



Approval of Sale and Issuance of Bonds and Related Bond Documents - Airport Revenue Refunding Bonds Series 2021A, Series 2021B and 2021C

Presenters:

Julia H. Cooper, *Director of Finance*

John Aitken, *Director of Aviation*

Kim Hawk, *Deputy Director of Aviation, Finance & Administration*

Nikolai J. Sklaroff, *Deputy Director of Finance, Debt & Treasury Management*

City of San José Council Agenda

March 9, 2021

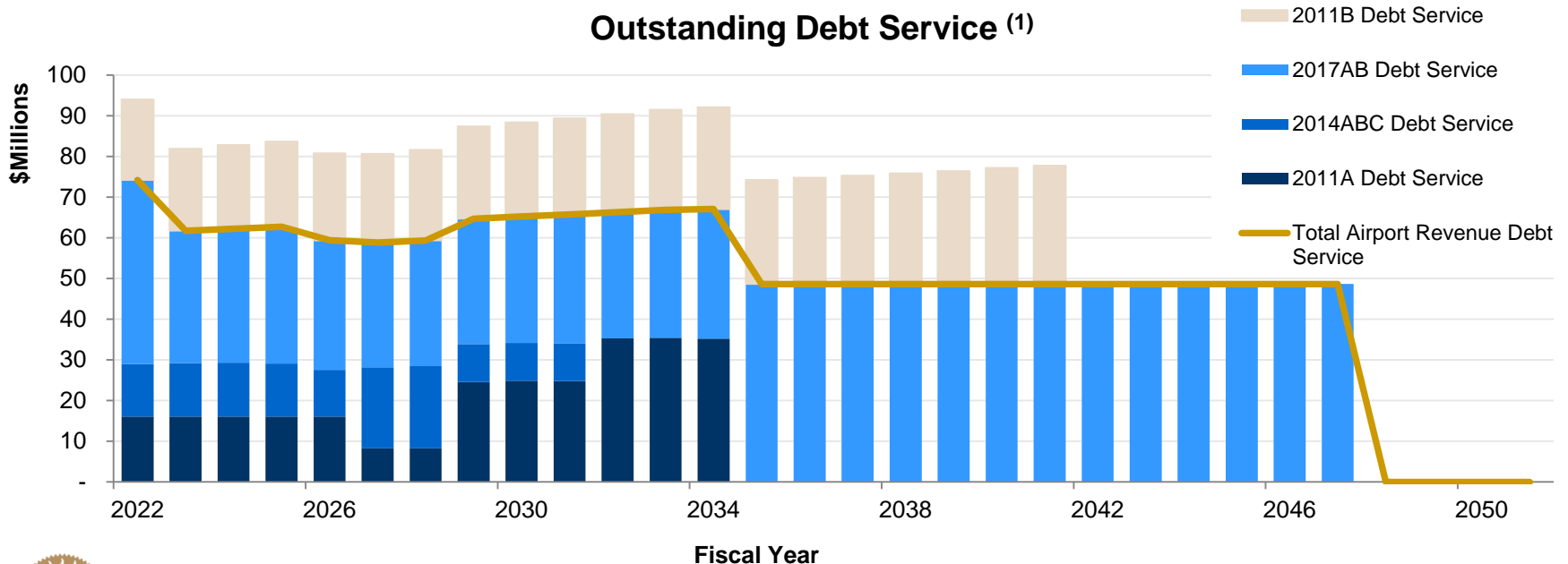
Item 3.5

Overview

- ✈ With current low municipal bond interest rates, the City has the opportunity to refinance and restructure its outstanding Airport debt at a time when COVID-19 has impacted air travel around the world.
- ✈ Council action includes:
 - Holding a TEFRA hearing for issuance of tax-exempt bonds
 - Adoption of 21st Supplemental Resolution:
 - 1) Authorizing the issuance of Series 2021A, 2021B and Series 2021C in an aggregate amount up to \$521 million, to be sold through negotiated sale;
 - 2) Approving the 12th Supplemental Trust Agreement, Official Statement with all appendices, Bond Purchase Agreement, and Continuing Disclosure Certificate;
 - 3) Authorizing the City's Authorized Representative to take other necessary actions

