

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: Moody's: ____

S&P: ____

Fitch: ____

See "RATINGS" herein

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.



\$ ____ *

CITY OF SAN JOSE FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 2021A
(FIRE DEPARTMENT TRAINING CENTER AND CENTRAL SERVICE YARD PROJECTS)

Dated: Date of Delivery

Due: October 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "Bonds") are being issued by the City of San José Financing Authority (the "Authority") under a resolution adopted by the Governing Board of the Authority on [October 5], 2021, and an Indenture of Trust dated as of November 1, 2021 (the "Indenture"), by and between the Authority and Wilmington Trust, National Association, as trustee (the "Trustee"). See "THE BONDS – Authority for Issuance."

Purpose. The Bonds are being issued primarily to (i) refinance on a current basis the outstanding Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project) of the Authority and the related lease payment obligation of the City of San José (the "City"), (ii) refinance on a current basis the outstanding Tax-Exempt Lease Revenue Commercial Paper Notes of the Authority, (iii) finance the acquisition and construction of public improvements, and (iv) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "Revenues" (as defined in this Official Statement) received by the Authority under the Lease Agreement, dated as of November 1, 2021, by and between the Authority, as lessor, and the City, as lessee (the "Lease"), consisting primarily of lease payments (the "Lease Payments") made by the City under the Lease with respect to the lease of certain real property, as further described in this Official Statement. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

Book-Entry Only. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. See "THE BONDS" and APPENDIX G.

Payments. Interest on the Bonds accrues from the date of delivery and is payable semiannually on October 1 and April 1 of each year, commencing April 1, 2022. Payments of principal and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS – General Provisions."

Redemption. The Bonds are subject to optional redemption and special mandatory redemption from insurance or condemnation proceeds prior to maturity. See "THE BONDS – Redemption."

NONE OF THE BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, OR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

MATURITY SCHEDULE
 (see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE BONDS.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Nossaman LLP. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about November 2, 2021.



**Capital
Markets**

The date of this Official Statement is: _____, 2021

* Preliminary; subject to change.

T-41303 / 1859884

CITY OF SAN JOSE FINANCING AUTHORITY
Lease Revenue Bonds, Series 2021A
(Fire Department Training Center and Central Service Yard Projects)

MATURITY SCHEDULE*
(Base CUSIP:† _____)

\$ _____ Serial Bonds

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
--	-----------------------------------	--------------------------------	--------------	--------------	---------------

* Preliminary; subject to change.

† CUSIP Copyright 2021, CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the City nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

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

AUTHORITY BOARD MEMBERS AND CITY COUNCIL

Sam Liccardo, Mayor, Chair

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

AUTHORITY AND CITY OFFICIALS

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

CITY STAFF

Luz Cofresi-Howe, Assistant Director, Department of Finance
Nikolai J. Sklaroff, Deputy Director of Finance, Debt & Treasury Management Division
Joe Gray, Debt Administrator

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

Public Resources Advisory Group
Oakland, California

TRUSTEE

Wilmington Trust, National Association
Costa Mesa, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the Authority or the Underwriters.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City or the Underwriters.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority in any press release and in any oral statement made with the approval of an authorized officer of the City or the Authority or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, Authority or any other entity described or referenced herein since the date hereof.

Involvement of Underwriters. The following statement has been included in this Official Statement on behalf of the Underwriters: The Underwriter have reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter do not guarantee the accuracy or completeness of such information.

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

Document Summaries. All summaries of the Indenture or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, the Authority, the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

Website. The City maintains a number of websites. However, the information presented on the City's websites is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.



TABLE OF CONTENTS

INTRODUCTION	1	Proposition 62	28
FINANCING PLAN	4	Proposition 1A	29
Refinancing of 2003A Bonds.....	4	Proposition 22	30
THE PROJECT	6	Possible Future Actions.....	30
Estimated Sources and Uses of Funds.....	8	BOND OWNERS' RISKS	31
THE LEASED PROPERTY	9	Economic Condition in Local, State and	
Description and Location.....	9	National Economies	31
Modification of Leased Property.....	9	Hazardous Substances	31
Substitution	10	Clean Water Compliance	37
Release of Leased Property.....	10	Climate Change.....	41
Amendments to the Lease	11	Cybersecurity	43
THE Bonds.....	12	Change in Law	45
Authority for Issuance	12	Policing and Civil Unrest	45
General Provisions.....	12	Future Litigation.....	45
Redemption.....	13	Limited Obligations; Lease Not a Debt of	
Book-Entry Only System	15	the City	46
Transfer, Registration and Exchange.....	15	Abatement of Lease	46
DEBT SERVICE SCHEDULE	16	Limitation on Remedies.....	47
SECURITY FOR THE BONDS	17	No Acceleration Upon Default	47
Revenues; Pledge of Revenues.....	17	Bankruptcy Risks.....	47
Allocation of Revenues by Trustee;		State Law Limitations on Appropriations	48
Application of Funds	18	Secondary Market for Bonds.....	48
Application of Interest Account.....	18	TAX MATTERS	49
Application of Principal Account.....	18	CERTAIN LEGAL MATTERS.....	50
Lease Payments; Covenant to Appropriate .	18	LITIGATION AND SIGNIFICANT CLAIMS.....	51
Limited Obligation	19	RATINGS	51
Abatement.....	20	CONTINUING DISCLOSURE	51
Insurance	20	MUNICIPAL ADVISOR.....	52
THE AUTHORITY	22	UNDERWRITING	52
CONSTITUTIONAL AND STATUTORY		PROFESSIONAL SERVICES	53
PROVISIONS AFFECTING CITY		ADDITIONAL INFORMATION.....	53
REVENUES AND APPROPRIATIONS	23	EXECUTION	54
Article XIII A of the State Constitution	23		
Article XIII B of the State Constitution	24		
Articles XIII C and XIII D of the State			
Constitution	24		
APPENDIX A - THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND			
FINANCIAL INFORMATION			
APPENDIX B - THE CITY OF SAN JOSE: RETIREMENTS PLANS			
APPENDIX C - BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL			
YEAR ENDED JUNE 30, 2020			
APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS			
APPENDIX E - PROPOSED FORM OF OPINION OF BOND COUNSEL			
APPENDIX F - FORM OF CONTINUING DISCLOSURE CERTIFICATE			
APPENDIX G - DTC AND THE BOOK-ENTRY ONLY SYSTEM			

OFFICIAL STATEMENT

\$ _____ *

CITY OF SAN JOSE FINANCING AUTHORITY
Lease Revenue Bonds, Series 2021A
(Fire Department Training Center and Central Service Yard Projects)

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the bonds captioned above (the “**Bonds**”) by the City of San José Financing Authority (the “**Authority**”). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Indenture (as defined below).

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance. The Authority is issuing the Bonds under the following:

- (a) Article 4 of Chapter 5, Division 7, Title 1 of the California Government Code, as amended, commencing with Section 6584 (the “**Law**”);
- (b) resolutions adopted by the Governing Board (the “**Board**”) of the Authority on [October 5], 2021 (the “**Authority Resolution**”), and by the City Council (the “**City Council**”) of the City of San José (the “**City**”) on [October 5], 2021 (the “**City Resolution**”); and
- (c) an Indenture of Trust (the “**Indenture**”) dated as of November 1, 2021, by and between the Authority and Wilmington Trust, National Association, as trustee (the “**Trustee**”).

The City. The City, with an estimated population as of January 1, 2021 of approximately 1,029,782 (as reported by the California Department of Finance), is the third most populous city in the State of California (the “**State**”) and the tenth most populous city in the United States. The territory of the City encompasses approximately 180 square miles. Located at the southern end of the San Francisco Bay, the City is the county seat of the County of Santa Clara (the “**County**”).

The Authority. The Authority was formed pursuant to a Joint Exercise of Powers Agreement dated December 8, 1992, by and between the City and the former Redevelopment

* Preliminary; subject to change.

Agency of the City of San José (the “**Former Agency**”), and is qualified to issue the Bonds under the Law. As a result of changes to the California Community Redevelopment Law, the Former Agency has been dissolved and the Successor Agency to the Redevelopment Agency of the City of San José (the “**Successor Agency**”) has become the successor agency to the Former Agency. The Authority, the Successor Agency and the City are each separate and distinct legal entities, and the debts and obligations of one such entity are not the debts or obligations of the other entities. See “THE AUTHORITY.”

Purpose of the Bonds. The Bonds are being issued to:

- Refinance, on a current basis, all of the Authority’s outstanding lease revenue bonds captioned Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project) (the “**2003A Bonds**”) and the City’s related lease payment obligations;
- Refinance, on a current basis, a portion of the Authority’s outstanding commercial paper captioned Tax-Exempt Lease Revenue Commercial Paper Notes, Series 2 in the principal amount of \$2,474,000, which refinanced certain improvements to the City’s Central Service Yard (the “**Central Service Yard Commercial Paper Notes**”);
- Finance the acquisition and construction of public improvements benefitting the City, including (i) the acquisition, construction, and equipping of a portion of the City’s Fire Department Training Center and (ii) additional improvements to and equipping of the Central Service Yard; and
- Pay the costs of issuing the Bonds.

See “FINANCING PLAN.”

Security for the Bonds and Pledge of Revenues. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on “**Revenues**” (as defined in this Official Statement) received by the Authority under the Lease Agreement dated as of November 1, 2021, between the Authority, as lessor, and the City, as lessee (the “**Lease**”), consisting primarily of lease payments (the “**Lease Payments**”) made by the City under the Lease. The Bonds are also secured by certain funds on deposit under the Indenture (as defined in this Official Statement). See “SECURITY FOR THE BONDS.”

The City and the Authority will enter into a Site Lease dated as of November 1, 2021 (the “**Site Lease**”). Under the Site Lease, the City will lease certain real property to the Authority, initially consisting of Fire Station No. 29 and Fire Station No. 34 and a portion of the site on which the Fire Department Training Center will be constructed (as described herein, collectively, the “**Leased Property**”). Concurrently, the City and the Authority will enter into the Lease, under which the Authority will lease the Leased Property back to the City. See “THE LEASED PROPERTY.”

The City intends to release Fire Station No. 29 from the Leased Property upon completion of the Project, and has the ability to release additional property from the Leased Property pursuant to the Lease Agreement upon the satisfaction of certain conditions. See “THE LEASED PROPERTY - Release of the Leased Property.”

Form of Bonds; Book-Entry Only. The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York (“**DTC**”), or its

nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See “THE BONDS – Book-Entry Only System” and APPENDIX G – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption. The Bonds are subject to optional redemption and special mandatory redemption from the proceeds of insurance or condemnation proceeds prior to their stated maturity dates. See “THE BONDS – Redemption.”

Abatement. The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s use and possession of the Leased Property or any portion thereof. If the Lease Payments are abated under the Lease, the Bond Owners would receive less than the full amount of principal of and interest on the Bonds. To the extent proceeds of rental interruption insurance are available (as described below), Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See “SECURITY FOR THE BONDS – Abatement” and “BOND OWNERS’ RISKS.”

Legal Opinion. Upon delivery of the Bonds, Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel (“**Bond Counsel**”), will release its final approving legal opinion with respect to the Bonds, regarding the validity and the exemption of interest on the Bonds from State of California personal income taxes, in the form attached as APPENDIX E.

Tax Matters. In the opinion of Bond Counsel, subject, however, to certain qualifications described herein, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See “TAX MATTERS” and APPENDIX E for the form of Bond Counsel’s opinion to be delivered concurrently with the Bonds.

Risks of Investment. Debt service on the Bonds is payable only from Lease Payments and other amounts payable by the City to the Authority under the Lease, and certain funds on deposit under the Indenture. For a discussion of some of the risks associated with the purchase of the Bonds, see “BOND OWNERS’ RISKS.”

NONE OF THE BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, OR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

Continuing Disclosure. The City has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, dated the date of issuance of the Bonds and executed by the City (the “**Continuing Disclosure Certificate**”). The form of the Continuing Disclosure Certificate is included in Appendix F hereto. See “CONTINUING DISCLOSURE.”

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change.

FINANCING PLAN

Refinancing of 2003A Bonds

Authority and Purpose of 2003A Bonds. On September 18, 2003, the Authority issued its Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project) in the original par amount of \$22,625,000 (the “**2003A Bonds**”), for the purpose of refinancing the Authority’s 1993 Lease Revenue Bonds, Series D (Central Service Yard Acquisition and Improvement Project).

The refinancing plan calls for the outstanding 2003A Bonds to be redeemed in full on November 2, 2021 (the “**2003A Bonds Redemption Date**”), at a redemption price equal to the principal amount thereof, together with interest coming due and payable on the 2003A Bonds Redemption Date.

Irrevocable 2003A Prepayment Account Deposit. In order to accomplish the refinancing plan for the 2003A Bonds, a portion of the proceeds of the Bonds will be sent to U.S. Bank National Association, acting as the trustee for the 2003A Bonds (the “**2003A Trustee**”), for deposit into an escrow fund (the “**2003A Prepayment Account**”) to be established under irrevocable refunding instructions (the “**2003A Refunding Instructions**”) to be given by the City to the 2003A Trustee. The 2003A Trustee will hold the amounts on deposit in the 2003A Prepayment Account as cash. These funds will be sufficient to redeem the 2003A Bonds in full on the 2003A Bonds Redemption Date.

The moneys held by the 2003A Trustee in the 2003A Prepayment Account are pledged solely to the payment and redemption of the 2003A Bonds and will not be available for payment of the Bonds.

Refinancing of Central Service Yard Commercial Paper Notes

Commercial Paper Program. The City’s commercial paper program, which was established in 2004, utilizes a lease revenue financing structure to issue commercial paper notes at prevailing interest rates for periods up to 270 days. The principal and interest on the Central Service Yard Commercial Paper Notes is supported by an irrevocable direct-pay letter of credit (“**US Bank Letter of Credit**”) provided by U.S. Bank National Association (the “**US Bank**”).

The refinancing plan calls for the Central Service Yard Commercial Paper Notes to be paid at maturity on November 3, 2021 (the “**Commercial Paper Redemption Date**”) with a draw on the US Bank Letter of Credit.

Irrevocable Central Service Yard Commercial Paper Notes Reimbursement Deposit. In order to accomplish the refinancing plan for the Central Service Yard Commercial Paper Notes, a portion of the proceeds of the Bonds will be sent to Wells Fargo Bank, National Association, acting as the trustee and issuing and paying agent for the Central Service Yard Commercial Paper Notes (the “**Commercial Paper Trustee**”), pursuant to irrevocable refunding instructions (the “**Commercial Paper Refunding Instructions**”) to be given by the City to the Commercial Paper Trustee. On the Commercial Paper Redemption Date, the Commercial Paper Trustee will draw upon the US Bank Letter of Credit an amount sufficient to pay the principal amount of the Central Service Yard Commercial Paper Notes plus unpaid interest accrued thereon to the Commercial Paper Redemption Date. The proceeds of the Bonds that are delivered to the Commercial Paper

Trustee will be sufficient to reimburse US Bank for such amounts in full on the Commercial Paper Redemption Date.

The moneys held by the Commercial Paper Trustee pursuant to the Commercial Paper Refunding Instructions are pledged solely to the payment and redemption of the Central Service Yard Commercial Paper Notes and will not be available for payment of the Bonds.

Public Improvements

Proceeds of the Bonds will also finance the acquisition and construction of public improvements benefitting the City, including (i) the acquisition, construction, and equipping of a portion of the City's Fire Department Training Center and (ii) additional improvements to and equipping of the Central Service Yard. See "THE PROJECT."

THE PROJECT

Proceeds of the Bonds will also finance the acquisition and construction of public improvements benefitting the City, including (i) the acquisition, construction, and equipping of a portion of the City's fire department training center (the "**Fire Department Training Center**") and (ii) additional improvements to and equipping of the City's central service yard (the "**Central Service Yard**"), and (ii).

Fire Department Training Center

The proposed Fire Department Training Center is being developed on an approximately 4.5-acre vacant lot located at 1591 Senter Road in the City ("**1591 Senter**"), and on an additional acre of the adjacent Central Service Yard located at 1661 Senter Road. 1591 Senter was purchased by the City in 2020, and is adjacent to the Central Service Yard. The Fire Department Training Center will consist of a tower and auxiliary buildings on 1591 Senter Road; the main two-story 32,112 square foot building, and an existing 16,000 square foot building, known as Building D4, on a portion of the Central Service Yard. The primary building will house training classrooms for the City's fire department, fire department recruits and emergency management system trainees. The main building will also include restrooms with showers and locker rooms for training recruits and staff, private office, and open cubicle spaces, and building support rooms. Building D4 improvements would include seismic upgrade and renovations to allow for large vehicle storage, a wellness room, and various storage areas for the Fire Department training equipment and gear.

Concurrently with the construction of the Fire Department Training Center, the City is also constructing the Emergency Operations Center ("**EOC**") which is being financed with general obligation bond proceeds and grant funds. The EOC will share a common lobby with the Fire Department Training Center, located on the Central Service Yard site, and incorporate the "non-essential" spaces for the EOC such as office spaces and a prep-kitchen for Office of Emergency Management personnel and trainees.

Environmental Considerations. As construction began on the Fire Department Training Center early in 2021, solvent contamination was discovered in the northern portion of the Central Service Yard in the proposed location of the Fire Department Training Center buildings. The source is thought to be a former paint storage facility from an industrial facility previously located on the property prior to the City's ownership. The solvents are found in the soil vapor, and have the potential to migrate vertically into structures built on the soil, causing a possible health risk to building occupants. The City is subject to regulatory oversight for this development with the Santa Clara County Department of Environmental Health ("**County Health**"). A vapor intrusion mitigation system is being installed, and the system includes a vapor barrier and venting under the proposed Fire Department Training Center buildings to prevent vapors from migrating vertically into the buildings.

Environmental investigations performed at 1591 Senter have shown elevated levels of arsenic and lead in the shallow soil above regulatory environmental screening levels for commercial/industrial uses. The City prepared a site management plan ("**SMP**") to mitigate the soil contamination during construction of the Fire Department Training Center. As part of the construction project all soil with arsenic and lead above the approved regulatory cleanup levels was removed from the property for off-site disposal. In February 2021, County Health approved the SMP. The City started construction of the fire training facility in March 2021. A report will be

prepared by the City and submitted to County Health for their review and approval following completion of grading, which is expected by the end of 2021.

Central Service Yard

The Central Service Yard, currently comprised of an approximately 22-acre site and eight buildings located thereon totaling approximately 290,065 square feet, is located at 1661 Senter Road, on the northeast corner of Senter Road and Phelan Street in San Jose. The site is located adjacent to numerous City owned facilities including the San Jose Municipal Stadium, Solar4America Ice at San Jose, San Jose Kelley Park, Happy Hollow Park and Zoo and the History Park in Kelley Park. A portion of the proceeds of the 1993 Bonds were used to finance the acquisition of the site and the buildings located thereon, to construct a parking lot thereon and to retrofit four of the original buildings. Upon completion of these improvements, which occurred in August 1999, the City relocated various operations to the site and began occupying the buildings. The departments currently operating at the Central Service Yard include various programs in the following City departments: Public Works Department, Police Department, Fire Department, Department of Transportation (the “**DOT**”), and Parks, Recreation & Neighborhood Services (“**PRNS**”). Partner non-profit organizations including History San Jose, Christmas-in-the-Park, and a San José Fire Muster Team also occupy the space. In addition to the main building for the Fire Department Training Center, a portion of the 2021A Bond proceeds is expected to fund capital improvements for the Central Service Yard, including the construction of a fueling island, renovations such as painting, HVAC replacement, roof replacement, perimeter security fencing, and water main replacement.

Environmental Considerations. Prior to purchasing the Central Service Yard in 1993, the City conducted an environmental investigation on the Site. The investigation found certain soil contamination in the vicinity of a previously removed underground storage tank, the presence of hydraulic oil contamination associated with a hydraulic lift on the Site and the presence of chlordane at certain areas of the Site. Subsequently, the prior owner remediated the soil contamination and also continued to monitor the underground fuel tank location, which has received case closure from the Santa Clara Valley Water District (the “**District**”).

Estimated Sources and Uses of Funds

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

Sources of Funds:

Principal Amount of Bonds	\$
<i>Plus: Funds Available with Respect to 2003A Bonds</i>	
<i>TOTAL SOURCES</i>	<hr/> \$

Uses of Funds:

Deposit to 2003A Prepayment Account ⁽¹⁾	\$
Deposit to Letter of Credit Reimbursement ⁽²⁾	
Deposit to Project Fund ⁽³⁾	
Costs of Issuance ⁽⁴⁾	
Underwriter's Discount	
<i>TOTAL USES</i>	<hr/> \$

(1) Represents funds to be used to redeem the 2003A Bonds. See “– Refinancing of 2003A Bonds” above.

(2) Represents funds to be used to reimburse US Bank for the draw on the US Bank Letter of Credit to repay the Central Service Yard Commercial Paper. See “– Refinancing of Central Service Yard Commercial Paper Notes” above.

(3) Represents funds to be used to finance the acquisition and construction of the Project.

(4) Represents funds to be used to pay costs of issuance, which include legal fees, printing costs, rating agency fees and other costs of issuing the Bonds.

THE LEASED PROPERTY

Description and Location

Lease Payments will be made by the City under the Lease for the use and occupancy of the Leased Property, which will initially consist of the site of the Fire Department Training Center, Fire Station No. 29 and Fire Station No. 34.

Fire Station 29. The City's Fire Station No. 29 ("**Fire Station No. 29**") is located at 199 Innovation Drive, in the City, and was originally constructed in 1992. Fire Station No. 29 is a two-story building of approximately 13,904 square feet. The City estimates that the value of Fire Station No. 29 is approximately \$8.28 million.

Fire Station 34. The City's Fire Station No. 34 ("**Fire Station No. 34**") is located at 1634 Las Plumas Avenue, in the City, and was originally constructed in 2007. Fire Station No. 34 is a two-story building of approximately 11,543 square feet. The City estimates that the value of Fire Station No. 29 is approximately \$7.13 million.

1591 Senter. A portion of the Fire Department Training Center will be constructed at 1591 Senter. The City estimates that the value of the land at 1591 Senter is approximately \$8.5 million. See "THE PROJECT" for a detailed description of the Fire Department Training Center.

Modification of Leased Property

Under the Lease, the City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease.

Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this provision of the Lease, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under this provision of the Lease; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Substitution

Under the Lease, the City has the option, at any time, to substitute other real property (the “**Substitute Property**”) for the Leased Property or any portion thereof (the “**Former Property**”), upon satisfaction of all of the requirements set forth in the Lease, which includes (among others) the following:

- The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement that adds the legal description of the Substitute Property and deletes therefrom the legal description of the Former Property, and has filed and caused to be recorded corresponding amendments to the Site Lease and Assignment Agreement.
- The City has obtained a CLTA policy of title insurance insuring the City’s leasehold estate under the Lease in the Substitute Property, subject only to Permitted Encumbrances (as defined in the Lease), in an amount at least equal to the estimated value thereof.
- The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California.
- The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the useful life of the Substitute Property at least extends to the final maturity date of the Bonds, that the estimated value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the aggregate Outstanding principal amount of the Bonds, and the fair rental value of the Leased Property, after substitution of the Substitute Property and release of the Former Property, is at least equal to the Lease Payments thereafter coming due and payable under the Lease.

See APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Upon the satisfaction of all such conditions precedent, the Term of the Lease will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under this provision of the Lease.

Release of Leased Property

General. Under the Lease, the City has the option at any time and from time to time to release any portion of the Leased Property from the Lease (the “**Released Property**”) provided that the City has satisfied all of the requirements under the Lease that are conditions precedent to such release, which include (among others) the following:

- The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the County Recorder, sufficient memorialization of an amendment of the Lease, the Site Lease and the Assignment Agreement which removes the Released Property from the Lease, the Site Lease and the Assignment Agreement.

- The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease following such release is at least equal to the aggregate Outstanding principal amount of the Bonds, and the fair rental value of the property which remains subject to the Lease following such release is at least equal to the Lease Payments thereafter coming due and payable thereunder.

Release of Fire Station No. 29 upon Completion of Project. Notwithstanding the foregoing, upon final completion of the Project, the City shall have the absolute right to release from the Lease, the Site Lease and the Assignment Agreement, the portion of the original Leased Property consisting of the Fire Station No. 29, without meeting the conditions set forth above, upon satisfaction of the following conditions:

- The City shall deliver a certificate to the Authority certifying that the Project is complete and the fair rental value of the Project is at least equal to the Lease Payments thereafter coming due and payable hereunder.
- The City and the Authority shall execute a Notice of Release of Leased Property amending the Lease and the Site Lease (the **"Notice of Release"**), and the City shall record the Notice of Release in the real property records of the County.

See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Amendments to the Lease

Under the Lease, the Authority and the City may at any time amend or modify any of the provisions of the Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of the Trustee or any of the Bond Owners, but only if such amendment or modification is for any one or more of the purposes described in the Lease. Amendments or modifications that do not require the consent of the Trustee or any of the Bond Owners include amendments or modifications to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has certified in writing to the Trustee that the estimated fair market value of the Leased Property is at least equal to the aggregate principal amount of the Outstanding Bonds and all such other bonds, notes, leases or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds.

See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

THE BONDS

This section provides summaries of the Bonds and certain provisions of the Indenture. See APPENDIX D for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX D.

Authority for Issuance

The Bonds are being issued under the Law, the Authority Resolution and the Indenture. Under the Authority Resolution and City Resolution, the Bonds may be issued in a principal amount not to exceed \$30,000,000.

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in integral multiples of \$5,000, so long as no Bond has more than one maturity date.

Interest on the Bonds will be payable on October 1 and April 1 in each year, commencing April 1, 2022 (each an “**Interest Payment Date**”). The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Calculation of Interest. Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date;
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date; or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest with respect to the Bonds will be computed on the basis of a 360-day year composed of 12 months of 30 days each.

Record Date. Under the Indenture, “Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

Payments of Principal and Interest. Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of

such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which will remain in effect until rescinded in writing by the Owner.

The Trustee will pay principal and premium, if any, of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender of such Bonds at the Office of the Trustee.

While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “– Book-Entry Only System” below.

Redemption*

Optional Redemption. The Bonds maturing on or after October 1, 20__, are subject to redemption, as a whole or in part at the election of the Authority among maturities on such basis as designated by the Authority and by lot within a maturity, at the option of the Authority, on October 1, 20__, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Bonds are subject to redemption as a whole, or in part on a pro rata basis among maturities, on any date, from any Net Proceeds required to be used for such purpose as provided in the Indenture, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of Bonds for Redemption. If less than all of the Bonds are to be redeemed, the particular maturities of Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of such Bonds, if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be allocated on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

* Preliminary; subject to change.

The Authority intends that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Authority nor the Underwriter can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis.

In connection with any repayment of principal, the Trustee will direct DTC to make a pass-through distribution of principal to the holders of the Bonds.

For purposes of calculation of the "pro rata pass-through distribution of principal," "pro rata" means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective Bonds where (a) the numerator of which is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective Bonds.

If the Bonds are no longer registered in book-entry-only form, each owner will receive an amount of Bonds equal to the original face amount then beneficially held by that owner, registered in such investor's name. Thereafter, any redemption of less than all of the Bonds of any maturity will continue to be paid to the registered owners of such Bonds on a pro-rata basis, based on the portion of the original face amount of any such Bonds to be redeemed.

Notice of Redemption. The Trustee shall mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 20 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Municipal Securities Rulemaking Board as provided in the Continuing Disclosure Certificate.

Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date.

Rescission of Redemption. The Authority has the right to rescind any notice of optional redemption of the Bonds by written notice to the Trustee on or prior to the date fixed for redemption.

Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture.

The Authority and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Bonds so called for redemption will cease to accrue, said Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the

Owners of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry Only System

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple of \$5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See APPENDIX G for further information regarding DTC and the book-entry system.

Transfer, Registration and Exchange

The following provisions regarding the exchange and transfer of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See APPENDIX G – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Bond Register. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee will require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Whenever any Bond or Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

Exchange of Bonds. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee will require the Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The Authority will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

Limitations on Transfer and Exchange. The Trustee may refuse to transfer or exchange, under these provisions of the Indenture, any Bonds selected by the Trustee for redemption under the Indenture, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

DEBT SERVICE SCHEDULE

The table below shows scheduled annual debt service payments on the Bonds, assuming no early redemptions.

[illegible]

SECURITY FOR THE BONDS

The principal of and interest on the 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.

This section provides summaries of the security for the Bonds and certain provisions of the Indenture, the Lease and the Site Lease. See APPENDIX D for a more complete summary of the Indenture, the Lease and the Site Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX D.

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under the Indenture other than the Costs of Issuance Fund and the Project Fund are pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge constitutes a lien on and security interest in the Revenues and such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

“Revenues” are defined in the Indenture to mean:

- (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding (i) any amounts described in the provisions of the Lease relating to permitted amendments that provide for additional rental to be pledged or assigned for the payment of bonds issued to finance or refinance projects for which the City is authorized to expend its funds, and (ii) any Additional Rental Payments (consisting of certain administrative costs due to the Authority and the Trustee under the Lease), and
- (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

Assignment to Trustee. Under the Assignment Agreement, the Authority has transferred to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under the provisions of the Lease regarding Additional Rental Payments, advances, release and indemnification covenants, and agreement to pay attorneys’ fees).

The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee.

The Trustee is also entitled to and required to, subject to the provisions of the Indenture regarding rights of the Trustee, take all steps, actions and proceedings which the Trustee

determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.

Allocation of Revenues by Trustee; Application of Funds

Deposit of Revenues in Bond Fund. All Revenues will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Bond Fund,” which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease to be deposited in the Redemption Fund or the Insurance and Condemnation Fund will be promptly deposited in such funds.

All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Any surplus remaining in the Bond Fund, after payment in full of the principal of and interest on the Bonds or provision therefore under Indenture, and any applicable fees and expenses to the Trustee, will be withdrawn by the Trustee and remitted to the City.

Allocation of Revenues. On or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts and subaccounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

(a) Deposit to Interest Account. The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

(b) Deposit to Principal Account. The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date.

Application of Interest Account

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

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Lease Payments; Covenant to Appropriate

Obligation to Pay. Under the Lease, subject to the provisions of Lease regarding abatement and prepayment, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts specified in the Lease, 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, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in the Lease.

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date will be credited towards the Lease Payment then required to be paid under the Lease. The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee.

The Lease Payments payable in any Rental Period are for the use of the Leased Property during that Rental Period.

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, the Lease Payments are payable from any source of legally available funds of the City, subject to the provisions of the Lease regarding abatement. See “ – Abatement” below.

Subject to the provisions of the Lease 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 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. Notwithstanding any other provision of the Lease, the City will in no event be obligated to pay any Lease Payments or Additional Rental Payments due hereunder in any Rental Period for any succeeding Rental Period.

Limited Obligation

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE AUTHORITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Abatement

Termination or Abatement Due to Eminent Domain. Under the Lease, if the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

(a) the Lease will continue in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary; and

(b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Abatement Due to Damage or Destruction. Under the Lease, the Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof.

The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease continues in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage and destruction.

Insurance

Liability and Property Damage Insurance. Under the Lease, the City is required to maintain or cause to be maintained throughout the Term of the Lease, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property.

Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Lease, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

Casualty Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds.

Such insurance must, (i) as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and (ii) include flood and earthquake insurance, but only in such amounts as are available at reasonable cost from reputable insurers in the judgment of the City if any. Any such flood or earthquake insurance procured by the City may be in any amounts, and is not subject to the minimum amounts described in the previous paragraph.

Such insurance may be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The Net Proceeds of such insurance must be applied as provided in the Lease and described below.

Rental Interruption Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the casualty insurance described above, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance.

The Net Proceeds of such insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Application of Net Proceeds. The Trustee, as assignee of the Authority under the Assignment Agreement, has the right to receive all Net Proceeds. As provided in the Indenture, the Trustee will deposit all Net Proceeds in the Insurance and Condemnation Fund to be applied to the redemption of Bonds as set forth in the Indenture. However, if the Leased Property is damaged or destroyed in full, the Net Proceeds of such insurance shall be used by the City to rebuild or replace the Leased Property if such proceeds are not sufficient to redeem Outstanding Bonds equal in aggregate principal amount to the unpaid Lease Payments allocable to the Leased Property.

Additional Risk Management Programs; Additional Insurance. The City has adopted alternative risk management programs to insure against certain of the risks required to be insured against under the terms of the Lease (except self-insurance against loss of rental income or self-insurance for title insurance as required by the Lease), which have been approved as reasonable and appropriate by a Risk Management Consultant. Notwithstanding anything in the Lease

Agreement to the contrary, the City has the right to adopt alternative risk management programs to insure against any of the risks required to be insured against under the terms of the Lease Agreement, including a program of self-insurance (except self-insurance for rental interruption and title insurance as required by the Lease Agreement), in whole or in part. In addition, the City Manager of the City may approve such other types of insurance, including any increases in the insurance coverage required by the Lease Agreement. The City self-insures for casualty insurance, and does not carry earthquake insurance.

See APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

THE AUTHORITY

Creation of the Authority. The Authority was created by a Joint Exercise of Powers Agreement, dated as of December 8, 1992 (the “**Agreement**”), between the City and the Former Agency. The Agreement was entered into pursuant to the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the State Government Code. The Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City.

The Former Agency was dissolved as of February 1, 2012, and the Successor Agency has become the successor agency of the Former Agency. The Agreement remains in effect.

Governing Board of the Authority. The Authority is governed by an eleven-member Governing Board that consists of the members of the City Council of the City.

Powers of the Authority. Pursuant to the Law, the Authority is authorized to issue bonds for the purpose of financing, refinancing or providing reimbursement for costs incurred in connection with the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of public capital improvements of public entities such as the City. The Law provides for the issuance of revenue bonds by joint exercise of powers authorities, such as the Authority, to be repaid from the proceeds of certain public obligations, such as the Lease. The intent of the California Legislature, as stated in the Law, is to assist in the reduction of local borrowing costs, help accelerate the construction, repair and maintenance of public capital improvements, and promote greater use of existing and new financial instruments and mechanisms such as bond pooling by local agencies.

The Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged under the Indenture and certain funds held under the Indenture.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

The constitutional and statutory provisions discussed in this section have the potential to affect the ability of the City to levy taxes and spend tax proceeds for operating and other purposes. The discussion of the Constitutional and statutory provisions and judicial decisions interpreting these provisions below is not intended to be an exhaustive analysis of these provisions.

Article XIII A of the State Constitution

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978 and has been amended on occasions, including most recently on November 7, 2000, to reduce the voting percentage required for the passage of school bonds. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on any (1) indebtedness approved by the voters prior to July 1, 1978, (2) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition and (3) bonded indebtedness incurred by a school district, community college or county office of education district for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters voting on the proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Section 51 of the Revenue and Taxation Code permits County assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than two percent, depending on the assessor’s measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the one percent base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property.

Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the State Constitution

General. In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years. The City has never exceeded its appropriations limit.

Articles XIII C and XIII D of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

On November 2, 2010, California voters approved Proposition 26, known as the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as

defined in Proposition 26) without a two-thirds vote of the Legislature. With respect to local governments such as the City, Proposition 26's amendments to Article XIIC broadly define "tax," but specifically exclude, among other things:

- "(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIID."

Article XIIC. Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Article XIIC reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund.

Article XIID. Article XIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. If the City were unable to continue to collect the property-related fees or assessments currently collected by the City, the services and programs funded with these revenues would have to be curtailed and/or the City's General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Article XIID or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

Judicial Interpretation of Articles XIIC and XIID. On April 12, 2002, the California Court of Appeal in *Howard Jarvis Taxpayers Association v. City of Roseville* (97 Cal. App. 4th 637

(as modified on denial of rehearing on May 13, 2002; California Supreme Court review denied on July 10, 2002) (“**Roseville**”) held that the City of Roseville’s practice of charging “in-lieu franchise fees” against the budgets of the City-operated municipal utilities violated Article XIID. Annually, the City of Roseville transferred from the enterprise accounts for each of its water, refuse collection and sewer service utilities to its general fund an amount equivalent to 4% of each utility’s annual budget. The basis for these budgetary transfers was that if these utilities were privately operated, the city would receive a franchise fee to compensate it for the use of city streets and rights-of-way.

The *Roseville* court ruled that the “in-lieu franchise fees” were subject to Article XIID’s restrictions on “property-related” fees because the City of Roseville charged for water, refuse collection and sewer service regardless of whether the property owner used the particular service. Because the transfer from each utility’s enterprise account was a flat rate of 4% of the utility’s annual budget, the *Roseville* court also ruled that these budgetary transfers violated Proposition 218’s requirements that a property-related fee cannot exceed the amount necessary to provide the particular service and cannot be imposed to fund general governmental services, such as police, fire and the like. In rendering its decision, the *Roseville* court distinguished an earlier California appellate decision, *Howard Jarvis Taxpayers Assn. v. City of Los Angeles* (2000) 85 Cal. App. 4th 79 (“**Jarvis-L.A.**”). In *Jarvis-L.A.*, the court determined that the charges imposed by the Los Angeles Department of Water and Power were based on water consumption and as such were “commodity charges which do not fall within the scope of Proposition 218.”

On June 3, 2002, the California Court of Appeal in *Howard Jarvis Taxpayers Association v. City of Salinas*, 98 Cal. App. 4th 1351 (rehearing denied on July 2, 2002; California Supreme Court review denied on August 28, 2002) (“**Salinas**”) held that the City of Salinas’s imposition of storm drain fees without voter approval violated section 6(c) of Article XIID. In rendering its decision, the *Salinas* Court held that (i) the Salinas storm drain fees were property-related fees subject to Article XIID’s requirements and (ii) these fees were not exempt from voter approval as “sewer fees.” The *Salinas* court, in holding that the imposition of storm drain fees required voter approval, determined that the voters in approving Article XIID intended that Article XIID’s exemption of sewer fees from voter approval applied only to the imposition of, or increases to, sanitary sewer fees.

The California Legislature in 2017 enacted SB 231, effective on January 1, 2018, to amend California Government Code provisions, known as “The Proposition 218 Omnibus Implementation Act.” The Proposition 218 Omnibus Implementation Act prescribes specific procedures and parameters for local jurisdictions in order to comply with Articles XIIC and XIID and defines terms for these purposes. SB 231 amended Government Code Section 53750 to define sewer to include both storm and sanitary sewers and to set forth in Government Code Section 53751 certain findings of the Legislature concerning the Salinas court’s interpretation of the term “sewer” for purposes of Article XIID. There is no reported decision of a California appellate court applying the Government Code provisions enacted by SB 231 to a storm sewer fee and the City cannot predict, if or how, a California appellate court or the California Supreme Court, would apply these provisions.

Unlike the City of Salinas, the City imposed a storm sewer fee prior to the passage of Proposition 218. In 1999, the City’s storm sewer fees were restructured, without voter approval, in order to meet Article XIID’s sewer fee requirements. Subsequent storm sewer fee increases have been adopted in accordance with Article XIID’s requirements for sewer fee increases. In the event a court were to determine that despite the City’s restructuring of its storm sewer fees to meet Article XIID’s sewer fee requirements, the City’s storm sewer fee increases require voter

approval under Article XIID, then the fees imposed after the passage of Proposition 218 could be at risk.

In July 2006, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal. 4th 205 (“**Bighorn**”), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The *Bighorn* court held that the water agency’s charges for ongoing water delivery were “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery which are fees and charges within the meaning of Article XIID are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held that Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency’s water rates and other water delivery charges. In reaching its decision, the *Bighorn* court expressly disapproved the *Jarvis-L.A.* decision discussed above, “to the extent that it was inconsistent” with its conclusion that charges for water delivery service are charges for a property-related service “whether the charge is calculated on the basis of consumption or is imposed as a fixed monthly fee.”

However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.

On April 20, 2015, the California Court of Appeal issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* (“**Capistrano**”), 235 Cal.App.4th 1493 (as modified on May 19, 2015), upholding tiered water rates under Article XIID provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels.

City’s Current Practices. The City has complied with Article XIID’s noticing and protest procedure requirements for all sanitary and storm sewer rate increases that have been implemented since passage of Proposition 218. With respect to the City’s municipal water utility, known as “San José Municipal Water”, these noticing and protest procedures are also being followed for rate increases implemented after the *Bighorn* decision, even though the City, unlike the agency involved in *Bighorn*, does not collect delinquent charges through a property lien process.

Subsequent to the *Capistrano* decision, the City conducted a cost of service study for San José Municipal Water and in fiscal year 2017-2018 implemented a new rate structure eliminating the prior tiered rate structure for residential customers, adjusting the percentage of costs recovered on a fixed basis through meter charges instead of the quantity charge for water, establishing quantity rates based on the cost of water supply in three service areas, and revising the reserves and reserve levels.

In the past, the City has made budgetary transfers from its municipal utilities to the City’s General Fund similar to those described in the *Roseville* decision. The City has not made any such transfer after fiscal year 2007-2008 and has no plans to make any such transfers in the future.

In June 2018, the trial court in two consolidated class action lawsuits against the City on behalf of current and former customers of San José Municipal Water challenging the fees charged for water service from 1997 to 2016 issued its decision denying the relief sought by the plaintiffs and de-certifying the class. The trial court's decision is currently pending appeal by the plaintiffs and cross-appeal by the City. A separate lawsuit filed by the same plaintiffs challenging the San José Municipal Water fees charged during fiscal year 2015-2016 remains pending in the trial court and in February 2020 a lawsuit was filed against cities and water providers throughout California, including the City, that appears to allege violations of Article XIID with respect to water rates that were charged to customers. See "APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND CONSENT DECREES – Potentially Significant Litigation" for additional information.

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which, among other matters, requires: (a) that any tax for general governmental purposes imposed by local government entities be approved by a majority vote of the voters voting in an election on the issue, (b) that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds of the voters voting in an election on the issue and (c) the revenues from a special tax be used for the purposes or for the services for which the special tax was imposed. Proposition 62 also provided that any tax imposed by any local government after August 1, 1985, and prior to November 5, 1986 (the effective date of proposition 62) can continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue, and that any local government which fails to seek or obtain such approval shall cease to impose such tax on and after November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional by the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino* (1995) 11 Cal. 4th 220 ("**Guardino**"), upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The *Guardino* decision did not address the question of whether or not Proposition 62 should be applied retroactively to taxes imposed during the period that certain of its provisions were held to be unconstitutional.

Following the *Guardino* decision several actions were filed challenging taxes imposed by public agencies after the adoption of Proposition 62. On June 4, 2001, the California Supreme Court rendered its opinion in *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (2001) 25 Cal. 4th 809 ("**La Habra**") holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes, without voter approval, was not barred by a three-year statute of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period began anew with each collection.

The *Guardino* and *La Habra* decisions did not decide the question of the applicability of Proposition 62 to charter cities such as the City. Two cases decided by the California Courts of Appeals in 1993, *Fielder v. City of Los Angeles* (1993) 14 Cal. App. 4th 137 (rev. den. May 27,

1993), and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4th 120 (rev. den. Feb. 24, 1994) hold that Proposition 62's restrictions on property transfer taxes do not apply to charter cities because charter cities derive their power to enact taxes under Article XI, Section 5 of the California Constitution relating to municipal affairs.

The City estimates that approximately \$85.1 million has been collected from July 1, 2016 through June 30, 2020 as a result of new or increased taxes imposed without voter approval between August 1, 1985 and January 1, 1995, the date on which the provisions of Proposition 218 applicable to voter approval of taxes were effective. Such increased or new taxes include hotel and business taxes ("**Post Proposition 62 Taxes**").

If a court were to determine that a jurisdiction imposed a new or increased tax in violation of Proposition 62, Proposition 62 specifies that the portion of the one-percent ad valorem property tax levy allocated to that jurisdiction be reduced by \$1 for every \$1 in revenue attributable to the tax for each year that the tax is collected. This provision of Proposition 62 has not been interpreted by the California courts.

Proposition 62, is an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature (except that it may be amended only by a vote of the State's electorate). However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62 with respect to taxes imposed after January 1, 1995.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-2005 Budget, approved by the voters in November 2004 and generally effective in fiscal year 2006-2007, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-2009, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the motor vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget

difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

Proposition 22

Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010. Proposition 22 amended the state Constitution to eliminate or reduce the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues. Notwithstanding the passage of Proposition 22, the State successfully dissolved redevelopment agencies.

Possible Future Actions

Propositions 62, 111, 218, 26, 1A and 22 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations.

BOND OWNERS' RISKS

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

The COVID-19 pandemic is a significant development materially adversely affecting the City's finances and outlook. See “– Public Health Emergencies” below and “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – PUBLIC HEALTH EMERGENCY – COVID-19.”

Economic Condition in Local, State and National Economies

The financial condition of the City can be significantly affected by generally prevailing conditions in the local, State and national economies. Such conditions and factors may impact the funds available to the City to make the Lease Payments. A number of the City's revenue sources are collected by the State or allocated in accordance with State law (most significantly, property taxes). There can be no assurances that the current or future recessions or otherwise declining conditions in the local, State or national economies will not materially adversely affect the financial condition of the City in the future.

Environmental Hazards

Seismic Hazards. According to the safety element of the City's “2040 General Plan” (the “General Plan”), the City, is located in a region of very high seismic activity. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the City, including damage by tsunamis or fires caused by earthquakes. The City is located within 6 to 12 miles of the San Andreas Fault, the Hayward Fault and the Calaveras Fault, which are known to be active earthquake faults and pose the greatest potential for surface rupture in the Bay Area. The City has experienced at least nine recorded earthquakes with a Richter scale magnitude of 6.0 or greater, and with the epicenter located within the Bay Area. The South Napa earthquake with a Richter scale magnitude of 6.0 according to the U.S. Geological Survey (“USGS”), occurred on August 24, 2014; however little or no damage was reported in the City. Prior to the South Napa earthquake, the City experienced the Loma Prieta earthquake on October 17, 1989 which had a Richter scale magnitude of 6.9, according to the USGS. In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the USGS, the California Geological Society, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more earthquakes of magnitude 6.7 or larger will occur in the Bay Area before the year 2045. In addition, the USGS released a report in April 2017 entitled the Hayward Earthquake Scenario, which estimates property damage and direct business disruption losses of \$82 billion (in 2016 dollars) from a magnitude 7.0 earthquake on the Hayward Fault. The City generally does not carry earthquake insurance as it is not available at reasonable cost.

The seismic risks to a structure are dependent upon several factors, including the distance of the structure from the active fault, the character of the earthquake, the nature of construction of the structure, and the geologic conditions underlying the structure. Ground surface rupture tends to occur along lines of previous faulting, where fault displacement intersects the ground

surface. Displacement may either occur suddenly during an earthquake or it may occur slowly as the fault “creeps” over a long period of time. Pursuant to applicable state law, the California Geological Survey has prepared maps to identify certain areas as liquefaction hazard zones. “Liquefaction” is the transformation of soil from a solid state to a liquid state during a major earthquake, and liquefaction hazard zones are areas where historic occurrence of liquefaction or local geological, geotechnical and ground water conditions indicate a potential for permanent ground displacements during a major earthquake. According to the most recent published maps prepared by the California Geological Survey, certain areas within the City are located within an area subject to a high potential for liquefaction during a major earthquake.

Drought. As with much of the State of California, the City experiences recurring drought as a result of its climate conditions. Droughts impact public health and safety related to both water supply and wildfire risk.

Water suppliers prepare an Urban Water Management Plan (“UWMP”) for the California Department of Water Resources (“DWR”) every five years. These plans must assess the reliability of the water sources over a 20-year planning time frame, describe demand management, report on progress toward meeting a targeted 20 percent reduction in water per capita by 2020, and discuss the planned use of recycled water.

On June 15, 2021, the City Council adopted the 2020 UWMP, which was subsequently submitted to DWR. Climate change could result in water resource impacts, including impacts on the watersheds in the Bay Area: (i) reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low and medium elevation zones, such as in the Tuolumne River basin, and a shift in snowmelt runoff to earlier in the year; (ii) changes in the timing, intensity and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow; (iii) long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality and quantity; (iv) sea level rise and an increase in saltwater intrusion; (v) increased water temperatures with accompanying potential adverse effects on some fisheries and water quality; (vi) increases in evaporation and concomitant increased irrigation need; and (vii) changes in urban and agricultural water demand. The updated UWMP also addresses supply challenges based upon preliminary information related to potential future implementation of the San Francisco Bay/Sacramento-San Joaquin Delta Estuary Water Quality Control Plan, that would impact water supply throughout Northern California.

As of July 8, 2021, 50 counties in the State are under a drought emergency proclamation by the Governor, including Santa Clara County. The State reports that climate change induced earlier than expected warm temperatures and extremely dry soil, which have further depleted the expected runoff water from the Sierra-Cascade snowpack, resulting in historic and unanticipated reductions in the amount of water flowing to major reservoirs, especially in Klamath River, Sacramento-San Joaquin Delta, and Tulare Lake Watershed counties.

According to the State, extraordinarily warm temperatures in April and early May 2021 separate this critically dry year from all others on California record. California experienced an accelerated rate of snow melt in the Sacramento, Feather and American River watersheds, which feed the major reservoirs of the State and federal water projects. This was exacerbated when much of the snowpack, sitting on very dry ground, seeped into the earth rather than flowing into our rivers and streams and into these reservoirs. Warming temperatures also prompted water diverters below the dams to withdraw their water much earlier and in greater volumes than typical even in other recent critically dry years. The drastic reduction in water supplies means these

reservoirs are extremely low for water users, including farmers, and fish and wildlife in the counties the drought proclamation covers.

The Governor's proclamation directs the State Water Board to consider modifying requirements for reservoir releases and diversion limitations to conserve water upstream later in the year to maintain water supply, improve water quality and protect cold water pools for salmon and steelhead. The state of emergency also enables flexibilities in regulatory requirements and procurement processes to mitigate drought impacts and directs state water officials to expedite the review and processing of voluntary transfers of water from one water right holder to another, enabling available water to flow where it is needed most.

According to the National Oceanic and Atmospheric Administration and National Integrated Drought Information System, 100% of Santa Clara County is under extreme drought conditions. The City anticipates that resulting increases in dead and dry vegetation will expand this year's fire season into winter and spring months with greater potential for larger fires and rapid fire spread. In addition, on May 26, 2021, the United States Bureau of Reclamation ("**Bureau**") announced an update to its Central Valley Water Project 2021 water supply allocation for municipal and industrial water service. The Bureau indicated that the hydrologic conditions have degraded since the initial supply allocation in February 2021. Due to worsening conditions, the municipal water supply from the Central Valley Water Project is reduced from 55% to 25% of their contracted amount. This reduction impacts the District's supplies, which declared a drought emergency and called for the residents to cut water usage by 15% from 2019 levels on June 9, 2021.

See also "– Climate Change" below.

Flood Hazards. The City is situated within the two major watersheds in the South San Francisco Bay associated with the Coyote and Guadalupe rivers which run through the City. The largest of these is the Coyote Watershed, which encompasses 322 square miles and drains a large area in the eastern foothills, including major portions of Henry Coe State Park in the upper watershed above Anderson and Coyote Reservoirs. Coyote Creek is the primary feature within this watershed and runs north through both Coyote and Anderson Reservoirs towards the City through the North Coyote Valley, entering south San José and passing through central and north San José, joining the South San Francisco Bay on the eastern side of Alviso.

The City and the Santa Clara Valley have a history of flooding due to heavy rain and inadequate storm drains and flood protection conveyance systems, which has resulted in property damage. The District is responsible for flood protection infrastructure in Santa Clara County on streams and waterways, with exception of Cherry Flat Reservoir and Dam, which is owned and operated by the City. The District coordinates flood hazard mitigation efforts for the major creeks and waterways in the City and assists the City in the review of development proposals that could impact flood protection efforts.

