



Memorandum

TO: HONORABLE MAYOR AND CITY
COUNCIL AND CITY OF SAN JOSE
FINANCING AUTHORITY BOARD

FROM: Julia H. Cooper
Matt Cano

SUBJECT: SEE BELOW

DATE: September 20, 2021

Approved

Date

09/23/21

COUNCIL DISTRICT: 7

**SUBJECT: APPROVAL OF THE SALE AND ISSUANCE OF BONDS AND RELATED
BOND DOCUMENTS FOR CITY OF SAN JOSE FINANCING
AUTHORITY LEASE REVENUE BONDS, SERIES 2021A
(FIRE DEPARTMENT TRAINING CENTER AND CENTRAL SERVICE
YARD PROJECTS)**

RECOMMENDATION

a. City Council ("Council") take the following actions:

1. Conduct a Public Hearing for the approval of the issuance by the City of San José Financing Authority Lease Revenue Bonds, Series 2021A (Fire Department Training Center and Central Service Yard Projects) (the "2021A Bonds"), to finance the acquisition and construction of the public improvements of the City of San José consisting of the Fire Department Training Center and Central Service Yard Projects and consider a finding of significant public benefit accruing from such financing; and
2. Adopt a resolution approving and authorizing the execution of documents and approving related actions in connection with the issuance by the City of San José Financing Authority Lease Revenue Bonds, Series 2021A (Fire Department Training Center and Central Service Yard Projects), in the principal amount not to exceed \$30,000,000 and amending Resolution No. 80125 relating to the City of San José Financing Authority Lease Revenue Commercial Paper Notes; and

b. City of San José Financing Authority Board ("Authority Board") adopt a resolution authorizing the issuance by the City of San José Financing Authority of the 2021A Bonds in the principal amount not to exceed \$30,000,000, and approving and authorizing the execution of documents and approving related actions in connection with the issuance, and amending

Resolution No. 152 relating to the City of San José Financing Authority Lease Revenue Commercial Paper Notes.

UNDER BOTH THE DEBT MANAGEMENT POLICY AND SAN JOSE MUNICIPAL CODE SECTION 4.34.200, APPROVAL OF THE ISSUANCE OF THE LEASE REVENUE BONDS REQUIRES A TWO-THIRDS VOTE BY THE CITY COUNCIL (8 VOTES).

OUTCOME

Approval of these recommendations will allow for the issuance of the 2021A Bonds to fund acquisition, construction, and equipping of the City's Fire Department Training Center, and to fund additional improvements to and equipping of the Central Service Yard, by refinancing outstanding Lease Revenue Bonds issued in 2003 and outstanding Commercial Paper Notes each issued to fund prior improvements to the Central Service Yard. The new transaction would be structured with annual lease payments on the 2021A Bonds that are approximately equal to the current lease payments on the refinanced obligations, thereby not increasing the current annual appropriation for semi-annual lease payments from the Service Yards Construction and Conveyance Tax Fund but extending the term of the lease payments by approximately 11 years to accommodate the additional borrowing for improvements.

EXECUTIVE SUMMARY

The 2021A Bonds are being issued to:

- (i) refund, on a current basis, the outstanding Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project) (the "2003A Bonds") of the City of San José Financing Authority ("the Authority") in an outstanding principal amount of \$3.15 million as of the expected date of bond closing and the related lease payment obligation of the City of San José (the "City");
- (ii) refund, on a current basis, the outstanding Tax-Exempt Lease Revenue Commercial Paper Notes issued by the Authority related to the Central Service Yard (the "Central Service Yard CP Notes") in the amount of \$2.47 million as of the expected date of bond closing;
- (iii) finance the acquisition and construction of public improvements benefitting the City in the total amount of \$22.6 million, including
 - (a) the acquisition, construction, and equipping of the Fire Department Training Center to be located at 1591 Senter Road in the City to be occupied by the San José Fire Department (in the amount of \$15.0 million) ("Fire Department Training Center Project");
 - (b) additional improvements to and equipping of the Central Service Yard which is located at 1661 Senter Road in the City (in the amount of \$7.6 million) ("Central Service Yard

Project”) (and together the “Fire Department Training Center and Central Service Yard Projects”); and

(iv) pay the costs of issuing the 2021A Bonds.

