bonds finance and refund the following Projects:

- Digester and Thickener Facilities Upgrade
  The Notes financed rehabilitation of four digesters and added the capability to produce Class A biosolids and increased biogas production through a Temperature Phased Anerobic Digestion system ("TPAD"). Digesters use anerobic bacteria to digest sludge and produce methane gas which fulfills on-site energy needs. Addition of the TPAD system and digester upgrades is expected to result in a 10% increase in biogas production. The Notes also financed replacement of pipes in digester tunnels to hold higher concentrations of gas and accommodate increased treatment capacity.

- Energy Generation Improvements
  The Notes financed new construction and upgrades related to energy generation and management. Financed projects improve energy efficiency and reduce energy use. Projects include construction of a building for new advanced generation internal combustion engines, heat recovery systems, and control and monitoring systems. Gas pipelines and a treatment system for digester gas were constructed, and storage tanks and emergency generators were added to improve resilience. Heat recovery systems allow the facility to capture and reuse heat energy from treatment processes and reduce energy use.

- New Headworks
  The Notes also financed a new state-of-the-art headworks system, which includes large screens to remove debris and grit chambers to remove heavier sediments such as sand and gravel. The new headworks system[3] is built to accommodate up to 400 million gallons per day (MGD) and includes an odor control mechanism to reduce impacts on the surrounding community. Additionally, the new headworks system is an integral component of a flood management strategy that aims to divert sewer flows during significant storms in order to avoid sewage spills. A new grit removal facility was built to reduce sediment inputs to sensitive coastal ecosystems.

[3] "Environmental Services News," City of San José, accessed October 14, 2022, https://www.sanjoseca.gov/Home/Components/News/News/1552/308.

- Aeration Tank and Blower Rehabilitation
  The Series 2022B Bonds fund modern controls and instrumentation upgrades to aeration tanks and blowers. These projects include installation of new motors, instrumentation and controls for ten existing blowers, and decommissioning of four blowers. Aeration tanks pump air into wastewater to produce aerobic bacteria to remove organic pollutants. The additional instrumentation and installation will result in increased reliability, efficiency, and redundancy in the biological treatment process.
- Nitrification Clarifier Rehabilitation
  Financed improvements also include rehabilitation of 16 nitrification clarifiers. Nitrification clarifiers separate solid particulates from effluent by removing nutrients, allowing heavier materials to sink and form a sludge. The clarified effluent is then sent to the next step of the treatment process without contaminants, improving flow and water quality.
- Digested Sludge Dewatering Facility
  The digested sludge dewatering facility project consists of a new mechanical dewatering facility and support systems to replace outdoor sludge storage lagoons and open-air solar drying beds. Upgrades to the dewatering facility will replace lagoons and drying beds, moving biosolid production indoors into an odor-controlled building, and reducing emissions. Construction of the new facility will allow the treatment plant to reduce odors and the total area needed for biosolids processing. The new facility supports compliance with California's statewide targets to reduce organic waste disposal by 75% by 2025 relative to a 2014 baseline.[4]

Table 1. Treatment Plant Project budgets and completion dates. Dates in the future represent anticipated completion dates

Project	Financed by Notes	Total Project Budget	Completion Date
Digester and Thickener Facilities Upgrade	$100 million	$219 million	October 2022
Energy Generation Improvements	$61 million	$114 million	December 2020
New Headworks	$44 million	$152 million	December 2023
Aeration Tank and Blower Rehabilitation	$22 million	$50 million	February 2023
Nitrification Clarifier Rehabilitation	$9 million	$52 million	August 2023
Digested Sludge Dewatering Facility	$8 million	$174 million	November 2025

Environmental Benefits

The Treatment Plant Projects enhance the resilience and efficiency of operations. Improvements to digesters increase energy efficiency by using the generated gas to power the site and treatment process. Biosolids from the facility are used to cover the Newby Island Landfill to reuse biosolids, reduce odor and windblown debris, and meet California's requirements for reducing disposal of treated biosolids. The City has exemplary wetland restoration practices to protect the local environment and threatened species. The Treatment Plant Projects will improve effluent water quality and reduce impacts on the San Francisco Bay ecosystem, providing protection for local species and enabling wetland restoration.

Net Zero Alignment

Use of proceeds bonds are net zero aligned if bond-financed activities advance goals to reach net zero greenhouse gas emissions by 2050. Financing improvements to the Treatment Plant directly advance goals to reach net zero greenhouse gas emissions by 2050 by incorporating state-of-the-art technology to maximize energy efficiency of blowers and aeration tanks, improve the heat recovery system, increase biogas production, and maintain comprehensive energy management systems. While wastewater facilities

[4] California code of Regulations Title 14, Division 7, Ch 3 (SB 1383).

are large consumers of electricity, the Treatment Plant Projects have incorporated features to minimize energy use and maximize beneficial reuse of wastewater treatment byproducts.[5] Improvements to biogas generation will allow the Treatment Plant to meet 60% of energy needs. The Series 2022B Bonds and the Treatment Plant Projects include features that support the City's climate action goal to reach carbon neutrality by 2030. Certified Climate Bonds are aligned with goals of the *2015 Paris Climate Agreement* and the transition to a low-carbon, climate resilient future.

<u>Sector Criteria for Water Infrastructure (Version 3.2)</u>

The Treatment Plant Projects align with CBI's *Water Infrastructure* Sector Criteria and the associated Mitigation and/or Adaptation and Resilience requirements.

Mitigation Requirements: Compliance with the City's *2040 General Plan* and *GHG Reduction Strategy* ensures that the Plant Master Plan and the Series 2022B projects are consistent with statewide greenhouse gas emission reduction targets. The Environmental Impact Reviews associated with the Plant Master Plan confirm alignment with these statewide emissions targets.[6] Bond-financed projects include multiple activities which will significantly increase operational energy efficiency, including replacement of aging or inefficient infrastructure, heat recovery systems, blower rehabilitation, and energy generation and monitoring systems. Stewardship of natural resources, including management of buffer lands and the water recycling program, support preservation and enhancement of ecosystem functions to minimize emissions. Replacement of outdoor biosolid lagoons and open-air drying beds will eliminate methane and other greenhouse gas emissions from these sites.

Adaptation and Resilience Requirements: A detailed vulnerability assessment including evaluation of Allocation, Governance, Diagnostics, Nature Based Solutions, and Adaptation Plan Assessment shows that the Authority has sufficient infrastructure and planning processes to meet the requirements of the Adaptation and Resilience component of the *Water Infrastructure* Criteria (Appendix D). In each area, the Authority achieved a score of at least 60%.

Process for Project Evaluation and Selection

The Treatment Plant Projects are part of the comprehensive Plant Master Plan developed in 2013 to address aging infrastructure, regulations related to effluent water quality, projected increase in flows and loads, and sea level rise. Priorities identified in the Plant Master Plan were incorporated into the City's long-term Capital Improvement Plan. Projects are prioritized by infrastructure conditions assessments and overall environmental and social benefits.

The Plant Master Plan and the Capital Improvement Program are overseen by the City, and authorized and approved by the Treatment Plant Advisory Committee, an advisory body consisting of representatives from the City, Santa Clara, and three Tributary Agencies.

Management of Proceeds

The Series 2022B Bond proceeds will refund the Subordinate Wastewater Revenue Notes, Series A and pay costs of issuance. Proceeds will directly refund the Notes in full within 90 days of issuance and will be held in temporary permitted investments prior to spending. The Trustee maintains the Wastewater Revenue Bonds Series 2022B Refunding Fund and will oversee allocation of proceeds to the Notes.