The Federal Emergency Management Agency ("**FEMA**") oversees the delineation of flood zones. FEMA publishes Flood Insurance Rate Maps ("**FIRMs**") that show the expected frequency and severity of flooding by area, typically for the existing land use and drainage/flood control facilities. The maps prepared by FEMA for the San José area indicate that during a 100-year flood event (area subject to a flood that has a one percent chance of being equaled or exceeded in any given year), sections of the City would be subject to flooding from creek overbanking, inadequate storm drains and levees or inundation from the San Francisco Bay. Approximately

20,000 parcels in the City are within the 100-year flood hazard area established by FEMA. This represents approximately 10 percent of the total number of properties within the City.

The Guadalupe River channel on the east side of the Airport is designated on the FEMA maps as Zone A (areas of 100-year flood). In June 2005, the District informed the City of the completion of the Guadalupe River flood control improvements which removed a majority of the Airport from the 100-year flood zone.

The District is also responsible for several dams located upstream of the City. In a catastrophic event, damage to one or more of these dams could result in flooding within the City as shown on inundation maps originally prepared by the District in the early 1970's and mid 1990's (the map for Guadalupe Dam was further updated in 2019, the map for Lenihan Dam was further updated in 2016, and the map for Anderson Dam was further updated in 2016). These inundation maps are on file with the California Office of Emergency Services and with the City.

The District commenced seismic stability studies on nine of the District's dams in 2007. On July 6, 2011, the District issued a press release announcing the results of a seismic study of the Anderson Dam, an earth and rockfill structure constructed in 1950, which concluded that the dam could be affected by a major earthquake with a magnitude of 7.25 on the Calaveras Fault within two kilometers of the dam. The study further stated that the analysis found loosely compacted layers of liquefiable materials in the foundation of the dam. These materials are susceptible to a reduction in strength when subjected to severe earthquake shaking. If the foundation were damaged, part of the dam could experience 15 to 25 feet of vertical deformation, with an additional 15 feet of potential cracking. The study stated that if the reservoir were full at the time, there could be an uncontrolled release of water. Although the City believes the chances are very remote, a complete failure of the Anderson Dam could send a wall of water 35 feet high into downtown Morgan Hill in 14 minutes, and 8 feet deep into the City within three hours.

In response to the seismic study, the District initiated a project to retrofit the Anderson Dam. The planning phase of the Anderson Dam Seismic Retrofit project has been completed and currently the project is in the early part of the engineering design phase, which identified significant new issues with the dam that will require a much more extensive retrofit of the embankment. The modified project is scheduled for completion in 2031 at an estimated cost of \$600 million.

The Anderson Dam is regulated by the State of California Division of Safety of Dams ("DSOD"), which performs yearly reviews and requires maintenance and safety standards to be enforced by the dam owners and operators. Additionally, the Federal Energy Regulatory Commission ("FERC") has dam safety jurisdiction at the Anderson Dam. Prior to February 20, 2020, these regulatory agencies set a reservoir elevation restriction equivalent to 58 percent of capacity, or 52,553 acre-feet of water. These agencies set these storage elevation restrictions understanding that reservoirs cannot physically be kept below a restricted level at all times; but after a large inflow event, the dam operator must use available measures to lower the water surface to the maximum height dictated by the DSOD operating restriction. Studies have shown a large earthquake could damage Anderson Dam, causing damage or failure and an uncontrolled release of water that could inundate cities and rural areas from San Francisco Bay south to Monterey Bay, including much of the County.

On February 20, 2020, FERC notified the District of new Dam Safety Directives requiring that the District immediately take all appropriate measures to maintain and quickly lower the reservoir to elevation 565 feet if the reservoir rises in the event of significant inflow, and further lower the reservoir to elevation 488 feet, starting on October 1, 2020, and take all appropriate

measures to maintain and quickly lower the reservoir to dead pool in the event of significant inflow once the elevation is reached. The District responded to the FERC directive by noting that emptying the Anderson Reservoir has the potential to damage the intake structure, which would result in a loss of control of water flows out of the reservoir, potentially impacting downstream communities.

Pursuant to the FERC directive, the District immediately restricted the reservoir operating level to elevation 565 feet and began defining the interim risk reduction measures now referred to as the FERC Order Compliance Project (“**FOCP**”). On October 1, 2020, pursuant to the FOCP, the District began to reduce the water level in the Anderson Reservoir to deadpool storage (i.e. a level below at which water cannot drain by gravity through a dam’s outlets). For safety reasons and to initiate the Anderson Dam Seismic Retrofit project, the Anderson Reservoir was reduced to deadpool storage of approximately 2,820 acre feet (or 3.15% capacity), as of February 2021. This water level reduces the risk of Anderson Dam failure, and helps to allow for capacity in the reservoir in the event that the Coyote Reservoir Dam (which is located upstream) either spills or is damaged by an earthquake. The City anticipates that the Anderson Reservoir will remain at this level throughout the Anderson Dam Seismic Retrofit project. During this time, the Anderson Reservoir will not be completely dry, as three seasonal creeks and the Coyote Reservoir feed into the Anderson Reservoir, and the intake structure that feeds the outlet pipe at the base of the Anderson Dam is higher than deadpool.

Coyote Reservoir and Dam, also operated by the District, lie immediately upstream of Anderson Reservoir and are located on the Calaveras fault. Coyote Reservoir was constructed in the 1930’s and is currently operated under a State of California Division of Safety of Dams storage restriction limit equivalent to 53 percent of capacity. When Coyote Reservoir exceeds 100 percent of storage capacity due to extreme wet weather, spillway flows from Coyote Reservoir enter the south end of Anderson Reservoir. Coyote Reservoir has a total storage capacity of 23,244 acre-feet, which is approximately 25 percent of the storage capacity of Anderson Reservoir, which can store a total of 90,373 acre-feet. In the event of a total failure of Coyote Reservoir Dam, the resulting water that would be released because of such failure would be expected to be contained within the channel that leads to Anderson Reservoir. If Anderson Reservoir lacked the storage capacity to contain the Coyote Reservoir water flows resulting from a dam failure event, the Anderson Reservoir spillway would convey those flows to Coyote Creek below the Anderson Reservoir and ultimately into San José.

On October 26, 2011, the District announced preliminary findings from a seismic study indicating that its Calero and Guadalupe dams could be subject to significant damage if a major earthquake occurred near either dam. In response to these preliminary findings, the District has further restricted reservoir levels at the Calero and Guadalupe dams. Failure of either of these two dams would impact the City. In 2012, the District initiated a project to retrofit Calero and Guadalupe Dams. The planning phase of the project has been completed. The design phase of the project commenced in 2015. Construction of these two dam retrofit projects is scheduled for completion in fiscal year 2023-24 at an estimated cost of \$145 million.

Reports or studies were completed for the Almaden Dam in October 2012, the Lenihan Dam in December 2012, and the Stevens Creek Dam in December 2013, that concluded that the dams are in suitable condition and that no retrofit work is required. The District continues to work with the State of California Division of Safety of Dams to study seismic stability of its other dams and is adapting operations accordingly.

Cherry Flat Reservoir and Dam, owned and operated by the City, is located in the upper reach of the Upper Penitencia Creek. Upper Penitencia Creek is one of the main tributaries of

Coyote Creek. In July 2020, the DSOD notified the City that the City was not in compliance with certain State laws regarding dam operations. Specifically, inundation mapping and associated technical reports, and an Emergency Action Plan needed to be developed and submitted to the State. The City submitted the Inundation Study and DSOD approved the document on January 13, 2021. According to the Inundation Study, failure of the Cherry Flat Dam would result in the inundation of land adjacent to Upper Penitencia Creek, mostly less than three feet deep. Most of the areas would be flooded less than two feet deep, mainly confined to streets. The Inundation Study further shows that most of the neighborhood flooding would occur above Piedmont Avenue, with mostly street flooding below Piedmont Avenue. The study further shows some flooding on portions of Highway 680. The Emergency Action Plan is currently being developed and the City anticipates submitting such plan later this year to the California Office of Emergency Services for review and approval. The City currently expects to be in compliance with all State regulations for Cherry Flat Dam by the end of 2021.

Wildfire Risk. In a report entitled: “Wildfires and Climate Change: California’s Energy Future -- A Report from Governor Newsom’s Strike Force” published on April 12, 2019 (the “**Wildfire Report**”), the Governor’s Strike Force made a number of recommendations to address the challenges presented by catastrophic wildfires in California. The Wildfire Report notes that “[c]limate change, widespread tree mortality, weak utility infrastructure, and the proliferation of homes in the wildland-urban interface magnify the wildfire threat and place substantially more people and property at risk than ever before.”

The California Department of Forestry and Fire Protection (“**CAL FIRE**”) classifies State Responsibility Areas (in which the State is financially responsible for preventing and suppressing fires) as either Moderate, High, or Very High “Fire Hazard Severity Zones” (“**FHSZ**”). CAL FIRE has designated approximately 85.64 square miles of State Responsibility Area within the City as FHSZ of which, 4.08 square miles is Moderate, 81.12 square miles is High, and 0.44 square miles is Very High. CAL FIRE has identified 5.16 square miles within the City’s Local Responsibility Area (in which the City is financially responsible for preventing and suppressing fires) as Very High FHSZ. The City has not taken action to date to designate this area as Very High FHSZ. The City does maintain multiple radio towers located in the boundaries of an identified FHSZ, which are used to dispatch the City’s 911 emergency response.

2020 Fire Season. During the 2020 fire season, the State recorded five of its ten largest fires in state history, with more than 3.6 million acres burned. In August, 2020, the SCU Lightning Complex fire was sparked by lightning from remnants of a tropical storm, as it moved northward through the bay area. The SCU Lightning Complex fire, presently the fourth largest fire in California history, threatened the City’s neighborhoods, and resulted in evacuations of residents of unincorporated areas on the City’s eastern limits. Ultimately, the SCU Lightning Complex fire burned 396,624 acres, destroyed 222 buildings, and impacted six counties.

The City maintains multiple radio towers located in the boundaries of an identified FHSZ, which are used to dispatch the City’s 911 emergency response. During the 2020 wildfires, some of the City-owned radio towers experienced damage, none of which negatively impacted City operations or radio communications.

2021 Fire Season. The 2021 fire season has consisted of thousands of fires across the State, including the second largest fire in the State’s history, burning more than 2.3 million acres of land as of the date of this Official Statement. The 2021 fire season started atypically early, and it is currently expected to be more destructive than the 2020 fire season.

In addition to destroying land and structures, there have been human fatalities and negative impacts on air quality throughout the State. Fires in the State and neighboring states have threatened the region's power grids, making some power lines unreliable. The City cannot predict or make any representations regarding the effects that wildfires and related conditions have or may have on the City, or to what extent the effects said disasters might have on economic activity in the City. During the 2021 fire season, in addition to providing resources through the statewide mutual aid system, the San José Fire Department has provided support to the local CAL FIRE to maintain coverage levels in the CAL FIRE Santa Clara Unit.

As previously described, according to the National Oceanic and Atmospheric Administration and National Integrated Drought Information System, 100% of Santa Clara County is under extreme drought conditions. The City anticipates that resulting increases in dead and dry vegetation will expand this year's fire season into winter months with greater potential for larger fires and rapid fire spread throughout the fire season. See "– Drought" above.

Hazardous Substances

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances area also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect assessed values of property in the City and the operations and finances of the City.

Clean Water Compliance

In 2015, it was alleged that the City violated the Clean Water Act and its stormwater permit because cracks, displaced joints, holes and other leakage points in the sanitary sewer system could discharge sewage into the City's municipal separate storm water systems. The City is subject to a related consent decree under which, among other things, it is required to identify and improve up to sixty-five miles of high risk sewer pipes and appropriate \$100,000,000 to design, construct, operate and maintain projects in the City's Green Stormwater Infrastructure Plan over a 10-year period. In compliance with the consent decree, the City has implemented an exfiltration abatement program to rehabilitate sanitary sewer pipes and prevent cross contamination between the sanitary and storm sewer systems. If the City is unable to comply with its existing consent decree related to the green infrastructure, the City may be subject to significant costs or litigation. In 2020, a total of \$25 million funding from general obligation bond proceeds was allocated to support the design and construction of green infrastructure projects. For additional information see APPENDIX A - "THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION - POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES - Clean Water Compliance" and "– Consent Decrees."

Natural Gas Transmission Pipelines

On September 9, 2010, a Pacific Gas and Electric Company (“**PG&E**”) high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. In a final Pipeline Accident Report, adopted by the National Transportation Safety Board (the “**NTSB**”) on August 30, 2011, the NTSB found recurring deficiencies in PG&E’s pipeline integrity management program, which the NTSB concluded were evidence of a systemic problem. There are numerous similar pipelines owned, operated and maintained by PG&E located throughout the City. PG&E’s website www.pge.com (nothing contained in such website is incorporated in this Official Statement) provides information regarding its high pressure natural gas transmission pipelines and its long range natural gas transmission pipeline planning. PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high density populations, potential reliability impacts and environmentally sensitive areas, and uses the data it collects to help plan and prioritize future work on its pipelines.

PG&E has instituted a comprehensive inspection and monitoring program with the purpose of ensuring the safety of its natural gas transmission pipeline system. PG&E regularly conducts patrols, leak surveys, and cathodic protection (corrosion protection) system inspections for its natural gas pipelines. PG&E’s policy is to address issues identified as a threat to public safety immediately. PG&E conducts quarterly patrols for its gas transmission pipelines to look for indications of construction activity and other factors affecting safety and operation – there were no adverse indicators affecting pipeline safety during the last quarterly patrol done in January 2021. Leaks Surveys are done semi-annually. Leak surveys are either conducted by a leak surveyor walking above the pipeline with leak detection instruments or conducted aerially and followed-up with a ground leak survey if there is a leak indication identified during the aerial survey. There were no leaks found in the survey conducted by PG&E in January 2021 for Transmission Line 132, and no leaks found in the survey conducted by PG&E in October 2020 for the Tully Curtner Feeder Main. PG&E utilizes an active cathodic protection (“**CP**”) system on its gas transmission and steel distribution pipelines to protect them against corrosion. PG&E inspects its CP systems at least annually to ensure they are operating correctly.

The effects of any failure of the high pressure natural gas transmission pipelines in the City are difficult to predict, but could include explosion and concussive force, fire, smoke, transportation delays and detours on routes to and from the City, and potential forced evacuation of nearby structures.

The City is not able to independently confirm the information set forth above or the information contained in the NTSB’s Pipeline Accident Report or on the PG&E website, including the exact distances of any high pressure transmission lines from the City, and can provide no assurances as to the accuracy or completeness of such information. Information available in the NTSB’s Pipeline Accident Report and from PG&E’s website is not part of this Official Statement nor has such information been incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the Bonds. Further, the City can provide no assurances as to the condition of PG&E pipelines and other facilities in the City, or predict the extent of the damage to the surrounding property that would occur if a PG&E pipeline located within the City were to experience any type of failure, including a possible fire or explosion.

PG&E Chapter 11 Bankruptcy Filing

On January 29, 2019, PG&E filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code (the “**PG&E Bankruptcy Proceeding**”). On July 1, 2020, PG&E emerged from

bankruptcy completing its restructuring process and implementing its Plan of Reorganization (the “Plan”) that was confirmed by the United States Bankruptcy Court on June 20, 2020.

The Plan requires PG&E to pay all allowed claims. This includes all of the City’s allowed pre-petition claims that arose before PG&E filed for bankruptcy protection on January 29, 2019. A pre-petition claim is considered allowed if PG&E has not objected to the claim on a timely basis or, following a timely objection, the claim has been adjudicated in a determined amount. Originally, the Plan required PG&E to file objections to pre-petition claims within 180 days of the Plan’s effective date. The Plan went into effect on July 1, 2020. In December 2020, the Bankruptcy Court extended the deadline for PG&E to file its objections to pre-petition claims to June 30, 2020.

The City filed proofs of claims in the PG&E Bankruptcy Proceeding for pre-petition claims totaling \$30,660,000 and consisting of:

- unpaid permit fees and property damage in the amount of approximately \$60,000;
- assessments for unpaid utility users taxes on various surcharges in the amount of approximately \$9.9 million, for the period of April 1, 2014 through March 31, 2017 including interest and penalties calculated through December 31, 2020;
- estimated amounts for unpaid utility users taxes in the range of \$8.7 million, for the period of April 1, 2017 through January 28, 2019 including interest and penalties calculated through December 31, 2020; and
- assessments for unpaid utility users taxes and franchise fees for under-reporting gross charges (by improperly deducting California climate credits from charges billed for electricity and gas) in the amount of approximately \$9.2 million and \$2.8 million, respectively, for the period of April 1, 2014 through October 31, 2018 including interest and penalties calculated through May 12, 2020.

In February 2020, PG&E contested the assessments for unpaid utility users taxes on various surcharges through a proceeding held before the Director of Finance on February 27, 2020 and in its letter in support of its arguments of the same date. In a subsequent letter dated May 27, 2020, PG&E also contested the assessments for unpaid utility users taxes for the under-reporting of gross charges. The decision of the Director of Finance on these assessments is pending.

At this time, it is unknown whether PG&E will object to one or more of the City’s claims. As of April 4, 2021 the United States Bankruptcy Court has extended the deadline to file objections to the City’s claims from June 26, 2021 to December 23, 2021.

PG&E Public Safety Power Shutoffs

PG&E adopted a Community Wildfire Safety Program in an effort to prevent wildfires in the State. In May, 2019, as part of its Community Wildfire Safety Program, PG&E notified customers, including the City, that PG&E implemented additional precautionary measures to help reduce the risk of wildfires. In particular, PG&E notified the City that, if extreme fire danger conditions threaten a portion of the electric system serving a community, PG&E may turn off electricity in the interest of public safety (a “**PG&E Shutoff**”). Under regulations issued by the California Public Utilities Commission (“**CPUC**”), investor owned utilities, such as PG&E, are

authorized to use power shutoffs as a measure of last resort under specified conditions. The impact of a PG&E Shutoff is not limited to customers in areas that are experiencing high winds or other extreme weather conditions because PG&E's system relies on power lines working together to provide electricity across cities, counties and regions, including the City and the County.

As the third largest city in the State and the largest in Northern California, the City is the largest city served by PG&E. The City serves a population of over 1 million people. Reliable electric service is essential to the residents, government operations, and businesses in the City's community. In the event of a PG&E Shutoff in the City or surrounding areas, the general economy of the City could be adversely affected and result in a reduction in tax revenues to the City, such as sales tax revenues resulting from the interruption of businesses within the City. See APPENDIX A – "THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – MAJOR GENERAL FUND REVENUE SOURCES" for a description of the City's major general fund sources, including sales tax revenues.

In 2019, the City experienced two PG&E Shutoffs. The first PG&E Shutoff occurred on October 9, 2019 when PG&E de-energized transmission and distribution lines to several parts of the City, mostly in portions of the eastern and southern districts of the City. The power was shut off to approximately 23,000 customer accounts, with an estimated impact to over 100,000 City residents. PG&E reported that all customer accounts were restored on October 10, 2019.

The second PG&E Shutoff occurred on October 26, 2019 when PG&E de-energized transmission and distribution lines to several parts of the City, mostly in the Alum Rock and Almaden Valley areas, which are often referred to as the wildland-urban interface areas. In this second PG&E Shutoff, power was shut off to approximately 7,500 customer accounts, with an estimated impact to over 24,000 City residents. PG&E reported that all customer accounts were restored on October 29, 2019.

Following these two PG&E Shutoffs, the City contacted PG&E to set up a series of workshops to address concerns that the City has regarding future PG&E Shutoffs, including: Critical infrastructure inspections, data access, circuit maps, weather data interpretation, notification and communications protocols, and outreach to medical baseline customers. In addition, City staff met with Santa Clara County Office of Emergency Management staff to develop stronger lines of communication with County agencies providing services to City residents.

On March 17, 2020, the City Administration brought forward a Public Safety Power Shutoff After Action Report for City Council approval which presented three fundamental areas of focus: People, Processes, and Technology, resulting in a series of recommendations designed to improve the City's resilience and capacity to respond to future PG&E Shutoffs.

The financial cost to the City for its response to the first and second PG&E Shutoffs was approximately \$746,000, and \$500,000, respectively, not including City staff time spent responding to the shutoffs. In January 2020, the City Council accepted a grant from Cal OES in the amount of \$500,000 to support the City's resiliency to power shutoffs, including funding for equipment and the development of plans for future shutoff events.

In addition to these costs, the City incurred costs as the operator of San José Clean Energy ("SJCE"), which supplies the City and City residents and businesses with cleaner electricity options through PG&E's infrastructure. During the first 2019 outage, an estimated 23,000 customers lost power for approximately 48 hours, which cost SJCE approximately \$40,000

per day. During the second 2019 outage, an estimated 7,500 customers lost power for approximately 48-60 hours, which cost SJCE approximately \$15,000 per day.

In the summer months of 2020, PG&E did implement two PSPS events: October 14-16, 2020 that affected approximately 150 customers and October 25-27, 2020 that affected approximately 570 customers. The impacts of the two incidents were significantly mitigated by improvements PG&E implemented over the prior year. New switching equipment and better identification of the outage area reduced the footprint of the outages.

It is anticipated that there will be additional PG&E Shutoffs under current CPUC regulations, although PG&E has communicated with the City that it has taken measures to reduce the geographic area and impacts of any future shutoffs. The impact that any PG&E Shutoffs in the City and surrounding areas will have on the City and its finances is unknown and the City cannot provide any assurance regarding the effect such shutoffs will have on the City or its finances.

See “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – MUNICIPAL GOVERNMENT– CAPITAL IMPROVEMENT – Sustainability Initiatives” for further discussion regarding SJCE.

Public Health Emergencies

General. In recent years, public health authorities have warned of threats posed by outbreaks of disease and other public health threats. On February 11, 2020 the World Health Organization (“WHO”) announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City. The WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State and the President of the United States.

The COVID-19 outbreak is ongoing, and its duration and severity and economic effects are uncertain in many respects. Uncertain too are the additional actions, if any, that may be taken by federal and State governmental authorities to contain or mitigate the effects of the outbreak. To date, City economic and tax revenue losses associated with the COVID-19 pandemic have been material and immediate. Future impacts from the COVID-19 pandemic have been and are expected to be significant to many aspects of the local economy and City operations and finances. The ultimate impact of COVID-19 on the City’s operations and finances and the economy, real estate market and development within the City is not fully known, and it may be some time before the full adverse impact of the COVID-19 outbreak is known. Certain reports providing information regarding the impact of the COVID-19 pandemic are described herein under “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION.” Further, there could be future COVID-19 outbreaks or other public health emergencies that could have material adverse effects on the City’s operations and finances.

Collection of Taxes. On March 30, 2020, the Governor issued Executive Order N-40-20, which delayed the deadline for the filing and payment of sales and use taxes by 90 days for all but the largest taxpayers. Under Executive Order N-40-20 and a subsequent notice from the California Department of Tax and Fee Administration, businesses with less than \$5 million in taxable annual sales are authorized to defer up to \$50,000 in sales tax and enter into a 12-month, zero interest payment plan. The Governor has also issued an Executive Order for waivers of late

penalties on property taxes. Such efforts to relieve the financial impact of the COVID-19 pandemic on taxpayers have not resulted in delayed revenue collection by the City.

On May 6, 2020 in response to the COVID-19 pandemic, the Governor issued Executive Order N-61-20 to allow qualified taxpayers to request relief of penalties on property taxes for owner occupied residential real property and real property owned and operated by a taxpayer that qualifies as a small business under the Small Business Administration's Regulations, Code of Federal Regulations Title 13, section 121.201. To be eligible for penalty relief taxpayers must fall into one of two categories: (i) owner occupied residential real property; or (ii) real property owned and operated by a taxpayer qualified as a small business. For homeowners requesting penalty relief on property taxes for a residential real property that the homeowner occupies, the homeowner may qualify for penalty relief if all of the following are true: (i) taxes on real property were current as of March 4, 2020; (ii) the homeowner was unable to pay on time and that inability was due to a COVID-19 pandemic related impact; (iii) the homeowner was able to submit payment of the original tax amount due with the request for relief; and (iv) the homeowner's request is received by the Treasurer-Tax Collector within 30 days after the circumstances that prevented payment have concluded. If the homeowner satisfies all of the criteria, they may submit a Request for Penalty Cancellation – COVID-19 Impact Form to request penalty relief and must provide documentation to support the request.

To be eligible for penalty relief for real property owned and operated by a taxpayer as a qualified small business, the taxpayer may qualify for penalty relief if all of the following are true: (i) taxes on the real property were current as of March 4, 2020; (ii) the business was unable to pay on time and that inability was due to a COVID-19 related impact; (iii) the taxpayer is able to submit payment of the original tax amount due with the request for relief; and (iv) the taxpayer's request is received by the Treasurer-Tax Collector within 30 days after the circumstances that prevented payment have concluded. If the taxpayer satisfies all of the criteria, they may submit a Request for Penalty Cancellation – COVID-19 Impact Form to request penalty relief and will need to provide documentation to support their request.

The negative impacts from the COVID-19 pandemic on the City's revenues in fiscal year 2019-2020 and 2020-2021 are anticipated to continue into fiscal year 2021-2022 and potentially several fiscal years beyond depending on the pace of recovery of the local economy to the levels which existed prior to the outbreak of the COVID-19 pandemic. See "APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – PUBLIC HEALTH EMERGENCY – COVID-19."

Climate Change

The change in the earth's average atmospheric temperature, generally referred to as "climate change," is expected to, among other things, cause sea levels to rise, extreme temperatures to become more common, and extreme weather events to become more frequent and severe.

On August 9, 2021, the United Nations' Intergovernmental Panel on Climate Change published its Sixth Assessment Report on the physical science basis of climate change (the "**IPCC Report**") summarizing the current state of the climate, including how it is changing and the role of humans in such change, and the state of knowledge about possible climate futures. The IPCC Report states, unequivocally, that human influence has warmed the atmosphere, ocean and land, causing widespread changes including weather and climate extremes across the globe. The IPCC Report estimates that global warming of 1.5 °C and 2°C will be exceeded during the current

century unless deep reductions in carbon dioxide and other greenhouse gas emissions occur in the coming decades. However, the IPCC Report also states that many changes in the climate system are irreversible for centuries to millennia due to past and future greenhouse gases, especially with respect to changes in the ocean, ice sheets and global sea level. Temperatures and extreme high temperatures are expected to continue to increase, and sea level rise is expected to continue to increase, along with associated flooding and erosion. With respect to western North America, where the City is located, the IPCC Report projects increases in drought and fire weather.

In 2018, the State released its Fourth Climate Change Assessment (the “**Fourth Assessment**”) assessing the impacts of climate change on the State and on nine regions within the State. The Fourth Assessment finds that by 2100, if greenhouse gas (“**GHG**”) emissions continue to increase, the average annual maximum daily temperature across the State is projected to increase by between 5.6°F and 8.8°F and the average area burned by wildfires across the State could increase by up to 77 percent.

Projections of the impacts of climate change are complex and depend on many factors that are outside the City’s control. The various scientific studies that forecast the amount and timing of the adverse impacts of global climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the City cannot predict the timing or precise magnitude of adverse economic effects resulting from climate change, including, without limitation, material adverse impacts on the business operations or the financial condition of the City and the local economy during the term of the Bonds. In 2018, the City accepted the Climate Smart San Jose Plan which was intended to provide a policy framework to address climate change. While the impacts of climate change may be mitigated by the City’s past and future investment in adaptation strategies, the City can give no assurance about the net effects of those strategies and whether the City will be required to take additional adaptive mitigation measures. For more information regarding the City’s sustainability initiatives, see “APPENDIX A – THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – MUNICIPAL GOVERNMENT– CAPITAL IMPROVEMENT – Sustainability Initiatives.”

The City is unable to predict what additional laws and regulations with respect to environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on the City or the local economy. The effects, however, could be material.

Cybersecurity

The City relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City is subject to cyber threats, including, but not limited to: hacking, viruses/malware, and other attacks on information and communications assets. The City’s Information Technology Department has no knowledge or notice of any significant data breaches on City information and systems assets to date.

In 2017, the City established a Cybersecurity Office and hired its first Chief Information Security Officer (the “**CISO**”), within the City’s Information Technology Department, to coordinate cybersecurity preparation and response across City departments. Under the direction of the CISO, the City has developed and disseminated an administrative policy entitled “Information and Systems Security Policy” to set forth policies and procedures governing the use and security of the City’s information systems and an Information Security Standards Handbook that establishes

the security baseline of the City's information systems. The Cybersecurity Office also worked with City departments to improve system and infrastructure changes by establishing a Citywide Change Control Board ("**CCB**") in August 2018. The CCB's main objective is to communicate and inform changes to computer systems as part of maintenance or upgrades across all impacted departments. Additionally, a Cybersecurity Advisory Board, with cybersecurity leaders from the public and private sectors, was established to help validate and refine the City's cybersecurity strategies, policies approach, and roadmap.

The City has conducted training with City employees who handle credit card transactions. The Cybersecurity Office also provides recurring cybersecurity training and testing for all City employees, including phishing email tests, social engineering tests, periodic cybersecurity newsletters, and workshops. These efforts have been coupled with the Cybersecurity Office's ongoing information technology security assessments to help identify and remediate potential weaknesses in networks.

In response to several ransomware attacks carried out against municipalities, the City upgraded its servers and workstations to help guard against various strains of cryptoware and has implemented a solution to help address Business Email Compromise (an attack of the City's email system through which the attacker gains access to a City email account). Since 2019, the City has also focused on creating system contingency plans to test recovery of systems in the event of a major disaster.

The City maintains specialized insurance coverage covering cyber risks but there is no assurance that such coverage will be maintained in the future or that the coverage amount will be sufficient to address the cost of any particular cyberattack.

In 2020, as a result of the COVID-19 pandemic, the City adapted the organization to allow employees to work remotely, utilizing online cloud tools, a private network and secure cloud access. Safeguards were enhanced to migrate to a mobile workforce while maintaining functionality. As of July 2021, return-to-onsite-work plans and activities are underway for the City's transition from COVID-19 response to recovery. The City continues to perform technical refresh projects with the aim to reduce risk of legacy systems by designing modern, secure architectures that take advantage of hybrid cloud and on-premises infrastructures.

In late 2020, the City implemented a Virtual Security Operations Center to provide visibility across networks, and to provide a more robust incident response capabilities. This capability will mature over time to include automated responses, integration with other defense toolsets, enhanced triaging for investigations, and integration with the City's Office of Emergency Management for larger incidents. In 2021, the City is further enhancing the resilience of its systems through a series of contractual engagements designed to help identify and correct gaps, provide state-of-the-art protection to devices, continue phishing and social engineering training for employees, and to provide third-party expertise for effective incident response if an event occurs and legal, forensics, and/or public communications skills are required.

No assurances can be given that any organization's cybersecurity and operational controls will be completely successful in guarding against cyber threats, cyberattacks, and/or advanced persistent threats. The results of any attack on the City's computer and information technology systems could impact its services and cause serious impairment to the City's operations. The costs of remedying any such damage could be substantial. Hence, the City's cybersecurity work focuses on prevention and resilience, as described above.

The City, like numerous other public and private sector entities, was made vulnerable in the recent cyberattack against SolarWinds. In response, the City followed Federal guidance, applied fixes identified in such guidance, and adhered to category determinations as instructed by the federal Cybersecurity and Infrastructure Security Agency. The City's Incident Response Team completed additional reviews through external contractors and confirmed that there are no indications of compromise to the City's network and systems or evidence of access to or data exfiltration as a result of the attack.

Change in Law

No assurance can be given that the State, the County or the City electorate will not at some future time adopt initiatives, or that the State Legislature or the City Council will not enact legislation that will amend the laws of the State or the City's Municipal Code, respectively, in a manner that could result in a reduction of the City's General Fund revenues or an increase in expenditures required to run City programs, and therefore a reduction of the funds legally available to the City to make Lease Payments. See, for example, "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Articles XIIIC and XIID of the State Constitution."

Policing and Civil Unrest

In response to social justice demonstrations and civil unrest occurring as a result of the death of black Americans at the hands of police officers, protests and calls for the defunding of police departments occurred in the City and throughout the United States. On June 16, 2020, in connection with budget actions for fiscal year 2020-2021, the City Council voted to reallocate approximately \$1.7 million from the police department overtime budget to partially restore funding for the Community Services Officer program for two years, to fund an independent after action report related to police response to the civil unrest, to fund a community engagement process on future police reforms, and to update the Independent Police Auditor's online complaint form. An additional \$650,000 was reallocated from the 2020-2021 Continuity of Operations Reserve to help establish the Office of Racial Equity in the City. There can be no assurance that additional protests and other incidences of civil unrest in the City will not occur in the future.

On September 15, 2020, the City's police department presented an after action report to the City Council from the police department's perspective, which the City Council accepted, related to civil unrest that occurred in the City from May 29 to June 7, 2020. The police department's report identifies issues with lack of training and experience, insufficient staffing levels, and a need to update policies and procedures. An independent report is expected to be prepared in the coming months and coordinated by the Office of the Independent Police Auditor, which is anticipated to include a broader perspective of the protests, civil unrest and the police department's response during this same time period. The City is unable to predict the ultimate outcome of the City's review of the police department's response to the civil unrest that occurred in the City from May 29 to June 7, 2020.

Future Litigation

There can be no assurance that future lawsuits or governmental actions will not affect repayment of the Bonds. See the section entitled "POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DEGREES" in APPENDIX A – "THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – "BUDGET."

Limited Obligations; Lease Not a Debt of the City

The Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor under the Indenture, together with amounts on deposit from time to time in certain funds and accounts held by the Trustee. Revenues consist primarily of Lease Payments. If for any of the reasons described below, or for any other reason, the Authority does not receive sufficient Lease Payments to pay debt service on the Bonds, the Authority will not be obligated to utilize any other of its funds to pay debt service on the Bonds.

The Lease Payments are not secured by any pledge of or lien on taxes or other revenue of the City, but are payable from all funds lawfully available to the City. The City has the capacity to enter into other obligations that may constitute additional obligations against its revenues. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other obligations before making Lease Payments; in that case, the failure to pay Lease Payments in full would constitute a default under the Lease. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues; in that case, the failure to pay Lease Payments in full would constitute a default under the Lease. The City must adopt a balanced Budget each year, and has covenanted in the Lease to budget for, appropriate and make the Lease Payments in each year that it has possession and use of the Leased Property. For a general understanding of the City's budget process and budget forecasts, see APPENDIX A – "THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION."

Abatement of Lease

Under California law, the obligation of the City to make Lease Payments is contingent upon the availability of the Leased Property for use and occupancy by the City. The Lease Payments will be abated proportionately during any period in which by reason of material damage or destruction, there is substantial interference with the use and occupancy of any portion of the Leased Property by the City, and such abatement will continue until substantial completion of the work of repair or replacement of the portion of the Leased Property damaged or destroyed; provided that, in determining the amount of abatement, the City shall consider the then-current value of the Leased Property but only to reduce or eliminate the amount of the abatement. Any abatement of Lease Payments could affect the Authority's ability to pay debt service on the Bonds.

In the event Lease Payments are abated, no assurances can be given that moneys on deposit pursuant to the Indenture, or the proceeds of rental interruption insurance (which is not expected to be available to cover earthquake damage) will be sufficient to pay the debt service on the Bonds during the period of such abatement.

Notwithstanding the provisions of the Lease specifying the extent of abatement in the event of the City's failure to have full use and occupancy of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Lease Payments of the City may not be sufficient to pay all of the remaining principal and interest with respect to the Bonds.

Insurance on the Property

Under the Lease, the City is required to maintain policies of insurance covering loss or damage to the Property, up to replacement costs and covering title defects, through the term of

the Lease. If the Leased Property is damaged or destroyed, there can be no assurance that the insurance proceeds will be sufficient to repair or restore the Leased Property, or to redeem or defease all of the outstanding Bonds. In addition, neither the Authority nor the City can provide any assurance as to whether the provider of an insurance policy will pay under such policy. See the caption "SECURITY FOR THE BONDS — Insurance" for a description of the insurance coverages that are required by the Lease. Certain risks, such as earthquakes and floods, are not required to be covered under the Lease.

Limitation on Remedies

The enforcement of any remedies provided for in the Lease and in the Indenture could prove to be both expensive and time-consuming. Although the Lease provides that if there is a default by the City, the Trustee may take possession of and relet the Leased Property, no assurance can be given that the amounts received from such reletting would be sufficient to pay the principal of and interest with respect to the Bonds when due.

The Lease provides that upon the occurrence and during the continuance of the City's failure to deposit with the Trustee any Lease Payments when due, the bankruptcy of the City, or if the City breaches any other terms, covenants, conditions or agreements contained in the Lease (subject to a cure period as described in the Lease), the Trustee, as assignee of the Authority, has the following general remedies: (i) to reenter the Leased Property and relet the Leased Property; or (ii) to enforce its rights to recover Lease Payments as they become due. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

In addition to the limitations on remedies contained in the Lease and the Indenture, the rights and remedies provided in those documents may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights generally. The various legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles. See "- Bankruptcy Risks" below.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Lease Payments for the term of the Lease. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Bankruptcy Risks

The rights of the owners of the Bonds and the enforceability of the Authority's obligation to make payments on the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights under currently existing law or laws enacted in the future, and may also be subject to the exercise of judicial discretion under certain circumstances.

Under existing law, the City is eligible to file for bankruptcy. Should the City file for bankruptcy, there could be adverse effects on the holders of the Bonds. In a bankruptcy of the

City, the Authority or the Trustee as its assignee and the owners of the Bonds may be prohibited from taking any action against the City, any official of the City, or any property of the City (including the Leased Property) to enforce the terms of the Lease, unless the consent of the bankruptcy court is first obtained. The bankruptcy court is not required to give its consent. This prohibition on action may even prohibit the Trustee from using funds in its possession to make payments on the Bonds. As a result, Owners may experience temporary or permanent delays in the payment of the Bonds.

In a bankruptcy case, a plan of adjustment for the City could be confirmed that would allow for enforcement of the Lease, but the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants and other terms or provisions of the Lease and the Bonds may be altered by the bankruptcy court. Such a plan could be confirmed even over the objections of the Authority or the Trustee as its assignee and the owners of the Bonds, and without their consent. Additionally, the resulting plan could adjust some or all of the City's financial obligations, which include the City's lease payment obligations under the Lease and the City's obligation to fund certain retirement benefits. The City can provide no assurance about the nature of any adjustment plan it if were to file for bankruptcy.

In addition, if the Lease is determined to constitute a "true lease" by the bankruptcy court (rather than a financing lease providing for the extension of credit), the City could choose not to perform under the Lease and the claim of the owners of the Bonds could be substantially limited. An allowable claim could be substantially less than the amount of the Bonds outstanding, resulting in the owners of the Bonds suffering a substantial loss.

The opinions of counsel, including Bond Counsel, delivered in connection with the issuance and delivery of the Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

State Law Limitations on Appropriations

Article XIII B of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Lease Payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of cities in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Article XIII B of the State Constitution."

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

TAX MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "**original issue discount**" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "**original issue premium**" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers

who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Form of Opinion. Copies of the proposed form of opinion of Bond Counsel are attached hereto as APPENDIX E.

Contingent Compensation. Jones Hall will receive compensation from the City contingent upon the sale and delivery of the Bonds.

Other Tax Considerations

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above, including any opinion regarding federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

In addition, future legislation, if enacted into law, or clarification of the Tax Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Tax Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City and the Authority by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney, and for the Underwriter by its counsel, Nossaman LLP.

LITIGATION AND SIGNIFICANT CLAIMS

No litigation is pending against the City with service of process accomplished or threatened in writing concerning the validity of the Bonds, or questioning the political existence of the City or seeking to restrain or enjoin the issuance or execution of the Bonds.

There are a variety of civil cases in which the City is a named defendant pending at any given time, including without limitation, the litigation described in Appendix A hereto. See APPENDIX A – “THE CITY OF SAN JOSE: GEOGRAPHIC, DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION – POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES.” Additionally, there are numerous claims filed with the City or with other agencies in which the claimants allege that they have been damaged by the City. If these cases or these claims which develop into civil actions were determined adversely to the City, it is possible there could be an adverse effect on the City’s revenues and cash flow.

RATINGS

The Bonds have received ratings of “___” by Moody’s Investors Service, “___” by S&P Global Ratings, and “___” by Fitch.

These ratings reflect only the views of the respective rating agency and any desired explanation of the significance of these ratings should be obtained from the rating agencies. There is no assurance that any ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings may have an adverse effect on the market price of one or more series of the Bonds.

CONTINUING DISCLOSURE

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, 2022 with the report for the 2020-2021 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 APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with the Rule. The Trustee has no obligation to enforce the undertakings of the City in the Continuing Disclosure Certificate, and a failure by the City to provide any information required thereunder shall not constitute an Event of Default under the Indenture.

The City engaged third-party consultants to conduct an analysis of the historical compliance of the City and the Successor Agency with their respective continuing disclosure obligations over the past five years. During this time, both the City and the Successor Agency were obligated to provide continuing disclosure. The City was obligated to provide continuing disclosure pursuant to undertakings for numerous bond issuances, including bond issuances of the City, the Authority, the San José-Santa Clara Clean Water Financing Authority, and various City of San José special assessment and community facilities districts and a convention center facilities district. However, the City was not obligated under the Successor Agency’s prior

undertakings under the Rule, nor was the Successor Agency obligated under the City's prior undertakings under the Rule. The Successor Agency is not obligated under the Continuing Disclosure Certificate for the Bonds.

During the five year period preceding the date of this Official Statement, the City failed to file, on a timely basis, notices of rating changes, or insurer-related rating changes or rating withdrawals with respect to numerous series of bonds. In addition, the assessed value of taxable property and top ten real property tax assessee's information contained in the City's Annual Reports for fiscal years 2015-2016 through 2017-2018 reflects information as of the "prior" fiscal year instead of the "current" fiscal year, as may have been required by the terms of the City's undertakings relating to issues of general obligation bonds that were defeased in July 2019.

MUNICIPAL ADVISOR

The City has retained Public Resources Advisory Group, Oakland, California, as its municipal advisor (the "**Municipal Advisor**") in connection with the authorization and delivery of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The fees and expenses of the Municipal Advisor are contingent upon the successful issuance and delivery of the Bonds.

UNDERWRITING

RBC Capital Markets, LLC (the "**Underwriter**") has entered into a Bond Purchase Agreement with the Authority under which the Underwriter will purchase the Bonds at a purchase price of \$_____ (which is equal to the par amount of the Bonds, less an Underwriters' discount of \$_____, and plus (less) a net original issue premium (discount) of \$_____).

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City.

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intend to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; the Municipal Advisor; the Trustee, and Underwriter's counsel.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Indenture providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

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

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the Board of the Authority and the City Council of the City.

CITY OF SAN JOSE FINANCING AUTHORITY

By: _____
Treasurer

CITY OF SAN JOSE

By: _____
Director of Finance

APPENDIX A

THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION TO APPENDIX A.....	1
INTRODUCTION TO THE CITY OF SAN JOSE	2
PUBLIC HEALTH EMERGENCY – COVID-19	2
MUNICIPAL GOVERNMENT	6
General	6
Charter Review Commission	6
City Service Areas	7
DEMOGRAPHIC AND ECONOMIC INFORMATION	8
Population	8
Employment	9
Major Employers	11
Household Income	12
Retail Sales	13
Construction Activity	13
Home Sale Prices	14
Education	15
Transportation	16
RECENT ECONOMIC DEVELOPMENT ACTIVITIES	18
Overview	18
Downtown Development	18
Other City Development	20
Development Challenges	23
BUDGET	26
City’s Budgetary Process	26
Fiscal Overview – 2010 - 2020	27
2020-2021 Adopted Operating Budget	27
2022-2026 Five-Year Forecast	30
2021-2022 Proposed Operating Budget	34
2021-2022 Mayor’s June Budget Message	35
2021-2022 Adopted Operating Budget	35
Comparative General Fund Budgets	35
State Budget	37
MAJOR GENERAL FUND REVENUE SOURCES	37
Assessed Values and Property Taxes	39
Sales and Use Taxes	44
Other Revenue	46
Utility Taxes	47
Franchise Fees	49
Business Taxes	50
Transfer Taxes	52
Licenses and Permits	54
Revenue from Local Agencies	55
Transient Occupancy Tax	56
Relief Funds	57
FINANCIAL OPERATIONS	59
Financial Statements	59
Financial and Accounting Information	62
City Audit and Management Report	62
CAPITAL IMPROVEMENT	64

Capital Budget and Capital Improvement Plan	64
Sustainability Initiatives	64
INSURANCE AND SELF-INSURANCE PROGRAMS	66
Citywide Insurance	66
Airport Coverages	69
Regional Wastewater Facility Coverages	70
LABOR RELATIONS	72
Overview	72
State Law Requirements Related to Labor Negotiations	73
City Charter Binding Interest Arbitration Provisions	74
POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES	76
Potentially Significant Litigation	76
Other Significant Proceedings	81
Clean Water Compliance	84
Consent Decrees	85
RETIREMENT PLANS	87
INVESTMENT POLICY AND PRACTICES	88
INVESTMENT PORTFOLIO	89
DEBT MANAGEMENT POLICY	90
BONDED AND OTHER INDEBTEDNESS	90
OVERLAPPING BONDED DEBT	95

INTRODUCTION TO APPENDIX A

This Appendix A is the part of the Official Statement that provides investors with information concerning the City of San José (the “**City**”). Investors are advised to read the entire Official Statement, including Appendix A, to obtain information essential to making an informed investment decision.

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

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

This Appendix A summarizes portions of certain documents of the City, including the following:

- Basic Financial Statements for the Fiscal Year ended June 30, 2020 (included in this Official Statement as Appendix C);
- Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2020;
- Adopted 2020-2021 Operating Budget;
- 2020-2021 Mid-Year Budget Report;
- 2021-2022 City Manager’s Budget Request & 2022-2026 Five-Year Forecast and Revenue Projections;
- 2021-2022 Mayor’s March and June Budget Messages;
- 2021-2022 Proposed Operating Budget, as modified and adopted by the City Council;
- Adopted 2020-2021 Capital Budget; and
- Adopted 2021-2025 Capital Improvement Program.

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

In addition, certain of the information in this Official Statement, including Appendix A, information has been collected from third-party sources that the City believes to be reliable.

However, the City can provide no assurances as to the accuracy or completeness of such information.

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

INTRODUCTION TO THE CITY OF SAN JOSE

The City is the oldest city in the State of California (the “**State**”), developing from a Spanish pueblo established in 1777, and is the county seat of Santa Clara County (the “**County**”). Situated between the Diablo and Santa Cruz mountain ranges, the City encompasses approximately 180 square miles at the south end of the San Francisco Bay. The Coyote and Guadalupe rivers run through the city. The City is in the Santa Clara Valley at the southern tip of San Francisco Bay, 48 miles south of San Francisco and 40 miles south of Oakland. The area is known as the Southern Peninsula. As of January 1, 2020, the City’s estimated population totaled approximately 1,049,187, making the City the third most populous city in the State and the tenth most populous in the United States as of such date (based on information published by the California Department of Finance). See “DEMOGRAPHIC AND ECONOMIC INFORMATION – Population.”

The City has transformed from the agricultural setting of its early years into the largest city in the Silicon Valley. Silicon Valley is a region in the Southern San Francisco Bay Area of Northern California which serves as a global center of high technology, innovation, and social media. Silicon Valley corresponds roughly to the geographical Santa Clara Valley. The San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (the “**San José MSA**”) in the Silicon Valley has a large concentration of high-tech employment with 336,200 workers out of a total civilian employment level of 1.04 million. Silicon Valley is home to many of the world’s largest technology companies and is a global center of technology innovation. Commercial, retail, professional, high-tech manufacturing, electronic assembly, and service businesses all have a presence in the City. On the international front, historically the City has attracted significant foreign investment from throughout the globe. See “RECENT ECONOMIC DEVELOPMENT ACTIVITIES.”

PUBLIC HEALTH EMERGENCY – COVID-19

General. The spread of the novel strains of coronavirus that causes the disease known as COVID-19 (“**COVID-19**”) and local, state, and federal actions in response to COVID-19, is having a significant impact on the economy and on the City’s operations and finances. On February 11, 2020, the World Health Organization (“**WHO**”) announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The COVID-19 pandemic has had an adverse effect on, among other things, the world economy, global supply chain, international travel, and a number of travel-related industries. The temporary and permanent business closures caused by the COVID-19 pandemic have led to a stark increase in unemployment across the County and the nation. Depending on the length and the breadth of the impacts of the COVID-19 pandemic, the economic costs may be very significant for the City and the region’s economy. On June 8, 2020, the National Bureau of Economic Research announced that the United States of America (the “**U.S.**”) officially entered into a recession in February 2020. In addition, capital markets in the United States and globally have been volatile.

The COVID-19 pandemic has materially adversely impacted the financial condition of the City. Previous, existing, and potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, reductions in tourism and disruption of the regional and local economy, widespread business closures, and significantly higher levels of unemployment, with corresponding decreases in City revenues, as described below.

Since mid-March 2020, based on guidance and directives from the State and public health agencies, all counties in the Bay Area (including the County) implemented and revised Shelter-in-Place (“**Shelter-in-Place**”) emergency orders or directives, which directed individuals to stay home, except for limited travel for the conduct of essential services. Most retail establishments (including restaurants, bars and nightclubs, entertainment venues and gyms) were closed in response to the Shelter-in-Place orders or directives. The Governor of the State announced similar Shelter-in-Place emergency orders effective for the entire State. On August 28, 2020, the State released guidance (referred to as the “**Blueprint for a Safer Economy**”) regarding re-opening certain types of businesses based on a county-by-county approach where each county is assigned a tier based on COVID-19 case rates within each county.

In December 2020, two vaccines were approved for emergency use in the United States and vaccinations began in California. A third vaccine was approved for emergency use in February 2021. On June 15, 2021, the State moved beyond the Blueprint for a Safer Economy and all Shelter-in-Place orders or directives in the State were terminated. As a result, effective June 15, 2021, capacity limits, physical distancing requirements, and certain mask requirements for individuals who are fully vaccinated were terminated. Certain public health measures, including but not limited to mask, testing and/or vaccination requirements, have remained in certain business settings and for certain industries.

On June 21, 2021, the Health Officer and Director of Public Health for the County announced that, unless they show symptoms, fully vaccinated employees did not need to be offered testing for COVID-19 or be excluded from work after close contact with a COVID-19 person. The announcement was made considering newly adopted workplace regulations issued by the California Department of Industrial Relations, Division of Occupational Safety and Health (“**Cal/OSHA**”). Under the new Cal/OSHA regulations, an employee was considered “fully vaccinated” if the employer has documentation reflecting that the employee completed their vaccination series at least 14 days prior.

On August 2, 2021, the County issued a new public health order encouraging mandatory vaccination requirements for all personnel in the County. Pursuant to a City policy, all City employees are required to provide evidence of vaccination absent an approved medical or religious exemption. Failure to comply with the policy may result in disciplinary action, including termination.

As of September 21, 2021, there were over 140,223 confirmed cases of COVID-19 in the County, and health officials expect the number of confirmed cases to continue to grow. The County reports that, as of September 21, 2021, more than 83% of the County’s residents age 12 and older are fully vaccinated, and more than 88% of the County’s residents age 12 and older have received their first dose. The State reports that, as of September 20, 2021, the average doses per day administered in the State totaled approximately 70,892, and doses equating to 87 days of inventory were on hand statewide. With the number of COVID-19 cases surging in the County and nationally, partially attributable to the spread of the Delta variant of COVID-19, the County reinstated a mask mandate for all persons indoors, effective August 3, 2021. At its meeting on August 24, 2021, the City Council voted unanimously to require proof of COVID-19

vaccinations for attendees at events of 50 or more people in City-owned buildings, excepting those not yet eligible for vaccination.

