

AUTHORIZATION TO ISSUE CITY OF SAN JOSE FINANCING AUTHORITY WASTEWATER REVENUE BONDS, SERIES 2022B (GREEN BONDS – CLIMATE BOND CERTIFIED)

Joint City Council/City of San José Financing Authority
November 15, 2022
Item #1

Presenters:

Julia H. Cooper, *Director of Finance*

Qianyu Sun, *Deputy Director, Debt & Treasury Management*

Kerrie Romanow, *Director of Environmental Services*

Napp Fukuda, *Assistant Director of Environmental Services*

OVERVIEW OF WASTEWATER SYSTEM

- Wastewater System includes both the sanitary sewer collection system and the treatment system (Regional Wastewater Facility)
- City has the ability, through the Financing Authority to issue bonds for capital projects for both the collection and treatment systems
- Source of funds for the Wastewater System is primarily the City's sewer service and use charges, of which approximately 95% is collected on the property tax bill
- Amendments to the Credit Facility with Wells Fargo Bank modifies the definition of System Revenues and Maintenance & Operating & Maintenance (M&O) Expenses
 - Excludes South Bay Water Recycling (revenue and M&O expenses)
 - Preserves financial flexibility in future efforts to expand reclaimed, treated wastewater for non-potable and potable water uses



OVERVIEW OF WASTEWATER REVENUE BONDS (GREEN BONDS – CLIMATE BOND CERTIFIED)

City of San José Financing Authority Wastewater Revenue Bonds, Series 2022B

- Issue \$300,000,000 to refinance Authority's outstanding Subordinate Wastewater Revenue Notes, Series A
 - Series A Notes after repayment with proceeds from the 2022B Bonds will be available for future Treatment Plant Capital Improvement Program ("CIP") projects
- Green Bonds – Climate Bond Certified
 - First for San José
 - Certification from Climate Bond Initiative ("CBI")
 - Kestrel Verifiers assisted the City with the certification
- Ratings are pending from S&P, Fitch and KBRA – expected to be highly rated



GREEN BONDS - CLIMATE BOND CERTIFIED

- Climate Bonds Certification
 - Pre-Issuance and Post-Issuance External Reviewer: Kestrel Verifiers
- Environmental Benefits and Alignment with Low Carbon Transition
 - Bonds are refunding Notes used to finance improvements to the Plant to improve treatment processes, increase resource recovery and reduce greenhouse gas emissions
 - City has robust sustainability goals
 - Financed projects reduce impacts on San Francisco Bay ecosystem
- Aligned with United Nations Sustainable Development Goals
- Reporting
 - Kestrel provides one Post-Issuance Report within 24 months to confirm continued conformance with CBI Standards and Criteria
 - City provides updates on Projects in quarterly CIP reports



PROJECTS FINANCED BY THE BONDS

Preliminary Treatment - \$52M	Secondary Treatment - \$31M	Tertiary Treatment - \$5M
<ul style="list-style-type: none"> • New Headworks - Anticipated Completion 2023 • Headworks Improvements- Anticipated Completion 2023 	<ul style="list-style-type: none"> • Aeration Tank & Blower Rehab - Anticipated Completion 2023 • Nitrification Clarifier Rehabilitation - Anticipated Completion 2023 	<ul style="list-style-type: none"> • Filter Rehabilitation • Outfall Bridge
Biosolids - \$109M	Electrical Systems & Power Generation - \$71M	Site Facility Improvements & Other - \$32M
<ul style="list-style-type: none"> • Digester & Thickener Facilities Upgrade - Completed 2020 • Digested Sludge Dewatering Facility - Anticipated Completion 2025 	<ul style="list-style-type: none"> • Energy Generation Improvements - Substantially Completed • Advanced Facility Control & Meter Replacements - Substantially Completed 	<ul style="list-style-type: none"> • Yard Piping, Road Improvements, Plant Infrastructure • Preliminary Engineering, Program Management



