



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

**SUBJECT: CITY OF SAN JOSE GENERAL
OBLIGATION BONDS,
SERIES 2019A-D**

DATE: June 10, 2019

Approved

Date

6/13/19

RECOMMENDATION

Adopt a resolution (the “Authorizing Resolution”) authorizing the City of San José to issue its general obligation bonds and general obligation refunding bonds, authorizing, and directing the execution of a Fiscal Agent Agreement and certain other related documents, and authorizing actions related thereto.

OUTCOME

Approval of the Authorizing Resolution will allow the City to, among other items, issue the following five series of general obligation bonds of the City (collectively, the “2019 Bonds”):

1. City of San José General Obligation Bonds, Series 2019A-1 (Disaster Preparedness, Public Safety, and Infrastructure) (the “2019A-1 Bonds”);
2. City of San José Taxable General Obligation Bonds, Series 2019A-2 (Disaster Preparedness, Public Safety, and Infrastructure) (the “2019A-2 Bonds”, and together with the 2019A-1 Bonds, the “2019A Bonds”);
3. City of San José Taxable General Obligation Bonds, Series 2019B (Disaster Preparedness, Public Safety, and Infrastructure) (the “2019B Bonds”);
4. City of San José General Obligation Bonds, Series 2019C (Refunding, Libraries, Parks, and Public Safety Projects) (the “2019C Bonds”); and
5. City of San José Taxable General Obligation Bonds, Series 2019D (Refunding, Libraries, Parks, and Public Safety Projects) (the “2019D Bonds”).

These bonds will include the first issuance (consisting of three series) under the Measure T authorization, refunding of all the outstanding bonds issued under the Measure O (2000), Measure P (2000), and Measure O (2002) authorization and issue the last series of bonds for the authorized but unissued authorization under the Measure O (2000) and Measure O (2002).

EXECUTIVE SUMMARY

The actions recommended in this staff report, including the approval of the various bond documents, are necessary to issue the first series of general obligation bonds under the Measure T authorization, refund all outstanding general obligation bonds issued under the Measure O (2000), Measure P (2000), and Measure O (2002) authorizations and issue the final bonds for the Measure O (2000) and Measure O (2002) authorizations. The bonds will be issued in five series which are briefly described below.

2019A Bonds and 2019B Bonds - Measure T New Money Bonds. The 2019A-1 Bonds, 2019A-2 Bonds (together, the 2019A Bonds), and 2019B Bonds will be issued in a combined aggregate principal amount not to exceed \$239,900,000 and will constitute the first issuance (consisting of three series) of bonds issued under the Measure T authorization of \$650 million for Disaster Preparedness, Public Safety, and Infrastructure, approved by the voters in November 2018. The net proceeds of the 2019A Bonds and 2019B Bonds are anticipated to be used in fiscal years 2019-20 and 2020-21, among other things, to finance the following projects:

Measure T Public and Safety Infrastructure 2019 Bonds Use*

<u>Program</u>	<u>2019-20</u>	<u>2020-21</u>	<u>GO Bond Series</u>
Traffic (Bridges and Street Repair)	\$39,500,000	\$45,500,000	2019A (Tax-Exempt)
LED Streetlight Conversion	5,000,000	\$6,000,000	2019B (Taxable)
Public Safety	53,800,000	17,000,000	2019A (Tax-Exempt)
Storm Sewer	2,900,000	14,700,000	2019A (Tax-Exempt)
Environmental Protection	50,000,000	0	2019B (Taxable)
City Facilities LED lighting	3,000,000	2,000,000	2019B (Taxable)
Community Centers/Emergency Shelters	0	500,000	2019B (Taxable)
Total Use of Financing Proceeds	\$154,200,000	\$85,700,000	

* Source: Proposed 2020-24 Capital Improvement Program

2019C Bonds and 2019D Bonds. The 2019C Bonds will provide funding for projects under Measure O (2000) and Measure O (2002) authorizations. The 2019C Bonds and 2019D Bonds will also provide funding to completely refund all outstanding General Obligation Bonds (the Refunded Bonds), on a tax-exempt and taxable basis, respectively. These bonds will be issued for the following purposes:

- **2019C Bonds - Measure O (2000).** A portion of the 2019C Bonds will be issued in an aggregate principal amount not to exceed \$5,905,000 and will constitute the seventh and final series of general obligation bonds issued by the City under Measure O (2000). The net proceeds of such bonds are anticipated to be used to finance projects authorized under Measure O (2000), such as, improvements at the three oldest branch libraries of the City: Biblioteca Latinoamericana, Alviso, and West Valley libraries.