The refunding plan calls for the release of approximately \$1.66 million on deposit in a reserve fund for the 2003A Bonds which will be used as a source to refund the outstanding 2003A Bonds.

The 2021A Bonds are being structured so the annual debt service payments will approximately equal the annual debt service payments on the 2003A Bonds and the Central Service Yard CP Notes. Interest rates and therefore final total debt service, will not be set until the bonds are priced and sold to investors, currently expected on October 6, 2021.

BACKGROUND

On January 12, 2021, Council and the Authority Board approved the issuance of Lease Revenue Commercial Paper Notes (“Commercial Paper Notes”) by the Authority in the amount of \$23.4 million as a temporary bridge financing tool for the construction of the Fire Department Training Center (the “FDTC”) and the City Emergency Operations Center (the “EOC”)¹ and awarded the construction contract². While the authorization of the \$23.4 million of Commercial Paper Notes was necessary to provide sufficient capacity to award the construction contract, the City has not needed to access Commercial Paper program funds to pay for project expenditures to date, nor has the Authority issued such Commercial Paper Notes.

On June 22, 2021³, as part of several actions related to the Commercial Paper Note program, the Authority and the City adopted resolutions to reduce the amount of Commercial Paper Notes authorized to be issued for the purpose of funding the FDTC and the EOC from \$23.4 million to \$4.2 million upon the sale of the 2021A Bonds. This reduction in Commercial Paper Notes authorization is effective on the date the Authority issues the 2021A Bonds to finance the Fire Department Training Center (the “FDTC Lease Revenue Bonds”). The remaining authorized Commercial Paper Notes to be available for certifying funding for the Fire Department Training Center which also total \$4.2 million, will ultimately be funded from final sales proceeds to be received from Google in 2022. In the meantime, \$4.2 million is released based on the receipt of General Obligation bond proceeds in July 2021 for the EOC.

¹<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4735578&GUID=C50DF002-A166-49C9-BCA0-D4F369D95192>

²<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4735571&GUID=62FBDBDF-35FE-479D-8CDD-0FAFCE5A45C5>

³<http://sanjose.legistar.com/gateway.aspx?M=F&ID=32b6ca2e-c509-42c3-a8dc-81fd707ead58.pdf>

The City and Authority adopted Resolution No. 80125 and Resolution No. 152, respectively, and authorized the City and Authority to, in part, require that an additional amount of Commercial Paper Notes be released upon issuance of the 2021A Bonds to finance the FDTC.

The Authority issues lease revenue bonds from time to time to assist the City with the financing of the acquisition and construction of public facilities. Unlike the City's General Obligation Bonds, no new property taxes are imposed to pay the debt service on such bonds and no voter approval is required. Instead, lease revenue bonds are payable from lease revenues received by the Authority from the City for the beneficial use and occupancy of leased facilities. While the City is obligated to make such payments from any legally available sources, including the General Fund, such payments are often allocated to be paid from different City funds, including enterprise funds, depending on the use of the leased facilities. In some cases, such as the Ice Centre, the lease costs are borne by non-city users.

In connection with the issuance of the 2021A Bonds, the City and the Authority will enter into a site lease (the "Site Lease") under which the land and improvements located at 1591 Senter Road (on which certain portions of the FDTC – including the training tower and ancillary buildings - will be built and as illustrated), Fire Station 29 located at 199 Innovation Drive, and Fire Station 34 located at 1634 Las Plumas Avenue will be leased by the City to the Authority (collectively, the "Leased Property"). The Authority will lease the Leased Property to the City pursuant to a lease agreement (the "Lease Agreement") in consideration of an upfront rental payment sufficient to provide funds to refund the 2003A Bonds and Central Service Yard CP Notes, finance the Fire Department Training Center and Central Service Yard Projects, and pay the costs of issuing the 2021A Bonds.