Reporting

The City will submit certain financial and operating information to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") system as long as the Series 2022B Bonds are outstanding. In accordance with the Climate Bonds Standard, Kestrel Verifiers will provide one Post-Issuance Report within 24 months of issuance to confirm continued conformance of the Series 2022B Bonds with the relevant Standards and Criteria. Additionally, the City provides voluntary quarterly Capital

---

[5] "Energy Efficiency for Water Utilities," EPA, accessed October 18, 2022, https://www.epa.gov/sustainable-water-infrastructure/energy-efficiency-water-utilities.

[6] "Regional Wastewater Facility Master Plan," File No. PP11-043 SCH #201105274 Resolution No. 76858, November 19, 2013, https://www.sanjoseca.gov/your-government/departments/planning-building-code-enforcement/planning-division/environmental-planning/environmental-review/completed-eirs/regional-wastewater-facility-master-plan.

Improvement Plan reports with capital project summaries. It is expected that these reports will be made available on the City's website: https://www.sanjoseca.gov/your-government/departments-offices/environmental-services/water-utilities/regional-wastewater-facility/capital-improvement-program/cip-document-library.

IMPACT AND ALIGNMENT WITH UN SDGS

Projects financed through the Series 2022B Bonds support and advance the vision of the United Nations Sustainable Development Goals ("UN SDGs") 6, 7, 9, 12 and 13. By funding Treatment Plant improvements that increase efficiency and resource recovery, the Series 2022B Bonds advance Targets 6.5, 9.4 and 12.2. Improvements to digesters and incorporated features to reduce climate-related risks support Target 13.1. Projects that improve wastewater treatment processes and support a system with water recycling advance Target 6.3. Reduction in greenhouse gas emissions and focus on increasing renewable generation capacity support Targets 7.2 and 7.3.

Full text of the Targets for Goals 6, 7, 9, 12 and 13, is available in Appendix A, with additional information available on the United Nations website: un.org/sustainabledevelopment

Clean Water and Sanitation (Targets 6.3, 6.5)

Possible Indicators
- Amount of treated wastewater
- Documentation of integrated water resource management
- Optimized operation of sustainably managed wastewater systems

Affordable and Clean Energy (Targets 7.2, 7.3)

Possible Indicators
- Renewable generation capacity
- Reduction in greenhouse gas emissions as a result of on-site power generation or energy efficiency improvements

Industry, Innovation and Infrastructure (Target 9.4)

Possible Indicators
- Increased resource-use efficiency (energy or other)

Responsible Consumption and Production (Target 12.2)

Possible Indicators
- Increased energy use efficiency
- Reduction in grid energy demand due to digesters
- Improved water quality as a result of financed activities

Climate Action (Target 13.1)

Possible Indicators
- Features incorporated to add resiliency and reduce climate risk

ASSURANCE STATEMENT AND CONCLUSIONS

Based on the Reasonable Assurance procedures we have conducted, in our opinion, the Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified) conform, in all material respects, with the current Climate Bonds Standard, and the bond-financed activities are completely aligned with the *Water Infrastructure* Sector Criteria. The projects incorporate best available technologies to improve treatment processes and support climate resiliency, sustainability, and environmental stewardship.

Sincerely,

April Strid, Lead Verifier
Kestrel Verifiers
Hood River, Oregon, United States
November 2, 2022

ABOUT KESTREL VERIFIERS

For over 20 years Kestrel has been a trusted consultant in sustainable finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is a Climate Bonds Initiative Approved Verifier qualified to verify transactions in all asset classes worldwide. Kestrel is a US-based certified Women's Business Enterprise. For more information, visit kestrelverifiers.com.

For inquiries about our green and social bond services, contact:

- **Melissa Winkler**, Senior Vice President
  melissa.winkler@kestrelverifiers.com
  +1 720-384-4791

Verification Team
- Monica Reid, CEO
- April Strid, Lead ESG Analyst
- Melissa Sherwood, Senior ESG Analyst
- Jordynn Paz, ESG Analyst
- Madison Alcalay, ESG Analyst

DISCLAIMER

This Opinion aims to explain how and why the discussed financing meets the CBI Climate Bonds Standard based on the information that was provided by the Authority or made publicly available by the Authority and relied upon by Kestrel only during the time of this engagement (October-November 2022), and only for purposes of providing this Opinion.

We have relied on information obtained from sources believed to be reliable and assumed the information to be accurate and complete. However, Kestrel Verifiers can make no warranty, express or implied, nor can we guarantee the accuracy, comprehensive nature, merchantability, or fitness for a particular purpose of the information we were provided or obtained.

By providing this Opinion, Kestrel Verifiers is neither addressing nor certifying the credit risk, liquidity risk, market value risk or price volatility of the projects financed by the Climate Bonds. It was beyond Kestrel Verifiers' scope of work to review for regulatory compliance, and no surveys or site visits were conducted by us. Furthermore, we are not responsible for surveillance, monitoring, or implementation of the project, or use of proceeds.

The Opinion delivered by Kestrel Verifiers is for informational purposes only, is current as of the date of issuance, and does not address financial performance of the Climate Bonds or the effectiveness of allocation of its proceeds. This Opinion does not make any assessment of the creditworthiness of the Authority, nor its ability to pay principal and interest when due. This Opinion does not address the suitability of a Bond as an investment, and contains no offer, solicitation, endorsement of the Bonds nor any recommendation to buy, sell or hold the Bonds. Kestrel Verifiers accepts no liability for direct, indirect, special, punitive, consequential or any other damages (including lost profits), for any consequences when third parties use this Opinion either to make investment decisions or to undertake any other business transactions.

This Opinion may not be altered without the written consent of Kestrel Verifiers. Kestrel Verifiers reserves the right to revoke or withdraw this Opinion at any time. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the Authority or the projects discussed. We are 100% independent. Language in the offering disclosure supersedes any language included in this Opinion.

Use of the United Nations Sustainable Development Goal (SDG) logo and icons does not imply United Nations endorsement of the products, services, or bond-financed activities. The logo and icons are not being used for promotion or financial gain. Rather, use of the logo and icons is primarily illustrative, to communicate SDG-related activities.

KESTREL VERIFIERS™

Appendix A.

UN SDG TARGET DEFINITIONS

Target 6.3

By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally

Target 6.5

By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate.

Target 7.2

By 2030, increase substantially the share of renewable energy in the global energy mix

Target 7.3

By 2030, double the global rate of improvement in energy efficiency

Target 9.4

By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Target 12.2

By 2030, achieve the sustainable management and efficient use of natural resources

Target 13.1

Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Appendix B.