Financial Impact on City. As of May 4, 2021, the City estimates that the City's costs relating to the COVID-19 emergency totaled approximately \$403 million for fiscal years 2019-2020 and 2020-2021. Federal, sources, including Federal Emergency Management Agency ("FEMA") reimbursements and Coronavirus Aid, Relief, and Economic Stabilization Act (the "**CARES Act**") allocations, substantially offset the majority of such costs (approximately \$13 million in FEMA sources and \$180 million in CARES Act funding) in fiscal year 2019-20 and 2020-2021. As of May 4, 2021, the City had received, or anticipated receiving, funding from Federal, State, and local sources in response to the COVID-19 pandemic totaling approximately \$403 million, excluding funding under the American Rescue Plan. See "MAJOR REVENUE FUND REVENUE SOURCES – Relief Funds."

On March 11, 2021, the President of the United States signed the American Rescue Plan, a \$1.9 trillion economic stimulus package designed to help the United States' economy recover from the adverse impacts of the COVID-19 pandemic. The American Rescue Plan includes \$350 billion in unrestricted economic relief to states, counties, and local governments. On May 10, 2021, the U.S. Treasury Department released interim guidance for use of the American Rescue Plan funds, and specifically authorized, among other things, the use of funds to help offset revenue shortfalls caused by the pandemic. As of the date of this Official Statement, the City estimates it will receive a total of approximately \$212.3 million in funding under the American Rescue Plan. To date, the City has received approximately \$106 million of such funds and anticipates receiving a second installment in 2022. See "MAJOR REVENUE FUND REVENUE SOURCES – Relief Funds." As described herein, the 2021-2022 Adopted Operating Budget (as hereinafter defined) includes \$45 million of anticipated funding under the American Rescue Plan to balance the General Fund. See "BUDGET – 2021-2022 Adopted Operating Budget"

The COVID-19 pandemic has impacted certain of the City's economically sensitive tax revenues and may affect the City's ability to sustain regular operations at current levels in the future. As shown in Table 25, total General Fund tax revenues in 2019-2020 increased by approximately \$3 million, or less than 1%, from fiscal year 2018-2019. That increase was driven by an increase in Property Tax revenues of approximately \$22 million, offset by a combined decrease of approximately \$19 million in Sales Taxes, Franchise Taxes, Business Taxes, and Miscellaneous Taxes. However, the onset of the COVID-19 pandemic, and the economic impact of the necessary public health orders to limit the disease's spread, significantly altered the City's original revenue projections for 2019-2020. The 2019-2020 Mid-Year Budget Review released on January 31, 2020, and approved by the City Council on February 11, 2020, reported that City funds were generally performing within budgeted levels, and that General Fund revenues were on pace to exceed estimates by \$15 million to \$20 million. As economic conditions continued to deteriorate, City staff presented a preliminary estimate of economically sensitive revenue categories to the City Council on April 7, 2020, estimating General Fund revenue shortfalls of \$45 million in 2019-2020 and \$65 million in 2020-2021. At its meeting on April 28, 2020, the City Council approved reductions to the 2019-2020 General Fund revenue estimate of \$45 million attributable to projected decreases in sales tax (\$27 million), transient occupancy taxes (\$6.5 million), fees, rates, and charges (\$5.5 million), utility taxes (\$3 million), business taxes (\$2 million), and fines, forfeitures, and penalties (\$1 million). The revenue reduction was offset by recognizing additional sales tax revenue generated from the Revenue Capture Agreement with eBay (See "MAJOR GENERAL FUND REVENUE SOURCES – Sales and Use Taxes" for additional discussion of the Revenue Capture Agreement) in the amount of \$18.0 million, recognizing additional net savings from the sale of the Hayes Mansion Property in February 2019

of \$2.6 million, as well as reducing a number of expenditures and liquidating reserves totaling \$24.4 million.

In the City's 2020-2021 Adopted Operating Budget (as hereinafter defined), the City projected a General Fund shortfall of approximately \$77.6 million for fiscal year 2020-2021. The City's 2020-2021 Adopted Operating Budget provided a balanced budget that addressed the shortfall through a combination of ongoing and one-time solutions. Compared to 2018-2019 pre-pandemic levels, 2020-2021 estimated receipts for several economically sensitive revenue categories have experienced steep declines, including Transient Occupancy Taxes (-73%), Business Taxes (-15%), and Sales Tax (excluding the Revenue Capture Agreement; -11%). Furthermore, due to the unprecedented nature of the pandemic, several categories that were not previously considered economically sensitive and were not impacted by prior recessions, experienced significant drops because of the pandemic shut down. For example, Parks, Recreation, and Neighborhood Services fee collections (Fees, Rates, and Charges revenue category) are estimated to drop 93% in 2020-2021 compared to pre-pandemic levels experienced in 2018-2019. In addition, Parking Fines (Fines, Forfeitures and Penalties revenue category) are estimated to drop 72% in 2020-2021 compared to pre-pandemic levels experienced in 2018-2019. See "MAJOR GENERAL FUND REVENUES SOURCES."

Economic conditions are anticipated to continue to be the primary drivers for a number of the City's revenue in 2021-2022, with the most significant impacts in the Property Tax, Sales Tax, Business Taxes, Real Property Transfer Tax, and Transient Occupancy Tax revenue categories. Collectively, such revenue categories constitute almost 70% of total General Fund budgeted revenues for 2021-2022. See "BUDGET – 2021-2022 Adopted Operating Budget."

The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties. There are many variables that will continue to contribute to the economic impact of the COVID-19 pandemic and the recovery, including the length of time social distancing measures are in place, the effectiveness of State and Federal governments' relief programs and the timing for the containment and treatment of COVID-19. The ultimate impact of COVID-19 on the City's operations and finances is not fully known, and it may be some time before the full impact of the COVID-19 pandemic is known. See "CERTAIN RISK FACTORS – Public Health Emergencies" in the forepart of this Official Statement.

MUNICIPAL GOVERNMENT

General

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

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

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

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

Charter Review Commission

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

José City Hall. As of the date of this Official Statement, the Charter Review Commission has not presented any recommendations relating to the City's Charter to the City Council for consideration. Any proposed amendments to the City's Charter would require the approval of a majority of the qualified voters in the City at a regularly scheduled primary or general election provided that any amendments that affect employment rights may only be submitted for approval by voters at a November general election.

City Service Areas

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

As of January 1, 2021, the City was, by population, the third largest city in the State (after Los Angeles and San Diego), the tenth largest city in the nation, and the largest city in Silicon Valley (based on information published by the California Department of Finance). As of January 1, 2021, the City's estimated population totaled 1,029,782. As shown in Table 1, City residents account for over half of the population of the County, which is the most populous of the San Francisco Bay Area counties. While the period from 1960 to 1980 was characterized by extremely rapid population growth in both the City and County, the last three decades reflect a trend of slower but steady growth.

Table 1
City, County and State Population Statistics

	City of San José	% Change	County of Santa Clara	% Change	State of California	% Change
1960	204,196	--	642,315	--	15,717,204	--
1970	459,913	125.23%	1,064,714	65.76%	19,953,134	26.95%
1980	629,442	36.86	1,295,071	21.64	23,667,902	18.62
1990	782,248	24.28	1,497,577	15.64	29,760,021	25.74
2000	895,131	14.43	1,682,585	12.35	33,873,086	13.82
2010	945,942	5.68	1,781,642	5.89	37,253,956	9.98
2016	1,037,952	9.73	1,931,565	8.41	39,131,307	5.04
2017	1,045,047	0.68	1,942,176	0.55	39,398,702	0.68
2018	1,048,875	0.37	1,951,088	0.46	39,586,646	0.48
2019	1,047,871	(0.10)	1,954,833	0.19	39,695,376	0.28
2020	1,049,187	0.13	1,961,969	0.37	39,782,870	0.22
2021	1,029,782	(1.85)	1,934,171	(1.42)	39,466,855	(0.79)

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

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

Employment

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

Prior to the Shelter-in-Place orders or directives in response to the COVID-19 pandemic, the unemployment rate in the City and surrounding areas had not exceeded 3.0% since August 2017. However, the San José MSA unemployment rate rose to 12.0% in April 2020. Since April 2020, the local unemployment rate in the San José MSA has steadily declined to 5.2% as of June 2021. For further comparison, the City's unemployment rate increased from 6.7% in 2008 to 12.2% in 2010 during the last recession.

Table 2 shows employment figures for the City and the County and unemployment rates for the City, the County, the State, and the United States for the five most recent calendar years available.

Table 2 Estimated Average Annual Employment and Unemployment of Resident Labor Force ⁽¹⁾					
Civilian Labor Force (in thousands)	2017	2018	2019	2020 ⁽³⁾	2021 ⁽³⁾
City of San José					
Employed	532	540	556	479	505
Unemployed	19	15	13	65	31
Total ⁽²⁾	551	555	569	544	535
County of Santa Clara					
Employed	1,007	1,021	1,051	913	962
Unemployed	33	27	23	105	52
Total ⁽²⁾	1,040	1,048	1,074	1,017	1,013
Unemployment Rates					
City	3.3%	2.7%	2.3%	12%	5.7%
County	3.2	2.6	2.2	10.7	5.1
State	4.8	4.2	3.9	14.1	8
United States	4.4	3.9	3.7	11.2	5.9

⁽¹⁾ Data is not seasonally adjusted.

⁽²⁾ Totals may not add due to independent rounding.

⁽³⁾ As of June 2021.

Source: California Employment Development Department, Labor Market Information Division; United States Department of Labor, Bureau of Labor Statistics.

Table 3 shows the composition of employment in the San José MSA by general category for the most recent three years available and calendar year 2021 as of June 2021.

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

Industry	2018	Percent of Total	2019	Percent of Total	2020	Percent of Total	2021 ⁽²⁾	Percent of Total
Farm	5,792	0.5%	5,625	0.5%	5,142	0.5%	5,900	0.5%
Natural Resources & Mining....	200	0.0%	200	0.0%	200	0.0%	200	0.0%
Construction	49,892	4.4%	53,042	4.6%	50,125	4.6%	50,200	4.6%
Manufacturing	172,083	15.2%	172,025	14.9%	168,725	15.6%	170,700	15.6%
Wholesale Trade	32,242	2.8%	31,417	2.7%	29,150	2.7%	28,300	2.6%
Retail Trade	85,725	7.6%	83,092	7.2%	73,067	6.7%	73,100	6.7%
Transportation, Warehousing, Utilities.....	15,833	1.4%	16,075	1.4%	15,758	1.5%	16,600	1.5%
Information	92,100	8.1%	100,567	8.7%	105,958	9.8%	109,300	10.0%
Financial Activities.....	36,733	3.2%	37,867	3.3%	38,008	3.5%	37,400	3.4%
Professional & Business Services.....	236,175	20.8%	243,125	21.0%	237,892	21.9%	243,200	22.2%
Educational & Health Services	176,527	15.6%	178,683	15.5%	171,650	15.8%	173,400	15.8%
Leisure & Hospitality.....	105,692	9.3%	107,533	9.3%	71,733	6.6%	72,500	6.6%
Other Services.....	28,917	2.6%	28,933	2.5%	22,183	2.0%	25,500	2.3%
Government.....	96,667	8.5%	97,317	8.4%	94,250	8.7%	90,100	8.2%
Total ⁽¹⁾	1,134,283		1,155,501		1,083,842		1,096,400	

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ As of June 2021.

Source: California Employment Development Department, Labor Market Information Division.

Major Employers

Table 4 shows fifteen selected major employers in the City, ranked by the number of their employees, estimated as of April 2021. Because there is no official source for this information, it has been gathered by the City's Office of Economic Development on an informal basis from sources believed to be reliable. However, the City can provide no assurances as to the accuracy or completeness of the information shown in Table 4.

Table 4
City of San José
Selected Major Employers as of April 2021

	Company/Organization	Approximate Number of Employees	Percent of Total City Employment
1	County of Santa Clara	18,700	4.80%
2	Cisco System Inc.	7,500	1.92
3	City of San José	6,592	1.69
4	PayPal Inc.	3,868	0.99
5	San Jose State University	3,650	0.94
6	Adobe Systems Inc.	3,400	0.87
7	Kaiser Permanente	3,035	0.78
8	eBay Inc.	2,800	0.72
9	Western Digital	2,759	0.71
10	San José Unified School District	2,679	0.69
11	Target Stores Inc.	2,437	0.62
12	Super Micro Computer Inc.	2,230	0.57
13	IBM Corp.	2,200	0.56
14	Cadence Design Systems Inc.	1,956	0.50
15	Good Samaritan Hospital	1,850	0.47

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

Household Income

Household income, as measured by the U.S. Census Bureau, includes the income of the householder and all other people 15 years and older in the household, whether they are related to the householder. The median is based on the income distribution of all households, including those with no income. Table 5 shows the top ten median household incomes by metropolitan statistical area in the United States in 2019, the most recent American Community Survey available. The San José MSA had the highest median household income in 2019, which was well above the national median.

Table 5
United States
2019 Top Ten Median Household Income

1.	San José-Sunnyvale-Santa Clara, CA Metro Area	\$130,865
2.	San Francisco-Oakland-Fremont, CA Metro Area	114,696
3.	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	105,659
4.	Bridgeport-Stamford-Norwalk, CT Metro Area	97,053
5.	Boston-Cambridge-Newton, MA-NH Metro Area	94,430
6.	Seattle-Tacoma-Bellevue Metro Area	94,027
7.	Napa, CA Metro Area	92,769
8.	Oxnard-Thousand Oaks-Ventura, CA Metro Area	92,236
9.	Santa Cruz-Watsonville, CA	89,269
10.	Boulder, CO	88,535
	U.S. Median	\$65,712

Source: U.S. Census Bureau, American Community Survey 2019 1-Year Estimates.

Retail Sales

Table 6 sets forth a history of taxable sales for the City for calendar years 2017 to 2020. Taxable sales are reported using the North American Industry Classification System codes.

Table 6
City of San José
Taxable Sales
Calendar Years 2017 to 2020
(in thousands)

	2017	2018	2019	2020
Motor Vehicle and Parts Dealers	\$2,134,572	\$2,415,535	\$2,309,185	\$2,011,582
Home Furnishings and Appliance Stores	728,521	849,860	753,316	651,412
Bldg. Matrl. and Garden Equip. and Supplies.	972,171	1,041,280	1,049,711	1,141,654
Food and Beverage Stores.....	577,938	587,734	612,960	652,143
Gasoline Stations.....	1,050,646	1,185,859	1,194,716	738,009
Clothing and Clothing Accessories Stores.....	971,102	1,000,629	1,013,635	577,734
General Merchandise Stores	1,110,193	1,328,693	1,359,673	1,196,307
Food Services and Drinking Places.....	2,045,134	2,127,153	2,249,724	1,424,598
Other Retail Group.....	968,095	1,007,301	1,804,540	4,968,943
Total Retail and Food Services.....	10,558,372	11,544,044	12,347,460	13,362,383
All Other Outlets	4,495,992	4,867,941	4,804,076	4,128,229
Total All Outlets	<u>\$15,054,364</u>	<u>\$16,411,985</u>	<u>\$17,151,536</u>	<u>\$17,490,612</u>

Source: California Department of Tax and Fee Administration.

See “MAJOR GENERAL FUND REVENUE SOURCES – Sales and Use Taxes” for a discussion regarding the City’s sales tax receipts.

Construction Activity

Overall construction activity, measured by permit valuation, increased 6.4% from prior-year levels for the fiscal year ended June 30, 2021. The increase was primarily due to a strong fourth quarter in residential and commercial activity in the first quarter of the fiscal year. The 2020-2021 Adopted Budget was developed with the expectation that private development activity would remain strong, but would be significantly weaker than previous years.

Through June 2021, residential permit valuation has increased 10.4% from prior-year levels (\$390.1 million through June 2021 vs. \$353.41 million through June 2020). Residential activity through June included 1,398 multi-family units and 577 units for single-family construction for a total of 1,975 units.

Commercial valuation for the fiscal year ended June 30, 2021 showed growth of 43.8% from the prior year level (\$1,127.9 million through June 2021 vs. \$784.3 million through June 2020). Extremely strong commercial activity in the first quarter of the fiscal year (\$741.8 million) was followed by more typical valuation in the second quarter (\$179.8 million). The permit for one large new commercial office building in downtown San José accounted for more than half the

valuation in the first quarter (\$415 million). The third quarter showed a modest \$89.3 million, with additions/alterations (\$66.8 million) accounting for three quarters of the commercial activity. Fourth-quarter activity improved to \$116.9 million but only a third of the valuation (\$33.0 million) came from new construction.

Industrial construction valuation through June was 40.8% lower than prior-year levels, with receipts totaling \$386.5 million through June 2021 and \$652.5 million through June 2020. Like the same period last fiscal year, a spike in permit valuations in July drove the overall valuation level thru the fiscal year. Industrial activity for the third quarter was roughly one-third new construction and two-thirds additions/alterations (new construction of \$24.0 million vs. alterations of \$47.6 million). Fourth-quarter valuation was entirely addition/alterations (\$36.3 million).

Table 7 shows construction valuation and new dwelling units for the most recent five calendar years.

Table 7 City of San José Construction Valuation and New Dwelling Units <i>(in thousands)</i>					
	2016	2017	2018	2019	2020
Valuation:⁽¹⁾					
Residential	\$563,521	\$708,898	\$547,029	\$510,890	\$324,266
Non-Residential	1,535,204	1,691,856	811,018	1,721,756	1,672,103
Total	<u>\$2,098,725</u>	<u>\$2,400,754</u>	<u>\$1,358,047</u>	<u>\$2,232,646</u>	<u>\$1,996,369</u>
New Dwelling Units:					
Single Family	226	201	315	568	504
Multi-Family	1,862	2,896	2,658	1,881	1,196
Total	<u>2,088</u>	<u>3,097</u>	<u>2,973</u>	<u>2,449</u>	<u>1,700</u>

⁽¹⁾ Valuation figures are adjusted to 2020 dollars (December 2020 San Francisco-Oakland-Hayward Consumer Price Index).
Source: City of San José, Department of Planning, Building and Code Enforcement.

More information regarding building permits and fees is set forth below in the section entitled “MAJOR GENERAL FUND REVENUE SOURCES – Licenses and Permits.”

Home Sale Prices

From spring 2012 through fall 2018, the median sale price for homes had consistently experienced year-over-year growth. Beginning in October 2018, however, the local real estate market in the County experienced a slow down, which lasted for approximately 12 months, until fall 2019 when the market began to stabilize and grow again.

With the onset of the COVID-19 pandemic, real estate activity was anticipated to be sluggish in 2020-2021 due to higher unemployment rates coupled with lower consumer confidence. According to data from the Santa Clara County Association of Realtors, the number of property sales in the City decreased year-over-year (from the same time period in the prior

year) ranged from 10%-54% between the beginning of the Shelter-in-Place orders or directives through June 2020. However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains. Through June 2021, there were a total of 8,504 property sales for all residences in the City, which represents growth of approximately 40% from the prior year's levels. In addition, as of June 2021, the median single family home price in the City totaled \$1.48 million, which represents a 24% increase from the June 2020 price of \$1.19 million.

Table 8 shows the average monthly median price for a single-family home in the City for Fiscal Years 2011-2012 through 2020-2021.

Fiscal Year	Average Median Price	Percentage Change
2011-2012.....	\$499,620	0.3%
2012-2013.....	630,001	26.1
2013-2014.....	724,450	15.0
2014-2015.....	781,708	7.9
2015-2016.....	870,042	11.3
2016-2017.....	921,019	5.9
2017-2018.....	1,131,704	22.9
2018-2019.....	1,120,042	(1.0)
2019-2020.....	1,136,729	1.5
2020-2021.....	1,316,287	13.6

Source: Santa Clara County Association of Realtors.

Education

The residents in the City are highly educated. According to the United States Census Bureau's American Community Survey for 2019, approximately 45% of the City's population have a bachelor's degree or higher, compared to approximately 35% in the State and approximately 33% in the United States.

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

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

Transportation

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

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

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

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

The California High Speed Rail Authority (the “CHSR Authority”) is pursuing a statewide, high speed rail system in California linking Los Angeles to the San Francisco Bay Area, with a proposed station to be in the City. The CHSR Authority has indicated it will pursue a phased implementation of service. Groundbreaking on the initial construction segment of the project (Merced to Bakersfield) began in 2015 and is expected to be operational by 2028-2029. The City is unable to predict if or when a statewide, high speed rail system will become operational between the San Francisco Bay Area, the City and Los Angeles, or what effect such rail system would have, if any, the City’s revenues.

In the Mayor’s Budget Message for Fiscal Year 2021-2022, released on March 8, 2021, the Mayor directed the City Manager to allocate funds to enable the City to issue a Request for Proposals relating to a potential privately financed airport connector to Diridon Station. City staff is currently working toward issuing such a Request for Proposals before the end of calendar year 2021.

The City is unable to predict how the revenues or future plans of any transportation agencies may be impacted by the COVID-19 pandemic or other events. See “CERTAIN RISK FACTORS – Public Health Emergencies” in the forepart of this Official Statement.

Airport. The Airport is located on approximately 1,000 acres of land four miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport is a commercial service and general aviation airport owned and operated by the City. The Airport is classified by the Federal Aviation Administration (the “**FAA**”) as a “medium hub” (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States). The Airport serves the California counties of Alameda, Monterey, San Benito, San Mateo, Santa Clara, and Santa Cruz. According to a March, 2017 American City Business Journals article, the Airport was ranked as the “best-run airport in the country.”

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

To accommodate the large increase in air traffic, the Airport added two gates at the south end of Terminal B and a 6-gate interim facility at the south end of Terminal B (the “**Interim Facility**”). The Interim Facility, completed in June 2019, includes boarding bridges as well as food and beverage concessions. The Interim Facility was designed and built as a temporary facility that can operate during construction of the future Terminal C in the same area.

Following the outbreak of COVID-19 and the resulting stay-at-home directives, passenger levels at the Airport have dropped significantly and are currently below the pre-recession levels of fiscal year 2008. From March to December 2020, passenger levels declined year-over-year by 81.9% at the Airport. Compared to 2019, the total passenger levels from January through July of 2021 are down 61.4%, with July 2021 passengers declining by 43.3% from July 2019.

The Airport continues its operations as essential infrastructure. Airport revenues depend on the level of aviation activity and passenger traffic at the Airport and has seen a steady rebound in passenger levels since the low in April 2020. The Airport experienced and expects to continue to experience a significant decrease in aviation and non-aviation revenues because of the COVID-19 pandemic. Airport revenues depend on the level of aviation activity and passenger traffic at the Airport. The City cannot predict the extent and duration of changes in air traffic volume because of the COVID-19 pandemic and its associated economic impacts on the Airport.

RECENT ECONOMIC DEVELOPMENT ACTIVITIES

Overview

The City has experienced strong job growth and development activity since emerging from the Great Recession, particularly in North San José and the downtown area. However, recent trends suggest that development levels have plateaued, and the rate of new development may begin to slow. This trend was evident prior to the outbreak of COVID-19, which may further chill development momentum, but much remains unclear about the depth and length of the impacts of the pandemic and its economic effects. It is currently expected that some companies will allow their employees to continue working remotely until the COVID-19 crisis is over, and perhaps on a permanent basis. See “DEMOGRAPHIC AND ECONOMIC INFORMATION – Economic Overview – Construction” for additional information about recent construction activity in the City.

Overall, according to the City’s five-year planning forecast, which was last updated in early 2021, annual new residential units were forecasted to stabilize at a pace in the middle of the range seen over the last five years. New commercial/retail and industrial construction is also projected to decline from the very high numbers seen in recent years. This partly reflects uncertainty around the economic recovery as consumer shopping habits shift online, and office-space demand comes into view following the COVID-19 pandemic.

The following sections include descriptions of certain proposed and pending construction and development projects in the City. The City cannot provide assurance as to the timing of completion of such projects, if ever, or that such projects when completed will conform to the descriptions herein.

Downtown Development

The City’s compact downtown district is a regional transit, cultural, civic and employment hub. In recent years, the City’s planning efforts have been met with increased interest from private investment to develop significant new office and residential projects. In 2011, after three years of extensive community input from more than 5,000 residents and more than 50 public meetings, the City Council unanimously adopted the General Plan to determine how San José would develop in the next three decades. The General Plan provided capacity for a large expansion of both jobs and residences, a critical component of which focused on creating a vibrant Downtown destination including expansion of the relatively small Downtown to a size and density more appropriate for a city of one million people. The General Plan called for adding 48,500 jobs, along with 10,360 housing units, to Downtown.

Three years later, in 2014, the City Council adopted the Diridon Station Area Plan to transform the 250-acre area of Downtown’s western side (the “**Diridon Station Area**”) into an area for people to live, work and visit. The Diridon Station Area Plan provides for the development of the Diridon Station Area into mixed-used developments with improved parks, trails, and public spaces, among other items.

In December 2018, the City Council approved General Plan amendments and adopted the Downtown Strategy 2040 to replace the 2000 Downtown Strategy. The Downtown Strategy 2040 and associated General Plan amendments increased the Downtown housing unit capacity from 10,360 to 14,360 and 48,500 jobs to 58,500 jobs. The housing and job capacity were transferred from other General Plan Growth Areas to the Downtown to accommodate anticipated Downtown growth to year 2040.

In May 2021, the City Council approved amendments to the General Plan and Diridon Station Area Plan and related rezoning to transfer additional housing unit capacity and jobs from other General Plan Growth Areas to the Downtown. The Google Mixed-Use Development (described below) also reallocated planned housing and jobs to the Downtown.

Google Mixed-Use Development in Diridon Station Area. In early 2017, Google Inc. (“**Google**”) expressed to the City an interest in purchasing land in the Diridon Station Area for the purpose of creating a mixed-use office development. Early discussions by the City with Google indicated their interest in planning and building a master-planned, transit-oriented development that could include between 6 million and 8 million square feet of office/R&D space and retail/commercial amenities. Such potential development could support approximately 20,000 new Downtown employees, significantly aiding the City’s critical need for local jobs and supporting ridership on existing and new public transportation investments.

In 2018, the City entered into purchase and sale agreements and an option agreements with Google with respect to properties in the Diridon area owned by the City, including a fire training facility, totaling approximately 15 acres (collectively, the “**Diridon City Properties**”), and five properties previously owned by the former Redevelopment Agency of the City of San José (the “**Former Agency**”) totaling approximately 6.5 acres (collectively, the “**Diridon SARA Properties**”). In December 2018, sale of the Diridon SARA Properties was completed. The City’s sale of the fire training facility to Google closed in June 2019. As part of the sale, Google agreed to lease the fire training facility to the City through June 2022. In addition, discussions are currently underway between the City and Google with respect to the option agreement for the roughly 10.5-acre property north of Santa Clara Street and adjacent to the SAP Center that is operated by Sharks Sports and Entertainment (“**SSE**”) under a lease with the City. The option agreement specifies that Google and SSE must come to mutual agreement to effectuate the transfer of the property, and the City is unable to predict whether the parties will come to an agreement. Should the parties not agree, Google may complete the transaction at the conclusion of the term of SSE’s lease of the SAP Center, which currently ends in 2040.

In December 2018, the City and Google entered into a Memorandum of Understanding (the “**Google MOU**”) for the purpose of memorializing guiding principles and shared goals of the City and Google’s collaboration and to act as a basis for negotiating a potential future development agreement between the City and Google with respect to Diridon Station Area. The Google MOU expires upon the mutual execution of a development agreement between the City and Google or December 31, 2022, whichever occurs first. The shared goals set forth in the Google MOU include, optimizing development density and creating a complementary mix of uses in order to create a transit-oriented urban neighborhood and destination and to grow and preserve housing in the City to help address rising housing costs and displacement.

In October of 2019, Google submitted its Downtown West Mixed-Use Plan application to the City, initiating the City’s project review period. The project proposes up to 7.3 million square feet of office space; up to 5,900 units of new housing, up to 500,000 square feet of “active uses” such as retail and arts; up to 100,000 square feet of event space and up to 300 hotel rooms; and approximately 15 acres of private and public parks and open space. In April 2021, the City released a draft development agreement for public review, which addresses the top priorities expressed by the City Council in 2018. These priorities include affordable housing, anti-displacement, and jobs/education. The development agreement includes a “Community Benefits” package valued at approximately \$200 million designed to address these priorities. The project proposes up to 7.3 million square feet of office space; up to 5,900 units of new housing, up to

500,000 square feet of “active uses” such as retail and arts; up to 100,000 square feet of event space and up to 300 hotel rooms; and approximately 15 acres of private and public parks and open space. On May 25, 2021, the City Council approved the project, and on June 8, 2021 adopted the ordinances to implement the project.

Google is not the only party interested in investing in the Downtown core. Approximately 3.6 million square feet of office space was under construction in the Downtown area and Diridon Station Area, as of July 2021. From 2017 through July 2021, investors spent \$5.2 billion on land-development sites, existing office buildings, hotel properties, multifamily housing investments, and retail properties, according to CoStar, a real estate information service. As of July 2021, entitlements had been issued for 3,898 residential units, 156,157 square feet of retail space, and 6,697,442 square feet of office space within the Downtown Core. The largest proposal is a 3.4 million square foot redevelopment of the 1970s-era CityView Plaza from developer Jay Paul Co., which has built more than 11 million square feet of Class A office space in California. The proposal was approved by the City Council in June 2020. The City can provide no assurances regarding timing or completion of the project.

Most Downtown construction during the last several years has been residential in nature, but the office construction market has recently been increasing. As of July 2021, construction was underway on 1,625 residential units, 52,801 square feet of retail space, and 2,639,312 square feet of office space within the Downtown core.

While Downtown is still a relatively small office market (it had a daytime employment of roughly 43,000 as of 2018), these under-construction and potential projects could substantially increase its size. However, the City can provide no assurance that any such projects will obtain land use entitlements or as to the timing or completion.

Adobe North Tower. On June 24, 2019, Adobe commenced construction of a fourth office tower in Downtown San José, to serve as office space for Adobe’s employees. Adobe, a provider of cloud-based software and services, already owns a three-tower campus in the Downtown area that serve as Adobe’s headquarters. The fourth office tower is being constructed on a parcel across the street from the existing three-tower campus. The fourth tower is anticipated to accommodate approximately 4,000 employees with approximately 700,000 square feet of office space. Adobe’s new tower is expected to provide ground floor retail. The retail could total about 8,100 square feet, according to information that Adobe has provided to the City. Construction was halted during the initial phase of the Shelter-in-Place orders or directives to combat COVID-19, but construction resumed as of mid-May 2020, and is still active. The City cannot predict when construction of the North Tower will be completed, or whether it will be occupied upon completion.

Other City Development

North San José. North San José is the City’s main employment district. It contains approximately 100,000 jobs and is home to major companies such as Cisco Systems Inc., Broadcom Inc., Maxim Integrated Products Inc., and Cadence Design Systems Inc. North San José has traditionally been singularly employment-focused, but it has seen nearly 8,000 residential units constructed between 2009 and 2017 as part of a planning policy change to allow workers to live near jobs. In addition, developers have constructed the equivalent of roughly 4.5 million square feet of office and research and development (“**R&D**”) space in this area during this period. Much of this activity followed the adoption in 2005 of the North San José Area Development Policy (the “**NSJ ADP**”), which provides development capacity for 32,000 homes and 26.7 million square feet of industrial (office/R&D), metered in four phases. Commercial

occupancy in the North San José area has been boosted by recent tenant leases, acquisitions or expansions including Hewlett Packard Enterprise, Micron, Bloom Energy, and Roku.

Beginning in 2015 and continuing through 2018, Apple Inc. (“**Apple**”) acquired roughly 86 acres of contiguous land (most of it undeveloped) in North San José. In 2016, the City Council approved a 15-year development agreement with Apple, that provides capacity for up to 4.1 million square feet of industrial/office/R&D space. In November 2019, Apple announced its intention to commit \$2.5 billion toward helping to alleviate housing availability and affordability in the Bay Area. Of the total amount, Apple announced \$300 million would come from the Apple-owned land in North San José. It is not clear what Apple will propose to do with the land. Apple Inc. has not submitted a development application to the City and the City cannot provide any assurance that Apple will move forward with a development proposal with respect to its land in North San José.

Microsoft has also acquired vacant property in North San José recently. In May 2021, Microsoft acquired approximately 21 acres near the corner of Orchard Parkway and Component Drive, which is part of a site where a large mixed-use project of offices, hotel rooms, and retail uses has been proposed. According to Costar, a real estate information service, Microsoft acquired the property for \$78.7 million, or \$3.7 million an acre. It is not clear what Microsoft will propose to do with this property. Microsoft has not submitted a development application to the City and the City cannot provide any assurance that Microsoft will move forward with a development proposal with respect to this land.

Microsoft previously acquired land in 2017 along the north side of State Route 237 between Zanker Road and the banks of the Coyote River Creek for roughly \$1.13 million an acre. The City approved a development permit in October 2019 to allow the construction of six data center buildings totaling approximately 376,510 square feet on a 64.59 gross acre site. This development permit expires on October 24, 2022 if the permittee does not obtain a building permit and begin construction.

Microsoft filed a new development permit in November 2019. The City is currently engaged in environmental review process led by the California Energy Commission for a proposed data center consisting of two buildings totaling 479,000 square feet on an approximately 64.59-acre site. The City cannot provide any assurance that Microsoft will move forward with a development proposal for this site.

As mentioned above, the NSJ ADP provides for a specified amount of new development, including an additional 26.7 million square feet of new office/R&D development, as well as an additional 32,000 residential units, 2.7 million sq. ft. of retail development and 1,000 hotel rooms. The full build out of all new development within the NSJ ADP area is divided into four roughly equivalent phases. The NSJ ADP does not establish a timeline for these phases. Rather, each phase is defined by various amounts of development capacity for industrial, commercial, and residential development that are also tied to a menu of specified transportation improvements occurring within a reasonable time of development. For this reason, the NSJ ADP includes a phasing plan that limits how much industrial and residential development may occur in advance of the construction of supporting infrastructure improvements. As of this date, development in North San José remains in Phase I primarily because commercial and industrial development has not reached Phase I capacity. Additionally, the NSJ ADP requires that 85% of the infrastructure improvements for each phase must be reasonably assured and that all of the improvements from any preceding phase must be constructed before the industrial or residential development of the next phase may be issued building permits. Similarly, the NSJ ADP also requires that the entire

industrial development of a phase and the minimum residential development of a phase must also have Building Permits issued before entitlements begin for the next phase. Currently, although the industrial and commercial capacity of Phase I has not yet been achieved, the residential capacity of Phase I has been utilized and the City Council has directed staff to explore options to advance additional residential units prior to the conclusion of Phase I.

The City entered into three settlement agreements relating to transportation improvements in the North San José Area Development Policy area. The first is a settlement agreement between the City of San José, the County of Santa Clara, and the City of Santa Clara. The second is a settlement agreement between the City of San José and the County. The City has satisfied its obligations under a third settlement agreement between the City and the City of Milpitas.

Both 2006 settlement agreements with the City of Santa Clara and the County provide that the City contribute \$1.5 million towards a Santa Clara County project to fund the design work for the construction of the Montague/Mission/101 Interchange Project as contemplated in the County's Project Study Report for the project, which funds have been set aside by the City for that purpose. These two settlement agreements also require the City to fund and complete the widening of Montague Expressway to eight lanes between Lick Mill Boulevard and Trade Zone Boulevard, including all portions of the Expressway, regardless of City boundaries, including interchange modifications at I-880 and the Trimble Road flyover (the "**Flyover**") as part of Phase I of the NSJ ADP. Some of the work to widen Montague Expressway to eight lanes has already been completed, with the remaining work to be completed on Montague Expressway between Lick Mill Boulevard and North 1st Street. The City has set aside funding in an amount estimated to be adequate to complete the design and improvements on this County expressway that does not include funding for the Trimble Flyover, as detailed below. Both settlement agreements also require the City to complete the McCarthy-O'Toole Interchange as part of implementation of Phase III of the North San José Area Development Policy. To date, development in North San José has not reached the limits of Phase I of the North San José Area Development Policy, so the Phase I obligations of these settlement agreements are not yet applicable.

On July 1, 2020, the City advised the City of Santa Clara that it intends to reconsider its prior area plans for North San José. Instead, the City will transition to a project-by-project approach for development in the area consistent with the City's General Plan. Should that occur, the City would rescind the North San Jose Development Policies for future development that has not already received land use entitlements from the City, rendering the obligations set forth in the 2006 settlement agreements inapplicable and subject to negotiation of revisions to the settlement agreements.

The City has attempted unsuccessfully to negotiate changes to the settlement agreements with the City of Santa Clara, attempting primarily to amend the NSJ ADP phasing plan to provide more housing opportunities and to change the phasing of the transportation improvements to reflect where development has occurred. The City of Santa Clara requested advisory mediation in accordance with the provisions of the agreements alleging an anticipatory breach of its settlement agreement if the City were to carry out its option to rephase the NSJ ADP. The City and the City of Santa Clara have engaged in mediation in an attempt to reach an agreement to amend the current settlement agreements, and are currently discussing the mediator's proposal and settlement of the matter, but there is currently no resolution among the parties.

If the City is unable to amend the agreements with the City of Santa Clara and the County of Santa Clara, the City may become engaged in litigation, which could be costly, and could delay development in the North San José, hindering growth in property tax receipts. In 2018, the time

of the most recent estimate, the City preliminarily projected that it would be responsible for approximately \$47 million in costs if required to complete the Trimble Flyover modifications. The City has not set any funds aside for this purpose.

West San José. The City's west side has continued to build on its retail-heavy base in recent years, anchored by Valley Fair mall and mixed-use Santana Row development. Unibail-Rodamco-Westfield began construction in 2016 on a \$1.1 billion expansion and renovation of Valley Fair, which expanded the 1.5-million-square-foot mall by 650,000 square feet. It was substantially completed by mid-2020. The expansion included a new Bloomingdale's store, a new flagship Apple store, space for 150 retail shops and restaurants and additional parking. A portion of Valley Fair lies in the City of Santa Clara; the Bloomingdale's, Apple Store and most of the new stores are located on the portion of Valley Fair within the City of San José. The expansion's first phase, which included the Bloomingdale's department store, opened in February 2020, shortly before the public health orders closed most retail establishments throughout the County. Valley Fair and other malls in the City re-opened in June 2020, after the loosening of the Shelter-in-Place orders or directives. The long-term outlook of many traditional mall tenants was uncertain due to the trend of consumers shifting to online shopping, and additional retailers have filed for bankruptcy protection following the outbreak of COVID-19. The phased re-opening under the Blueprint for a Safer Economy ended with a full reopening of the economy on June 15, 2021. See "PUBLIC HEALTH EMERGENCY – COVID-19."

Other projects in the City's west side include the expansion of Santana Row by Federal Realty Investment Trust. Federal Realty Investment Trust continues to expand Santana Row, completing a 284,000 square foot building at the 2.1-million-square-foot center, which includes 622 residential units, a 212-room hotel, 360,000 square feet of office, and 650,000 square feet of retail. Federal Realty Investment Trust has also entitled a roughly 1-million-square-foot office campus on a 13.4-acre site across from Santana Row. Federal Realty Investment Trust is constructing the first building, totaling 350,000 square feet, on the site. Construction halted during the first phase of the Shelter-in-Place orders, but resumed in mid-May 2020.

South San José. The southern region of the City ("**South San José**") includes the Edenvale industrial district. While South San José has not seen as much development activity as other business districts in the City, several major projects have added significant housing, retail, and industrial/warehouse space. The largest of these sits on former buffer lands surrounding the Western Digital manufacturing campus totaling roughly 400 acres. Master-planned projects on these buffer lands include roughly 3,700 housing units, 500,000 square feet of retail (including a Costco store that opened in 2017), and 386,000 square feet of data center space. Most of these projects are now either complete or nearing completion. Western Digital has also expanded over the past few years, with two buildings totaling 240,000 square feet. In addition, in Edenvale, developers constructed the first new warehouse/industrial projects in the City in many years: three warehouse buildings totaling roughly 420,000 square feet; the third building was completed in 2018. Interest in the construction of data centers in the Edenvale area has remained strong, and there is a roughly 300,000-square-foot data center project for China Mobile currently under construction.

Development Challenges

Commercial Development. Future development within the City is expected to face a number of challenges. While San José has seen development activity since the Great Recession, some recent proposals have struggled to obtain financing and have not broken ground as expected, even prior to the outbreak of COVID-19. These challenges, which are not unique to

San José, were due in large part to escalating construction costs. An April 2018 study prepared for the City by Keyser Marston Associates (“KMA”) found that direct construction costs would need to decrease by 15% to 20%, or average commercial rents would need to increase by 10% to 15% (or some combination of the two) to ensure sufficient returns to drive new construction. Despite challenges in the current market, unique circumstances could enable certain projects to proceed, such as projects with a low land basis due to long-term ownership, or projects viewed as longer-term investments. Moreover, real estate development economics are constantly changing with respect to construction costs, land values, rent potential, and cost of capital. If, for example, market values improve relative to costs, more projects would be able to achieve an acceptable return and break ground.

The coronavirus pandemic has resulted in a need for businesses to implement measures to protect the health and safety of workers. Among the changes being implemented or contemplated are modifications to office layouts that increase the distance and physical separation between employees. This has led to speculation that the density of employment within office buildings could be reduced on a more permanent basis.

The City adopted a commercial linkage fee in September 2020 that applies to limited geographic subareas of the City. A nexus analysis was prepared in July 2020 for the City by KMA, in support of the adoption of the City’s commercial linkage fee that is imposed on new non-residential development to fund affordable housing, which explains that the COVID-19 pandemic has had widespread effects on business and society and caused a sharp economic downturn within Santa Clara and San Benito counties, resulting in the loss of approximately 133,000 jobs from February to May 2020. Interviews with local developers conducted by KMA in June 2020 confirmed a reduced density of employment within office buildings is currently being envisioned as a possible longer-term outcome of the pandemic, especially with respect to high-tech tenants which tend to have open floor plan offices and a high density of employment. The experience adapting to remote working during the pandemic has led some businesses to plan for remote work as a larger part of their operations post-pandemic. A trend toward remote work would be expected to reduce demand for new commercial buildings overall, but does not necessarily reduce employment density within the commercial buildings that are already built.

The COVID-19 crisis could further challenge development if an extended recession depresses the demand for real estate, depresses rents, or negatively impacts the capital markets and ability of lenders to finance projects. Consumer behavioral shifts could also contribute to changes in business operations that result in lower demand for real estate. For instance, demand for office space may decline if companies allow more employees to work from home. Prolonged concern about the use of public transit could threaten the attractiveness of transit-oriented development projects. Accelerated adoption of e-commerce or new or increased City impact or development fees, including the commercial linkage fee could diminish plans for some future retail, commercial and industrial development. Additionally, widespread disruption, bankruptcies, and consolidation in the retail sector due to the factors discussed above could depress future development or occupancy of these types of shopping centers.

The recession created by the pandemic is expected to be a temporary condition from which the economy will eventually recover over the long term and will extend over the life of new commercial development. Indeed, many of these jobs have returned. However, in addition to short-term economic damage, the pandemic is contemplated as a driver of possible long-term changes which need to be taken into consideration.

San Jose Municipal Water System's Water Supply. Through its San Jose Municipal Water System, the City provides water service to approximately 26,000 potable and recycled water customers combined, representing roughly 100,000 residents in the Evergreen, North San Jose/Alviso, Edenvale, and Coyote Valley areas.

San Jose Municipal Water relies on four sources of supply: surface water from the San Francisco Public Utilities Commission ("**SFPUC**"), local and imported surface water from Valley Water, groundwater from the Santa Clara groundwater basin, and the City's recycled water program. All water supplies may be impacted by the challenges related to drought. For the SFPUC water supply, serving the North San Jose/Alviso area, the business relationship between the SFPUC and its wholesale customers is largely defined by the "Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County and Santa Clara County (WSA)" as amended and restated in 2018. The 2018 action amended a 2009 25-year WSA without extending the term, which expires in June, 2034, with options through 2044. The WSA addresses the ratemaking methodology used by the SFPUC in setting wholesale water rates for its customers in addition to addressing water supply and water shortages. The WSA serves as the master agreement, and it provides for a 184 million of gallons per day (MGD) Supply Assurance to all the permanent SFPUC wholesale customers on an annual average basis. The WSA is supplemented by Water Sales Contracts executed in July 2009 between SFPUC and each individual retailer. The individual Water Sales Contract includes specific conditions between SFPUC and the retailer. The City's Water Sales Contract continues to be a temporary and interruptible supply contract. The City has no Individual Supply Guarantee but does have an Interim Supply Allocation of 4.5 MGD, which requires 10-year notice before interruption. For drought conditions, the WSA contains a Water Shortage Allocation Plan which first requires voluntary reductions, but then permits the SFPUC to implement mandatory reductions if necessary to respond to water shortages. See "CERTAIN RISK FACTORS – Development Risks – Water Supply Risks" in the forepart of this Official Statement.

BUDGET

The City is legally required to adopt a balanced budget before the beginning of each fiscal year. The City Council adopted a balanced budget for 2021-2022 on June 15, 2021 and adopted the Annual Appropriation Ordinance and Funding Sources Resolution implementing the 2021-2022 Operating and Capital Budgets on June 22, 2021.

City's Budgetary Process

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

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

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

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

Current City practice calls for the preparation of Bi-Monthly Financial Reports, which are presented to the City Council Public Safety, Finance, and Strategic Support Committee. Additionally, the Mid-Year Budget Review document is released in January and considered by

the City Council in February. The Mid-Year Budget Review contains an assessment of the City's budget condition based on actual performance during the first six months of the fiscal year.

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

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

Fiscal Overview – 2010 - 2020

2010-2011 and 2011-2012 marked the final two years of a decade of fiscal deficits for the City. In 2010-2011 and 2011-12, the City faced significant budget challenges, particularly in the General Fund, as the growth in revenues did not keep pace with the increase in expenditures. The City addressed the annual budget shortfalls by implementing significant service and position reductions, employee compensation reductions, changes to service delivery models across the organization, and undertaking efforts to maintain and increase revenues, including four voter-approved tax measures. These actions, along with improved economic conditions, resulted in some improvement in the City's fiscal condition in 2012-2013, during which elements of the City's Fiscal Reform Plan were implemented including the elimination of the Supplemental Retiree Benefit Reserve and changes to existing healthcare plans for active employees and retirees. The Fiscal Reform Plan was a successor to a prior plan approved by the City Council in 2008 aimed at the elimination of the structural deficit in the General Fund. The Fiscal Reform Plan presented a strategy to achieve long-term financial stability, restore key City services to January 1, 2011 service levels for police, fire, libraries, and community centers, and open facilities that were recently completed or then under construction. The City has not experienced a significant surplus in the last decade, despite years of implementing structural deficit elimination plans.

2020-2021 Adopted Operating Budget

Initial Adoption. After a series of City Council Budget Study sessions and a public hearing, the City Council adopted the 2020-2021 Proposed Operating Budget on June 15, 2020, with certain modifications on June 23, 2020 (as so modified and adopted, the “**2020-2021 Adopted Operating Budget**”).

The 2020-2021 Adopted Operating Budget is a balanced budget that addressed a then projected General Fund shortfall of \$77.6 million. The projected shortfall was driven by an overall estimated revenue decline of 9% when compared to 2018-2019 actuals. The projected shortfall was primarily due to anticipated decreases in Sales Taxes (\$47.2 million), Business Taxes (\$7

million), Property Taxes (\$5.8 million) and Transient Occupancy Tax (\$5.8 million), and Franchise Fees (\$2.4 million). To resolve the projected shortfall, the 2020-2021 Adopted Operating Budget reflects a combination of ongoing and one-time solutions. In particular, of the \$77.6 million shortfall, \$51.9 million (67%) was resolved on an ongoing basis, and \$25.7 million (33%) was solved using one-time funds. The \$25.7 million in one-time funds included the use of \$11 million from the Budget Stabilization Reserve (with approximately \$6 million used to offset reductions in Transient Occupancy Tax receipts).

The 2020-2021 Adopted Operating Budget took into consideration the equitable allocation of resources and the service impacts associated with budget actions pursuant to two Manager's Budget Addenda on the subject (MBA #2 – Equity Review of the 2020-2021 Proposed Operating Budget and MBA #31 – Equity Analysis and the Budget Process). For purposes of considering impacts, the 2020-2021 Adopted Operating Budget grouped budget actions into the following categories: (1) COVID-19 Impacted Services; (2) Other Direct Service Impacts; (3) Strategic Support Impacts; and (4) Proposals with No Impact. Nearly \$40 million, or 52%, of the estimated \$77.6 million shortfall for 2020-2021 was resolved in the 2020-2021 Adopted Operating Budget through actions with no impact consisting of actions that reduced costs with no or only a very minor service impact. Such actions include (i) recognition of sales tax revenues through a revenue capture agreement with eBay (see “– MAJOR GENERAL FUND REVENUE SOURCES – Sales and Use Taxes”) (accounting for \$22 million in estimated 2020-2021 revenues in the 2020-2021 Adopted Operating Budget), (ii) pre-funding of City retirement contributions (net savings of \$7.4 million), (iii) prepayment of debt (savings of \$4.2 million), and (iv) update to forecast of oil and fuel prices (savings approximately \$1 million).

The 2020-2021 Adopted Operating Budget also includes a contingency plan in the event actual revenues are lower than those projected in the 2020-2021 Adopted Operating Budget. The plan provides for a reduction in General Fund expenditures of up to \$12.1 million through a series of additional actions that may be brought forward later, if necessary. No actions were taken by the City under the contingency plan.

When adopted, the 2020-2021 Adopted Operating Budget was not projected to fully address the 2020-2021 shortfall on an ongoing basis. However, the 2020-2021 Adopted Operating Budget included the establishment of the 2021-2022 Future Deficit Reserve of \$11.1 million to partially address the then projected shortfall for 2021-2022.

Mid-Year Budget Review Report. The 2020-2021 Mid-Year Budget Review Report (the “**2020-2021 Mid-Year Budget Review Report**”) was released on January 29, 2021, and was approved by the City Council on February 9, 2021. The 2020-2021 Mid-Year Budget Review Report provides an assessment of the City's budget condition in the current fiscal year as compared to the 2020-2021 Adopted Operating Budget, as modified, based on actual performance during the first six months of 2020-2021. Based on this analysis, budget revisions were recommended in the 2020-2021 Mid-Year Budget Review Report to: address an urgent fiscal need to assist with Police Department public records act requests; implement required technical/rebalancing actions to align existing revenue estimates and expenditure budgets with the most current tracking information, implement City Council direction, or reallocate funding among appropriations based on updated needs; implement a number of technical and net-zero adjustments between revenue categories and expenditure appropriations; account for new or adjusted grants, reimbursements, or fees; and fund a limited number of new projects in special and capital funds. The 2020-2021 Adopted Operating Budget as modified from time to time is sometimes referred to in this Official Statement as the “**2020-2021 Modified Adopted Operating Budget.**”

According to the 2020-2021 Mid-Year Budget Review Report, overall performance through the first half of the fiscal year was generally meeting budgeted expectations, but there were pockets of variability in several City funds, including the General Fund, that needed to be addressed to keep the budget in alignment through the end of the fiscal year. With respect to the General Fund, revenues through December 2020 totaled \$464.7 million, or 36.2% of the budgeted estimate, with total General Fund revenues for 2020-2021 projected to be approximately \$5 million to \$10 million below then budgeted levels (variance of approximately 1% when excluding the Beginning Fund Balance). This variance was inclusive of Real Property Transfer Tax revenues, which are allocated for affordable housing and homelessness prevention purposes. Setting these revenues aside, the variance increased to \$15 to \$20 million below budgeted levels. Revenues that were performing below anticipated levels as of the 2020-2021 Mid-Year Budget Review Report included Fees, Rates, and Charges, Property Tax, Transient Occupancy Tax, Business Taxes, and Fines, Forfeitures and Penalties. Partially offsetting the declining revenues was higher than anticipated Sales Tax and Real Property Transfer Tax receipts.