Plan of Finance

The 2021A Bonds are being issued to accomplish the following primary objectives:

- Refinance \$3.15 million of outstanding 2003A Bonds;
- Refinance \$2.47 million of outstanding Central Service Yard CP Notes authorized by Council in November 2005;
- Provide funding for a portion of the Fire Department Training Center and Central Service Yard Projects in the amount of \$15 million and \$7.6 million, respectively;

- Enable the use of the existing funds on deposit in the trustee debt service reserve fund for the 2003A Bonds, along with a portion of the proceeds of the 2021A Bonds, to refund the 2003A Bonds; and
- Structure the amortization of the 2021A Bonds so the annual debt service payments will approximate the annual debt service payments on the 2003A Bonds and the Central Service Yard CP Notes as to minimize the annual budgetary impact of the financing.

Prior Obligations for Central Service Yard to Be Refunded:

- **2003A Bonds**
On September 18, 2003, the Authority issued the 2003A Bonds in the original par amount of \$22,625,000 for the purpose of refinancing the then outstanding 1993 Lease Revenue Bonds, Series D (Central Service Yard Acquisition and Improvement Project) issued by the Authority. The outstanding principal amount of 2003A Bonds to be refunded is \$3.15 million.
- **Central Service Yard CP Notes**
On November 15, 2005, City Council and the Authority Board authorized issuance of commercial paper and/or lease revenue bonds to finance certain public capital improvements of the City related to Phase II improvements of the City's Central Service Yard, and the demolition of structures and clean up at the City's Main Service Yard. The principal amount outstanding on the Central Service Yard CP Notes is \$2.47 million.

On January 12, 2021, Council approved the issuance of \$23.4 million of CP Notes as a temporary bridge financing tool for the construction of the FDTC and EOC. No CP Notes have been issued to date for the FDTC or the EOC.

Debt Management Policy and Municipal Code Requirements Related to Lease Financings

The proposal to issue the 2021A Bonds is subject to the City's Debt Management Policy, City Council Policy 1-15 and San José Municipal Code Chapter 4.34 related to lease financings. Under Section III (D) of the Debt Management Policy, the Finance Department is required to conduct due diligence for the proposed lease financing of the project to be financed and identify a source of repayment. These provisions do not apply to a refunding of existing bonds in which case staff does an analysis of the resulting savings. The 2021A Bonds is a combination of new money being issued for the Fire Department Training Center and Central Service Yard Improvement Projects and refunding of 2003A Bonds and Central Service Yard CP Notes. In this case, the source of repayment for the 2021A Bonds from a budgetary perspective will be semi-annual lease payments from the Service Yards Construction and Conveyance (C&C) Tax Fund in approximately the same annual amount as is pledged to the bonds being refunded, but for a longer term.

The Debt Management Policy's provision that requires a feasibility study be performed prior to the issuance of a lease financing is not applicable to the issuance of these lease revenue bonds, as

a feasibility study is required only when the revenues of the project being financed are the source of repayment. In this case, there is no revenue being collected from the projects to be completed from the financing.

UNDER BOTH THE DEBT MANAGEMENT POLICY AND SAN JOSE MUNICIPAL CODE SECTION 4.34.200, APPROVAL OF THE ISSUANCE OF THESE LEASE REVENUE BONDS REQUIRES A TWO-THIRDS VOTE BY THE CITY COUNCIL (8 VOTES).

ANALYSIS

The following section addresses staff's recommendation to adopt the Authorizing Resolutions, bond financing documents, financing team participants and the financing schedule. City staff, representatives of Jones Hall, A Professional Law Corporation, the City's Bond and Disclosure Counsel for the 2021A Bonds, and representatives Public Resources Advisory Group, the City's Municipal Advisor, will be available at the Council meeting on September 21, 2021 to address any questions, issues, and/or concerns.

Description of the 2021A Bonds

2021A Bonds. The 2021A Bonds will be issued on a tax-exempt basis to finance a portion of the Fire Department Training Center and Central Service Yard Projects. The remaining proceeds of the 2021A Bonds will be used to refund the outstanding 2003A Bonds and Central Service Yard CP Notes and pay the costs of issuance of the 2021A Bonds.

