

CITY OF SAN JOSE

2007-2008 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

Overview

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue and lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, Redevelopment Agency debt and capital lease obligations.

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue and lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its political subdivisions that has a maturity of 270 days or less. Maturing commercial paper (CP) notes are repaid from the proceeds of sale of new CP notes or bonds or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts (CFDs). The source of repayment for CFD bonds is a special tax on privately owned properties within the CFD.
- **Redevelopment Agency debt** is issued to construct public improvements in redevelopment project areas in accordance with California Community Redevelopment law. The principal source of repayment for Redevelopment Agency debt is future property tax increment revenues.

The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt/capital lease obligations. In addition, Council has approved a supplemental Multi-Family Housing Revenue Bond Policy and Residential Development Guidelines.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Overview (Cont'd.)

The City of San José Charter establishes the following requirements associated with debt limitations:

- Section 1216 sets the bonded debt limit for General Obligation bonds at fifteen percent (15%) of the total assessed valuation of all the real and personal property within the City.
- Section 1220 establishes the power of the City Council to issue revenue bonds to finance the acquisition, construction, establishment, expansion, improvement, maintenance, operation, and administration of off-street vehicular parking facilities within the City or of municipal airport facilities. No additional authorization is necessary to issue bonds under this section of the City Charter.
- Section 1221 provides that no revenue bonds may be issued by the City for the purpose of supplying its inhabitants, or any portion thereof, with water, light, heat, power, railroad, or motor vehicle transportation services (other than airport service), or telephone, telegraph, or wireless communication service unless authorized by the affirmative vote of a majority of the electors voting on such a proposition in each case.
- Section 1222 states that revenue bonds may be issued by the City for any purposes other than those specified in Sections 1220 and 1221 only under and pursuant to the laws of the State of California.

Debt Status and Capacity

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. As of June 30, 2007, the total assessed value of taxable property was \$112.9 billion, which results in a total debt capacity of approximately \$16.9 billion. As of June 30, 2007, the City had approximately \$510.71 million of General Obligation bonds outstanding.

The City, City of San José Financing Authority, Redevelopment Agency, and San José-Santa Clara Clean Water Financing Authority total outstanding debt as of June 30, 2007 was \$4.04 billion (See Table A). It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. The first set of program-specific policies, related to the City's multi-family housing program, was adopted by the City Council on June 11, 2002.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Debt Status and Capacity (Cont'd.)

During 2007-2008, the Business Plan of the Strategic Support City Service Area includes development of additional program-specific policies tailored to certain types of financings which may include, but are not limited to, the City's general obligation, lease revenue, enterprise and land-secured financings.

Descriptions of City of San José and related entity debt activity for 2006-2007, as well as issues planned for 2007-2008, are provided in the following sections.

2006-2007 Debt Issues

The following debt issues were completed in 2006-2007.

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2006A-T and Tax Allocation Bonds, Series 2006B**

On November 14, 2006, the Redevelopment Agency issued \$14.3 million of Series 2006A-T (taxable) and \$67.0 million of Series 2006B tax allocation bonds (together, the "Series 2006AB Bonds"). The proceeds of the Series 2006AB bonds were used to finance multiple redevelopment projects within the Agency's Merged Area Redevelopment Project. Debt service is payable from the Agency's tax increment revenues.

The Series 2006A-T bonds, which are insured by Radian Asset Assurance Inc., bear interest at fixed rates ranging from 5.35% to 5.65%, and have a final maturity date of August 1, 2022. The Series 2006B bonds, which are also insured by Radian Asset Assurance Inc., bear interest at fixed rates ranging from 4.50% to 5.00%, and have a final maturity date of August 1, 2035.

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2006C and Series 2006D**

On December 15, 2006, the Redevelopment Agency issued \$423.43 million of Series 2006C and \$277.76 million of Series 2006D tax allocation bonds. The proceeds of the Series 2006C bonds were used to current refund a portion of the Agency's Series 1993 tax allocation bonds and advance refund portions of the Agency's Series 1993, Series 1997, Series 1998, and Series 2002 tax allocation bonds. The proceeds of the Series 2005B bonds were used to advance refund portions of the Agency's Series 1998 and Series 1999 tax allocation bonds. Debt service is payable from the Agency's tax increment revenues. This refunding generated \$22.6 million of gross debt service savings and \$21.7 million of net present value debt service savings, representing 3.1% of the refunded debt.