Overview of Outstanding Airport Debt

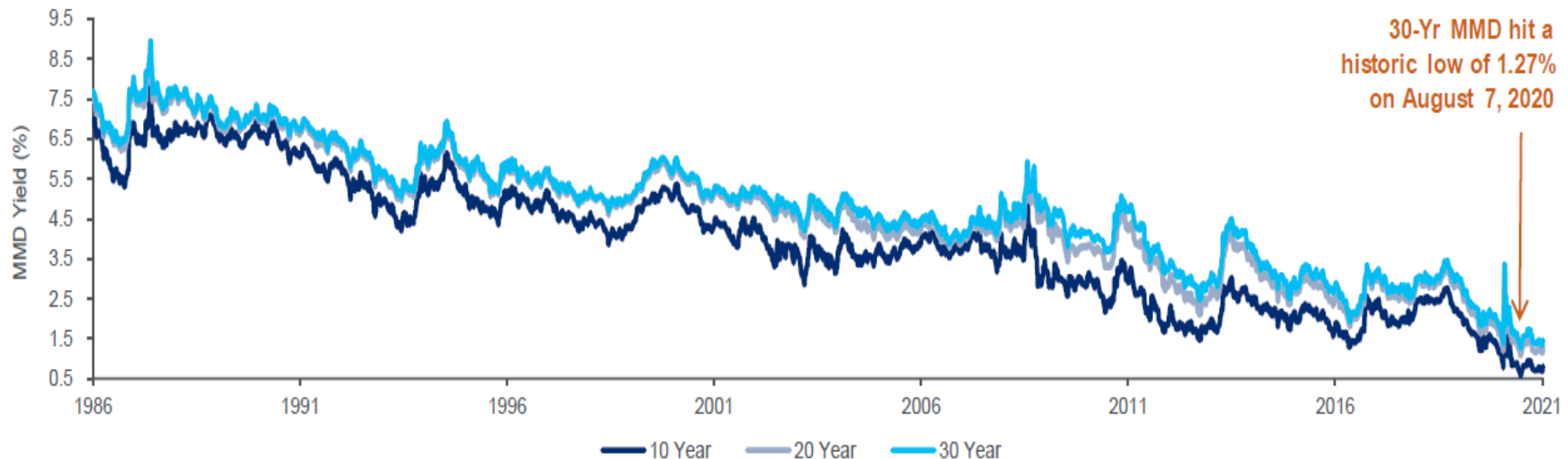
- ✈ \$1.1 billion outstanding (including bonds to be refunded)
- ✈ \$51.9 million of commercial paper
 - Backed by an LOC from Bank of America covering \$75 million of principal (plus interest), expiring on September 10, 2021
- ✈ All outstanding bonds are GARBs
 - \$252.9 million payable from CFC² Revenues (2011B)



(1) Does not include debt service on outstanding commercial paper ; (2) Customer Facility Charge

Interest Rates Are Currently Very Low

AAA G.O. MMD Yields (June 1, 1986 –February 18, 2021)



- ✈ Municipal Market Data (“MMD”) represents a AAA rated General Obligation yield curve published daily and regularly used as a benchmark for evaluating municipal bond pricing. MMD yields remain low from a historical context.

Source: Market Update to City of San Jose, February 19, 2021 from Citi and Morgan Stanley, Senior Managers of the 2021A, 2021B and 2021C Bonds.

Good Timing for an Airport Refinancing Opportunity

- ✈ Bonds sold in 2011, now offer a good refinancing opportunity as the bonds are now eligible to be called from investors without penalty
- ✈ The Bonds to be refunded have an average interest rate (“Average Coupon”) of 6.24%
- ✈ Yields on new bonds are currently estimated at less than 3%.