The 2020-2021 Mid-Year Budget Review Report recommended an overall net increase of \$6.7 million to the General Fund Sources in the 2020-2021 Adopted Operating Budget. This reflected required technical and rebalancing actions (\$3.1 million) and the recognition of grants, reimbursements, and/or fee related funds (\$3.6 million). Budget adjustments were recommended for several revenue categories to align the budgeted estimate with anticipated receipts. These adjustments included increasing the revenue estimates for Sales Tax to reflect higher than originally projected collections (\$20.0 million) and the Real Property Transfer Tax to reflect higher than originally projected collections (\$10.0 million), and decreasing the estimates for Fees, Rates, and Charges/PRNS Fee's (\$17.0 million), Property Tax (net reduction of \$9 million) primarily to reflect lower than anticipated residual distributions of tax increment revenues from the Former Agency's project areas due to a change in the methodology employed by the County Auditor-Controller to calculate such distributions (see "MAJOR GENERAL FUND REVENUE SOURCES – Assessed Values and Property Taxes" for additional discussion regarding the distribution of residual property tax revenues) and Transient Occupancy Tax (\$3.5 million).

The 2020-2021 Mid-Year Budget Review Report further reported that General Fund expenditures through December 2020 totaled \$681.7 million, or 39.4% of the total 2020-2021 Modified Adopted Operating Budget. This expenditure level represented an increase of \$124.7 million, or 22.4%, from the December 2019 level. The increase was primarily due to payments of debt service on the City's \$130 million original principal amount of Tax and Revenue Anticipation Notes issued in July of 2020 (the "**2020 TRAN**") to prefund a portion of the City's employer retirement contributions for the City's pension plans (\$53.1 million), but did not occur in 2019-2020, and higher transfers (\$51.3 million) that were related to moving the development fee program out of the General Fund and into separate special funds. In addition, encumbrances through December 2020 totaled \$67.1 million, a decrease of \$9.4 million when compared to the December 2019 level, which was primarily due to lower Capital Contribution encumbrances. In total, expenditures and encumbrances through December 2020 totaled \$748.8 million, which constituted 43.3% of the total 2020-2021 Modified Adopted Operating Budget (including reserves) of \$1.7 billion as of the date of the report. When excluding reserves of \$204.5 million, expenditures and encumbrances through December 2020 constituted 49.1% of the total 2020-2021 Modified Adopted Operating Budget. Overall, as of the December 2020, General Fund expenditures were within budgeted levels and savings of approximately \$3 million to \$5 million were anticipated by fiscal year-end.

2022-2026 Five-Year Forecast

On March 1, 2021, the City Manager released the 2021-2022 City Manager's Budget Request and the 2022-2026 Five-Year Forecast and Revenue Projections for the General Fund and the Capital Improvement Fund. The 2022-2026 Five-Year Forecast and Revenue Projections (the "**2022-2026 Forecast**") reflects the City Manager's best estimates on the projected revenues and expenditures over the next five fiscal years based on the information available as of March 1, 2021. The 2022-2026 Forecast is built on the assumption of the economy continuing to rebound after the sharp revenue declines experienced as a result of the COVID-19 pandemic. As with all forecasts, there is a level of uncertainty regarding the revenue and expenditure estimates contained in the 2022-2026 Forecast. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. The City's two largest General Fund revenues, Property Tax and Sales Tax, are sensitive to changes in the local economy and may fluctuate to a significant degree depending on future conditions. Various cost elements can also vary from year to year. While retirement costs as a percentage of the General Fund have stabilized over the past several years, costs fluctuate and will likely continue to experience upward, or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards.

The following table shows the projected General Fund revenues and expenditures over the next five fiscal years and the total cumulative shortfall set forth in the 2022-2026 Forecast. In addition to the cumulative shortfall, the incremental surpluses (assuming each preceding shortfall or surplus is addressed completely with ongoing solutions in the year it appears) for each year of the forecast is included. Because it is the City's goal to remain in balance on an ongoing basis, the incremental figure is useful in that it shows the additional shortfall or surplus attributed to a particular fiscal year. To the extent that a shortfall is not resolved, or a surplus is not expended on an ongoing basis, the remaining budget gap or surplus will carry over to the following year.

Table 9
City of San José
2022-2026 General Fund Five-Year Forecast ⁽¹⁾
(in millions)

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Projected Revenues	\$1,220.6	\$1,262.7	1,307.8	\$1,356.9	\$1,404.3
Projected Expenditures	1,268.7	1,307.5	1,352.4	1,397.1	1,442.5
Total Cumulative Surplus/(Shortfall)	(\$48.1)	(\$44.8)	(\$44.6)	(\$40.2)	(\$38.2)
Total Incremental Surplus/(Shortfall)	(\$48.1)	\$3.3	\$0.2	\$4.4	\$1.9
% of Budget (Based on Expenditure)	(3.8%)	0.3%	0.0%	0.3%	0.1%

⁽¹⁾ Does not include (a) costs associated with services that were funded on a one-time basis in 2020-2021; (b) costs associated with unmet/deferred infrastructure and maintenance needs; and (c) one-time revenue sources or expenditure needs.
Source: City of San José 2022-2026 Five-Year Forecast and Revenue Projections.

In the 2022-2026 Forecast, a significant General Fund shortfall of \$48.1 million is anticipated for 2021-2022, followed by very small incremental surpluses ranging from \$0.2 million to \$4.4 million over the next four years. While the shortfall margin for 2021-2022 will present significant challenges, the incremental margins in the following years are relatively negligible when put into context with the size of the projected General Fund budget, ranging from 0.0% to 0.3% of the projected annual budget of \$1.3 billion to \$1.4 billion. However, there are significant expenditure components that are not incorporated into the 2022-2026 Forecast, including programs funded on a one-time basis in 2020-2021 and deferred infrastructure and maintenance needs. See “CAPTIAL IMPROVEMENT – Capital Budget and Capital Improvement Plan.” Portions of the 2022-2026 Forecast related to 2021-2022 and the projected General Fund incremental surplus or shortfall in the next five fiscal years as shown in Table 10 were revised by the 2021-2022 Proposed Operating Budget released on May 4, 2021. See “– 2021-2022 Proposed Operating Budget.”

Given the decreasing level of precision to be expected in the later years of a multi-year forecast, the significance of the projections in the out years is not so much in terms of their absolute amounts, but rather in the relative size of the decrease or increase from the prior year. This information should be used to provide a multi-year perspective to budgetary decision-making, rather than as a precise prediction of what will occur.

In the 2022-2026 Forecast, when reconciling forecast for 2021-2022 to the 2020-2021 Adopted Operating Budget, the projected shortfall of \$48.1 million for 2021-2022 is the result of carrying forward the \$25.7 million shortfall resolved in 2020-2021 on a one-time basis, improved revenues of \$6.4 million, and increased costs of \$28.8 million. In the 2022-2026 Forecast, General Fund revenues are estimated to improve by a net of \$6.4 million when compared to the ongoing revenue performance assumed in the 2020-2021 Adopted Operating Budget. The largest changes are increases in the Sales Tax, Property Tax, and Real Property Transfer Tax revenue categories. Partially offsetting these increases are reductions to the Beginning Fund Balance revenue estimates (which primarily reflects one-time expenditures and reserve rebudgets), the Fees, Rates, and Charges (Parks, Recreation and Neighborhood Services (“PRNS”) Fee Activity), and the Fines, Forfeitures, and Penalties (Parking Fines) revenue estimates.

In the 2022-2026 Forecast, several revenue categories are forecasted to grow year-over-year in 2021-2022 as the economy continues rebounding after the sharp declines experienced as a result of the pandemic. In the 2022-2026 Forecast, revenue categories with the largest growth from estimated 2020-2021 revenue include Sales Tax (\$11.2 million), Business Taxes (\$11.1 million, primarily due to the Cardroom Business Taxes), Fees, Rates and Charges (\$8.3 million, primarily due to PRNS Fee Activity), and Transient Occupancy Tax (\$4.5 million). Additionally, Property Tax revenue is anticipated to grow in 2021-2022 due to the reinstatement of a one-time loss in 2020-2021 of tax increment associated with properties within the project areas of the Former Agency (\$7 million) (see “MAJOR GENERAL FUND REVENUE SOURCES – Assessed Values and Property Taxes”), and anticipated Secured Property Tax growth of 3.5%.

On the expenditure side, a number of upward and downward adjustments have been incorporated into the 2022-2026 Forecast resulting in a net increase of \$28.8 million in 2021-2022. As with General Fund revenues, the largest expenditure changes in the 2022-2026 Forecast are associated with employee general wage increases (\$27.4 million) and retirement contribution costs (\$20.2 million) in accordance with existing labor agreements, estimation of future salary costs, and actuarial assumptions approved by the Retirement Boards. Other significant personnel-related cost changes are attributable to compensation related to non-management step and management pay-for-performance program (\$4.1 million), health insurance plans cost increases (\$2.0 million), and increases for living and minimum wage adjustments (\$760,000). Other large expenditure increases include: increases for the allocation Measure E (real property transfer tax approved by ballot measure effective on July 1, 2020; see “MAJOR GENERAL FUND REVENUE SOURCES – Transfer Taxes”) revenues toward affordable housing and homelessness prevention Reserves and Program Administration (\$10.0 million); city-wide vehicle operations and maintenance, electricity, gas, and Police fleet replacements (\$4.2 million); operations and maintenance costs associated with capital projects anticipated to be completed in 2021-2022 (\$2.6 million); the restoration of one-time cost savings related to the partial suspension of community center operations realized in 2021-2022 (\$1.4 million); reinstatement of one-time program suspensions for Aquatics and Family Camp (\$1.1 million); contractual increases for city-wide janitorial services as previously approved by the City Council (\$832,000); and various contractual increases for information systems and software license agreements city-wide (\$816,000).

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the “Base Case.” The “Optimistic” and “Pessimistic” cases model economic scenarios considered possible, but less likely to occur than the “Base Case.” These alternatives are presented in the 2022-26 Forecast to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and was used for planning purposes for the 2021-2022 Proposed Operating Budget. The projected General Fund operating margins for 2021-2022 through 2025-25 as set forth in the 2022-2026 Forecast are shown in the following table.

Table 10
City of San José
General Fund Operating Margins
(Base, Optimistic, and Pessimistic Cases)
(in Millions)

	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	Five-year Surplus/ (Shortfall)
Base Case	(\$48.1)	\$3.3	\$0.2	\$4.4	\$1.9	(\$38.2)
Optimistic Case	(13.9)	17.9	13.1	28.2	37.2	82.5
Pessimistic Case	(78.1)	(8.7)	(9.9)	(9.7)	(10.2)	(116.6)

Source: City of San José 2022-2026 Five-Year Forecast and Revenue Projections.

- **Base Case.** The Base Case Forecast is built on the assumption of the economy solidly rebounding from the declines experienced from the COVID-19 pandemic. As this region continues to emerge from public health order restrictions, it is anticipated to continue benefitting from a high level of venture capital investment in the technology industry, employment growth, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to rebound from the declines experienced in 2020, resulting in City's revenues exceeding pre-pandemic levels. Economically sensitive General Fund revenues such as Property Tax, Sales Tax, and Transient Occupancy Tax receipts are assumed to remain strong throughout the forecast period. In this scenario, the total General Fund shortfall over the five-year period totals \$38.2 million.
- **Optimistic Case.** The Optimistic Case Forecast assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. Venture capital investments, the key driver of the technology sector of the economy, are extremely high in each year of the forecast in the Optimistic Case. As a result, the area's largest technology employers are assumed to be doing much better than in the Base Case. Local employment continues to expand at a high rate, and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Inflation is also expected to be higher than in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax. In this scenario, there is a General Fund surplus of \$82.5 million over the five-year period.
- **Pessimistic Case.** The Pessimistic Case Forecast assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case, and is strongly influenced by the pandemic's persistence as new variant transmission rates allows for a resurgence of the virus in the summer and fall of 2021-2022. Significantly lower growth is assumed for several of the key determinants of the City's revenue; local employment, local housing prices and number of property sales, and local inflation are all lower than those of the Base Case. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown. In this scenario, the total General Fund shortfall over the five-year period totals to \$116.6 million.

2021-2022 Proposed Operating Budget

On May 4, 2021, the City Manager released the 2021-2022 Proposed Operating Budget (the “**2021-2022 Proposed Operating Budget**”). The 2021-2022 Proposed Operating Budget is a balanced budget that reflects the changes to the local community since the pandemic’s onset in early 2020, and the changes that still need to take place.

The 2021-2022 Proposed Operating Budget totals \$4.5 billion for all City funds (General, Special, and Capital). This amount is \$242.2 million (5.1%) below the 2020-2021 Modified Adopted Budget. The 2021-2022 Proposed Operating Budget, however, does not include funds that were anticipated to be rebudgeted and added to the final 2021-2022 Modified Adopted Budget to complete multi-year projects, nor does it include the full funding available from the American Rescue Plan as described below. Unlike the 2020-2021 Adopted Operating Budget, which was approved early in the COVID-19 pandemic with significant levels of uncertainty, the 2021-2022 Proposed Operating Budget does not include a contingency plan in the event actual revenues are lower than those projected in the 2021-2022 Proposed Operating Budget.

As previously described, the 2022-2026 Forecast anticipated an ongoing shortfall of \$48.1 million in 2021-2022. The 2021-2022 Proposed Operating Budget revises that shortfall to \$38.3 million, primarily due to higher than initially estimated Property Tax proceeds related to the Educational Revenue Augmentation Fund (“**ERAF**”) based on updated information provided by the State and the County. While an improvement, a \$38.3 million ongoing shortfall represents a significant challenge to resolve. The 2021-2022 Proposed Operating Budget also revised the projected General Fund incremental surplus or shortfall in the next five fiscal years forecasted in the 2022-2026 Forecast (as shown in Table 10). Those revisions result in a net Five-Year shortfall of \$28.5 million, down from \$38.2 million as set forth in the 2022-2026 Forecast.

The 2021-2022 Proposed Operating Budget recommends using \$45.0 million from the American Rescue Plan to resolve the General Fund shortfall for 2021-2022 and pay for high-priority one-time projects and programs in the General Fund. As of the date of the 2021-2022 Proposed Operating Budget, the City estimated it would receive a total of approximately \$223 million under the American Rescue Plan, and \$45 million of such funding included in the 2021-2022 Proposed Operating Budget to balance the General Fund budget. As of the date of this Official Statement, the City has revised its estimate of funds it expects to receive under the American Rescue Plan, based on revised information from the U.S. Treasury Department to a total of approximately \$212.3 million, of which the City had received approximately \$106 million. From 2019-2020 through 2023-2024, the City’s anticipated General Fund revenue loss is \$160 million when compared to forecasts developed prior to the COVID-19 pandemic. Given the scale of this loss, the 2021-2022 Proposed Operating Budget recommends the use of \$45 million for the 2021-2022 General Fund budget and recommends preserving additional funds to potentially mitigate the shortfall in 2022-2023. However, because the Balancing Strategy only recommends \$6.7 million (or 15% of the City’s ongoing shortfall) in ongoing solutions, one-time solutions of \$31.6 million were required to balance the budget, which the City anticipates will need to be addressed again in 2022-2023.

Subsequent to the release of the 2020-2021 Proposed Operating Budget, the City Manager released an addendum providing for additional allocations of funding under American Rescue Plan. See “MAJOR REVENUE FUND REVENUE SOURCES – Relief Funds.”

2021-2022 Mayor's June Budget Message

On June 7, 2021, the Mayor released the June Budget Message for 2021-2022 (the **"Mayor's June Budget Message"**), outlining his final recommendations and changes to the 2021-2022 Proposed Operating Budget. The public hearing on the Mayor's June Budget Message occurred on June 14, 2021, and the City Council completed the final review and approval of the message, with a number of revisions, on June 15, 2021.

2021-2022 Adopted Operating Budget

After a series of City Council Budget Study sessions and a public hearing, the City Council adopted the 2021-2022 Proposed Operating Budget on June 15, 2021. On June 22, 2021, the City Council adopted the Annual Appropriation Ordinance and the Annual Funding Sources Resolution to implement the 2021-2022 Operating and Capital Budgets, as revised by the previous approval of the Mayor's June Budget Message. The 2021-2022 Proposed Operating Budget as modified is referred to in this Official Statement as the **"2021-2022 Adopted Operating Budget."** The City anticipates publishing the 2021-2022 Adopted Operating Budget in the Fall of 2021.

The modifications to the 2021-2022 Proposed Operating Budget with the approval of the Mayor's June Budget Message included a number of changes categorized as follows: Housing and Homelessness, Equitable Recovery and Resilience, Small Business and Business District Support, Public Safety, Investment in Youth and Learning, Community and Neighborhood Engagement, Beautifying Our City, and Cultural Vitality. Many of the adjustments were funded from the liquidation of the \$3.0 million Essential Services Reserve established in the 2021-2022 Proposed Operating Budget, with a net zero impact on the General Fund. Approval of the Mayor's June Budget Message also included approval of Manager's Budget Addendum #16, *Community and Economic Recovery Budget*, that allocated an additional \$83.4 million from the American Rescue Plan Fund to primarily support community-facing economic recovery and relief programs (see MAJOR GENERAL FUND REVENUE SOURCES – Relief Funds).

Comparative General Fund Budgets

Table 11 on the following page summarizes the City's actual General Fund performance for 2019-2020, the 2020-2021 Modified Adopted Operating Budget, and the 2021-2022 Adopted Operating Budget.

Table 11
City of San José
General Fund Budget Summaries⁽¹⁾
2019-2020 Actuals, 2020-2021 Modified Adopted Operating Budget and 2021-2022 Adopted Operating Budget
(in thousands)

SOURCE OF FUNDS	2019-2020 Actuals	2020-2021 Modified Adopted Operating Budget⁽²⁾	2021-2022 Adopted Operating Budget
FUND BALANCE			
Encumbrance Reserve	\$46,555	\$46,906	\$46,906
Carryover	400,284	400,284	321,188
Total Fund Balance	\$446,839	\$447,190	\$368,094
GENERAL REVENUES			
Property Tax	\$369,507	\$379,500	\$395,500
Sales and Use Tax	260,558	262,500	280,200
Transient Occupancy Tax	14,104	5,500	10,000
Franchise Fees	44,436	45,921	44,652
Utility Taxes	99,518	95,800	97,060
Business Taxes	70,822	63,900	74,500
Real Property Transfer Tax	--	50,000	40,000
Telephone Line Tax	20,695	20,000	20,000
Licenses and Permits	64,520	19,894	21,003
Fines and Forfeitures	14,383	9,730	8,676
Revenue from Use of Money and Property	13,523	11,770	9,304
Revenue from Local Agencies	15,660	23,292	18,784
Revenue from the State Government	22,512	20,580	13,247
Revenue from the Federal Government	2,639	8,023	3,685
Fees, Rates and Charges	48,568	8,751	14,833
Other Revenue	34,505	193,283	9,243
Total General Revenue	\$1,095,950	\$1,218,444	\$1,060,687
Overhead Reimbursements	57,004	70,187	68,557
Transfers to the General Fund	35,630	38,479	72,607
Reimbursements for Services	16,145	15,746	16,792
Total Interfund Transfers Reimbursements	108,779	124,412	157,956
TOTAL SOURCE OF FUNDS	\$1,651,568	\$1,790,946	\$1,586,737
USE OF FUNDS			
DEPARTMENTAL			
General Government	\$108,470	\$123,473	\$125,624
Public Safety	638,816	708,894	749,069
Capital Maintenance	86,483	73,616	75,997
Community Services	169,210	132,703	144,264
Total Departmental	\$1,002,979	\$1,038,686	\$1,094,954
NON-DEPARTMENTAL			
Citywide	83,913	317,370	120,724
Capital Expenditures	33,044	110,024	84,117
Transfers to Other Funds	48,967	80,826	30,391
Earmarked Reserves	--	156,234	169,645
Encumbrance Reserve	46,906	46,906	46,906
Contingency Reserve	--	40,000	40,000
Total Non-Departmental and Reserves	212,830	751,360	491,783
TOTAL USE OF FUNDS	\$1,215,809	\$1,790,046	\$1,586,737

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ As of June 22, 2021.

Source: City of San José.

State Budget

Fiscal Year 2021-2022 State Budget. On January 8, 2021, the Governor released his proposed State budget for fiscal year 2021-2022 (the “**Proposed 2021-2022 State Budget**”). The Proposed 2021-2022 State Budget is anticipated to represent a \$262.6 billion operating budget that is balanced.

Impact of State Budget on City. The City receives a portion of its funding from the State. The City's 2021-2022 Adopted Operating Budget projects that approximately 1% of the City's General Fund revenues will come from State sources.

Voters approved Proposition 1A in November 2004 to amend the State Constitution to place constraints on the State's ability to divert certain specified revenues from local agencies to the State. Subsequently, in November 2010, voters approved Proposition 22 to amend the State Constitution to further constrain or eliminate the State's ability to redirect revenues from local agencies. “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Proposition 1A” and “– Proposition 22.”

Additional Information. Information about the Proposed 2021-2022 State Budget and other State budgets is available at www.ebudget.ca.gov. An impartial analysis of the budget is posted by the Legislative Analyst Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. *The information referred to in this paragraph is prepared by the respective State agency maintaining each website and not by the City. The City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated in this Official Statement by these references.*

MAJOR GENERAL FUND REVENUE SOURCES

Following is a discussion of the City's principal General Fund revenue sources. The City's ability to increase revenues payable to the General Fund is limited. Legal limitations under the State Constitution generally restrict the ability of cities to raise or increase taxes without voter approval and to increase fees in excess of the amount needed to provide the service with respect to which such fees are charged, and increases to property-related fees may be subject to majority protest. Additional limitations may also be imposed through legislation or initiatives. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS.”

The table on the following page summarizes the actual revenues for 2018-2019, the 2020-2021 Modified Adopted Operating Budget and the 2021-2022 Adopted Operating Budget. Included in this presentation are Interfund Transfers and Reimbursements as a source of revenue to the General Fund. The percentage of General Fund revenues for the revenue sources shown in the tables below include Interfund Transfers and Reimbursements.

Table 12
City of San José
General Fund Revenues⁽¹⁾
2019-2020 Actuals, 2020-2021 Modified Adopted Operating Budget and 2021-2022 Adopted Operating Budget
(in thousands)

	2019-2020 Actuals	% of Total	2020-2021 Modified Adopted Operating Budget⁽²⁾	% of Total	2021-2022 Adopted Operating Budget	% of Total
Property Tax	\$369,507	30.7%	\$379,500	28.3%	\$395,500	32.5%
Sales and Use Tax	260,558	21.6	262,500	19.5	280,200	23.0
Transient Occupancy Tax	14,104	1.2	5,500	0.4	10,000	0.8
Franchise Fees	44,436	3.7	45,921	3.4	44,652	3.7
Utility Taxes	99,518	8.3	95,800	7.1	97,060	8.0
Business Taxes	70,822	5.9	63,900	4.8	74,500	6.1
Real Property Transfer Taxes	--	0.0	50,000	3.7	40,000	3.3
Telephone Line Tax	20,695	1.7	20,000	1.5	20,000	1.6
Licenses and Permits	64,520	5.4	19,894	1.5	21,003	1.7
Fines, Forfeitures and Penalties	14,383	1.2	9,730	0.7	8,676	0.7
Revenue from the Use of Money and Property	13,523	1.1	11,770	0.9	9,304	0.8
Revenue from Local Agencies	15,660	1.3	23,292	1.7	18,784	1.5
Revenue from the State Government	22,512	1.9	20,580	1.5	13,247	1.1
Revenue from the Federal Government	2,639	0.2	8,023	0.6	3,685	0.3
Fees, Rates, and Charges	48,568	4.0	8,751	0.7	14,833	1.2
Other Revenue	34,505	2.9	193,283	14.4	9,243	0.8
Total General Revenues	\$1,095,950	91.0%	\$1,218,444	90.7%	\$1,060,687	87.0%
Overhead Reimbursements	57,004	4.7	70,187		68,557	5.6
Transfers to the General Fund	35,630	3.0	38,479	5.2	72,607	6.0
Reimbursements for Services	16,145	1.3	15,746	2.9	16,792	1.4
Total Interfund Transfers and Reimbursements	\$108,779	9.0%	\$124,412	1.2%	\$157,956	13.0%
TOTAL GENERAL FUND REVENUES⁽³⁾	\$1,204,729		\$1,342,856		\$1,218,643	

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ As of June 22, 2021.

⁽³⁾ Does not include the Beginning Fund Balance and Reserve for Encumbrances.

Source: City of San José.

Assessed Values and Property Taxes

Assessed Values. The assessed valuation of property is established by the County Assessor and reported at 100% of the full cash value as of January 1, except for public utility property, which is assessed by the State Board of Equalization.

The County collects the ad valorem property taxes. Taxes arising from the 1% levy are apportioned among local taxing agencies based on a formula established by State law in 1979. Under this formula, the City receives a base year allocation plus an allocation based on growth in assessed value (consisting of new construction, change of ownership and inflation). Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. Beginning in 1990-1991 (with the adoption of new State legislation), the County deducts the pro-rata cost of collecting property taxes from the City's allocation.

Table 13 sets forth the City's net assessed valuation for 2020-2021 and the previous ten fiscal years.

Table 13 City of San José Net Assessed Property Value (in thousands)		
Fiscal Year	Total Net Assessed Valuation⁽¹⁾	Percentage Change
2010-2011.....	\$118,508,779	(2.9)%
2011-2012.....	119,519,391	0.9
2012-2013.....	121,132,767	1.3
2013-2014.....	131,817,441	8.8
2014-2015.....	140,740,876	6.8
2015-2016.....	150,039,891	6.6
2016-2017.....	160,547,694	7.0
2017-2018.....	170,460,819	6.2
2018-2019.....	181,926,524	6.7
2019-2020.....	195,150,554	7.3
2020-2021.....	206,432,481	5.8
⁽¹⁾ Valuations are as of the end of the fiscal year, include local secured, utility, and unsecured valuations, are net of exemptions and include properties in the Former Agency's project areas. Source: California Municipal Statistics, Inc.		

Under current County policy, the City's allocation of total ad valorem taxes (excluding supplemental taxes) is received in approximately the following cumulative percentages: 40% by mid-December, 50% by the first week of January, 85% by the third week of April, 90% by the end of April and 100% by the end of June.

The County Board of Supervisors has approved the implementation of an alternative method of distribution of tax levies and collections of tax sale proceeds (a "**Teeter Plan**"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the

County's Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The County then receives all future delinquent payments, penalties, and interest. The Teeter Plan was effective in the County beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and tax levy for certain 1915 Act assessment bonds.

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

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

Property Taxes. Table 14 shows the City's Property Tax receipts in 2017-2018 through 2019-2020 and budgeted receipts for 2020-2021 and 2021-2022.

Table 14
City of San José
Property Tax Receipts
(in thousands)

Fiscal Year	Property Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$306,222	23.6%	10.8%
2018-2019 Actual	330,199 ⁽¹⁾	23.7	7.8
2019-2020 Actual	369,507	30.7	11.9
2020-2021 Modified Adopted Operating Budget ⁽²⁾	379,500	28.3	2.7
2021-2022 Adopted Operating Budget	395,500	32.5	4.2

⁽¹⁾ Increase in Property Tax Receipts beginning in 2018-2019 is due, in part, to increases in residual property taxes resulting from debt service savings achieved as a result of the issuance of tax allocation refunding bonds by the successor agency to the City's former redevelopment agency in 2017.

⁽²⁾ As of June 22, 2021.

Source: City of San José.

Under California law, property owners are entitled to an assessment based on the lower of the fair market value of their property as of the property tax lien date (January 1) or the assessed value as determined at the time of purchase or construction, and increased by no more than 2% annually. A reduction of a property's assessed valuation may occur upon the request of the property owner, or the County Assessor may unilaterally reduce the assessed valuations of properties in response to declining market values. In the event a property owner's request for a reduction in assessed value is denied, the property owner may file an appeal.

In an attempt to mitigate the effects of the COVID-19 pandemic on property taxpayers in the State, on May 6, 2020, the Governor signed Executive Order N-61-20 ("**Executive Order N-61-20**"). Executive Order N-61-20 waived penalties and interest on taxes on property on the secured or unsecured roll through May 6, 2021 under certain conditions. The waiver of late payment penalties and resulting property tax delinquencies could have an adverse impact on the timely payment of property taxes with respect to property in the City. The City cannot predict whether the COVID-19 pandemic will have an effect on the remittance by the County of the City's property tax revenues. However, to date, the City has not experienced any significant declines in property tax revenues resulting from the County's potential waiver of late payment penalties. See "CERTAIN RISK FACTORS – Public Health Emergencies – Collection of Taxes" in the forefront of this Official Statement for a discussion of Executive Order N-61-20.

The State's Community Redevelopment Law (codified in Part 1 of Division 24 of the California Health and Safety Code) authorized the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area is formed. In effect, local taxing agencies, such as the City, realize tax revenues only in the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. Although Assembly Bill No. 26 ("**AB X1 26**"), enacted

on June 29, 2011 as Chapter 5 of Statutes of 2011, statutorily dissolved redevelopment agencies as of February 1, 2012, the enforceable obligations of dissolved redevelopment agencies, continue to be paid from property taxes derived from such incremental value until the enforceable obligations are paid in full in accordance with Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“**AB 1484**”), enacted as Chapter 26, Statutes of 2012, and as such statutory provisions have and may further be amended from time to time (as amended, the “**Dissolution Act**”). Under the Dissolution Act, taxing entities, such as the City, are to receive distributions (in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year) of residual amounts of property taxes attributable to incremental value on each June 1 and January 2, commencing June 1, 2012, after payment of (i) tax sharing obligations established previously pursuant to the Community Redevelopment Law, (ii) enforceable obligations of the successor agency to the former redevelopment agency, and (iii) an administrative cost allowance to such successor agency. As enforceable obligations of the former redevelopment agency and its successor agency are paid and retired, residual amounts of property tax revenues attributable to redevelopment project area incremental value are expected to increase over time. Commencing in 2020-2021, the County Auditor-Controller modified the manner in which residual distributions to taxing entities within the County, including the City, are calculated in response to a recent California Court of Appeal decision in *City of Chula Vista v. Drager, et. al.* (2020), 49 Cal. App. 5th 539, in which the Court held that passthrough payments negotiated prior to the dissolution of redevelopment agencies must be paid in full before remaining tax increment revenues are distributed pro rata.

In the 2020-2021 Modified Adopted Operating Budget, Property Tax receipts for 2020-2021 are estimated to total \$379.5 million, an increase of approximately \$10 million compared to Property Tax receipts for 2019-2020. This increase is primarily due to higher general Secured Property Tax revenue (\$15 million), partially offset by lower residual Property Tax revenue (-\$7.5 million), which is further described below. A decrease from the 2020-2021 Adopted Budget estimate in residual distributions of tax increment revenues to the City for 2020-2021 in the total amount of \$10 million is anticipated as a result of the change in methodology employed by the County Auditor-Controller for calculating the residual distributions. Of the \$10 million decrease, \$3 million is attributed to 2020-2021. The remaining \$7 million represents an offset for residual disbursements to the City in excess of the recently implemented methodology described above retroactively applied for the previous three fiscal years.

With the local real estate market remained relatively strong through the 2020 calendar year, the 2021-2022 Adopted Operating Budget anticipates Property Tax receipts to total \$395.5 million, an increase of \$20 million above the prior year. This 4% growth is primarily attributable to growth in Secured Property Tax revenue (\$11 million), residual distributions (\$5.4 million), and ERAF distribution (\$4.5 million). The estimate for Secured Property Tax receipts assumes underlying growth 3.5%, reflecting an increase of 1% due to the California Consumer Price Index (CCPI) and valuation growth of 2.5%. While San José remains a largely residential community and experienced strong activity through most of 2020, the impact of COVID-19 on commercial valuations is uncertain, which tempered the City’s overall expectation of valuation growth.

Largest Secured Property Taxpayers. Table 15 shows the twenty largest property taxpayers for 2020-2021 based on secured assessed valuations within the City, which collectively account for approximately 6.11% of the total secured assessed property valuation for 2020-2021. Some of the properties owned by these property owners are located in redevelopment project areas established by the Former Agency.

Table 15
City of San José
2020-2021 Twenty Largest Local Secured Property Taxpayers

Name	Assessed Property Valuation	Percentage of Total⁽¹⁾
Essex Portfolio LP	\$1,138,532,730	0.58%
Cisco Technology Inc.	1,022,261,570	0.52
VF Mall LLC	965,827,190	0.49
FRIT San Jose Town & Country Village LLC	926,092,837	0.47
Google LLC	911,150,713	0.46
Sobrato Interests	796,282,418	0.40
River View Apartments	678,475,796	0.34
San Jose Water Works	658,371,703	0.33
Apple Inc.	512,771,919	0.26
Adobe Systems Inc.	510,974,282	0.26
Hitachi Global Storage Techs Inc.	476,033,718	0.24
MT Silicon Valley One LLC	437,580,000	0.22
Tishman Speyer Archstone-Smith	431,652,054	0.22
CAP Phase 1 LLC	431,299,129	0.22
Elan at River Oaks Borrower LLC	421,820,145	0.21
Samsung Semiconductor Inc.	412,511,338	0.21
US ER America Center 1.2.3 & 4 LLC	412,197,916	0.21
Paypal Inc.	315,087,365	0.16
Hudson Concourse LLC	314,072,776	0.16
Oakridge Mall LP	296,239,175	0.15
Total	\$12,069,234,774	6.11%

⁽¹⁾ 2020-2021 Local Secured Assessed Valuation: \$197,416,222,634.
Source: California Municipal Statistics, Inc.

Sales and Use Taxes

The sales tax is an excise tax imposed on retailers for the privilege of selling tangible personal property. The use tax is an excise tax imposed on a person for the storage, use or other consumption of tangible personal property purchased from any retailer. The proceeds of sales and use taxes (collectively, “**Sales Tax**”) imposed within the boundaries of the City are distributed by the State to various agencies as shown in Table 16. As of July 1, 2021, the total Sales Tax rate applicable within the City is 9.375%.

Table 16
City of San José
Sales Tax Rates

State – General Fund.....	3.9375%
State – Local Revenue Fund.....	1.5625
State – County Transportation Funds.....	0.2500
State – City or County Operations.....	1.0000
Public Safety Fund (Proposition 172) ⁽¹⁾	0.5000
Sub-Total Statewide Sales and Use Tax.....	7.2500
Local – City of San José ⁽²⁾	0.2500
Santa Clara County Transit District ⁽³⁾	0.5000
Santa Clara County Valley Transportation Authority ⁽⁴⁾	0.5000
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax ⁽⁵⁾	0.1250
Santa Clara County Retail Transactions and Use Tax ⁽⁶⁾	0.1250
Silicon Valley Transportation Solutions Tax ⁽⁷⁾	0.5000
Peninsula Corridor Joint Powers Board ⁽⁸⁾	0.1250
Total.....	9.3750%

⁽¹⁾ Approximately 0.18% of this tax is allocated to the City. In 2018-2019, the most recent data available, the Santa Clara County share of the statewide allocation is 6.37%; the City receives approximately 2.78% of the allocation to the County.

⁽²⁾ Approved by voters in June 2016, and effective October 1, 2016, (limited to 15 years) to fund essential City services.

⁽³⁾ Approved by voters in 1976; does not expire. Imposed by VTA.

⁽⁴⁾ Approved by voters in November 2000, and effective April 1, 2006 (limited to 30 years). Imposed by VTA.

⁽⁵⁾ Approved by voters in November 2008 to support BART was implemented on July 1, 2012 (limited to 30 years). Imposed by VTA.

⁽⁶⁾ Approved by voters in November 2012 and effective April 1, 2013 (limited to 10 years).

⁽⁷⁾ Approved by voters in June 2016, and effective April 1, 2017 (limited to 30 years). Imposed by VTA.

⁽⁸⁾ Approved by voters in November 2020, and effective July 1, 2021 (limited to 30 years). Imposed by the Peninsula Corridor Joint Powers Board,

Source: California Department of Tax and Fee Administration; City of San José.

At the November 1993 election, Proposition 172 was approved by voters in the State, allowing for the permanent extension of the half-cent sales tax that was originally imposed on July 15, 1991, which was scheduled to sunset on June 30, 1993. (On July 1, 1993, a six-month extension of the tax was granted by the State in order to provide a source of one-time funding for cities and counties to partially offset 1993-1994 ongoing property tax reductions.) The passage of the Proposition 172 legislation, effective January 1, 1994, required that the proceeds from the half-cent tax be diverted from the State to counties and cities on an ongoing basis for funding public safety programs.

At the June 2016 election, Measure B was approved by voters in the City amending the City’s Municipal Code to enact a 0.25% transactions and use tax, also referred to as the Local

Sales Tax, in the City beginning October 1, 2016 for 15 years to fund essential City services, such as: improving public safety; maintaining and repairing major streets (e.g., increase pavement maintenance funding for major streets to significantly slow the incidence of pothole formation and general pavement deterioration); and increasing neighborhood services (e.g., additional resources for reducing homelessness, increasing youth and senior services, and other high priority neighborhood services, such as blight eradication and gang prevention). The 0.25% transactions and use tax will terminate automatically on September 30, 2031, unless extended by voters.

The City's budgeting forecast of Sales Tax receipts is based on the forecast of local economists, information from the City's Sales Tax consultant, State officials' estimates, an analysis of current and historical performance, economic trends, as well as the Wayfair Decision and Assembly Bill 147 ("**AB 147**"), which are described below. Such forecasts are based on the portion of the 1% of State sales taxes for city and county operations that is allocated to the City, the portion of the State sales taxes under Proposition 172 (approximately 0.18%), and the 0.25% of the sales taxes in the City approved by Measure B.

Table 17 shows actual Sales Tax receipts for 2017-2018 through 2019-2020 and budgeted receipts for 2020-2021 and 2021-2022.

Table 17 City of San José Sales Tax Receipts <i>(in thousands)</i>			
Fiscal Year	Sales Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$226,337	17.4%	9.0%
2018-2019 Actual ⁽¹⁾	263,530	18.9	16.4
2019-2020 Actual	260,558	21.6	(1.1)
2020-2021 Modified Adopted Operating Budget ⁽²⁾	262,500	19.5	0.7
2021-2022 Adopted Operating Budget	280,200	23.0	6.7

⁽¹⁾ Due to a CDTFA processing issue, 2018-2019 collections include revenue that was attributed to 2017-2018 activity.
⁽²⁾ As of June 22, 2021.
Source: City of San José.

In June 2018, the United States Supreme Court published its decision in *South Dakota v. Wayfair* (the "**Wayfair Decision**"), in which the Supreme Court held that sales to a customer in a particular state alone are sufficient to create a nexus for purposes of determining whether a seller is required to collect sales taxes of the applicable state. Prior to the Wayfair Decision, courts had interpreted the dormant Commerce Clause of the United States Constitution to require that a company have physical nexus in a state in order for the seller to be liable for the collection of that state's sales tax. Physical nexus is defined as having either property or payroll in the state, including a resident employee working from home or inventory stored in that state.

The State has issued guidance in response to the Wayfair Decision pursuant to AB 147. Under AB 147, beginning April 1, 2019, retailers located outside of the State are required to register with the California Department of Tax and Fee Administration (the "**CDTFA**"), collect the

California use tax, and pay the tax to the CDTFA based on the amount of their sales into California, even if they do not have a physical presence in the state. The new collection requirements apply to retailers if during the preceding or current calendar year certain sales thresholds are met. The new collection requirements apply to taxable sales of tangible personal property to California consumers on and after April 1, 2019, and are not retroactive. AB 147 also imposes collection obligations on retailers that contract with sellers to sell goods and services on their on-line platforms (i.e. “marketplace facilitators”) commencing October 1, 2019.

In September 2019, the City and eBay entered into a Revenue Capture Agreement, effective October 1, 2019 through June 30, 2034 (the “**Revenue Capture Agreement**”), which allows the City to capture additional sales tax on the sale of goods where eBay acts as the marketplace facilitator as the sales are recognized to occur in the City. In exchange, eBay receives 30% of the new sales tax revenues to the City in excess of a minimum threshold of \$5 million. The minimum threshold is increased by 3% annually, commencing on July 1, 2020. The City cannot provide any assurances with respect to how the CDTFA may interpret the Revenue Capture Agreement.

Sales tax revenues are projected to total \$269 million for 2020-2021, representing an increase of approximately \$9 million when compared the 2019-2020 actual sales tax revenues. When excluding the proceeds of the Revenue Capture Agreement, budgeted sales tax revenues for 2020-2021 are approximately 2% below 2019-2020 actual receipts. The City anticipates a delay in the receipt of sales tax revenues due to the COVID-19 pandemic. Effective April 2, 2020, pursuant to Executive Order N-40-20, the State is allowing small business taxpayers (i.e., those with less than \$5 million in taxable annual sales), to participate in a 12-month, interest-free, payment plan for up to \$50,000 of sales and use tax liability. See “CERTAIN RISK FACTORS – Public Health Emergencies – Collection of Taxes” in the forepart of this Official Statement for a discussion of Executive Order N-40-20. However, to date, the City has not experienced any significant delays in the receipt of sales tax revenues resulting from this Order.

As the local economy continues to emerge from the pandemic, taxable sales activity is expected to increase. The 2021-2022 Adopted Operating Budget estimates Sales Tax revenues of \$280.2 million, growth of approximately 4%, or \$11 million, above 2020-2021 estimates. Much of the increase is anticipated within the General Sales Tax category, with underlying growth of 7% that is partially offset by anticipated reduced collections from the Revenue Capture Agreement as consumers are likely to shift some online spending to general retail (brick and mortar) shopping. This revenue category will remain sensitive to the changing COVID-19 public health restrictions and will be closely monitored throughout the fiscal year.

Other Revenue

The Other Revenue category includes a number of unrelated revenue sources, including proceeds from the sale of property. The Other Revenue category in 2019-2020 totaled approximately \$34.5 million, which did not include the issuance of Tax and Revenue Anticipation Notes. The Other Revenue category in the 2020-2021 Modified Adopted Operating Budget totals \$193.3 million, which includes the issuance of the 2020 TRAN in the original aggregate principal amount of \$130 million to prefund employer retirement contributions for the City’s pension plans. The 2020 TRAN matured on June 1, 2021. On July 1, 2021, the City issued additional Tax and Revenue Anticipation Notes in the original aggregate principal amount of \$285 million (the “**2021 TRAN**”). The City used the proceeds of the 2021 TRAN, together with cash on hand of approximately \$141.3 million, to prefund a portion of its employer retirement contributions for the City’s pension and healthcare plans for Tier 1 employees for 2021-2022. The 2021 TRAN is not

included in the Other Revenue category of the 2021-2022 Adopted Operating Budget. The 2021 TRAN was issued after approval of the 2021-2022 Adopted Operating Budget. See “BONDED AND OTHER INDEBTEDNESS.”

Utility Taxes

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (e.g., a utility company’s consumption of all utilities used in the production or supply of its service is not taxed). Except as described below with respect to the City’s telephone utility user’s tax, the consumers of these services pay a tax at the rate of 5% of the utility charges to the utility company that acts as a collection agent for the City. The utility company collects the tax from consumers on a monthly basis and is required to remit that amount to the City by the 25th of the following month. The tax is not applicable to Federal, State, County, City agencies, insurance companies and banks.

On November 4, 2008, voters approved Measure K, a ballot measure that replaced the existing tax on telephone service with an updated telecommunications user’s tax. The updated telecommunication user’s tax took effect on April 1, 2009 and reduces the 5.0% tax rate to 4.5%, and applies the tax to all intrastate, interstate and international communications services regardless of technology used to provide such services, such as private communication services, voicemail, paging, and text messaging, and continues to tax existing communication services including landline, wireless, Voice over Internet Protocol, and bundled services (where taxable and non-taxable services are bundled together).

In February 2009, the City Council adopted an ordinance amending the new voter approved telecommunications user’s tax to cap the maximum amount of telecommunications user’s tax payable by customers that meet certain threshold requirements in order to mitigate any disproportionate financial impact on customers. The ordinance went into effect on April 3, 2009, with an original expiration date of December 31, 2012 that the City Council extended through December 31, 2017. On January 9, 2018, the City Council approved a further extension of the ordinance through December 31, 2022, and changed the annual increase of the cap from 2% to 3%, to take effect retroactively on January 1, 2018.

Table 18 shows actual Utility Tax receipts for 2017-2018 through 2019-2020 and budgeted receipts for 2020-2021 and 2021-2022.

Table 18
City of San José
Utility Tax Receipts
(in thousands)

Fiscal Year	Utility Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual.....	\$99,753	7.7%	(1.0)%
2018-2019 Actual.....	99,253	7.1	(0.5)
2019-2020 Actual.....	99,518	8.3	(0.3)
2020-2021 Modified Adopted Operating Budget ⁽¹⁾ .	95,800	7.1	(3.7)
2021-2022 Adopted Operating Budget	97,060	8.0	1.3

⁽¹⁾ As of June 22, 2021.

Source: City of San José.

Utility Tax collections in 2020-2021 are anticipated to total \$100.2 million, which is slightly above the 2019-2020 collection level of \$99.5 million. Utility Tax revenues in 2021-2022 are projected to decrease primarily due to decreases in electricity utility tax, gas utility tax and telephone utility tax revenues, offset by increases in water utility taxes as a result of anticipated increases in water rates.

Franchise Fees

Franchise Fees are collected mainly from utility providers for the use of public rights-of-way. Franchise Fees include revenues from electricity, gas and water utility services, commercial solid waste, cable television, and nitrogen pipelines. Actual collections are subject to significant fluctuations from the impact of weather conditions and/or rate changes because the largest sources of Franchise Fees are based on utility revenues.

Table 19 shows actual Franchise fee receipts for 2017-2018 through 2019-2020 and budgeted receipts for 2020-2021 and 2021-2022.

Table 19 City of San José Franchise Fees <i>(in thousands)</i>			
Fiscal Year	Franchise Fee Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual.....	\$51,180	3.9%	3.1%
2018-2019 Actual.....	48,397	3.5	(5.4)
2019-2020 Actual.....	44,436	3.7	(8.2)
2020-2021 Modified Adopted Operating Budget ⁽¹⁾ .	45,921	3.4	3.3
2021-2022 Adopted Operating Budget	44,652	3.7	(2.8)
⁽¹⁾ As of June 22, 2021. Source: City of San José.			

Overall, Franchise fee receipts are projected at \$45.7 million in 2020-2021, which is approximately 3% above the prior year receipts of \$44.4 million. In 2021-2022, Franchise Fees are expected to decrease 2.5% to \$44.7 million, which primarily reflects drops in the Electric, Gas, and Cable Franchise Fees.

Business Taxes

Business Taxes are comprised of four major subcategories: (1) general business taxes; (2) cardroom business taxes; (3) cannabis business taxes; and (4) disposal facility taxes. Table 20a shows actual Business Tax receipts for 2017-2018 through 2019-2020 and budgeted receipts for 2020-2021 and 2021-2022.

Table 20a
City of San José
Business Tax Receipts
(in thousands)

Fiscal Year	Business Tax Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$70,673	5.4%	30.5%
2018-2019 Actual	74,903	5.4	6.0
2019-2020 Actual	70,822	5.9	(5.4)
2020-2021 Modified Adopted Operating Budget ⁽¹⁾ .	63,900	4.8	(9.8)
2021-2022 Adopted Operating Budget	74,500	6.1	16.6

⁽¹⁾ As of June 22, 2021.

Source: City of San José.

Table 20b shows actual Business Tax receipts by major subcategory for 2017-2018 through 2019-2020 and budgeted receipts for 2020-2021 and 2021-2022.

Table 20b
City of San José
Business Tax Receipts By Major Subcategory
(in thousands)

Subcategory	2017-2018	2018-2019	2019-2020	2020-2021 Modified Adopted Operating Budget⁽¹⁾	2021-2022 Adopted Operating Budget
Business Tax	\$26,486	\$28,048	\$28,844	\$25,700	\$25,700
Cardroom Tax	18,891	8,871	13,535	8,600	20,000
Disposal Facility Tax	12,278	12,093	12,520	12,600	11,300
Cannabis Business Tax	13,018	15,890	15,923	17,000	17,500
Total	\$70,673	\$74,903	\$70,822	\$63,900	\$74,500

⁽¹⁾ As of June 22, 2021.

Source: City of San José.

General Business Tax. On November 8, 2016, voters approved Measure G, a ballot measure to increase the general business tax imposed on all persons (broadly defined) engaged in business in San José. The general business tax is an excise tax based on the number of persons employed or on the number of units, lots or square feet leased in the City, as applicable. It is not a tax on gross receipts. Prior to Measure G, most businesses paid an annual base tax of \$150 for up to 8 employees with an additional \$18 for each employee, thereafter, capped at

\$25,000 annually. For landlords of residential real estate, mobile home parks, or commercial real estate the tax was based on the number of units, lots, or square feet leased in San José, capped at \$5,000 annually.

Measure G enacted an ordinance, effective on July 1, 2017, that: (1) increased the minimum base tax from \$150 to \$195, set graduated rates for businesses with more employees paying higher rates, increased rates for landlords who pay more per unit, lot and square feet of leased space, (2) raised the annual cap on the maximum amount of tax payable to \$150,000; and (3) instituted an annual adjustment for inflation based on the consumer price index beginning on July 1, 2018, subject to certain limits. Measure G maintained various exemptions for nonprofits and a financial hardship exemption for small business owners, while adding a financial hardship exemption for certain small businesses with limited household incomes.

In 2020-2021, General Business Tax proceeds are anticipated to reach \$25.7 million, which is approximately 11% below the 2019-2020 collection level. This decrease reflects the COVID-19 pandemic's impact on local businesses. In 2021-2022, General Business Tax revenue is anticipated to remain flat as a result of a moderate annual inflation rate increase of 1.6%, offset by reduced activity levels.

Cardroom Tax. Two cardrooms exist in the City. Currently, the City imposes an annual base tax on each cardroom in an annual minimum amount of \$150 per year, plus an additional tax in the amount of \$18 per employee based on the average number of employees, not to exceed a maximum of \$25,000, and a tax on annual gross revenues described below.

On August 4, 2020, the City Council approved placing a measure related to the City's cardrooms on the November 3, 2020 ballot ("**Measure H**"). Measure H was approved by a majority of the voters and amended the City's Municipal Code to: increase the total number of card tables permitted in the City from 98 to 128 and increase the number permitted at each cardroom from 49 to 64, increase the existing tax on gross revenues of the City's cardrooms from 15% to 16.5% and impose a tax on the gross revenues of the entities that bank the card games played at the cardrooms, referred to as third party providers of proposition player services, at the following rates; (a) 5% of annual gross revenue up to \$25,000,000; (b) 7.5% of annual gross revenues between \$25,000,001 and \$30,000,000; and (c) 10% of annual gross revenues above \$30,000,000.

The City estimates that Measure H revenues will total \$15 million annually, assuming that the cardrooms are operating normally. Measure H is a general fund tax. As such, Measure H revenues are available for any governmental purpose of the City and are not restricted for particular purposes.

During the Shelter-in-Place orders or directives, cardrooms were not operational from March 2020 through August 2020. In September 2020, public health orders were modified to allow cardrooms to begin outdoor operations with social distancing requirements. However, cardrooms were only open for a limited period of time before further health orders by Santa Clara County and then subsequently the State of California resulted in the closure of cardrooms from November 30, 2020 through January 27, 2021. Cardroom Business Tax receipts are estimated at \$9.4 million for 2020-2021, a 30% drop from the 2019-2020 collection level, and a 50% drop from the 2018-2019 collection level.

In 2021-2022, as pandemic-related restrictions continue to ease, Cardroom Tax receipts are anticipated to increase to \$20.0 million. The estimates for Cardroom Tax receipts are inclusive

of the tax revenue from Measure H approved by voters in November 2020 that increased taxes on the cardrooms and imposed a new tax on third party providers of proposition player services beginning on January 1, 2021. As previously described, the phased re-opening under the Blueprint for a Safer Economy ended with a full reopening of the economy on June 15, 2021.

Since the passage of Measure H, both cardrooms in the City and a third-party provider of proposition player services have filed separate reverse validation actions in Santa Clara County Superior Court to stop the City from imposing the taxes described in the Measure. See “POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES – Potentially Significant Litigation – Measure H Litigation” for a further discussion of such pending litigation. The City cannot provide any assurance that Measure H will not be invalidated in the future as a result of pending or future litigation.