ASSURANCE PROCEDURES

REQUIREMENT		ASSURANCE PROCEDURES
1. Use of Proceeds		
1.1	Project Documentation	Review documentation of the Nominated Projects assessed as likely to be Eligible Projects, and list of Nominated Projects that Issuer will keep up to date during the term of the bond.
1.2	Valuation	Review net proceeds of the bond to ensure they are not greater than the value of the project.
1.3	Multiple Nominations for Certified Debt Instruments	Review Nominated Projects for previous nominations to other Certified Climate Debt Instruments, green bonds, or other designated instruments.
1.3.1	Nominations to Other Debt Instruments	Review Nominated Projects to determine whether certain portions are being financed by separately designated Certified Debt Instruments.
1.3.2	Refunding Existing Certified Climate Debt	Review and confirm whether Nominated Projects have been refinanced by other Certified Debt Instruments or bonds under assessment will refinance existing Certified Debt Instruments.
2. Process for Project Evaluation and Selection		
2.1	Environmental Statement & Process (2.1.1-2.1.4)	Review statement of the climate-related objectives of the bond. Review documentation of the process that the Issuer followed to identify projects and confirm eligibility requirements for inclusion of Nominated Projects in the bond. Review planning documents which establish goals, priorities and potential impact.
2.2	Eligibility (2.2.1-2.2.2)	Review additional documentation Issuer provided on further aspects of identification process including strategic directions and standards. Review the Issuer's environmental and social integrity policy, and/or Green Bond Framework, and confirm its coverage of the Nominated Projects.
2.3	Taxonomy & Technical Criteria	Test Nominated Projects to determine whether they meet the minimum technical requirements of the Climate Bonds Standard and relevant Sector Criteria (Part C: Eligibility of Projects and Assets).
3. Management of Proceeds		
3.1	Documentation of Processes & Procedures	Confirm that the policies, processes and procedures for tracking financial flows of the bond proceeds to the Nominated Projects are in place.
3.1.1	Tracking of Proceeds	Review the allocation of funds to ensure they can be tracked against Nominated Projects.
3.1.2	Managing of Unallocated Proceeds	Review documentation for the management of bond proceeds for funds that are not allocated to a Nominated Project and review eligible temporary investments for unallocated proceeds.
3.1.3	Earmarking Funds	Confirm that the policies, processes and procedures to identify flows of proceeds related to the Bond have been established.
4. Reporting		
4.1	Bond Disclosure Documentation	Review the Issuer's Green Bond Framework and confirm plans to make the document publicly available. Confirm inclusion of necessary information within the Green Bond Framework.
4.1.1	Confirmation of Alignment	In the Green Bond Framework, confirm documentation and review areas of investment align with the Climate Bonds Standard and review statements of alignment with other relevant standards.
4.1.2	Uses of Proceeds	In the Green Bond Framework, confirm documentation and review expected uses of proceeds and the amounts allocated to activities in relevant sectors and subsectors.

REQUIREMENT		ASSURANCE PROCEDURES
4.1.3	Decision-making Process	In the Green Bond Framework, confirm documentation of decision-making processes and positioning in the context of the Issuer's overarching objectives.
4.1.4	Sector Criteria Assumptions and Methodologies	In the Green Bond Framework, confirm documentation of assumptions and methodologies to evaluate conformance with Sector Criteria.
4.1.5	Temporary Investment Instruments	In the Green Bond Framework, confirm documentation of allowable temporary investment instruments.
4.1.6	Reporting Approach	In the Green Bond Framework, confirm disclosure of intended approach to providing Update Reports and/or undertaking periodic Assurance Engagements during term of bond to reaffirm conformance with the Climate Bonds Standard.
4.1.7	List of Nominated Projects	In the Green Bond Framework, confirm disclosure of list of Nominated Projects likely to be eligible.
4.1.8	Refinancing	In the Green Bond Framework, confirm disclosure of proportion of proceeds for refinancing, if applicable.
4.2	Disclosure Documentation	Confirm incorporation of key information in Disclosure Documentation.
4.2.1	Sector Criteria Disclosure	Confirm "investment areas," or alignment with the Climate Bonds Taxonomy and relevant Sector Criteria for Nominated Projects.
4.2.2	Temporary Investments	Confirm disclosure of eligible temporary investments for unallocated proceeds.
4.2.3	Verifier	Confirm disclosure of Verifier selected for Pre-Issuance and Post-Issuance Engagements.
4.2.4	Ongoing Reporting	Confirm disclosure of intended ongoing reporting on the Nominated Projects and allocation of proceeds.
4.2.5	CBI Disclaimer	Confirm incorporation of the CBI Disclaimer as provided in the Certification Agreement.

Appendix C.

RESPONSIBILITIES AND QUALITY CONTROL

Verifier's Responsibilities

Kestrel Verifiers' responsibilities for confirming alignment of the Series 2022B Bonds with the Climate Bonds Standard and *Water Infrastructure* Criteria include:

- Assess and certify the Authority's internal processes and controls, including selection process for projects and assets, internal tracking of proceeds, and the allocation system for funds;
- Assess policies and procedures established by the Authority for reporting;
- Assess the readiness of the Authority to meet the Climate Bonds Standard (Version 3.0) and *Water Infrastructure* Sector Criteria; and
- Express a Reasonable Assurance conclusion.

Issuer's Responsibilities

Issuer was responsible for providing detailed information and documents relating to:

- The details of the Nominated Projects and Assets and the project selection process;
- Maintaining adequate records and internal controls designed to support the Climate Bond Pre-Issuance Certification process; and
- The collection, preparation, and presentation of the subject matter in accordance with the Climate Bonds Standard and Criteria.

Independence and Quality Control

Kestrel Verifiers provides green, social and sustainability bonds advisory services for corporate and public finance issuers. The Kestrel Verification Team is committed to providing robust, transparent, and accurate verifications. For over 20 years Kestrel has been a trusted advisor to state and local governments, nonprofits, and corporations. Kestrel certifies that there is no affiliation, involvement, financial or non-financial interest in the issuer or the projects discussed. Accredited as an Approved Verifier by the Climate Bonds Initiative, Kestrel is qualified to evaluate bonds against the Climate Bonds Initiative Standards and Criteria.

KESTREL
VERIFIERS™

Appendix D.

CLIMATE BONDS STANDARD WATER INFRASTRUCTURE ADAPTATION & RESILIENCE SCORECARD

CONTENTS

CRITERIA: The project must score at least 60% of the maximum potential score in all parts of the Scorecard. Section 4 only needs to be completed for "Nature Based and Hybrid Infrastructure" only (see Criteria for detail)

Vulnerability Assessment - Section 1: Allocation

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
1.1	Are there accountability mechanisms in place for the management of water allocation that are effective at a sub-basin and/or basin scale?	1	1	Evidence	Several Plans outline management of water allocation both locally in San José and at basin scales. The City of San José Municipal Water System (SJMWS) prepared a 2020 Urban Water Management Plan (UMWP) to comply with legislative requirements of the UWMP Act and California Water Code Requirements. It is required by the Department of Water Resources to evaluate the agency's water supply reliability in five-year increments over a 25-year planning horizon. It assesses the projected water demands and water supplies. SJMWS supplies water to north San José/Alviso, Evergreen, Edenvale, and Coyote Valley and in 2020, provided water to approximately 12% of the city. The supply sources are from San Francisco Public Utilities Commission (SFPUC), Valley Water with water from the Sacramento-San Joaquin Delta, and groundwater and recycled water (https://www.sanjoseca.gov/home/showpublisheddocument/422/637602045327100000). Valley Water (originally Santa Clara Valley Water) supply comes from local groundwater recharge and surface water supplies and from rivers that flow into the Sacramento-San Joaquin River Delta. It is brought into the county through infrastructure of the State Water Project, federal Central Valley Project, and San Francisco's Hetch Hetchy system (https://www.valleywater.org/your-water/where-your-water-comes). The State Water Project is a collection of canals, pipelines, reservoirs, and hydroelectric power facilities that delivers clean water throughout the state. The Central Valley Project (CVP) is a network of dams, reservoirs, canals, and hydroelectric facilities. The project improves Sacramento River navigation, supplies domestic and industrial water,