- **2019C Bonds – Measure O (2002).** A portion of the 2019C Bonds will be issued in an aggregate principal amount not to exceed \$3,325,000 and will constitute the sixth and final series of general obligation bonds issued by the City pursuant to Measure O (2002). The net proceeds of such bonds are anticipated to be used to finance projects authorized under Measure O (2002) including the rehabilitation of fire stations.
- **2019C Bonds and 2019D Bonds.** The remaining portion of the 2019C Bonds and the 2019D Bonds will be issued to refund all the Refunded Bonds, which are currently outstanding in an aggregate principal amount of \$323,110,000.

In aggregate, the 2019A Bonds, the 2019B Bonds, the 2019C Bonds, and 2019D Bonds (together, the 2019 Bonds) will be sold through a competitive bidding process with an anticipated final maturity of September 1, 2049. The proposed debt service structure varies by individual series, but in aggregate mirrors a debt service pattern produced by adding together (1) an assumed level debt service structure for the bonds issued to fund Measure T, Measure O (2000) and Measure O (2002) project costs; and (2) a level savings debt service structure for the refunding of the outstanding general obligation bonds. An optimized structure was developed to permit the most efficient amortization of debt by tax treatment, with tax-exempt bonds being lower cost and amortized in the longest maturities, and taxable bonds being higher cost and amortized in the shortest maturities. The proposed debt structure intends to permit the City to issue the tax-exempt Bonds with market-preferred couponing, thus minimizing interest costs.

BACKGROUND

General Obligation Bond Measures

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

Measure O (2000) and Measure P (2000). At the City's general election held on November 7, 2000, voters approved Measure O (2000), that authorized the issuance of general obligation bonds in the not-to-exceed amount of \$211,790,000 and Measure P (2000) that authorized the issuance of general obligation bonds not to exceed \$228,030,000. The projects authorized to be funded by Measure O (2000) include the construction of new and expanded neighborhood library facilities and projects authorized to be funded by Measure P (2000) included construction of improvements to parks and recreational facilities.

Measure O (2002). At the City's general election held on March 5, 2002, voters approved Measure O (2002), San José 911, Fire, Police, Paramedic, and Neighborhood Security Act, that authorized the issuance of general obligation bonds in the not-to-exceed amount of \$159,000,000. The projects authorized to be funded by Measure O (2002) include the acquisition of property and construction of and improvements in various areas throughout the City in order to add and improve police stations, fire stations and training facilities and to create a state of the art 911 communications facility.

Voter Authorization and Issuance Amounts.

Presented below is a summary of the City's general obligation bond authorizations, the amounts utilized in prior general obligation bond issues, the proposed project funding amounts for FY 2019-20 through FY 2020-21, and the remaining amounts of voter authorization.

General Obligation Bonds Authorization Levels and Issuance Amounts				
	Measure O (2000) Library Projects	Measure P (2000) Parks Projects	Measure O (2002) Public Safety Projects	Measure T Disaster Preparedness, Public Safety, and Infrastructure
Initial Authorization	<u>\$211,790,000</u>	<u>\$228,030,000</u>	<u>\$159,000,000</u>	<u>\$650,000,000</u>
Issuances:				
2001 Bonds	31,000,000	40,000,000		
2002 Bonds	30,000,000	46,715,000	39,375,000	
2004 Bonds	58,300,000	46,000,000	14,400,000	
2005 Bonds	21,300,000		25,000,000	
2006 Bonds	60,000,000	45,400,000		
2007 Bonds		22,100,000	67,900,000	
2008 Bonds	5,285,000	27,815,000		
2009 Bonds			9,000,000	
2019 Bonds	<u>5,905,000</u>		<u>3,325,000</u>	<u>239,900,000</u>
Total Issuances	<u>\$211,790,000</u>	<u>\$228,030,000</u>	<u>\$159,000,000</u>	<u>\$239,900,000</u>
Remaining Authorization	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$410,100,000</u>

The 2019A-1 Bonds, 2019A-2 Bonds, and 2019B Bonds will constitute the first issuance of bonds issued under the Measure T authorization. After the issuance of such bonds, the City will have a total of \$410,100,000 of remaining authorization to issue bonds under Measure T.