Refunding Plan. The current refunding of the 2003A Bonds is expected to take advantage of current low interest rates to make lease revenues available for new projects. The debt service on the 2021A Bonds is structured to approximate the debt service on the 2003A Bonds and the CP Notes, and the payment term is extending from October 15, 2023 to October 1, 2034 to fund the new improvements.

The Finance Department selected RBC Capital Markets, LLC ("RBC") as the underwriter of these bonds through a competitive Request for Proposal process ("Underwriter"). Due to the relatively small size of the financing, RBC was selected as the sole underwriter of the 2021A Bonds and has provided the bond and debt service estimates contained in this memo, assuming interest rates as of August 23, 2021 plus a 50-basis point (or 0.50%) cushion. The actual savings from the refunding of the 2003A Bonds will depend on the actual interest rates for the 2021A Bonds, which are anticipated to be sold on or about October 6, 2021. The actual savings may be higher or lower depending on changes in market conditions and prevailing tax-exempt interest rates at the time the 2021A Bonds are sold. The par amount of the 2021A Bonds is projected to total \$23.1 million, depending on interest rates at the time the 2021A Bonds are sold. The refunded bonds were due to be fully amortized on October 15, 2023, but the 2021A Bonds will be

amortized through October 1, 2034 with approximately level aggregate annual debt service without increasing the annual lease appropriation required.

Debt Service Savings

If no new bonds also were being issued, based on current market rates, the Net Present Value (“NPV”) savings⁴ generated by the refunding of the 2003A Bonds would have been expected to be more than 5.30%, exceeding the 3% level considered as economically viable in the Debt Management Policy. Based on current rates, RBC projects the net present value of these savings would be \$167,185 over the remaining life of the 2003A Bonds through October 15, 2023, based on conservative interest rate assumptions for the bonds to be sold in October. In fact, however, no budgetary savings are expected to be realized as the amount of the existing lease appropriation will be extended from October 15, 2023 to October 1, 2034 and used to fund the new improvements.

Aggregate Debt Service Structure. Debt service on 2021A Bonds will be payable from Lease Payments made by the City to the Authority for the beneficial use and occupancy of the Leased Property.

Total debt service on the 2021A Bonds is estimated to be approximately \$29,959,410, including \$23,095,000 in principal amount and approximately \$6,864,010 in interest cost. Interest on the 2021A Bonds accrues from the date of delivery and is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2022. Annual debt service is being structured subject to an annual constraint of \$2.3 million, which is the current amount budgeted for debt service on the 2003A Bonds and amortization of Central Service Yard CP Notes. Based on this annual debt service constraint and current market interest rates, the 2021A Bonds will have a final maturity on October 1, 2034 to fully amortize the bonds. The estimated true interest cost for the 2021A Bonds is approximately 1.62% (based on current market rates plus a 50-basis point or 0.50% cushion) as of August 23, 2021. Actual rates will be determined based on prevailing market conditions when the 2021A Bonds are sold.

Leased Property. The Leased Property will consist of the land purchased for the FDTC and the improvements thereon located at 1591 Senter Road, together with the existing Fire Station 29 located at 199 Innovation Drive, and existing Fire Station 34 located at 1634 Las Plumas Avenue. Once the FDTC project is complete, one or both of the fire stations will be released from the Lease Agreement. The use of these two essential assets, together with the land for the FDTC, will avoid the need to fund costly capitalized interest during the construction period.

⁴ In order to evaluate bond refundings, the City evaluates the savings in today’s dollars through a Net Present Value (“NPV”) Savings calculation: NPV savings are calculated based on the difference in cash flows between the refunded (old) and refunding (new) debt, discounted at the refunding bond rate (the Arbitrage Yield) and calculated as a percent of the par of the bonds to be refunded.

Public Improvements

Fire Department Training Center Project. The land and improvements comprising the existing FDTC located at Montgomery Street have been sold to Google. To accommodate that sale, the FDTC will be relocated to 1591 Senter Road, which consists of an approximately 4.5-acre vacant lot purchased by the City in 2020. The lot is adjacent to the Central Service Yard and adjacent to numerous City-owned facilities including Excite Ballpark, Solar4America Ice at San José, Kelley Park, Happy Hollow Park and Zoo and History Park. Improvements constructed on this site include a training tower six stories high that includes concrete paving around the tower for the Fire Department to practice fire emergencies and two single story auxiliary training buildings will be constructed at 1591 Senter Road. Additionally, the FDTC project will consist of a two-story 32,112 square-foot building that will house training classrooms for the City's Fire Department, Fire Department recruits and EOC trainees. The building also will include restrooms with showers and locker rooms for training recruits and staff, private office and open cubicle spaces, and building support rooms. This building will be constructed at 1661 Senter Road on the current Central Service Yard site (and is not part of the assets for which lease payments are paid for the bonds).