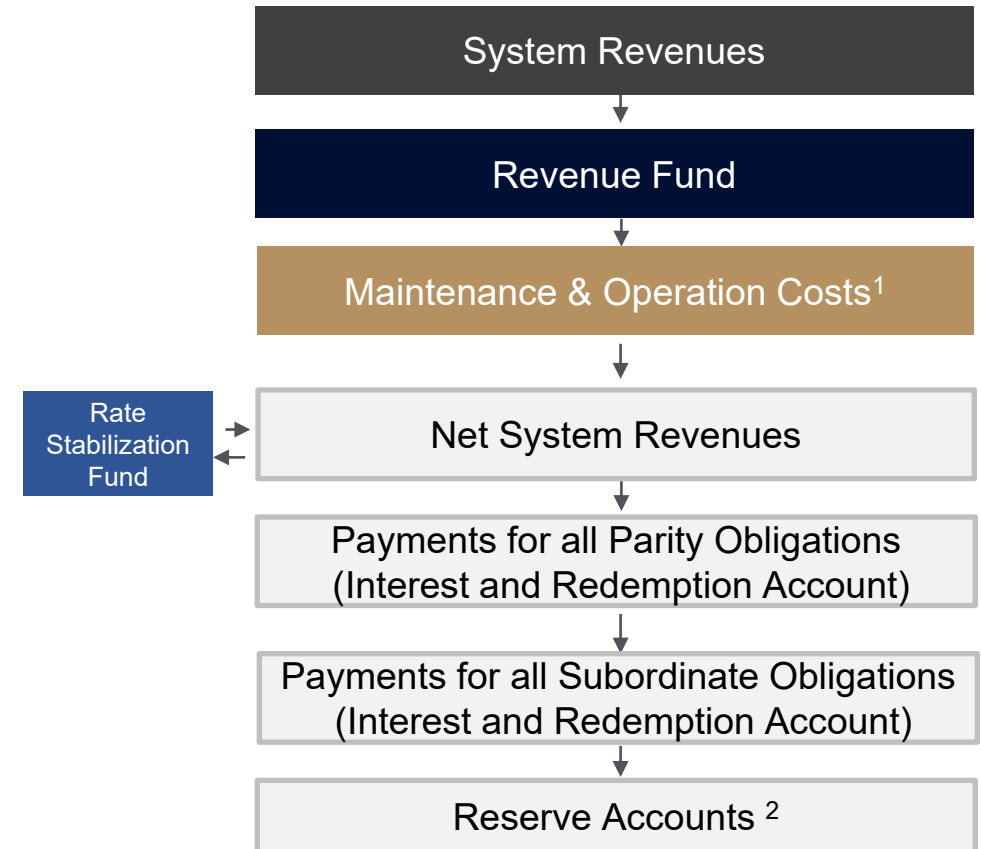
SECURITY OF THE BONDS & FLOW OF FUNDS

Sources of Payment

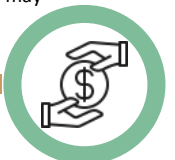
- Series 2022B Bonds are limited obligations payable primarily from Installment Payments secured by a pledge of Net System Revenues on the City's Wastewater System
- System Revenues include all funds received by the City from rates, fees, charges for the operation of the Wastewater System exclusive of South Bay Water Recycling revenue
- Net System Revenues are net of Maintenance and Operation (M&O) Costs of the Wastewater System and exclusive of South Bay Water Recycling revenue and M&O expenses

Rate Covenant

- Adjusted Net System Revenues for each Fiscal Year equal to 110% of Debt Service on all Outstanding Parity Obligations
- Adjusted Net System Revenues sufficient to pay 100% of the debt service on all outstanding Parity and Subordinate Obligations



¹ The City shall make such deposits to the Rate Stabilization Fund as it may determine from time to time in accordance with the Master Resolution
² Series 2022B Bonds do not include a Reserve Fund.

