CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

# 2014

# Comprehensive Annual Debt Report


## Fiscal Year Ended June 30, 2014

### San José, California

**City of San José**
**California**

# 23rd Comprehensive Annual Debt Report

Fiscal Year Ended June 30, 2014

Prepared by
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# 23rd Comprehensive Annual Debt Report
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Police Department
Public Works Department
Successor Agency to the Redevelopment Agency
Transportation Department

**CITY OF SAN JOSE**
**COMPREHENSIVE ANNUAL DEBT REPORT**
**FISCAL YEAR ENDED JUNE 30, 2014**

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CITY OF
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*Finance*
JULIA H. COOPER, DIRECTOR

November 26, 2014

HONORABLE MAYOR AND CITY COUNCIL

**THE COMPREHENSIVE ANNUAL DEBT REPORT OF THE CITY OF SAN JOSE**

I am pleased to present the 23rd Comprehensive Annual Debt Report for the City of San José (the "Annual Debt Report") for the fiscal year ("FY") ended June 30, 2014. The Annual Debt Report is submitted for review and approval by the City Council in accordance with the City's Debt Management Policy that was originally approved by the City Council on May 21, 2002 and subsequently amended on December 4, 2012 and June 10, 2014. This Annual Debt Report covers FY 2013-14 and discusses the activities undertaken and managed by the Debt Management Program, a program within the Treasury Division of the Finance Department. The major sections in the Annual Debt Report include:

- Overview of the City's Debt Management Program
- Summary of Recent Debt Issuance Activity
- Discussion of Key Debt Administration Tasks
- Review of the City's Outstanding Debt Portfolio

In addition, the Annual Debt Report includes a glossary to help guide the reader in understanding municipal finance terms.

The discussions of debt management activities in the Annual Debt Report pertain to activities managed by the City's Debt Management Program, and the section of the Annual Debt Report pertaining to the City's outstanding debt portfolio includes all debt issued by the City of San José, City of San José Financing Authority (the "Authority"), the former Redevelopment Agency of the City of San José (the "Agency") and the San José-Santa Clara Clean Water Financing Authority.

Debt Management staff is responsible for managing the debt issuance process for all external borrowings in which the City participates. Pursuant to California State Law, redevelopment agencies were dissolved with ABX1 26 effective February 1, 2012. It should be noted that during FY 2013-14 administration of debt previously issued by the Agency was transitioned to staff in the City's Finance Department, with some continued assistance from Successor Agency to the Redevelopment Agency of the City of San José ("SARA") staff.

In addition to the activities and programs described above, the Annual Debt Report includes a review of Debt Management Policies, rating agency relations and credit maintenance issues, and a discussion of legislative and regulatory issues.

## DEBT MANAGEMENT ACTIVITIES

Debt issuance is a key component of the Debt Management staff activities even after the conclusion of the City's "Decade of Investment". As illustrated in the graph on page two, FY 2013-14 activities reflected debt issuance totaling over $129.3 million. This includes a $100.0 million tax and revenue anticipation note, $10 million of commercial paper notes, and a $19.3 million lease-purchase agreement.

The City continues to receive high general credit ratings from all three national rating agencies even within the context of difficult financial and economic conditions nationally and locally. In April 2013, Moody's Investor Service ("Moody's") affirmed the City's general obligation rating of Aa1 citing the City's fiscal condition which continued to gradually improve after a multi-year period of decline. In December 2013, Standard & Poor's ("S&P") affirmed the City's general obligation rating of AA+ with a stable outlook. In March 2013, Fitch Ratings ("Fitch") affirmed the City's general obligation rating of AA+ with stable outlook. Additionally, in a special report on the *"Anatomy of Successful U.S. Cities"* released in November 2014, Moody's cited San José, amongst other large local governments, as successfully in maintaining its rating since the Great Recession began in 2008 due to inherent economic strength and effective financial management.

The ratings reflect the diversity of the local economy anchored by a strong technology presence and sound financial operations as well as strong budgetary practices. Overall, the maintenance of these ratings translates to significant interest cost savings in the City's debt program, which in turn benefit the taxpayers of the San José community.

In addition to debt issuances, market disclosure, bank contract compliance reporting, budgeting and forecasting, debt service invoice processing, funds' management, accounting, and professional services procurements, a significant amount of Debt Management staff resources were devoted to providing financial advisory services to numerous citywide projects during FY 2013-14. These projects included:

- Renewal and replacement of letters of credit supporting Authority and Agency bonds and the Airport commercial paper program;
- Significant time participating in the management of SARA operations and financial reporting and accounting;
- Performing financial analyses associated with the prepayment of annual employer retirement contributions;
- Performing private activity calculations and assessments associated with financing energy conservation equipment to be installed at City-owned facilities and the negotiation of a lease of City Hall by the U.S. Patent and Trade Office;
- Analyzing the financial and budgetary impact and feasibility of the sale of City-owned property that is collateral for outstanding debt, such as the Airport West property; and

- Continuation of the close-out process of inactive improvement districts that is anticipated to end in FY 2014-15.

The Debt Management Program work plan for FY 2014-15 anticipates continued opportunities and challenges for the City and SARA. Total debt issuance for the City and its related entities in FY 2014-15 is estimated to total approximately $324.8 million. This issuance activity is in addition to administration of the existing debt portfolio of over $5.3 billion outstanding as of June 30, 2014, which consists of 122 series of bonds (including 53 series of multifamily housing revenue bonds), plus two commercial paper programs, seven loans, and one lease-purchase agreement, as issued and entered into by the City, the City's related entities, and the former Redevelopment Agency.

Additional projects for FY 2014-15 include, but are not limited to: the development of a long-range financing plan for the 10-year, $1.5 billion capital improvement plan for the Regional Wastewater Facility; continued financial management and transition of SARA administration; the addition of an asset to the Authority's CP Program; the issuance of a RFP and review of proposals for a third-party administrator to establish a Property Assessed Clean Energy District for the City; the review of continuing disclosure compliance pursuant to a regulatory initiative; review strategies to prepay the City's annual employer retirement contributions; continued management of debt to enable the sale of City properties; continued assessment of private activity at tax-exempt financed facilities; and final close-out of inactive improvement districts.

## ACKNOWLEDGMENTS

The preparation of this Annual Debt Report represents the culmination of a concerted team effort led by the Finance Department's Debt Management staff as well as special assistance and support from key departments and offices throughout the City. Of particular note is the ongoing collaboration and support between the Finance Department and the City Attorney's Office. The support received from the City Attorney's Office cannot be overlooked and is integral to the success of the City's Debt Management program. In addition, City departments who have participated in partnership with the Debt Management program should be recognized for responding so positively to the requests for detailed information that are required for every debt issuance, as well as for the information they provide to the Debt Management staff for the ongoing management and monitoring of the City's outstanding debt portfolio. The City's financial advisors and bond counsels should also be acknowledged for providing a significant contribution to the City's success in its Debt Management program, especially for the role they have played in helping to secure and maintain the City's excellent bond ratings.

Finally, I wish to express my sincere appreciation to the Mayor, City Council, and the City Manager for providing leadership, policy direction, and support in guiding the City to a secure, strong financial condition. Their leadership assures that financial resources can be available to provide capital facilities and affordable housing to the community.

Respectfully submitted,

Julia H Cooper

JULIA H. COOPER
Director of Finance

## I. OVERVIEW

The Overview section of the Annual Debt Report includes a discussion of the Debt Management Program, Review of Debt Management Policies, Rating Agency Relations and Credit Maintenance, and Legislative and Regulatory Issues.

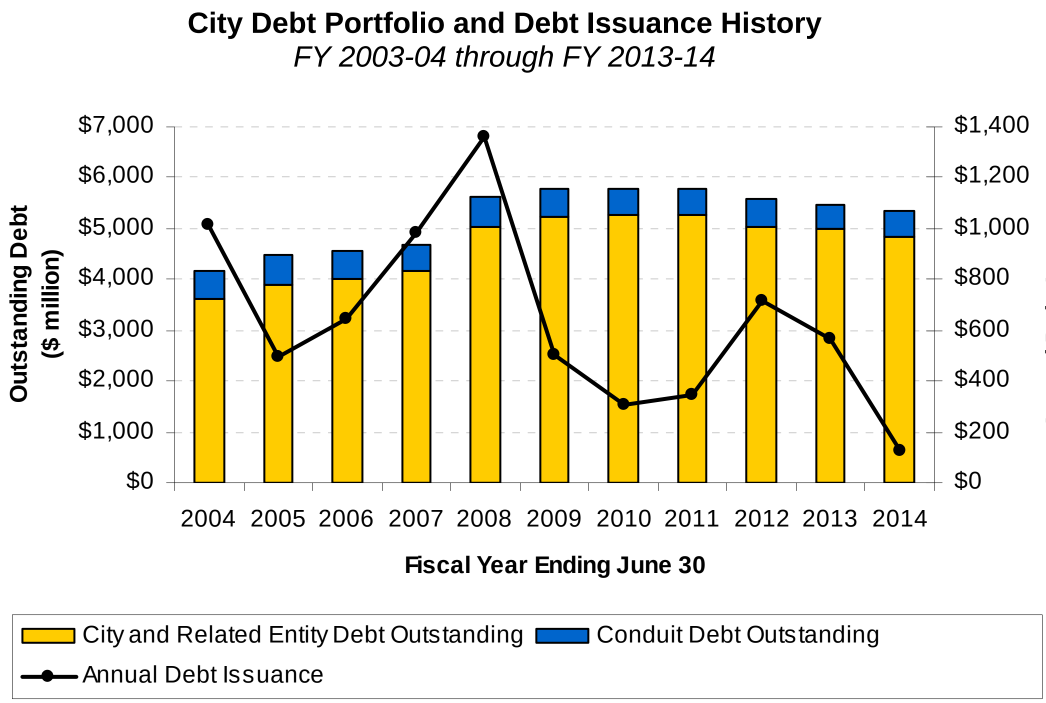
The Annual Debt Report does not include discussions on City's obligation in pension and other postemployment benefits. For details relating to pension and OPEB unfunded liabilities, please refer to "Defined Benefit Retirement Plans" section beginning on page 100 of the Comprehensive Annual Financial Report for the City of San José for the fiscal year ended June 30, 2014.

### A. Debt Management Program

This section of the report provides an overview of debt issuance, debt administration, and debt management projects for FY 2013-14 and projects that have been completed, are currently underway, or are planned for FY 2014-15.

#### 1. Debt Issuance

Debt Management, a section of the Treasury Division within the Finance Department, is responsible for managing the debt issuance process for all City borrowings. FY 2013-14 debt issuance totaled $129.3 million, composed of a $100.0 million tax and revenue anticipation note ("TRAN"), $10 million of commercial paper notes, and a $19.3 million lease-purchase agreement. The Debt Management Program work plan for FY 2014-15 includes total debt issuance estimated at $324.8 million. This includes $267.1 million of debt already issued ($125.6 million of Airport Revenue Refunding Bonds, a $100.0 million Tax and Revenue Anticipation Note, and $41.5 million in multi-family housing revenue notes) and $57.7 million in debt forecasted to be issued ($50.0 million in multi-family housing revenue bonds and a $7.7 million lease-purchase agreement). The following graph illustrates the size of the City's debt portfolio and the dollar volume of debt issued in each of the last ten years. It should be noted that in the last few years the focus has been on refunding of debt, not issuance of new debt.




## 2. Debt Administration

After debt has been issued, Debt Management is responsible for administering the debt portfolio. As part of the City's statutory compliance program, the Special Tax Annual Report (required by State law) has been incorporated into this Annual Debt Report as Appendix E. Section III of this report, Debt Administration, provides a detailed discussion of debt administration tasks performed by Debt Management staff.

## 3. Debt Management Projects

In addition to debt issuance and administration, Debt Management staff serve in a financial advisory role to other City departments and work on other projects as necessary. Various projects and administrative efforts are described below.

### *a. Projects in FY 2013-14*

<u>Financial Management and Transition of the Redevelopment Agency</u> - Assisted the City Manager's Office, Housing Department and the SARA and assumed a lead role in evaluating SARA's financial condition related to its ability to pay current and future obligations including senior and subordinate debt obligations. During FY 2013-14, the Finance Department assumed increasingly more management and oversight of the financial operations of the SARA, including preparation of the semi-annual Recognized Obligation Payment Schedules (ROPSs).

<u>Energy Conservation Measures Financing Strategies</u> - During FY 2013-14, Debt Management staff continued to assist the Environmental Services Department and Public Works with the development of financing strategies for energy conservation

measures on City-owned property. The City undertook an RFP process to contract with an energy service company ("ESCO") to provide energy efficiency upgrades to City facilities that would increase energy efficiency. A primary objective of the project is to utilize on-going utility cost savings resulting from the energy conservation measures to pay for the procurement and installation of those measures, which include solar installations, the conversion of streetlight inventory to light-emitting diode technology and various building energy efficiency measures (e.g. lighting, water, and HVAC retrofits). Early in the fiscal year, as a result of the RFP process, Chevron Energy Solutions (later acquired and doing business as OpTerra Energy Solutions) was selected as the ESCO provider. As discussed later in "Debt Issuance", Debt Management staff procured and executed a lease-purchase agreement to finance energy conservation equipment.

Renewal/Replacement of Letters of Credit and Direct Placement for Variable-Rate Debt – Staff completed the following work in FY 2013-14:

- Agency 1996AB and 2003AB Renewal – On June 1, 2014, J.P. Morgan extended the letters of credit supporting the Agency's variable rate bonds totaling $85.6 million (1996 Series A/B and 2003 Series A/B) to March 31, 2017. The interest rates on the 1996 Bonds and 2003 Bonds remain at a flexible rate in callable commercial paper mode.

- Agency HSA TAB 2010C Direct Placement Renewal – On September 12, 2013, subsequent to an extension of a forbearance agreement whereby Wells Fargo Bank agreed to forbear from exercising its rights and remedies under the Continuing Covenant Agreement ("CCA") and Fiscal Agent Agreement due to a downgrade of the bonds by Moody's on June 8, 2012, an Amended and Restated CCA with Wells Fargo Bank was executed with an expiration date of April 29, 2016. The all-in interest rate is fixed at 3.36%.

- Airport Commercial Paper – Replacement of Letter of Credit – On February 11, 2014, the City obtained a single letter of credit issued by Barclays Bank PLC ("Barclays LOC") to replace an expiring letter of credit for the Airport commercial paper program. The Barclays LOC has a commitment capacity of $65.3 million (including the principal and interest) and is scheduled to expire on February 10, 2017.

- City of San José Financing Authority (CSJFA) 2008CD & CSJFA 2008E-1/ 2008E-2 Letters of Credit Replacement – Letters of credit supporting variable rate demand bonds that refinanced the Hayes Mansion and Ice Centre projects were due to expire on October 21, 2013. Finance staff, in consultation with its financial advisor (Public Resources Advisory Group), requested proposals from U.S. Bank and Bank of America ("BofA") to continue to provide support for the Series 2008CD ("Hayes Mansion Refunding Project") lease revenue bonds (the "2008CD Bonds") and the Series 2008E ("Ice Centre Refunding Project") lease revenue bonds (the "2008E Bonds") (collectively, "the Bonds"). In August 2013, after negotiations with both banks, the City selected U.S. Bank to purchase all of the outstanding Bonds through a direct purchase of the bonds. After executing extensions of the letters of credits supporting the Bonds to February 2014 to allow sufficient time to negotiate and execute the direct purchase agreement, the transaction closed on December 18, 2013 with the purchase of the Bonds by U.S. Bank and the cancellation of the letters of credit. The term of the direct purchase agreement with U.S. Bank expires on December 18, 2016, at which time the City will need to either enter into another direct purchase agreement or obtain one or more letters of credit.

- CSJFA 2008F Letter of Credit Replacement – In September 2012, Debt Management staff circulated an RFP to banks requesting a direct-pay letter of credit or alternative credit product to support the Series 2008F ("Land Acquisition Refunding Project") lease revenue bonds (the "2008F Bonds"). In October 2012, the Finance Department selected Bank of America ("BofA") to continue its support of the bonds through a direct purchase of the bonds. Staff initiated the effort in January 2014 to sell the 2008F Bonds to BofA. The effort included the negotiation of a conditional consent by BofA to allow the phased sale of the Airport West Property that is the subject of the lease securing the 2008F Bonds. On June 26, 2014, the 2008F Bonds were purchased by BofA and the letter of credit was cancelled. The term of the direct purchase agreement with BofA expires on June 26, 2017 at which time the City will need to either enter into another direct purchase agreement or obtain one or more letters of credit.

Private Activity Analysis - In anticipation of an agreement with the U.S. Patent and Trade Office for the lease of space at City Hall, Debt Management staff working with staff from the Department of Public Works, the City Attorney's Office and outside bond counsel conducted a time series analysis that evaluated the private activity use of the tax-exempt bonds that financed the land acquisition and construction of City Hall. The analysis included private activity since occupancy of the building in 2005, as well as projected private use. Based on this analysis, it was determined that the lease of a portion of City Hall to the U.S. Patent and Trade Office upon the terms that were incorporated into the signed lease was within the IRS's private activity limitations.