Vulnerability Assessment - Section 1: Allocation

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
					generate electric power and conserves fish and wildlife. The CVP include federal statues here: https://www.usbr.gov/mp/cvpia/index.html. The San Francisco Hetch Hetchy system is a reservoir with voluntary plans on river management from the state (Bay-Delta Plan) and Modesto and Turlock Irrigation Districts (http://www.tuolumnerivermanagementplan.com/). The Bay-Delta plan establishes water quality objectives to maintain the health of the Bay-Delta ecosystem. Bay area water supply and conservation agency provides regional water reliability planning and conservation programming for member agencies, including the City of San José (https://bawsca.org/) State Water Regency Control Board ("SWRCB") establishes water quality objectives to maintain the health of the Bay-Delta ecosystem which SWRCB is required by law to review the plan. Bay Area Water Supply and Conservation Agency (BAWSCA) provides regional water reliability planning and conservation programming to member agencies. There is a Long-Term Reliable Water Supply Strategy which identifies the water supply reliability and needs through 2040.
1.2	Are the following factors taken into account in the definition of the available resource pool?	7			
	a. Non-consumptive uses (e.g., navigation, hydroelectricity)	1	1	Evidence	Yes, navigation systems are considered in planning for the Treatment Plant and SFPUC
	b. Environmental flow requirements	1	1	Evidence	Yes, the "Ensure Sustainability" strategy in Valley Water's Water Supply Master Plan can help improve water reliability. These include securing and optimizing the use of current supplies and infrastructure as well as expanding water recycling and long-term conservation.
	c. Dry season minimum flow requirements	1	1	Evidence	Yes, the Drought Risk Assessment determines ability of current supplies to meet demand and will implement responses to reduce water demands with the Water Shortage Contingency Plan.
	d. Return flows (how much water should be returned to the resource pool, after use)	1	1	Evidence	The Wastewater Treatment Plant returns flows to the San Francisco Bay.
	e. Inter-annual and inter-seasonal variability	1	1	Evidence	Yes for SFPUC Hetch Hetchy Reservoir, a report was conducted in 2012 to assess the sensitivity of runoff into Hetch Hetchy Reservoir due to climate change. There is a vulnerability-based planning approach to develop adaptation plans (p. 85, https://www.sanjoseca.gov/home/showpublisheddocument/422/637602045327100000) The Urban Water Management Plan also addresses inter-annual and inter-seasonal variability of the resource pool.
	f. Connectivity with other water bodies	1	1	Evidence	The resource pool is connected to different river and groundwater sources leading out to San Francisco Bay.

Vulnerability Assessment - Section 1: Allocation (To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
	g. Climate change impacts	1	1	Evidence	Discussed and considered in San José Water Shortage Contingency Plan and the Urban Water Management Plan.
1.3	Is there a distinction between the allocation regimes used in "normal" times and in times of "extreme/severe" water shortage?	1	1	Evidence	SFPUC address allocation in both normal times and extreme water shortages. SFPUC depends on reservoir storage for reliability but during dry periods, SFPUC allocates water using a water shortage allocation plan. The program is early in planning stages but is intended to meet future water supply changes and vulnerabilities from climate change. Valley Water addresses allocation in both baseline conditions and extreme water shortages with plans for normal years as well as a five-year drought. The San José Plant Master Plan measured the wastewater flow to the plant over the past 15 years to determine flow during the dry season and the wet season (p. 21, https://www.sanjoseca.gov/home/showpublisheddocument/206/636611441889800000).
1.4	Are arrangements in place to accommodate the potentially adverse impacts of climate change on the resource pool? (E.g., using best available science to plan for future changes in availability, undertaking periodic monitoring and updating of available pool.)	1	1	Evidence	The San Jos Urban Water Management Plan and the San José Water Shortage Contingency Plan addresses and accommodates projections of potential adverse impacts from climate change in areas related to wastewater, drought conditions, and flood protection. The city continues to review and update new strategies to mitigate climate change on water resources. The California Water Code requires climate change considerations to be included as part of drought risk assessments as stated in the urban water management plan. The city continues to review and update strategies, regulations and facilities, and mitigation and adaptation techniques such as: Promoting recycled water use. *"• Developing long-term plans that utilize climate change adaptation elements.* *• Making use of groundwater resources.* *• Promoting water use efficiency for urban, agricultural, commercial, and industrial water users.* *• Increasing investments in infrastructure that promote adaptation strategies and mitigate the loss of existing supplies that are susceptible to climate change impacts."* The Bay Area integrated Regional Water Management Plan includes an assessment of the potential climate change vulnerabilities of the region's water resources, including SFPUC. SFPUC has a 2012 report which assesses the sensitivity of the Hetch Hetchy Reservoir to a range of changes in temperature and precipitation and continue reporting climate projections from 2020-2070. https://drought.ca.gov/state-drought-response/statewide-emergency-water-conservation-regulations/

Vulnerability Assessment - Section 1: Allocation

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
1.5	Are there plans to define "exceptional" circumstances, such as an extended drought, that influence the allocation regime? (E.g., triggers water use restrictions, reduction in allocations according to pre-defined priority uses, suspension of the regime plan, etc.)	1	1	Evidence	The San José Water Shortage Contingency plan provides a plan of action during various stages of water shortage in compliance with the California Water Code. In drought years, it may be necessary to reduce water demands up to 12% to offset a water supply shortfall. The plan also includes plans for water shortage levels up to 10 percent, up to 20 percent, up to 30 percent, 40 percent, 50 percent, and greater than 50 percent. The plan describes a contingency plan with a multiple dry year allocation reduction(https://www.sanjoseca.gov/home/showpublisheddocument/74987/637602046315870000)
1.6	For international / trans boundary basins, is there a legal mechanism in place to define and enforce water basin allocation agreements?	1	0	Evidence	Not identified
1.7	Are water delivery agreements defined on the basis of actual in situ seasonal / annual availability instead of volumetric or otherwise inflexible mechanisms?	1	0	Evidence	Not applicable.
1.8	Has a formal environmental flows (e- flows)/sustainable diversion limits or other environmental allocation been defined for the relevant sub-basin or basin? (If there is a pre-existing plan, then has the environmental flows program been updated to account for the new project?)	1	1	Evidence	The Bay-Delta watershed management plan provides a regulatory framework for environmental flow allocation which will be adopted by SFPUC in 2022. The Modesto and Turlock Irrigation Districts plan also includes framework for environmental flow management, which is also used by SFPUC (http://www.tuolumnerivermanagementplan.com/).
1.9	Have designated environmental flows / allocation programs been assured / implemented?	1	1	Evidence	In stream flow criteria is mandated under the Bay-Delta Plan which is monitored by the State Water Resources Control Board which will be implemented in 2022 (https://www.waterboards.ca.gov/waterrights/water_issues/programs/bay_delta/)
1.10	Has a mechanism been defined to update the environmental flows plan periodically (e.g., every 5 to 10 years) in order to account for changes in allocation, water timing, and water availability?	1	1	Evidence	The San José Urban Water Management Plan requires an update every 5 years to ensure current conditions and includes an assessment of water availability and allocation changes.