Cannabis Business Tax. On November 2, 2010, San José voters approved Measure U, which allows the City to impose a tax on all cannabis businesses in the City at a rate of up to 10% of gross receipts from the planting, cultivation, harvesting, transporting, manufacturing, compounding, converting, processing, preparing, storing, packaging, and sales of cannabis and ancillary products in the City. On December 13, 2010, the City Council approved a 7% rate, and the tax became effective on March 1, 2011 and on June 4, 2013, the City Council adopted an ordinance increasing to the rate to 10% effective on July 1, 2013. While the maximum tax rate on all cannabis businesses approved by the voters in the City is 10% of gross receipts, the City Council has discretion to set a lower tax rate for different categories of cannabis activities.

On January 15, 2019, the City Council approved amendments to the Municipal Code to add manufacturing, distribution, and laboratory testing to the categories of regulated cannabis businesses in the City. On May 21, 2019, the City Council adopted an ordinance amending the Municipal Code to revise the Chapter setting forth the Cannabis Business Tax to reduce the tax rate from 10% of gross receipts to 4% of gross receipts derived from cultivation, 3% of gross receipts derived from manufacturing, 2% of gross receipts derived from distribution, and 0% of gross receipts derived from laboratory testing and to replace the term “marijuana” with “cannabis.” The reduction of the tax rate for these activities is effective July 1, 2019.

Based on current collection trends, it is anticipated Cannabis Business Tax receipts will total \$17.0 million in 2020-2021, which is 6.8% above the prior year collections. In 2021-2022 receipts are projected to grow by approximately 3% to \$17.5 million.

Disposal Facility Tax. On May 26, 1987, the City Council adopted the Disposal Facility Tax, which went into effect on July 1, 1987. The tax is based on the weight of solid waste disposed. The tax rate is \$13.00 per ton and is assessed on landfills located in San José. Based on current collection trends, 2020-2021 Disposal Facility Tax collections are estimated at \$11.3 million, representing a 9.7% drop from 2019-2020 collection levels. In 2021-2022, receipts are anticipated to remain flat at \$11.3 million.

Transfer Taxes

On March 3, 2020, voters approved a ballot measure to enact a real property transfer tax ordinance (“**Transfer Tax**”), effective on July 1, 2020 (“**Measure E**”). The Transfer Tax is a general tax imposed whenever a deed, instrument, or writing, whether recorded or not, transfers real property in the City for consideration. Consideration means the amount paid for, or the value of, the transferred property and includes the amount of any debt and special assessments secured by the transferred property. The Transfer Tax also applies to a transfer of ownership

interests in a legal entity (e.g., a corporation, partnership, or limited liability company) that would be considered an ownership change of real property under State law. Payment of the Transfer Tax is the responsibility of the parties to the transfer and may be paid by either party.

Real property transfers under \$2,000,000 are exempt from the Transfer Tax. Real property transfers of \$2,000,000 or more are taxed at one of the following rates applied to the full value of the consideration:

Value of Consideration	Transfer Tax Rate
\$2,000,000 to \$5,000,000	0.75%
\$5,000,001 to \$10,000,000	1.0%
Over \$10,000,000	1.5%

Beginning July 1, 2025, the exemption threshold of under \$2,000,000 (i.e., \$1,999,999.99) will automatically be adjusted based on a consumer price index every 5 years. The City Council may also increase the exemption threshold at any time, but in no event can the exemption threshold be less than \$1,999,999.99. The Transfer Tax is in addition to the existing real property conveyance tax ("**Conveyance Tax**"), also imposed on a transfer of real property, where the value of consideration exceeds \$100, at the rate of \$1.65 for each \$500 of consideration or fractional part thereof, and is a special tax that is required to be used for certain specified purposes.

On June 16, 2020, the City Council adopted a resolution approving revisions to City Council Policy 1-18 to set forth a spending plan related to the revenues from Measure E. Although Measure E is a general tax and the revenues derived from the tax can be used for any governmental purpose, Policy 1-18, as revised, allocates Measure E revenues towards addressing homelessness including, but not limited to, homeless prevention and developing new affordable housing, and sets forth the procedural requirements for changing the allocation.

Licenses and Permits

The City requires payment for the issuance of building permits, fire permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. Where appropriate, license and permit fees take into consideration approved exceptions to the City Council's full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City's Fees and Charges Report, which is released in May of each year. Table 21 shows actual Licenses and Permits receipts for 2017-2018 through 2019-2020 and budgeted receipts for 2020-2021 and 2021-2022.

Table 21
City of San José
Licenses and Permits Receipts
(in thousands)

Fiscal Year	Licenses and Permits Receipts	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$60,505	4.7%	4.2%
2018-2019 Actual	65,295	4.7	7.9
2019-2020 Actual	64,520	5.4	(1.2)
2020-2021 Modified Adopted Operating Budget ⁽¹⁾ .	19,894	1.5	(69.2)
2021-2022 Adopted Operating Budget.....	21,003	1.7	5.6

⁽¹⁾ As of June 22, 2021.

Source: City of San José.

The 2020-2021 Modified Adopted Operating Budget reflects a 69% decline in license and permit fees from the 2019-2020 actual receipts (which are projected to account for approximately 1.5% of the total General Fund revenues for fiscal year 2020-2021). Historically, a significant portion (approximately 70%) of the revenue in this category was associated with Building and Fire development-related fees (the "**Development Fee Program**"). However, beginning in 2020-2021, all revenue and expenditures related to the Development Fee Program are no longer accounted for in the General Fund, and instead are accounted under specific Development Fee Program funds.

Revenue from Local Agencies

This revenue category includes revenue received from a variety of other local government agencies. For example, the City receives payments from the Central Fire District for fire services provided to the Central Fire District residents by the San José Fire Department. Table 22 shows actual Revenue from Local Agencies for 2017-2018 through 2019-2020 and budgeted Revenue from Local Agencies for 2020-2021 and 2021-2022.

Table 22
City of San José
Revenue from Local Agencies
(in thousands)

Fiscal Year	Revenue from Local Agencies	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$38,623	3.0%	39.3%
2018-2019 Actual	16,685	1.2	(56.8)
2019-2020 Actual	15,660	1.3	(6.1)
2020-2021 Modified Adopted Operating Budget ⁽¹⁾ .	23,292	1.7	48.7
2021-2022 Adopted Operating Budget	18,784	1.5	(19.4)

⁽¹⁾ As of June 22, 2021.

Source: City of San José.

Transient Occupancy Tax

The Transient Occupancy Tax (the “TOT”) is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The tax rate is currently 10%. The General Fund portion of the TOT totaling approximately 40%, was enacted as a general tax. The remaining 60% of the TOT is restricted for use in cultural development, supporting a convention and visitors bureau, and supporting the convention and cultural facilities of the City. Table 23 shows actual TOT receipts for 2017-2018 through 2019-2020 and budgeted Revenue from Local Agencies for 2020-2021 and 2021-2022.

Table 23
City of San José
Transient Occupancy Tax
(in thousands)

Fiscal Year	Transient Occupancy Tax	Percentage of General Fund Revenues	Percentage Change (Y/Y)
2017-2018 Actual	\$19,531	1.5%	6.9%
2018-2019 Actual	20,536	1.5	5.1
2019-2020 Actual	14,104	1.2	(31.3)
2020-2021 Modified Adopted Operating Budget ⁽¹⁾ .	5,500	0.4	(61.0)
2021-2022 Adopted Operating Budget.....	10,000	0.8	81.8

⁽¹⁾ As of June 22, 2021.

Source: City of San José.

In 2020-2021, TOT receipts in the General Fund (which represent 40% of the total tax) are estimated to reach \$5.5 million, reflecting a 61% drop from the 2019-2020 collection level of \$14.1 million, and a 73% decline from the 2018-2019 collection level of \$20.5 million. The drastic decline in TOT receipts beginning in spring 2020 illustrate the contraction in hotel activity in response to the COVID-19 pandemic. Through April 2021, the average hotel occupancy rate reported for the San José market was 37.2%, a steep drop from the same period in 2019-2020 (62.8%). Average room rates also decreased by 46.2%, from \$188.32 to \$101.31, and the year-to-date average revenue-per-available room decreased 68.1%, from \$118.24 to \$37.69, relative to the same period in 2019-2020. Beginning in 2021-2022, as vaccines become more widely available and travel restrictions are lifted, hotel activity is anticipated to steadily rebound. As a result, TOT receipts are estimated to increase by over 80% to \$10.0 million in 2021-2022, but are budgeted to remain significantly below 2018-2019 collections of \$20.5 million because the City anticipates that it will take time for business and leisure travel activity to fully recover from the reduction in receipts as a result of COVID-19, which is currently surging in the State and nationally. See “PUBLIC HEALTH EMERGENCY – COVID-19.”

Relief Funds

As of May 4, 2021, the City estimates that the City's costs relating to the COVID-19 pandemic totaled approximately \$403 million for fiscal year 2019-2020 and 2020-2021. As of such date, the City had received, or anticipated receiving, funding from Federal, State, and local sources totaling approximately \$403 million in response to the COVID-19 pandemic. Approximately \$315 million, or 78%, of such funding is from Federal sources, and State and local sources each totaled approximately \$44 million, or 11%. As of May 4, 2021, Federal sources consisted primarily of funding from the CARES Act totaling approximately \$180 million. As described below, such sources do not include anticipated funding under the American Rescue Plan.

The CARES Act, which became law on March 27, 2020, addresses the economic crisis created by the COVID-19 pandemic. The CARES Act provides funding to cover costs related to necessary expenses incurred due to the public health emergency created by COVID-19 that were not previously accounted for in the City's budget process and that were incurred between March 1, 2020 and December 31, 2021.

On March 11, 2021, the President of the United States signed the American Rescue Plan, a \$1.9 trillion economic stimulus package designed to help the United States' economy recover from the adverse impacts of the COVID-19 pandemic. The American Rescue Plan includes \$350 billion in unrestricted economic relief to states, counties, and local governments. On May 10, 2021, the U.S. Treasury Department released interim guidance for use of the American Rescue Plan funds, and specifically authorized, among other things, the use of funds to help offset revenue shortfalls caused by the pandemic.

As of the date of this Official Statement, the City estimates it will receive a total of approximately \$212.3 million in funding under the American Rescue Plan. To date, the City has received approximately \$106 million of such funds and anticipates receiving a second installment 2022. Of the total \$212.3 million in American Rescue Plan funding, the 2021-2022 Adopted Operating Budget provides for \$45 million will be used to balance the General Fund and \$2.5 million to resolve an anticipated negative fund balance in the Convention and Cultural Affairs Fund (TOT revenue has been severely impacted, which would otherwise cause a negative balance in the fund used to support operations of the convention center and other cultural facilities), and \$3.0 million budgeted to meet commitments for food distribution through the end of 2020-2021 (actual expenditures through June 30, 2021 were \$1.9 million). The 2020-2021 Adopted Operating Budget further provides for the allocation of approximately \$83.4 million to workstreams within 18 recovery initiatives identified by the Mayor and City Council, food, and necessities distribution (approximately \$14.5 million), re-employment and workforce development (approximately \$14.1 million), homeless encampment waste pickup and illegal dumping removal (\$12.3 million), housing stabilization (\$10.7 million), and small business recovery (\$10.4 million). The 2021-2022 Adopted Operating Budget leaves approximately \$78.4 million of the total \$212.3 million of American Rescue Plan funding unallocated. The City plans to preserve approximately \$28 million of the \$78.4 million to address, on a one-time basis, the projected ongoing General Fund ongoing shortfall if it is not fully resolved in 2022-2023.

Following is a summary of the resources from the American Rescue Plan and their allocation as of the 2021-2022 Adopted Operating Budget:

American Rescue Plan Fund Allocations	Amount
American Rescue Plan Disbursement from Federal Government	\$212.3 million
Amount used to balance the 2021-2022 General Fund Budget	(\$45.0 million)
Amount used to resolve anticipated 2021-2022 negative fund balance in the Convention and Cultural Affairs Fund	(\$2.5 million)
Amount estimated to continue Food and Necessities Distribution through June 30, 2021	(\$3.0 million)
Funds Available for Programming in 2021-2022 and Future Years	\$161.8 million
Additional Budget allocations described above	(\$83.4 million)
Funds Remaining After 2021-2022 Budget Allocation	\$78.4 million
Portion of the 2021-2022 General Fund ongoing shortfall that is unresolved and carried forward into 2022-2023	(\$28.3 million)
Remaining resources to mitigate fund General Fund shortfalls and continue recovery and response activities beyond 2021-2022	\$50.1 million

On September 3, 2021, City staff released an information memorandum to the City Council describing: 1) staff's current understanding of the eligible uses of the American Rescue Plan Fund, and 2) the process and approach staff will use to recommend adjustments to American Rescue Plan allocations. Based on the methodology provided by the U.S. Treasury Department to calculate revenue loss, the City anticipates that it is eligible to claim an amount greater than the \$47.5 million included in the allocation table above (\$45.0 million for the General Fund and \$2.5 million for the Convention and Cultural Affairs Fund). At its November 2, 2021, meeting, the City Council will consider recommended adjustments to the budget for the American Rescue Plan, including increasing the amount transferred to the General Fund, as well as reallocating funding due to the changing impacts of the COVID-19 pandemic.

The City provide cannot provide any assurance that relief funds, if and when received by the City, will be adequate to alleviate the impact of the COVID-19 pandemic on the City's finances.

FINANCIAL OPERATIONS

Financial Statements

The City's Basic Financial Statements provide both government-wide financial statements with a long-term perspective on the City's activities while retaining the more traditional fund-based financial statements that focus on near-term inflows, outflows, and balances of spendable financial resources. The government-wide financial statements report on a full accrual basis and include comprehensive reporting of the City's infrastructure and other fixed assets. See "APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSÉ FOR THE FISCAL YEAR ENDED JUNE 30, 2020, Note I" for a summary of the City's significant accounting policies.

Tables 24 and 25 on the following pages summarize financial information contained in the City's Basic Financial Statements for the fiscal years ended June 30, 2016, through June 30, 2020. The tables include information solely on the General Fund of the City.

Table 24
City of San José
General Fund
Balance Sheet
2015-2016 through 2019-2020
(in thousands)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
ASSETS					
Cash and Pooled Investments	\$281,607	\$299,728	\$296,597	\$435,353	\$588,848
Receivables:					
Taxes	72,606	55,039	54,281	62,075	57,449
Accrued Interest.....	629	1,440	1,986	2,536	1,910
Grants	1,352	822	3,081	1,106	3,889
Other	36,963	39,782	39,965	36,057	40,892
Less: allowance for uncollectibles	(28,759)	(27,904)	(26,398)	(23,618)	(24,216)
Due from Other Funds.....	1,450	1,823	1,797	1,653	2,116
Due from Outside Agencies	459	341	185	58	--
Loans Receivable (net of allowance for uncollectibles)	1,241	1,241	1,241	1,241	1,241
Advances and Deposits.....	186	170	153	137	121
Advances to Other Funds.....	3,297	3,297	3,297	3,297	3,297
Advances to Receivable from SARA.....	26,182	28,950	13,863	12,742	--
Restricted Assets:					
Cash and Pooled Investments.....	1,277	1,289	1,308	1,331	1,359
Cash and Investments held with fiscal agent.....	4,564	2,852	682	1	--
TOTAL ASSETS	\$403,054	\$408,870	\$392,038	\$533,969	\$676,906
LIABILITIES					
Accounts Payable.....	\$14,105	\$14,125	\$9,001	\$11,901	\$21,886
Accrued Salaries, Wages and Payroll Taxes	23,305	30,536	33,975	34,437	37,209
Due to Outside Agency	373	373	372	373	373
Unearned Revenue	6,205	6,302	6,483	6,548	113,514
Advance, Deposits, and Reimbursement Credits	7	7	7	37	67
Other Liabilities.....	29,803	32,553	36,736	53,432	41,545
TOTAL LIABILITIES	\$73,798	\$83,896	\$86,574	\$106,728	\$214,594
DEFERRED INFLOW OF RESOURCES	\$10,217	\$12,142	\$12,442	\$12,742	\$2,080
FUND EQUITY					
Fund Balances:					
Nonspendable.....	\$186	\$170	\$153	\$153	\$121
Restricted.....	1,265	690	1,057	1,370	2,007
Committed.....	84,998	96,026	97,809	100,147	95,414
Assigned	167,239	136,093	111,509	168,961	283,322
Unassigned	65,351	79,853	82,494	143,868	79,368
TOTAL FUND EQUITY	\$319,039	\$312,832	\$293,022	\$414,499	\$460,232
TOTAL LIABILITIES AND FUND EQUITY	\$403,054	\$408,870	\$392,038	\$533,969	\$676,906

Source: City of San José Annual Comprehensive Financial Reports, 2015-2016 through 2019-2020.

Table 25
City of San José
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
2015-2016 through 2019-2020
(in thousands)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
REVENUES					
Taxes:					
Property Taxes.....	\$263,300	\$276,388	\$306,222	\$344,458	\$366,470
Sales Taxes and Shared Revenue.....	201,797	207,695	226,337	263,530	260,558
Utility Taxes.....	113,474	121,045	120,234	120,846	120,213
State of California in-lieu Tax.....	410	467	551	505	826
Franchise Taxes.....	48,949	49,642	51,180	48,397	44,436
Business Taxes.....	50,864	54,159	70,673	77,011	71,978
Miscellaneous Taxes.....	16,565	18,275	19,531	20,535	14,104
Total Taxes.....	695,359	727,671	794,728	875,282	878,585
Licenses, Permits, and Fines.....	69,856	75,173	74,859	80,725	77,747
Intergovernmental.....	9,103	11,132	11,773	8,349	90,822
Charges for Current Services.....	48,110	46,049	52,303	55,646	48,535
Interest and Investment income.....	4,658	2,222	2,228	7,303	14,512
Other Revenues.....	44,582	38,821	42,905	40,888	60,931
TOTAL REVENUES	\$871,668	\$901,068	\$978,796	\$1,068,193	\$1,171,132
EXPENDITURES					
Current:					
General Government.....	\$92,093	\$95,861	\$100,732	\$137,732	\$225,598
Public Safety.....	513,921	536,068	593,162 ⁽¹⁾	622,250	641,297
Capital Maintenance.....	85,324	111,737	120,158	89,758	86,008
Community Services.....	132,115	133,409	139,593	115,441	121,268
Sanitation.....	1,690	2,444	4,148	4,844	4,014
Capital Outlay.....	26,832	14,535	14,264	12,464	23,471
Debt Service:					
Principal.....	1,463	1,526	39,119 ⁽²⁾	1,420	1,460
Interest.....	1,200	1,328	2,184	838	700
TOTAL EXPENDITURES	\$854,638	\$896,908	\$1,013,360	\$984,747	\$1,103,816
Excess (Deficiency) of Revenues over Expenditures	\$17,030	\$4,160	\$(34,564)	\$83,446	\$67,316
OTHER FINANCING SOURCES (USES)					
Transfers In.....	\$10,253	\$20,461	\$11,409	\$18,751	\$14,492
Proceeds for sale of capital assets.....	3,848	157	38,187	132,703	5,352
Escrow payment to the County of Santa Clara....	--	--	--	(67,000)	--
Transfers Out.....	(28,046)	(30,985)	(34,842)	(46,423)	(41,427)
TOTAL OTHER FINANCING SOURCES (USES)	\$(13,945)	\$(10,367)	\$14,754	\$38,031	\$(21,583)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$3,085	\$(6,207)	\$(19,810)	\$121,477	\$45,733
Fund Balance - July 1	315,954	319,039	312,832	293,022	414,499
Fund Balance - June 30	\$319,039	\$312,832	\$293,022	\$414,499	\$460,232

⁽¹⁾ Increase in 2017-2018 is due primarily to an increase in salary and benefits paid to the City's safety employees as required under their collective bargaining agreements. See "– LABOR RELATIONS."

⁽²⁾ Increase in 2017-2018 is due primarily to repayment and defeasance of the Series 2008F Bonds in the amount of \$37.1 million.

Source: City of San José Annual Comprehensive Financial Reports, 2015-2016 through 2019-2020.

Financial and Accounting Information

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

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

The basis of accounting determines when transactions are reported in the financial statements. The government-wide, proprietary, and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds do not have a measurement focus but are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility user taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Governmental funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. This focus is on the determination of, and changes in financial resources, and generally only current assets and current liabilities are included in the balance sheet. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. For this purpose, the City considers revenues as available if they are collected within sixty days after the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. However, principal and interest on long-term debt and certain estimated liabilities, such as compensated absences and self-insurance claims, are recorded when payment is due.

City Audit and Management Report

The City Council engages an independent certified public accountant (the “**Accountant**”) who examines books, records, inventories and reports of all officers and employees who receive, control, handle, or disburse public funds and of any other officers, employees or departments as the City Council directs. These duties are performed both annually and upon request. For the financial statements for 2015-2016 and 2016-2017, the City engaged Grant Thornton LLP as the Accountant. For 2017-2018 through 2019-2020 the City engaged Macias Gini & O’Connell LLP as the Accountant. Within 180 days following the end of each fiscal year, City staff submits the financial statements audited by the Accountant to the City Council. The City publishes the City's audited financial statements as of the close of the fiscal year in the Annual Comprehensive Financial Report.

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

In the 2019-20 Management Report, the Accountant noted two deficiencies relating to internal controls over the financial reporting process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of financial statements will not be prevented, or detected and corrected on a timely basis. The Accountant noted a material weakness in the City's internal controls over the financial reporting process, and a control deficiency regarding application of the availability criterion for revenue recognition in the 2019-20 Management Report.

The Accountant commented that while the City has made significant efforts in improving its financial reporting process over the past several years, that progress has been impeded by persistent turnover from resignations, retirements, and extended leaves in the Annual Comprehensive Financial Report reporting units within the Finance Department – Accounting Division, which contributed negatively to the completion of the fiscal year 2019-2020 audit process and resulted in a material weakness finding. The audit process was hampered further by the sudden and unexpected remote work environment for the Annual Comprehensive Financial Report reporting units made necessary by the COVID-19 pandemic and consequent Shelter-in-Place order issued by Santa Clara County.

The Accountant also identified a control deficiency in the application of the availability criterion for revenue recognition, which resulted in overstated revenues of \$7.4 million in governmental funds. The City's management, in its response to this finding, specifies various steps to address these challenges, which are detailed further in the San José Management Letter For Fiscal Year Ended June 30, 2020. The City's management noted that the Finance Department will continue training financial statement preparers on the application of the availability criterion, and establish an enhanced review process to confirm the validity of the revenue recorded and comply with the availability criterion.

The 2018-2019 Management Report identified a material weakness and a significant deficiency during that audit process. The material weakness has been corrected and the significant deficiency was closed with completion of the City's 2019-2020 Single Audit Report.

The City's audited Basic Financial Statements for fiscal year 2019-20 are included as Appendix C to this Official Statement. The Accountant has not reviewed this Official Statement, has not been requested to consent to the inclusion herein of the audited financial statements and has not performed any post audit review of the financial condition or operations of the City.

CAPITAL IMPROVEMENT

Capital Budget and Capital Improvement Plan

On April 26, 2021, the City Manager released the City's 2021-2022 Proposed Capital Budget (the "**2021-2022 Proposed Capital Budget**") and 2022-2026 Capital Improvement Program (the "**2022-2026 CIP**"). On June 15, 2021, the City Council adopted the 2021-2022 Proposed Capital Budget and the 2022-2026 CIP (as so adopted, the "**2021-2022 Adopted Capital Budget**" and the "**2022-2026 Adopted CIP**," respectively). The 2021-2022 Adopted Capital Budget and the 2022-2026 Adopted CIP guide the City in the planning, scheduling, and budgeting of capital improvement projects during 2022-2026.

The 2021-2022 Adopted Capital Budget of \$1.6 billion reflects a 12.7% increase from the 2020-2021 Adopted Capital Budget of \$1.4 billion. Over a five-year period, the 2022-2026 Adopted CIP totals \$3.8 billion, a 5.1% increase from the City's 2021-2025 Adopted Capital Improvement Program of \$3.7 billion.

In November of 2018, the City received a voter authorization of up to \$650 million of general obligation bonds for various public improvements ("**Measure T**"), intended to address some of the City's most critical infrastructure needs. The 2022-2026 Adopted CIP takes into account funding for a wide variety of infrastructure needs authorized under Measure T. See also "BONDED AND OTHER INDEBTEDNESS" for additional information regarding the general obligation bonds previously issued by the City under Measure T.

The City's financial condition has historically limited, and continues to limit, the City's ability to expand much needed services to City residents and fully address the backlog of the City's deferred infrastructure and maintenance needs. The Status Report on Deferred Infrastructure Maintenance Backlog, accepted by the City Council's Transportation and Environment Committee on March 1, 2021, identifies an infrastructure backlog of approximately \$1.7 billion, with an additional \$92.8 million needed annually to maintain the City's infrastructure in a sustained functional condition. Though the backlog of \$1.7 billion is expected to decrease as Measure T projects are fully implemented, including \$300 million for street paving, the City must continue to search for additional resources and leverage grant opportunities to ensure the City's public assets are appropriately maintained.

Sustainability Initiatives

In 2011, the City prepared its Greenhouse Gas Reduction Strategy in conjunction with the preparation of the General Plan process to ensure that the implementation of the General Plan update aligns with the implementation requirements of California Global Warming Solutions Act of 2006 ("**AB 32**"). The General Plan is the City's comprehensive and long-range plan to guide physical development within San José. The purposes of the Greenhouse Gas Reduction Strategy were to: (i) capture and consolidate GHG reduction efforts already underway by the City; (ii) distill policy direction on GHG reduction from the General Plan update; (iii) quantify GHG reductions that could result from land use changes incorporated in the General Plan's Land Use/Transportation diagram; (iv) create a framework for the ongoing monitoring and revision of this Greenhouse Gas Reduction Strategy; and (v) achieve General Plan-level environmental clearance in a way that is compliant with CEQA for future development activities (through the year 2020) occurring within San José. The City updated the Greenhouse Gas Reduction Strategy in

2015 and recently updated the Greenhouse Gas Reduction Strategy to comply with Senate Bill No. 32 for emissions reductions through year 2030. Further, the Greenhouse Gas Reduction Strategy 2030 will allow future development projects to demonstrate consistency with the Greenhouse Gas Reduction Strategy 2030 to streamline the GHG emissions analysis for the environmental review process. The City Council adopted the Greenhouse Gas Reduction Strategy 2030 on November 17, 2020.

In February 2018, City Council accepted the Climate Smart San José Plan (“**Climate Smart**”) which is intended to provide a policy framework to address global warming, establish a sustainable water supply, reduce dependency upon fossil fuels, and create cleaner air by 2050. Under a fully implemented Climate Smart Plan, the City anticipates that it would exceed the AB 32 targets.

Climate Smart outlines future strategies for the City which align with the Paris Climate Agreement. The City Council has approved one of the major Climate Smart initiatives, San José Clean Energy (“**SJCE**”). SJCE is a community choice energy program operated by the City’s Community Energy Department which supplies the City and City residents and businesses with cleaner electricity options through PG&E’s infrastructure. SJCE launched services to the City in September 2018 and to City residents and businesses in February 2019, and its operating costs, including repayment of financing costs, are anticipated to be borne by SJCE customers/ratepayers. See “**BONDED AND OTHER INDEBTEDNESS**” for a description of additional outstanding debt of the City that is secured by SJCE revenues.

Other strategies in Climate Smart include encouraging densification of development and increasing residents’ access to mass transit to reduce vehicle miles travelled. Climate Smart also contemplates support for State requirements for Zero Net Carbon new residential construction, as well as strategies for retrofitting existing residential buildings to improve energy usage. If all of the actions in Climate Smart are implemented, the cost to residents and the City (estimated to be \$264 billion or 2.55% of gross domestic product (“**GDP**”) cumulative through 2050) is anticipated to be offset by long-term savings and avoided costs (estimated at \$269 billion or 2.6% of GDP cumulative through 2050). As to the City, the estimated annual cost for full implementation is \$435 million, with ninety-five percent of this cost (\$413.25 million) attributed to SJCE, as discussed above. The remaining cost is for staff facilitation and coordination activities.

In September 2019, the City Council approved a building reach code ordinance that encourages building electrification and energy efficiency, requires solar-readiness on nonresidential buildings, and requires electric vehicle (“**EV**”)–readiness and EV equipment installation. In addition, in October 2019, the City Council approved an ordinance prohibiting natural gas infrastructure in new detached accessory dwelling units, single-family, and low-rise multi-family buildings that would supplement the reach code ordinance. Both ordinances apply to new construction starting January 1, 2020. In December 2020, the City Council approved the extension of the ordinance prohibiting natural gas infrastructure to all building types with some limited exemptions. This updated ordinance will apply to new construction starting August 1, 2021.

INSURANCE AND SELF-INSURANCE PROGRAMS

The City reassesses its insurance coverage annually. Therefore, the City makes no representations that the insurance coverages described below will be maintained in the future.

Citywide Insurance

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

All Risk Property Insurance. The City currently maintains an all-risk property insurance policy with coverage for property owned by the City. This policy also provides coverage for boiler and machinery exposures and loss due to business interruption resulting from a covered property loss. The City generally does not carry earthquake insurance as it is not reasonably available. A summary of insurable coverage for the policy period October 1, 2021 to October 1, 2022 is provided in Table 26.

Table 26
City of San José
Summary of Citywide Property Insurance Coverage
(For Policy period October 1, 2021 – October 1, 2022)

	Limits Per Occurrence⁽¹⁾	Deductible Per Occurrence⁽²⁾
Property ⁽³⁾	\$1,000,000,000	\$100,000
Business Interruption	300,000,000	\$100,000
Flood Locations – Low Hazard ⁽⁴⁾	\$100,000,000 Annual Aggregate	\$100,000 per Location
Flood Zones (Other) ⁽⁵⁾⁽⁶⁾	\$2,000,000 Annual Aggregate	\$500,000 per Location

⁽¹⁾ Other sub-limits apply.

⁽²⁾ Other deductibles apply.

⁽³⁾ Covers “Certified Act of Terrorism” under the Terrorism Risk Insurance Act of 2002, as amended.

⁽⁴⁾ Refers to Flood Locations – Low Hazard as defined in the City’s insurance policy.

⁽⁵⁾ The Airport and McEnery Convention Center are subject to a \$10,000,000 per Location deductible for flood.

⁽⁶⁾ The San José – Santa Clara Regional Wastewater Facility is subject to a \$5,000,000 per Location deductible for flood.

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

To mitigate the impact of a 2019 reduction to the base flood coverage from \$25,000,000 to \$10,000,000, the City has obtained an excess policy for locations considered by the City’s insurer to be in high and moderate hazard flood zones. The excess policy provides \$15,000,000

in limits excess of the primary property policy on a 50/50 quota share basis, where the City and excess insurer share the financing of losses on a 50/50 basis.

Aircraft (Hull & Liability) Policy. The City maintains an aircraft policy covering physical damage coverage for City aircraft used by the San José Police Department's Air Support Unit as well as liability coverage for bodily injury and property damage arising from the use of covered aircraft. The aircraft policy provides up to \$50,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage caused by war and other perils and is subject to a deductible of \$0 per occurrence. To supplement the aircraft policy, the City purchased an additional aircraft policy effective June 17, 2020, to include liability and physical damage coverage for the unmanned aerial systems ("UAS") used in the San José Police Department's and San José Fire Department's UAS program ("**Drone Coverage**"). The Drone Coverage, which has been renewed to June 21, 2022, provides up to \$2,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage.

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

Fiduciary Liability Coverage. The City also maintains fiduciary liability insurance policies covering the City's defined contribution employee benefit plans: the Deferred Compensation Plans, the Voluntary Employees' Beneficiary Association ("**VEBA**") Plans; and the Defined Contribution 401(a) Plan. The policies protect the City and the members of the applicable Board from legal liability arising from fiduciary obligations to plan beneficiaries. The policy covering the Deferred Compensation Plans provides \$5,000,000 in aggregate limits subject to a \$25,000 per claim retention except a \$100,000 per claim retention for Class Action Claims (as defined in such policy). The policy covering the VEBA Plans provides \$5,000,000 in aggregate limits subject to a \$25,000 per claim retention. The policy covering the Defined Contribution 401(a) Plan provides \$1,000,000 in aggregate limits subject to a \$25,000 per claim retention.

Crime Coverage. The City maintains government fidelity/crime coverage for City losses arising from employee dishonesty. Coverage is for financial or property losses and provides a \$5,000,000 per occurrence limit for losses resulting from employee theft, forgery, or alteration and inside the premises theft of money and securities. The policy also provides a \$10,000 per occurrence limit for computer fraud, funds transfer fraud, money orders and counterfeit currency. All coverages are subject to a per occurrence deductible of \$100,000. The City also purchases liability insurance covering cyber risks to complement the City's cybersecurity efforts.

Workers' Compensation. The City is self-insured for workers' compensation, with all claims administered by third party administrator Intercare Holdings Services, Inc. ("**Intercare**"). Every year, the City reviews a five-year forecast for worker's compensation expenditures based on the prior year payout. Based on this review, the City's budget for 2020-2021 is \$21.0 million and the budget for 2021-2022 is \$21.2 million.

The City entered a three-year agreement with Intercare beginning July 1, 2019, to provide comprehensive workers' compensation services including claims administration services, bill review, utilization review, medical case management, and other ancillary services at a total

compensation not to exceed \$15,963,931 based on an estimated caseload of 2,330 to 2,850 claims. As of June 30, 2021, the open claims inventory handled by Intercare was 2,508.

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

Generally, third party liability claims are handled by the City Attorney's Office. The City maintains a budgeted allocation for the potential payment of third-party liability claims – this amount is \$18.6 million in the 2021-2022 Adopted Operating Budget. The City also maintains an emergency reserve to provide funding for potential workers' compensation or general liability claims that exceed the budgeted amounts as the City, for the most part, is self-insured. As of June 30, 2020, the workers' compensation and general liability catastrophic reserve currently totals and has historically totaled \$15.0 million of the unassigned fund balance and was re-budgeted in the same amount for 2020-2021 and 2021-2022.

Claims liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, newly discovered information, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information, and changes in the law. The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims. The workers' compensation estimate includes allocated loss adjustment expenses, which represent the direct cost associated with the defense of individual claims, which may be years into the future and have been discounted to their present value using a rate of 2.0% for the amounts recorded.

With respect to the general liability accrual in the City's financial statements, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2021. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated. As of June 30, 2021, such provision totaled approximately \$172 million. This amount reflects the estimated payout for all open workers' compensation claims over the life of the claims, and would be paid over years. The City does not maintain a cash reserve for such loss contingencies. The payments are included in the annual budget for workers' compensation payments. See "POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES" below for a description of certain claims and lawsuits filed against the City.

Unemployment Insurance. The City self-insures to the limits required by State statute. The City budgets for each year's anticipated unemployment insurance claims. By policy, the City typically funds a reserve that equates to one year of average claims payments.

Due to furloughs instituted in response to the COVID-19 pandemic, and a continued increase in claims, the City has temporarily liquidated the reserves and increased the contribution

rate in order to pay for claims in fiscal year 2020-21. In fiscal year 2021-2022, a timeline for rebuilding the reserve will be determined.

Dental Insurance. The City self-insures one of its two dental plans. The City budgets each year for anticipated claims, and a claims reserve is maintained, as recommended by an actuary. During 2019-2020, the claims reserve was in excess of three months of claims. Beginning July 1, 2020, at the recommendation of the City's benefit consultant actuary, the City has reduced the claims reserve to 1.5 months of claims in alignment with industry trends.

Medical Insurance. The self-insured plan was closed as of December 31, 2019 and the claims runout period ended on December 31, 2020. The City no longer retains any liability for this plan. The City's actuary estimated the cost of claims through the run-out period which ended on December 31, 2020. During this period, the City was responsible for all the claims were incurred prior to the end of the plan on December 31, 2019, but were received in 2020. Based on the actuary's estimate of projected expenditures for the claims during the runout period, there is sufficient budget and further subsidy will not be required from the General Fund.

Since January 1, 2017 the City maintained a stop loss insurance policy for the self-insured medical plan that protects the City from liability for large claims with two forms of coverage, individual and aggregate. The individual coverage is for all claims over \$300,000 incurred by each member in the calendar year. The aggregate coverage applies once total claims for all members exceed an attachment point that is a function of expected claims per member and is fixed each year in the policy. Since January 2017, the attachment point has not been reached. Individual claims have exceeded \$300,000 on a few occasions each year resulting in payments from the insurance carrier of \$82,433 in 2017-2018, \$62,946 in 2018-2019, \$1,140,240 in 2019-2020 and \$264,775 in 2020-2021.

Airport Coverages

Liability Coverages. The City maintains an airport liability policy (the "**Airport Liability Policy**"), which provides a \$200 million combined single limit for bodily injury and property damage subject to a deductible of \$0 per occurrence and annual aggregate with a sublimit of \$50 million per occurrence and in the annual aggregate for personal and advertising injury, and a limit of \$200 million per occurrence and in the annual aggregate as respects to war liability.

In addition, the Airport Liability Policy provides excess liability coverage with a limit of \$25 million in excess of the underlying limit of \$1 million, which is provided by a separate automobile liability policy issued to provide coverage for the off-premise operations of scheduled Airport vehicles including shuttle bus fleets with a limit of \$1 million per occurrence, combined single limit for bodily injury and property damage and subject to a \$250,000 per accident retention. Physical damage coverage is available for the Airport shuttle bus fleet and is subject to a \$10,000 comprehensive and \$10,000 collision deductible.

Airport Owner Controlled Insurance Program – Terminal Area Improvement Program. On March 15, 2007, the City bound certain liability insurance for major components of the Airport’s Terminal Area Improvement Program (“**TAIP**”) through an Owner Controlled Insurance Program procured through American International Group (the “**TAIP OCIP**”). The coverage for this program is as follows:

Table 27 City of San José Summary of Airport Owner-Controlled Insurance Program – TAIP		
Coverages	Limit	Deductible Per Occurrence
General Liability	\$2 million per occurrence \$4 million aggregate	\$250,000
Workers’ Compensation	Statutory	\$250,000
Employers’ Liability	\$1 million per accident	\$250,000
Excess Liability	\$200 million	None
Source: City of San José, Finance Department - Risk & Insurance Management.		

The liability under the TAIP OCIP is based upon an estimated payroll of \$92.5 million for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with AIG in the amount of \$8.9 million. The claims loss reserve fund is available to AIG to pay claims within the City’s deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6.5 million was deposited with AIG in 2008-2009 and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. Since August 2013, as part of the annual loss reserve analysis by AIG, a total amount of \$2,889,005 has been returned to the Airport as of June 30, 2021. The balance of the TAIP reserve fund as of June 30, 2021 was approximately \$1,179,927.

The TAIP Project has been completed and the policies expired on June 30, 2011. AIG will continue to hold the remaining funds in the claims loss reserve until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Regional Wastewater Facility Coverages

Pursuant to an agreement executed between the City and City of Santa Clara in 1959 (the “**1959 Agreement**”), the City is co-owner and administering agency of the Plant. On June 30, 2017, the City bound certain liability insurance coverage for the major components of the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program through an Owner-Controlled Insurance Program (“**RWF OCIP**”) with the primary carrier Old Republic General Insurance Corporation (“**Old Republic**”). The RWF OCIP is a single insurance program that the City sponsors and provides commercial general liability, excess liability, and worker’s compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site. In

addition, the City procured builder's risk, and contractor's pollution liability insurance to cover liabilities associated with the work.

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

Table 28 City of San José Summary of San José-Santa Clara Regional Wastewater Facility Capital Improvement Program		
Coverages	Limit	Deductible Per Occurrence
General Liability	\$2 million per occurrence \$4 million aggregate	\$250,000
Workers' Compensation	Statutory	\$250,000
Employers' Liability	\$1 million per accident	\$250,000
Excess Liability	\$100 million	None
<i>Source: City of San José, Finance Department - Risk & Insurance Management.</i>		

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

LABOR RELATIONS

Overview

The City has 11 recognized employee bargaining units. The table below shows the representation and agreement expiration dates for the units. In addition to its represented employees, the City has 367 unrepresented employees budgeted for 2021-2022 pursuant to the 2021-2022 Adopted Operating Budget.

Table 29
City of San José
Summary of Labor Agreements

	Agreement Expiration Date	Full-Time Equivalent Employment ⁽¹⁾⁽²⁾
Association of Maintenance Supervisory Personnel	6/30/23	117
Association of Engineers and Architects ⁽³⁾	6/30/23	338
City Association of Management Personnel	6/30/23	518
International Brotherhood of Electrical Workers	6/30/21	75
Municipal Employees Federation	6/30/23	2,478
San José Police Officers' Association	6/30/22	1,147
Assoc. of Building, Mechanical and Electrical Inspectors	6/30/23	90
International Association of Firefighters, Local 230	6/30/23	713
Peace Officer Park Rangers Association	6/20/23	15
Association of Legal Professionals	6/30/24	45
International Union of Operating Engineers, Local #3	6/30/24	742
Total		6,278

⁽¹⁾ Full-time Equivalents ("FTE's") are the combined total number of budgeted full-time positions. For example, one full-time position equals one FTE. Similarly, two half-time positions equal one FTE. The FTE numbers are based upon the 2021-22 Adopted Operating Budget, and have been rounded to the nearest FTE.

⁽²⁾ The total number of employees does not include 367 unrepresented positions budgeted in 2021-2022.

⁽³⁾ The City has two separate agreements with AEA; the first agreement is related to employees of Unit 41 and Unit 42 and the second agreement is related to employees in Unit 43. Both agreements expired on June 30, 2021.

Source: City of San José, Office of Employee Relations, City Manager's Budget Office.

On April 27, 2021, the City and the San Jose Police Officers ("SJPOA") reached tentative agreement on a successor agreement effective July 1, 2021 through June 30, 2022. City Council approved the tentative agreement during the May 11, 2021 Council meeting. The agreement with SJPOA provides for a 3.85% general wage increase effective May 16, 2021 for the remainder of Fiscal Year 2020-21, and a 3.85% general wage increase effective the first full pay period of fiscal year 2021-2022.

On August 17, 2021, the City and the Municipal Employees' Federation ("MEF") and the three bargaining units that comprise the International Federation of Professional and Technical Engineers ("IFPTE") - the Association of Engineers and Architects ("AEA"), the Association of Maintenance Supervisory Personnel ("AMSP"), the City Association of Management Personnel ("CAMP") – reached a successor agreement effective July 1, 2021 through June 30, 2023. City Council approved the terms of the tentative agreement during the August 17, 2021 Council

meeting. The agreement with the 4 bargaining units provides for a 3.25% general wage increase effective June 27, 2021 and a 3.0% wage increase effective the first full pay period of fiscal year 2022-2023.

The International Brotherhood of Electrical Workers (“**IBEW**”) and the City have been engaged in negotiations over a successor MOA since May 2021. The parties have recently agreed to mediation as they remain apart on several key issues, such as wages, and mediation is ongoing. Concurrently, IBEW has declared impasse and requested factfinding. Factfinding has not yet been scheduled to allow for the mediation to proceed. See “– State Law Requirements Related to Labor Negotiations.”

State Law Requirements Related to Labor Negotiations

Under California law, sworn police and fire employees are not permitted to strike. The City Charter provides that police and fire bargaining units have the right to binding interest arbitration of labor disputes once either the City or the applicable bargaining unit declares that the negotiations are at impasse. A summary of the City Charter’s binding interest arbitration provisions is set forth below in “– City Charter Binding Interest Arbitration Provisions.” The agreements with the Association of Building, Mechanical and Electrical Inspectors (“**ABMEI**”), the AEA, ALP, the IBEW, the MEF, the AMSP, the CAMP, the Peace Officer Park Ranger Association (“**POPRA**”) and OE#3 include “no strike” clauses during the terms of their respective agreements.

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

Effective January 2012, State law was amended to provide for an additional step before the City Council may impose a last, best and final offer. State law currently requires a non-binding fact-finding process upon election by a bargaining unit. A three-person fact-finding panel, comprised of representatives selected by the employer, bargaining unit and a chairperson selected by the Public Employee Relations Board or by mutual agreement of the parties, is charged with making written findings of fact and advisory recommendations covering unresolved issues during negotiations. The panel is empowered to conduct investigations, hold hearings, and issue subpoenas requiring the attendance and testimony of witnesses and the production of evidence. In arriving at their findings and recommendations, the panel is required to consider and apply numerous factors, including without limitation: (a) state and federal laws applicable to the employer; (b) local rules, regulations and ordinances; (c) stipulations of the parties; (d) the interests and welfare of the public; (e) the financial ability of the public agency; (f) wages, hours and conditions of employment of employees performing similar services for comparable public agencies; (g) the consumer price index for goods and services; and (h) the overall compensation presently received by employees. After applicable mediation and fact-finding procedures have

been exhausted, but no earlier than 10 days after the issuance of the panel's written findings and recommendations, a public agency may implement its last, best and final offer. Prior to doing so, the City must hold a public hearing regarding the impasse. It is expected that the fact-finding process could significantly lengthen the negotiation process.

City Charter Binding Interest Arbitration Provisions

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

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

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

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

The primary factors in decisions regarding compensation shall be the City's financial condition and, in addition, its ability to pay for employee compensation from on-going revenues without reducing City services. No arbitration award may be issued unless a majority of the

Arbitration Board determines, based upon a fair and thorough review of the City's financial condition and a cost analysis of the parties' last offers, that the City can meet the cost of the award from on-going revenues without reducing City services. The arbitrators shall also consider and give substantial weight to the rate of increase or decrease of compensation approved by the City Council for other bargaining units.

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

POTENTIALLY SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES

Potentially Significant Litigation

There are a number of pending cases or claims that could result in litigation that are anticipated to be scheduled for trial or appellate court hearing during the next twelve to twenty-four months in which the City's potential exposure for damages or attorneys' fees, collectively, could total \$10 million or more. For all the matters described below, the City is unable to predict their actual outcome or when they will be resolved.

Tributary Agencies' Litigation. Pursuant to the 1959 Agreement, the City and the City of Santa Clara are co-owners of the Plant, with the City serving as the administering agency under an agreement with the City of Santa Clara executed in 1959. The Plant provides wastewater treatment services to the City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District, and CSD 2-3 (the "**Tributary Agencies**") pursuant to a separate "Master Agreement" with each Agency. On January 22, 2016 and September 7, 2016, the City, as the administering agency, received claims from all Tributary Agencies alleging a breach of contract and inequity under the Master Agreements.

The Master Agreements require that any allegation of breach of contract or inequity ("**Claim**") be filed with the legislative bodies of the agencies that committed the alleged breach, and with the Treatment Plant Advisory Committee ("**TPAC**"). TPAC is an advisory body, comprised of representatives of the City, Santa Clara and three of the Tributary Agencies that was established by the Master Agreements to provide policy and budget guidance to the City, as the Plant's administering agency. TPAC conducted two administrative hearings, on March 24, 2016 and September 7, 2016, regarding each claim and issued reports as required by the Master Agreements. The Tributary Agencies disagreed with the reports and the parties attempted to mediate the Claims but were unable to reach a resolution. All parties agreed to waive the hearings before the joint legislative bodies.

The Tributary Agencies filed a complaint against the City and Santa Clara on March 23, 2018. The allegations in the complaint are substantially similar to the claims raised and heard through the administrative hearing process. The Tributary Agencies allege the City breached their respective contracts, which set the terms for treating the Agencies' wastewater by, among other allegations, charging them for expenditures they allege the contracts do not authorize and concealing how the funds are used. They also allege the City breached the implied covenant of good faith and fair dealing and violated certain California Constitutional provisions limiting local agencies' imposition of property related fees, charges, and taxes. The Tributary Agencies further allege their payments resulted in unjust enrichment to the City and Santa Clara, and that the court should provide declaratory relief in support of their allegations.

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

Retirement Benefits Litigation. On November 30, 2016, twenty-one individuals who are retired members of the Federated City Employees' Retirement System (the "**Federated**

Plan") and their spouses, a surviving spouse of a Federated Plan retiree and an association representing Federated Plan retired members or to-be-retired Federated Plan members, their qualified spouses, domestic partners, dependents and beneficiaries filed a claim against the City and the Federated Plan Board and have since filed a lawsuit against the City and the Board. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Internal Revenue Code Section 415 ("**Section 415**"). The lawsuit alleges that the City has failed to provide the plaintiffs with their fully earned vested retirement pension benefits as a result of the application of Section 415 limitations. The lawsuit further alleges that the City should have established a separate plan as allowed under Section 415 or should have taken other action to pay the plaintiffs with the amount of the compensation that would exceed the Section 415 limitations. The City has accepted the tendered defense of the Board.

Following a series of motions challenging the sufficiency of the allegations and the legal basis for the claims, on July 30, 2020, a Third Amended Complaint was filed, and the City answered that complaint. In June 2021, the Court granted summary judgment for the City as to all but two plaintiffs. Discovery continues and the remaining claims by these two plaintiffs are set for a court trial in May 2022. Those plaintiffs whose claims the Court denied have appealed the summary judgment ruling. Currently, the City is unable to state the potential exposure for damages in this case.

Coyote Creek Flood Litigation. The City received almost 300 non-duplicated claims, previously reported as 400 claims, for property loss and damage, personal injuries, and emotional distress allegedly caused by flooding in some areas of the City following heavy rains in February 2017. Eighteen lawsuits on behalf of approximately 200 plaintiffs were filed against the City, the County, Santa Clara Valley Water District (the "**District**"), and state agencies. The court has since dismissed the complaints against the state agencies and the County leaving the City and the District as defendants.

The allegations against the City primarily relate to a failure to warn of the potential for flooding, but also include a failure to clean and maintain Coyote Creek in a manner that would prevent flooding. The City has immunities to certain liability claims and filed demurrers and motions to strike to plaintiffs' complaints which were heard on May 31, 2019. The court ruled on the demurrer filed by the City and held as a matter of law that the plaintiffs did not state a claim for failure to warn, for breach of mandatory duty, for negligent infliction of emotional distress and negligence, but did state a cause of action for inverse condemnation, nuisance, and dangerous condition of public property. The court's ruling is not on the merits of the last three causes of action.

Discovery is ongoing and trial has been set for February 14, 2022. The City has reached a tentative settlement agreement with the plaintiffs which will cap the City's liability at \$750,000.00 provided the Court determines the agreement is a good faith settlement. The Court will hear argument on October 14, 2021 to rule on that issue. The City will have greater potential liability exposure if the Court does not determine the settlement is in good faith, however, the City is unable to estimate the potential exposure for damages .

San José Municipal Water Litigation. A class action lawsuit was filed against the City on behalf of current and former customers of the City's water utility known as "San José Municipal Water" challenging the fees charged for water service from 1997 to 2016. The plaintiffs claimed that the water service fees violate Proposition 218 in that a portion of the fees were transferred from the Water Utility Fund and used for general purposes, rather

than for purposes related to the provision of water service. The plaintiffs also challenge the City's prior practice of transferring monies for rate of return and enterprise fund in lieu fees to the General Fund, and the City's former rate structure that included tiered rates. The plaintiffs filed a second lawsuit essentially identical to the original lawsuit, regarding alleged overcharges and improper transfers in 2015-2016, as well as the tiered rates. In both cases, the plaintiffs asked for the funds to be transferred back to the Water Utility Fund or a refund of water fees from 1997 onward in the amount of approximately \$38 million.

The cases were jointly tried before a judge in Fall 2017. The trial court issued the statement of decision and judgment (collectively, the "**Decision**") on June 19, 2018 denying the relief sought by the plaintiffs. The court did rule that the City's tiered water rate structure violated Proposition 218, but it decertified the class and held that plaintiffs were entitled to no relief. The plaintiffs have appealed the Decision and the denial of their attorneys' fees claim and the award of costs to the City, and the City has filed a cross-appeal on the tiered rate issue. On May 24, 2021, the City received a notice from the Sixth District Court of Appeal transferring the appeal to the Fourth District without explanation.