Airport Bonds Outstanding as of March 2, 2021 (\$000)			
Series	Original Par	Outstanding Par ⁽¹⁾	Amount to be Refunded ⁽²⁾
Series 2011A-1	150,405	114,865	114,865
Series 2011A-2	86,380	66,115	66,115
Series 2011B	271,820	252,895	252,895
Series 2014A	57,350	34,480	16,240
Series 2014B	28,010	28,010	-
Series 2014C	40,285	40,285	-
Series 2017A	473,595	423,200	17,850
Series 2017B	150,675	134,635	5,675
Total	1,258,520	1,094,485	473,640

Summary of Plan of Finance

- ✈ 2021 Series A, B and C Bonds will refund:
 - All \$433.9 million of the callable 2011A-1, 2011A-2, and 2011B Bonds
 - \$39.8 million of outstanding 2014A and 2017AB Bonds

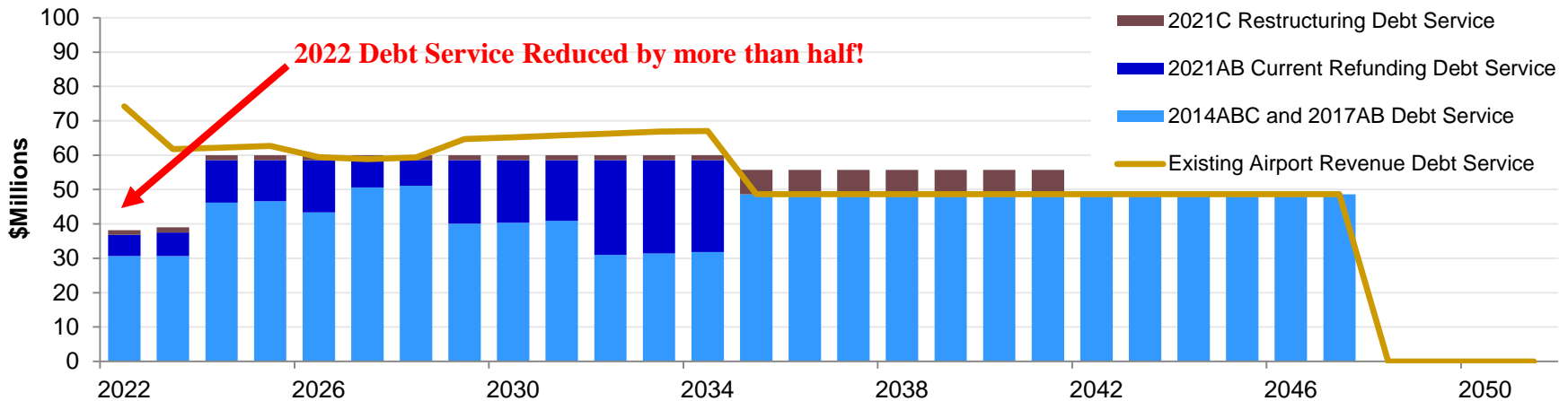
Estimated Sources and Uses of Funds¹

Sources	Series 2021A (AMT)	Series 2021B (non-AMT)	Series 2021C (Taxable)	Total
Par Amount	\$87,435,000	\$49,025,000	\$295,330,000	\$431,790,000
Net Premium	21,541,842	13,759,890	-	35,301,732
General Reserve	7,046,847	3,951,183	3,477,686	14,475,715
2011B Reserve	-	-	26,896,382	26,896,382
Total Sources	\$116,023,689	\$66,736,073	\$325,704,068	\$508,463,829
Uses	Series 2021A (AMT)	Series 2021B (non-AMT)	Series 2021C (Taxable)	Total
Redemption Fund	\$115,522,126	\$66,451,706	\$296,963,883	\$478,937,716
General Account of Reserve	-	-	-	-
2021C Reserve	-	-	27,272,267	27,272,267
Issuance Costs	501,563	284,366	1,467,918	2,253,847
Total Uses	\$116,023,689	\$66,736,073	\$325,704,068	\$508,463,829

Overview of Series 2021ABC Refunding for Savings

- ✈ Refunding is expected to generate approximately \$136 million of savings in today's dollars ("net present value savings") or 29% savings as a percent of the refunded principal. These NPV savings equal 12% of the principal of all outstanding Airport bonds
- ✈ Refunding produces significant near-term debt service relief to manage COVID-19 recovery