Vulnerability Assessment - Section 1: Allocation

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
1.11	Is the amount of water available for consumptive use in the resource pool linked to a public planning document? (E.g., a river basin management plan or another planning document – please indicate)	1	1	Evidence	The State Water Board implements the Basin Plan with all consumptive uses tied to the plan, describing the beneficial uses and water quality objectives for the region (https://www.waterboards.ca.gov/sanfranciscobay/basin_planning.html). The SWRCB adopted amendments to the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (Bay-Delta Plan Amendment) to establish water quality objectives to maintain the health of the Bay-Delta ecosystem.
1.12	If present, is the river basin plan a statutory instrument that must be followed rather than a guiding document?	1	1	Evidence	The Bay Delta plan provides a regulatory framework but may not be adopted or incorporated until after 2022 (p. 86, https://www.sanjoseca.gov/home/showpublisheddocument/422/637602045327100000)
Total Allocation Score		18	16/18		
Eligibility Criterion 1 passed/not passed			89%		Passed

Vulnerability Assessment - Section 2: Governance

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
2.1	Have water entitlements been defined according to one of the following? ▪ Purpose that water may be used for ▪ Maximum area that may be irrigated ▪ Maximum volume that may be taken in a nominated period ▪ Proportion of any water allocated to a defined resource pool	1	1	Evidence	The California State Water Board defines water entitlements as authorizing water to be diverted from a specified source and put to beneficial, non-wasteful use. The exercise of some water rights requires a permit or license with the objective to ensure that the state's waters are put to the best possible use and public interest is served. The beneficial uses include navigation, human consumption, irrigation, industrial use, and ecosystem services (https://www.waterboards.ca.gov/drought/drought_tools_methods/delta_method.html). California allocates water proportionally based on maximum volume available, primarily used during droughts. The State Water Resource Control Board can curtail water rights based on availability and priority. This is under the Water Unavailability Methodology to identify when water is unavailable for diversion by water right holders (https://www.waterboards.ca.gov/drought/drought_tools_methods/delta_method.html).

Vulnerability Assessment - Section 2: Governance

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
2.2	Is the surface water system currently considered to be neither over allocated nor over-used? N.B. Over-allocated would be if e.g. current use is within sustainable limits but there would be a problem if all legally approved entitlements to abstract water were used. Over-used would be if existing abstractions exceed the estimated proportion of the resource that can be taken on a sustainable basis.	1	1	Evidence	The City of San José blends surface water from a variety of sources and groundwater to form the local water supply. The 2019 Urban Water Management plan shows that surface water is not over-allocated, and that the City is able to meet water demands through 2045. https://www.sanjoseca.gov/home/showpublisheddocument/422/637602045327100000
2.3	If monitored and the investment uses groundwater, is the groundwater water system currently considered to be neither over- allocated nor over-used? N.B. Over-allocated would be if e.g. current use is within sustainable limits but there would be a problem if all legally approved entitlements to abstract water were used. Over-used would be if existing abstractions exceed the estimated proportion of the resource that can be taken on a sustainable basis.	1	1	Evidence	The groundwater system is not considered to be over-allocated or over-used according to an Annual Groundwater Report from Valley Water (https://www.valleywater.org/sites/default/files/2018-08/2017%20Annual%20GW%20Report_Web.pdf)
2.4	Is there a limit to the proportion (e.g. percentage) of water that can be abstracted? How might this need to change if water supplies become more variable due to climate change? (e.g. will having sufficient amounts to meet basic human needs take precedence over others?)	1	1	Evidence	Permitted extraction must be followed in accordance with the Urban Water Management Plan and Water Shortage Contingency Plan. The Water Shortage Contingency Plan has six different levels of potential drought plans which focus on restricting landscape and recreational irrigation to prioritize water for human basic needs.
2.5	Are governance arrangements in place for dealing with exceptional circumstances (such as drought, floods, or severe pollution events), especially around coordinated infrastructure operations?	1	1	Evidence	California state water control board has emergency water rights curtailments which mandates that the State Water Resources Control Board must curtail water diversions when sufficient flows are not available (https://www.waterboards.ca.gov/drought/resources-for-water-rights-holders/docs/curtailments-2022.pdf). Urban Water Management Plan have adaptation and mitigation strategies such as increasing investments in infrastructure the mitigate the loss of existing supplies susceptible to climate change. Additionally, the Integrated Water Infrastructure Program addresses water supply challenges and plans to provide access to local water supplies with cost effective solutions.
2.6	Is there a process for re-evaluating recent decadal trends in seasonal precipitation and flow OR recharge regime, in order to evaluate “normal” baseline conditions?	1	1	Evidence	The Urban Water Management Plan is a periodic review document, based on recent trends in water usage and flows and must be updated every 5 years.

Vulnerability Assessment - Section 2: Governance (To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
2.7	Is there a formal process for dealing with new entrants?	1	1	Evidence	The California State Water Resource Control Board regulates and defines the water rights permitting application process as detailed on the website: https://www.waterboards.ca.gov/waterrights/water_issues/programs/applications/. There is a permit application process that oversees the amount of water used, environmental conditions and effects, and permit issuance for new entrants.
2.8	For existing entitlements, is there a formal process for increasing, varying, or adjusted use(s)?	1	1	Evidence	The California State Water Resource Control Board must approve all changes in increasing or varying water use (https://www.waterboards.ca.gov/waterrights/board_info/water_rights_process.html#process). Substantially adjusting operations, including withdrawal or discharges, requires permit adjustments. Adjustments or changes to drinking water supply sources or allocations requires notification and assessment through the California State Water Resource Control Board permitting process.
2.9	Is there policy coherence across sectors (agriculture, energy, environment, urban) that affect water resources allocation, such as a regional, national, or basin-wide Integrated Water Resources Management (IWRM) plan?	1	1	Evidence	The Integrated Water Resources Management Plan is supported by federal, state, and local agencies and Tribes which have established 48 regional water management groups. (https://water.ca.gov/Programs/Integrated-Regional-Water-Management)
2.10	Are obligations for return flows and discharges specified and enforced?	1	1	Evidence	The San José Regional Wastewater Facility mist meet requirements of more than 30 federal, state, and regional regulations for treated water discharge, use of recycled water, and disposal of biosolids. This is regulated by the National Pollutant Discharge Elimination System which is administered by the EPA. The facility produces an annual self-monitoring report to maintain and satisfy regulations. (https://www.sanjoseca.gov/your-government/environment/water-utilities/regional-wastewater-facility/regulations-reports)
2.11	Is there a mechanism to address impacts from users who are not required to hold a water entitlement but can still take water from the resource pool?	1	1	Evidence	The State Water Resource Control Board has explicit rules regarding water rights. The Water Commission Act of 1914 established the current permit code giving the Water Board authority to apply permits and licenses for California surface water. Riparian rights entitles the landowner to use a correlative share of the water flowing past their property(naturally in stream) and do not require permits or licenses but they cannot entitle a water use to divert water to storage in a reservoir for use in the dry season (https://www.waterboards.ca.gov/waterrights/board_info/water_rights_process.html).