In preparation for the execution of a lease-purchase agreement to secure funds to finance energy conservation measures at City-owned facilities, a review of the facilities and improvements was conducted with inter-departmental staff to determine potential private uses, or other impediments to financing, in order to develop an appropriate financing plan.

Inactive Improvement Districts Close-out - Debt Management staff previously identified 50 expired special assessment districts with remaining fund balances for which assessment bonds were repaid or refunded between 1985 and 2005. During FY 2010-11, Debt Management staff commenced implementation of the close-out plan. The refund notification program began in March 2011 and refunds were disbursed starting in FY 2011-12. Staff processed 415 property-specific claims from 253 recipients totaling $4.5 million. The deadline to claim assessment funds was March 27, 2012. In February 2013, as part of the mid-year budget process, $1.25 million of unclaimed funds were transferred to the General Fund. The next and final deadline to claim Reserve funds and water main deposit repayment funds was May 12, 2014. Staff received and processed claims through the final deadline.

Asset Sale Analysis - Debt Management staff provided financial analysis related to the possible sale, alternative uses, or development of several City-owned facilities including the Ice Centre and the Airport West property.

Affordable Housing Project TEFRA Hearings - The Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") requires a published notice, public hearing and approval by elected officials for issuance of qualified private activity bonds, such as multifamily housing revenue bonds. The City's Policy for the Issuance of Multifamily Housing Revenue Bonds, adopted by Council in June 2002, and San José Municipal Code Chapter 5.06 specify that the TEFRA hearing for multifamily housing projects be held before the Director of Finance. In FY 2013-14, the Finance Department held hearings for four projects.

**TEFRA Hearings for Multifamily Housing Projects –**
**City as Conduit Debt Issuer**
*FY 2013-14*

| Date | Project | Amount |
|---|---|---|
| 02/24/2014 | Cambrian Center | $ 41,533,000 |
| 06/02/2014 | Parkview Family Apartments | 15,100,000 |
| 06/02/2014 | Parkview Senior Apartments | 15,300,000 |
| 06/23/2014 | Poco Way Apartments | 30,000,000 |

TEFRA Hearings for Other Conduit Financings - Debt Management staff coordinated with the California Municipal Finance Authority ("CMFA") to prepare the required documentation for the City Council to hold a TEFRA hearing and approve the issuance of tax-exempt bonds by an entity other than the City for the following projects located in the City:

- Rocketship Si Se Puede Academy, Brilliant Minds Elementary, and Re-Jackson Ave. School – On September 12, 2013, the City Council held a TEFRA hearing and approved the issuance of $35 million of tax-exempt 501(c)(3) revenue bonds by CMFA to finance and refinance certain improvements identified as the Si Se Puede Academy (2249 Dobern Avenue), Brilliant Minds Elementary (2962 Story Road) and RS-Jackson Ave. School (70 S. Jackson St).
- Charlotte Drive Apartments – On April 15, 2014, the City Council held a TEFRA hearing and approved the issuance of $36 million of tax-exempt 501(c)(3) revenue bonds by CMFA to finance new construction of the proposed 200-unit Charlotte Drive Apartments located at 5600 Charlotte Drive.
- Lexington Apartments – On April 15, 2014, the City Council held a TEFRA hearing and approved the issuance of $28 million of tax-exempt 501(c)(3) revenue bonds by CMFA to finance new construction of the proposed 134-unit Lexington Apartments located at the Northeast corner of Lexington Avenue and Great Oaks Parkway.

### *b. Projects for FY 2014-15*

Financial Management and Transition of the former Redevelopment Agency - Debt Management staff continues to assist the City Manager's Office, Housing Department and SARA in evaluating SARA's financial condition related to its ability to pay current and future obligations including senior and subordinate debt obligations. The final transition of financial management of the SARA into the Finance Department, including the preparation of the semi-annual Recognized Obligation Payment Schedules (ROPSs), is expected to occur in FY 2014-15.

Regional Wastewater Facility Capital Improvement Plan Financing - The Environmental Services Department ("ESD"), acting in the lead role for the City in its capacity as co-owner and administering agent of the Regional Wastewater Facility ("RWF"), is embarking upon a Master Capital Improvement Program ("CIP") that will rehabilitate and modernize a substantial portion of the facility for an estimated cost of approximately $1.5 billion over 10 years. Debt Management staff, in anticipation of initial projects that have been identified for construction beginning in late 2015, have actively engaged with ESD and its consultants in evaluating the financing needs the RWF and the impact on the cities of San José and Santa Clara and the tributary agencies. The Clean Water Financing Authority (the "CWFA"), which is a joint powers authority of the cities of San José and Santa Clara, the co-owners of the RWF, would be the Authority issuing debt for RWF improvements. The development and execution of a financing plan will be a significant multi-year and multi-faceted work effort for the Finance Department and Debt Management staff.

PACE Program - Environmental Services Department staff expressed interest to participate in a Property Assessed Clean Energy ("PACE") program. On December 3, 2013, the City Council adopted resolutions to approve the provision of PACE programs in San José by two joint power authorities ("JPAs") in addition to the PACE program provided by a third JPA that had previously been approved by the City Council. As a result of this City Council action, three PACE programs offered by JPAs are available to property owners in San José. Council also directed staff to procure the services of a third-party administrator in establishing a City-specific PACE district that might provide a PACE program with similar benefits obtained through membership in the other PACE programs. Debt Management staff issued a Request for Proposals ("RFP") on September 9, 2014 with a proposal deadline of October 15, 2014. Staff is currently evaluating the proposals and assessing the feasibility of a City-specific PACE district.

Municipal Continuing Disclosure Cooperation ("MCDC") Initiative – In an effort to address potentially widespread violations of the federal securities laws by municipal issuers and underwriters of municipal securities in connection with certain representations in bond offering documents regarding compliance with prior continuing disclosure obligations, the U.S. Securities and Exchange Commission ("SEC") offered settlement terms to issuers and underwriters if they self-report possible violations involving material inaccurate statements relating to prior compliance with continuing disclosure obligations. As background, Rule 15c2-12, which was promulgated by the SEC under the Securities Exchange Act of 1934, requires that before a municipality can issue municipal bonds to investors in a public sale, the bond underwriters must reasonably determine that the issuer or the party responsible for repaying the bonds has undertaken to provide certain updated disclosure information to the Municipal Securities Rulemaking Board (the "MSRB") after the issuance of the bonds. This information includes annual financial and operating data, audits and notices of certain listed events. In addition, under Rule 15c2-12, final official statements must disclose any material failure to comply with a continuing disclosure undertaking during the previous five years. Typically, the continuing disclosure undertaking is in the form of an agreement or a certificate entered into by the party responsible for repayment of the bonds.

The MCDC spurred underwriters and issuers, including the City, to engage in the detailed review of continuing disclosures filings made to the market through electronic/web-based dissemination sources in order to ascertain whether or not past bond offering documents were accurate in their representations about the completeness and timeliness of continuing disclosures.

The City engaged a consultant to conduct an analysis of both the City's and the Agency's historical compliance with their respective continuing disclosure obligations from fiscal year 2006-07 through July 31, 2014 for the City and from fiscal year 2004-05 through fiscal year 2009-10 for the Agency. Debt Management staff worked closely with the CAO and the consultant in providing archival continuing disclosure filings and reviewing the consultant's findings.

As a result of the findings, it was noted that in several cases the City and the Agency failed to file, or fail on a timely basis, notices of rating changes (including insurer-related rating changes or rating withdrawals), and the City failed to file on a timely basis notice of certain optional redemptions. The deadline to self-report under the MCDC Initiative was September 9, 2014 for underwriters and December 1, 2014 for issuers. Based on communications with the underwriters of the bonds issued during the review period, no self-reporting occurred in light of the nature of the omissions. Continuing disclosure, as well as contract compliance reporting, is a significant and important part of Debt Management's administration of outstanding debt. Staff continues to develop written procedures to address material compliance with continuing disclosure requirements.

<u>Asset Addition to CSJFA CP Program</u> - As discussed below in "Debt Issuance – Debt Issued During FY 2013-14 – City of San José Finance Authority (CSJFA) Lease Revenue Commercial Paper Notes", the commercial paper notes (the "CP Notes") are secured, in addition to two letters of credit, by a pledge of lease revenues from various assets, which include the South San José Police Substation (the "Substation"). Pursuant to the reimbursement agreements for the CP Notes, the City is required to add, at a minimum, the fair rental value of the Substation as a pledge to the CP Program if the Substation is not fully occupied for its intended use by January 1, 2014. The addition of the San José Tech Museum as a pledged asset to the CP Program due to the Substation not being occupied as intended has been approved by the City Council and the Authority Board, and Debt Management staff expects to finalize the amendment of the site lease and sublease by early 2015.

<u>Private Activity Analysis</u> - Debt Management staff continue to assess and track the use of tax-exempt financed projects and facilities in order to comply with restrictions

on private activity uses. Procedures continue to be refined and updated in order to monitor the use of projects previously financed as well as projects to be financed.

Investor Relations Website - The Government Finance Officers Association ("GFOA") best practice on disclosure recommends that issuers create a centralized website to present relevant information to existing and potential investors of the bonds issued by the City or its related entities. In mid-2015, Debt Management plans to launch an Investor Relations website, which will include a list of outstanding bonds issued by the City and its related entities. Links will be included to the Municipal Securities Rulemaking Board's disclosure website (EMMA: Electronic Municipal Market Access) where investors can view electronic copies of Official Statements and continuing disclosure reports for these bonds. Debt Management will maintain the website and update the information presented as necessary. The implementation of an Investor Relations website will occur in connection with the development of policies and procedures related to the preparation and review of public offering documents for the sale of bonds.

Inactive Improvement Districts Close-out - Consistent with the procedures approved by City Council, surplus funds not claimed by the final deadline in May 2014 are now the property of the City. Staff is closing out a few claims that came in before the deadline but still require back-up documentation. Staff will account for the unclaimed funds and work with the Budget Office to transfer the funds to the General Fund. Subsequently, the respective expired improvement district funds (accounts) will be closed.

Asset Sale Analysis - Debt Management staff continue to work with the City Manager's Office and the City Attorney's Office to determine the impact of the phased sale of the Airport West property on the associated CSJFA 2008F Bonds and HUD Section 108 Loan.

## B. Review of Debt Management Policies

### 1. Debt Management Policy

On May 21, 2002, City Council adopted, by Resolution No. 70977, a Debt Management Policy (Appendix A) which establishes the following equally important objectives in order to obtain cost-effective access to the capital markets:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting; and
- Ensure compliance with applicable State and Federal laws.

The general Debt Management Policy ('Policy") establishes parameters for when and how the City may enter into debt obligations but permits sufficient flexibility to allow the City to take advantage of opportunities that may arise.

At the June 19, 2012 City Council meeting, the City Council directed the Finance Department to review short-term borrowing and issuance of variable rate debt and develop a plan or policy for using variable rate debt. On December 4, 2012, Debt Management staff presented, and Council adopted Resolution 76500, amending the short-term and variable rate debt policy components of the Debt Management Policy that were consistent with the best practices recommended by the Government Finance Officers Association of the United States and Canada. The amendments for short-term debt limited the amortization to the economic or useful life of the project to a maximum of seven years barring extraordinary circumstances, and required a reliable revenue repayment source at the time of issuance of the debt. The amendments for variable rate debt called for consideration of the useful life of the project or facility being financed (or the term of the project requiring the funding), market conditions, and the overall debt portfolio structure in making the determination to issue bonds in variable rate mode or not.

On June 10, 2014, in response to direction by the City Council at its January 28, 2014 meeting, the City Council adopted Resolution No. 77020 to further revise the Debt Management Policy. The Policy was amended to incorporate language regarding lease financings (not including refundings) that provide that prior to bringing forward a lease financing to City Council for approval the Finance Department will perform due diligence on the project to be financed, including identifying a necessary revenue repayment source and procuring a feasibility study, and that a two-thirds majority approval by the City Council is required for the proposed plan of finance and for the final approval of the lease financing. In addition, the Policy was amended to clarify Debt Management Policy review language and specify that rating agency interactions are to be coordinated by the Finance Department.

### 2. Policy for the Issuance of Multifamily Housing Revenue Bonds

In addition to the general Debt Management Policy, the City Council approved by Resolution No. 71023 on June 11, 2002 a supplemental Policy for the Issuance of Multifamily Housing Revenue Bonds (the "Housing Policy") (Appendix B), which was subsequently revised on December 6, 2005. Additional modifications to this policy are currently under review and will be brought forward for City Council review and approval at a later time.

## C. Rating Agency Relations and Credit Maintenance

### 1. Credit Analysis Process

Municipal bond ratings provide investors with a simple way to compare the relative investment quality of different bonds. Bond ratings express the opinions of the rating agencies as to the issuer's ability and willingness to pay debt service when it is due. In general, the credit rating analysis includes the evaluation of the relative strengths and weaknesses of the following four factors as they affect an issuer's ability to pay debt service:

#### *a. Fiscal Factors*

Financial results have the most significant impact on the rating process. The rating review involves an examination of results of operations, including a review of the actual fiscal performance versus planned budget performance. The financial statements are examined with emphasis on current financial position and fund balances, as well as three- to five-year trends in planning and budgeting procedures. Pension liabilities are also important in the analysis process.

#### *b. Economic Factors*

The overall economic strength is heavily weighted in the evaluation of creditworthiness by diversity of both the economic base and, as applicable, the tax base. The diversity of industries reflects an agency's ability to weather industry-specific downturns as well as general economic recession. Property values, employment levels, income levels, costs of living, and other factors impacting the wealth of the taxpayers provide an indication of the strength of a tax base.

#### *c. Debt Factors*

Overall debt burden is considered in the credit analysis process. In addition to government-regulated debt ceilings, the ability to maintain manageable debt levels and debt service coverage is evaluated. Other positive indicators are proper management of existing debt, proactive efforts in identifying and executing financially prudent refunding opportunities, and closely matching capital financing structures to the funding needs of the project.

### *d. Administrative/Management Factors*

Administrative and management factors include the examination of the form of government and assessment of ability to implement plans as well as to fulfill legal requirements. The focus is on the capabilities of management staff and related entities, which is seen as a vital ingredient in assessing its credit quality. Managerial and legislative willingness to make difficult decisions, the development of financial policies, and the reliability and continuity of regularly-updated accounting and financial information are key. Management that maintains regular contact with the rating agencies is well regarded.

### 2. Rating Summary

The ratings for the City's general obligation, lease revenue, enterprise debt, and the Agency's tax allocation bonds are summarized in Appendix C. A brief overview of the City's current general ratings is provided in the section below.

### *a. General Credit Rating*

The City's current general obligation credit ratings are Aa1/AA+/AA+ from Moody's, S&P, and Fitch, respectively. The City remains one of the highest rated large cities (with populations over 250,000) in California. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence and sound financial operations and strong budgetary practices. Overall, the maintenance of these ratings translates to significant interest cost savings in the City's debt program which in turn benefit the taxpayers of the San José community.

### 3. Legal Debt Margins

General obligation debt is debt secured by the City's property tax revenues. Section 1216 of the San José City Charter limits outstanding general obligation debt of the City to 15% of the total assessed value of all real and personal property within the City limits ("debt limit"). The total assessed value of taxable property on the City's 2013-2014 tax roll was $137.0 billion, which results in a total debt limit of approximately $20.6 billion (total assessed value x 15% = debt limit). As of June 30, 2014, the City had $421.4 million in general obligation debt outstanding, representing 2.1% of total debt capacity and 2.0% of the debt limit with a debt margin of $20.2 billion (debt limit less outstanding general obligation debt).

## <u>D. Legislative and Regulatory Issues</u>

Debt Management staff review federal and state legislative referrals for potential impact to the outstanding debt portfolio. Staff also monitor regulatory changes proposed by governmental agencies such as the Internal Revenue Service ("IRS"), the Securities and Exchange Commission ("SEC"), and the Municipal Securities Rule Making Board ("MSRB"), as well as industry organizations such as the National Association of Bond Lawyers ("NABL"), the National Federation of Municipal Analysts ("NFMA"), and the Government Finance Officers Association ("GFOA").

## II. DEBT ISSUANCE

### A. Debt Issued During FY 2013-14

FY 2013-14 debt issuances totaled over $129.3 million to fund projects or to refund certain existing debt. This amount is composed of a $100 tax revenue anticipation note, $10 million in CSJFA lease revenue commercial paper notes, and a $19.3 million taxable lease-purchase agreement. These financings are described below and are presented in the summary table at the end of this section.

City of San José 2013 Tax and Revenue Anticipation Note - The City issued a short-term note for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. A $100 million Note was purchased by Bank of America, N.A. on July 1, 2013. Security for repayment of the 2013 Note was a pledge of the City's FY 2013-14 secured property tax and all other legally available General Fund revenues of the City including sales tax revenues, if required. The 2013 Note was fully repaid on February 10, 2014.