Debt Service Savings – After Refunding¹



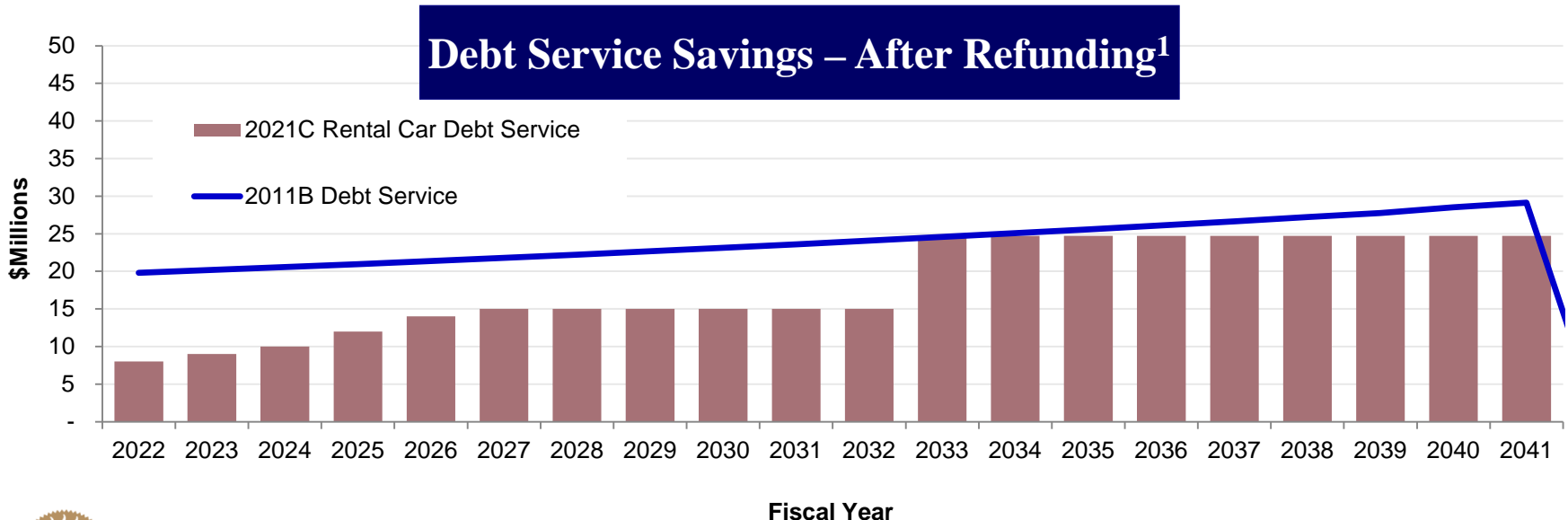
¹ Preliminary; subject to change; does not include 2021C Bond debt service related to the ConRAC

Refunding of ConRAC Bonds

- ✈ Design and construction of the Consolidated Rental Car Facility (“ConRAC”) was first financed with taxable commercial paper
- ✈ 2011B Bonds were issued to refinance the ConRAC-related taxable commercial paper
- ✈ 2021C Bonds will refund the 2011B Bonds and will replace the original modestly ascending debt service with significant near-term relief followed by a more level debt service structure.



Consolidated Rental Car Facility



¹ Preliminary; subject to change; does not include 2021A and 2021B Bond debt service