Vulnerability Assessment - Section 2: Governance (To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
2.12	Is there a pre-defined set of priority uses within the resource pool? (E.g., according to or in addition to an allocation regime)	1	1	Evidence	The California State Water Code defines priority uses in the resource pool: Municipal and domestic water supply: *Uses of water for community, military, or individual water supply systems, including, but not limited to, drinking water supply.* Groundwater extraction*: Uses of water for natural or artificial recharge of groundwater for purposes of future extraction, maintenance of water quality, or halting saltwater intrusion into freshwater aquifers.* *Existing and potential beneficial uses applicable to groundwater in the Region include municipal and domestic water supply (MUN), industrial water supply (IND), industrial process supply (PRO), agricultural water supply (AGR), groundwater recharge (GWR), and freshwater replenishment to surface waters (FRESH).* https://www.waterboards.ca.gov/sanfranciscobay/water_issues/programs/planningtmdls/basinplan/web/bp_ch2.html
2.13	If there are new entrants and/if entitlement holders want to increase the volume of water they use in the resource pool and the catchment is open, are these entitlements conditional on either assessment of third party impacts, an Environmental Impact Assessment (EIA) or an existing user(s) forgoing use?	1	1	Evidence	Permits are managed by the State Water Resource Control Board where changes and issuances of new permits are allowed but have restrictions. The permit process follows an environmental review as required by California Environmental Quality Act before issuing a permit (https://www.waterboards.ca.gov/waterrights/board_info/water_rights_process.html).
2.14	Are withdrawals monitored, with clear and legally robust sanctions?	1	1	Evidence	The State Water Board monitors withdrawal with clear and legally robust sanctions: *"The State Board also is responsible for investigating possible illegal, wasteful or unreasonable uses of water, either in response to a complaint or on the State Board's own initiative. If the State Board's staff investigation determines that a misuse of water is occurring, the Board generally notifies the affected persons and allows a reasonable period of time to terminate the misuse. The State Board may also hold a hearing to determine if a misuse of water has occurred or is occurring. Water users who do not terminate a misuse of water are subject to various administrative enforcement measures including possible fines and revocation of a permit or license. In appropriate cases, the State Board may also seek judicial relief in the courts."* https://www.waterboards.ca.gov/waterrights/board_info/water_rights_process.html
2.15	Are there conflict resolution mechanisms in place?	1	1	Evidence	The California State Water Board has conflict resolution mechanisms in place as described in additional duties here: https://www.waterboards.ca.gov/waterrights/board_info/water_rights_process.html#additional
Total Governance Score		15	15/15		

Vulnerability Assessment - Section 2: Governance (To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
Eligibility Criterion 2 passed / not passed			100%		Passed

Vulnerability Assessment - Section 3: Technical Diagnostics (To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
3.1	Does a water resources model of the proposed investment and ecosystem (or proposed modifications to existing investment and ecosystem) exist? Specify model types, such as WEAP, SWAT, RIBASIM, USACE applications). Scale should be at least sub-basin.	1	1	Evidence	Bentley's WaterGEMS platform calibrates the hydraulic models and physical system attributes. The software improves knowledge of how infrastructure behaves as a system and reacts to operational strategies and population increases and demands. More information about the model is available here: https://www.bentley.com/software/openflows-watergems/, https://www.bentley.com/wp-content/uploads/PDS-WaterGEMS-LTR-EN-HR.pdf Additionally, InfoWorks was used to look at the piping and inner systems of the facility to model treatment process. The Climate Hydrology Assessment Tool (CHAT) was developed by the US Army Corps of Engineers and provides access to climate model data and analytical results of hydrology around the San Francisco Bay area. The data provides climate model information for changes in hydrological trends. (https://climate.sec.usace.army.mil/chat/)
3.2	Can the system model the response of the managed water system to varied hydrologic inputs and varied climate conditions?	1	1	Evidence	Yes, the Bentley WaterGems system can model the response of managed water to varied hydrologic inputs and the Climate Hydrology Assessment Tool models the varied climate conditions in hydrological inputs using global climate models and data.
3.3	Are environmental performance limits (ecosystem, species, ecological community) and/or ecosystem services specified?	1	1	Evidence	Ecosystem Performance limits are considered in the WaterGEMS platform and InfoWorks with unlimited scenarios and global attributes.
3.4	Can these performance limits be defined and quantified using the water resources model?	1	1	Evidence	Yes, the system can incorporate relevant environmental performance limits using climate data when using the CHAT tool to understand trends in precipitation, streamflow, and temperature.
3.5	Have these limits been defined based on expert knowledge and/or scientific analysis?	1	1	Evidence	The limits are defined by WaterGems, InfoWorks, and CHAT data, and the CHAT tool incorporates scientific analysis of various ranges and trends in climate modeling.
3.6	Are these performance limits linked to infrastructure operating parameters?	1	1	Evidence	The WaterGEMS and InfoWorks model can specify infrastructure operating models looking at water loss and flow capacity of pipes.
3.7	Are these limits linked to an environmental flows regime?	1	1	Evidence	The CHAT tool is linked to climate data and trends regarding environmental flows regimes, instream flows, precipitation, and temperature.

Vulnerability Assessment - Section 3: Technical Diagnostics (To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
3.8	For new projects, is there an ecolo gical baseline evaluation describing the pre-impact state?	1	1	Evidence	The Water Conservation Act of 2009 set a goal to reduce urban water use by 2020 and the Urban Water Management Plan requires compliance with the act. The goal is to establish an analysis of historical water use to establish the baseline and conditions.
3.9	For rehabilitation / reoperation projects, is there an ecological baseline evaluation available before the projects was developed?	1	1	Evidence	The Environmental Impact Report from CEQA provides full evaluation of the projects and potential impacts to the environment before the project was constructed in 2013. https://www.sanjoseca.gov/home/showpublisheddocument/22339/636688403210100000
3.10	Has there been an analysis that details impacts related to infrastructure construction and operation that has been provided?	1	1	Evidence	The 2013 Master Plan describes the impacts related to infrastructure construction on the land around the treatment plant and how the infrastructure has changed from the initial plant in 1959 to current day. The Master Plan identifies practices to mitigate construction on surrounding area.
3.11	Are lost species and/or lost or modified ecosystem functions specified for restoration in the environmental evaluation?	1	1	Evidence	The facility restores and protects habitat for western burrowing owls by restoring marshland habitat and setting aside 200 acres of facility land for habitat space. https://www.sanjoseca.gov/your-government/environment/water-utilities/regional-wastewater-facility/protecting-our-environment
3.12	Have regional protected areas / nature reserves been included in the analysis for impacts from the investment asset and future climate impacts?	1	1	Evidence	Land use principles were established to guide decisions associated with future land uses and facilities to support eh Master Plant Plan. The principles involve restoring ecological systems, wetland habitats, riparian habitat, and building levees to combat sea level rise (pp. 55-58 https://www.sanjoseca.gov/home/showpublisheddocument/206/636611441889800000)
3.13	Does the model include analysis of regression relationships between climate parameters and flow conditions using time series of historical climate and stream flow data?	1	1	Evidence	The San Jose Plant Master Plan includes some analysis of climate parameters and flow of wats water to influence the wastewater flows during the dry and wet season with climate change impact (p. 21, https://www.sanjoseca.gov/home/showpublisheddocument/206/636611441889800000)
3.14	Does the model include climate information from a multi modal ensemble of climate projections (eg from the Climate Wizard or the World Bank's Climate Portal) to assess the likelihood of climate risks for the specified investment horizons (s)?	1	1	Evidence	The CHAT model includes climate data from global climate models, CMIP-5 suite models, historical period of water from 1951-2005 and future periods of water from 2006-2099. The modeled time series explorer in the tool describes current and simulated trends for representative concentration pathways (RCP) 4.5 and 8.5.
3.15	Are changes in the frequency and severity of rare weather events such as droughts and floods included?	1	0	Evidence	n/a
3.16	Are sub-annual changes in precipitation seasonality included?	1	1	Evidence	Yes, the CHAT tool measures the changes in precipitation seasonally by using historic and future climate trend data.