In addition to these two lawsuits, the plaintiffs filed a third lawsuit with similar allegations related to the water fees charged in 2016-2017 which the judge stayed during the pendency of the trial. In this lawsuit, plaintiffs challenge the tiered water rate structure and late penalty charges. On November 25, 2019, the trial court denied the plaintiffs' motion for class certification, and the plaintiffs did not file an appeal of the judge's decision. No trial date has been set in this case, which is stayed pending the resolution of the appeal from the June 19, 2018 decision.

On February 19, 2020, 82 cities and other water providers, including the City of San José, were collectively sued in *Kessner et al. v. City of Santa Clara, et al.*, in Santa Clara County Superior Court. This lawsuit represents 81 potential class action challenges to the water rates of 82 public water suppliers in the State of California. Plaintiffs allege the defendants charged more than the cost to provide water service in violation of Proposition 218. On March 9, 2020, the court designated this action a complex case under California Rules of Court. Plaintiffs made a request to the state Judicial Council that this action be coordinated with two other Proposition 218 cases filed in other counties. The Judicial Council referred the motion to coordinate proceedings to the Santa Cruz County Superior Court. Misjoinder motion work by some agencies is ongoing, and the City has not filed a response to the underlying suit. At this time, the City is unable to state the potential exposure for damages in this case.

SEE "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Articles XIIC and XIID of the State Constitution" in the forepart of this Official Statement.

Cardroom Litigation. A cardroom business filed lawsuits against the City challenging the constitutionality of the City's regulatory fees and seeking declaratory and injunctive relief finding the imposition of the regulatory fees to be a special tax and refund of the fees that have been paid. The refund of the regulatory fees paid would be approximately \$1 million for each of the fiscal years 2012 through 2018, with the exception of 2012-2013, for which no claim has been made. In addition, the cardroom business is seeking interest at the legal rate and attorneys' fees.

On August 22, 2018, the court entered judgment in favor of the City on all claims. The plaintiff filed an appeal from the judgment and the matter is pending before the California Court of Appeal, Sixth Appellate District Court.

The cardroom business and the City entered into a settlement agreement that was approved by the City Council on September 22, 2020. The settlement was contingent upon City voters approving a ballot measure presented in the November 3, 2020 election pertaining to cardroom operations and taxation, amendments to the City's gaming regulations under Title 16 of the Municipal Code, and approval from the City for at least fifteen (15) additional tables. The foregoing contingencies were met as of March 2, 2021. The City has demanded that the cardroom dismiss the lawsuit; however, to date, the cardroom has not complied.

Cardroom businesses are also subject to regulation under the California Gambling Control Act and additional tables must be approved by the California Gambling Control Commission. The State Department of Justice has notified the City in a comment letter that in their view the increase in the number of tables in the City from 98 to 128 is not inconsistent with the State Gambling Control Act, but the increase of cardroom tables at each cardroom from 49 to 64 is inconsistent with the Act. On April 26, 2021, the Gambling Control Commission denied requests by the cardrooms in the City for additional tables. Following the State Gambling Commission's decision, the cardrooms filed a lawsuit in the San Francisco County Superior Court to require the Gambling Control Commission to approve the application for additional tables. The City is named as a necessary party in those lawsuits. On July 9, 2021, the Court issued a decision upholding the Gambling Control Commission's decision. One cardroom filed an appeal from that decision on August 3, 2021.

Measure H Litigation. Measure H is the ballot measure which was part of the settlement of the regulatory fee litigation described above in the section entitled "Cardroom Litigation" which amended the City's Municipal Code to: increase the total number of tables permitted in the City from 98 to 128 and increase the number permitted at each cardroom from 49 to 64; increase the existing tax on gross revenues of the City's two cardrooms from 15% to 16.5% and impose a tax on the gross revenues of the entities that bank the card games played at the cardrooms, referred to as third party providers of proposition player services at varying rates depending on the amount of gross revenues, up to a maximum rate of 10%.

The voters approved the measure and on December 8, 2020, the City Council certified the results of the November 3, 2020 election. By its terms, the ordinance enacted by Measure H became effective 10 days after the City Council certified the results of the election with the tax provisions taking effect on January 1, 2021.

Since the passage in November 2020 of the City's Measure H, both cardrooms in the City and a third-party provider of proposition player services have filed separate reverse validation actions in the Santa Clara County Superior Court to stop the City from imposing the taxes described in the Measure. The complaints allege that the Gambling Control Commission will likely reject any applications from cardroom businesses to increase the number of cardroom tables at their establishments, based on the comment letter provided by the State Department of Justice to the City. (The Gambling Control Commission did reject the cardrooms' applications on April 26, 2021.) The plaintiffs contend that the entire

Measure therefore should be invalidated, and the City should not be allowed to impose the increased tax rate on the cardroom businesses or the applicable tax rates on third party providers of proposition player services. All of the complaints cite and attach a City staff report which estimated that the increased cardroom tax rate could generate \$2 million and the tax on third party providers of proposition player services could generate \$4 million in potential annual revenue for the City. The City presently intends to file demurrers in each case.

FLSA Litigation and Claims. Seven individual lawsuits pending in federal court cases brought by firefighters have been consolidated in the case entitled Barnett v. City of San Jose. Approximately 290 firefighters allege that the City failed to pay them adequate overtime under the Fair Labor Standards Act (“**FLSA**”). Discovery has closed. The parties are currently briefing cross-motions for partial summary judgment, which are set for hearing on December 2, 2021. The case is set for trial on January 24, 2022.

Police Civil Rights Cases. The City is defending several cases involving claims of police excessive force, wrongful arrest and/or other civil rights and state law violations. These include, but are not limited to, five lawsuits brought by several individuals alleging injuries attributed to police crowd control activity during protests in late May and early June 2020 after the death of George Floyd. Generally, these lawsuits allege various constitutional violations involving excessive use of force, failure to protect, failure to intervene, and violation of plaintiffs’ First Amendment right to peacefully assemble and unlawful crowd control tactics including shooting projectiles at demonstrators.

In addition to these cases, a lawsuit has been filed against the City, Santa Clara County, and individuals who were involved in the investigation and prosecution of a crime that resulted in a conviction and lengthy prison term for the accused individual. The suit alleges that the investigation by City police was based on a faulty identification, that they focused on the suspect to the exclusion of other suspects, and that the police failed to identify and report information that would have been exculpatory. The plaintiff in the lawsuit was recently released from prison after serving almost 20 years following a conviction integrity investigation by the District Attorney’s Office. The City understands that the District Attorney decided not to re-prosecute the plaintiff. Discovery has commenced and, at this time, the City is not able to evaluate the potential liability exposure for the City, or potential damages, in this matter.

The other civil rights cases involving the police department are in various civil procedure stages with trial dates in the next couple of years or in discovery and subject to motion practice. The cases, collectively, pose significant damages exposure if the City and/or officers are found liable or reach a settlement in those actions. Additionally, the City has exposure to the payment of the plaintiffs’ attorneys’ fees and costs.

Constitutional and Preemption challenges. The City is currently defending several lawsuits in which the City has a potential exposure to the payment of the attorneys’ fee and costs if the City does not prevail. These include a lawsuit challenging the City’s sign ordinance and multiple lawsuits challenging City’s rental property ordinances on various Constitutional grounds. Currently, these cases are at various stages of litigation. The lawsuit involving the City’s sign ordinance is in federal district court. The district court granted partial summary judgment in favor of the City, and the plaintiffs, with the remaining issues proceeding to trial. Two of the lawsuits concerning the City’s rental property ordinances are stayed in federal district court while a third lawsuit also involving the City’s

rental property ordinances, in which the City prevailed in the trial court and on appeal in the Ninth Circuit. Plaintiffs have filed a petition with the U. S. Supreme Court seeking review of the appellate decision. Collectively, the City's exposure to attorneys' fees and costs could be significant should the City ultimately not prevail in the various cases.

Dangerous condition of public property cases. The City frequently receives claims and lawsuits by individuals alleging City owned or controlled property, including roads, intersections, sidewalks, lighting, trees, wastewater and stormwater systems, and other City activity, caused or contributed to property damage, injury, or death. Collectively, these cases have the potential for significant exposure to liability for personal injury and property damages; however, the City is unable to estimate the likelihood or quantify its potential exposure due to such claims.

Other Significant Proceedings

FAA Audit of Use of Revenues. Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the Federal Aviation Administration (the "FAA") provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations. The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of \$5,600,000 that would be applied equally to the Airport cost allocation plan over a seven-year period beginning in 2012-2013 and ending in 2018-2019. The City also has adjusted its indirect cost allocation methodology in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base started in 2015-2016, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA, disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs.

On May 3, 2018, the City received a letter from the FAA in which the FAA requested a copy of the City's 2016-2017 indirect cost allocation plan to substantiate indirect charges to the Airport in order to finalize the FAA's financial compliance review. The City responded to the FAA on July 20, 2018 with copies of the requested information and clarified actions taken by the City to date to implement the FAA's recommendations. The FAA has not responded to the City's July

2018 correspondence and the audit remains pending. The City cannot predict the final outcome of the audit.

Potential Claim from FAA Regarding Reuse of Guadalupe Gardens. In early 2002, the City Council approved a Master Plan for Guadalupe Gardens, consisting of approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and the FAA grant agreements consequently required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City's Director of Aviation, the FAA San Francisco Airport District Office ("**ADO**") approved the City's Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval.

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA contends that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA.

The City believes that it has viable defenses to any potential claim by the FAA with regard to Guadalupe Gardens. The FAA ADO's 2002 approval of the Guadalupe Gardens Master Plan constituted an official FAA approval of the City's reuse of the parcels acquired with proceeds from FAA noise compatibility grants, and the approval expressly provides that the entire Guadalupe Gardens is necessary for the continuing aeronautical purpose of runway and approach protection. Having received official FAA approval of its reuse of the parcels, the City believes it is under no obligation to take any further action to secure further FAA approval of its continuing use of the Guadalupe Gardens. However, the City cannot predict the final outcome of any such potential claim by the FAA.

FAA Inquiry Regarding Encampments in Guadalupe Gardens. On February 1, 2021, the Director of Aviation received a letter from the FAA Western-Pacific Region Office of Airports regarding encampments of homeless persons in the Guadalupe Gardens. Guadalupe Gardens is approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and these FAA grants include certain restrictions ("**Grant Assurances**") on the City's use of the Guadalupe Gardens properties.

In its letter, the FAA asserts that the presence of encampments of homeless persons in the Guadalupe Gardens is: (a) inconsistent with the Grant Assurances that were a condition of the FAA grants that the City received to acquire the Guadalupe Gardens properties; and (b) contrary to the City's Airport Noise Compatibility Plan ("**ANCP**"), both of which prohibit transient

and permanent residential uses in the Guadalupe Gardens. The FAA requested and the City provided a Corrective Action Plan to remove and relocate the encampments of homeless persons from the Guadalupe Gardens on March 11, 2021.

The FAA then requested, and the City provided a revised Corrective Action Plan on July 28, 2021, with a schedule for incremental relocation of the encampment inhabitants to alternative sites. The FAA accepted the revised Corrective Action Plan. However, the City cannot predict the actual timing of the encampments relocation or the final resolution of this matter with the FAA.

Federal Aviation Administration Inquiry Regarding Chick-fil-A. The City Council approved a Chick-fil-A subconcession at the Airport on March 6, 2018, as part of its approval of the Fourth Amendment to the Host Food and Beverage Agreement. Chick-fil-A does not have a direct contractual relationship with the City. Rather, Host operates the Chick-fil-A concept at the Airport as a licensee. On April 9, 2019, the City Council approved an amendment to the Host Food and Beverage Agreement that extended the termination date from June 30, 2026 to June 30, 2028. However, the City Council limited the additional two-year extension term only to those Airport concession locations operated by Host that are open 7-days each week. All owned and licensed Chick-fil-A locations, including the Airport location, are closed on Sundays. The City Council approved this limitation after hearing concerns from community members that the owners of Chick-fil-A have made donations to and supported certain organizations that oppose equal rights and protections for the LGBTQ+ communities. The City Council also directed Airport staff to display the Rainbow and Transgender flags at the Airport terminals to show the City's support for those communities.

On January 22, 2020, the Director of Aviation received a Notice of Investigation from the FAA Office of Civil Rights. The FAA is investigating a complaint received by the FAA that alleges discrimination against Chick-fil-A, "because of the expression of religious beliefs by the owner of the company." The complainant, whose identity has been withheld by the FAA, contends that the City has discriminated against Chick-fil-A for its "perceived religious and ideological convictions" and that this "discrimination" is in violation of federal law. The complainant is requesting that the FAA withhold further grant funding to the City pending its investigation.

The City responded to the FAA Notice of Investigation by letter dated May 21, 2020. In addition to responding to specific questions from the FAA regarding this matter, the City requested the FAA to find that there is no basis for the complaint and to close its investigation. The City believes that it has viable defenses to any potential enforcement action by the FAA with regard to this complaint. The Director of Aviation met with the FAA on July 28, 2021 to discuss these issues further. The City cannot predict the final outcome of any potential enforcement action by the FAA.

San José Clean Energy – CPUC Citation. The California Public Utilities Commission ("CPUC") adopted a Resource Adequacy ("RA") policy framework in 2004 in an effort to ensure the reliability of electric service in the State. In particular, the RA policy framework is designed to ensure that CPUC jurisdictional Load Serving Entities, such as SJCE, have sufficient capacity to meet their peak load with a 15% reserve margin. The City has paid two CPUC citations assessed against the City for failing to procure RA in amounts sufficient to satisfy the 2019 (\$6.8 million) and 2020 (\$1.1 million) RA Requirements. The City cannot predict if the CPUC will issue future citations.

Clean Water Compliance

The federal Clean Water Act (the “**CWA**”) establishes the structure for federal regulation of the discharge of pollutants into the waters of the United States. Under the CWA, it is unlawful to discharge any pollutant into these waters unless the discharger has a permit under the National Pollutant Discharge Elimination System (the “**NPDES**”) and the permittee abides by its terms.

The City is a permittee under an NPDES permit (the “**Stormwater Permit**”) issued by the Regional Water Quality Control Board – San Francisco Bay Region (the “**Regional Water Board**”). This Regional Stormwater Permit governs 76 entities, including the City, and was scheduled to expire in December 2020 but was administratively extended until the next permit effective date, tentatively July 1, 2022. On July 1, 2020, the Santa Clara Valley Urban Runoff Pollution Prevention Program (the “**SCVURPPP**”) applied to the Regional Water Board for a renewed permit on behalf of fifteen co-permittees, including the City.

The regional Stormwater Permit identifies pollutants which contribute to the impairment of water bodies and sets a total maximum daily load (“**TMDL**”) for some of these contaminants. For waters connected to the City (e.g., the San Francisco Bay), the Stormwater Permit identifies two pollutants of concern with TMDL limitations, mercury, and polychlorinated biphenyls (“**PCBs**”). The City, through its work with SCVURPPP, meets the TMDL requirements for both mercury and PCBs.

The Stormwater Permit also set a goal of 100% trash load reduction, or no adverse impact to receiving waters from trash by July 1, 2022, and established interim mandatory targets. The City exceeded the interim target of 80% by July 1, 2019 with a trash load reduction of 96.8% by implementing a combination of structural trash controls, source controls, trash assessments, and creek cleanups, and direct discharge programming. Fifteen percent of the City’s trash load reduction is from an offset allowed under the current Stormwater Permit for the City’s implementation of the Direct Discharge Trash Control Program, approved by the Regional Water Board in 2016.

The Regional Water Board and private parties can enforce the CWA and the terms of the Stormwater Permit. Violations can result in significant civil penalties of up to \$55,800.00 per pollutant per day, plus criminal fines, and attorney’s fees.

On September 10, 2021, the Regional Water Board issued a tentative Order on the next Stormwater Permit. Although the tentative Order extends the compliance deadlines for 100% trash load reduction (from July 1, 2022 to June 30, 2025), it also phases out some trash reduction credits by June 30, 2025 which the City relies upon in meeting the goals. The tentative Order provides that if the City is unable to achieve compliance, it must submit a revised trash load reduction plan for Board approval. The tentative Order includes a path for credits for a Direct Discharge Program, but that plan must also provide systematic and comprehensive implementation of control actions for “increasing the provision of emergency, transitional and/or permanent housing ...” and trash, sanitary, and social services. The City is reviewing the tentative Order and will respond if necessary to the Board during the comment period. It is anticipated that the cost of compliance will increase. The Board must hold public hearings on the tentative Order and the City will participate as necessary. The tentative Order includes a July 1, 2022 operative date.

The Regional Water Board and private parties can enforce the CWA and the terms of the Stormwater Permit. Violations can result in significant civil penalties of up to \$55,800.00 per pollutant per day, plus criminal fines, and attorney's fees.

Consent Decrees

Baykeeper Consent Decree. San Francisco Baykeeper ("**Baykeeper**") filed a lawsuit in federal district court against the City in February 2015. Baykeeper's complaint alleged violations of the CWA and the Stormwater Permit. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements, and that there were CWA violations resulting from the discharge of sewage from the City's Sanitary Sewer System that infiltrated into the City's municipal separate storm sewer systems ("**MS4**").

To settle the lawsuit, the City and Baykeeper agreed to a consent decree that was approved by the U.S. District Court in August 2016 (the "**Consent Decree**"). The Consent Decree has a 10-year term expiring in August 2026 and will require the City to:

- Comply with trash provisions of the current Stormwater Permit including installing full trash capture devices, supporting additional creek cleanup efforts, and monitoring of trash in receiving waters;
- Rehabilitate, replace, or repair 65 miles of high-risk sanitary sewer system pipes at an average of 6.5 miles per year, based on the City's existing program with some changes in the priority of segments of this work;
- Monitor and report fecal indicator bacteria ("**FIB**") in receiving waters for a five-year period;
- Comply with green infrastructure planning as required in the Stormwater Permit, adding FIB as a pollutant for planning purposes;
- Bring forward new revenue measure options for Council consideration by December 31, 2017;
- Appropriate, contingent upon the receipt of sufficient new revenues, \$100,000,000 over a ten-year period for acquisition of land, review, design, construction, maintenance, and operation of various green infrastructure projects with the goal of reducing pollutants and/or flows from the City's urban areas into receiving waters, with expenditures anticipated to occur as follows:
 - Identify and design \$25,000,000 in total projects by September 2024;
 - Award \$25,000,000 in total projects by September 2025;
 - Identify and design an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by September 2025;
 - Award an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by the termination date of the consent decree; and
 - Identify and design an additional \$15,000,000 (\$50,000,000 aggregate) in total projects by the termination date of the consent decree.

In addition to the expenditures outlined above, the City has incurred or will incur the following expenditures during the Consent Decree's term: (1) lump sum payment of attorney's fees and costs to Baykeeper in the amount of \$425,000, which payment has been made; (2) ongoing oversight costs payable to Baykeeper in the amount of \$10,000 per year for a total of \$100,000; and (3) \$200,000 per year for five years (a total of \$1,000,000) for supplemental environmental mitigation for trash clean up grants, habitat restoration, or projects that generally improve the water quality in the Guadalupe and Coyote creeks and associated watershed areas. The City is in compliance with these payments under the Consent Decree.

The City and Baykeeper entered into a First Amendment and Second Amendment to the Consent Decree in 2017 and 2019, respectively. Both Amendments were approved by the Court and made technical changes to the terms of the Consent Decree but did not modify the substantive requirements itemized above.

Identification of Funds. The Consent Decree requires that by December 31, 2020, the City identify funding sufficient to implement the green infrastructure projects and meet the FIB load reduction standard. If it did not meet this deadline, the parties were required to meet and confer to discuss what measures the City will take to insure funding. Also, by December 31, 2020, the City was required to obtain funding to implement the green infrastructure projects. If not, Baykeeper may terminate the Consent Decree and resume litigation against the City. The Consent Decree provides for ongoing oversight by Baykeeper and a dispute resolution process. The Consent Decree specifies limits on Baykeeper's ability to pursue additional litigation against the City during its 10-year term and caps Baykeeper litigation fees for dispute resolution at \$200,000.

On December 19, 2017, the City Council considered a report from City staff concerning potential new revenue sources to fund the green infrastructure requirements specified in the Baykeeper Consent Decree described above. The City identified potential revenues of general obligation bonds and a parcel tax, both of which would require voter approval by a two-thirds margin. On August 10, 2018, the City Council placed Measure T on the ballot, which authorized up to \$650 million of general obligation bonds for various public improvements, including those that would prevent flooding and water contamination. At the November 2018 election, voters approved Measure T by more than two-thirds margin. Some of the green infrastructure improvements required by the Baykeeper Consent Decree are eligible for funding under Measure T. However, there are a number of different types of improvements that are eligible for funding under Measure T, including an allocation of at least \$300 million for street improvements. The City Council approved \$25 million of the potential Measure T funds to be allocated for clean water projects, including green infrastructure improvements, but is unable to predict the amount of Measure T funding that will be appropriated to the green infrastructure improvements. In any event, there are Consent Decree obligations that would be ineligible for funding from general obligation bond proceeds and staff continues to assess additional mechanisms.

Potential projects identified in the GIP require further review and approval. The total construction and maintenance costs will be dependent on several factors including, among others, future costs of construction, whether the project will be on City-owned property or required as part of a future private development.

Green Stormwater Infrastructure Projects. The City's Green Infrastructure Plan (the "GIP") forecasts green stormwater projects and goals through 2050, and contains a \$1.49 billion estimate for illustrative purposes to demonstrate the proportional costs among project types. However, the City further estimates that complete implementation and maintenance of the potential projects

over the course of the thirty-year plan may be on the magnitude of \$6.85 billion. On September 10, 2019, City Council approved the GIP, outlining green infrastructure projects, including regional and green street projects. The preparation of the GIP met both obligations under the Consent Decree and the City's Stormwater Permit. The current Stormwater Permit does not require construction of any projects. However, the tentative order for the new Stormwater Permit (effective July 1, 2022) includes requirements for green infrastructure sufficient to treat 10 acres, which the City likely will be able to meet based on the existing projects and the schedule in the Consent Decree.

The City is not able to predict the projects that will ultimately be approved or whether they will be funded for the GIP.

Curb Ramp Consent Decree. Plaintiffs filed a class action lawsuit in the case of *Lashbrook v. City of San Jose* in the United States District Court for the Northern District of California. This lawsuit alleged that the City violated federal and state disability access laws by failing to ensure that its pedestrian right of way contains curb ramps that are necessary to ensure that the pedestrian right of way is accessible to individuals with mobility disabilities. On April 14, 2020, the City Council approved a proposed settlement of this case in the form of a consent decree whereby Mr. Lashbrook will recover a total of \$55,000. The City will pay attorney's fees and costs in the amount of \$725,253.09. The City will be required to expend \$13 million each year until 2030 to remediate curb ramps, and after 2030 will expend 10% of its pavement maintenance budget to remediate curb ramps, which is accounted for within the City's pavement maintenance budget. The Court preliminarily approved the consent decree on May 27, 2020. At a Fairness Hearing on September 2, 2020, the Court granted final approval of the consent decree. The City is in compliance with the terms of this consent decree.

RETIREMENT PLANS

In June 2012, approximately 70% of San José voters passed an amendment to the City's Charter provisions related to the Retirement Plans ("**Measure B**"), to provide for certain modifications to such plans. Measure B was subsequently the subject of various legal challenges. In November 2016, the voters approved the Alternative Pension Reform Act ("**Measure F**") that the City Council placed on the ballot as a result of settlement frameworks entered into with the City's bargaining groups related to Measure B. The City Council adopted ordinances to implement the terms of the settlement frameworks and Measure F in February and May 2017. The City also approved a settlement in November 2017 in connection with a lawsuit brought by individual retirees and a retiree association. The legal challenges to Measure B have been resolved. See APPENDIX B – "THE CITY OF SAN JOSE: RETIREMENT PLANS – RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS" for further additional information regarding the City's Retirement Plans, including Measure B, Measure F and the settlement of the legal challenges brought in connection with Measure B.

INVESTMENT POLICY AND PRACTICES

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

The Investment Policy was originally adopted by the City Council on April 2, 1985, and is reviewed annually by the City Council. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy. Most recently, on March 9, 2021, the City Council approved various updates to the Investment Policy. All changes are consistent with the California Government Code.

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

INVESTMENT PORTFOLIO

As of June 30, 2021, the book value of the City's pooled investment fund was approximately \$2.288 billion while the market value was \$2.295 billion. The fund is classified by different types of investment securities. The composition of this fund, including the weighted average days to maturity and yield, is provided in the table below. The General Fund portion of the pool was approximately 27% as of June 30, 2021. To prevent potential loss of principal on any of the City's investments, the Investment Policy strictly limits the composition of the holdings within the Investment Portfolio. The Finance Department's investment staff continues to focus investment decisions in accordance with the Investment Policy's primary investment objectives as described above in "INVESTMENT POLICY AND PRACTICES."

Table 30
City of San José
Pooled Investment Fund – General Pool Investments ⁽¹⁾
As of June 30, 2021

	Book Value	Percent of Portfolio	Market Value	Weighted Average Days to Maturity	Weighted Average Yield
U.S. Treasury Bills and Notes	\$121,157,031	5.3%	\$121,605,318	148	0.25
Federal Agency Securities ⁽²⁾	463,724,518	20.3%	466,297,910	1,114	1.02
Supranational Securities ⁽³⁾	261,798,087	11.4%	262,402,271	871	1.20
Negotiable Certificate of Deposit	263,910,885	11.5%	263,931,467	113	0.16
Commercial Paper	139,930,032	6.1%	139,963,150	73	0.11
Corporate Notes	292,590,922	12.8%	292,468,000	376	1.78
Asset Backed Securities	26,189,387	1.1%	26,437,653	996	1.45
Municipal Bonds	238,599,760	10.4%	240,513,305	864	1.53
Mortgage-Backed Bonds	152,335,211	6.7%	153,273,699	957	1.61
Money Market Mutual Fund	103,159,643	4.5%	103,159,643	1	0.01
State of California Local Agency Investment Fund ⁽⁴⁾	<u>225,000,000</u>	<u>9.8%</u>	<u>225,000,000</u>	<u>1</u>	<u>0.40</u>
Total ⁽⁴⁾	<u>\$2,288,395,476</u>	<u>100%</u>	<u>2,295,052,416</u>	<u>565</u>	<u>0.93</u>

(1) Excludes funds invested in separate, segregated accounts as part of City held invested funds; excludes bond proceeds held by fiscal agents/trustees.

(2) Composed of securities issued by Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal Agricultural Mortgage Corporation.

(3) Composed of securities issued by International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank.

(4) Estimated based upon City's participation in the Local Agency Investment Fund ("LAIF"). Weighted average yield for LAIF is based upon the most recently reported quarterly earnings rate.

Source: City of San José, Finance Department.

DEBT MANAGEMENT POLICY

The City Council adopted a Debt Management Policy for the City on May 21, 2002, which is reviewed annually by the City Council and was last amended on March 7, 2017. The policy allocates responsibility for debt management activities to the Finance Department, describes the purposes for which debt may be issued, establishes overall parameters for issuing and administering the City's debt, including initial and continuing disclosure as required under the City's undertakings entered into pursuant to Securities and Exchange Commission Rule 15c2-12.

BONDED AND OTHER INDEBTEDNESS

General Obligation Debt. The City may issue general obligation bonds for the acquisition and improvement of real property subject to the approval of the voters voting on the bond proposition. The Charter limits bonded indebtedness for general obligation bonds to 15% of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2020-21 tax roll was approximately \$206.4 billion, which results in a total debt limit of approximately \$31.0 billion. As of September 1, 2021, the City's outstanding bonded indebtedness for general obligation bonds totaled \$582.11 million. See Table 31 below. Immediately after the issuance of the Bonds, the City will have the authority to issue additional general obligation bonds in the aggregate principal amount of [\$209,570,000], all of which is authorized under Measure T.

In accordance with all relevant provisions of law, the City is 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 all outstanding general obligation bonds and the interest thereon. Amounts levied for the payment of debt service on the City's outstanding general obligation bonds may not be used except to pay debt service on those bonds. The City is 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 general obligation bonds (See "MAJOR GENERAL FUND REVENUE SOURCES – Property Taxes" herein).

General Fund Debt. The City has authority to enter into long-term lease obligations without first obtaining voter approval. The City has entered into various lease arrangements under which the City must make annual payments to occupy public buildings or use equipment necessary for City operations. Securities have been issued which certificate these lease arrangements. As of June 30, 2021, the City had approximately \$540 million in non-voter approved bonded or certificated lease obligations outstanding. The City has never failed to pay principal of or interest on any debt or any lease obligation when due.

Table 31 summarizes City's outstanding general obligation bonds and the long-term obligations of the City payable from the General Fund as of September 1, 2021. See "Appendix C - Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2020, Note III.F" for a description of such bonds and other obligations of the City as of June 30, 2020.

Table 31
City of San José
General Obligation Bonds and Bonded and Certificated General Fund Lease Obligations
As of September 1, 2021
(In thousands)

Issuer/Issue	Amount Issued	Issue Date	Purpose	Final Maturity	Amount Outstanding
<u>City of San José General Obligation Bonds:</u>					
Series 2019A-1 (Disaster Preparedness, Public Safety, and Infrastructure)	\$140,360	07/25/2019	Community Facilities	09/01/2049	\$140,360
Series 2019B (Disaster Preparedness, Public Safety, and Infrastructure)	66,500	07/25/2019	Community Facilities	09/01/2027	66,500
Series 2019C (Refunding, Libraries, Parks, Public Safety)	158,185	07/25/2019	Community Facilities	09/01/2035	156,045
Series 2019D (Refunding, Libraries, Parks, Public Safety)	103,935	07/25/2019	Community Facilities	09/01/2024	59,545
Series 2021A (Disaster Preparedness, Public Safety, and Infrastructure)	151,210	07/29/2021	Community Facilities	09/01/2051	151,210
Series 2021B (Disaster Preparedness, Public Safety, and Infrastructure)	8,450	07/29/2021	Community Facilities	09/01/2022	8,450
Series 2021C (Disaster Preparedness, Public Safety, and Infrastructure)	40,870	07/29/2021	Community Facilities	09/01/2021	0
	\$669,510				\$582,110
<u>City of San José Financing Authority-Lease Revenue Bonds:</u>					
Series 2003A (Central Service Yard) ⁽¹⁾	\$22,625	09/18/2003	Refunding	10/15/2023	\$4,630
Series 2011A (Convention Center)	30,985	04/12/2011	Convention Center	05/01/2042	27,345
Series 2013B (Civic Center Garage Project)	30,445	06/19/2013	Refunding	06/01/2039	24,775
Series 2020A (Civic Center Refunding Project)	355,620	09/24/2020	Refunding	06/01/2039	337,080
Series 2020B (Ice Centre Project)	146,535	10/15/2020	Ice Centre, Refunding	06/01/2051	146,535
	\$586,210				\$540,365
<u>City of San José Financing Authority Short-Term Debt:</u>					
Lease Revenue Commercial Paper Notes ⁽²⁾⁽³⁾	\$125,000	Various	Various	Various	\$91,359
Grand Total	\$1,380,720				\$1,213,834,300

(1) To be refunded with a portion of the proceeds of the Bonds. See "FINANCING PLAN" in the forepart of this Official Statement.

(2) Effective September 23, 2021, the Authority is authorized to issue Lease Revenue Commercial Paper Notes in the maximum principal amount of \$176 million.

(3) As of September 30, 2021, the Authority had issued Lease Revenue Commercial Paper Notes in the amount of \$36.15 million to finance the costs of purchasing power and other operating costs of SJCE. An additional \$33.45 million is anticipated to be issued for that purpose by February 2022.

Source: City of San José, Finance Department, Debt Management.

General Fund Lease Revenue Commercial Paper Notes. Effective September 23, 2021, the City of San José Financing Authority ("Authority") is authorized to issue Lease Revenue Commercial Paper Notes designated as Tax-Exempt Lease Revenue Commercial Paper Notes, Series 2 and Taxable Lease Revenue Commercial Paper Notes, Series 2-T in the maximum principal amount of \$175 million (collectively, "Lease Revenue Commercial Paper Notes"). Debt service on the Authority's Lease Revenue Commercial Paper Notes is payable from the City's General Fund under a lease revenue financing structure. Under this program, the Authority is authorized to issue Lease Revenue Commercial Paper Notes on a tax-exempt and

federally taxable basis at prevailing interest rates for periods of maturity not to exceed 270 days. The Lease Revenue Commercial Paper Notes are secured by a pledge of lease revenues received by the Authority from the City in connection with certain leased properties that are owned by the City. The Lease Revenue Commercial Paper Notes are supported by an irrevocable direct-pay letter of credit issued by U.S. Bank National Association in the maximum available amount of \$187,945,206 (the “**U.S. Bank Letter of Credit**”), pursuant to a Letter of Credit and Reimbursement Agreement by and among the Authority, the City, and U.S. Bank National Association. The U.S. Bank Letter of Credit has a stated expiration date of March 24, 2025.

The Authority and the City have previously authorized the issuance of Lease Revenue Commercial Paper Notes to finance various City projects, other permitted uses, and other actions related to the maintenance thereof. Such permitted uses include issuing Lease Revenue Commercial Paper Notes to finance the costs of purchasing power and other operating costs of SJCE as described below.

SJCE’s financial condition and cash balances have been adversely impacted by recent market conditions. Such conditions include (i) delays in increases of electricity rates by PG&E (on which SJCE bases its rates), (ii) an increase of 41% in fees assessed by PG&E on SJCE’s customers to cover above-market generation costs for legacy energy resources, (iii) an increase in bad debt expense (of three to five times compared to pre-March 2020) due to customer nonpayment because of the COVID-19 pandemic, and regulatory changes. The market price of electricity has been adversely impacted as demand for power has outpaced supply because of volatility in weather conditions, operational issues experienced by certain nuclear plants that serve the State, and regional drought conditions. SJCE has a risk management policy and regulations that requires at least 80% of energy needs be procured in advance to reduce exposure to market volatility. SJCE has procured enough electricity to meet over 90% of its load forecast for the most expensive evening hours for summer 2021.

As a result of such conditions, as of June 22, 2021, SJCE projected an ending cash shortfall of approximately \$14.7 million for 2020-2021 (which shortfall excludes cash on deposit in a restricted operating reserve account pledge as security for the City’s obligations under the hereinafter defined Revolving Credit Agreement), increasing to approximately \$69.6 million by February 2022. SJCE further projected its cash shortfall will decrease to approximately \$52 million by the end of 2021-2022, and further decreasing to a shortfall of approximately \$22 million by the end of June 2023.

On June 22, 2021, the City Council and the Board of Directors of the City of the Authority approved the issuance of the Authority’s Lease Revenue Commercial Paper Notes in an amount not to exceed \$95 million, subject to the satisfaction of certain conditions. The proceeds of the Lease Revenue Commercial Paper Notes are authorized to finance the costs of purchasing power and other operating costs of SJCE. As of September 30, 2021, the Authority has issued Lease Revenue Commercial Paper Notes in the amount of \$36.15 million. The City anticipates requesting that the Authority issue additional Lease Revenue Commercial Paper Notes in the total amount of \$33.45 million through February 2022.

The City anticipates using revenues of SJCE to repay Lease Revenue Commercial Paper Notes issued by the Authority with respect to SJCE subject to the conditions therefor in the Revolving Credit Agreement as amended by the hereinafter defined Second Amendment (see “*San José Community Energy Debt*” below for a description of such conditions). However, the City cannot currently project when, or whether, SJCE’s revenues will be sufficient for that purpose. As part of the motion approving the issuance of the Authority’s Lease Revenue Commercial Paper

Notes, SJCE was directed to return to the City Council's Transportation & Environment Committee in the fall with an updated business plan and outlook for the next 12 months for SJCE.

It is important to note that the projected cash shortfalls and issuances of Lease Revenue Commercial Paper Notes in the future to address such shortfalls are based on certain assumptions, including assumptions regarding energy prices, regional weather, and anticipated changes in PG&E's electricity rates. Actual cash shortfalls could be different and such differences may be material, which may have a negative impact on the City's General Fund.

San José Community Energy Debt. In November 2018, Barclays Bank PLC (“**Barclays**”) and the City entered into a Revolving Credit Agreement, dated as of November 1, 2018 (as amended, the “**Revolving Credit Agreement**”) for the purpose of financing start-up costs of the SJCE, purchase power, and in the case of standby letters of credit, secure payments under power purchase agreements and other costs associated with the Community Energy Implementation Plan.

Pursuant to the Revolving Credit Agreement, the Bank has committed to make revolving loans to the City (the “**Revolving Loan Facility**”) in an aggregate principal amount not to exceed \$30,000,000 and standby letters of credit for the account of the City (the “**Standby Letter of Credit Facility**”) in an aggregate principal amount not to exceed \$65,000,000, provided, however, that the aggregate principal amount outstanding under the Revolving Loan Facility and the Standby Letter of Credit Facility may not exceed \$80,000,000 at any one time. The Revolving Loan Facility and the Standby Letter of Credit Facility expire in November 2021 and November 2023, respectively.

The City's obligations under the Revolving Credit Agreement are secured solely by a pledge and lien on revenues of SJCE, including revenues deposited in an operating reserve account held by the City pursuant to the Revolving Credit Agreement. See “Appendix C – Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2020, Note III.F11” for additional information regarding the Revolving Credit Agreement.

On June 24, 2021, the City and Barclays entered into a Second Amendment to Revolving Credit Agreement (the “**Second Amendment**”). The Second Amendment, among other things, allows the City to make loans of the proceeds of the Lease Revenue Commercial Paper Notes to SJCE up to \$100 million (which was previously limited to \$10 million). Repayment by SJCE of the City's loans is subordinate to SJCE's payment of obligations owed Barclays under the Revolving Credit Agreement. Repayment to the City is also contingent upon SJCE maintaining a minimum of \$50 million in cash (including \$20 million in a restricted operating reserve) as of the last day of the previous 4 out of 5 months (including the most recent month prior to repayment), and satisfying the debt service coverage ratio which was modified by the Second Amendment from 2 to 1 to 1.25 to 1.00. The Second Amendment makes other changes to the Revolving Credit Agreement including revising the definition of Aggregate Annual Debt Requirement.

As discussed above, the City cannot currently project when, or whether, SJCE's revenues will be sufficient to repay the City's General Fund.

Other Non-General Fund Debt. In addition, the City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for multi-family housing. The City and the Financing Authority have also issued bonds and notes secured by non-General Fund revenues. Such bonds, notes, loans, and certificates of participation are not secured by any City general funds or revenues. See

“Appendix C - Basic Financial Statements of the City of San José for the Fiscal Year ended June 30, 2020, Note III.F.2” for a description of such debt as of June 30, 2020.

Tax and Revenue Anticipation Notes. The City began prefunding certain employer retirement contributions in 2008 for budgetary savings. Beginning in 2010-2011, and in each fiscal year thereafter through 2018-2019, the City entered into short-term borrowings to avoid a negative cash balance in the General Fund portion of the City Investment Pool as a result of prefunding its employer retirement contribution. The City did not issue Tax and Revenue Anticipation Notes in 2019-2020 as prefunding would not have resulted in sufficient budgetary savings. On July 1, 2020 the City issued the 2020 TRAN in the aggregate principal amount of \$130 million to fund a portion of the City’s retirement contribution for 2020-2021. The 2020 TRAN matured on June 1, 2021. See “APPENDIX C – BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSÉ FOR THE FISCAL YEAR ENDED JUNE 30, 2020, Note IV.D.1” for additional information regarding the 2020 TRAN.

On July 1, 2021, the City issued the 2021 TRAN in the principal amount of \$285 million. The City used the proceeds of the 2021 TRAN, together with cash on hand of approximately \$141.3 million, to prefund a portion of its employer retirement contributions for the City’s pension and healthcare plans for Tier 1 employees for 2021-2022. For additional information about the City’s employer retirement contributions, see APPENDIX B – “THE CITY OF SAN JOSE: RETIREMENT PLANS – PENSION PLANS – Contributions.”

OVERLAPPING BONDED DEBT

Contained within the City are overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics, Inc., as of August 1, 2021, is shown in Table 32 below. The City makes no representations as to the completeness or accuracy of such statement.

Table 32
City of San José
Statement of Direct and Overlapping Debt

2020-21 Assessed Valuation: \$206,432,481,270

	% Applicable⁽¹⁾	Debt 8/1/2021
Direct and Overlapping Tax and Assessment Debt:		
Santa Clara County	37.468%	\$429,555,633
Foothill-DeAnza Community College District	3.849	25,321,737
Gavilan Joint Community College District	5.143	10,641,124
San Jose-Evergreen Community College District	85.110	744,056,232
West Valley Community College District	31.866	177,652,950
Morgan Hill Unified School District	11.932	13,040,483
San Jose Unified School District	98.482	496,579,753
Santa Clara Unified School District	22.307	213,332,995
Campbell Union High School District	59.481	202,187,815
East Side Union High School District	95.903	887,682,836
Fremont Union High School District	8.603	50,135,711
Los Gatos-Saratoga Joint Union High School District	0.857	728,450
Alum Rock Union School District	77.230	71,233,091
Berryessa Union School District	94.005	110,592,113
Cambrian School District	64.305	39,206,722
Campbell Union School District	47.352	97,540,065
Cupertino Union School District	15.703	42,675,777
Evergreen School District	99.416	163,340,520
Franklin-McKinley School District	99.512	151,255,060
Los Gatos Union School District	1.754	1,184,827
Luther Burbank School District	18.135	3,174,825
Moreland School District	74.364	88,230,842
Mount Pleasant School District	88.493	28,348,274
Oak Grove School District	99.921	224,982,057
Orchard School District	100.000	32,700,057
Union School District	72.719	79,856,624
City of San Jose	100.000	646,990,000
City of San Jose Community Facilities Districts	100.000	5,730,000
City of San Jose Special Assessment Bonds	100.000	5,785,000
Midpeninsula Regional Open Space District	0.011	9,504
Santa Clara Valley Water District Benefit Assessment District	37.468	21,360,507
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$5,065,111,584

(continued)

Table 32 (continued from previous page)
City of San José
Statement of Direct and Overlapping Debt

	% Applicable⁽¹⁾	Debt 8/1/2021
<u>Direct and Overlapping General Fund Debt:</u>		
Santa Clara County General Fund Obligations	37.468%	\$ 476,934,990
Santa Clara County Pension Obligation Bonds	37.468	125,757,022
Santa Clara County Board of Education Certificates of Participation	37.468	1,000,396
Foothill-DeAnza Community College District General Fund Obligations	3.849	850,052
Gavilan Joint Community College District General Fund Obligations	5.143	343,038
San Jose-Evergreen Community College District Benefit Obligations	85.110	40,384,695
West Valley-Mission Community College District General Fund Obligations	31.866	15,885,201
Morgan Hill Unified School District Certificates of Participation	11.932	1,611,417
San Jose Unified School District Certificates of Participation	98.482	6,352,089
Santa Clara Unified School District Certificates of Participation	22.307	3,001,407
Campbell Union High School District General Fund Obligations	59.481	11,896,200
East Side Union High School District Post Employment Obligations	95.903	25,567,740
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.857	14,646
Alum Rock Union School District Certificates of Participation	77.230	10,541,895
Berryessa Union School District Certificates of Participation	94.005	2,771,313
Campbell Union School District General Fund Obligations	47.352	1,032,274
Franklin-McKinley School District Certificates of Participation	99.512	2,656,970
City of San Jose General Fund Obligations	100.000	540,365,000
Midpeninsula Regional Open Space Park District General Fund Obligations	0.011	11,660
Santa Clara County Vector Control District Certificates of Participation	37.468	661,310
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$1,267,639,315
Less: Santa Clara County supported obligations		9,392,214
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$1,258,247,101
 OVERLAPPING TAX INCREMENT DEBT (Successor Agency)	 100.000%	 \$1,287,630,000
 Gross Combined Total Debt		\$7,620,380,899 ⁽²⁾
Net Combined Total Debt		\$7,610,988,685
 <u>Ratios to 2019-2020 Assessed Valuation:</u>		
Direct Debt (\$646,990,000)	0.31%	
Total Direct and Overlapping Tax and Assessment Debt	2.45	
Combined Direct Debt (\$1,187,355,000)	0.58	
Gross Combined Total Debt	3.69	
Net Combined Total Debt	3.69	
 <u>Ratios to Redevelopment Valuation (\$35,644,449,579):</u>		
Total Overlapping Tax Increment Debt	3.61%	

⁽¹⁾ Excludes Bonds to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

APPENDIX B

THE CITY OF SAN JOSE RETIREMENT PLANS

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION TO APPENDIX B.....	1
RETIREMENT PLANS IN GENERAL.....	2
Overview.....	2
Governance.....	4
Internal Revenue Code Limitations on Pension Payments.....	5
2019 Grand Jury Report on Unfunded Pension Liabilities.....	6
Retirement Stakeholder Solutions Working Group.....	7
APPENDIX B DEFINITIONS	8
CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS.....	10
Overview.....	10
Measure B - Settlements	10
Implementation of Measure F and Settlement Frameworks	12
Retirement Plan Tiers	14
SUMMARY OF RETIREMENT PLANS	17
Membership	17
Summary of Historical and Projected Contributions	19
PENSION PLANS.....	23
Funding Status.....	26
Actuarial Assumptions	32
Contributions.....	35
Investments	43
HEALTHCARE PLANS.....	45
General	45
Establishment of Section 115 Trusts; Internal Revenue Code Limitations	45
Funding Status.....	46
Actuarial Assumptions	53
Contributions.....	54
Investments	58

INTRODUCTION TO APPENDIX B

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

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

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

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

This Appendix B summarizes portions of the following documents relating to the Retirement Plans:

- City’s Basic Financial Statements for the Fiscal Year Ended June 30, 2020 included in the City’s Comprehensive Annual Financial Report (“**City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020**”),
- City of San José Federated City Employees’ Retirement System Actuarial Valuation Report as of June 30, 2020 (the “**Federated 2020 Pension Plan Actuarial Report**”),
- City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2020 (the “**Police and Fire 2020 Pension Plan Actuarial Report**”),

- City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2020 (the “**Federated 2020 Healthcare Plan Actuarial Report**”),
- City of San José Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2020 (the “**Police and Fire 2020 Healthcare Plan Actuarial Report**”),
- City of San José Federated City Employees’ Retirement System Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2020 and June 30, 2019 (the “**Federated 2020 Comprehensive Annual Financial Report**”), and
- City of San José Police and Fire Department Retirement Plan Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2020 and June 30, 2019 (the “**Police and Fire 2020 Comprehensive Annual Financial Report**”).

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

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

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

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

RETIREMENT PLANS IN GENERAL

Overview

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

Each Retirement Plan consists of a single-employer tax-qualified defined benefit pension plan and a postemployment healthcare plan. The single-employer tax-qualified defined benefit pension plans offered under the Federated Plan and the Police and Fire Pension Plan are referred to in this Appendix B as, the “**Federated Pension Plan**,” and the “**Police and Fire Pension Plan**,”

respectively; and collectively, the “**Pension Plans**.” The postemployment healthcare plan offered under the Federated Plan is referred to in this Appendix B as the “**Federated Healthcare Plan**.” The respective postemployment healthcare plans offered for sworn police and fire personnel are referred to collectively as the “**Police and Fire Healthcare Plan**” and, together with the Federated Healthcare Plan, the “**Healthcare Plans**.”

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

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

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

See “PENSION PLANS – Contributions” and “HEALTHCARE PLANS – Contributions” for a discussion of historical and projected contributions to the Pension Plans and the Healthcare Plans, respectively.

Implementation of Certain Accounting Changes Relating to Retirement Plans. In June 2012, the Governmental Accounting Standards Board (“**GASB**”) issued Statement No. 67,

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

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

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

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

Governance

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

membership, qualifications of the members and the size of each retirement board shall be prescribed by ordinance and that the members of each Board shall be appointed and removed by the City Council in a manner prescribed by ordinance.

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

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

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

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

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

Internal Revenue Code Limitations on Pension Payments

The Retirement Plans are tax qualified plans and are subject to the Code requirements. The Code places limits on the amount of compensation on which a pension may be calculated (\$290,000 for 2021) for employees who are members of the Retirement Plans. Members of the Retirement Plans who became members before January 1, 1996 are not subject to the foregoing limit. Additionally, the Code caps the annual maximum pension payment that is subject to periodic

adjustment based on a consumer price index. For 2021, the maximum annual payment is \$230,000; however, the maximum amount is adjusted downward for certain employees, including for non-public safety employees who retire before the age of 62, depending on the employee's age at retirement.

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

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

On November 30, 2016, certain retired members and beneficiaries of the Federated Plan as well as an association representing a group of retired or to be retired Federated Plan members and beneficiaries (the "**Claimants**"), filed a claim against the City and the Federated Plan Board and have since filed a lawsuit against the City and the Board. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Section 415 of the Code ("**Section 415**"). See "SIGNIFICANT LITIGATION, CLAIMS, PROCEEDINGS AND COURT DECREES – Potentially Significant Litigation – Retirement Benefits Litigation" in Appendix A of this Official Statement for a description regarding this lawsuit.

2019 Grand Jury Report on Unfunded Pension Liabilities

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

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

only some of the accepted recommendations have been implemented by the City and the Boards, as applicable.

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

Retirement Stakeholder Solutions Working Group

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

On April 23, 2021 a Council Study Session was held. At the Study Session, City staff presented options it had evaluated for financing the unfunded pension obligations of the City's Retirement Plans, including the possibility of issuing pension obligation bonds as requested by the Mayor and Council in December 2020. The Working Group's final report was included in the materials provided to the City Council in advance of the April 23 Study Session. At the conclusion of the Study Session, staff provided a plan for next steps that included potential recommendations for Council to consider on May 11, 2021. The City Council approved the staff's recommendations on May 11 and directed the City Administration and the City Attorney to proceed with planning and preparation of the necessary bond documents and court validation documents for issuance of the pension obligation bonds. [[On October 5, 2021, the City Council authorized the commencement of a court validation necessary for the issuance of pension obligation bonds.]] The City's ability to issue any pension obligation bonds in the future is subject to the issuance by the Superior Court of Santa Clara County of a judgment favorable to the City as well as the approval by City Council. The City cannot provide any assurance regarding the timing for the issuance of any such pension obligation bonds, if ever.

APPENDIX B DEFINITIONS

The following terms are used in this Appendix B:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For a description of assumptions and methods employed for purposes of the actuarial valuations of the Pension Plans and Healthcare Plans, please see “PENSION PLANS – Actuarial Assumptions” and “HEALTHCARE PLANS – Actuarial Assumptions,” respectively.

CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS

Overview

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

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

Measure B - Settlements

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

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

The Public Safety Settlement Framework and the Federated Settlement Framework (together, the “**Settlement Frameworks**”) include, among other things: (i) revised Tier 2 pension benefits that increased pension benefits for Tier 2 employees while preserving the 50/50 cost sharing between the City and Tier 2 employees; (ii) closed the defined benefit retiree healthcare benefit under the Healthcare Plans to new employees, as well as agreement on a new lowest cost medical plan associated with retiree healthcare; (iii) allowed Tier 1 and some Tier 2 employees to opt out of the applicable Healthcare Plan to a Voluntary Employee Benefit

Association (“**VEBA**”) for retiree healthcare subject to legal and IRS approval (since received); (iv) allowed Tier 1 employees who terminated employment with the City and either subsequently returned, or that return in the future, to return as Tier 1 employees; and (v) continued the elimination of the Supplemental Retiree Benefit Reserve (“**SRBR**”). In the Settlement Frameworks, the City also agreed that a ballot measure regarding the Settlement Frameworks would be placed on the November 2016 election. The City submitted the approval of the Settlement Frameworks to voters in the City through Measure F on the November 2016 election, as described below.

The Settlement Frameworks also contemplated that the City and the respective bargaining units within each Retirement Plan would enter into retirement memorandums of agreement (“**MOA**”) memorializing the terms of the Settlement Frameworks, with each such MOA having an expiration date of June 30, 2025. The City and such bargaining units have agreed upon the forms of the MOAs, but have not entered into any MOAs to date. The City believes that the terms of the Settlement Frameworks are binding upon the City, the members of the Retirement Plans, and the Retirement Plans notwithstanding MOAs not having been entered into to date.