Central Service Yard Improvement Project. The Central Service Yard, currently comprised of an approximately 22-acre site and eight (8) buildings located thereon, totaling approximately 290,065 square feet, is located at the northeast corner of Senter Road and Phelan Street in San José. The City Departments operating at the Central Service Yard include Public Works, Police, Fire, Transportation and Parks, Recreation and Neighborhood Services, as well as partner organizations such as History San José, Christmas-in-the-Park, and a Fire Muster Team space. Building D4 is being renovated and will be reused as a part of the new Fire Department Training Center operation. The renovations of Building D4 will not be financed with proceeds of the 2021A Bonds.

A portion of the 2021A Bond proceeds will fund capital improvements at the Central Service Yard, including:

- Fueling island
- HVAC replacement work
- Pavement replacement
- Perimeter security fencing
- Roof overhang repair
- Water main replacement
- Roof replacement, painting, and supplemental needs

2021A Bonds Estimated Sources and Uses of Funds

The estimated sources and uses of the 2021A Bonds and other funds for the financing are below:

City of San José Lease Revenue Bonds, Series 2021A (Fire Department Training Center and Central Service Yard Projects) Estimated Sources and Uses of Funds*	
<u>Sources of Funds</u>	
Par Amount of 2021A Bonds	\$23,095,000
Premium	3,876,111
2003A Debt Service Reserve Fund	1,663,568
Total Sources	\$28,634,679
<u>Uses of Funds</u>	
Deposit to Project Funds (\$15M - Fire Training Center and \$7.6M - Central Service Yard Projects)	\$22,600,000
Deposit to 2003A Escrow Fund	3,156,635
Deposit to CP Notes Reimbursement Account (Central Service Yard)	2,479,360
Costs of Issuance/Underwriter's Discount	398,684
Total Uses	\$28,634,679

* Preliminary, as of August 23, 2021, subject to change.

The current transaction replaces an interim financing tool (Commercial Paper Notes) authorized by Council in January with permanent financing for the FDTC project. Council Resolution No. 80125 and Authority Resolution No. 152 will be amended to reflect that additional Commercial Paper Notes will be released, contingent on the receipt of proceeds from the 2021A Bond issuance for the FDTC, to satisfy the balance of the \$95 million in CP authorization for San Jose Clean Energy approved by Council in June 2021.

2021A Bonds Good Faith Estimates. The Municipal Advisor has provided the following good faith estimates with respect to the 2021A 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 2021A Bonds is approximately 1.62%, which assumes market conditions as of August 23, 2021, plus 50 basis points (0.50%).
- Finance charges of the 2021A Bonds are estimated to be \$398,684 (assumes \$306,304 in Costs of Issuance for Bond Counsel/Disclosure Counsel fees and expenses, Municipal Advisor fees and expenses, rating agency fees, title insurance, trustee fees and expenses, and printing costs and other ancillary costs, and \$92,380 for underwriters' discount.)
- Estimated proceeds of the 2021A Bonds expected to be received by the Trustee for deposit to the Project Fund, net of proceeds for Costs of Issuance as noted above to be paid on the

2021A Bonds and including deposits to refinance outstanding Commercial Paper Notes and to refund the outstanding 2003A Bonds, is \$28,235,995.

- Total payment amount is estimated to be \$29,959,410 to the final maturity of the 2021A Bonds.

Significant Public Benefit

The public hearing allows the City Council to hear and consider information concerning the approval of the financing by the Authority and the City for the issuance of the 2021A Bonds, the construction of the Fire Department Training Center and Central Service Yard Projects which will be occupied by the San José Fire Department and other City operations, and make a finding of significant public benefit of such financing.