The portion of the 2019C Bonds issued for Libraries will constitute the seventh issuance of general obligation bonds issued by the City pursuant to Measure O (2000). After the issuance of such bonds, the City will not have any additional authorization to issue bonds pursuant to Measure O (2000).

The portion of the 2019C Bonds issued for Public Safety will constitute the sixth and final issuance of general obligation bonds issued by the City pursuant to Measure O (2002). After the issuance of such bonds, the City will not have any additional authorization to issue bonds pursuant to Measure O (2002).

As shown above, the City has previously issued general obligation bonds in an aggregate principal amount totaling \$589,590,000 (not including proposed new money issued under the 2019C Bonds). An aggregate principal amount of \$323,110,000 is currently outstanding which are anticipated to be refunded in their entirety with the proceeds of the 2019C Bonds and 2019D Bonds.

Refunded Bonds

A portion of the proceeds of the 2019 Bonds are expected to refund, on a current callable basis, all of the City's \$323.11 million currently outstanding General Obligation Bonds, as set forth in the following table (collectively, the "Refunded Bonds."). The City expects to refund the Refunded Bonds with the proceeds of the 2019C Bonds and 2019D Bonds. A portion of the Refunded Bonds are being refunded on a taxable basis with proceeds of the 2019D Bonds to, among other things, provide the City flexibility as to the use of the facilities originally financed with the proceeds of the Refunded Bonds. Exhibit A provides a summary of the projects to be refunded on a taxable basis.

General Obligation Bond Series 2019C Bonds and 2019D Bonds Allocation between Tax-Exempt and Taxable			
General Obligation Bonds	Par Amount Outstanding	Amount to be Refunded with Tax-Exempt 2019C Bonds	Amount to be Refunded with Tax-Exempt 2019D Bonds
Series 2001	\$30,745,000	\$23,600,000	\$7,145,000
Series 2002	54,170,000	34,570,000	19,600,000
Series 2004	63,310,000	39,345,000	23,965,000
Series 2005	26,265,000	25,830,000	435,000
Series 2006	63,270,000	37,060,000	26,210,000
Series 2007	57,000,000	43,815,000	13,185,000
Series 2008	22,050,000	--	22,050,000
Series 2009	6,300,000	5,690,000	610,000
TOTAL	\$323,110,000	\$209,910,000	\$113,200,000

ANALYSIS

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

Plan of Finance

Competitive Sale of 2019 Bonds. The 2019 Bonds will be sold on a competitive basis. The Finance Department will oversee the competitive sale with assistance from the municipal advisor selected for this financing, Public Resources Advisory Group ("PRAG"). The 2019 Bonds will be sold in three separate bids to the respective underwriter(s) presenting the lowest true interest costs. The three bids will be as follows: (1) 2019A-1 Bonds (tax-exempt) and 2019A-2 Bonds (taxable); (2) 2019C Bonds (tax-exempt); and (3) 2019B Bonds (federally taxable) and 2019D Bonds (federally taxable). Currently, the financing schedule calls for the competitive sale of the 2019 Bonds on or about July 9, 2019, and an expected closing on July 25, 2019.

Description of the 2019 Bonds. The 2019 Bonds will be sold in five series as described below.

2019A Bonds – the 2019A Bonds are composed of a 2019A-1 and 2019A-2 Bond structure. The 2019A-1 Bonds will be issued as tax-exempt and the 2019A-2 Bonds will be issued as taxable. In this current bond environment, bond purchasers prefer a 5% coupon structure, which generates bond premium for the issuer (City). PRAG estimates that due to the number of 2019 Bonds issued at 5% coupons, too much premium would be generated, thereby exceeding federal tax law guidelines. As a solution, PRAG recommended the issuance of a short-term taxable bond (the 2019A-2 Bonds) that would provide Measure T funding and be completely paid off (on September 1, 2019) by using the excess premium generated from the 2019A-1 Bonds, thereby eliminating any federal tax law issues.