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

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

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

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

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

- specifies that the healthcare plan must provide at least 70% but no more than 79% of the then current ACA “Silver” definition;
- continues the elimination of the SRBR and, in lieu of the SRBR, establishes a “Guaranteed Purchasing Power” provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;
- creates a health-in-lieu premium credit option so that retirees can choose to receive 25% of the monthly premium of the lowest priced healthcare and dental plan (that cannot be taken in cash) in lieu of receiving healthcare coverage; and
- reimburses specific retirees (i.e., those earning a pension of \$54,000 or less in 2016, and who were enrolled in pre-Medicare health plan between January 1, 2013 and December 31, 2016) for a portion of their additional contributions towards retiree medical premiums up to a maximum total amount of \$1.25 million.

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

Implementation of Measure F and Settlement Frameworks

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

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

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

2020, the City and the bargaining units agreed that the City will pay future interest costs on the UAL attributable to Tier 1 Rehire employees effective September 2020. Tier 1 Rehire employees will continue to be responsible for any interest accrued prior to the effective date of such agreement.

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

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

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

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

With the implementation of Measure F and establishment of the Police and Fire VEBA, Tier 2 members of the Police and Fire Plan were automatically placed into the Police and Fire

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

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

In February 2018, the IRS issued favorable private letter rulings with respect to the transfer of retiree healthcare contributions from both of the Healthcare Plans for those employees of the Healthcare Plans opting into the VEBAs and in March 2018, the retiree healthcare contributions of members of the Healthcare Plan who opted into the VEBAs were transferred from the applicable Healthcare Plan into their individual VEBA accounts. See "HEALTHCARE PLANS – General" for a description of the number of Healthcare Plan members that opted into the VEBAs and the amounts transferred from the VEBAs. The IRS also approved allowing eligible employees who are rehired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the applicable Healthcare Plan to their individual VEBA accounts.

Retirement Plan Tiers

As a result of the Settlement Frameworks and implementation of Measure F, members of each Retirement Plan are now categorized into membership categories based on when the member entered the respective Retirement Plan and whether certain prior service requirements are met. Following the passage of Measure B, but prior to the Settlement Frameworks, the Federated Plan included Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B and Tier 2C had the same reduced pension benefits as compared to Tier 1. Tier 2 had the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B originally consisted of employees who were newly hired or rehired on or after September 27, 2013, and they were not eligible for the defined benefit retiree health care benefits; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid had those employees been eligible. Tier 2C had retiree dental benefits but no retiree medical benefits. Tier 2C included employees who were previously Tier 1 members that separated from City service and returned on or after September 30, 2012, but before June 18, 2017. The Settlement Frameworks provided that all previous Tier 1 employees who were placed in Tier 2 would be classified as Tier 1. As a result, employees in Tier 2C have subsequently been moved to Tier 1.

The Police and Fire Plan had Tier 1 and Tier 2 for both Police and Fire Plan members with reduced pension benefits for the Tier 2 Police and Fire Plan members as compared to the Tier 1 members, and until July 30, 2017, Tier 1 and Tier 2 members of the Police and Fire Plan had the same retiree healthcare (medical and dental benefits). The membership categories for the Retirement Plans are summarized in Table B-1a and Table B-1b.

**Table B-1a
Federated Plan
Membership Tiers**

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	<ul style="list-style-type: none"> On or before September 29, 2012 Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions 	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 1 Rehire	<ul style="list-style-type: none"> Former Tier 1 rehired on or after September 30, 2012 through June 17, 2017 	Tier 1 ⁽¹⁾	Medical/Dental ⁽²⁾⁽⁴⁾⁽⁵⁾
Tier 1 Classic	<ul style="list-style-type: none"> “Classic” membership with California Public Employees’ Retirement System (“CalPERS”)/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013 “Classic” membership with CalPERS/reciprocal agency hired on or after September 27, 2013 	Tier 1 ⁽⁶⁾ Tier 1 ⁽⁶⁾	Medical/Dental Not Eligible ⁽³⁾⁽⁴⁾
Tier 2 (or Tier 2A)	<ul style="list-style-type: none"> Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013 	Tier 2	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 2B	<ul style="list-style-type: none"> Hired/rehired/reinstated on or after September 27, 2013 and have not met City’s eligibility for retiree healthcare 	Tier 2	Not Eligible ⁽³⁾⁽⁴⁾

⁽¹⁾ Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

⁽²⁾ Employees in these tiers were provided a one-time irrevocable election to remain in the Federated Healthcare Plan or opt into the Federated VEBA. Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.

⁽³⁾ Employees in these tiers were mandatorily placed into the Federated VEBA.

⁽⁴⁾ Unrepresented employees were eligible to opt into the Federated VEBA but are not eligible to make ongoing contributions to the Federated VEBA.

⁽⁵⁾ All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan on March 25, 2018.

⁽⁶⁾ Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the “Classic” tier regardless of start date.

Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020.

**Table B-1b
Police and Fire Plan
Membership Tiers**

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Police Tier 1	<ul style="list-style-type: none"> Before August 4, 2013 Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions 	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Police Tier 1 Rehire	<ul style="list-style-type: none"> Tier 1 employee rehired between August 4, 2013 through June 17, 2017 	Tier 1 ⁽¹⁾	Medical/Dental ⁽²⁾⁽⁴⁾
Fire Tier 1	<ul style="list-style-type: none"> Before January 2, 2015 Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions 	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Fire Tier 1 Rehire	<ul style="list-style-type: none"> Tier 1 employee rehired between January 2, 2015 through June 17, 2017 	Tier 1 ⁽¹⁾	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 1 Classic	<ul style="list-style-type: none"> "Classic" membership with CalPERS/reciprocal agency hired on or after August 4, 2013 for Police and January 2, 2015 for Fire 	Tier 1 ⁽⁵⁾	Not Eligible
Police Tier 2	<ul style="list-style-type: none"> On or after August 4, 2013 	Tier 2	Not Eligible ⁽³⁾⁽⁴⁾
Fire Tier 2	<ul style="list-style-type: none"> On or after January 2, 2015 	Tier 2	Not Eligible ⁽³⁾⁽⁴⁾

⁽¹⁾ Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

⁽²⁾ Employees in these Tiers were provided a one-time irrevocable election to remain in the Police and Fire Healthcare Plan or opt into the Police and Fire VEBA. Employees that opted into the Police and Fire VEBA are not eligible for the Police and Fire Healthcare Plan. The Police and Fire VEBA was implemented on March 25, 2018.

⁽³⁾ Employees in these tiers were mandatorily placed into the Police and Fire VEBA.

⁽⁴⁾ Unrepresented employees were eligible to opt into a Police and Fire VEBA but are not eligible to make ongoing contributions to the Police and Fire VEBA.

⁽⁵⁾ Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.

Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2019.

SUMMARY OF RETIREMENT PLANS

Membership

Table B-2a and Table B-2b show the change in total membership in the Pension Plans and Healthcare Plans from June 30, 2019 to June 30, 2020. As of June 30, 2020, the ratio of retired and vested terminated members to active members within the Federated Plan was approximately 1.62 to 1. The Plan Actuary has indicated that the Federated Plan ratio appears to have stabilized after the increase following the recession, but there is no indication yet of a return to a lower ratio. The Plan Actuary further notes that because there are more retired and vested terminated members to be supported by each active member, future contributions may vary more significantly year-to-year due in part to increased sensitivity to investment gains and losses.

Following is a summary of the membership within the Federated Plan as of June 30, 2020:

- For the Federated Pension Plan, 70.8% of total members were in Tier 1, and 29.2% of total members were in Tier 2;
- For the Federated Pension Plan, 40.8% of active members were Tier 1, and 59.2% of active members were Tier 2; and
- For the Federated Healthcare Plan, 98.6% of total members eligible for full retiree medical benefits were in Tier 1 and 1.4% were in Tier 2.

Following is a summary of the membership within the Police and Fire Plan as of June 30, 2020:

- For the Police and Fire Pension Plan, 84.9% of total members were in Tier 1, and 15.1% of total members were in Tier 2;
- For the Police and Fire Pension Plan, 66.9% of active members were Tier 1, and 33.1% of active members were Tier 2; and
- For the Police and Fire Healthcare Plan, all members eligible for full retiree medical benefits were in Tier 1.

**Table B-2a
Federated Plan
Membership**

	June 30, 2019	June 30, 2020	% Change
Federated Pension Plan			
Retirees & beneficiaries receiving benefits ⁽¹⁾	4,359	4,441	1.9%
Terminated vested members not yet receiving benefits	1,535	1,614	5.1
Active members	3,617	3,742	3.5
Total	9,511	9,797	3.0
Federated Healthcare Plan ⁽³⁾			
Retirees & beneficiaries receiving benefits ⁽²⁾	3,654	3,733	2.2
Terminated vested members not yet receiving benefits	165	156	(5.5)
Active members	1,582	1,445	(8.5)
Total⁽¹⁾	5,401	5,334	(1.2)

⁽¹⁾ The combined domestic relations orders are not included in the count above as their benefit is included in the member count.

⁽²⁾ Payees that have health and/or dental coverage.

⁽³⁾ Eligible for full retiree medical benefits.

Source: Federated 2020 Comprehensive Annual Financial Report.

**Table B-2b
Police and Fire Plan
Membership**

	June 30, 2019	June 30, 2020	% Change
Police and Fire Pension Plan			
Retirees & beneficiaries receiving benefits ⁽¹⁾	2,318	2,380	2.7%
Terminated vested members not yet receiving benefits	333	335	0.6
Active members	1,700	1,709	0.5
Total	4,351	4,424	1.7
Police and Fire Healthcare Plan ⁽³⁾			
Retirees & beneficiaries receiving benefits ⁽²⁾	2,153	2,217	3.0%
Terminated vested members not yet receiving benefits	16	11	(31.3)
Active members	1,142	1,075	(5.9)
Total⁽¹⁾	3,311	3,303	(0.2%)

⁽¹⁾ The combined domestic relations orders are not included in the count above as their benefit is included in the member count.

⁽²⁾ Payees that have health and/or dental coverage.

⁽³⁾ Eligible for full retiree medical benefits.

Source: Police and Fire 2020 Comprehensive Annual Financial Report.

Summary of Historical and Projected Contributions

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

Historical and Projected Contributions. Contributions to the Pension Plans are actuarially determined. The Municipal Code specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City.

With respect to the Healthcare Plans, contributions by the City are actuarially determined and contributions by employees are made at rates established by the Municipal Code and the Settlement Frameworks. See “PENSION PLANS – Contributions” and “HEALTHCARE PLANS – Contributions.”

The City’s contributions to the Federated Plan and Police and Fire Plan for Fiscal Year 2020-21 and the previous 10 fiscal years are shown in Table B-3a and Table B-3b, respectively. As shown in such tables, the City’s annual dollar contributions to the Federated Plan and Police and Fire Plan have increased significantly since 2011, primarily due to losses recognized as a result of actual investment returns below the discount rate and assumption changes. See tables B-11b and B-21a for the components of the City’s contributions to the Federated Plan for fiscal year 2020-2021. See tables B-11d and B-21b for the components of the City’s contributions to the Police and Fire Plan for fiscal year 2020-2021. The City’s contributions to the Retirement Plans for Fiscal Year 2020-2021 represent approximately 9.1% of City’s adopted budget for all City funds for such fiscal year.

**Table B-3a
Federated Plan
Historical Contributions**

Fiscal Year Ended June 30	Total Contribution
2011	\$ 76,326,000
2012	112,916,000
2013	124,360,000
2014	126,842,000
2015	141,710,000
2016	159,921,000
2017	170,388,000
2018	189,167,000
2019	199,416,000
2020	207,860,000
2021	211,877,000

Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020 for fiscal years 2010-2011 through 2019-2020; City of San José for 2020-2021.

**Table B-3b
Police and Fire Plan
Historical Contributions**

Fiscal Year Ended June 30	Total Contribution
2011	\$ 94,919,000
2012	142,214,000
2013	121,042,000
2014	140,850,000
2015	150,189,000
2016	153,545,000
2017	157,624,000
2018	183,094,000
2019	205,362,000
2020	215,831,000
2021	231,346,000

Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020 for fiscal years 2010-2011 through 2019-2020; City of San José for 2020-2021.

In January 2021, as directed by the Retirement Plans, the Plan Actuary provided five-year budget projections for the City's contributions for the Retirement Plans based on the June 30, 2020 actuarial valuations. The projections assume that all valuation assumptions were exactly met since June 30, 2020, and are exactly met each and every year for the projection period. In reality, actual experience will deviate from the assumptions. If all assumptions are met, contributions equal to the Normal Cost plus interest on the UAL are needed to prevent UAL from growing as a dollar amount.

The projections of the City's actuarially determined contributions to the Federated Plan and Police and Fire Plan for fiscal years 2021-2022 through 2025-26 as of January 2021, are shown in Table B-3c and Table B-3d, respectively. The City's actual contributions will depend on various factors, including the respective actual returns of the Retirement Plans over the course of this five-year projection period.

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

Fiscal Year Ended June 30	Federated Payroll	Federated Pension Plan Contribution	Pension Rate	Federated Healthcare Plan Contribution	Healthcare Rate	Total Contribution	Total Rate
2022	\$ 351.8	\$ 206.0	58.56%	\$ 19.9	5.67%	\$ 226.0	64.23%
2023	362.4	212.8	58.72	19.8	5.47	232.6	64.18
2024	373.2	219.8	58.89	20.7	5.54	240.5	64.43
2025	384.4	226.6	58.94	20.9	5.44	247.5	64.39
2026	396.0	232.5	58.73	21.1	5.34	253.7	64.07

Source: Cheiron 5-Year Budget Projections for Federated Plan, January 13, 2021.

**Table B-3d
Police and Fire Plan
Projected City Contributions
(in millions)**

Fiscal Year Ended June 30	Police and Fire Payroll	Police and Fire Pension Plan Contribution	Pension Rate	Police and Fire Healthcare Plan Contribution	Healthcare Rate	Total Contribution
2022	\$ 248.0	\$ 216.8	87.43%	\$ 28.2	11.40%	\$ 245.0
2023	255.4	223.5	87.48	30.0	11.77	253.5
2024	263.1	224.8	85.44	32.3	12.28	257.1
2025	271.1	228.0	84.15	33.6	12.40	261.6
2026	279.1	234.0	83.81	34.9	12.49	268.9

Source: Cheiron 5-Year Budget Projections for Police and Fire Plan, January 27, 2021.

In January 2021, the Plan Actuary also prepared 20-year projections of the City's contributions to the Pension Plans. Many factors influence the projections of the City's contributions to the Pension Plans, including, without limitation, changes in actuarial assumptions or methods, and differences between actual and anticipated investment performance. Meketa Investment Group, the Pension Plans' investment consultant, reports that annual investment returns for the Pension Plans for fiscal year 2020-2021 exceeded 25%. See "PENSION PLANS – Investments." As of September 30, 2021, the Plan Actuary projects that, assuming all other assumptions are met, based on the actual investment returns for fiscal year 2020-2021, the City's contributions to the Pension Plans are projected to total approximately \$_____ for fiscal year 2022-23, approximately \$_____ for fiscal year 2025-26 and approximately \$_____ for fiscal year 2032-

33. See “PENSION PLANS – Contributions.” The projected City contributions set forth in Table B-3c and Table B-3d do not take into account actual investment returns for fiscal year 2020-2021.

Pension Plan Risks. According to the Plan Actuary, the fundamental risk to the Pension Plans is that contributions needed to pay benefits become unaffordable. The Plan Actuary further notes that there are a number of factors that could lead to contributions becoming unaffordable. The Plan Actuary believes the primary risks for the Federated Pension Plan are investment risk, interest rate risk, and assumption change risk. The following discussion is only a summary of the risks identified by the Plan Actuary in the Federated 2020 Pension Plan Actuarial Report and Police and Fire 2020 Pension Plan Actuarial Report. For a further discussion of such risks see such reports.

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

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

Assumption Change Risk. Assumption change risk is the potential for the environment to change such that future valuation assumptions are different than the current assumptions. Assumption rate risk is an extension of the other risks described above, but rather than capturing the risk as it is experienced, it captures the cost of recognizing a change in the environment when the current assumption is no longer reasonable. Since 2010, there have been substantial changes in actuarial assumptions with respect to the Pension Plans that have caused their respective UALs to increase. Most of the changes are due to the reduction in the discount rate for the Pension Plans.

In addition, in the Federated 2020 Pension Plan Actuarial Report and Police and Fire 2020 Pension Plan Actuarial Report, the Plan Actuary notes that the future financial condition of a mature plan is more sensitive to each of the risks described above when compared to less mature plans. The Plan Actuary identified the support ratio and leverage ratios as two measures of the maturity of a plan, as follows:

Support Ratio. The support ratio is the ratio of number of inactive members (those receiving benefits or entitled to a deferred benefit) to the number of active employees. The Plan Actuary notes the respective support ratios of the Pension Plans have increased dramatically from approximately 0.50 in 2001 (in the 25th to 50th percentile of support ratios for plans in the Public Plans Database) to approximately 1.60 in 2020 (in 75th to 95th percentile of support ratios for plans in the Public Plans Database).

Leverage Ratios. Leverage or volatility ratios measure the size of the plan compared to its revenue base more directly. Such ratios include the asset leverage ratio and actuarial liability ratio. The Plan Actuary notes that the respective leverage ratios for the Pension Plans are higher than most plans, indicating that the Pension Plans are much more sensitive to risk than most plans.

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

PENSION PLANS

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

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

Table B-4a and Table B-4b below provide a general description of service retirement pension benefit formulas (excluding early retirement) for each Tier in the Pension Plans as of June 30, 2020. For more additional information regarding such formulas, please see in APPENDIX C – “BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 2020,” Notes to Financial Statements, Note IV.A, and Title 3 of the Municipal Code.

Table B-4a
Federated Plan Service Pension Formulas

	Normal Retirement Age	Minimum Vesting Service⁽¹⁾	Pension Allowance	Final Compensation
Tier 1	<ul style="list-style-type: none"> • 55 with 5 years service • 30 years service at any age 	5 years of service	<ul style="list-style-type: none"> • $2.5\% \times \text{years of service} \times \text{final compensation}$ (75% max) 	Average monthly base pay in highest one year compensation ⁽²⁾
Tier 2	<ul style="list-style-type: none"> • 62 with 5 years of Federated Plan covered service • 55 with 5 years of Federated Plan covered service with reduction by a factor of 5% per year prior to age 62 prorated to closest month 	5 years of Federated Plan covered City service	<ul style="list-style-type: none"> • $2.0\% \times \text{years of service} \times \text{final compensation}$ (70% max) 	Average monthly (or biweekly) base pay in highest consecutive three year compensation ⁽³⁾

⁽¹⁾ Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from the plan.

⁽²⁾ For separations that take place prior to July 1, 2001, final compensation is the highest average monthly base pay in highest consecutive three year compensation.

⁽³⁾ Excludes premium pay or additional compensation.

Source: Federated 2020 Comprehensive Annual Financial Report.

Table B-4b
Police and Fire Plan Service Pension Formulas

	Normal Retirement Age	Minimum Vesting Service⁽¹⁾	Pension Allowance	Final Compensation
Police Tier 1	<ul style="list-style-type: none"> • 50 with 25 years service • 55 with 20 years service • 30 years service at any age (with reciprocity must be 50 years of age) • Mandatory retirement at 70 years of age 	10 years of service	<ul style="list-style-type: none"> • First 20 years of Service: 50% of final compensation (2.5% per year) • 21-30 years service: 4% per year of service x final compensation (90% max) 	Highest one year average compensation
Fire Tier 1	<ul style="list-style-type: none"> • 50 with 25 years service • 55 with 20 years service • 30 years service at any age (with reciprocity must be 50 years of age) • Mandatory retirement at 70 years of age 	10 years of service	<ul style="list-style-type: none"> • First 20 years of service: 50% of final compensation (2.5% per year) • Beginning 21st year of service: 3% x years of service x final compensation (90% max). • All years convert to 3% after 20 years 	Highest one year average compensation
Police and Fire Tier 2	<ul style="list-style-type: none"> • 57 with 5 years of Police and Fire Department Plan covered service • 50 with 5 years of Police and Fire Department Plan covered service with reduction by a factor of 7% per year prior to age 57 prorated to closest month 	5 years of Police and Fire Department Plan covered service	<ul style="list-style-type: none"> • First 20 years of service: 2.4% per year of service x final compensation. • Beginning of 21st year: 3.0% per year of service x final compensation. • Beginning of 26th year: 3.4% per year of service x final compensation. • Maximum benefit is 80% of final compensation 	Average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service

⁽¹⁾ Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from plan.

Source: Police and Fire 2020 Comprehensive Annual Financial Report.

Funding Status

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

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

Table B-5a Federated Pension Plan Assets & Liabilities (in millions)			
	June 30, 2019	June 30, 2020	% Change
Total Actuarial Liability	\$ 4,201	\$ 4,401	4.8%
Market Value Assets ⁽¹⁾	2,132	2,208	3.6
Actuarial Value Assets	2,229	2,301	3.3
Unfunded Actuarial Liability ⁽²⁾	2,069	2,193	6.0
Unfunded Actuarial Liability ^{(3) (4)}	1,972	2,100	6.5
Funded Ratio – Market Value	50.8%	50.2%	(1.2)
Funded Ratio – Actuarial Value	53.1%	52.3%	(1.4)

⁽¹⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$2.884 billion as June 30, 2021.

⁽²⁾ UAL amount based on Market Value of Assets, which is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

⁽³⁾ UAL amount based on Actuarial Value of Assets, which is calculated by recognizing the deviation of actual investment returns compared to the expected return for the period ending on the valuation date (6.750% for fiscal years 2019-2020 and 2018-2019, and 6.875% for fiscal years 2017-2018 and 2016-2017) over a five-year period.

⁽⁴⁾ Increase from June 30, 2019 to June 30, 2020 is primarily due to losses recognized as a result of actual investment returns below the discount rate (contributing approximately \$68 million to the increase), liability losses (contributing approximately \$44 million to the increase), changes in assumptions including a decrease in the discount rate to the current 6.625% (contributing approximately \$37 million to the increase), offset by contributions in excess of the Normal Cost plus interest in the UAL (reducing the UAL by approximately \$21 million). See “PENSION PLANS – Funding Status” below for a discussion of the funding status of the Federated Pension Plan.

Source: Federated 2020 Pension Plan Actuarial Report.

Table B-5b
Police and Fire Pension Plan
Assets & Liabilities
(in millions)

	June 30, 2019	June 30, 2020	% Change
Total Actuarial Liability	\$ 4,988	\$ 5,235	5.0%
Market Value Assets ⁽¹⁾	3,588	3,702	3.2
Actuarial Value Assets	3,706	3,852	3.9
Unfunded Actuarial Liability ⁽²⁾	1,400	1,533	9.5
Unfunded Actuarial Liability ^{(3) (4)}	1,282	1,383	7.9
Funded Ratio – Market Value	71.9%	70.7%	(1.7)
Funded Ratio – Actuarial Value	74.3%	73.6%	(0.9)

⁽¹⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$4.726 billion as June 30, 2021.

⁽²⁾ UAL amount based on Market Value of Assets, which is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

⁽³⁾ UAL amount based on Actuarial Value of Assets, which is calculated by recognizing the deviation of actual investment returns compared to the expected return for the period ending on the valuation date (6.750% for fiscal years 2019-2020 and 2018-2019, and 6.875% for fiscal years 2017-2018 and 2016-2017) over a five-year period.

⁽⁴⁾ Increase from June 30, 2019 to June 30, 2020 is primarily due to losses recognized as a result of actual investment returns below the discount rate (contributing approximately \$90 million to the increase), changes in assumptions including a decrease in the discount rate to the current 6.625% (contributing approximately \$74 million to the increase), offset by contributions in excess of the Normal Cost plus interest in the UAL (reducing the UAL by approximately \$46 million) and liability gains (reducing the UAL by approximately \$15 million). See "PENSION PLANS – Funding Status" below for a discussion of the funding status of the Pension Plans.

Source: Police and Fire 2020 Pension Plan Actuarial Report.

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

	June 30, 2019	June 30, 2020
Market Value, Beginning of Year	\$ 2,069,333	\$ 2,132,152
Contributions		
Member	22,606	25,082
City	173,006	181,327
Total	195,612	206,409
Net Investment Earnings ⁽¹⁾	76,855	90,909
Benefit Payments	(205,066)	(216,728)
Administrative Expenses	(4,582)	(4,725)
Market Value, End of Year⁽²⁾	\$ 2,132,152	\$ 2,208,017
Actuarial Value of Assets	\$ 2,228,802	\$ 2,301,469

⁽¹⁾ Gross investment earnings less investment expenses.

⁽²⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$2.884 billion as June 30, 2021.

Source: Federated 2020 Comprehensive Annual Financial Report for Market Value of Assets; Federated 2020 Pension Plan Actuarial Report for Actuarial Value of Assets.

Table B-5d
Police and Fire Pension Plan
Market and Actuarial Value of Assets
(in thousands)

	June 30, 2019	June 30, 2020
Market Value, Beginning of Year	\$ 3,496,191	3,588,422
Contributions		
Member	24,811	\$ 27,645
City	176,618	188,481
Total	\$ 201,429	\$ 216,126
Net Investment Earnings ⁽¹⁾	114,179	134,085
Benefit Payments	(218,008)	(231,008)
Administrative Expenses	(5,369)	(5,605)
Market Value, End of Year⁽²⁾	\$ 3,588,422	\$ 3,702,020
Actuarial Value of Assets	\$ 3,706,302	\$ 3,851,948

⁽¹⁾ Gross investment earnings less investment expenses.

⁽²⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$4.726 billion as June 30, 2021.

Source: Police and Fire 2020 Comprehensive Annual Financial Report for Market Value of Assets; Police and Fire 2020 Pension Plan Actuarial Report for Actuarial Value of Assets.

Table B-6a and Table B-6b show the historical dollar amount of the UAL and the Funded Ratio for the Pension Plans as of June 30, 2010 through June 30, 2020 calculated using the actuarial (smoothed) value of assets. See “PENSION PLANS – Actuarial Assumptions – Smoothing Methodology” for a description of the smoothing methodologies employed for the Pension Plans.

As shown in Table B-6a, the UAL of the Federated Pension Plan increased approximately \$1.3 billion from approximately \$781 million as of the June 30, 2010 valuation date to approximately \$2.1 billion as of the June 30, 2020 valuation date, an increase of 169%. According to the Plan Actuary, the net increase over the past 10 fiscal years in the UAL of the Federated Pension Plan is due primarily to the following:

- Unfavorable investment returns on the actuarial (smoothed) value of assets in 9 of the previous 10 years (resulting in an increase in the UAL of approximately \$575 million over the last 10 years notwithstanding positive investment returns in seven of such years);
- Changes in actuarial assumptions primarily related to reductions in the discount rate (resulting in an increase in the UAL for the Federated Pension Plan of approximately \$679 million over the last 10 years);
- Contributions consistently less than the Normal Cost plus interest on the UAL until fiscal years 2018-2019 and 2019-2020 (resulting in an increase in the UAL of approximately \$86 million over the last 10 years); and
- Actuarial gains and losses on the Actuarial Liability (resulting in an increase in the UAL of approximately \$6 million over the last 10 years).

In November 2020, the Federated Board adopted changes to the economic assumptions for the Federated 2020 Pension Plan Actuarial Report, which included a reduction in the discount rate from 6.75% to 6.625%. The changes in assumptions increased the UAL of the Police and Fire Pension Plan by approximately \$37 million. See “PENSION PLANS – Actuarial Assumptions.” The UAL of the Federated Pension Plan also increased due to investment returns being lower than the assumed investment rate. Although the Federated Pension Plan had a positive investment return for fiscal year 2019-2020, the unfavorable investment returns increased the UAL by approximately \$68 million.

As shown in Table B-6a, the Federated Pension Plan’s UAL was 615% of total covered annual payroll as of the June 30, 2020 valuation date of the Federated 2020 Pension Plan Actuarial Report. As a result, to fully fund the UAL of the Federated Pension Plan contributions would need to exceed 6 times the covered payroll for fiscal year 2019-2020.

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

Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio⁽¹⁾	Covered Payroll	UAL as % of Covered Payroll⁽¹⁾
2010	\$ 1,729,413	\$ 2,510,358	\$ 780,945	69%	\$ 300,811	260%
2011	1,788,660	2,770,227	981,567	65	228,936	429
2012	1,762,973	2,841,000	1,078,027	62	225,859	477
2013	1,783,270	3,013,763	1,230,493	59	225,779	545
2014	1,911,773	3,235,065	1,323,292	59	234,677	564
2015	2,004,481	3,569,898	1,565,417	56	251,430	623
2016	2,034,741	3,786,730	1,751,989	54	266,823	657
2017	2,101,435	3,923,966	1,822,531	54	287,339	634
2018	2,179,488	4,100,821	1,921,333	53	298,985	643
2019	2,228,802	4,200,708	1,971,906	53	313,310	629
2020	2,301,469	4,401,083	2,099,614	52	341,552	615

(1) Rounded to the nearest whole percent.

Source: Federated 2020 Pension Plan Actuarial Report.

As shown in Table B-6b, the UAL of the Police and Fire Pension Plan increased approximately \$730 million from approximately \$654 million as of the June 30, 2010 valuation date to approximately \$1.4 billion as of the June 30, 2020 valuation date, an increase of 112%. According to the Plan Actuary, the increase over the past 10 fiscal years in the UAL of the Police and Fire Pension Plan is due primarily to the following:

- Unfavorable investment returns on the actuarial (smoothed) value of assets in 8 of the previous 10 years (resulting in an increase in the UAL of approximately \$696 million over the last 10 years notwithstanding positive investment returns in seven of such years);
- Changes in actuarial assumptions primarily relating to the reduction in the discount rate (resulting in an increase in the UAL for the Police and Fire Pension Plan of approximately \$543 million over the last 10 years);

- Contributions above the Normal Cost plus interest on the UAL in 8 of the previous 10 years (resulting in a decrease in the UAL of approximately \$221 million over the last 10 years); and
- Actuarial gains on the Actuarial Liability (resulting in a decrease in the UAL of approximately \$260 million over the last 10 years).

In December 2020, the Police and Fire Board adopted changes to the economic assumptions for the Police and Fire 2020 Pension Plan Actuarial Report, which included a reduction in the discount rate from 6.75% to 6.625%. The changes in assumptions increased the UAL of the Police and Fire Pension Plan by approximately \$74 million. See “PENSION PLANS – Actuarial Assumptions.” The UAL of the Police and Fire Pension Plan also increased due to investment returns being lower than the assumed investment rate. Although the Police and Fire Pension Plan had a positive investment return for fiscal year 2019-2020, the unfavorable investment returns increased the UAL by approximately \$90 million.

As shown in Table B-6b, the Police and Fire Pension Plan’s UAL was 575% of total covered annual payroll as of the June 30, 2020 valuation date of the Police and Fire 2020 Pension Plan Actuarial Report. As a result, to fully fund the UAL of the Police and Fire Pension Plan contributions would need to be nearly 6 times the covered payroll for fiscal year 2019-2020.

Table B-6b
Police and Fire Pension Plan
Schedule of Pension Funding Progress
(in thousands)

Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio ⁽¹⁾	Covered Payroll	UAL as % of Covered Payroll ⁽¹⁾
2010	\$ 2,576,705	\$ 3,230,456	\$ 653,751	80%	\$ 251,058	260%
2011	2,685,721	3,196,007	510,286	84	190,726	268
2012	2,703,539	3,397,792	694,253	80	187,959	369
2013	2,771,924	3,578,031	806,107	78	184,645	437
2014	3,025,101	3,813,825	788,724	79	188,189	419
2015	3,212,776	4,058,410	845,634	79	184,733	458
2016	3,303,550	4,355,990	1,052,440	76	194,072	542
2017	3,439,922	4,464,402	1,024,480	77	203,816	503
2018	3,596,590	4,696,428	1,099,838	77	218,429	504
2019	3,706,302	4,988,427	1,282,125	74	235,818	544
2020	3,851,948	5,235,335	1,383,387	74	240,798	575

⁽¹⁾ Rounded to the nearest whole percent.

Source: Police and Fire 2020 Pension Plan Actuarial Report.

Net Pension Liability. For purposes of financial reporting, the City is required under GASB Statement No. 68 to calculate and disclose the Net Pension Liability of the Pension Plans. The Net Pension Liability of Pension Plan is the difference between the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated using methods and assumptions known as the “Total Pension Liability” and the fair market value of the Pension Plan’s assets known as the “Fiduciary Net Position.” For purposes of its financial statements, the City calculates the Net Pension Liability of the Pension Plans using a

measurement date that is one fiscal year prior to the Net Pension Liability measurement date used for the Retirement Plans' financial statements.

Table B-7a presents the funded status of the Federated Pension Plan calculated in accordance with the assumptions and methodology set forth in GASB Statement No. 68 as of the June 30, 2019 and the June 30, 2020 measurement dates. The Total Pension Liability of Federated Pension Plan as of June 30, 2019 and June 30, 2020 shown in Table B-7a is based on results of an actuarial valuation date of June 30, 2018 and June 30, 2019, respectively, and rolled-forward to June 30, 2019 and 2020 using standard roll forward procedures.

Table B-7a Federated Pension Plan Components of Net Pension Liability <i>(in thousands)</i>			
	June 30, 2019	June 30, 2020	% Change
Total pension liability	\$ 4,229,613	\$ 4,323,370	2.2%
Plan fiduciary net position	2,132,152	2,208,017	3.6
Net pension liability	\$ 2,097,461	\$ 2,115,353	0.9
Plan fiduciary net position as a percentage of the total pension liability	50.4%	51.1%	1.4%

Source: Federated 2020 Comprehensive Annual Financial Report.

In September 2021, the Plan Actuary released its report providing accounting and financial disclosure information under GASB Statement No. 67 and 68 for the Federated Pension Plan as of June 30, 2021. According to such report, as June 30, 2021, the Federated Pension Plan had Total Pension Liability of approximately \$4.527 billion, Fiduciary Net Position of approximately \$2.884 billion, and Net Pension Liability of approximately \$1.642 billion.

Table B-7b presents the funded status of the Police and Fire Pension Plan calculated in accordance with the assumptions and methodology set forth in GASB Statement No. 68 as of the June 30, 2019 and the June 30, 2020 measurement dates. The Total Pension Liability of the Police and Fire Pension Plan as of June 30, 2019 and June 30, 2020 shown in Table B-7b is based on results of an actuarial valuation date of June 30, 2018 and June 30, 2019, respectively, and rolled-forward to June 30, 2019 and 2020 using standard roll forward procedures.

Table B-7b Police and Fire Pension Plan Components of Net Pension Liability <i>(in thousands)</i>			
	June 30, 2019	June 30, 2020	% Change
Total pension liability	\$ 4,872,791	\$ 5,177,016	6.2%
Plan fiduciary net position	3,588,422	3,702,020	3.2
Net pension liability	\$ 1,284,369	\$ 1,474,996	14.8
Plan fiduciary net position as a percentage of the total pension liability	73.6%	71.5%	(2.9%)

Source: Police and Fire 2020 Comprehensive Annual Financial Report.

In September 2021, the Plan Actuary released its report providing accounting and financial disclosure information under GASB Statement No. 67 and 68 for the Police and Fire Pension Plan as of June 30, 2021. According to such report, as June 30, 2021, the Police and Fire Pension Plan had Total Pension Liability of approximately \$5.423 billion, Fiduciary Net Position of approximately \$4.727 billion, and Net Pension Liability of approximately \$697 million.

Actuarial Assumptions

General. Annually, actuarial valuations are prepared to measure the financial position of the Federated Pension Plan to determine the amounts to be contributed to the plan by active members and the City. The Plan Actuary employs a variety of actuarial methods and assumptions in these calculations. To prepare the actuarial valuations, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates) to produce the necessary information. Experience studies are performed by the Plan Actuary periodically to determine appropriate revisions to the actuarial assumptions. Actual results are compared with past expectations and new estimates are made about the future. In 2019, the Boards adopted certain economic and demographic changes based on experience studies of the Pension Plans performed by the Plan Actuary. The Plan Actuary determined that the changes in the assumptions based on the experience studies decreased the UAL of the Federated Pension Plan by \$2.9 million or 0.1% of the Actuarial Liability and increased the UAL of the Police and Fire Pension Plan by \$80.9 million or 1.6% of Accrued Liability.

Table B-8a below summarizes actuarial assumptions employed by the Plan Actuary in the Federated 2020 Pension Plan Actuarial Report.

Table B-8a Federated Pension Plan Actuarial Assumptions	
Valuation Date	June 30, 2020
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Amortization payment growth rate	2.75% compounded annually
Asset valuation method	5-year smoothing of return
Actuarial Assumptions:	
Discount Rate	6.625%
Wage inflation ⁽¹⁾	3.00% compounded annually
Cost-of-Living Adjustments ⁽²⁾	Tier 1-3.0% per year; Tier 2-1.25% - 2.0% per year depending on years of service
⁽¹⁾ Additional merit salary increases of 0.10% to 3.75% based on a participant's years of service are also assumed.	
⁽²⁾ Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation.	
For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.25% to 2.0% depending on service.	
Source: Federated 2020 Pension Plan Actuarial Report.	

Table B-8b below summarizes actuarial assumptions employed by the Plan Actuary in the Police and Fire 2020 Pension Plan Actuarial Report.

Table B-8b Police and Fire Pension Plan Actuarial Assumptions	
Valuation Date	June 30, 2020
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Amortization payment growth rate	2.25% compounded annually
Asset valuation method	5 year smoothing of return Minimum of 80% and maximum of 120% of market value
Actuarial Assumptions: Discount Rate	6.625%
Wage inflation ⁽¹⁾	Bargained for increases and 3.0% compounded annually thereafter
Cost-of-Living Adjustments ⁽²⁾	Tier 1-3.0% per year; Tier 2-2.0% per year
⁽¹⁾ Additional merit salary increases of 0.5% to 6.5% based on a participant's years of service are also assumed. ⁽²⁾ Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with actual inflation and are capped at 2.0%. Source: Police and Fire 2020 Pension Plan Actuarial Report.	

The Federated 2020 Pension Plan Actuarial Report and the Police and Fire 2020 Pension Plan Actuarial Report are the most recently available actuarial valuations of the Federated Pension Plan and the Police and Fire Pension Plan, respectively. Please see Tables B-5a, B-5b, B-6a and B-6b above for a summary of certain of the conclusions set forth in the Federated 2020 Pension Plan Actuarial Report and the Police and Fire 2020 Pension Plan Actuarial Report.

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

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

The Tier 2 UAL for the Federated Pension Plan as of June 30, 2017, is amortized over a closed 10-year period. Future Tier 2 actuarial gains and losses, assumption changes, and plan changes will be amortized over 10-year periods beginning with the valuation date in which they

first arise. Amortization payments for the Federated Pension Plan are scheduled to increase 2.75% each year while aggregate payroll is expected to grow 3.00% each year. As a result, contributions to the Federated Pension Plan are expected to become a slightly smaller percentage of combined Tier 1 and Tier 2 payroll each year.

With respect to the Police and Fire Pension Plan, actuarial gains and losses and plan changes are amortized over a 15-year period (16 years for gains and losses prior to June 30, 2016) beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

Effective June 30, 2019, the remaining amortization periods for several components of the Tier 1 UAL for the Police and Fire Pension Plan were adjusted to smooth the pattern of amortization payments. Effective June 30, 2019, all prior assumption amortization base periods were increased by four years. As a result of this change, all prior assumption amortization base periods have the same remaining period as if they had originally been amortized over 20 years. At the same time, amortization payments for the Police and Fire Pension Plan were scheduled to increase 2.50% each year, a decrease from the prior rate of 3.25%, while aggregate payroll was assumed to grow 3.00% each year and any already bargained for increases are taken into account. Effective June 30, 2020, the annual increase in amortization payments for the Police and Fire Pension Plan was reduced from 2.50% to 2.25%.

Smoothing Methodology. When measuring assets, the Pension Plans “smooth” gains and losses to reduce the volatility of contribution rates over a five-year period to reduce the impact of short-term investment volatility on employer contribution rates. If in the one-year period prior to the annual actuarial valuation, the actual net investment return on the Market Value of Assets of the respective Pension Plans is lower or higher than the actuarial assumed net rate of return, then 20% of the shortfall or excess is recognized each year when determining the recommended contribution rates for that actuarial valuation. As a result, the respective smoothed assets of the Pension Plans will be lower or higher than the plan’s Market Value of Assets depending upon whether the remaining amount to be smoothed is a net gain or a net loss.

Actuarially Assumed Investment Rates of Return. The net rate of return assumed by the Pension Plans represents the long-term expected rate of return on the plan’s investments net of investment expenses. In November 2020 and December 2020, the Federated Board and the Police and Fire Board, respectively, adopted changes to the economic assumptions for the Federated 2020 Pension Plan Actuarial Report and the Police and Fire 2020 Pension Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate, from 6.75% to 6.625%. Table B-9a and Table B-9b show the historical discount rates for the Federated Pension Plan and Police and Fire Pension Plan, respectively, from the June 30, 2011 valuation through the June 30, 2020 valuation.

Table B-9a Federated Pension Plan Historical Discount Rates									
2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
7.50%	7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.750%	6.750%	6.625%

Source: Federated 2020 Pension Plan Actuarial Report.

Table B-9b
Police and Fire Pension Plan
Historical Discount Rates

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
7.50%	7.25%	7.125%	7.00%	7.00%	6.875%	6.875%	6.750%	6.750%	6.625%

Source: Police and Fire 2020 Pension Plan Actuarial Report.

Contributions

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

Funding Policy. The Pension Plans employ a “floor funding method” for setting the City’s funding policy contribution amount for Tier 1 for the Normal Cost portion (which includes administrative expenses). Under such method, beginning in fiscal year 2016-2017, the City’s Normal Cost contribution is the greater of: (1) the dollar amount recommended by the Plan Actuary in the annual valuation report and approved by the Boards (adjusted for time of contribution) or, (2) the dollar amount determined by applying the Normal Cost as a percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year if actual payroll exceeds the actuarial payroll. The portion of the City’s contribution relating to the UAL is set at the dollar amount recommended by the Plan Actuary and adopted by the Boards in the annual actuarial valuation.

The Pension Plans do not employ a “floor funding method” for determining the City’s contribution for Tier 2 members. The City’s contribution for Tier 2 members of the Pension Plans are based on the contribution rate determined by the Plan Actuary and approved by the Boards multiplied by the actual Tier 2 member payroll for each Pension Plan.

The required contributions as determined by the Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City may elect to prefund all or part of its total required contributions to the Pension Plans at the beginning of each fiscal year. The prefunded annual contributions are made on the basis of estimated bi-weekly payroll in the actuarial valuation for the fiscal year and may be increased at the end of the fiscal year based on actual bi-weekly payroll. The amount of the prefunded annual contribution is the actuarial equivalent of contributions made regularly over the course of a year as established by the Boards. To the extent contributions are made after the beginning of the fiscal year, the amounts are adjusted for interest. To determine the City’s “prefunded” annual contribution amount, the Boards, based on the advice of the Plan Actuary and outside investment consultants, set an interest discount rate to be applied by the Plan Actuary to the required contributions to account for the fact that contributions are made and invested at the beginning of the year instead

of made throughout the year and invested thereafter by the Pension Plans. The Boards have implemented an “incremental reduction approach” to set the interest discount rate in a given year. The approach applies the discount rate for the year of the contribution reduced incrementally based on certain broad economic and market benchmarks. This approach is intended to incentivize the City to prefund contributions to the Pension Plans when market valuations may be lower and an economic cycle may be in early stages of expansion and disincentivize for prefunding contributions when market valuations and/or economic expansions may exceed historic patterns.

The City prefunded its contributions for Tier 1 employees under the Pension Plans for fiscal year 2020-2021 with funds on hand and proceeds of tax and revenue anticipation notes in the aggregate principal amount of \$130,000,000 issued in July 2020. The City prefunded its contributions for Tier 1 employees under the Retirement Plans for fiscal year 2021-2022 with funds on hand and proceeds of tax and revenue anticipation notes in the aggregate principal amount of \$285 million issued on July 1, 2021. The projected contributions set forth in this Appendix B do not take into account the prefunding of the City’s contributions for fiscal year 2020-2021 or any future fiscal years.

Historical City and Employee Contributions. Table B-10a shows the City’s actuarially determined annual contribution and actual contribution to the Federated Pension Plan for fiscal years 2015-16 through fiscal year 2020-2021.

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

	2015- 2016⁽¹⁾	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021
Actuarially Determined Contribution	\$ 129,456	\$ 138,483	\$ 156,770	\$ 173,006	\$ 181,327	\$ 183,964
Actual Contribution	124,723	138,483	156,770	173,006	181,327	183,964
Contribution Deficiency (excess)	\$ 4,733	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

⁽¹⁾ Contributions for fiscal year 2013-2014 included \$4.7 million that should have been credited to the Federated Healthcare Plan, and such error was corrected in fiscal year 2015-2016.

Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020 for fiscal years 2015-2016 through 2019-2020; Federated City Employees’ Retirement System GASB 67/68 Report as of June 30, 2021, produced by Cheiron, Inc. for fiscal year 2020-2021.

The member contribution rate for Tier 1 of the Federated Pension Plan is a proportion (3/11ths) of the Normal Cost (including administrative expenses, but excluding reciprocity) with the remaining 8/11ths of the Normal Cost allocated to the City. On June 29, 2021, the City Council introduced an ordinance amending the Municipal Code to cease the Normal Cost contribution of Tier 1 members of the Federated Pension Plan with 30 or more years of service credit as of the effective date of the ordinance. The change is intended by the City to incentivize such members to continue working for the City by increasing their take-home pay. Such members will not be eligible for any return of the amount of Normal Cost contributions made between obtaining 30 years of service credit and the effective date of the ordinance. The ordinance is anticipated to be finally approved on August 3, 2021 and become effective on September 2, 2021. See Table B-4a for a

general description of service retirement pension benefit formulas (excluding early retirement) for Tier 1 members of the Federated Pension Plans as of June 30, 2020.

In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Normal Cost (i.e., the cost of funding reciprocity with other California pension plans), plus an amortization payment on the UAL. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service. The Federated Board set a contribution rate of 3.0% of pay that applies to each such individual member until such member has paid off their individual UAL amount for reclassification. For Tier 2, the members and the City each pay half of the total contribution rate. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member. The member and City contribution rates each cannot be less than 50% of the Normal Cost rate. According to the Plan Actuary, the most significant portion of the City's contribution to the Federated Pension Plan is the portion of the contribution attributable to the UAL for Tier 1, which is substantially attributable to members who no longer work for the City. Table B-10b shows the City's actuarially determined annual contribution and actual contribution to the Police and Fire Pension Plan for fiscal years 2015-2016 through fiscal year 2020-2021.

Table B-10b
Police and Fire Pension Plan
Schedule of City Contributions
(in thousands)

	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021
Actuarially Determined Contribution	\$ 132,480	\$ 136,957	\$ 157,712	\$ 176,618	\$ 188,481	\$ 201,370
Actual Contribution	132,480	136,957	157,712	176,618	188,481	201,370
Contribution Deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020 for fiscal years 2015-2016 through 2019-2020; City of San José Police and Fire Department Retirement Plan GASB 67/68 Report as of June 30, 2021, produced by Cheiron, Inc., for fiscal year 2020-2021.

The member contribution rate for Tier 1 of the Police and Fire Pension Plan is a proportion (3/11ths) of the Normal Cost (excluding reciprocity), plus the employee member's historical share of assumed administrative expenses. In addition, employee members pay a portion of the UAL attributable to certain benefit improvements. The remaining 8/11ths of the Normal Cost is allocated to the City. In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Rate (the cost of funding reciprocity with other California pension plans) and the remaining portion of the UAL rate. For Tier 2 members of the Police and Fire Pension Plan, members and the City share the total contribution rate equally, except that increases in the contributions of members relating to the UAL are limited to one-third of one percent of compensation each year. Table B-11a below summarizes the pension contribution rates for employee members of the Federated Plan for fiscal year 2020-2021 and fiscal year 2021-2022, as adopted by the Federated Board. For fiscal year 2021-2022, the Plan Actuary projects payroll to total \$132.7 million for Tier 1 and \$214.6 million for Tier 2.

**Table B-11a
Federated Pension Plan
Member Contribution Rates**

	2020-21			2021-2022		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
Total Member Normal Cost/Admin Rate ⁽¹⁾	5.15%	2.07%	7.22%	5.25%	2.14%	7.39%
Tier 2						
Member Normal Cost/Admin Rate ⁽²⁾	6.60%	1.08%	7.68%	6.66%	1.12%	7.78%
Member UAL Rate ⁽³⁾	0.15	0.09	0.24	0.26	0.13	0.39
Total Member Rate	6.75%	1.17%	7.92%	6.92%	1.25%	8.17%

⁽¹⁾ Determined by dividing the total Normal Cost plus assumed administrative expenses determined by the Plan Actuary by the payroll expected for members active on the valuation date.

⁽²⁾ Excludes additional reclassified rate (UAL) for Classic and Reclassified Tier 1 Members. According to the Plan Actuary, the increase in the Tier 1 member contribution rate for fiscal year 2020-2021 is primarily due to the discount rate change.

⁽³⁾ Determined by dividing the UAL payment by total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

Source: Resolution No. 9094 approved by the Federated Board on May 21, 2020; Resolution No. 9095 approved by the Federated Board on May 21, 2020; Resolution No. 9097 approved by the Federated Board on May 20, 2021; Resolution No. 9098 approved by the Federated Board on May 20, 2021.

Table B-11b shows the City's contribution in dollars for the Federated Pension Plan for fiscal year 2020-2021 and fiscal year 2021-2022, as adopted by the Federated Board. Because Tier 1 is closed, the City's total Normal Cost contribution for Tier 1 is expected to decrease over time as active Tier 1 members decrease. The portion of the City's contribution rate attributable to the UAL for Tier 1 members is not expected to decrease as Tier 1 members retire or otherwise leave the system, because the City is responsible for all such contributions. The contributions set forth in Table B-11b assume the City makes such contributions in installments throughout the year.

**Table B-11b
Federated Pension Plan
City Contribution Amounts
(in thousands)
(throughout the year)**

	2020-2021			2021-2022		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
City Normal Cost/Admin ⁽¹⁾	\$ 20,062	\$ 8,099	\$ 28,161	\$ 19,736	\$ 8,056	\$ 27,792
City UAL Cost ⁽²⁾⁽³⁾	77,179	71,281	148,460	84,804	75,890	160,694
Total City Contribution	\$ 97,241	\$ 79,380	\$ 176,621	\$ 104,540	\$ 83,946	\$ 188,486
Tier 2						
Total City Contribution⁽⁴⁾	\$ 12,193	\$ 2,114	\$ 14,307	\$ 14,847	\$ 2,682	\$ 17,529

⁽¹⁾ Includes the reciprocity rate for the prefunding of the liability for reciprocal benefits with certain other California public pension plans. The Plan Actuary reports that the decrease in the City's Normal Cost Tier 1 contribution in fiscal year 2021-2022 is due to the decline in Tier 1 active members.

⁽²⁾ Includes the deficiency rate for the amortization of the funding deficiency and the golden handshake rate for the cost for funding additional benefits granted in the past to certain retiring employees.

⁽⁴⁾ The Plan Actuary reports that the increase in the City's total contribution for Tier 2 is due primarily to the growth in Tier 2 membership. Source: Resolution No. 9094 approved by the Federated Board on May 21, 2020; Resolution No. 9095 approved by the Federated Board on May 21, 2020; Resolution No. 9097 approved by the Federated Board on May 20, 2021; Resolution No. 9098 approved by the Federated Board on May 20, 2021.

Table B-11c below summarizes the pension contribution rates for employee members of the Police and Fire Plan for fiscal year 2020-2021 and fiscal year 2021-2022, as adopted by the Police and Fire Board.