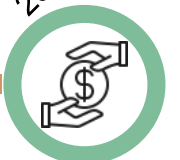
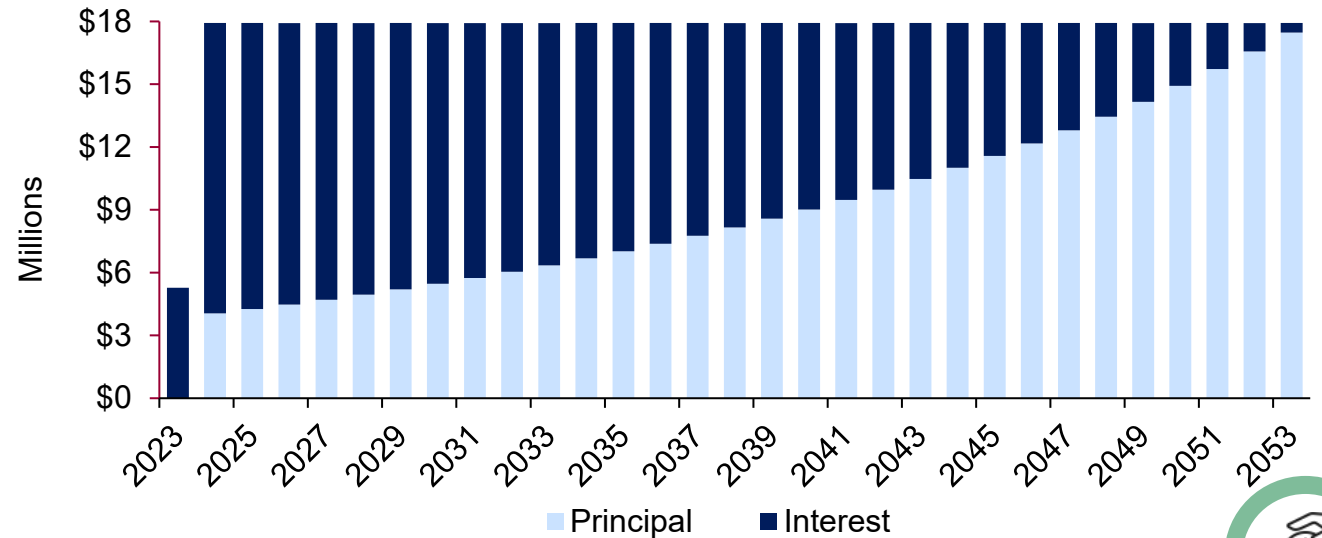


FINANCING PLAN

- Refunding \$300 million outstanding Wells Fargo Bank, Revolving Subordinate Wastewater Revenue Notes
- Structured with level fiscal year Debt Service:
 - Conservative amortization creating base debt service
 - Provides flexibility for future debt
 - Mitigates impact on rate base
- \$300 million will be available under the Revolving Subordinate Wastewater Revenue Notes for future borrowing after repayment

SOURCES *	
Par Amount	\$275,570,000
Premium	25,624,217
Total Sources	\$301,194,217
USES *	
Prepayment of Revenue Notes	\$300,000,000
Cost of Issuance	1,194,217
Total Uses	\$301,194,217

* Estimated Series 2022B Bond Debt Service



FINANCING TEAM

- City's Municipal Advisor: Public Resources Advisory Group
- Bond Counsel: Orrick, Herrington & Sutcliffe LLP
- Disclosure Counsel: Jones Hall, A Professional Law Corporation
- Underwriters of 2022B Bonds
 - Senior Manager (Book Runner):
Wells Fargo Corporate & Investment Banking
 - Co-Senior Manager:
Morgan Stanley & Co.
 - Co-Managers:
Academy Securities
Ramirez & Co., Inc.
Stifel Nicolaus & Co.
- Trustee for 2022B Bonds: Wilmington Trust, N.A.