Vulnerability Assessment - Section 3: Technical Diagnostics (To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
3.17	Is GCM climate data complemented with an analysis of glacial melt water and sea level rise risks, where appropriate (e.g., high or coastal elevation sites)?	1	1	Evidence	The Master Plan discusses the effects of sea level rise on the treatment plant and the potential impact as the plant is located in southern most part of San Francisco Bay by the ocean. (https://www.sanjoseca.gov/home/showpublisheddocument/206/636611441889800000)
3.18	Is paleo-climatic data (e.g., between 10,000 and >1000 years before present) included?	1	0	n/a	n/a
3.19	Is the number of model runs and duration of model runs disclosed?	1	0	Evidence	n/a
3.20	Has a sensitivity analysis been performed to understand how the asset performance and environmental impacts may evolve under shifting future flow conditions?	1	1	Evidence	The Wastewater Treatment Facility must meet strict requirements for treated water discharge and use of recycled water, regulated by the National Pollutant Discharge Elimination System. The Facility prepares a detailed Annual Self-Monitoring Report to permit and satisfy regulations while also detailing information on flows, effluent, water quality, and sensitivity analysis. https://www.sanjoseca.gov/your-government/environment/regulatory-reports
3.21	Is directly measured climate data available for more than 30 years and incorporated into the water resources model?	1	1	Evidence	Yes, the CHAT tool measures historical and future water data from 1950-2005 and 2006-2099.
3.22	Has evidence demonstrated that climate change has already had an impact on operations and environmental targets? Are these impacts specified and, to the extent possible, quantified? These impacts should be responded to directly in the Adaptation Plan.	1	1	Evidence	The San José Plant Master Plan addresses strategies for potential effects from sea level rise with options to build flood control structures, design facilities that tolerate occasional flooding, and allow new shoreline to be created.
3.23	Does the evidence suggest that climate change will have an impact on operations and environmental targets over the operational lifespan? Are these impacts specified and, to the extent possible, quantified? These impacts should be responded to directly in the Adaptation Plan.	1	1	Evidence	The San José/Santa Clara Water Pollution Control Plant Master Plan addresses sea level rise and the city's adaptation master plan. The Plan summarizes the potential effects of projected sea level rise by 2050 and 2100. The plant will be inundated with water unless levees are improved, and projections are adapted into a land use plan. (https://www.sanjoseca.gov/home/showpublisheddocument/474/636612853380170000)
3.24	Is there a discussion of the uncertainties associated with projected climate impacts on both operations and environmental impacts?	1	1	Evidence	California Water Resources Department's Climate Change handbook for Regional Water Planning: https://www.epa.gov/sites/default/files/2021-03/documents/climate_change_handbook_regional_water_planning.pdf
Total Governance Score		16	14/16		
Eligibility Criterion passed / not passed			87.5%		Passed

Vulnerability Assessment - Section 4: Nature Based Solutions

(to be completed for nature-based solutions and hybrid water infrastructure only)

I.e. this section only needs to be completed if:

A. As a nature based solution, the asset reflects the intentional use of natural and / or nature based features, processes, and functions, as an integral part of addressing a human need and doing so in a manner that protects, manages, restores, and / or enhances natural features, processes, and systems in a functioning and sustainable manner.

B. Where feasible, the asset prioritizes natural features over nature – based features. Such features include the protection, restoration, expansion, and / or creation of natural systems and processes as an explicit component of the desired project outcomes.

Section 4.1: Site Inventory

How well do we understand the systems and processes at the project site?

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
4.1.1	Is this a "greenfield site" (i.e., undeveloped land used for agriculture, landscape design, or left to evolve naturally)? If so, will existing ecosystem services be expanded / supported / maintained?	2	2	Evidence	The Water Treatment Plant flows to South Bay Sloughs which is protected habitat by the facility. Approximately 200 acres of the facility land are set aside to be restored as marsh habitats and habitat for western burrowing owls. https://www.sanjoseca.gov/your-government/environment/water-utilities/regional-wastewater-facility/protecting-our-environment
4.1.2	Has an eco-hydrological model been developed? Specify model type, such as WEAP, SWAT, RIBASIM, USACE. Is this a quantitative model? Has it been calibrated against site data? Does the model include water quantity?	2	2	Evidence	The City of San José uses InfoWorks Integrated Catchment Modeling which incorporates population data, land use development, water use and flow monitoring data. The model can assess system performance for 5–10-year horizons under wet and dry weather flow scenarios. The Santa Clara Valley Water uses HEC-RAS riverine models which are hydraulic models developed by the US Army Corps of Engineers to calculate water surface elevations in creeks for previous flood insurance studies. (https://www.valleywater.org/flooding-safety/hec-2-and-hec-ras-data-library) The Climate Hydrology Assessment Tool developed by USACE tracks climate projections of streamflow with historical and future climate data from 1951-2099. The model includes streamflow, precipitation, and temperature measurements and variations. (https://climate.sec.usace.army.mil/chat/) (p. 17, https://www.sanjoseca.gov/home/showpublisheddocument/71843/637551329081130000)
4.1.3	Has the calibrated eco-hydrological model been reviewed by an independent expert?	2	2	Evidence	The eco-hydrological models are reviewed by the USACE.
4.1.4	Have sources of pollution been analyzed for the following (even if none have been found)? ▪ Point source ▪ Nonpoint source	2	2	Evidence	Yes, the Environmental Impact Report required that sources of pollution are analyzed at the point source and non-point source (https://www.sanjoseca.gov/home/showpublisheddocument/22339/636688403210100000)
Total Site Inventory Score		8	8/8		
Eligibility Criterion passed / not passed			100%		Passed

Section 4.2: Ecological Baselines For Management

Do we understand how the ecological characteristics of the site will evolve over time?

		Max Score	*Actual Score*	*Requirement: Evidence and/or Evidence*	*Comments*
4.2.1	Is there an inventory of species that can be used as a baseline for vegetation and animal species?	1	1	Evidence	Yes, there is a section in the Environmental Impact Report of special status wildlife species that can be used as a baseline for animal species.
4.2.2	If there is an inventory of species that can be used as a baseline for vegetation and animal species, does it specify or identify endangered / threatened species, ecological communities, or categories of species?	1	1	Evidence	Yes, the Environmental Impact Report specifies species associated with habitats in the region such as harvest mice, burrowing owls, California clapper rail, and western snowy plover. These animals may be affected by the project.
4.2.3	Have studies on current or potential climate impacts on key species (e.g., endangered or threatened species) been included?	1	1	Evidence	Yes, climate impacts on key species have been included in the Environmental Impact Report including sea level rise and changes in salinity levels.
4.2.4	Is the flow regime used as a basis for ecological management?	1	1	Evidence	Flow regime is used as a basis to determine the Plant's influent wastewater flows during the dry and wet season as discussed in the Master Plan.
4.2.5	Is there a climate trends analysis for the site or region based on at least 30 years of climate data?	1	1	Evidence	Yes, there is a climate trends analysis based on 30 years of climate data with the Climate Hydrology Assessment Tool.
4.2.6	Is there an assessment of exotic invasive species?	1	1	Evidence	Yes, there is an assessment on exotic invasive species in the Environmental Impact Report
4.2.7	If there is an assessment of exotic invasive species, has a plan been developed to cope with exotic invasive species?	1	1	Evidence	Yes, there is an assessment on exotic invasive species in the Environmental Impact Report with mitigation measures to cope with exotic invasive species.
4.2.8	Has there been an assessment of trade-offs between reliability vs environmental benefits to support decision making processes?	1	1	Evidence	Yes, the Environmental Impact Report discusses the reliability of the wastewater treatment and the environmental benefits of wetland restoration provided form the improvements. There are few tradeoffs, with goals to mitigate tradeoffs by protecting endangered species and providing habitat area for species.
Total Ecological Management Score		8	8/8		
Eligibility Criterion passed / not passed			100%		Passed