City of San José Lease-Purchase Agreement (Taxable) – Energy Conservation Equipment - On May 20, 2014, the City Council approved the execution of a master equipment lease-purchase agreement (the "Agreement") with Banc of America Public Capital Corp (the "Bank") under which the City may enter into separate schedules for the acquisition, purchase, financing, and leasing of energy conservation equipment to be installed at City-owned facilities in a principal amount not to exceed $30 million with the Bank or one of its affiliates. The schedules are referred to as "Leases". The financing was secured as a result of the Energy Services Agreement that the City entered into with Chevron Energy Solutions to design the projects and procure the equipment to be acquired and installed.

The City entered into a $19.3 million taxable Lease with a Bank affiliate, Banc of America Leasing and Capital LLC on May 29, 2014 to finance the acquisition and installation of energy conservation equipment at City-owned facilities including community centers, pools, joint community centers/libraries, the South Service Yard, the Museum of Art, and, most significantly, for the replacement of streetlights. The total blended interest rate for the 20-year taxable Lease was 5.01%, and interest rates ranged from 3.21% for improvements with 5-year useful lives to 6.01% for improvements with 20-year useful lives.

City of San José Financing Authority Lease Revenue Commercial Paper Notes - The Authority's CP Program utilizes a lease revenue financing structure. Under this program, the Authority is able to issue commercial paper notes ("CP Notes") with maturity not exceeding 270 days. The CP Notes are secured by a pledge of lease revenues from various City assets (the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, and the South San José Police Substation) and two direct-pay letters of credit ("LOCs") provided by State Street Bank and Trust Company ("State Street") and U.S. Bank (together, the "Banks"). The current Letter of Credit Agreements by and among the City, the Authority and each of the Banks expire on August 28, 2015.

During FY 2013-14, the Authority issued $10.0 million of new money commercial paper notes to finance additional projects related to the Convention Center Expansion and Renovation Project, per City Council actions approved on June 19, 2012.  The Authority redeemed $6.4 million in CP Notes, including $2.7 million for the consolidated utility billing system project, $2.0 million for improvements at the San José Arena/SAP Center, $1.5 million for the Convention Center project, and $0.2 million for Phase II improvements at the City's Central Service Yard.

As of June 30, 2014, $42.8 million of CP Notes were outstanding, including $25.7 million of tax-exempt CP Notes at an interest rate of 0.15% and $17.1 million of taxable CP Notes at an interest rate of 0.27%.

The CP Program was initially established in January 2004 and has been amended and expanded through various City Council and Authority Board actions over time.  A summary of these program amendments is provided below.

| Date | City Council/City of San José Financing Authority Board Actions |
|---|---|
| January 13, 2004 | Authorized the issuance of tax-exempt CP Notes in an amount not to exceed $98 million to finance public improvements of the City including the offsite parking garage for the new City Hall and non-construction costs for technology, furniture, equipment, and relocation services for the new City Hall. |
| November 9, 2004 | Authorized the issuance of tax-exempt CP Notes to provide additional funding for the “Integrated Utility Billing, Customer Service and Performance Management System” (the “CUSP Project”). |
| June 21, 2005 | Authorized the issuance of taxable CP Notes, under the same $98 million not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable CP Notes to pay for expenses otherwise authorized under the CP Program, but ineligible to be paid from tax-exempt CP proceeds. |
| November 15, 2005 | Authorized expanding the capacity of the CP Program from $98 million to $116 million and authorizing the issuance of CP Notes to pay a portion of the costs of the Phase II improvements at the City’s Central Service Yard and a portion of the demolition and clean-up costs at the City’s Main Service Yard. |
| May 22, 2007 | Authorized the issuance of CP Notes in an amount not to exceed $8.25 million to pay for capital improvements at the City’s HP Pavilion. |
| October 21, 2008 | Authorized the issuance of CP Notes to refund bonds and other obligations of the City or the Authority pursuant to Government Code Sections 53570 et seq and 53580 et seq. |
| December 8, 2009 | Authorized staff to amend and renew the Letter of Credit and Reimbursement Agreement supporting the CP Notes in order to extend the term to January 27, 2013. |
| April 27, 2010 | Authorized the issuance of CP Notes to fund a loan to the low and moderate income housing fund and to fund short-term cash flow needs of the City. |
| March 15, 2011 | Authorized the execution and delivery of a Third Amendment to the Site Lease, a Third Amendment to the Sublease, and other related actions pertaining to the Authority’s Lease Revenue Commercial Paper Program in order to provide for the substitution of certain components of the property under the Site Lease and the Sublease. |
| June 19, 2012 | Authorized the issuance of CP Notes in an amount not to exceed $10.0 million to provide funding for additional projects for the Convention Center Expansion and Renovation Project. |
| December 4, 2012 | Authorized staff to amend and restate the Letter of Credit and Reimbursement Agreement supporting the CP Notes in order to extend the term to March 15, 2013. |
| February 12, 2013 | Authorized staff to negotiate two new Letter of Credit and Reimbursement Agreements supporting the CP Notes; and authorized the execution and delivery of a Fourth Amendment to the Site Lease, a Fourth Amendment to the Sublease, and other related actions pertaining to the Authority’s Lease Revenue Commercial Paper Program in order to provide for the substitution of certain components of the property under the Site Lease and the Sublease. The facilities currently subject to the Site Lease and Sublease are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, and the South San José Police Substation. |

City of San José, California, San José International Airport Subordinated Commercial Paper Notes - The Airport CP program was established in November 1999, pursuant to Council Resolution 69200, to provide interim financing for Airport capital needs in anticipation of issuance of long term fixed rate airport revenue bonds. Airport CP Notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues. Net General Airport Revenues are the Airport's gross revenues less maintenance and operation expenses.

With the completion of the Airport TAIP and the refunding of over $354 million of outstanding commercial paper notes, the level of credit support has been significantly reduced.

No new money Airport commercial paper notes were issued in FY 2013-14. As of June 30, 2014, $11,992,000 of Series A-2 notes were outstanding at an interest rate of 0.09%, $13,045,000 of Series B notes were outstanding at interest rate of 0.10%, and $16,122,000 of Series C commercial paper notes were outstanding at interest rate of 0.24%.

As noted above, the Airport CP Program was initially established in 1999, and it has been expanded and amended by various City Council actions. A summary of these program amendments is provided below.

| **Date** | **City Council Actions – Airport Commercial Paper Program** |
|---|---|
| November 2, 1999 | Council adopted Resolution No. 69200 approving the implementation of a commercial paper program (the "Airport CP Program") for the Norman Y. Mineta San José International Airport (the "Airport"), which authorized the issuance of up to $100 million through a combination of three series of commercial paper notes: Series A (Non-AMT), Series B (AMT), and Series C (Taxable). |
| June 20, 2006 | Council approved an expansion of the Airport CP Program from $100 million to $200 million to ensure that funding would be available for the award of the design and construction contracts related to the amended Airport Master Plan projects and to pay costs related to the Airport's lease of the former FMC property. |
| January 9, 2007 | Council approved an expansion of the Airport CP Program from $200 million to $450 million to ensure that funding would be available for the design and construction contracts related to the re-phased Airport Master Plan projects. The Series A-C Notes of the Airport CP Program were secured by letters of credit issued on a several, not joint, basis by J.P. Morgan Chase Bank, N.A. ("J.P. Morgan"), Bank of America, N.A. ("Bank of America"), and Dexia Credit Local, acting through its New York Branch ("Dexia"), pursuant to the Second Amended and Restated Letter of Credit and Reimbursement Agreement (the "JPM/BofA/Dexia Agreement"). |

| | |
|---|---|
| March 25, 2008 | Council approved an expansion of the Airport CP Program from $450 million to $600 million primarily to refund the Series 2004A/B Bonds that were adversely impacted by disruptions in the financial markets related to auction rate securities. This expansion was accomplished through a combination of three additional series of commercial paper notes: Series D (Non-AMT), Series E (AMT), and Series F (Taxable) ), and is secured by a letter of credit issued by Lloyds TSB Bank plc, acting through its New York Branch (“Lloyds”), pursuant to a Letter of Credit and Reimbursement Agreement (the “Agreement”). |
| September 1, 2009 | Council adopted a resolution authorizing the issuance of tax-exempt private activity Non-AMT commercial paper notes as provided for in the American Recovery and Reinvestment Act of 2009. At that time, the Series A Notes were redesignated as Series A-1 (Non-AMT) and Series A-2 (Non-AMT/Private Activity) and the Series D Notes were authorized to be redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity). |
| November 9, 2010 | Council authorized an amendment to the JPM/BofA/Dexia Agreement that extended the term of the agreement for two months from December 2, 2010 to February 2, 2011, removed Dexia Credit Local as a party to the agreement, reduced the amount of available credit from $450 million to approximately $283 million, and amended other terms of the Agreement. The two-month extension provided additional time to complete negotiations related to the replacement letters of credit approved by the City Council on January 11, 2011. |
| January 11, 2011 | Council approved letter of credit and reimbursement agreements with each of J.P. Morgan, Bank of America, Citibank, and Wells Fargo Bank. The terms of the agreements range from one year to three years and the replacement letters of credit provide aggregate credit support of $383 million to the Airport CP program. |
| April 26, 2011 | Council approved an amended and restated letter of credit and reimbursement agreement (the “Amended Agreement”) with Lloyds, which provided for the extension of the credit facility for the Series D, Series E and Series F Notes to September 7, 2011 from its previous termination date of May 7, 2011. The Amended Agreement provided aggregate credit support of $140 million to the Airport CP program. |
| July 13, 2011 and December 2, 2011 | Council approved the issuance of Airport Revenue Bonds, Series 2011A-1 and Series 2011B to refund a significant portion of the outstanding commercial paper notes. As a result of these bond issuances, the total outstanding Airport CP was reduced from $410 million, as of July 1, 2011, to $52 million, as of December 31, 2011. |
| February 11, 2014 | Since December 2011, letters of credit issued by Bank of America, Citibank, JPMorgan and Lloyds have since then been terminated or expired. The remaining letter of credit issued by Wells Fargo Bank, N.A., as approved by Council, was replaced with one issued by Barclays Bank PLC on February 11, 2014. |

## Summary of Debt Issued During FY 2013-14

The table below presents a summary of debt issued in FY 2013-14.

**Summary of Completed Debt Issuance**
*FY 2013-14*

| Issue Date | Issue | Size (millions) | Type | Sale Type | Financial Advisor | Bond Counsel | Underwriter/ Private Placement | Credit Enhancement |
|---|---|---|---|---|---|---|---|---|
| 07/01/2013 | CSJ 2013 Tax and Revenue Anticipation Note | $100.00 | Tax and Revenue Anticipation Note | Private Placement | Public Resources Advisory Group | Orrick Herrington & Sutcliffe LLP | Bank of America, N.A. | N/A |
| 10/03/2013, 12/02/2013 | CSJFA Lease Revenue Commercial Paper – Convention Center Expansion and Renovation[(1)] | 10.00 | Lease Revenue Commercial Paper | Market Offering | Public Resources Advisory Group | Jones Hall | Barclays Capital (Dealer) | State Street/ US Bank LOC |
| 05/29/2014 | CSJ Lease–Purchase Agreement (Taxable) – Energy Conservation Equipment | 19.29 | Lease Purchase | Private Placement | Public Financial Management | Jones Hall | Banc of America Leasing and Capital LLC | N/A |
| **Total** | | **$129.29** | | | | | | |

**Issuer Key**: CSJ-City of San José; CSJFA-City of San José Financing Authority.
(1) The reported size of commercial paper debt issuance includes only new money to fund existing and/or new projects, and does not included redemptions.

**B. Debt Issued in and Planned for FY 2014-15**

Debt Management staff anticipate debt issuance in FY 2014-15 totaling approximately $324.8 million. This includes $267.1 million of debt already issued ($125.6 million of Airport Revenue Refunding Bonds, a $100.0 million Tax and Revenue Anticipation Note, and $41.5 million in multi-family housing revenue notes) and $57.7 million in debt forecasted to be issued ($50.0 million in multi-family housing revenue bonds and a $7.7 million lease-purchase agreement). These financings are briefly described below and are presented in the summary table at the end of this section. With the exception of the debt already issued, the information presented relating to the financings in progress should be considered preliminary and used for discussion and planning purposes only.

City of San José 2014 Tax and Revenue Anticipation Note - The City issued a short-term note to facilitate the prefunding of employer retirement contributions for FY 2014-15. The $100 million note was purchased by Bank of America, N.A. on July 1, 2014. Security for repayment of the 2014 Note is a pledge of the City's FY 2014-15 secured property tax revenues plus all other legally available General Fund revenues, including sales tax revenues, if required. The final maturity for the 2014 Note is June 30, 2015; however, staff anticipates that full repayment of the 2014 Note will occur in February 2015 after the first portion of the secured property tax revenues is received from the County Auditor-Controller.

City of San José Airport Revenue Refunding Bonds, Series 2014ABC - On October 7, 2014, the City issued the City of San José Airport Revenue Refunding Bonds, Series 2014A, Series 2014B, and Series 2014C, in an aggregate principal amount of $125,645,000, to refund all of the outstanding City of San José Airport Revenue Bonds, Series 2001A, Series 2004C, and Series 2004D, and to pay the costs of issuing the bonds. The refunding generated approximately $20.8 million in net present value savings for the Airport, representing average debt service savings of approximately $2.2 million per year.

Multifamily Housing Revenue Bonds/Notes - Federal tax law limits the amount of tax-exempt private activity debt that may be issued by a local agency. Prior to financing multifamily housing projects on a tax-exempt basis, these projects must receive an allocation of the State's private activity volume cap.

The City received an allocation from the California Debt Limit Allocation Committee ("CDLAC") and completed a financing for the following project:

> *Cambrian Center Apartments* – The City was authorized to use $38,069,000 of its unused 2013 Carry forward Allocation for the issuance of tax-exempt debt at the May 21, 2014 CDLAC meeting. CDLAC subsequently approved extensions to the project's debt issuance deadline on July 1, 2014 and September 24, 2014. Total notes in the amount of $41,459,000, which includes $3,390,000 in taxable notes that did not require a CDLAC allocation, were issued on October 27, 2014 to provide for the acquisition and rehabilitation of a 153-unit rental apartment project, 151 of which are affordable housing units.

The City plans to issue private activity bonds in 2014-15 for the following projects:

*Parkview Family and Senior Apartments* – This project received a CDLAC allocation of up to $14,500,000 and $15,000,000 in September 2014 for the Family and Senior projects, respectively. The bonds will provide financing for the rehabilitation of 90 and 140 affordable housing units for low-income and very low-income households for the Family and Senior projects, respectively.

*Poco Way Apartments* – This project received a CDLAC allocation of up to $21,833,854 in September 2014. The bonds will provide financing for the rehabilitation of 129 affordable housing units for low-income and very low-income households.

The table below presents a summary of debt issued and anticipated to be issued during FY 2014-15.