Table B-11c Police and Fire Pension Plan Member Contribution Rates						
	2020-2021			2021-2022		
	<u>Basic</u>	<u>COLA</u>	<u>Total</u>	<u>Basic</u>	<u>COLA</u>	<u>Total</u>
<u>Police Tier 1</u>						
Member Normal Cost/Admin Rate	7.35%	3.33%	10.68%	7.41%	3.40%	10.81%
Member UAL Rate ⁽¹⁾	0.03	0.01	0.04	0.03	0.01	0.04
Total Member Rate	7.38%	3.34%	10.72%	7.44%	3.41%	10.85%
<u>Police Tier 2</u>						
Member Normal Cost/Admin Rate	11.21%	2.94%	14.15%	11.45%	3.10%	14.55%
Member UAL Rate	(0.04)	0.07	0.03	(0.16)	0.04	(0.12)
Total Member Rate	11.17%	3.01%	14.18%	11.29%	3.14%	14.43%
<u>Fire Tier 1</u>						
Member Normal Cost/Admin Rate	8.01%	3.71%	11.72%	8.11%	3.80%	11.91%
Member UAL Rate ⁽¹⁾	--	--	--	--	--	--
Total Tier 1 Member Rate	8.01%	3.71%	11.72%	8.11%	3.80%	11.91%
<u>Fire Tier 2</u>						
Member Normal Cost/Admin Rate	12.22%	3.32%	15.54%	12.10%	3.25%	15.35%
Member UAL Rate	(0.06)	0.05	(0.01)	(0.10)	0.03	(0.07)
Total Tier 2 Member Rate	12.16%	3.37%	15.53%	12.00%	3.28%	15.28%

⁽¹⁾ Excludes additional reclassified rate (UAL) for Classic and Reclassified Tier 1 Members
Source: Resolution No. 4816 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4817 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4818 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4819 approved by the Police and Fire Board on June 4, 2020; Resolution No.4821 approved by the Police and Fire Board on May 6, 2021; Resolution No.4822 approved by the Police and Fire Board on May 6, 2021; Resolution No.4823 approved by the Police and Fire Board on May 6, 2021; Resolution No.4824 approved by the Police and Fire Board on May 6, 2021.

Table B-11d shows the City's contribution in dollars for the Police and Fire Pension Plan for fiscal year 2020-2021 and fiscal year 2021-2022, as adopted by the Police and Fire Board. The contributions set forth in Table B-11d assume the City makes such contributions in installments throughout the year.

Table B-11d Police and Fire Pension Plan City Contribution Amounts <i>(in thousands)</i>						
	2020-2021			2021-2022		
Police	Basic	COLA	Total	Basic	COLA	Total
<u>Tier 1</u>						
City Normal Cost/Admin	\$ 20,526	\$ 9,122	\$ 29,649	\$ 19,180	\$ 8,216	\$ 27,396
City UAL Cost	35,445	44,539	79,984	40,137	40,784	80,921
Total City Contribution	\$ 55,971	\$ 53,661	\$ 109,633	\$ 59,317	\$ 49,000	\$ 108,317
<u>Tier 2</u>						
Total City Contribution	\$ 6,522	\$ 1,757	\$ 8,279	\$ 7,598	\$ 2,113	\$ 9,711
Fire						
<u>Tier 1</u>						
City Normal Cost/Admin	\$ 16,164	\$ 7,470	\$ 23,634	\$ 16,483	\$ 7,709	\$ 24,192
City UAL Cost	27,219	33,995	61,214	35,681	35,206	70,887
Total City Contribution	\$ 43,383	\$ 41,465	\$ 84,848	\$ 52,164	\$ 42,915	\$ 95,079
<u>Tier 2</u>						
Total City Contribution	\$ 2,509	\$ 695	\$ 3,204	\$ 2,944	\$ 805	\$ 3,749

Source: Resolution No. 4816 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4817 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4818 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4819 approved by the Police and Fire Board on June 4, 2020; Resolution No.4821 approved by the Police and Fire Board on May 6, 2021; Resolution No.4822 approved by the Police and Fire Board on May 6, 2021; Resolution No.4823 approved by the Police and Fire Board on May 6, 2021; Resolution No.4824 approved by the Police and Fire Board on May 6, 2021.

Projected City Contributions. Table B-12a provides 20-year projections of City contributions calculated by the Plan Actuary for the Federated Pension Plan assuming such contributions are made by the middle of the year as of January 15, 2021.

Table B-12a Federated Pension Plan 20-Year Projections of Contributions <i>(in thousands)</i> <i>(middle of the year)</i>		
Fiscal Year Ended June 30	Projected City Contribution Amount	Projected Total Contribution Rate (% of Payroll)
2022	\$ 206,015	58.56%
2023	212,762	58.72
2024	219,787	58.89
2025	226,590	58.94
2026	232,536	58.73
2027	237,757	58.30
2028	243,224	57.90
2029	248,302	57.39
2030	254,238	57.05
2031	260,401	56.73
2032	259,264	54.84
2033	265,843	54.59
2034	262,535	52.34
2035	259,432	50.22
2036	269,526	50.65
2037	277,362	50.61
2038	246,674	43.70
2039	244,361	42.02
2040	236,386	39.47
2041	119,561	19.38

Source: Cheiron 5-Year Budget Projections for Federated Plan January 15, 2021.

For the Federated Pension Plan, the 20-year projections set forth above show total contribution rates (as a percentage of payroll) increasing for the next few years due to recognition of recent losses recognized as a result of investment returns below the discount rate. Commencing in 2038, the City's total contribution rate is projected to gradually decrease through 2041. The gradual decrease in the City contribution rate is driven by the gradual decrease in the Normal Cost rate as Tier 2 becomes a greater proportion of the active membership and the gradual decrease in the UAL rate as payroll is expected to grow slightly faster than amortization payments. Table B-12b provides 20-year projections of City contributions calculated by the Plan Actuary for the Police and Fire Pension Plan assuming such contributions are made by the middle of the year as of January 27, 2021.

Table B-12b
Police and Fire Pension Plan
20-Year Projections of Contributions
(in thousands)
(middle of the year)

Fiscal Year Ended June 30	Projected City Contribution Amount	Projected Total Contribution Rate (% of Payroll)
2022	\$ 216,856	87.4%
2023	223,469	87.5
2024	224,823	85.4
2025	228,061	84.2
2026	233,946	83.8
2027	237,579	82.6
2028	239,361	80.8
2029	240,561	78.9
2030	230,835	73.5
2031	208,886	64.6
2032	201,430	60.4
2033	184,963	53.9
2034	158,391	44.8
2035	151,637	41.6
2036	127,604	34.0
2037	108,681	28.1
2038	95,797	24.1
2039	106,745	26.0
2040	92,307	21.9
2041	80,990	18.6

Source: Cheiron 5-Year Budget Projections for Police and Fire Plan January 27, 2021.

For the Police and Fire Pension Plan, the 20-year projections set forth above show total contribution rates (as a percentage of payroll) increasing in 2023 but declining gradually in the years afterwards as portions of the UAL are fully amortized.

It is certain that not all assumptions in the 20-year projections for the Pension Plans will be exactly met each and every year. In the Federated 2020 Pension Plan Actuarial Report and the Police and Fire 2020 Pension Plan Actuarial Report, the Plan Actuary notes that there is a significant level of uncertainty in projections of the future, the largest source of which is the projection of investment returns. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates. See "SUMMARY OF FEDERATED PLAN – Summary of Historical and Projected Contributions – Plan Risks."

As previously described, many factors influence the projections of the City's contributions to the Pension Plans, including, without limitation, changes in actuarial assumptions or methods, and differences between actual and anticipated investment performance. Meketa Investment Group, the Pension Plans' investment consultant, reports that annual investment returns for the Pension Plans for fiscal year 2020-2021 exceeded 25%. As of September 30, 2021, the Plan Actuary projects that, assuming all other assumptions are met, based on the actual investment returns for fiscal year 2020-2021, the City's contributions to the Pension Plans are projected to total approximately \$_____ for fiscal year 2022-23, approximately \$_____ for fiscal year 2025-26 and approximately \$_____ for fiscal year 2032-33. See "– Investments" below. The projections set

forth in the tables B-12a and B-12b do not take into account actual investment returns for fiscal year 2020-2021.

Investments

The State Constitution and the Municipal Code provide that the Boards have exclusive control over the investment of the assets of their respective Pension Plan. The Municipal Code also specifies that the Boards are to manage the investments for the purpose of providing benefits to its members and beneficiaries, maintaining the actuarial soundness of the Pension Plans, and defraying reasonable expenses of administering the plan. The Boards have retained investment consultants to advise it.

Table B-13 shows the historical annual returns for the Pension Plans at the identified interval as reported by their investment consultant in its quarterly reports for the period ending June 30, 2021.

Table B-13 Pension Plans Historical Investment Performance (As of June 30, 2021)		
Measurement Period	Federated Pension Plan Rate of Return^(1,2,4)	Police and Fire Pension Plan Rate of Return^(1,2,3)
Since Inception	7.2%	8.6%
10 Years	6.4	6.9
5 Years	9.7	9.7
3 Years	11.8	10.7
1 Year	29.2	26.3

⁽¹⁾ The returns for certain investments (Equity Aggregate) are gross of fees through June 2015 and net of fees thereafter.
⁽²⁾ Net of fees.
⁽³⁾ Measurement Period Beginning January 1994.
⁽⁴⁾ Measurement Period Beginning March 1971. *Source: Meketa Investment Group Federated Pension Plan Quarterly Review June 30, 2021; Meketa Investment Group Police and Fire Pension Plan Quarterly Review June 30, 2021.*

Meketa Investment Group, the Pension Plans' investment consultant, reports that the fiscal year to date investment return for the Federated Pension Plan and the Police and Fire Pension Plan for 2021-2022 was approximately 2.08% and 2.24%, respectively, as of August 31, 2021. Annually, the Boards receive projections from its investment consultants for the expected net rates of return based on approved target asset allocations. Investment returns and the subsequent risk associated with those returns are partially a function of the underlying assets of the Pension Plans. The Boards, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with its diversification goals and risk tolerance.

Table B-14 shows the asset allocation targets for the Pension Plans. Asset allocation targets represent the ultimate allocation goals of the Pension Plans. However, during periods of allocation transition, asset allocation target objectives may not be achieved. The Pension Plans are in the process of transitioning the asset allocations to new asset allocation targets shown in Table B-14. Changes to the allocations of illiquid asset classes may take several quarters to implement.

Table B-14
Pension Plans
Target Asset Allocations

Asset Class	Federated Pension Plan Target %	Police and Fire Pension Plan Target %
Growth	75	69
Public Equity	49	46
Private Markets	21	19
Private Equity	8	7
Venture/Growth Capital	4	3
Private Debt	3	3
Growth Real Estate	3	3
Private Real Assets	3	3
Emerging Markets Bonds	3	2
High Yield Bonds	2	2
Low Beta	8	8
Market Neutral Strategies	3	3
Bonds (Immunized Cash Flows)	5	5
Other	17	23
Core Real Estate	5	5
Commodities	0	2
Long-Term Government Bonds	2	3
Investment Grade Bonds	8	11
TIPS	2	2
<i>10-Year Expected Return ⁽¹⁾</i>	<i>6.9</i>	<i>5.9</i>
<i>20-Year Expected Return⁽¹⁾</i>	<i>7.8</i>	<i>6.8</i>
<i>Standard Deviation ⁽¹⁾</i>	<i>13.6</i>	<i>11.8</i>
<small>⁽¹⁾ The City provides no assurance that actual returns will not be less than those expected by the Boards. Source: Federated City Employees' Retirement System Investment Policy Statement, Approved by the Federated Board on April 16, 2020; Police and Fire Employees' Retirement System Investment Policy Statement, Approved by the Police and Fire Board on May 7, 2020; City of San Jose, Office of Retirement Services.</small>		

For a description of the types of investments in each asset class identified in Table B-14, please see each Investment Policy Statement. A copy of the Investment Policy Statement for the Federated Pension Plan may be found at https://www.sjretirement.com/Uploads/Fed/200518_May%202020%20IPS%20Fed.pdf. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. A copy of the Investment Policy Statement for the Police and Fire Pension Plan may be found at https://www.sjretirement.com/Uploads/PF/200518_May%202020%20IPS%20PoliceFire.pdf. The City makes no representation as to the accuracy or completeness of any of the information on such website. See also the Federated 2020 Comprehensive Annual Financial Report and Police and Fire 2020 Comprehensive Annual Financial Report.

HEALTHCARE PLANS

General

The Healthcare Plans provide eligible retirees, their dependents, and survivors with health and dental benefits. For health benefits, the Healthcare Plans pay that portion of the premium that is equivalent to the premium for the lowest-priced medical plan with which the City contracts for medical benefits for active City employees. If the retiree elects a medical plan that is not the lowest priced plan, the eligible retiree or survivor pays the difference between the portion paid by their Healthcare Plan and that charged by the medical care provider. In the case of dental benefits, the Healthcare Plans pay the entire premium. Retired members of the Healthcare Plans eligible for medical and/or dental benefits may elect annually not to receive benefits for the plan year and participate in the in-lieu credit program, providing a credit equal to 25% of the lowest cost plan for that year which may be applied to member premiums in future years.

As described in “CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS,” the Healthcare Plans are closed to new members. Generally, members of the Retirement Plans that were hired before July 2013 and did not elect to opt into the VEBA for the applicable Retirement Plan are eligible for defined benefit retiree healthcare benefits from their Healthcare Plans. Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provided through their Healthcare Plan until the member is eligible for Medicare after exhausting all funds in their individual VEBA account.

The contributions for the members who opted into the applicable VEBA for the Healthcare Plans and opted out of the Healthcare Plans were transferred to the applicable VEBA in March 2018. As of June 30, 2020, approximately \$13.53 million and \$7.9 million in contributions had been transferred to the VEBA for the Federated Healthcare Plan and Police and Fire Plan, respectively. Eligible employees who are rehired by the City during calendar years 2018 through 2022 may opt into the applicable VEBA for the Healthcare Plans if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the applicable Healthcare Plan to their VEBA account. The financial reporting, disclosure, and accounting for costs and obligations related to the Healthcare Plans are consistent with the requirements of GASB Statement No. 74 and GASB Statement No. 75. The Healthcare Plans provide financial reporting according to the requirements of GASB Statement No. 74. The City provides financial reporting, disclosure, and accounting for costs and obligations related to the Healthcare Plans according to the requirements of GASB Statement No. 75. GASB Statement No. 74 and GASB Statement No. 75 require the liability for OPEB obligations, known as the Net OPEB Liability, and an OPEB expense to be recognized in the financial statements of the Healthcare Plans and the City. OPEB expense under GASB Statement No. 74 and GASB Statement No. 75 recognizes deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period. See “RETIREMENT PLANS IN GENERAL – Implementation of Certain Accounting Changes Relating to Retirement Plans.”

Establishment of Section 115 Trusts; Internal Revenue Code Limitations

The Section 401(h) of the Code permits a pension plan to provide retiree healthcare benefits under certain conditions, including when: (1) a separate account (i.e., a 401(h) account) is maintained for the healthcare benefits; and (2) the healthcare benefits are subordinate to the pension benefits. Under IRS regulations, subordination means that the contributions for

healthcare benefits do not exceed 25% of the aggregate contributions excluding contributions to fund past service credits. Exceeding the subordination limit puts a pension plan at risk of losing its tax-exempt status, which in turn, would subject the pension plan's income to the payment of income tax and reduce the assets available for the payment of benefits.

To avoid exceeding the subordination limit for the 401(h) accounts held in the Pension Plans, the City Council enacted an ordinance to establish a separate trust under Section 115 of the Code for the Federated Plan effective June 2011 (the "**Federated 115 Trust**"), an ordinance to establish a separate trust under Section 115 of the Code for the Police members effective June 2012 (the "**Police 115 Trust**"), and an ordinance to establish a separate trust under Section 115 of the Code for the Fire members effective June 2012 (the "**Fire 115 Trust**" and together with the Police 115 Trust, the "**Police and Fire 115 Trust**"). The Police 115 Trust and Fire 115 Trust operate as sub trusts of a single trust under Section 115 of the Code. The Federated Board serves as the board of trustees for the Federated 115 Trust, and the Police and Fire Board serves as the board of trustees for the Police 115 Trust and Fire 115 Trust. The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019, leaving only the Federated 115 Trust in the Federated Healthcare Plan. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Assets in a trust established by the City under Section 115 of the Code are not available to satisfy liabilities of any other trust established under Section 115 of the Code .

The Boards received private letter rulings from the IRS on the tax-exempt status of the Federated 115 Trusts, the Police 115 Trust, and the Fire 115 Trust. Additionally, on August 6, 2013, in response to the City's request, the IRS issued a private letter ruling indicating that employee contributions into the Federated 115 Trust, the Police 115 Trust, and the Fire 115 Trust may be made as employer contributions and therefore are excludable from the employee's gross income and are not subject to income or other employment taxes. Employee contributions to the Federated 115 Trust commenced on December 22, 2013. To date, employee contributions to the Police 115 Trust and the Fire 115 Trust have not commenced.

The Boards have been advised that the contributions to the Federated 115 Trust the Police 115 Trust, and the Fire 115 Trust must be treated as non-refundable in order to maintain the tax-exempt status of such trusts. The Retirement Plans permit employee pension and retiree healthcare contributions held in the 401(h) accounts to be refunded. To date, retiree healthcare contributions have been refunded from the respective pension funds of the Pension Plans, not the respective 401(h) accounts therein. Federated employees are only eligible to receive the portion of their retiree healthcare contributions that were made to the 401(h) account before January 1, 2014. After such date, all employee contributions were placed into the Federated 115 trust. Employees have to take a return of contributions from the pension and retiree healthcare plans in order to receive the amount that they previously contributed into the 401(h) account.

Funding Status

General. Following is a summary of the funded status of the Healthcare Plans on an actuarial and financial statement basis.

Actuarial Funded Status. The Federated 2020 Healthcare Plan Actuarial Report and the Police and Fire 2020 Healthcare Plan Actuarial Report are the most recent actuarial valuations available for the Federated Healthcare Plan and the Police and Fire Healthcare Plan, respectively, as of the date of this Official Statement. The following information is derived primarily from such report.

Tables B-15a, B-15b, B-16a and B-16b show the respective Market Value of Assets, the Actuarial Value of Assets and Total Actuarial Liability of the Federated Healthcare Plan. Actuarial valuations of a plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about claim costs, health care trend rates and dependent coverage elections. These measures, including the UAL and funded ratio as described in this Appendix B, are intended to be used to assess contribution amounts for an ongoing other post-employment benefits plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the respective obligations of the Healthcare Plans on a risk-free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial calculations and such deviations may be material.

Table B-15a
Federated Healthcare Plan
Assets and Liabilities
(in thousands)

	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>% Change</u>
Total Actuarial Liability	\$ 631,752	\$ 650,419	3.0%
Market Value Assets ⁽¹⁾	294,489	303,313	3.0
Explicit Subsidy Unfunded Actuarial Liability	246,326	255,764	3.8
Explicit Subsidy Funded Percentage	54.5%	54.3%	(0.4)
Total Unfunded Actuarial Liability ⁽²⁾	\$ 337,263	\$ 347,106	2.9
Total Funded Percentage	46.6%	46.6%	0.0

⁽¹⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$384.6 million as June 30, 2021.

⁽²⁾ According to the Plan Actuary, the net increase in the UAL is due to (i) assumption changes primarily relating to plan election assumptions and the decrease in the discount rate from 6.75% to 6.25% (resulting in an increase of approximately \$35.5 million), and investment experience and VEBA transfers (resulting in an increase of approximately \$17.7 million), offset by (ii) liability experience primarily driven by decreases in the Medicare eligible premium rates offset by demographic experience (resulting in a decrease of approximately \$32.9 million), and contributions in excess of the amount needed to pay the normal cost and interest on the UAL (resulting in a decrease of approximately \$10.9 million).

Source: Federated 2020 Healthcare Plan Actuarial Report.

Table B-15b
Police and Fire Healthcare Plan
Assets and Liabilities
(in thousands)

	June 30, 2019	June 30, 2020	% Change
Total Actuarial Liability	\$ 693,329	\$ 739,014	6.6%
Market Value Assets ⁽¹⁾	185,957	208,531	12.1
Explicit Subsidy Unfunded Actuarial Liability	424,123	471,777	11.2
Explicit Subsidy Funded Percentage	30.5%	30.7%	0.6
Total Unfunded Actuarial Liability ⁽²⁾	\$ 507,372	\$ 530,483	4.6
Total Funded Percentage	26.8%	28.2%	5.2

⁽¹⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$276.3 million as June 30, 2021.

⁽²⁾ According to the Plan Actuary, the net increase in the UAL is due to (i) assumption changes primarily relating to the decrease in the discount rate from 6.75% to 6.25%, investment experience and contributions less than the amount needed to pay the normal cost and interest on the UAL offset by (ii) liability experience primarily driven by decreases in the Medicare eligible premium rates offset by demographic experience.

Source: Police and Fire 2020 Healthcare Plan Actuarial Report.

Table B-16a
Federated Healthcare Plan
Market Value of Assets
(in thousands)

	2018-2019	2019-2020
Market Value, Beginning of Year	\$ 277,257	\$ 294,488
Contributions		
Member	10,578	10,692
City	22,328	21,790
Implicit Subsidy	4,082	4,743
Total	\$ 36,988	\$ 37,225
Net Investment Earnings ⁽¹⁾	9,472	3,075
Benefit Payments ⁽²⁾	(28,826)	(30,779)
Admin Expense	(384)	(686)
VEBA Transfer	(19)	(13)
Market Value, End of Year⁽³⁾	\$ 294,488	\$ 303,310

⁽¹⁾ Gross investment earnings less investment expenses.

⁽²⁾ Includes both explicit and implicit subsidies. The implicit subsidy is shown as both a contribution and a payment from the plan, but it is not actually contributed to the trust or paid from the trust. It is paid by the City as a part of active health plan premiums.

⁽³⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$384.6 million as June 30, 2021.

Source: Federated 2020 Comprehensive Annual Financial Report.

In the Federated 2020 Healthcare Plan Actuarial Report, the Plan Actuary further notes that if all assumptions are met in the future, including an expected return of 6.25% each year, the funded percentage for the explicit subsidy is expected to exceed 100% by 2038.

Table B-16b Police and Fire Healthcare Plan Market Value of Assets <i>(in thousands)</i>		
	2018-2019	2019-2020
Market Value, Beginning of Year	\$ 162,520	\$ 185,957
Contributions		
Member	13,315	13,135
City	23,028	27,350
Implicit Subsidy	5,716	7,243
Total	\$ 42,059	
Net Investment Earnings ⁽¹⁾	7,907	7,243
Benefit Payments	(26,403)	(25,031)
Admin Expense	(126)	(122)
VEBA Transfer	--	--
Market Value, End of Year⁽²⁾	\$ 185,957	\$ 208,532

⁽¹⁾ Gross investment earnings less investment expenses.
⁽²⁾ According to the Plan Actuary, the Market Value of Assets was approximately \$276.3 million as June 30, 2021.
Source: Police and Fire 2020 Comprehensive Annual Financial Report.

In the Police and Fire 2020 Healthcare Plan Actuarial Report, the Plan Actuary further notes that if all assumptions are met in the future, including an expected return of 6.25% each year, and the City does not impose its optional cap on contributions, the funded percentage for the explicit subsidy is expected to reach about 98% by 2044. If the City imposes its optional cap on contributions every year, the funded percentage for the explicit subsidy is expected to only reach 75% by 2044. See “HEALTHCARE PLANS – Contributions – General” below for a discussion regarding the City’s optional cap on contributions to the Healthcare Plans.

The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019 as a result of Federated Healthcare Plan contributions having been made solely to the Federated 115 Trust while at the same time benefits having been paid only from the Federated Healthcare Plan 401(h) account. All Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. The expected investment returns for the Federated Healthcare Plan will be based solely on the investment policy of the Section 115 Trust.

Table B-17a and Table B-17b show the respective UAL and Funded Ratio of the Healthcare Plans from as of June 30 of the years 2011 through 2020.

Table B-17a
Federated Healthcare Plan
Schedule of OPEB Funding Progress
(in thousands)

Valuation Date (June 30)	Market Value of Assets	Actuarial Liability	UAL	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
2011	\$135,454	\$ 1,145,360	\$1,009,906	12%	\$228,936	441%
2012	137,798	1,096,620	958,822	13	225,859	425
2013	157,695	870,872	713,177	18	226,098	315
2014	199,776	729,406	529,630	27	234,677	226
2015	209,761	817,673	607,912	26	251,430	242
2016	225,845	764,261	538,416	30	266,823	202
2017	248,583	630,452	381,869	39	287,339	133
2018	277,256	650,114	372,858	43	298,985	125
2019	294,489	631,752	337,263	47	299,002	113
2020	303,313	650,419	347,106	47	322,850	108

Source: Federated 2020 Healthcare Plan Actuarial Report.

As shown in Table B-17a, the UAL of the Federated Healthcare Plan decreased approximately \$663 million from approximately \$1 billion as of the June 30, 2011 valuation date to approximately \$347 million as of the June 30, 2020 valuation date, a decrease of 66%. The Plan Actuary further reports that, excluding the portion of the UAL relating to the implicit subsidy, the UAL decreased approximately \$357 million from approximately \$613 million as of the June 30, 2011 valuation date to approximately \$255 million as of the June 30, 2020 valuation date, a decrease of 58%.

According to the Plan Actuary, the decrease over the past 10 fiscal years in the UAL of the Federated Healthcare Plan, excluding the portion thereof relating to the implicit subsidy, is due to a combination of a reduction in the Actuarial Liability of \$189 million and an increase in assets of \$168 million. The Plan Actuary reports that the reduction in Actuarial Liability was primarily due to plan changes and favorable medical cost trend experience. The increase in the assets has been primarily attributable to contributions. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions. See "HEALTHCARE PLANS – Contributions – General" for a discussion regarding the implicit subsidy.

In December 2020, the Federated Board adopted changes to the economic assumptions for the Federated 2020 Healthcare Plan Actuarial Report, which included a reduction in the discount rate from 6.75% to 6.25%.

As further shown in Table B-17a, the Federated Healthcare Plan's UAL was 108% of total covered annual payroll as of the June 30, 2020 valuation date of the Federated 2020 Healthcare Plan Actuarial Report. As a result, to fully fund the UAL of the Federated Healthcare Plan contributions would need to exceed 1.08 times the covered payroll for fiscal year 2019-2020.

Table B-17b
Police and Fire Healthcare Plan
Schedule of OPEB Funding Progress
(in thousands)

Valuation Date (June 30)	Market Value of Assets	Actuarial Liability	UAL	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
2011	\$60,709	\$1,003,795	\$943,086	6.0%	\$190,726	494%
2012	66,385	997,321	930,936	6.7	172,626	539
2013	75,035	700,525	625,490	10.7	184,645	339
2014	93,605	706,710	613,105	13.2	188,189	326
2015	114,565	739,753	625,188	15.5	184,733	338
2016	135,207	778,871	643,664	17.4	194,072	332
2017	142,517	680,246	537,729	21.0	203,816	264
2018	162,519	747,274	584,755	21.7	218,429	268
2019	185,957	693,329	507,373	26.8	235,818	215
2020	208,532	739,014	530,483	28.2	240,798	220

Source: Police and Fire 2020 Healthcare Plan Actuarial Report.

As shown in Table B-17b, the UAL of the Police and Fire Healthcare Plan decreased approximately \$413 million from approximately \$943 million as of the June 30, 2011 valuation date to approximately \$530.5 million as of the June 30, 2020 valuation date, a decrease of 44%.

According to the Plan Actuary, the decrease over the past 10 fiscal years in the UAL of the Police and Fire Healthcare Plan, excluding the portion thereof relating to the implicit subsidy, is due to a combination of increases and decreases during that period. Specifically, the Plan Actuary reports the reduction in the Actuarial Liability from 2011 to 2013 was primarily due to plan changes and favorable medical cost trend experience, offset by changes in the discount rate. The increase in the Actuarial Liability from 2014 through 2016 was primarily the expected growth of the Actuarial Liability with some adjustments due to changes in assumptions. The decrease in the Actuarial Liability in 2017 was primarily due to plan changes and health assumption changes. The increase in the Actuarial Liability from 2018 to 2020 is primarily due to assumption changes, including the reduction of the discount rate from 6.875% to 6.50% in 2018 and from 6.50% to 6.25% in 2020. See "HEALTHCARE PLANS – Contributions – General" for a discussion regarding the implicit subsidy.

In January 2021, the Police and Fire Board adopted changes to the economic assumptions for the Police and Fire 2020 Healthcare Plan Actuarial Report, which included a reduction in the discount rate from 6.50% to 6.25%.

As further shown in Table B-17b, the Police and Fire Healthcare Plan's UAL was 220% of total covered annual payroll as of the June 30, 2020 valuation date of the Police and Fire 2020 Healthcare Plan Actuarial Report. As a result, to fully fund the UAL of the Police and Fire Healthcare Plan contributions would need to exceed 2.20 times the covered payroll for fiscal year 2019-2020.

Net OPEB Liability. For purposes of financial reporting, GASB Statements No. 74 and 75 require the Healthcare Plans and the City, respectively, to report Net OPEB Liability in their respective financial statements. Net OPEB Liability is measured as the Total OPEB Liability less the OPEB plan fiduciary net position. The City's financial statements calculate Net OPEB Liability using a measurement date that is one year prior to the measurement date used for the Plans financial statements. As a result, the respective financial statements of the Retirement Plans show Net OPEB Liability one year later in date.

Table B-18a and Table B-18b set forth the respective Total OPEB Liability of the Healthcare Plans as of June 30, 2019 and June 30, 2020 based on results of an actuarial valuation date of June 30, 2018 and June 30, 2019, respectively, rolled-forward to June 30, 2019 and June 30, 2020, respectively, using generally accepted actuarial procedures.

Table B-18a Federated Healthcare Plan Components of Net OPEB Liability <i>(in thousands)</i>			
	June 30, 2019	June 30, 2020	% Change
Total OPEB Liability	\$ 672,193	\$ 649,866	(3.3%)
Plan fiduciary net position	(294,488)	(303,310)	3.0%
Net OPEB Liability	\$ 377,705	\$ 346,556	(8.2%)
Plan fiduciary net position as a percentage of the Total OPEB Liability	43.8%	46.7%	6.6%

Source: Federated 2020 Comprehensive Annual Financial Report.

In September 2021, the Plan Actuary released its report providing accounting and financial disclosure information under GASB Statement No. 74 and 75 for the Federated Healthcare Plan as of June 30, 2021. According to such report, as June 30, 2021, the Federated Healthcare Plan had Total OPEB Liability of approximately \$665.5 million, Fiduciary Net Position of approximately \$384.6 million, and Net OPEB Liability of approximately \$280.8 million.

Table B-18b Police and Fire Healthcare Plan Components of Net OPEB Liability <i>(in thousands)</i>			
	June 30, 2019	June 30, 2020	% Change
Total OPEB Liability	\$ 784,082	\$ 725,788	(7.4%)
Plan fiduciary net position	(185,957)	208,532	12.1%
Net OPEB Liability	\$ 598,125	\$ 517,256	(13.5%)
Plan fiduciary net position as a percentage of the Total OPEB Liability	23.7%	28.7%	21.1%

Source: Police and Fire 2020 Comprehensive Annual Financial Report.

In September 2021, the Plan Actuary released its reports providing accounting and financial disclosure information under GASB Statement No. 74 and 75 for the Police and Fire

Healthcare Plan as of June 30, 2021. According to such reports, as June 30, 2021, the Police and Fire Healthcare Plan had Total OPEB Liability of approximately \$771.8 million, Fiduciary Net Position of approximately \$276.3 million, and Net OPEB Liability of approximately \$495.5 million.

Actuarial Assumptions

Actuarial assumptions used for the valuations for the health and dental benefits provided by the Healthcare Plans are generally the same as are used for the valuations of the respective Pension Plans. In addition to such assumptions, the Plan Actuary employs assumptions with respect to future healthcare utilization and inflation. See “PENSION PLANS – Actuarial Assumptions.” Table B-19a and Table B-19b summarize the actuarial valuation methods and assumptions employed by the Plan Actuary in the Federated 2020 Healthcare Plan Actuarial Report and the Police and Fire 2020 Healthcare Plan Actuarial Report, respectively.

Table B-19a
Federated Healthcare Plan
Healthcare Actuarial Assumptions

Valuation Date	June 30, 2020
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed, layers
Amortization period	20 Years -3 year phase in and out
Asset valuation method ⁽¹⁾	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	3.00%
Discount Rate	6.25%

⁽¹⁾ The market value of assets means the actual value of assets, and not the smoothed value, is used.

Source: Federated 2020 Healthcare Plan Actuarial Report.

Table B-19b
Police and Fire Healthcare Plan
Healthcare Actuarial Assumptions

Valuation Date	June 30, 2020
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay, closed, layers
Amortization period	25 Years -3 year phase in and out
Asset valuation method ⁽¹⁾	Market Value
Actuarial Assumptions:	
Payroll Growth Rate ⁽²⁾	3.00%
Discount Rate	6.25%

⁽¹⁾ The market value of assets means the actual value of assets, and not the smoothed value, is used.

⁽²⁾ For Fire Members, 4.25% is assumed for Fiscal Year 2021-2022 and 3.00% for all other years.

Source: Police and Fire 2020 Healthcare Plan Actuarial Report.

The net rate of return assumed by the Healthcare Plans represent the long-term expected rate of return on the plan's investments net of investment expenses. In December 2020 and January 2021, the Federated Board and the Police and Fire Board, respectively, adopted changes to the economic assumptions for the Federated 2020 Healthcare Plan Actuarial Report and the Police and Fire 2020 Healthcare Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate to 6.25%. Table B-20a and Table B-20b show the historical discount rates for the Federated Healthcare Plan and the Police and Fire Healthcare Plan, respectively, from the June 30, 2011 valuation through the June 30, 2020 valuation.

Table B-20a
Federated Healthcare Plan
Historical Discount Rates

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
7.50%	7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.75%	6.75%	6.25%

Source: Federated 2020 Healthcare Plan Actuarial Report.

Table B-20b
Police and Fire Healthcare Plan
Historical Discount Rates

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
7.50%	7.25%	7.125%	7.00%	7.00%	6.875%	6.875%	6.50%	6.50%	6.25%

Source: Police and Fire 2020 Healthcare Plan Actuarial Report.

Contributions

General. The annual contribution costs for the benefits of the Healthcare Plans are allocated to both the City and the active employee members. Historically, member and City contributions to the Healthcare Plans were negotiated through collective bargaining and were not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions by the City and the participating employees to the Healthcare Plans were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years for the Federated Healthcare Plan and over 10 years for the Police and Fire Healthcare Plan. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution for the retiree health and dental benefits provided by the Healthcare Plans as calculated pursuant to GASB Statements No. 43 and 45 as then in effect. However, the contribution rates for the City and members of the Healthcare Plans were capped before the full annual required contribution was reached.

With the implementation of Measure F, member contributions are fixed as a percentage of pay, and the City's contribution toward the explicit subsidy (premium subsidy) is an Actuarially Determined Contribution. The City has an option to limit its Actuarially Determined Contribution to a fixed percentage of the payroll of all active members eligible for full benefits or catastrophic disability benefits under the Healthcare Plans. The Plan Actuary commenced calculating the Actuarially Determined Contribution for the Healthcare Plans in fiscal year 2018-2019. See

“CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS” for a discussion of Measure F.

According to the Plan Actuary, because new entrants to the Healthcare Plans are only entitled to catastrophic disability benefits and do not contribute to the Healthcare Plans, member contributions are expected to decline as current active members eligible for full benefits retire or otherwise leave active employment with the City. Because member contributions pay all of the Normal Cost plus a portion of the UAL, the City's Actuarially Determined Contribution is expected to increase slightly as the member contributions decrease.

The City pays the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees. The liabilities for the implicit subsidy have been included in the GASB Statements No. 74 and 75 disclosure calculations reported in the financial statements of the Healthcare Plans and the City. The implicit subsidy is included in the actuarial valuations of the Federated Healthcare Plan. The implicit subsidy is shown in such statements as both a contribution and payment from the respective Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Healthcare Plans. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The Plan Actuary separately calculates the total UAL, being the aggregate UAL for both implicit and explicit subsidies, and the UAL for only the explicit subsidy. The UAL for the explicit subsidy is used to calculate the City's Actuarially Determined Contribution to the Federated 115 Trust. The total implicit subsidy relating to the Federated Healthcare Plan for fiscal year 2020-2021 is \$5 million.

Effective March 25, 2018, the Tier 1 and Tier 2 members in the Federated Healthcare Plan who opted to remain in the Federated Healthcare Plan contribute 7.5% of pay. The City continued to pay the phased-in contribution rate until the beginning of fiscal year 2018-2019. Currently, the City makes the Actuarially Determined Contribution determined by the Federated Board subject to a cap of 14% of payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan, not just active members of the Federated Healthcare Plan. For purposes of calculating the City's contribution to the explicit subsidy UAL, the UAL as of June 30, 2017, is amortized as a level dollar amount over a closed 20-year period. All future UAL amortization bases will be amortized over 20-year periods with a 3-year phase-in and phase-out.

Members remaining in the Police and Fire Healthcare Plan make contributions fixed at 8.0% of pay effective March 25, 2018. The City's contribution toward the explicit subsidy is actuarially determined separately for Police and Fire. The City pays the implicit subsidy on a pay-as-you-go basis as a part of the active health premiums. For purposes of calculating the City's contribution for the explicit subsidy UAL, the UAL as of June 30, 2017 was amortized as a level percent of payroll over a closed 25-year period. All future UAL amortization bases will be amortized over 25-year periods with a 3-year phase-in and phase-out. The UAL for the explicit subsidy is used to calculate the City's Actuarially Determined Contribution to the Police 115 Trust and the Fire 115 Trust. In addition, the City has an option to limit its contribution for the explicit subsidy to 11% of Police and Fire Retirement Plan total payroll. The total implicit subsidy relating to the Police and Fire Healthcare Plan for fiscal year 2020-2021 is approximately \$3.5 million.

Historical City and Member Contributions. Table B-21a shows the components of the Actuarially Determined Contribution for the Federated Healthcare Plan for fiscal years 2020-2021 and 2021-2022, as adopted by the Federated Board.

Table B-21a
Federated Healthcare Plan
Actuarially Determined Contribution
Explicit Subsidy Only
(in thousands)

	2020-2021	2021-2022	% Change
Normal Cost	\$ 5,805	\$ 5,815	0.2%
UAL Payment	24,500	23,197	(5.3)
Total Contribution	\$ 30,305	\$ 29,012	(4.3)
Projected Member Contributions	9,356	9,076	(3.0)
City ADC Amount	\$ 20,949	\$ 19,936	(4.8)
Projected Total Payroll	\$ 307,972	\$ 332,536	8.0
City ADC Percentage	6.8%	6.0%	(11.8)

Source: Resolution No. 9094 approved by the Federated Board on May 21, 2020; Resolution No. 9095 approved by the Federated Board on May 21, 2020 Resolution No. 9097 approved by the Federated Board on May 20, 2021.

Table B-21b shows the components of the Actuarially Determined Contribution for the Police and Fire Healthcare Plan for fiscal years 2020-2021 and 2021-2022, as adopted by the Police and Fire Board.

Table B-21b
Police and Fire Healthcare Plan
Actuarially Determined Contribution
Explicit Subsidy Only
(in thousands)

	2020-2021	2021-2022	% Change
Police			
Normal Cost	\$ 5,716	\$ 5,774	1.00%
Administrative Expense	81	100	23.60
UAL Payment	16,189	17,400	7.50
Total Contribution	\$ 21,985	\$ 23,274	5.90
Projected Member Contributions	6,666	6,030	(9.50)
City ADC Amount	\$ 15,320	\$ 17,245	12.60
Projected Payroll	\$ 151,638	\$ 151,687	0.00
City ADC Percentage	10.1%	11.4%	12.50
Fire			
Normal Cost	\$ 4,966	\$ 5,215	5.0%
Administrative Expense	55	62	12.0
UAL Payment	10,237	10,938	6.8
Total Contribution	\$ 15,258	\$ 16,214	6.3
Projected Member Contributions	5,196	5,187	(0.2)
City ADC Amount	\$ 10,062	\$ 11,027	9.6
Projected Payroll	91,844	96,335	4.9
City ADC Percentage	11.0%	11.4%	4.5

Source: Resolution No. 4816 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4818 approved by the Police and Fire Board on June 4, 2020; Resolution No. 4821 approved by the Police and Fire Board on May 6, 2021; Resolution No. 4822 approved by the Police and Fire Board on May 6, 2021; Resolution No. 4823 approved by the Police and Fire Board on May 6, 2021; Resolution No. 4824 approved by the Police and Fire Board on May 6, 2021.

Projected City Contributions. In January 2021, as directed by the Retirement Plans, the Plan Actuary provided five-year budget projections for the City's contributions for the Healthcare Plans based on the Federated 2020 Healthcare Plan Actuarial Report and the Police and Fire 2020 Healthcare Plan Actuarial Report. The projections assume that all valuation assumptions were exactly met since June 30, 2020, and are exactly met each and every year for the projection period. Such projections together with a projection of OPEB payroll are summarized in the following tables. According to the Plan Actuary, City contributions to the Healthcare Plans are expected to increase in the future as members retire or otherwise leave the plans.

Table B-22a
Federated Healthcare Plan
5-Year Projections of Contributions
(in thousands)
(Throughout the Year)

Fiscal Year Ended June 30	Full Benefit Payroll	Total Payroll	Estimated City Contribution Cap	Actuarially Determined Contribution
2022	\$ 121.0	\$ 351.8	\$ 46.6	\$ 19.9
2023	111.8	362.4	48.0	19.8
2024	103.3	373.2	49.4	20.7
2025	95.0	384.4	50.9	20.9
2026	87.1	396.0	52.4	21.1

Source: Cheiron 5-Year Budget Projections for Federated Plan, January 13, 2021.

Table B-22b
Police and Fire Healthcare Plan
5-Year Projections of Contributions
(in thousands)
(Throughout the Year)

Fiscal Year Ended June 30	Total Payroll	Estimated City Contribution Cap	Actuarially Determined Contribution
2022	\$ 248.0	\$ 27.3	\$ 28.2
2023	255.4	28.1	30.0
2024	263.1	28.9	32.3
2025	271.1	29.8	33.6
2026	279.1	30.7	34.9

Source: Cheiron 5-Year Budget Projections for Police and Fire Plan, January 27, 2021.

The estimated full benefit payroll is for the closed group of members entitled to full OPEB benefits. The total payroll also includes members only eligible for catastrophic disability benefits. According to the Plan Actuary, City contributions for the Federated Healthcare Plan represent payments solely toward the UAL, as member contributions are sufficient to cover Normal Costs during this period. According to the Plan Actuary, if all assumptions are met in the future, including an expected return of 6.25% each year, the funded percentage for the explicit subsidy is expected to exceed 100% by 2038. According to the Plan Actuary, City contributions for the Police and Fire Healthcare Plan represent payments predominately toward the UAL, as member contributions

cover nearly all Normal Costs during this period. According to the Plan Actuary, if all assumptions are met in the future, including an expected return of 6.25% each year, the funded percentage for the explicit subsidy is expected to exceed 98% by 2044. It is certain that not all assumptions will be exactly met each and every year. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates.

Investments

The Federated Healthcare Plan is funded through the Federated 115 Trust as the 401(h) account within the Federated Pension Plan was depleted in 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Table B-23 shows the historical annual returns net of fees for the Federated Section 115 Trust and the Police and Fire 115 Trust at the identified interval as reported by the Healthcare Plans' investment consultant in the quarterly reports for the period ending June 30, 2021.

Table B-23
Section 115 Trusts
Historical Investment Performance
(As of June 30, 2021)

Measurement Period	Federated 115 Trust Net Rate of Return	Police and Fire 115 Trust Net Rate of Return
Since Inception ⁽¹⁾	6.0%	6.4%
10 Years	-	-
5 Years	8.2	8.0
3 Years	9.1	9.9
1 Year	24.8	24.0

⁽¹⁾ Measurement Period Beginning July 2011 Federated, July 2012 Police and Fire.

Source: Meketa Investment Group Federated Retiree Healthcare 115 Trust Quarterly Review June 30, 2021; Meketa Investment Group Police and Fire Retiree Healthcare 115 Trust Quarterly Review June 30, 2021.

Meketa Investment Group, the Healthcare Plans' investment consultant, reports that the fiscal year to date investment return for the Federated Section 115 Trust and the Police and Fire 115 Trust for 2021-2022 was approximately 1.6% and 1.52%, respectively, as of August 31, 2021.

The most recent target allocations for the Federated 115 Trust and the Police and Fire 115 Trust are shown in the following table.

Table B-24 Section 115 Trusts Target Asset Allocation		
Asset Class	Federated 115 Trust Target %	Police and Fire 115 Trust Target %
Growth	59	59
US Equity	30	30
Developed Market Equity (non-US)	14	14
Emerging Market Equity	15	15
Low Beta	5	5
Short-Term Investment-Grade Bonds	5	5
Other	36	36
Investment Grade Bonds	14	14
Long Term Government Bonds	5	5
Core Real Estate	12	12
Commodities	5	5
<i>20-Year Expected Return ⁽¹⁾</i>	<i>6.3</i>	<i>6.3</i>
<i>Standard Deviation ⁽¹⁾</i>	<i>12.1</i>	<i>12.1</i>
⁽¹⁾ The City can provide no assurance that actual returns will not be less than those expected by the Boards. Source: City of San Jose, Office of Retirement Services.		

For a description of the types of investments in each asset class for the target asset allocations identified in Table B-24, please see the Federated City Employees' Retirement System Investment Policy Statement, Approved by the Federated Board on April 18, 2019, at <https://sjrs.legistar.com/MeetingDetail.aspx?ID=687980&GUID=C9713B0A-A68F-4035-A4EF-2DF78A9B363C&Search=>, and the Police and Fire Department Plan Investment Policy Statement, Approved by the Police and Fire Board on April 4, 2019 <https://sjrs.legistar.com/MeetingDetail.aspx?ID=685165&GUID=B895D44B-1CEB-41B2-841F-7926B4EAEC97&Options=info&Search=>. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. The City makes no representation as to the accuracy or completeness of any of the information on such website.

APPENDIX C

**BASIC FINANCIAL STATEMENTS OF THE CITY OF SAN JOSE
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

[TO BE ADDED IN FINAL VERSION]

APPENDIX D
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

[TO BE ADDED IN FINAL VERSION]

APPENDIX E
PROPOSED FORM OF OPINION OF BOND COUNSEL

_____, 2021

City of San José Financing Authority
200 East Santa Clara Street
San Jose, California 95113

OPINION: \$[PAR] City of San José Financing Authority Lease Revenue Bonds, Series 2021A
 (Fire Department Training Center and Central Service Yard Projects)

Members of the Governing Board of the Authority:

We have acted as bond counsel to the City of San José Financing Authority (the “Authority”) in connection with the issuance by the Authority of the captioned bonds dated the date hereof (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Bond Law”), the Indenture of Trust, dated as of November 1, 2021 (the “Indenture”), by and between the Authority and Wilmington Trust, National Association, as trustee (the “Trustee”), and a resolution (the “Resolution”) of the Governing Board of the Authority adopted October 5, 2021. Under the Indenture, the Authority has pledged certain revenues (the “Revenues”) for the payment of principal, premium (if any), and interest on the Bonds when due, including lease payments made by the City of San José (the “City”) under a Lease Agreement dated as of November 1, 2021 (the “Lease Agreement”) between the Authority and the City.

We have examined the law and such certified proceedings and other papers, opinions, and other documents as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and the City contained in the Lease Agreement, and in the certified proceedings, and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Authority is a duly created and validly existing joint exercise of powers authority under the laws of the State of California with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.

2. The City is a municipal corporation and charter city duly organized and existing under the laws of the State of California with the power to enter into the Lease Agreement and perform the agreements on its part contained therein.

3. The Indenture has been duly authorized, executed and delivered by the Authority, and constitutes a valid and binding obligation of the Authority, enforceable against the Authority.

4. The Lease Agreement has been duly authorized, executed and delivered by the Authority and the City, and constitutes a valid and binding obligation of the Authority and the City, enforceable against the Authority and the City.

5. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds.

6. The Bonds have been duly authorized and executed by the Authority, and are valid and binding limited obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Indenture.

7. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the City have made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

8. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our

attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
CITY OF SAN JOSE FINANCING AUTHORITY
Lease Revenue Bonds, Series 2021A
(Fire Department Training Center and Central Service Yard Projects)

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of San José (the “City”) in connection with the issuance by the City of San José Financing Authority (the “Authority”) of the bonds captioned-above (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Authority on [October 5, 2021], and an Indenture of Trust (the “Indenture”), dated as of November 1, 2021, by and between the Authority and Wilmington Trust, National Association, as trustee (the “Trustee”).

The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

“*Annual Report Date*” means the date not later than April 1 after the end of each fiscal year of the City (currently June 30th).

“*Current Fiscal Year*” means the then current fiscal year as of an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2022, the Current Fiscal Year means the 2021-2022 fiscal year.

“*Dissemination Agent*” means the City or any other Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. As of the date of this Disclosure Certificate, the City is acting as Dissemination Agent.

“*Listed Events*” means any of the events listed in Section 5(a).

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“Participating Underwriter” means any of the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Preceding Fiscal Year” means the most recently ended fiscal year preceding an Annual Report Date. For example, with respect to the Annual Report Date of April 1, 2022, the Preceding Fiscal Year means the 2020-2021 fiscal year.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2022 with the report for the 2020-2021 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board for the Preceding Fiscal Year. If the City’s

audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the Preceding Fiscal Year or Current Fiscal Year, as specified below, substantially similar to that provided in the Official Statement:

(i) Summary information relating to the City's adopted operating budget for the then-current Fiscal Year, substantially in the form set forth in Table 11 of Appendix A to the Official Statement (provided that the categories set forth in said Table 11 may be revised to reflect the then current budgeting and budget reporting practices of the City)

(ii) Particular section or sections of the budget demonstrating that the City has budgeted for Base Rental Payments and Additional Rental payments for the current Fiscal Year.

(iii) General Fund summary of revenues and expenditures substantially in the form set forth on page 30 of the City's fiscal year 2019-20 comprehensive annual financial report.

(iv) General fund balance sheet substantially in the form set forth on page 26 of the City's fiscal year 2019-20 comprehensive annual financial report.

(v) General fund tax revenues by source substantially in the form set forth on page 193 of the City's fiscal year 2019-20 comprehensive annual financial report.

(vi) Assessed valuation of property in the City substantially in the form set forth on page 274 of the City's fiscal year 2019-20 comprehensive annual financial report, and the current property tax levy and collections substantially in the form set forth on page 277 of the City's fiscal year 2019-20 comprehensive annual financial report.

(vii) A description of any event of default under the Indenture.

(viii) A description of any event resulting in the abatement of Lease Payments under the Lease.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and

Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or an obligated person, any of which affect security holders, if material.
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence

with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 5 contain the qualifier “if material.” The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(e) For purposes of Section 5(a)(15) and (16), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the

identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

City of San José - Finance
Debt Management
200 East Santa Clara Street, 13th Floor Tower
San José, California 95113-1905
Debt.Management@sanjoseca.gov

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2021

CITY OF SAN JOSE

By: _____
Director of Finance

APPROVED AS TO FORM:

By: _____
Senior Deputy City Attorney

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of San José Financing Authority

Name of Bond Issue: City of San José Financing Authority Lease Revenue Bonds,
Series 2021A (Fire Department Training Center and Central
Service Yard Projects)

Date of Issuance: _____, 2021

NOTICE IS HEREBY GIVEN that the City of San José (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated _____, 2021. The City anticipates that the Annual Report will be filed by _____.

Dated: [DISSEMINATION AGENT]

By: _____
Name:
Title:

APPENDIX G

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the Authority (the “Issuer”) nor the Trustee (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding

company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting

rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.