2019B Bonds – will be issued on a taxable basis to provide flexibility in non-governmental use and stay within the confines of federal tax law. Together, the net proceeds 2019A-1 Bonds (\$140.59 million), the 2019A-2 Bonds (\$33.81 million) and 2019B Taxable Bonds (\$65.5 million) are being issued to fund \$239,900,000 of the Measure T projects on both a tax-exempt and taxable eligible project basis. This was the most cost-effective structure.

2019C Bonds – will be issued on a tax-exempt basis. a portion of the 2019C Refunding Bonds will provide project funding in an aggregate principal amount of not to exceed \$9,230,000 (the remaining prior authorization for Library projects \$5,905,000 under Measure O (2000)) and Public Safety projects (\$3,325,000 under Measure O (2002)). The remaining balance of the 2019C Bonds will provide \$158,820,000 to refund the outstanding General Obligation Bonds.

2019D Bonds – will be issued on a taxable basis and will provide \$105,810,000 to refund the outstanding General Obligation Bonds. By issuing these bonds as taxable, it provides flexibility

for changes of existing projects. Please refer to Exhibit A for a list of the projects converting from tax-exempt to taxable status.

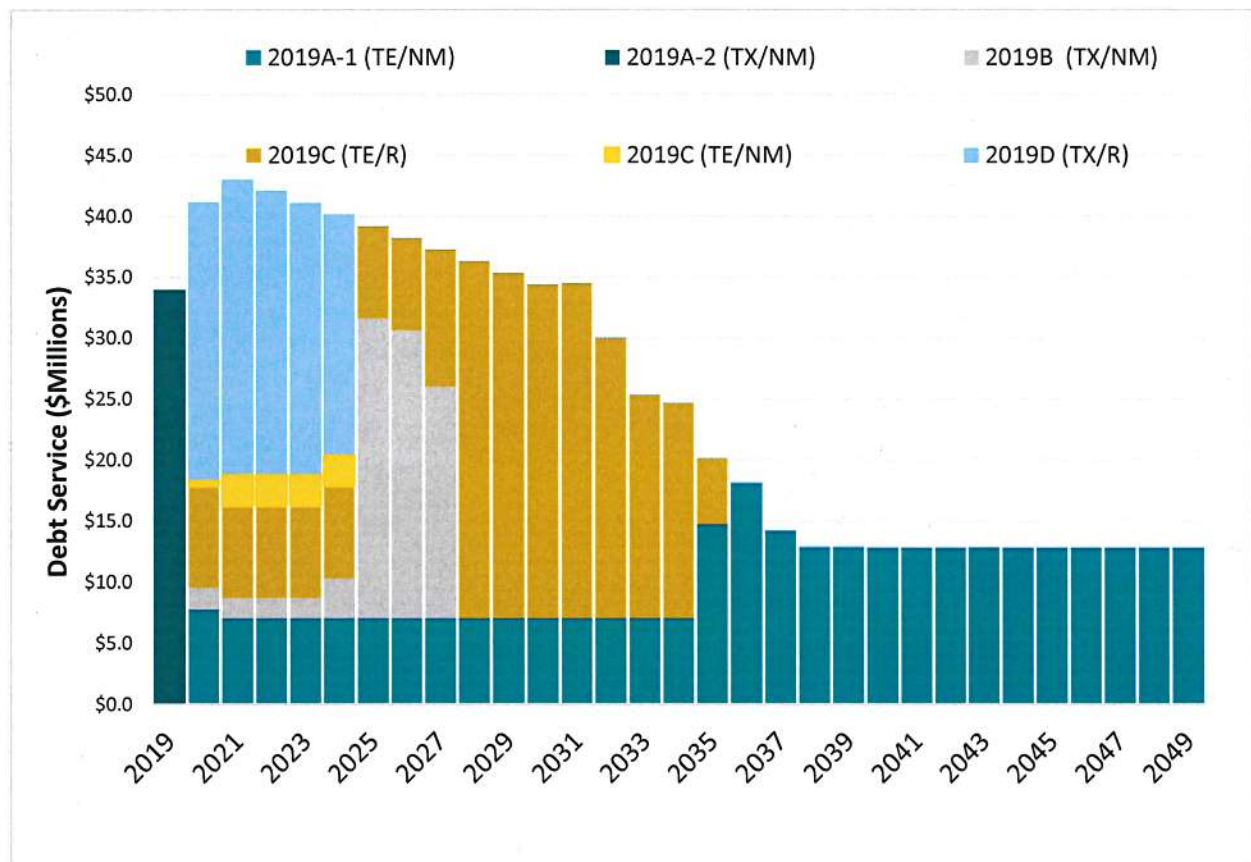
The Refunded Bonds will be redeemed in whole or in part approximately five days after the date of issuance of the 2019 Bonds.