## Summary of Completed and Planned Debt Issuance

*FY 2014-15*

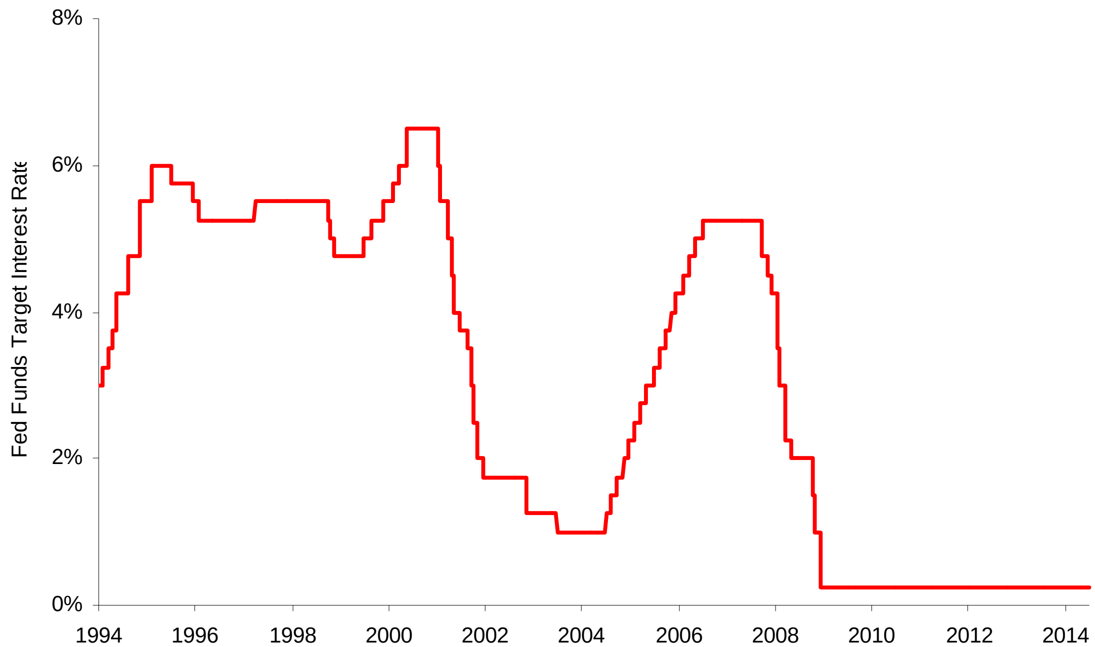
| Issue Date(s) | Issue | Size (millions) | Type | Sale Type | Financial Advisor | Bond Counsel | Underwriter/ Private Placement | Credit Enhancement |
|---|---|---|---|---|---|---|---|---|
| 07/01/2014 | CSJ 2014 Tax and Revenue Anticipation Note | $100.00 | Tax and Revenue Anticipation Note | Private Placement | Public Resources Advisory Group | Orrick Herrington & Sutcliffe LLP | Bank of America, N.A. | N/A |
| 10/07/2014 | CSJ 2014ABC Airport Revenue Refunding Bonds | 125.65 | Airport Revenue Refunding Bonds | Negotiated | Public Resources Advisory Group/ Public Financial Management | Orrick Herrington & Sutcliffe LLP | Barclays/ Fidelity Capital Markets/RBC Capital Markets | N/A |
| 10/17/2014 | CSJ 2014A Cambrian Center Apartments | 41.46 | Multifamily Housing Revenue Notes | Private Placement | Ross Financial | Quint & Thimmig | Citibank, Bank of America | N/A |
| 11/24/2014 | CSJ 2014B Parkview Family Apartments | 13.60 | Multifamily Housing Revenue Bonds | Negotiated | Ross Financial | Jones Hall | Red Capital Markets, LLC | N/A |
| 11/24/2014 | CSJ 2014C Parkview Senior Apartments | 14.63 | Multifamily Housing Revenue Bonds | Negotiated | Ross Financial | Jones Hall | Red Capital Markets, LLC | N/A |
| 02/2015 | CSJ 2015A Poco Way Apartments | 21.80 | Multifamily Housing Revenue Notes | Private Placement | Ross Financial | Hawkins, Delafield, and Wood | Citibank | N/A |
| 03/2015 | CSJ Lease–Purchase Agreement (Tax-Exempt) – Energy Conservation Equipment | 7.68 | Energy Conservation Savings | Private Placement | Public Financial Management | Jones Hall | Banc of America Public Capital Corp | N/A |
| **Total** | | **$324.82** | | | | | | |

**Issuer Key**: CSJ-City of San José

## C.  Current Market Conditions

In response to the deteriorating economy and financial market disruptions, the Federal Open Market Committee (the "FOMC") aggressively reduced the Fed Funds target interest rate from 2.00% in April 2008 to a range of 0.00% to 0.25% in December 2008. The FOMC has maintained this range of 0.00% to 0.25% since December 2008 through the publication date of this report.

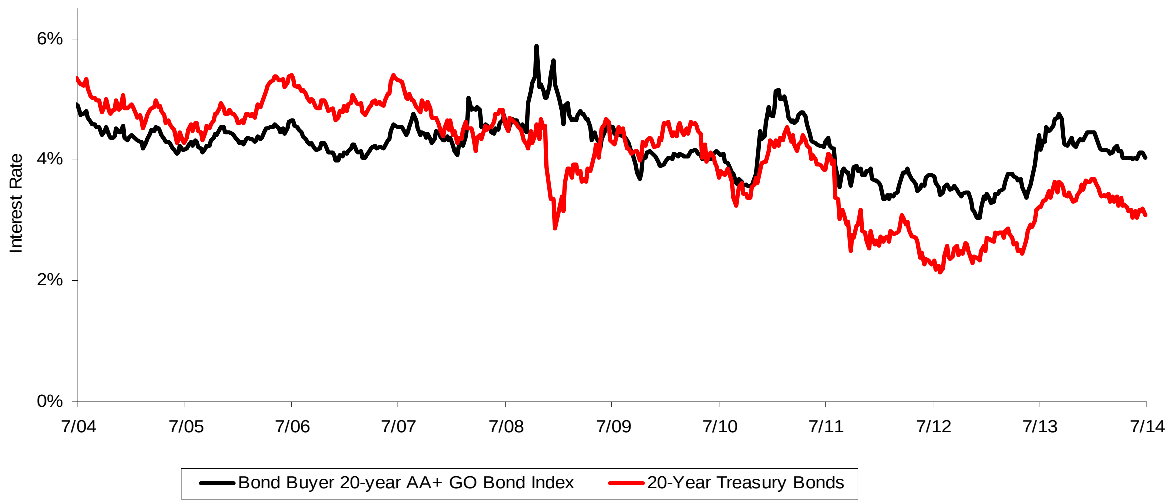
**Federal Funds Target Interest Rates**
*January 1994 through October 2014*




In the aftermath of the financial market crisis, the financial industry has transformed and consolidated significantly, which has contributed to a tightening of credit standards, decreased the availability of credit facilities, and produced more stringent capital adequacy requirements for banks.  Although the historical trend for variable rate bonds has been consistently lower than fixed rate bonds, this may not hold true in the future. Staff continue to monitor how future regulatory, proposals to regulate the banking industry, such as Basel III, and financial market changes may impact the City's variable rate program and will recommend adjustments to the program as appropriate.

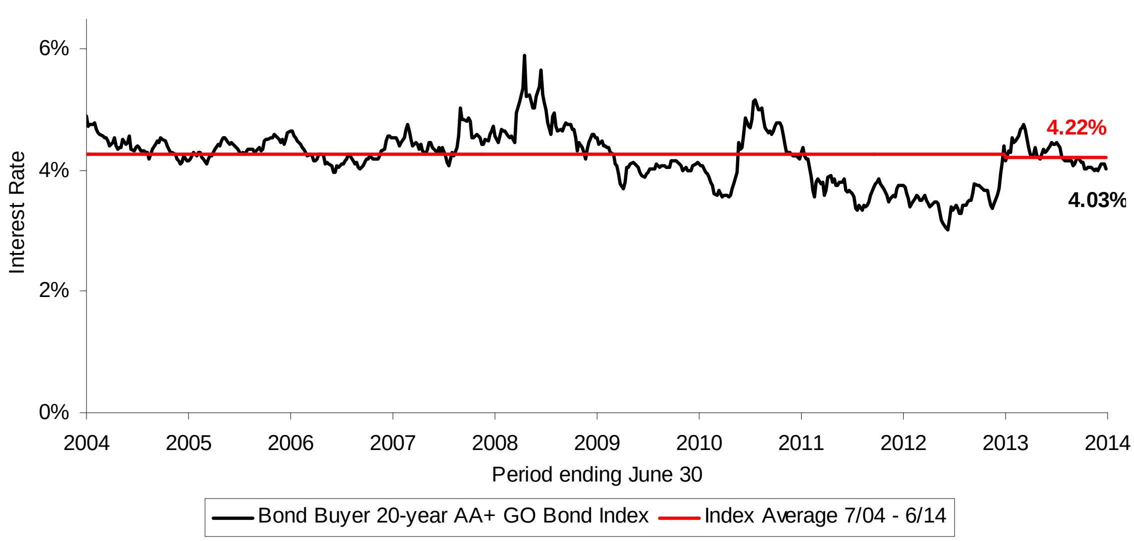
The chart below illustrates the changes in interest rates between tax-exempt (Bond Buyer 20-Year AA+ GO Bond Index) and taxable interest rates (20-Year Treasury Bonds) beginning in July 2011 through June 2014.  Historically, taxable bonds have interest rates that are higher than tax-exempt bonds; however, weak demand for tax-exempt bonds due to the global recession has resulted in the current trend where tax-exempt bonds are trading at higher interest rates than taxable bonds.

**Comparison of Tax-Exempt and Taxable Interest Rates**
*July 2004 through June 2014*




Despite the market disruptions and changes in investor demand for tax-exempt bonds, as can be seen in the following chart, tax-exempt long-term interest rates remained near their ten-year average for most of FY 2013-14.

**Ten-Year History of Tax-Exempt Interest Rates**
*July 2004 through June 2014*



## D. Selection of Debt Financing Teams

The selection of the financial advisor and underwriter for a financing project is generally done in the form of a competitive request for proposals ("RFP") or request for qualifications ("RFQ") process. Written proposals are reviewed by representatives from the Finance Department and other City departments involved with the financing.

Financial Advisory Pool: Debt Management staff conducted a RFP process for financial advisory services including City General Financial Advisor, Airport General Financial Advisor, Affordable Housing Program General Financial Advisor, Environmental Services Department General Financial Advisor, and financial advisory pools in the following areas: general obligation, lease revenue, and sewer revenue financings, affordable housing financings, and land-secured financings (improvement districts and community facilities districts).

The general financial advisors selected will remain in effect from July 2012 through June 2015 with two additional one-year options to extend the term of the agreements to June 30, 2017. A pool of eligible financial advisors allows for a more efficient selection of financing teams for each separate bond issue. The dissolution of the Agency reduced financing activity for the affordable housing program; therefore an Affordable Housing pool was not established.

**General Financial Advisors and Financial Advisory Pool Eligible List**
*July 2012 to June 2015*

| | |
|---|---|
| **City General Financial Advisor:** | Public Resources Advisory Group |
| **Airport Co- Financial Advisor:** | Public Financial Management<br>Public Resources Advisory Group |
| **Affordable Housing Program General Financial Advisor:** | Ross Financial |
| **Environmental Services Department General Financial Advisors:** | Public Financial Management<br>Public Resources Advisory Group |
| **General Obligation/Lease Revenue/Sewer Revenue Financings:** | Fieldman, Rolapp & Associates<br>KNN Public Finance<br>Public Resources Advisory Group<br>Ross Financial<br>Stone & Youngberg[1] |
| **Land-Secured Financings:** | CSG Advisors<br>Fieldman, Rolapp & Associates<br>Public Financial Management<br>Stone & Youngberg[1] |

[1] Acquired by Stifel Financial Corp. in 2011.

Multifamily Housing Underwriter Pool: On July 3, 2009, the Finance Department issued an RFP to investment banking firms for the purpose of establishing a new eligibility list for the City's multifamily housing underwriting pool. The multifamily housing underwriting pool eligibility list is used to assist the City in the formulation of debt financing strategies for multifamily housing projects.

| Multifamily Housing Underwriter Pool Eligibility List | |
|---|---|
| Citi Community Capital | RBC Capital Markets |
| E. J. De La Rosa & Co., Inc.[1] | Red Capital Markets, Inc. |
| Jefferies & Company, Inc. | Stern Brothers & Co |
| Merchant Capital, LLC | Stone & Youngberg[2] |
| Raymond James Morgan Keegan | Wells Fargo Institutional Securities, LLC |

[1] Acquired by Stifel Financial Corp. in 2014.
[2] Acquired by Stifel Financial Corp. in 2011.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

## III. DEBT ADMINISTRATION

### A. Debt Administration System

The Debt Management staff continually work to improve the comprehensive debt administration system. Inputs to the system come from financing documents, trustee reports, reports from the City's remarketing agents and collateral agents, contracts with financial services providers, and reports and requests from City staff. These inputs provide the data needed to ensure that the City meets its debt administration obligations to:

- Pay debt service;
- Invest and disburse bond funds;
- Monitor trustee-held accounts and investment agreements;
- Comply with bond covenants and IRS requirements;
- Provide continuing disclosure and other reports to the municipal bond market;
- Ensure market pricing of variable rate debt;
- Manage liquidity and credit enhancement contracts; and
- Evaluate potential refunding opportunities.

### B. Compliance and Monitoring

Compliance and monitoring activities constitute a large and growing portion of the Debt Management staff's daily tasks. While the process of assembling a specific bond financing project may take only six to nine months, compliance with the provisions of bond covenants last the entire life that the bonds are outstanding, up to 40 years or more. Debt Management staff also monitors compliance with IRS regulation governing tax-exempt debt. Debt Management staff work very closely with other City departments as well as with the City Attorney's Office and the Budget Office to manage the investment, disbursement, and compliance/continuing disclosure requirements of the debt portfolio.

The table on the following page presents a summary of compliance items currently monitored and provided by Debt Management staff.

## SUMMARY OF COMPLIANCE REQUIREMENTS

| Item Descriptions | Airport | Airport CP | CWFA | GO | SARA[5] | Lease-Backed | Lease-Backed CP | Land-Backed | TRAN |
|---|---|---|---|---|---|---|---|---|---|
| 1. Annual Compliance Report/Certificate | ✓ | ✓ | ✓ | | ✓ | | | | |
| 2. Budget Distribution | | ✓ | | | | ✓ | | | |
| 3. CAFR Distribution | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| 4. CDIAC Yearly Mello-Roos Fiscal Status Report | | | | | | | | ✓ | |
| 5. Certificate of adequate Budgeted Debt Service | | | ✓ | | | ✓ | ✓ | | |
| 6. Certificate of Property Insurance | ✓ | ✓ | ✓ | | | ✓ | ✓ | | |
| 7. Certificate of the City/ No Event of Default Certificate | | | | | | ✓ | ✓ | | ✓ |
| 8. Continuing Disclosure (SEC Rule 15c2-12)[1][2] | | | | | | | | | |
| i) Annual Report[3] | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| ii) Material Events Notice[4] | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 9. Investment Policy | ✓ | | | | | ✓ | | | |
| 10. Special Reporting | | | | | | | | | |
| i) Tax Roll | | | | ✓ | ✓ | | | ✓ | |
| ii) Quarterly billing | | | | | | ✓ | | | |
| iii) Other Available Funds Report | ✓ | | | | | | | | |
| iv) Quarterly Financials & Compliance Certificate/Quarterly Report | | ✓ | | | | | | | |
| v) Special Tax Annual Report | | | | | | | | ✓ | |
| vi) Airport Commercial Paper Debt Service Certification | | ✓ | | | | | | | |

(1) The variable rate Lease Revenue Bonds, the CP programs are not subject to Continuing Disclosure obligations. However, the banks providing letters of credit support or the banks that have directly purchased the lease revenue bonds require copies of applicable reports and material events notices posted to EMMA pursuant to the City's continuing disclosure agreements.

(2) The privately-placed subordinate SARA Bonds are not subject to Continuing Disclosure obligations.

(3) Annual Report includes: Annual Financial Information and Operating Data, and Audited Financial Statements or CAFR.

(4) Material Events include: (1) Principal/Interest Payment Delinquency, (2) Non-payment Related Default, (3) Unscheduled Draw on Debt Service Reserve Reflecting Financial Difficulties, (4) Unscheduled Draw on Credit Enhancement Reflecting Financial Difficulties, (5) Substitution of Credit or Liquidity Provider, or Its Failure to Perform, (6) Adverse Tax Opinion or Event Affecting the Tax-exempt Status of the Security, (7) Modification to the Rights of Security Holders, (8) Bond Call/Defeasance, (9) Release, Substitution or Sale of Property Securing Repayment of the Security, (10) Rating Change, and (11) Failure to Provide Event Filing Information as Required. For municipal bonds issued on or after December 1, 2010, reportable material events also include: Tender Offer/Secondary Market Purchases; Merger/Consolidation/Acquisition and Sale of All or Substantially All Assets; Bankruptcy, Insolvency, Receivership or Similar Event; and Successor, Additional or Change in Trustee.

(5) SARA includes Housing Set-Aside Bonds and Merged Area Tax Allocation Bonds.

## 1. Trustee Activities

As of June 30, 2014, the City had approximately $251 million in bond and commercial paper note funds, including reserve funds, held by three banking institutions acting as trustee, fiscal agent or issuing and paying agent (collectively, “trustees”). As of June 30, 2014, the Successor Agency had approximately $145 million in bond funds, including reserve funds, held by three banking institutions acting as trustees. The table below summarizes the City’s and Successor Agency’s trustee fund balances and activity.

**Trustee Summary[1]**
*As of June 30, 2014*

| Trustee | Number of Bond/CP Issues | Original Par Amount of Bonds | Trustee Fund Balance |
|---|---|---|---|
| **City Related** | | | |
| Bank of New York | 12 | $ 1,626,655,000 | $ 117,030,223 |
| US Bank | 11 | 467,635,000 | 42,110,797 |
| Wells Fargo Bank | 18 | 1,268,210,000 | 91,612,534 |
| U.S. Bank (Airport CP) | N/A | N/A | 27,150 |
| Sub-Total | 41 | $ 3,362,500,000 | $ 250,821,422 |
| **Successor Agency Related** | | | |
| Wells Fargo Bank | 9 | $ 376,170,000 | $ 10,048,685 |
| Union Bank | 16 | 3,137,850,000 | 135,082,860 |
| US Bank | 4 | 119,000,000 | 0 |
| Sub-Total | 29 | $ 3,633,020,000 | $ 145,131,545 |
| **Grand Total** | **70** | **$ 6,995,520,000** | **$ 395,952,967** |

[1] Does not include multifamily housing revenue bonds funds held.

## 2. Bond Proceeds Expenditures and Reimbursement Procedures

The City’s use of tax-exempt bond proceeds is limited by Federal and State law, and in some cases, by the ballot language authorizing the debt. Generally, tax-exempt bond proceeds, including interest earnings on bond funds, may only be spent for governmental purposes and only on capital projects. In the case of voter-approved debt, the bond proceeds may only be used for the purposes described in the ballot language authorizing the debt.