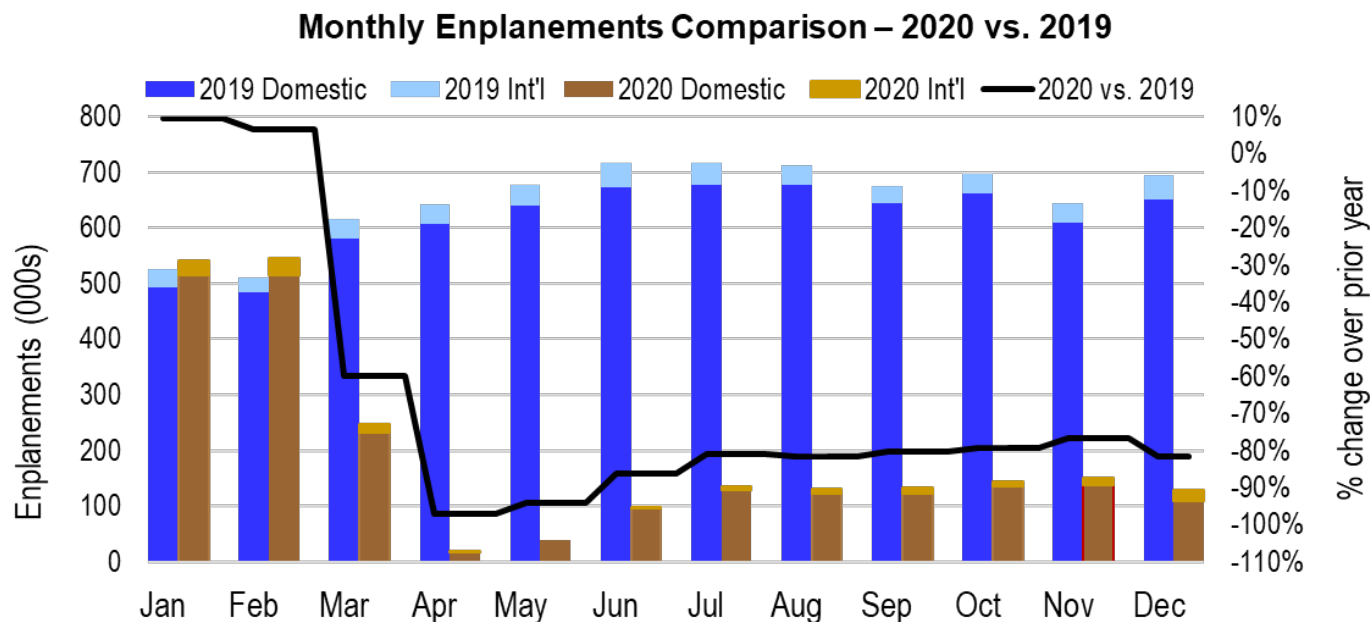
2021 Refundings Will Bolster Metrics through Recovery

- ✈ Refundings will provide significant near-term and long-term savings to help support strong airport operations and financial metrics through the COVID recovery
- ✈ Actual savings will depend on market conditions and the Bond interest rates set when the Bonds are sold
- ✈ \$163,318,721 of debt service savings translates to about \$136 million in today's dollars (Net Present Value) or 29% of the principal to be refunded.
- ✈ Depending on then prevailing interest rates:
 - 2024 may present another opportunity for current refunding of \$77.6 million of 2014 bonds
 - 2027 may present opportunity for current refunding of \$508.8 million of 2017 bonds.

FY Ended June 30	Increase/ (Decrease) in Airport Debt Service on Bonds After Restructuring
2022	(\$47,836,186)
2023	(\$33,918,027)
2024	(\$12,784,166)
2025	(\$11,656,056)
2026	(\$6,764,386)
2027	(\$5,664,160)
2028	(\$6,585,365)
2029	(\$12,380,830)
2030	(\$13,360,887)
2031	(\$14,367,067)
2032	(\$15,394,263)
2033	(\$6,720,688)
2034	(\$7,409,963)
2035	\$6,207,201
2036	\$5,668,283
2037	\$5,137,648
2038	\$4,550,306
2039	\$4,045,554
2040	\$3,260,076
2041	\$2,654,256
Totals	(\$163,318,721)

Refinancing Can Help Offset COVID Impacts

- ✈ April 2020 monthly enplanements declined approximately 97% versus April 2019 and have averaged about 80% below CY 2019 levels



¹ The passenger trends at SFO and OAK are sourced from publicly available information provided by SFO and OAK, respectively.

Source: Norman Y. Mineta San José International Airport

- ✈ Restructuring certain 2022 and 2023 maturities of the 2014A, 2017A and 2017B bonds provides further relief for recovery from COVID impacts.