Refunding Plan. As stated above, proceeds of the 2019C Bonds and 2019D Bonds will be used to refund on a current basis of all the outstanding maturities of the Refunded Bonds. The Debt Management Policy previously adopted by Council specifies a minimum of 3% net present value savings for a refunding to be considered economically viable and provides for consideration of refundings below the 3% threshold on a case-by-case basis, including refundings which achieve City objectives relating to, among other things, achieving a desired debt service profile. As of June 3, 2019, the proposed refundings are projected to generate aggregate net present value savings of approximately \$63.04 million, or 19.5% as a percent of refunded par, in excess of the 3% savings threshold.

Aggregate Debt Service Structure. The 2019 Bonds will be sold through a competitive bidding process with an anticipated final maturity of September 1, 2049. The proposed debt service structure varies by individual series, but in aggregate mirrors a debt service pattern produced by adding together (1) an assumed level debt service structure for the bonds issued to fund Measure T, Measure O (2000) and Measure O (2002) project costs; and (2) a level savings debt service structure for the refunding of the outstanding general obligation bonds. An optimized structure was developed to permit the most efficient amortization of debt by tax treatment, with tax-exempt bonds being lower cost and amortized in the longest maturities, and taxable bonds being higher cost and amortized in the shortest maturities. The proposed debt structure intends to permit the City to issue the 2019A-1 Bonds on a tax-exempt basis with market-preferred couponing, thus minimizing interest costs. The estimated true interest cost for the 2019 Bonds is approximately 2.84% based on market rates as of June 3, 2019.

The result is a debt service structure that is irregular by individual series but has an aggregate shape that mirrors the optimal base case debt service structure. This optimal structuring approach is estimated to reduce aggregate net debt service by approximately \$15 million. The graph below provides an illustration of the debt service structure for the 2019 Bonds.

General Obligation Bonds, Series 2019A-D Estimated Debt Service Schedule



Debt service on all series of the 2019 Bonds is payable from *ad valorem* taxes upon all property within the City subject to taxation by the City. Total net debt service on the 2019 Bonds is estimated to be approximately \$747,878,000, of which \$471,950,000 is repayment of net principal and approximately \$275,928,000 is net interest cost. For a single family homeowner with an assessed valuation of approximately \$532,000¹, the projected average and maximum annual taxes paid for debt service on the 2019 Bonds² is \$64.65 and \$127.09, respectively (assuming fiscal year 2019-20 net assessed valuation of \$181,926,524,000). The projected fiscal year 2019-20 annual tax for an average assessed value single family home is \$123.35 for all 2019 Bonds². This compares to the fiscal year 2018-19 annual tax of \$85.00 for a single family homeowner with an average assessed valuation of \$500,000.

¹ Per the Santa Clara County Assessor's 2018-19 Annual Report (p. 30), the average assessed value for a single family home in San Jose is \$531,973.

² 2019 Bonds includes first issuance of Measure T, final issuance of authorization under Measure O (2000) and Measure O (2002) and refunding of all outstanding general obligation bonds.

2019 Bonds Estimated Sources and Uses of Funds. The estimated sources and uses of funds for the financing are shown below:

**City of San José
General Obligation Bonds, Series 2019
Estimated Sources and Uses of Funds ⁽¹⁾**

SOURCES	2019A-1 (TE)	2019A-2 (TX)	2019B (TX)	2019C (TE)	2019D (TX)	TOTAL
Par Amount	\$ 140,590,000	\$ 33,810,000	\$ 65,500,000	\$ 160,050,000	\$ 105,810,000	\$ 505,760,000
Premium	34,651,986	85,539	323,086	47,369,985	614,629	83,045,225
Transfer to 2019A-2 Debt Service Fund	-	33,978,036	-	-	-	33,978,036
Prior Debt Service Funds	-	-	-	17,950,180	9,523,688	27,473,868
Total Sources	\$ 175,241,986	\$ 67,873,575	\$ 65,823,086	\$ 225,370,165	\$ 115,948,317	\$ 650,257,129
USES	2019A-1 (TE)	2019A-2 (TX)	2019B (TX)	2019C (TE)	2019D (TX)	TOTAL
Project Fund	\$ 140,590,000	\$ 33,810,000	\$ 65,500,000	\$ 9,230,000	\$ -	\$ 249,130,000
Escrow Deposits	-	-	-	214,051,654	115,447,788	329,499,442
Debt Service Fund	6,673	33,979,050	40,716	1,234,195	-	35,260,634
Transfer to 2019A-2 Debt Service Fund	33,978,036	-	-	-	-	33,978,036
Cost of Issuance ⁽²⁾	315,803	-	118,619	373,791	191,787	1,000,000
Underwriters' Discount	351,475	84,525	163,750	400,125	264,525	1,264,400
Release from Additional Escrow Earnings	-	-	-	80,400	44,217	124,617
Total Uses	\$ 175,241,987	\$ 67,873,575	\$ 65,823,085	\$ 225,370,165	\$ 115,948,317	\$ 650,257,129

⁽¹⁾ Preliminary; subject to change.

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

2019 Bonds Good Faith Estimates. PRAG has provided the following good faith estimates with respect to the 2019 Bonds in compliance with Section 5852.1 of the California Government Code and has estimated the following, all of which are subject to changing market conditions and may be higher or lower than estimated:

- True interest cost for the 2019 Bonds is approximately 2.84%, which assumes market conditions as of June 3, 2019
- Finance charge of the 2019 Bonds is estimated to be \$2,264,400 (assumes \$1 million in Cost of Issuance for Bond Counsel/Disclosure Counsel fees and expenses, Municipal Advisor fees and expenses, rating agencies fees, fiscal agent fees and expenses, and printing costs and \$1.26 million for underwriters' discount)
- Amount of proceeds to be received from the sale of the 2019 Bonds by the City is estimated to be \$551,280,190 which is net of \$69,238,670 of capitalized interest funded

from proceeds of the 2019 Bonds, \$27,473,868 transferred from prior debt funds, and \$2,264,400 of finance charges

- Total payment amount, not paid with proceeds of the 2019 Bonds, is estimated to be \$747,878,313 to the final maturity of the bonds.

Security for the 2019 Bonds. The 2019 Bonds will be general obligations of the City payable from *ad valorem* taxes. In accordance with all relevant provisions of law, the City will be obligated to levy *ad valorem* taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property that is taxed at limited rates), for the payment of the 2019 Bonds and the interest thereon. The City will be obligated to direct the County of Santa Clara to collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the 2019 Bonds.

The amount of the annual *ad valorem* tax levied by the City to repay the 2019 Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the aggregate amount of debt service due on the 2019 Bonds. Fluctuations in the annual debt service on the general obligation bonds, future general obligation bond issuances and changes in the assessed value of taxable property in the City will cause the annual tax rate to vary each year. Economic and other factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate.

Financing Documents

The Authorizing Resolution authorizes the issuance of the 2019 Bonds in the aggregate principal amounts as follows:

1. 2019A Bonds and 2019B Bonds: Not to exceed aggregate principal amount of \$239,900,000 calculated on a combined basis;
2. 2019C Bonds (Library Projects, Measure O (2000)), not to exceed aggregate principal amount of \$5,905,000; and
3. 2019C Bonds (Public Safety Projects, Measure O)), not to exceed aggregate principal amount of \$3,325,000.

The Authorizing Resolution authorizes the issuance of 2019C Bonds and 2019D Bonds without limit as to the aggregate principal amount provided (i) the true interest cost of the portion of such bonds results in net present value savings of such bonds, and (ii) the final maturity date of the 2019C Bonds does not extend beyond the final maturity date of the respective Refunded Bonds.