To provide accountability in managing bond funds, most of the City’s bond-financed project funds are held by trustees, who disburse the construction or improvement funds only after Debt Management staff has reviewed a disbursement request from the City department managing the project. As of June 30, 2014, of the $251 million held by the trustees for City-related debt, approximately $58 million is construction proceeds from the sale of both taxable and tax-exempt bonds and commercial paper notes. In addition, the City holds approximately $74 million in unspent Airport bond proceeds. These are funds awaiting disbursement for expenditures related to the construction of specific improvements or acquisition of real property as defined in the governing documents of each bond series.

Disbursement requests are reviewed and approved by department heads or their deputies before they are submitted to Debt Management. Debt Management staff then reviews, reconciles, and qualifies the bond-financed project expenditures before submitting disbursement requests to the trustees. When there is an ambiguity, the City Attorney's Office assists in determining the eligibility of expenditure items.

### 3. Arbitrage Rebate

Debt Management staff actively monitor proceeds of tax-exempt bonds for arbitrage compliance purposes. Arbitrage is the profit that results from investing low-yield tax-exempt bond proceeds in higher-yield securities (also referred to as positive arbitrage). Federal law stipulates that investment earnings in excess of the bond yield are arbitrage earnings and must be rebated to the U.S. Treasury. However, if a jurisdiction meets certain IRS expenditure exceptions for bond proceeds, the arbitrage earnings do not have to be rebated to the U.S. Treasury.

The investment of bond proceeds is in accordance with the City's Investment Policy and the Permitted Investment provisions of the governing documents of each series of bonds. For some types of bond funds, particularly a construction fund that must be held in short-term securities, a fund may earn at a rate less than the bond yield. Then, the fund is said to be earning negative arbitrage. Through careful management of its investments, the City can use positive arbitrage earnings in one account of a bond series to offset negative arbitrage in another account of the same series.

Although arbitrage earnings are rebated to the U.S. Treasury on a five-year installment basis, Debt Management staff conduct annual rebate calculations to assure that the City stays current on compliance issues and to facilitate appropriate budgeting and accounting for any potential rebate liability.

In addition to performing its own annual calculations, the City retains the services of the BLX Group, a subsidiary of Orrick, Herrington & Sutcliffe LLP, to: (1) review the City's arbitrage compliance at five-year anniversary dates when rebate is actually due to the Federal Government; (2) compute annual and five-year installment arbitrage rebate liability on the more complex financings; and (3) provide technical assistance to the City in the area of arbitrage rebate compliance. This third-party review provides an added level of confidence that the City is in compliance with the arbitrage regulations. Such review is particularly important given that the IRS has increased its random audit and target audit programs for tax-exempt bond issues.

None of the City's tax-exempt bond issues currently have a positive arbitrage rebate liability.

### 4. Continuing Disclosure

On November 10, 1994, the Securities and Exchange Commission ("SEC") adopted amendments to existing federal regulations ("Rule 15c2-12" or the "Rule") under which municipalities issuing securities on or after July 3, 1995 are required to:

1. Prepare official statements meeting current requirements of the Rule;

2. Annually file certain financial information and operating data with national and state repositories; and
3. Prepare announcements of the significant events enumerated in the Rule.

Effective July 1, 2009, the SEC requires all municipal issuers and other obligated persons to make all continuing disclosure filings electronically to an on-line, electronic filing system, known as the Electronic Municipal Market Access system (“EMMA”) maintained by the Municipal Securities Rulemaking Board (“MSRB”) instead of making these continuing disclosure filings with national and state repositories as originally required by Rule 15c2-12. Subsequently, the SEC amended Rule 15c2-12, for municipal bonds issued on or after December 1, 2010, to: (1) increase the number of events required to be reported as significant events from 11 to 15; (2) require that certain events previously required to be reported only if material to be reported regardless of materiality; (3) impose the requirement to report significant events within 10 business days from the occurrence of the event; (4) remove the exemption from the continuing disclosure for variable rate demand and other demand securities; and (5) amend the provisions regarding reporting of certain adverse tax events.

During the course of the fiscal year, the City identified several noncompliant issues with the filing of material events notices and has since then remedied these issues. As discussed earlier in the report, the City engaged the services of a consultant to conduct a comprehensive review of the City’s and the Agency’s continuing disclosure compliance as part of the SEC’s Municipal Disclosure Cooperation (“MCDC”) Initiative.

## C. Investment of Bond Proceeds

Debt Management staff work closely with bond trustees and Investment staff to manage the investment and disbursement of bond proceeds. Bond proceeds are invested in accordance with bond covenants and with the provisions of the City’s Investment Policy, which was most recently amended on September 16, 2014.

## D. Outstanding Variable-Rate Debt

The City’s and Agency’s outstanding debt portfolios, as described in Section IV, include variable rate bonds and commercial paper notes that are secured by letters of credit or are purchased directly by a bank (“direct placements”). Administration of letter of credit facilities and direct placements presents an ongoing and significant work effort for Debt Management staff and the City Attorney’s Office. This work effort is related to the renewal efforts. The agreements with the banks typically require renewal every three years and market activity requires ongoing review and monitoring given the variable rate nature of the obligations. Banks have become increasingly interested in purchasing variable rate bonds directly from municipal bond issuers in order to avoid the federal banking requirement to set aside capital reserves for letters of credit. As described earlier in “Debt Management Projects”, much of staff’s work in FY 2013-14 involved the renewal or replacement of letters of credit and entering into agreements for the direct sale of bonds to banks.

Issuing and paying agents draw against letters of credit when necessary to make payments of principal and interest on the outstanding debt. Direct placements do not require a letter of credit but include a variable index interest rate and have a mandatory tender expiration date. The total cost of funds under both programs is similar. As outlined in the table below, the City and the SARA currently have approximately $437.3 million in letters of credit and direct placement bonds supporting 14 series of variable rate bonds and commercial paper notes. The amount of variable rate debt outstanding or capacity for issuing variable rate debt decreased to $437.3 million as of June 30, 2014 from $445.1 million as of June 30, 2013.

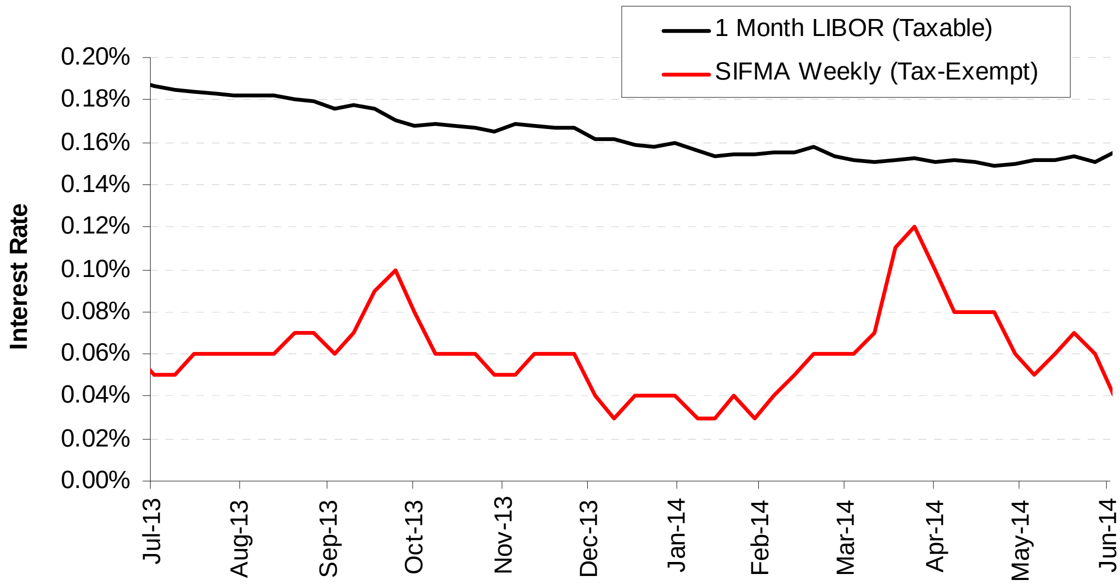
**Summary of Letters of Credit and Direct Placement Banks**
*As of June 30, 2014*

| Bond Series | Project Description | Bank | Amount [1] | Expiration Date |
|---|---|---|---|---|
| **Letters of Credit** | | | | |
| Airport Commercial Paper Series ABC | Airport Terminal Area Improvement Program | Barclays Bank PLC | $60,000,000 | 2/10/2017 |
| City of San José Financing Authority Commercial Paper | Various City projects | State Street/ US Bank | 85,000,000 | 8/28/2015 |
| Redevelopment Agency Tax Allocation Bonds Series 1996AB and 2003AB | Redevelopment Agency projects | J.P. Morgan | 85,655,000 | 3/31/2017 |
| **Direct Placement** | | | | |
| City of San José Financing Authority Lease Revenue Bonds Series 2008CD | Hayes Mansion | US Bank | 39,835,000 | 12/18/2016 |
| City of San José Financing Authority Lease Revenue Bonds Series 2008E-1 and Series 2008E-2 | Ice Centre | US Bank | 21,140,000 | 12/18/2016 |
| City of San José Financing Authority Lease Revenue Bonds Series 2008F | Land Acquisition | Bank of America | 62,105,000 | 6/26/2017 |
| Redevelopment Agency Housing Set-Aside Tax Allocation Bonds Series 2010C | Affordable housing | Wells Fargo Bank | 83,590,000 | 4/29/2016 |
| **Total** | | | **$437,325,000** | |

[1] Outstanding principal amount or commercial paper principal capacity.

The following chart provides a history of the average variable rates the City and related entities paid during FY 2013-14 for both taxable and tax-exempt bond issues. For Tax-exempt weekly interest rates paid by the City averaged at 0.06% and 0.17% for Taxable rates.

**Average Weekly Taxable and Tax-Exempt Rates**
*FY 2013-14*




## E. Refunding Opportunities

Debt Management staff review and analyze the outstanding debt portfolio with the goal of identifying opportunities to refund or restructure certain series to reduce annual debt service obligations.

Generally, fixed rate bonds can be refunded in two ways: as a current refunding or as an advance refunding. A current refunding is a refinancing in which the refunding bonds (new bonds) are issued less than 90 days before a date on which the refunded bonds (old bonds) can be called. The proceeds of the refunding bonds are applied immediately to pay principal, interest, and a call premium, if any, on the refunded bonds. Thereafter, the revenues originally pledged to the payment of the refunded bonds are pledged to the payment of the refunding bonds.

An advance refunding is the refinancing of outstanding bonds by the issuance of a new issue of bonds more than 90 days prior to the date on which the outstanding bonds are callable. Certain types of tax-exempt bonds, such as the bonds issued to finance airport terminal improvements, are not eligible to be advance refunded. The proceeds of advance refunding bonds are invested in an escrow until the first call date of the bonds to be refunded. Accordingly, for a period of time, both the issue being refunded and the refunding bond issue are outstanding until the refunded bonds are redeemed from the refunding escrow on their call date. The IRS restricts the yield which may be earned on investment of the proceeds of the refunding bonds and allows for only one advance refunding of any eligible series of tax-exempt bonds issued after 1986.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

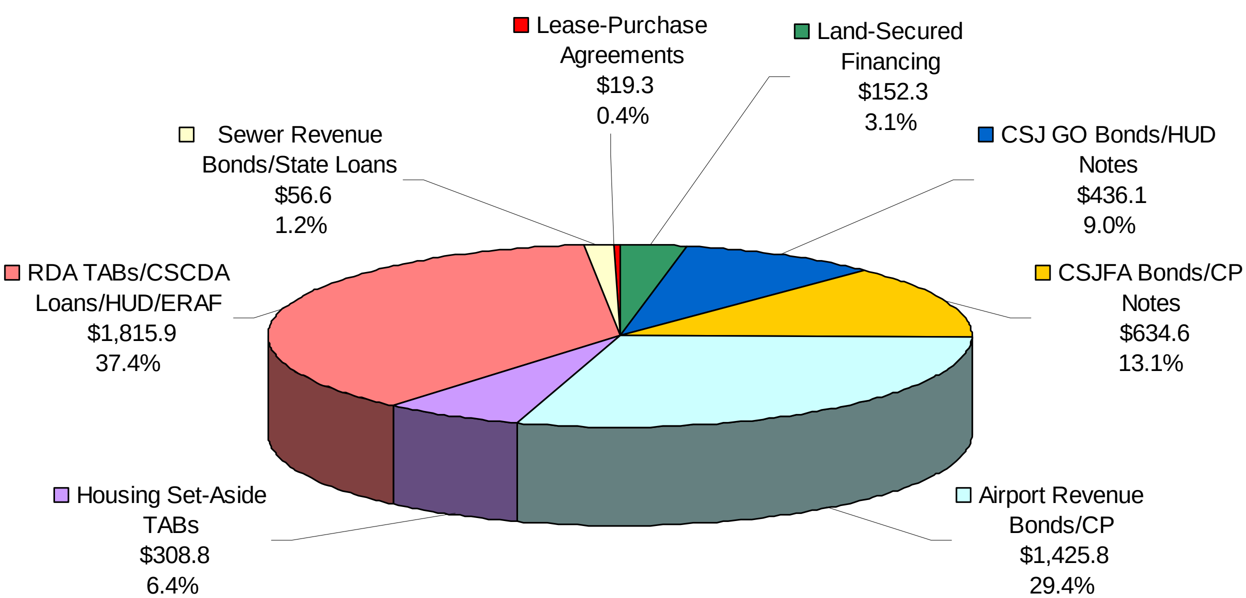
## IV. CITY'S OUTSTANDING DEBT PORTFOLIO

This section includes a presentation of the City's debt portfolio, which as of June 30, 2014 was comprised of 121 series of bonds, two commercial paper programs, one lease-purchase agreement, and seven loans totaling $4.85 billion. Of the 121 series of bonds, 68 series are debt of the City, the Agency, or related entities while the remaining 53 series are multifamily housing revenue bonds for which a private developer is the obligor. This analysis includes all debt issued by the City of San José, the Agency, and various financing authorities of which the City is a member and is obligated to make payment. ***Note that, except as described below in Section IV.G, the City has no legal obligation or connection in any way for the repayment of Agency debt.***

As of June 30, 2014, the City and related entities had debt outstanding totaling over $4.9 billion, excluding $494 million in multifamily housing revenue bonds. The following chart shows the distribution among the various categories of outstanding debt issued by the City and its related entities: general obligation/City HUD loan, City of San José Financing Authority, airport, sewer (San José-Santa Clara Clean Water Financing Authority), land-secured (assessment districts and community facilities districts), Agency tax increment debt (Housing Set-Aside and Agency Merged Area TABs and loans), and Lease-Purchase Agreements.

A summary table of all outstanding debt by series, excluding multifamily housing revenue bonds, is included in subsection H. Summary of Outstanding Debt. The multifamily housing revenue bonds are summarized in a separate table in subsection F. Multifamily Housing Revenue Bonds.

**Outstanding Debt Issued by All Agencies**
Balance as of June 30, 2014: $4,849,479,000
(excludes conduit debt, pension, OPEB, and other liabilities of the City)
(dollars shown below in millions)



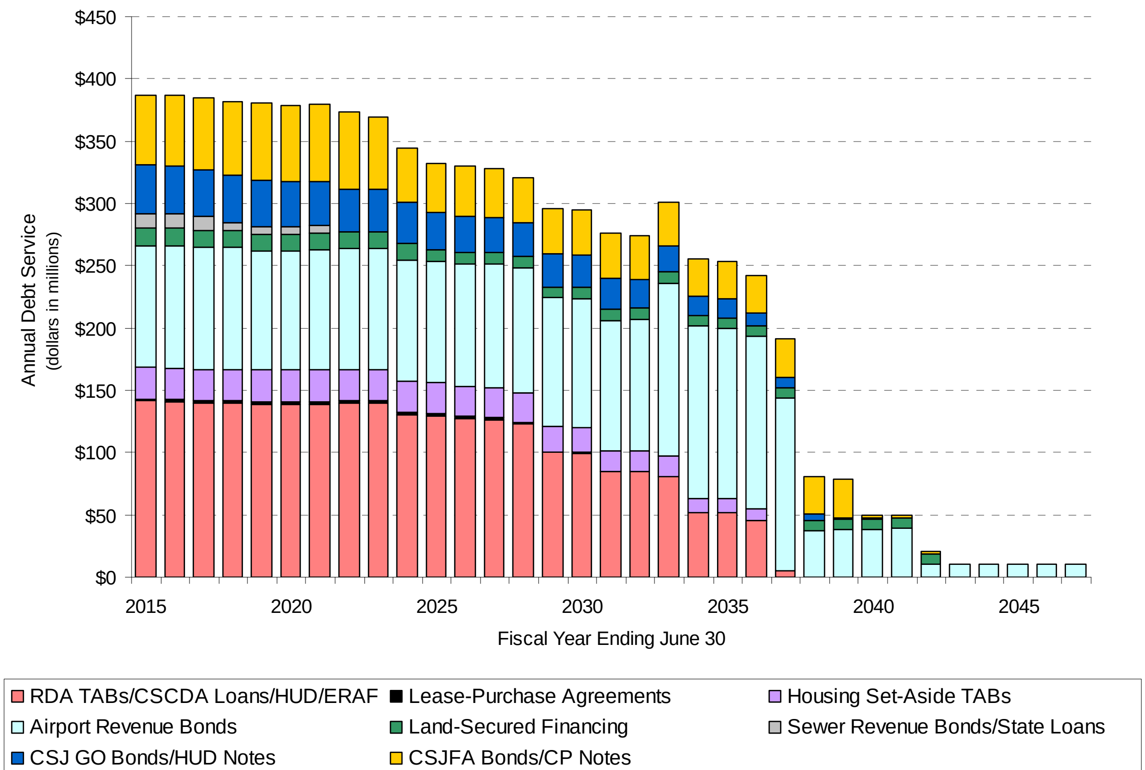
To develop budget estimates for variable rate debt, Debt Management staff undertakes a comprehensive analysis which takes into account historical rates, trends and future projections. However, for the projection of future annual debt service payments listed in this report (below) and in the City's Comprehensive Annual Financial Report, interest rates are calculated using actual rates as of June 30 of the fiscal year being reported, as noted below.