Under State law, "significant public benefit" includes demonstrable savings in effective interest rate, bond preparation, bond underwriting, or bond issuance costs. The City can lower the cost of financing if the Authority is the issuer because the Authority can issue 2021A Bonds whereas the City would need to create a new financing program to issue Certificates of Participation.

2021A Bond Financing Documents

Both the Council and the Authority Board must adopt resolutions authorizing the issuance and sale of the 2021A Bonds and other related actions (the "City Authorizing Resolution" and the "Authority Authorizing Resolution" and collectively, the "Authorizing Resolutions"). The Authorizing Resolutions authorize the issuance and sale of the 2021A Bonds in the principal amount not to exceed \$30,000,000. The Authorizing Resolutions will be posted to the agenda webpage for this joint meeting of the Council and Authority Board on or about September 10, 2021.

The bond financing documents that require Council and/or Authority Board approval to proceed with the issuance of 2021A Bonds are described below and will also be posted on the agenda webpage on or about September 10, 2021.

Preliminary/Official Statement. The draft Preliminary Official Statement ("POS") has been reviewed and approved for transmittal to the Council and Board by the Disclosure Working Group. The distribution of the Preliminary Official Statement by the City and the Board is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2021A Bonds. Material information is information with a substantial likelihood of having actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2021A Bonds. Staff has carefully reviewed the information contained in the draft POS and believes it to be accurate and complete in all material aspects. If the Council concludes the POS includes all facts that would be material to an investor in the 2021A Bonds, and authorizes the Authorized Officers to proceed with the issuance of the 2021A

Bonds, then one of the actions the City will take in the Authorizing Resolution is to authorize the Authorized Officers to execute all certificates necessary to deem the POS final as of its date, with the exception of certain final pricing and related information.

The Securities and Exchange Commission (the “SEC”) has issued guidance as to the duties of the City with respect to its approval of the POS. 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 2021A Bonds, whether relating to their repayment, tax 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. Section 206 of the Advisers Act prohibits misstatements or misleading omissions of material facts and other fraudulent acts and practices in connection with the conduct of an investment advisory business. In the guidance released by the SEC, the SEC stated that the steps a member of the Council could take includes 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 of the 2021A Bonds, as applicable
- Documents for Approval; Security for the 2021A Bonds
- Requested Approvals

The information to address these areas in the POS can be found in the body of the document in the INTRODUCTION section which describes the purpose of the 2021A Bonds and the source of repayment, among other things. More detailed information on these topics and on the risks related to repayment of the 2021A Bonds is in the BOND OWNERS’ RISK section as well as in Appendix A. Appendix A provides demographic, economic, and financial information about the City. Appendix B, which provides detailed information regarding the retirement plans, is included to give investors an understanding of the impact of retirement costs on the City’s budget.

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

Staff recommends that the City Manager, Director of Finance, or their authorized designees and the Authority’s Executive Director, Treasurer, or their authorized designees (“Authorized Officers”) be authorized to execute the agreements, including the POS, on behalf of the City and the Authority as described below. As modifications may be required prior to the closing, staff also recommends that the Authorized Officers each be authorized to execute the final version of each of these agreements and documents as may be modified in consultation with the City Attorney’s Office.

Legal Documents and Related Terms

Indenture of Trust. The Indenture of Trust (the “Indenture”) is to be entered into by and between the Authority, as the issuer of the 2021A Bonds, and Wilmington Trust, National Association, as the Trustee for the 2021A Bonds. This agreement sets forth terms of the 2021A Bonds and contains the responsibilities and duties of the Trustee and the rights of the bondholders. Wilmington Trust was selected by Finance staff from prior City experience with Wilmington Trust acting as trustee on other bond issues and their proposed fees. Under the Indenture, the 2021A Bonds are payable from and secured by a first pledge of and lien on Revenues (as defined below) received by the Authority under the Lease Agreement, consisting primarily of the Lease Payments made by the City under the Lease Agreement with respect to the Leased Property. The principal and interest on the 2021A Bonds are not a debt of the Authority or the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of their respective property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture.