The Authorizing Resolution also approves the proposed forms of the following documents relating to the 2019 Bonds: (i) Fiscal Agent Agreement for the 2019 Bonds (the “Fiscal Agent Agreement”), (ii) 2019 Bonds set forth in appendices to the Fiscal Agent Agreement, (iii) irrevocable refunding instructions relating to the Refunded Bonds (the “Irrevocable Refunding Instructions”), (iv) Official Notice of Sale for the competitive sale of the 2019 Bonds, (v) Preliminary Official Statement with respect to the 2019 Bonds (the “POS”). Under the Authorizing Resolution, the City Manager, the Director of Finance, the Assistant Director of Finance or the Debt Administrator (each an “Authorized Officer” and, collectively, the “Authorized Officers”) are authorized and directed to execute and deliver such documents in substantially the forms posted to the agenda webpage for this meeting, together with any changes therein or additions thereto approved by an Authorized Officer upon consultation with the City Attorney’s Office. All the documents described below, in substantially final form, will be posted on the City’s website with this Council memorandum

Official Statement. The draft POS has been reviewed and approved for transmittal to the City Council by the Disclosure Working Group. The distribution of the POS by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the POS to include all facts that would be material to an investor in the 2019 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2019 Bonds. If the City Council concludes that the POS includes all facts that would be material to an investor in the Obligations, and authorizes staff to proceed with the issuance of the 2019 Bonds, then one of the actions the City will take in the Authorizing Resolution is to authorize staff to execute a certificate to the effect that the POS has been “deemed final.”

The Securities and Exchange Commission (the “SEC”), the agency with regulatory authority over the City’s compliance with the federal securities laws, has issued guidance as to the duties of the City with respect to its approval of the POS. In its “Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors” (Release No. 36761 / January 24, 1996) (the “Release”), the SEC stated that, if a member of the authorizing board has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2019 Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the POS. In the Release, the SEC stated that the steps that a member of the council could take include becoming familiar with the POS and questioning staff and consultants about the disclosure of such facts concerning the following areas:

Purpose of Financing	Risks Relating to Repayment and Tax-Exempt Status of the 2019 Bonds, as applicable
Documents for Approval; Security for the 2019 Bonds	Requested Approvals

The information to address these areas in the Preliminary Official Statement can be found in body of the document in the INTRODUCTION section which describes the purpose of the 2019 Bonds and the source of repayment, among other things. More detailed information on these topics and on the risks related to repayment of the CERTAIN RISK FACTORS as well as in Appendix A. Appendix A provides economic, demographic and financial information about the City. Appendix B, which provides detailed information regarding the retirement plans, is included in order to give investors an understanding of the impact of retirement costs on the City's budget.

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

If any councilmember has any personal knowledge that any of the material information in the Preliminary Official Statement is false or misleading, the councilmember must raise these issues prior to approval of the distribution of the document to potential investors in the 2019 Bonds.

City staff, representatives of Jones Hall, A Professional Law Corporation, the City's bond and disclosure counsel for the 2019 Bonds, and representatives of the Municipal Advisor will be available at the Council meeting on June 25, 2019 to address any questions, issues, and/or concerns.

Fiscal Agent Agreement. The Fiscal Agent Agreement is by and between the City, as the issuer of the 2019 Bonds, and Wilmington Trust, National Association, as the Fiscal Agent for the 2019 Bonds. This agreement sets forth terms of the 2019 Bonds and contains the responsibilities and duties of the Fiscal Agent and the rights of the bondholders. Wilmington Trust was selected through an RFP process based on the completeness of their reply, prior City experience with Wilmington Trust acting as trustee on other bond issues, and their proposed fees.

Official Notice Inviting Bids/Notice of Intention to Sell Bonds. The Official Notice Inviting Bids describes the competitive bidding process, the bidding parameters governing the submission of bids by potential underwriters for the 2019 Bonds, and the basis for awarding the Bonds to an underwriter. This document is provided to potential bidders with the Preliminary Official Statement. Pursuant to State law, the Notice of Intention to sell the Bonds must be published at least 15 days prior to the proposed sale date. To meet the required deadline for publication of the

notice, it is scheduled to be published in *The Bond Buyer* on or about June 24, 2019. The Notice of Intention is clear that the City's conduct of the sale of the 2019 Bonds is subject to Council's approval. The Authorizing Resolution sets forth the Council's ratification of the publication of the Notice of Intention.

Irrevocable Refunding Instructions. In this document, the City provides instructions to the fiscal agent for the Refunded Bonds (Wells Fargo Bank, N.A.) for the purpose of providing the terms and conditions relating to the deposit and application of moneys to provide for the payment and redemption of the Refunded Bonds on the redemption date.