**Variable Interest Rate Assumptions**
*for Future Annual Debt Service Payments*

| | Tax-Exempt Rates | Taxable Rates | HUD Section 108 Rates |
|---|---|---|---|
| Rates as of June 30, 2014 | 0.06% - 0.18% | 0.13% - 3.05% | 0.67% |

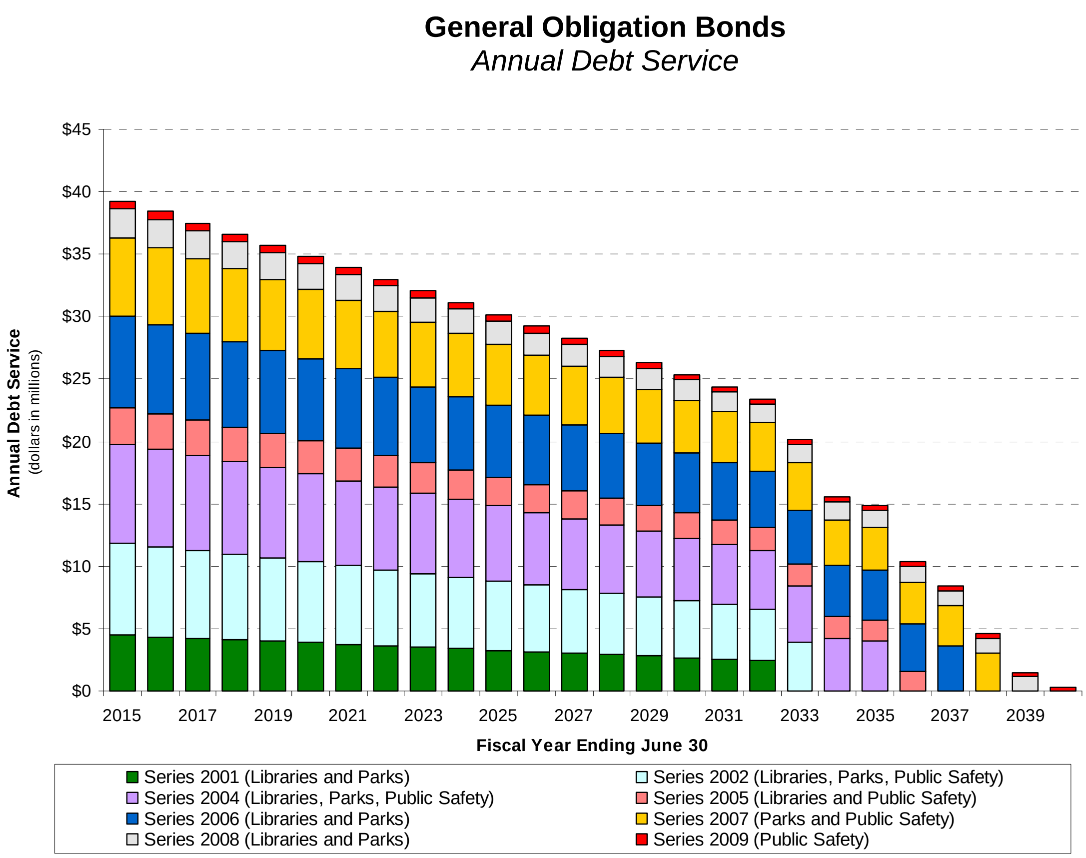
The following chart illustrates the annual debt service payments for all outstanding City-related debt except payments related to conduit debt (i.e. multifamily housing revenue bonds):

**Outstanding Debt Issued by All Agencies**
*Annual Debt Service*
*(excludes conduit debt, pension, OPEB, and other liabilities of the City)*



## A.  General Obligation Bonds

In 2000 and 2002, voters approved three ballot measures (Measures 2000 O and P and Measure 2002 O) that authorized total issuance of $598,820,000 of general obligation ("GO") bonds for library, parks, and public safety projects.  As of June 30, 2014, the City has issued $589.6 million of GO bonds with the proceeds allocated among: library projects ($205.9 million), parks and recreation projects ($228.0 million), and public safety projects ($155.7 million).  The outstanding balance as of June 30, 2014 was approximately $421.4 million.

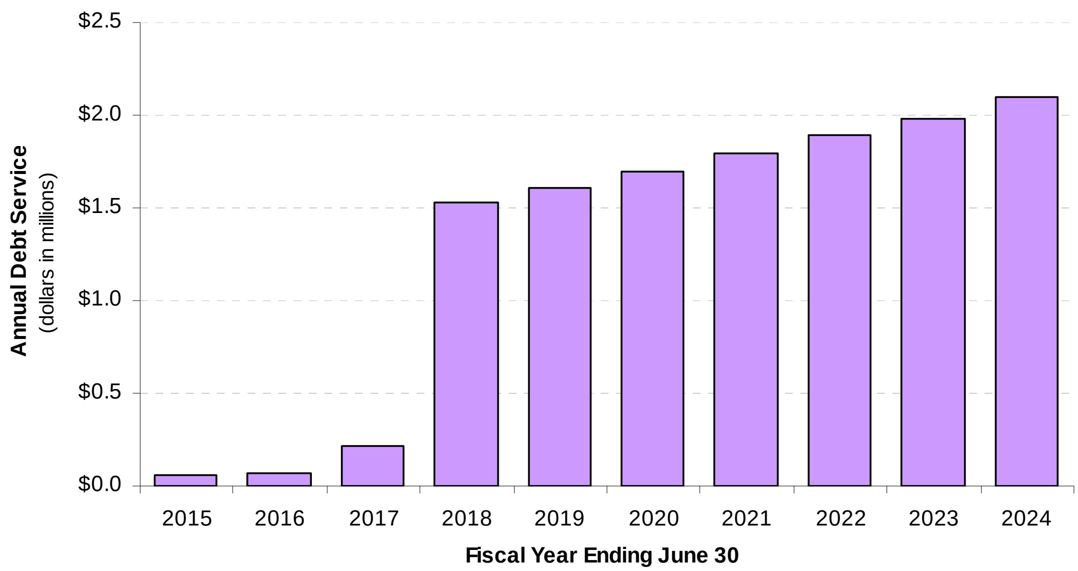


## B. City of San José HUD Section 108 Loan

On February 10, 2005, the City received a loan commitment in the amount of $25,810,000 from the U.S. Department of Housing and Urban Development ("HUD Loan") under the Section 108 Loan Guarantee Program for the purchase of property adjacent to the Airport, referred to as the Airport West property. On February 16, 2005, the City made an initial draw on the loan commitment in the amount of $342,000 to place a deposit on the property and to pay other costs associated with the land acquisition. On May 17, 2006, the City drew an additional $25,094,000 to complete the purchase. On November 7, 2007, the City drew the final $374,000 of the loan commitment to pay costs associated with the land acquisition.

The interest rate on the HUD Loan is variable with the interest rate reset monthly at the then effective 3-month LIBOR rate plus 0.20%. Debt service on the HUD Loan was initially paid from HUD Brownfields Economic Development Initiative ("BEDI") grant funds received by the City, and then from the City's General Fund. On November 7, 2012, the City prepaid $4,972,000 of the loan with proceeds from the sale of a portion of the land. As required by HUD, the funds were used to pay upfront principal payments until fully expended. As of June 30, 2014, the outstanding amount on the City's HUD Loan was $14,706,000. The final maturity date of the HUD Loan is August 1, 2024.

**City of San José HUD Section 108 Loan**
*Annual Debt Service*




** Years 2015, 2016 and 2017 only show the interest payments due to Principal Prepayment of $4,972,000 on November 2012 from the sale of a portion of the land.*

## C. City of San José Lease-Purchase Agreement

On May 20, 2014, the City Council approved the execution of a master equipment lease-purchase agreement (the “Agreement”) with Banc of America Public Capital Corp (the “Bank”) under which the City could enter into separate schedules for the acquisition, purchase, financing, and leasing of energy conservation equipment to be installed at City-owned facilities in a principal amount not to exceed $30 million with the Bank or one of its affiliates. The schedules are referred to as “Leases”. The financing was secured as a result of the Energy Services Agreement that the City entered into with Chevron Energy Solutions (which was acquired by OpTerra Energy Services in 2014) to design the projects and procure the equipment to be acquired and installed. Each piece of equipment is leased by the City from the Bank for a period not to exceed its useful life, capped at 20 years. Upon full payment of all amounts owed under a lease, the City will own all equipment free and clear and the security interest the Bank has in the equipment will cease. The first Lease entered into under the Agreement is described above in “Debt Issuance – Debt issued During FY 2013-14”. Debt Management plans to enter into a second lease on a tax exempt basis in an amount of $7.68 million during the first quarter of 2015.

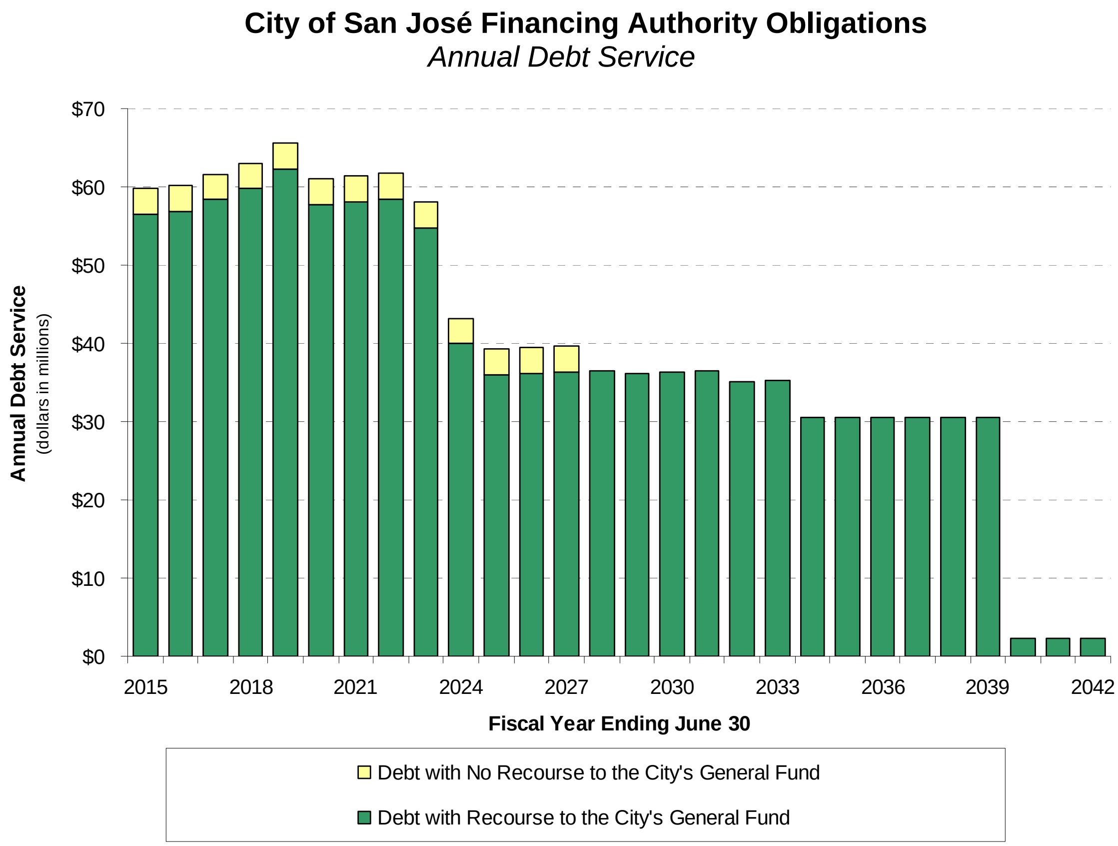
## D. City of San José Financing Authority Obligations

The Authority is a joint exercise of powers authority established under State law between the City and the Agency, and is authorized to finance capital improvements for public entities. Bonds and notes issued by the Authority are repaid through revenues generated by the financed facilities or assets, or lease payments from the City for the use of specified facilities, which in some cases are different from those that were financed. Although payment for one of the Authority’s obligations is limited to specific revenue sources, the remainder of the Authority’s obligations is ultimately payable from the City’s General Fund.

To better illustrate the variety of Authority debt outstanding, Authority obligations are presented here in two categories. These include:

1. Debt with Recourse to the City’s General Fund; and
2. Debt with No Recourse to the City’s General Fund.

The chart below illustrates the annual debt service obligations by category. The composition of each category is discussed in detail on the following pages of this section.


City of San José Financing Authority Obligations
Annual Debt Service
Annual Debt Service
(dollars in millions)
$70
$60
$50
$40
$30
$20
$10
$0
2015
2018
2021
2024
2027
2030
2033
2036
2039
2042
Fiscal Year Ending June 30
Debt with No Recourse to the City's General Fund
Debt with Recourse to the City's General Fund

## 1. Debt with Recourse to the City's General Fund

The financing projects included in this category include bond-financed capital projects which the City's General Fund bears the majority of the debt burden. As of June 30, 2014, the total amount outstanding was approximately $634.6 million consisting of $588.2 million of lease revenue bonds and $46.4 million of taxable and tax-exempt commercial paper.

Some of these financing projects are considered non-self-supporting as they do not generate revenues that can be applied to offset the City's lease payments. Although City special funds or other revenue sources may be earmarked to make these payments, the City's General Fund bears the majority of the debt burden. Below is a short description of each of the non-self-supporting projects:

- Series 2003A Bonds, which refunded the bonds issued to finance site acquisition and construction costs of the City's Central Service Yard;
- Series 2006A, and 2013A Bonds, which refinanced the City Hall project;
- Series 2013B Bonds, which refunded the bonds issued to finance the land acquisition and construction of the City Hall Employee Parking Garage; and
- Commercial paper notes issued to provide funding for the following projects: Central Service Yard Phase II improvements, Consolidated Utility Billing System, the City's share of capital improvements at the City's HP Pavilion, as well as costs associated with the loan to the Low-Mod Housing Fund related to the Housing Department's loan to the Agency for the Agency's SERAF payment and the Convention Center Expansion.

Some financing projects are considered self-supporting where revenue generated can be applied to offset, in whole or in part, the City's lease payments. To the extent that offsetting revenues are insufficient to completely cover the debt service payments for any of these bonds, the City's General Fund is committed to make up the difference. A short description of each of these self-supporting projects is listed below.

- Series 2001F (Convention Center Refunding Project): Under a Reimbursement Agreement between the City and the Agency, the Agency has committed to reimburse the City for debt service on the Series 2001F Bonds, subordinate to all other debt issued by the Agency.

- Series 2007A (Recreational Facilities Refunding Project): These fixed rate bonds refunded all or a portion of several series of bonds as summarized below.

    - Series 1993B (Community Facilities Project): These bonds, which were partially refunded with proceeds of the Series 2007A Bonds, financed the construction of the Berryessa Community Center and the Ice Centre of San José, acquisition of Murdock Park, and made other funds available for the Hayes Mansion Phase I Improvement Project.

    - Series 1997A (Golf Course Project): These bonds, which were completely refunded with proceeds of the Series 2007A Bonds, financed the acquisition, renovation, and conversion of an 18-hole course to a 9-hole course with a driving range (the Rancho del Pueblo Golf Course).

  - Series 2000B (Tuers-Capitol Golf Course/Camden Park Refunding): These bonds, which were completely refunded with proceeds of the Series 2007A Bonds, financed construction of the City's 18-hole Los Lagos Golf Course and refunded outstanding certificates of participation issued by the Association of Bay Area Governments ("ABAG") for the Camden Neighborhood Park.

- Series 2008C and Series 2008D (Hayes Mansion Refunding Project): These variable rate bonds refunded the Series 2001 Bonds issued to finance the Hayes Mansion Phase III improvements and refund the Series 1995 Bonds issued to finance the Hayes Mansion Phase II improvements. Under the operator's Management Agreement, revenues of the Hayes Mansion are used to pay debt service and financing costs of the Series 2008C Bonds, the Series 2008D Bonds, the Hayes Mansion share of debt service of the Series 1993B Bonds, and the Series 2007A Bonds.