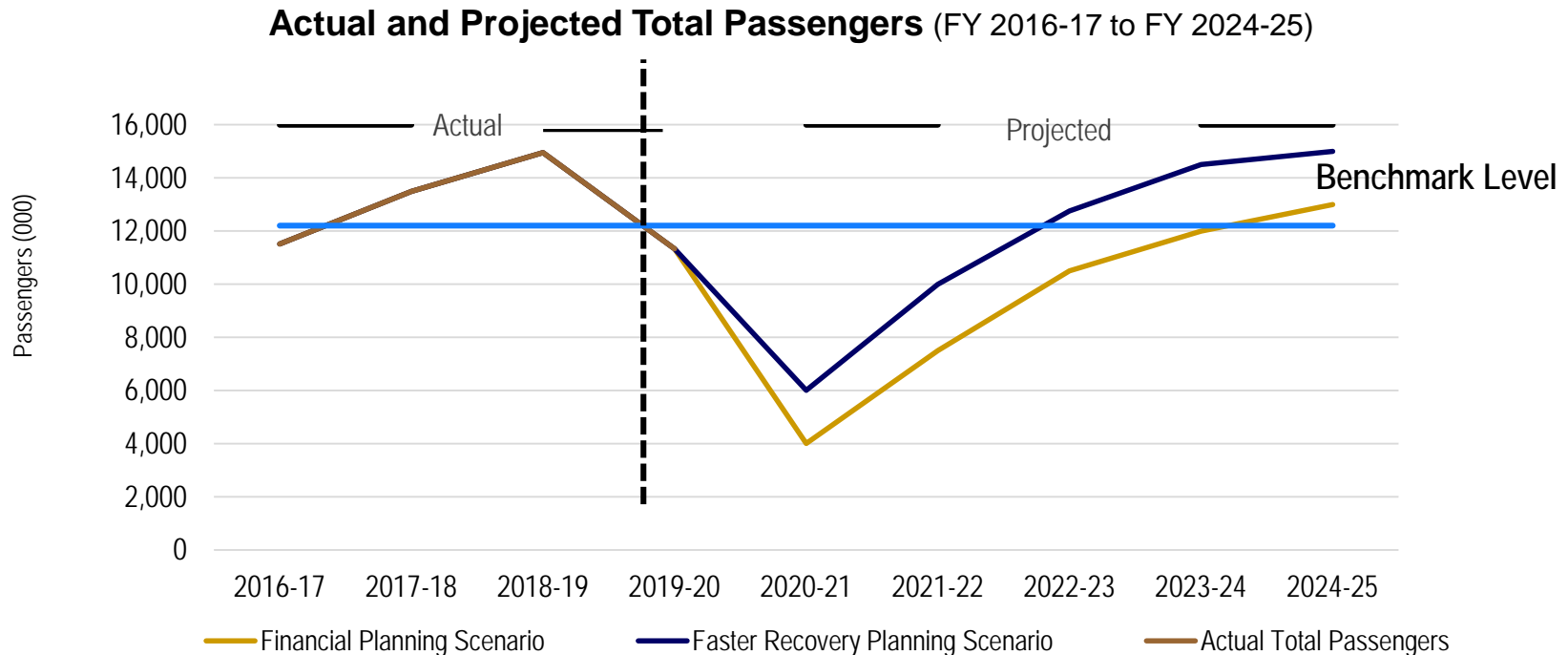
Major Assumptions Underlying Recovery Planning Scenarios

- ✈ Prior to the COVID pandemic, passenger traffic at SJC was growing rapidly and the airport facilities were under increasing strain
- ✈ Focus of planning scenarios not necessarily a return to FY 2018-19 traffic levels, but rather to a sustainable level of traffic given existing facilities, or the “Benchmark Level” ¹
- ✈ Financial Planning Scenario assumes 4 million passengers in FY 2020-21, growing to reach the Benchmark Level in early FY 2024-25
 - (64.7%) in FY 2020-21 vs. FY 2019-20 level
- ✈ Faster Recovery Planning Scenario assumes 6 million passengers in FY 2020-21, growing to reach Benchmark Level in FY 2022-23
 - (47.0%) in FY 2020-21 vs. FY 2019-20 level
- ✈ 2021ABC refunding debt service savings built into both Planning Scenarios
 - No other new long-term debt assumed to be issued during the planning horizon