Section 4.3: Data Inventories of Localized & Indigenous Assets Do we have access to adequate, credible data about the project site?					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
4.3.1	Is there an inventory of existing water-related ecosystem services based on 30 or more years of data?	1	1	Evidence	The Climate change Vulnerability Assessment for the North-Central California Coast and Ocean has an inventory of existing ecosystem services based on environmental data since the 1950s and 1990s (https://nmssanctuaries.blob.core.windows.net/sanctuaries-prod/media/archive/science/conservation/pdfs/vulnerability-assessment-gfnms.pdf).
4.3.2	Does any existing inventory of water-related ecosystem services related to runoff / land-use include the following data? ▪ Fire regime ▪ Sediment / erosion load ▪ Nutrient load ▪ Land-use change	3	3	Evidence	The Structured-Decision Making for Climate Change Adaptation to Conserve San Francisco Bay Tidal Marsh Ecosystems project addresses ecosystem services related to sediment load and management and nutrient load and water quality. The project also addresses managing human disturbances and land-use change. (http://climate.calcommons.org/sites/default/files/basic/SFCADS_Phase_1_Report_2015.pdf).
4.3.3	Do inventories of water-related ecosystem services related to water *quality* include the following data: ▪ Water quality for environmental services (e.g., habitat, ecological communities, erosion) ▪ Water quality for human needs / services (e.g., drinking water, agriculture)	2	1	Evidence	The Structured-Decision Making for Climate Change Adaptation to Conserve San Francisco Bay Tidal Marsh Ecosystems project addresses management of water quantity for environmental services, focusing on reducing contaminant inputs and regulating salinity (http://climate.calcommons.org/sites/default/files/basic/SFCADS_Phase_1_Report_2015.pdf).
4.3.4	Is there an existing inventory of water-related ecosystem services related to water *quantity*? ▪ Water quantity for environmental services (e.g., habitat, flow regime) ▪ Water quality for human needs / services (e.g., service reliability)	2	2	Evidence	The Climate change Vulnerability Assessment for the North-Central California Coast and Ocean addresses management of water quantity for environmental services, focusing on water management for both environmental and human needs. (http://climate.calcommons.org/sites/default/files/basic/SFCADS_Phase_1_Report_2015.pdf).
Total Existing Inventories Score		8	7/8		
Eligibility Criterion passed / not passed			87.5%		Passed

Section 4.4: Broader Ecosystem Impacts Do we understand how the project's impacts may extend beyond the site?					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
4.4.1	Has there been a determination of proposed / estimated impacts from project construction and operations regarding local, upstream, and downstream species / ecological communities?	1	1	Evidence	Yes, the Environmental Impacts Report discusses estimated impacts and mitigation techniques from project construction on local and upstream ecological communities. There is a list of impacts on biological resources in the report.
4.4.2	Has there been a determination of proposed / estimated impacts on existing local, upstream, and downstream eco-hydrological systems from modification regarding: ▪ Pollution ▪ Downstream flow regime ▪ Groundwater impacts ▪ Land tenure (e.g., public vs private)	4	3	Evidence	Yes, the Environmental Impact Report discusses impacts on upstream and downstream systems with pollution and flow and groundwater impacts. There is a section in the EIR that discusses impact on geology and soils, hazards and hazardous material.
4.4.3	Has there been a determination of proposed / estimated impacts and benefits on eco-hydrological systems from changes in allocation via the following? ▪ Relevant environmental flows management plans ▪ Groundwater management plans	2	2	Evidence	The Santa Clara Valley Water District groundwater plan and the San José Urban Water Management plan cover impacts and benefits on the ecohydrological systems from changes in allocation on a short term and long term basis. https://s3.us-west-2.amazonaws.com/assets.valleywater.org/2021_GWMP_web_version.pdf
4.4.4	Has the monitoring system contributed to the development and goals of the basin management plan?	1	1	Evidence	The San Francisco Bay Basin Water Quality Control Plan oversees San José water so the plans must abide by the Basin plans.
Total Broader Impacts Systems Score		8	7/8		
Eligibility Criterion passed / not passed			87.5%		Passed

Section 4.5: Monitoring & Management Systems Do we have effective management processes and tools to maintain ecological integrity over time?					
		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
4.5.1	Have target performance indicators been explicitly defined for: ▪ Infrastructure services ▪ Ecosystem services	1	1	Evidence	The Plant completed an infrastructure Condition Assessment on plant facilities to identify how the Plant can continue to operate with current technology.

4.5.2	Is there a monitoring plan in place for infrastructure performance indicators?	2	2	Evidence	The Infrastructure Condition Assessment reevaluates infrastructure performance to ensure it is meeting the goals.
4.5.3	Is there a monitoring plan in place for ecosystem performance indicators?	1	1	Evidence	The San José Urban Management Plan has ecosystem performance objectives, including changes in climate.
4.5.4	Are monitoring outcomes connected to the decision making and management / operations process?	1	1	Evidence	The monitoring outcomes are connected to the Urban Water Management Plan in making decisions about future water use and operations process. The Bay Delta Ecosystem plan also take the monitoring into account.
4.5.5	Is there a multi-stakeholder basin management plan?	1	1	Evidence	The San Francisco Bay Basin Water Quality Control Plan is a multi-stakeholder basin management plan for San José.
Total Monitoring and Management Systems Score		6	6/6		
Eligibility Criterion passed / not passed			100 %		Passed

Section 5: Adaptation Plan

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Evidence	Comments
AP.1	Is there a plan to restore or secure lost/modified ecosystem functions / species?	1	1	Evidence	The Plant Master Plan will protect and restore ecological systems such as tidal mud flats, salt marshes, upland habitats, and riparian corridors. Restoring the Coyote Creek Riparian Habitat and Artesian Slough Corridor will redistribute the plant's discharge to reduce potential adverse effects on the salt march while regenerating the ecosystem(p. 58 https://www.sanjoseca.gov/home/showpublisheddocument/206/636611441889800000)
AP.2	Is the adaptation plan for environmental targets / infrastructure robust across specified <u>observed</u> / recent climate conditions?	1	1	Evidence	The Plan has specified goals in response to observed conditions, including improving habitat and providing flood control benefits and building levees in response to sea level rise.
AP.3	Is the adaptation plan for environmental targets / infrastructure robust across specified <u>projected</u> climate conditions?	1	1	Evidence	The Plan addresses risks of sea level rise and flood mitigation with goals to produce levees conforming to the standards of the Army Corps of Engineers. The Urban Water Management Plan addresses changes in water supply due to projected climate change with measurements in place to reduce water usage in times of drought.
AP.4	Is there a monitoring plan designed to track ongoing progress and impacts to inform future decisions?	1	1	Evidence	The Urban Water Management Plan for San José is updated every 5 years and complies with the California Urban Water Conservation Council. This plan addresses changes in water levels and efforts to reduce water demand.
AP.5	Is there a plan to reconsider on a periodic basis for operational parameters, governance	1	1	Evidence	The Urban Water Management Plan for San José is updated every five years.

	and allocation shifts, and environmental performance targets?				
Total Adaptation Plan Score:		5	5/5		
Eligibility Criterion passed / not passed			100%		Passed