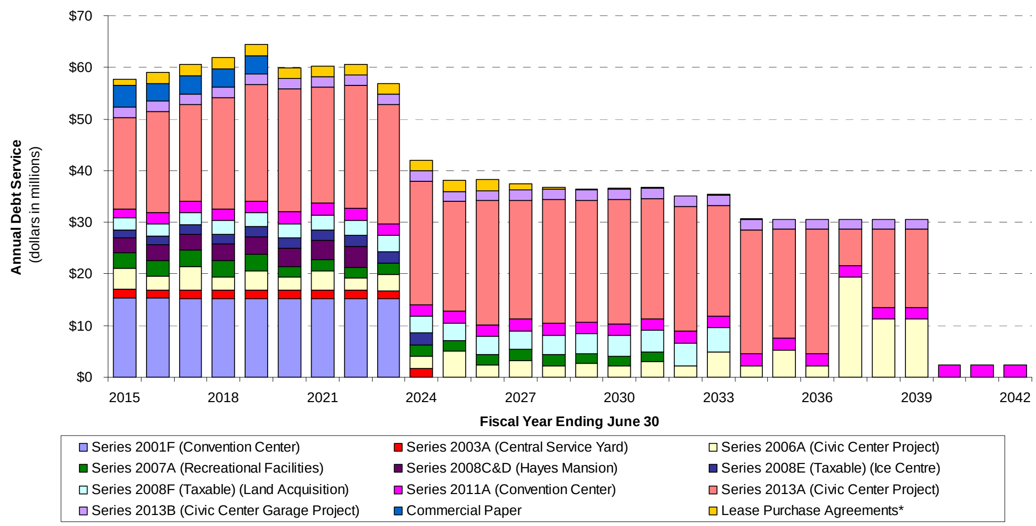
- Series 2008E-1 and 2008E-2 (Ice Centre Refunding Project): These variable rate bonds refunded the Series 2000C Bonds, which financed or refinanced the construction of the Ice Centre and the construction of an additional ice rink at the facility, and the Series 2004A Bonds, which financed the expansion and renovation of the facility including construction of a fourth ice rink. Under the operator's Lease and Management Agreement with the City, the City receives fixed quarterly payments to cover debt service on the bonds and to fund capital repair and replacement reserves. To date, the General Fund has not subsidized debt service on these bonds.

- Series 2008F (Land Acquisition Refunding Project): These variable rate bonds refunded the Series 2005 Bonds issued to finance acquisition of property adjacent to the Airport ("Airport West"). Through FY 2009-10 the Authority received rental payments from the City to cover debt service on the bonds under an Operating Sublease with the City for aviation uses. The Airport stopped its use of the Airport West Property as of June 30, 2010 and the Operating Sublease was terminated retroactively to June 30, 2010. As of FY 2010-11, the City's General Fund pays the debt service requirements for the 2008F Bonds pursuant to the General Sublease between the City and the Authority which took effect automatically on the termination of the Operating Sublease.

- Series 2011A (Convention Center Expansion and Renovation Project): On April 12, 2011, a total of $138,400,000 of tax-exempt bonds were sold in two series. The City of San José issued $107,425,000 of special hotel tax bonds and the Authority issued its $30,985,000 Series 2011A tax-exempt lease revenue bonds to finance the costs of the Project. Only the lease revenue bonds are included in this category. The special hotel bonds are reflected in the Land-Secured Financing section later in this report. Special hotel tax revenue remaining after funding the payment of more senior obligations, including interest and principal on the special hotel tax revenue bonds, is pledged to the payment of interest and principal on the Series 2011A lease revenue bonds.

The following chart illustrates the annual debt service associated with the bonds in this category.

**Debt with Recourse to the City's General Fund**
*Annual Debt Service*



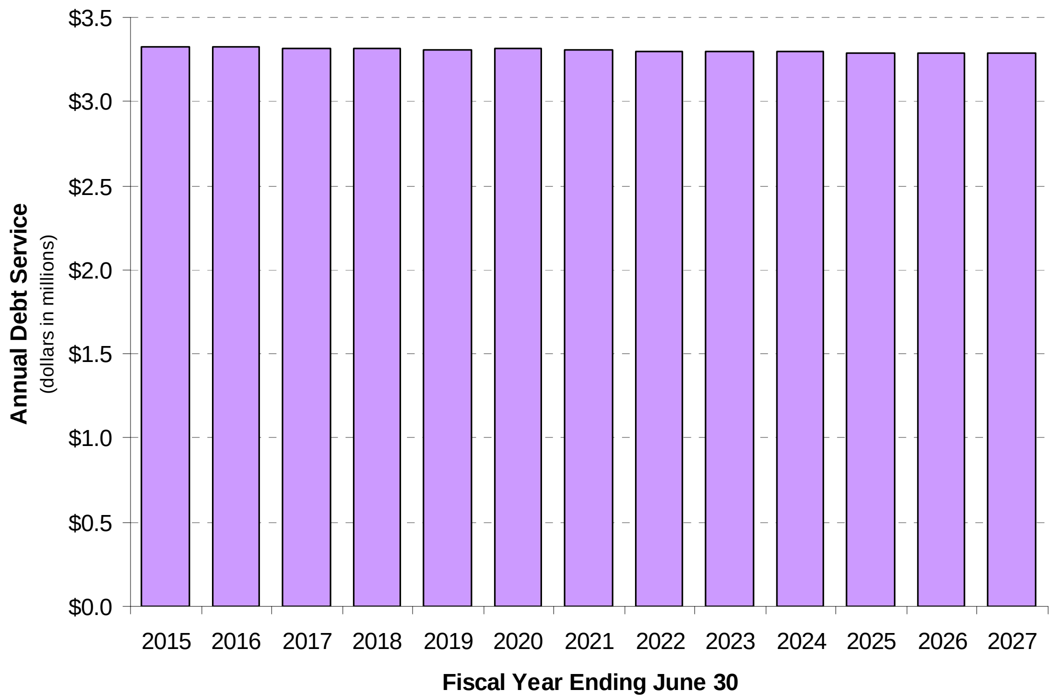

* Lease Purchase Agreement is with the City, not the City of San José Financing Authority.

## 2. Debt with No Recourse to the City's General Fund

This category includes Authority bond issues for which repayment is limited to specific sources of revenue, and for which bondholders do not have recourse to the City's General Fund in the event those revenues are insufficient to pay debt service on the bonds. Only one series of Authority bonds is currently in this category.

CSJFA Series 2001A (4th & San Fernando Parking Garage): The Series 2001A Bonds are revenue bonds issued by the Authority to finance construction of the City parking garage located on the corner of North 4th Street and East San Fernando Street (the "4th & San Fernando Parking Garage"). Surplus revenues of the Agency are pledged for the repayment of the Series 2001A Bonds and to the extent these revenues are not sufficient to pay debt service, then the gross revenues of the City's parking system are pledged to pay debt service.

**Debt with No Recourse to City's General Fund (2001A)**
*Annual Debt Service*



## E. Enterprise Fund Obligations

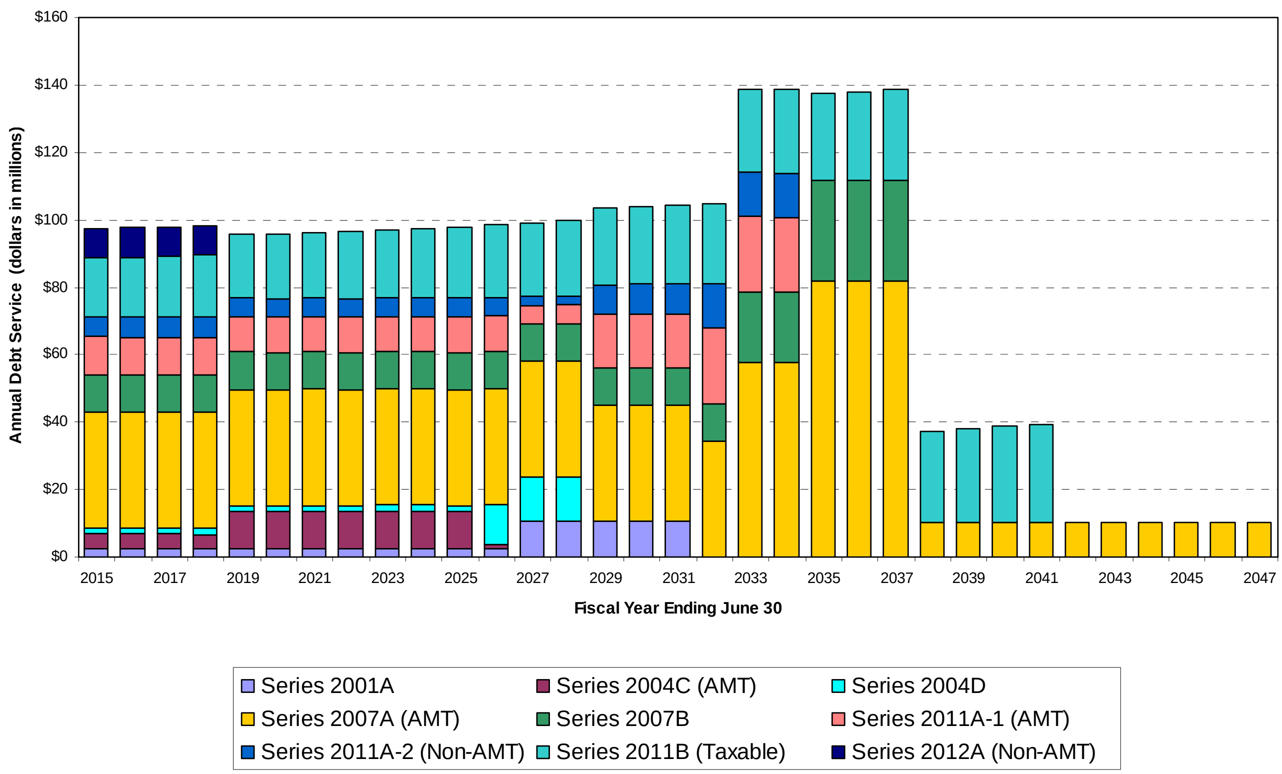
### 1. Norman Y. Mineta San José International Airport

As of June 30, 2014, the total amount of Airport obligations outstanding was $1.425.9 million, consisting of senior debt of $1,384.7 million and $41.2 million of outstanding commercial paper ("CP"). The Airport's CP is subordinate to the revenue bonds.

The following chart illustrates the annual debt service requirements. CP is not shown in the graph because CP provides flexibility with amortization of principal and does not a have fixed amortization schedule.

The chart below does not reflect the refunding occurred subsequent to fiscal year end. On October 7, 2014, the Airport issued Series 2014 Bonds to refund all outstanding Series 2001A and Series 2004 Bonds.

**Airport Revenue Bonds**
*Annual Debt Service*



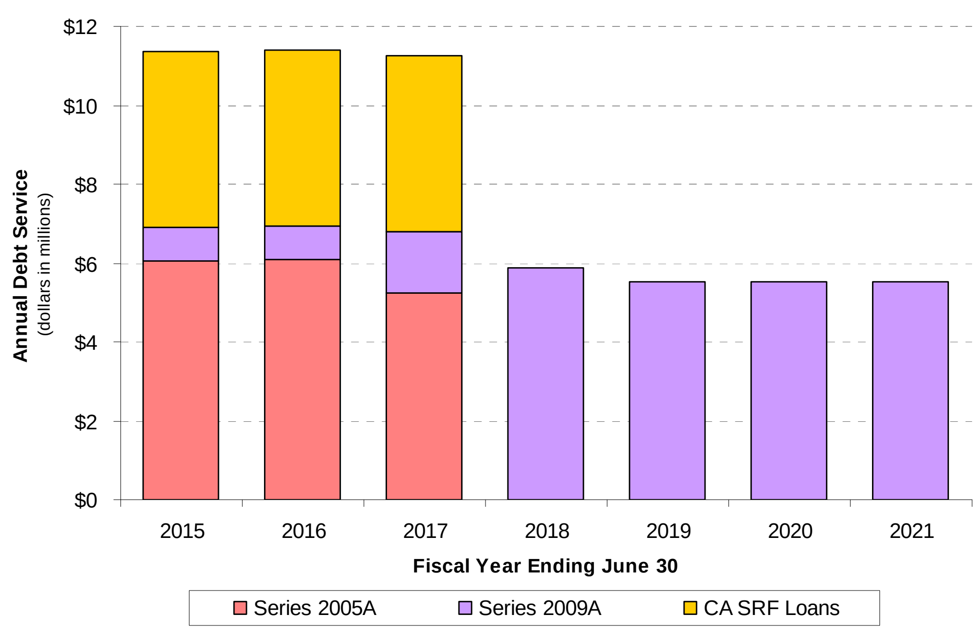

The spike in debt service payments in 2033 is attributable to the Series 2007 Bonds. The original bond structure for the 2007 Bonds was designed with level debt service payments over the 40-year life of the bonds. However, at the time the bonds were priced, demand for 40-year securities deteriorated. To address this sudden deterioration in demand, the financing team restructured the debt service repayment and transferred most of the principal originally scheduled to mature between years 31 and 40 into the 26 to 30 year maturity range, producing a non-level debt service structure. At the City's option, the 2007 Bonds can be redeemed on or after March 1, 2017 at a redemption price equal to 100% of the principal amount of the 2007 Bonds called for redemption. The City intends to evaluate the feasibility of refunding these bonds and restructuring the debt service to create a more level debt service profile in connection with evaluating a refunding of the 2007 Bonds.

## 2. San José-Santa Clara Clean Water Financing Authority

The total amount of outstanding sewer revenue bonds issued by the San José-Santa Clara Clean Water Financing Authority and the outstanding principal on the City's California State Revolving Fund Loans ("CA SRF Loans") as of June 30, 2014 was $56.6 million. The Improvement Agreement by and among the San José-Santa Clara Clean Water Financing Authority, the City of San José, and the City of Santa Clara provides the terms and conditions under which the City of San José and the City of Santa Clara agree to make payments to the Clean Water Financing Authority for debt service on the bonds. With respect to the Series 2005A Bonds and the Series 2009A Bonds, the City of Santa Clara has no repayment obligation under the Improvement Agreement. The City of Santa Clara cash-funded its share of the South Bay Water Recycling Project in lieu of participating in the bond financings that were refunded by the Series 2005A Bonds and the Series 2009A Bonds.

The City of San José and the City of Santa Clara have agreements with each of the tributary agencies for those agencies' share of capital costs and on-going operation expenses of the waste water treatment system. These revenue streams along with other revenue sources generated from the waste water treatment system are applied toward the payment obligation the cities of San José and Santa Clara have to the Clean Water Financing Authority and the City's obligations under the CA SRF Loans. The tributary agencies include the City of Milpitas, West Valley Sanitation District, Cupertino Sanitation District, Burbank Sanitary District, and County Sanitation District 2-3.

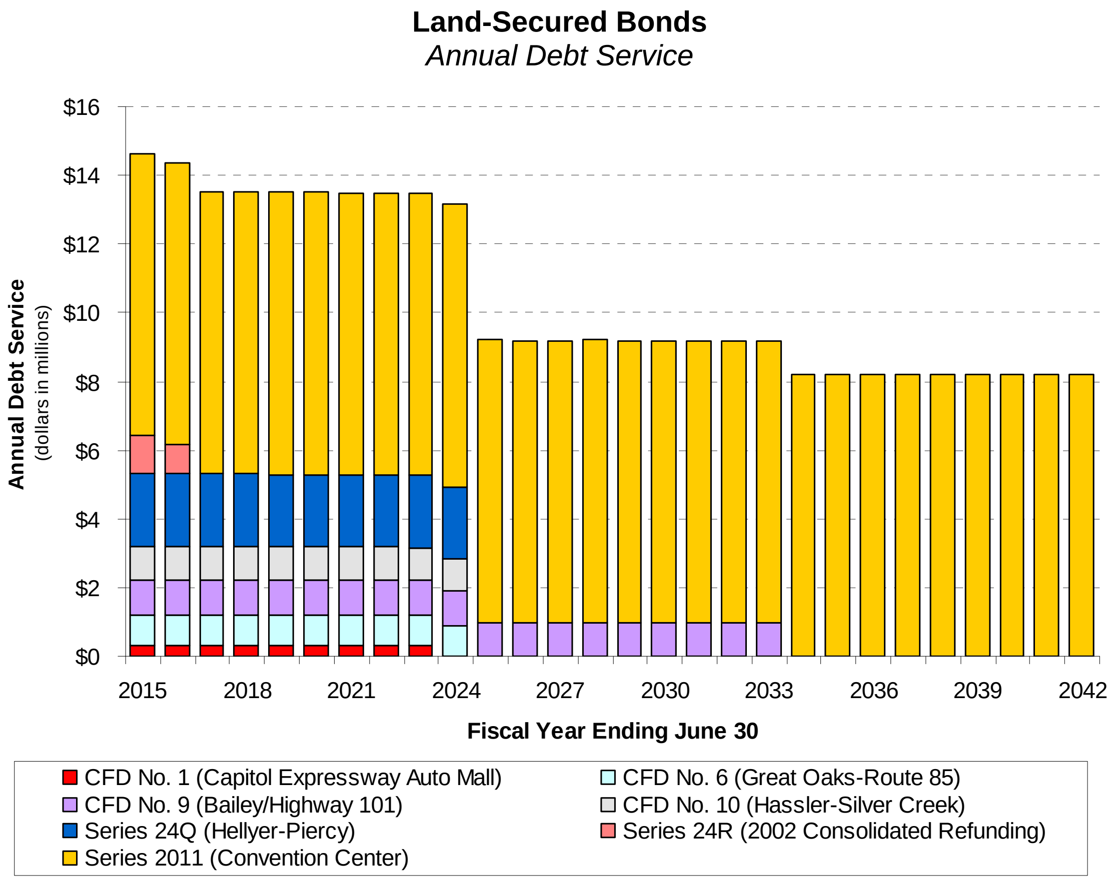
**San José-Santa Clara Clean Water Financing Authority Debt and CA SRF Loans**
*Annual Debt Service*



## F. Land-Secured Financing

As of June 30, 2014, the City had four series of community facilities district ("CFD") bonds, two series of special assessment bonds ("SABs"), and a special hotel tax bond ("STB") issue outstanding totaling $152.3 million. The largest outstanding bond issue is the STB Series 2011, Convention Center Expansion and Renovation Project. The City issued $107.4 million of special hotel tax bonds which together with the Authority-issued $31.0 million in lease revenue bonds are payable from the special tax imposed on hotel properties within the Convention Center Financing District ("CCFD"). The lease revenue bonds are reflected in the City of San José Financing Authority section presented earlier in the report.