The Series 2006C bonds, which are insured by MBIA Insurance Corporation, bear interest at fixed rates ranging from 3.75% to 5.00%, and have a final maturity date of August 1, 2032. The Series 2006D bonds, which are insured by Ambac Assurance Corporation, bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of August 1, 2023.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2006-2007 Debt Issues (Cont'd.)

- **City of San José Norman Y. Mineta San José International Airport Subordinated Commercial Paper Notes** On January 9, 2007, the City Council approved an expansion of the Airport commercial paper program from \$200 million to \$450 million to ensure that funding would be available for the award of the design and construction contracts related to the rephased Airport Master Plan projects. Various Airport Master Plan projects over the next several years are focused on completion of the North Concourse Projects as well as the implementation of a Terminal Area Improvement Program. Additionally, the Airport Commercial Paper Program may be used to pay costs related to the Airport's lease of the former FMC property and to pay debt service costs related to the City of San José Airport Revenue Bonds, Series 2004.

Under this program, the City is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper is secured by a subordinate pledge of the Airport's revenues and additionally secured by letters of credit provided by JPMorgan Chase Bank, Bank of America, Citibank and Dexia Credit Local.

- **City of San José General Obligation Bonds, Series 2007 (Parks and Public Safety Projects)** On June 20, 2007, the City issued \$90.0 million of Series 2007 general obligation bonds. The proceeds will be used to fund \$22.1 million of parks projects and \$67.9 million of public safety projects. Debt service on the Series 2007 bonds is payable from ad valorem taxes levied upon all property subject to taxation by the City. The Series 2007 bonds bear interest at fixed rates ranging from 4.00% to 8.00%, and have a final maturity date of September 1, 2037.
- **City of San José Financing Authority Lease Revenue Refunding Bonds, Series 2007A (Community Facilities Refunding)** On June 28, 2007, the Authority issued \$36.56 million of 2007A lease revenue refunding bonds. The proceeds of the Series 2007A bonds were used to current refund a portion of the Authority's Series 1993B lease revenue bonds, current refund all of the Authority's Series 1997A lease revenue bonds, and advance refund all of the Authority's Series 2000B lease revenue bonds. Debt service will be paid from several City Council District Construction and Conveyance Tax Funds, the Municipal Golf Course Fund, and the Community Facilities Revenue Fund. This refunding generated \$3.6 million of gross debt service savings and \$1.3 million of net present value debt service savings, representing 3.9% of the refunded debt. The Series 2007A bonds, which are issued by Ambac Assurance Corporation, bear interest at fixed rates ranging from 4.125% to 4.75%, and have a final maturity date of August 15, 2030.
- **Multifamily Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received allocations from the California Debt Limit Allocation Committee (CDLAC) and closed the following projects while complying with CDLAC regulations:

Allocation awarded on March 21, 2007, resulting in bond issuance in June 2007:

- Casa Feliz Studio Apartments (\$11 million), closed June 13, 2007

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2007-2008 Planned Debt Issues

- **City of San José Airport Revenue Bonds, Series 2007** The City anticipates issuing approximately \$800 million of Series 2007 airport revenue bonds in September 2007. The proceeds will be used to redeem a portion of the Airport's outstanding bonds, commercial paper, fund design, and construction costs of the Airport Master Plan. Debt service on the Series 2007 bonds will be paid from general airport revenues and certain other funds.
- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Refunding Bonds, Series 2007A (AMT)** In fall 2007, the Authority anticipates issuing approximately \$17 million of housing set-aside tax allocation refunding bonds. The bond proceeds will be used to refund all or a portion of the Agency's Series 1997E Housing Set-Aside Tax Allocation Bonds issued to fund loans to finance or refinance the acquisition, construction, or rehabilitation of multifamily rental housing projects. The Series 2007A refunding issuance is anticipated to result in annual debt service savings to the City's affordable housing program.
- **City of San José Financing Authority Lease Revenue Bonds, Series 2007B (4th & St. John Garage)** The City of San José Financing Authority plans to issue approximately \$30 million of lease revenue bonds in 2007-2008 to provide long-term financing for the 4th and St. John Garage adjacent to City Hall. The bond proceeds will be used to redeem commercial paper issued as an interim financing mechanism during the construction of the Garage. Debt service on the Garage bonds will be paid from the General Fund, special funds, and capital funds.
- **City of San José General Obligation Bonds, Series 2008 (Libraries, Parks and Public Safety Projects)** The City plans to issue another series of general obligation bonds in June 2008. The proceeds of those bonds would be used to fund a portion of the libraries, parks, and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.