BOND AND LEGAL DOCUMENTS FOR APPROVAL

Council and Authority Board are being presented:

- City and Authority Resolutions
- Preliminary Official Statement 2022B Bonds including form of Continuing Disclosure Certificate
- Amended and Restated Master Resolution
- Installment Purchase Contract
- Indenture of Trust
- Bond Purchase Agreement

Pursuant to Government Code Section 5852.1 which became effective on January 1, 2018, by the enactment of Senate Bill 450, certain financial information related to the 2022B Bonds has been included in the staff report, and such information has been disclosed and made public (“Good Faith Estimates”).



IMPORTANCE OF DISCLOSURE SPEAKING TO THE MARKET

- Issuers of municipal securities have an obligation to ensure that information contained in their disclosure documents is accurate and complete in all material respects
- Proper disclosure allows investors to understand and evaluate the financial health of the local municipality in which they invest.



SECURITIES LAW

- Section 17(a) of the Securities Act of 1933 prohibits fraud in the offer or sale of securities, including municipal bonds
- Section 10(b) of the Securities and Exchange Act of 1934 prohibits fraud in the purchase or sale of securities, including municipal bonds
- SEC Rule 10(b)(5) prohibits
 - Making of any untrue statement of material fact
 - Omitting to state a material fact in the offer or sale of securities
 - A fact is material if there is a substantial likelihood that its disclosure would be considered significant by a reasonable investor



AN ELECTED OFFICIAL'S RESPONSIBILITY

- Review the primary disclosure document for information on key topics:
 - Purpose of the bond issue
 - Sources of repayment of the bonds
 - Risks that the sources of repayment may be insufficient to repay the bonds
 - Discussion of any other events or information that could affect the deliberations of a reasonable investor
- After such review of the document the following additional elements should be considered:
 - Have identified material risks and events been brought to the attention of staff, bond counsel and other professionals?
 - Have such risks and events been disclosed, and if not, what is the rationale for the non-disclosure?



REVIEWING THE CONTENT OF THE OFFICIAL STATEMENT

- Introduction section in the Official Statement describes purpose of the Bonds and source of repayment
- More detailed information and discussions on risks related to repayment of the Bonds included in sections:
 - Security for the Bonds
 - Bond Owners' Risks
- Appendix A – describes the City's current financial position including fiscal pressures. It also provides geographic, demographic, economic and financial information
- Appendix B – provides detailed information of the Federated retirement plan
- Appendix F – Continuing Disclosure Certificate for the Bonds
- Appendix I – Climate Bond Verifier's Report

Elected officials not expected to be “fact checkers”



ELECTED OFFICIALS' RESPONSIBILITY

If any Councilmember or Authority Board member has any personal knowledge that any of the material information in the Official Statement is or may be false or misleading, the Councilmember/Authority Board member must raise these issues prior to approval of the distribution of the document.



FINANCING SCHEDULE

- **November 15:** City Council and Financing Authority Board Approvals
- **November 16:** Ratings Received
- **November 18:** Post 2022B POS
- **December 1:** Price 2022B Bonds
- **December 15:** Close 2022B Bonds

November 2022						
Su	M	Tu	W	Th	F	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

December 2022						
Su	M	Tu	W	Th	F	Sa
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31