¹ *Benchmark Level is the original activity trigger for the New Terminal Project that was in the previous Airline-Airport Lease and Operating Agreement - 12.2 million passengers per year, which was exceeded in FY 2017-18*

SJC Traffic Recovery Scenarios Prepared

- ✈ Financial Planning Scenario developed for Airport financial planning purposes and was the basis for the development of the FY 2020-21 Operating Budget and is built around the estimated Airport passenger level of 12.2 million in a single fiscal year (the “Benchmark Level”)
- ✈ Financial Planning Scenario achieves recovery to the Benchmark Level by early FY 2024-25, and the Faster Recovery Planning Scenario in FY 2022-23



Source: Norman Y. Mineta San José International Airport

Importance of Disclosure - “Speaking To The Market”

- Key points to remember:
 - 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.
- 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 or
 - 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.

Review of Official Statement - Content

- 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
 - Certain Factors Affecting the Airport
- Appendix A describes the Airport's current and historical financial position, including discussion of revenues and expenses. It also provides economic and demographic information useful to investors.
- Appendix B includes detailed information about the Federated Retirement Plan.
- Elected officials not expected to be “fact checkers”

Review of Official Statement - 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?

Review of Official Statement -Elected Officials' - Sign-off

- If any Councilmember has any personal knowledge that any of the material information in the Official Statement is or may be false or misleading or that material information has been omitted, the Councilmember must raise these issues prior to approval of the distribution of the document.
- Council approval of Bond Documents and Preliminary Official Statement consistent with good disclosure practices.

PRELIMINARY OFFICIAL STATEMENT DATED [MARCH __], 2021

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS
(See "RATINGS" herein)

In the opinion of *Ornick, Hartergers & Smith LLP*, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions and documents, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, except that no opinion is expressed as to the status of interest on any Series 2021A Bond for any period that such Series 2021A Bond is held by a "related person" within the meaning of Section 147(c) of the Internal Revenue Code of 1986. Bond Counsel advises, however, that interest on the Series 2021A Bonds is a specific preference item for purposes of the federal alternative minimum tax. In the other opinion of Bond Counsel, interest on the Series 2021B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2021C Bonds is exempt from State of California personal income taxes. Bond Counsel further advises that interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. 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 2021 Bonds. See "TAX MATTERS" herein.

\$431,790,000*
CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE REFUNDING BONDS

\$87,435,000* Series 2021A (AMT)
\$49,025,000* Series 2021B (Non-AMT)
\$295,330,000* Series 2021C (Taxable)

Dated: Date of Delivery Due: March 1, as shown on the bond cover

The City of San Jose Airport Revenue Refunding Bonds, Series 2021A (AMT) (the "Series 2021A Bonds"), the City of San Jose Airport Revenue Refunding Bonds, Series 2021B (Non-AMT) (the "Series 2021B Bonds"), and together with the Series 2021A Bonds, the "Tax-Exempt Bonds", and the City of San Jose Airport Revenue Refunding Bonds, Series 2021C (Taxable) (the "Series 2021C Bonds" or the "Taxable Bonds"), are being issued by the City of San Jose, California (the "City"). The Series 2021A Bonds are being issued (i) to refund all or a portion of the outstanding City of San Jose Airport Revenue Bonds, Series 2011A-1 (AMT), and (ii) to pay costs of issuing the Series 2021A Bonds. The Series 2021B Bonds are being issued (i) to refund all or a portion of the outstanding City of San Jose Airport Revenue Bonds, Series 2011A-2 (Non-AMT), and (ii) to pay costs of issuing the Series 2021B Bonds. The Series 2021C Bonds are being issued (i) to refund all or a portion of the outstanding City of San Jose Airport Revenue Bonds, Series 2011B (Taxable), a portion of the outstanding City of San Jose Airport Revenue Refunding Bonds, Series 2011A, and a portion of the outstanding City of San Jose Airport Revenue Refunding Bonds, Series 2011B, (ii) to refund a deposit into the 2021C Account of the Bond Revenue Fund, and (iii) to pay costs of issuing the Series 2021C Bonds. The Tax-Exempt Bonds and the Taxable Bonds are known, referred to collectively as the "Series 2021 Bonds".