No Debt Service Reserve Account for 2021A Bonds. Based on the City’s high credit ratings, the low earnings available for such reserves and rating agencies’ and investors’ changing requirements for such reserves, the City does not expect to fund a debt service reserve account in order to market the 2021A Bonds.

Site Lease. The Site Lease is between the City (lessor) and the Authority (lessee). The City will lease the Leased Property to the Authority. In exchange the Authority will make an upfront payment (the amount of the 2021A Bonds) that will be applied, among other costs, to the refunding of the 2003A Bonds and the Central Service Yard CP Notes and the financing of the Fire Department Training Center and Central Service Yard Projects.

Lease Agreement. Under the Lease Agreement, the City will lease the Leased Property back from the Authority, under which the City has agreed to pay semiannual Lease Payments for the beneficial use and occupancy of the Leased Property. The Lease Agreement also provides that lease payments are reduced or eliminated when there is substantial interference with the City’s use and occupancy of the facilities, such as damage or destruction from “abatement events”. Under the Lease Agreement, subject to the provisions of the Lease Agreement regarding abatement and prepayment, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments also known as “Revenues” for the Authority in the respective amounts specified in the Lease Agreement, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in the Lease Agreement, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in the Lease.

Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable by the City in each Rental Period for and

in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period.

The City and the Authority have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under the Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Source of Payments; Covenant to Budget and Appropriate. Under the Lease Agreement, the Lease Payments are payable from any source of legally available funds of the City, subject to the provisions of the Lease Agreement regarding abatement.

Subject to the provisions of the Lease Agreement regarding abatement, the City covenants in the Lease to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease Agreement and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. This covenant of the City constitutes a duty imposed by law, and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements agreed to be carried out and performed by the City under the Lease Agreement. Notwithstanding any other provision of the Lease Agreement, the City will in no event be obligated to pay any Lease Payments or Additional Rental Payments due under the Lease Agreement in any Rental Period for any succeeding Rental Period.

Bond Purchase Agreement. The Bond Purchase Agreement (the “BPA”) is an agreement by and among the Authority, the City, and RBC as the initial purchaser of the 2021A Bonds. The BPA specifies the representations and warranties of the Authority and the City, the documents to be executed at closing, the final debt service schedule for the 2021A Bonds and the conditions that allow RBC to cancel its commitment to purchase the 2021A Bonds. The BPA also specifies the amount of RBC’s discount as underwriter of the 2021A Bonds, which staff recommends not exceed 0.5% of the par amount of the 2021A Bonds.

Continuing Disclosure Certificate. Pursuant to the Continuing Disclosure Certificate, the form of which is appended to the POS, the City will covenant for the benefit of owners of the 2021A 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, commencing on April 1, 2022 with the report for the 2020-21 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 the Continuing Disclosure Certificate. These covenants in the Continuing Disclosure Certificate will be made by the City to assist RBC, as the underwriter of the 2021A Bonds, to comply with SEC Rule 15c2-12(b)(5).

Financing Team Participants

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| • City's Municipal Advisor: | Public Resources Advisory Group |
| • Bond Counsel: | Jones Hall, A Professional Law Corporation |
| • Disclosure Counsel: | Jones Hall, A Professional Law Corporation |
| • Underwriter of 2021A Bonds | RBC Capital Markets, LLC |
| • Trustee for 2021A Bonds | Wilmington Trust, N.A. |
| • Trustee for 2003A Bonds | U.S. Bank National Association |
| • Trustee for Central Service Yard CP Notes: | Wells Fargo Bank, N.A. |

Financing Schedule

City Council/Authority Board Approval	September 21, 2021
Bond Pricing ⁵	October 6, 2021
Bond Closing ⁵	October 20, 2021

CONCLUSION

Approval of these recommendations will allow for the issuance of the 2021A Bonds, which will refund the 2003A Bonds, refund the Central Service Yard CP Notes, finance a portion of the Fire Department Training Center construction, finance improvements at the Central Service Yard and pay costs of issuing the bonds. It is anticipated that the refinancing of the 2003A Bonds and CP Notes and amortization of the 2021A Bonds over a longer period ending October 1, 2034, will allow the City to fund the new improvements without any increase in annual lease appropriations.