CITY COUNCIL RECOMMENDATIONS

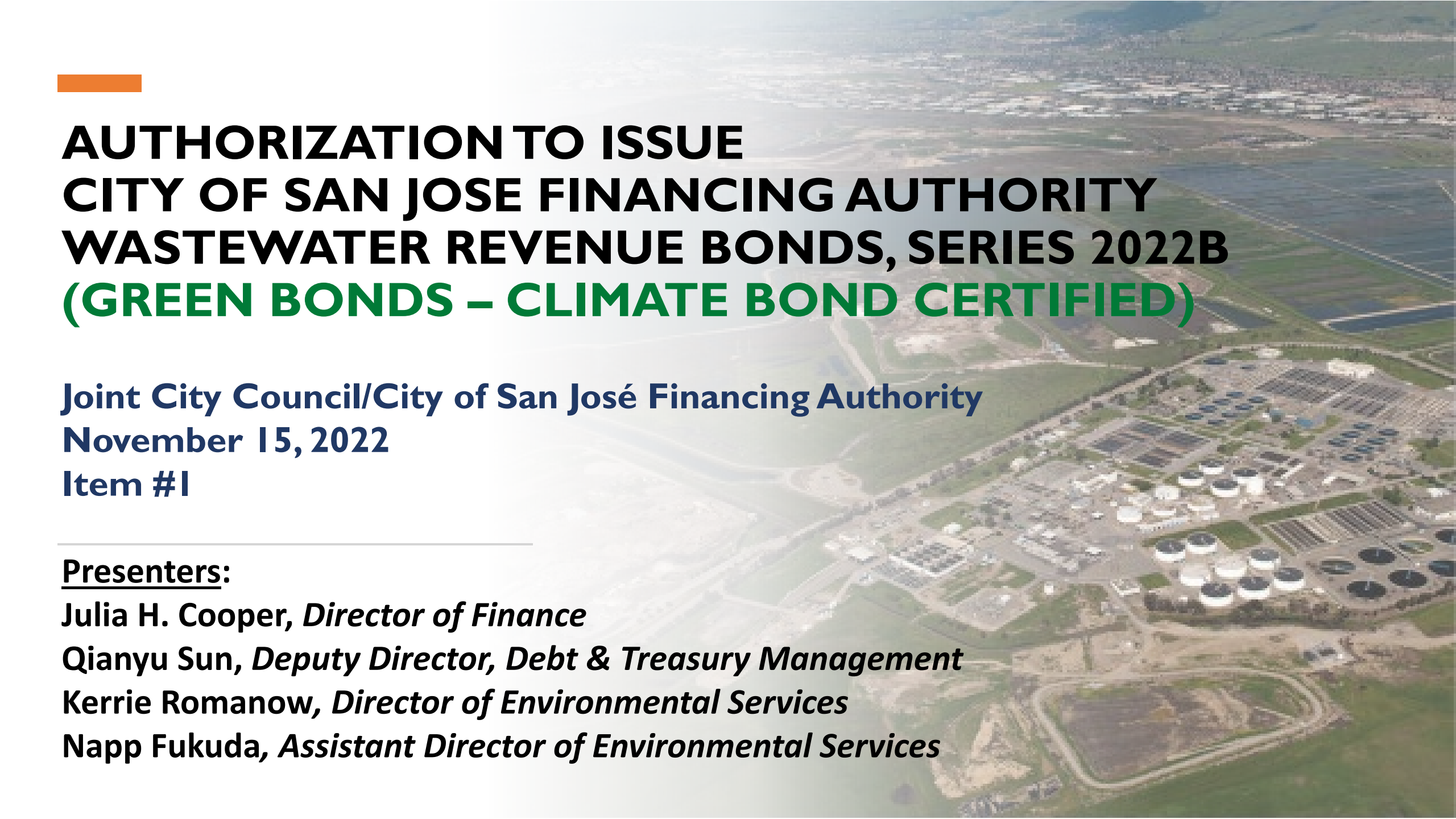
1. Adopt a resolution to authorize the issuance and sale of the Authority's Wastewater Revenue Bonds, Series 2022B, in the principal amount of \$300 million and approve in substantially final form various legal documents and authorize the execution and delivery of all necessary documents including a Fourth Amendment to the Credit Agreement by and among City of San José, City of San José Financing Authority and Wells Fargo Bank, National Association, and a Fourth Amended and Restated Fee Letter Agreement.
2. Adopt a resolution to amend and restate Resolution No. 78382 for allocation of Wastewater System Revenues.



CSJFA BOARD RECOMMENDATIONS

- I. Adopt a resolution to authorize the issuance and sale of the Authority's Wastewater Revenue Bonds, Series 2022B, in the principal amount of \$300 million and approve in substantially final form various legal documents and authorize the execution and delivery of all necessary documents including a Fourth Amendment to the Credit Agreement by and among City of San José, City of San José Financing Authority and Wells Fargo Bank, National Association, and a Fourth Amended and Restated Fee Letter Agreement.





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