The Series 2021 Bonds are being issued pursuant to the City Charter and pursuant to a Master Trust Agreement between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Series 2021 Bonds are limited obligations of the City payable solely from, and secured by a pledge of, General Airport Revenues and certain other funds held in trust available under the Master Trust Agreement, after Maintenance and Operating Costs are paid. The pledge is in a priority with the pledge of General Airport Revenues made to secure Outstanding Bonds and any additional Bonds issued under the Master Trust Agreement. The City has covenanted in the Master Trust Agreement not to incur any obligations secured by a pledge of General Airport Revenues senior to the claims of the Series 2021 Bonds.

Interest on the Series 2021 Bonds will be payable on March 1 and September 1, commencing September 1, 2021. The Series 2021 Bonds are issuable as fully registered bonds and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchase and sales of the Series 2021 Bonds may be made in book-entry form only, as demonstrated in §10.000 and integral multiples thereof. Purchases will not occur certificate form the City or the Trustee representing their interest in the Series 2021 Bonds purchased. As long as the Series 2021 Bonds are held by DTC, the principal of, premium, if any, and interest on the Series 2021 Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2021 Bonds, as more fully described herein.

The Series 2021 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as more fully described herein.

The principal of, premium, if any, and interest on the Series 2021 Bonds are secured solely by the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after Maintenance and Operating Costs are paid, and the City is not obligated to pay the Series 2021 Bonds except from the General Airport Revenues and such other funds held or made available under the Master Trust Agreement. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal of, premium, if any, and interest on the Series 2021 Bonds. The Series 2021 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement. The owners of the Series 2021 Bonds have no right to compel the exercise of any taxing power of the City.

The cover page is not intended to be a summary of the terms of, or the security for, the Series 2021 Bonds. Investors are advised to read the Official Statement in its entirety to obtain information material to the making of an informed investment decision.

The Series 2021 Bonds are offered when, as and if issued by the City and received by the Underwriters, subject to the approval of the City of San Jose, Hartergers & Smith LLP, Bond Counsel to the City. Certain legal matters will be passed upon on behalf of the City by the City Attorney, and certain legal matters will be passed upon for the City by Ornick, Hartergers & Smith LLP as disclosure counsel and letterhead. A Professional Law Corporation as per the

* Preliminary; subject to change

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Presentations to Rating Agencies

- ✈ Ratings meetings held with Moody's Investors Service, S&P Global Ratings and Fitch Ratings on March 4th and 5th
- ✈ Ratings expected back from the rating agencies on March 12th
- ✈ Current outstanding ratings on the outstanding Airport bonds

<u>Bond Rating Agency</u>	<u>Bond Rating</u>	<u>Rating Outlook</u>
Moody's Investors Service	A2	Stable
S&P Global Ratings	A-	Negative
Fitch Ratings	A	Negative

Source: Moody's Investors Service, S&P Global Rating and Fitch Ratings

Financing Schedule

- ✈ **March 4-5:** Rating Presentations
- ✈ **March 9:** **City Council Approval**
- ✈ **March 15:** Post POS / Begin Marketing Bonds
- ✈ **Week of March 22:** Price Bonds / Set Interest Rates
- ✈ **Early April:** Close Bonds

Recommendations

- ❑ Hold a TEFRA hearing with respect to the proposed issuance by the City of airport revenue refunding bonds in an aggregate principal amount not to exceed \$117,000,000
- ❑ Adopt 21st Supplemental Resolution of the City Council:
 - 1) Authorizing the issuance of Series 2021A, 2021B and Series 2021C, to be sold through negotiated sale;
 - 2) Approving the 12th Supplemental Trust Agreement, Official Statement with all appendices, Bond Purchase Agreement, and Continuing Disclosure Certificate;
 - 3) Authorizing the City's Authorized Representative to take other necessary actions in connection therewith

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