EVALUATION AND FOLLOW-UP

This memorandum presents a recommendation for the Council's approval of various actions related to the issuance of the 2021A Bonds and requires no follow-up to the Council. The Finance Department will provide Council with pricing results after the closing of the 2021A Bonds.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

⁵ Preliminary; subject to change.

PUBLIC OUTREACH

It is necessary that Council conduct a public hearing, as required by State law, to authorize the issuance of a portion of the 2021A Bonds for the Fire Department Training Center and Central Service Yard Projects. No later than five days before the public hearing to be held by the City Council on September 21, 2021, a notice advertising the hearing will be published in the *San José Post-Record*.

This memorandum will be posted on the City's Council Agenda website for the October 5, 2021 Council Meeting, along with all referenced financing documents.

COORDINATION

This staff report has been prepared by the Finance Department and Public Works, in coordination with the City Attorney's Office, and the City Manager's Budget Office.

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.

The proposed financing plan is consistent with the Council-approved Guiding Principles for Budget and Financial Management for the City to meet its legal commitments and requirements with respect to repayment of bonds, and is consistent with the City Debt Management Policy, which establishes the following equally important objectives to obtain cost-effective access to the capital markets:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting; and

- Ensure compliance with applicable State and Federal laws.

COST SUMMARY/IMPLICATIONS

The 2021A Bonds will be limited obligations of the Authority, payable in whole from Lease Payments for the use and occupancy of the Leased Property applied to the payment of the 2021A Bonds and the interest thereon. The City will be obligated to make Lease Payments to the Trustee for debt service payments.

Currently, from a budgetary perspective, the Service Yards C&C Tax Fund pays the annual debt service payments associated with 2003A Bonds and the Central Service Yard CP Notes. These annual debt service payments do not exceed \$2.3 million, which is typically partially supported by a transfer from the General Fund, although no transfer is required for 2021-2022. The final payment on the outstanding 2003A Bonds was scheduled for 2024-2025. It is important to note that while the annual debt service payments for the 2021A Bonds are structured to ensure that the annual debt service amounts remain approximately equal to the combined sum of annual debt service amounts for the existing 2003A Bonds and Central Service Yard CP Notes, the debt obligations for which the Service Yards C&C Tax Fund will be used are now extended to 2034-2035 due to the amortization of the portion of the 2021A Bonds being issued to fund new project costs.

For 2021-2022, \$1.58 million is budgeted for the scheduled payment of principal and interest on the 2003A Bonds due on October 15, 2021 and \$546,000 is budgeted for the first interest payment on the 2021A Bonds in April 2022.

An additional \$100,000 is budgeted in the Service Yards C&C Tax Fund for the fees and interest for the \$23.4 million in Commercial Paper Notes previously authorized for the FDTC and EOC projects should funding be required between when construction contract awarded in January 2021 and the issuance of the 2021A Bonds.

Annual debt payments of \$2.3 million in the Service Yards C&C Tax Fund beginning in 2022-2023 and continuing through 2025-2026 were included in the 2022-2026 Adopted Capital Improvement Program for the Service Yards, which is partially supported by a transfer from the General Fund of \$500,000 in 2023-2024 and increasing to \$750,000 in 2024-2025 and 2025-2026. Annual costs for debt service and the amount transferred from the General Fund will be evaluated each year and brought forward as part of future budget processes. Budget adjustments to recognize the technical transactions related to the 2021A Lease Revenue Bonds will be included in the 2020-2021 Annual Report that is scheduled for City Council review and approval on October 19, 2021.

September 20, 2021

Subject: City of San José Financing Authority Lease Revenue Bonds, Series 2021A

Page 17

CEQA

Mitigated Negative Declaration for Fire Training Station and Emergency Operations Relocation Project, File No. ER20-180 (City Council Resolution No. 79804).

/s/

JULIA H. COOPER

Director of Finance

Treasurer, City of San José Financing Authority

/s/

MATT CANO

Director of Public Works

For questions, please contact Nikolai J. Sklaroff, Deputy Director of Finance, Debt and Treasury Management Division, at (408) 535-7832.