Continuing Disclosure Certificate. Pursuant to the Continuing Disclosure Certificate, the form of which is appended to the Preliminary Official Statement, the City will covenant for the benefit of owners of the Bonds to provide to the Electronic Municipal Market Access System ("EMMA System") certain financial information and operating data relating to the City by not later than April 1 after the end of each fiscal year of the City (currently June 30th), commencing not later than April 1, 2020 with the report for the 2018-19 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain listed events. The specific nature of the information to be contained in the Annual Report or the notices of listed events is summarized in Continuing Disclosure Certificate. These covenants in the Continuing Disclosure Certificate will be made by the City in order to assist the underwriters of the 2019 Bonds in complying with SEC Rule 15c2-12(b)(5).

Financing Team Participants

The financing team participants consist of:

- City's Municipal Advisor: Public Resources Advisory Group
- Bond and Disclosure Counsel: Jones Hall, A Professional Law Corporation
- Fiscal Agent/2019 Bonds: Wilmington Trust, N.A.
- Fiscal Agent/Refunded Bonds: Wells Fargo Bank, N.A.

The underwriters of the bonds will be determined on the date bids are accepted by the City through a competitive sale process.

Financing Schedule

The current proposed schedule for the issuance of the 2019 Bonds is as follows:

City Council:	June 25, 2019
Bond Pricing:	July 9, 2019
Document closing:	July 25, 2019

HONORABLE MAYOR AND CITY COUNCIL

June 10, 2019

Subject: City of San José General Obligation Bonds, Series 2019A-D

Page 14

EVALUATION AND FOLLOW-UP

This memorandum presents a recommendation for the City Council's approval of various actions related to the issuance of the 2019 Bonds and requires no follow-up to the City Council.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 25, 2019 Council Meeting, along with all the referenced financing documents.

COORDINATION

This report was prepared by the Finance Department in coordination with the City Manager's Budget Office, the City Attorney's Office, and the financing team participants.

COMMISSION RECOMMENDATION/INPUT

There is no commission recommendation or input associated with this action.

FISCAL/POLICY ALIGNMENT

The proposed financing plan is consistent with the City's Debt Management Policy which establishes objectives in order to obtain cost-effective access to the capital markets, which includes minimizing debt service and issuance costs (including producing estimated net present value savings that are greater than 3% of the refunded debt); achieving a desired debt service profile; maintaining access to cost-effective borrowing; and ensuring compliance with applicable State and Federal laws.

COST SUMMARY/IMPLICATIONS

The 2019 Bonds will be general obligations of the City, payable in whole from *ad valorem* taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property that is taxed at limited rates), for the payment of the 2019 Bonds and the interest thereon. The City will be obligated to direct the County of Santa Clara to collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the 2019 Bonds.

Professional services (bond/disclosure counsel fees, municipal advisor fees, and rating agency fees) and other related costs are estimated to be approximately \$1,000,000 and will be paid from

HONORABLE MAYOR AND CITY COUNCIL

June 10, 2019

Subject: City of San José General Obligation Bonds, Series 2019A-D

Page 15

cost of issuance proceeds from the 2019 Bonds. The underwriters' discount is approximately \$1,266,000 and will also be paid from the cost of issuance proceeds. The underwriters, municipal advisor, and bond/disclosure counsel work on a contingency basis and are only paid upon the successful sale and close of the 2019 Bonds.

CEQA

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

/s/

JULIA H. COOPER

Director of Finance

For questions, please contact Julia H. Cooper, Director of Finance, at (408) 535-7011.

Attachment: Exhibit A

Exhibit A

Projects Converted from Tax-Exempt to Taxable Status

Almaden Community Center
Almaden Lake Park
Arcadia Softball Complex
Bascom Community Center
Camden Community Center
Emma Prusch Memorial Park-Lefevre
Emma Prusch Memorial Park
Gardner Community Center
Happy Hollow
Mayfair Community Center Satellite
Meadowfair Center Play Area
Morrill Community Center
Municipal Rose Garden
Roosevelt Community Center
Shady Oaks Sports Park
Soccer Complexes
Softball Complex
Solari Community Center (Seven Trees)
Solari Park Play Area
Southside Community Center
Watson Park Youth Lot