The chart below illustrates the total annual debt service requirements for the improvement district and community facilities district debt outstanding.



## G. Multifamily Housing Revenue Bonds

Multifamily housing revenue bonds are issued to finance the development (which includes new construction as well as acquisition and rehabilitation) by private developers of certain rental apartment projects. The City issues the bonds, typically on a tax-exempt basis, and then lends the proceeds to the developer/borrower. The bonds are limited obligations of the City, payable solely from loan repayments by the borrower and any credit enhancement. For multifamily housing revenue bonds to qualify for tax-exemption, generally one of two restrictions must apply: either at least 20 percent of the units in the housing development must be reserved for occupancy by individuals and families of very-low income (50% of area median income) or at least 40 percent of the units must be reserved for occupancy by individuals and families of low income (60% of area median income).

Since November 1985, the City has issued $978.9 million of bonds and notes for the City's multifamily housing program, which has financed 6,726 affordable housing units. As of June 30, 2014, the total principal amount of bonds outstanding for the housing program was $493.6 million. It is important to note that in addition to conduit financing through multifamily housing revenue bonds, there are other vehicles available to the City to assist with the financing of affordable housing units, including loans, grants and 9% tax-credits. The elimination of redevelopment agencies statewide has significantly reduced the City's ability to facilitate the financing of affordable housing. The information presented in this report only represents affordable housing projects that were financed, in whole or in part, with bonds issued by the City. The table presented on the following pages summarizes the City's portfolio of multifamily revenue bonds.

**Multifamily Housing Revenue Bonds**
**As of June 30, 2014**

| Project Name | Series | Date Issued | Issue Amount *(thousands)* | Balance *(thousands)* | Maturity/ Redemption | Affordable Units | Annual Fees |
|---|---|---|---|---|---|---|---|
| Fairway Glen | 1985A | 11/18/85 | 10,100 | - | 04/15/07 | 29 | |
| Foxchase Drive | 1985B | 11/18/85 | 11,700 | - | 05/15/08 | 29 | |
| Somerset Park Apartments | 1987A | 11/20/87 | 8,000 | - | 08/01/05 | 26 | |
| Timberwood Apartments | 1990A | 02/01/90 | 13,425 | - | 09/01/05 | 166 | |
| Timberwood Apartments | 1990B (Sub.) | 02/01/90 | 1,500 | - | 08/01/05 | - | |
| Countrybrook Apartments | 1992A | 04/15/92 | 20,090 | - | 04/01/12 | 72 | |
| Countrybrook Apartments | 1992B (Tax.) | 04/15/92 | 1,000 | - | 04/01/97 | 0 | |
| Siena at Renaissance Square | 1996A | 08/22/96 | 50,000 | - | 12/01/29 | 271 | |
| Siena at Renaissance Square | 1996B | 08/22/96 | 10,000 | - | 04/01/98 | - | |
| Almaden Lake Village Apartments | 1997A | 03/27/97 | 25,000 | 25,000 | 03/01/32 | 142 | 33,750 |
| Almaden Lake Village Apartments | 1997B | 03/27/97 | 2,000 | - | 03/29/00 | - | |
| Coleman Senior Apartments | 1998 | 04/24/98 | 8,050 | 6,363 | 05/01/30 | 140 | 7,507 |
| Italian Gardens Senior Apartments | 1998 | 04/24/98 | 8,000 | 6,322 | 05/01/30 | 139 | 7,458 |
| Carlton Plaza | 1998A | 04/24/98 | 12,000 | 12,000 | 10/15/32 | 26 | 15,000 |
| Carlton Plaza | 1998A (Tax.) | 04/24/98 | 2,600 | - | 04/02/01 | - | |
| The Gardens Apartments | 1999A | 05/12/99 | 18,970 | - | 01/01/32 | 286 | 6,000 |
| The Gardens Apartments | 1999B (Tax.) | 05/12/99 | 2,930 | - | 01/01/11 | - | |
| Helzer Court Apartments | 1999A | 06/02/99 | 16,948 | 15,253 | 12/01/41 | 154 | 26,123 |
| Helzer Court Apartments | 1999B | 06/02/99 | 3,950 | - | 12/01/08 | - | |
| Helzer Court Apartments | 1999B (Tax.) | 06/02/99 | 2,271 | - | 12/01/04 | - | |
| Ohlone-Chynoweth Commons Apartments | 1999 | 06/04/99 | 16,200 | - | 06/01/39 | 192 | 20,250 |
| Kimberly Woods Apartments | 1999A | 12/20/99 | 16,050 | - | 12/01/29 | 42 | |
| Almaden Lake Village Apartments | 2000A | 03/29/00 | 2,000 | 2,000 | 03/01/32 | - | na |
| Sixth and Martha Family Apartments Phase I | 2000 | 07/21/00 | 9,900 | 8,140 | 03/01/33 | 102 | 12,375 |
| Craig Gardens Apartments | 2000A | 12/05/00 | 7,100 | 3,905 | 12/01/32 | 89 | 8,875 |
| El Parador Apartments | 2000A | 12/07/00 | 6,130 | 5,520 | 01/01/41 | 124 | 14,413 |
| El Parador Apartments | 2000B | 12/07/00 | 900 | 180 | 01/01/16 | - | na |
| El Parador Apartments | 2000C | 12/07/00 | 4,500 | - | 01/01/04 | - | |
| Monte Vista Gardens Senior Housing | 2000A | 12/08/00 | 3,740 | 2,815 | 07/15/33 | 68 | 9,350 |
| Willow Glen Senior Apartments | 2000A | 12/08/00 | 9,700 | - | 02/01/03 | 132 | |
| Willow Glen Senior Apartments | 2000B | 12/08/00 | 1,320 | - | 02/01/03 | - | |
| San Jose Lutheran Seniors Apartments | 2001A-1 | 07/11/01 | 3,850 | 3,196 | 02/15/34 | 62 | 6,250 |
| San Jose Lutheran Seniors Apartments | 2001A-2 | 07/11/01 | 1,150 | - | 02/15/04 | - | |

**Multifamily Housing Revenue Bonds**
**As of June 30, 2014**

| Project Name | Series | Date Issued | Issue Amount *(thousands)* | Balance *(thousands)* | Maturity/ Redemption | Affordable Units | Annual Fees |
|---|---|---|---|---|---|---|---|
| Sixth and Martha Family Apartments Phase II | 2001C | 08/01/01 | 9,000 | 6,880 | 04/01/34 | 87 | 11,250 |
| The Villages Parkway Senior Apartments | 2001D | 08/01/01 | 6,800 | 4,855 | 04/01/34 | 78 | 8,500 |
| Lenzen Housing | 2001B | 08/22/01 | 8,395 | - | 02/20/43 | 87 | |
| Lenzen Housing | 2001B (Sub.) | 08/22/01 | 1,100 | - | 10/01/03 | - | |
| Terramina Square Apts/North White Rd Proj | 2001F | 11/15/01 | 16,845 | 15,708 | 04/01/44 | 156 | 21,056 |
| Villa de Guadalupe Apartments | 2001E | 11/27/01 | 6,840 | - | 01/01/32 | 100 | 9,687 |
| Villa de Guadalupe Apartments | 2001E (Tax.) | 11/27/01 | 760 | - | 04/01/12 | - | na |
| Almaden Senior Housing Apartments | 2001G | 12/05/01 | 6,050 | 2,765 | 07/15/34 | 65 | 7,563 |
| Betty Anne Gardens Apartments | 2002A | 04/05/02 | 11,000 | 6,360 | 04/01/34 | 75 | 13,750 |
| El Paseo Apartments | 2002B | 04/05/02 | 9,600 | 4,445 | 10/01/34 | 97 | 12,000 |
| Sunset Square Apartments | 2002E | 06/26/02 | 10,904 | 3,969 | 06/01/34 | 94 | 13,630 |
| Villa Monterey Apartments | 2002F | 06/27/02 | 11,000 | 10,300 | 07/15/35 | 119 | 13,750 |
| Monte Vista Gardens Senior Hsg Apts, Phase II | 2002C-1 | 07/24/02 | 3,465 | 2,767 | 02/01/35 | 48 | 4,581 |
| Monte Vista Gardens Senior Hsg Apts, Phase II | 2002C-2 | 12/13/02 | 200 | - | 02/01/05 | - | |
| Pollard Plaza Apartments | 2002D | 08/06/02 | 14,000 | 6,595 | 08/01/35 | 129 | 17,500 |
| Evans Lane Apartments | 2002H | 10/08/02 | 31,000 | - | 04/15/36 | 236 | 38,750 |
| Hacienda Villa Creek Senior Apartments | 2002G-1 | 10/10/02 | 4,453 | 3,407 | 12/01/34 | 79 | 8,750 |
| Hacienda Villa Creek Senior Apartments | 2002G-2 | 10/10/02 | 2,547 | - | 05/12/06 | - | |
| Kennedy Apartment Homes | 2002K | 12/11/02 | 14,000 | 8,675 | 12/15/35 | 78 | 17,500 |
| Fallen Leaves Apartments | 2002J-1 | 12/18/02 | 13,360 | 10,630 | 06/01/36 | 159 | 23,500 |
| Fallen Leaves Apartments | 2002J-2 (Sub.) | 12/18/02 | 3,340 | 2,760 | 05/01/36 | - | na |
| Fallen Leaves Apartments | 2002J-3 (Jr. Sub.) | 12/18/02 | 2,100 | - | 07/31/07 | - | |
| Turnleaf Apartments | 2003A | 06/26/03 | 15,290 | 15,090 | 06/21/36 | 151 | 19,112 |
| The Oaks of Almaden Apartments | 2003B-1 | 07/29/03 | 4,365 | 3,602 | 02/15/36 | 125 | 10,438 |
| The Oaks of Almaden Apartments | 2003B-2 | 07/29/03 | 3,985 | - | 10/04/05 | - | |
| Cinnabar Commons | 2003C | 08/07/03 | 25,900 | 24,300 | 02/01/37 | 243 | 32,375 |
| Almaden Family Apartments | 2003D | 11/14/03 | 31,300 | 24,615 | 11/15/37 | 223 | 39,125 |
| Trestles Apartments | 2004A | 03/04/04 | 7,325 | 7,325 | 03/01/37 | 70 | 10,781 |
| Trestles Apartments | 2004A (Sub.) | 03/04/04 | 1,300 | 1,131 | 04/15/37 | - | na |
| Vintage Tower Apartments | 2004B-1 | 06/28/04 | 4,150 | 3,021 | 01/15/37 | 59 | 6,875 |
| Vintage Tower Apartments | 2004B-2 | 06/28/04 | 1,350 | | 11/01/06 | - | |
| Delmas Park | 2004C-1 | 10/15/04 | 13,780 | 12,618 | 01/01/47 | 122 | 24,224 |
| Delmas Park | 2004C-2 | 10/15/04 | 5,599 | | 06/01/07 | - | |

**Multifamily Housing Revenue Bonds**
**As of June 30, 2014**

| Project Name | Series | Date Issued | Issue Amount *(thousands)* | Balance *(thousands)* | Maturity/ Redemption | Affordable Units | Annual Fees |
|---|---|---|---|---|---|---|---|
| Raintree Apartments | 2005A | 02/01/05 | 21,100 | 20,600 | 02/01/38 | 174 | 26,375 |
| Paseo Senter I | 2005B-1 | 12/21/05 | 6,142 | 4,667 | 12/01/38 | 115 | |
| Paseo Senter I | 2005B-2 | 12/21/05 | 23,805 | | 06/01/09 | - | |
| Paseo Senter II | 2005C-1 | 12/21/05 | 4,903 | 3,608 | 06/01/38 | 99 | |
| Paseo Senter II | 2005C-2 | 12/21/05 | 19,776 | | 12/01/08 | - | |
| Casa Feliz Studio Apartments | 2007A | 06/13/07 | 11,000 | - | 12/01/09 | 59 | 7500 |
| Almaden Family Apartments | 2007B (Sub.) | 12/17/07 | 6,385 | 2,114 | 11/15/37 | - | na |
| Curtner Studios | 2007C-1 | 12/19/07 | 5,520 | 5,099 | 12/01/39 | 178 | na |
| Curtner Studios | 2007C-2 | 12/19/07 | 3,275 | | 06/01/09 | - | |
| Fairgrounds Senior Housing Apartments | 2008B | 05/08/08 | 26,000 | 12,640 | 05/01/41 | 199 | 32,500 |
| Las Ventanas Apartments | 2008B | 07/15/08 | 25,900 | 25,900 | 07/01/38 | - | na |
| Brookwood Terrace Family Apts | 2009B-1 | 12/23/09 | 7,780 | 7,600 | 01/01/44 | 83 | 17,000 |
| Brookwood Terrace Family Apts | 2009B-2 | 12/23/09 | 5,445 | - | 01/01/44 | - | na |
| Fourth Street Apts | 2010A-1 | 06/04/10 | 5,620 | 5,250 | 05/01/43 | 99 | 28,750 |
| Fourth Street Apts | 2010A-2 | 06/04/10 | 17,380 | | 05/01/13 | - | na |
| Orvieto Family Apartments | 2010B-1 | 07/20/10 | 7,760 | 7,695 | 08/01/29 | 91 | 17,750 |
| Orvieto Family Apartments | 2010B-2 | 07/20/10 | 6,440 | - | 08/01/29 | | |
| Kings Crossing Apartments | 2010C | 09/17/10 | 24,125 | 2,776 | 09/01/45 | 92 | 39,125 |
| Taylor Oaks Apartments | 2011A-1 | 10/21/11 | 3,950 | 3,950 | 10/01/28 | 58 | 7,875 |
| Taylor Oaks Apartments | 2011A-2 | 10/21/11 | 2,350 | - | 04/01/24 | - | na |
| 1st and Rosemary Family Apartments | 2012C | 04/19/12 | 35,500 | 35,500 | 10/01/44 | 184 | 44,375 |
| 1st and Rosemary Senior Apartments | 2012D | 04/19/12 | 15,500 | 15,500 | 10/01/44 | 106 | 19,375 |
| Mayfair Court Apartments | 2012B-1 | 04/20/12 | 5,220 | 5,220 | 10/01/44 | 92 | 27,500 |
| Mayfair Court Apartments | 2012B-2 | 04/20/12 | 16,780 | 16,780 | 10/01/44 | - | na |
| La Moraga Apartments | 2012E | 09/07/12 | 52,440 | 41,536 | 03/01/26 | 90 | 65,550 |
| 3rd Street Residential Apartments | 2013A | 06/27/13 | 6,630 | 4,682 | 07/01/33 | 36 | |
| **Grand Total** | | | **$ 978,904** | **$ 493,630** | | **6,726** | **$ 865,721** |

## H. Redevelopment Agency

On June 28, 2011, Assembly Bill X1 26 ("AB X1 26") was enacted. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. On June 28, 2012, AB 1484, which amended AB X1 26, was enacted. AB X1 26, as so amended, is referred to herein as the Redevelopment Dissolution Law. The legislation provides for successor agencies and oversight boards to be responsible for overseeing the dissolution process and the wind-down of redevelopment activity. On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency of the City of San José ("SARA"), effective February 1, 2012 as a component unit of the City. Also upon dissolution, the City Council elected to retain the housing assets, functions and powers previously performed by the Agency.

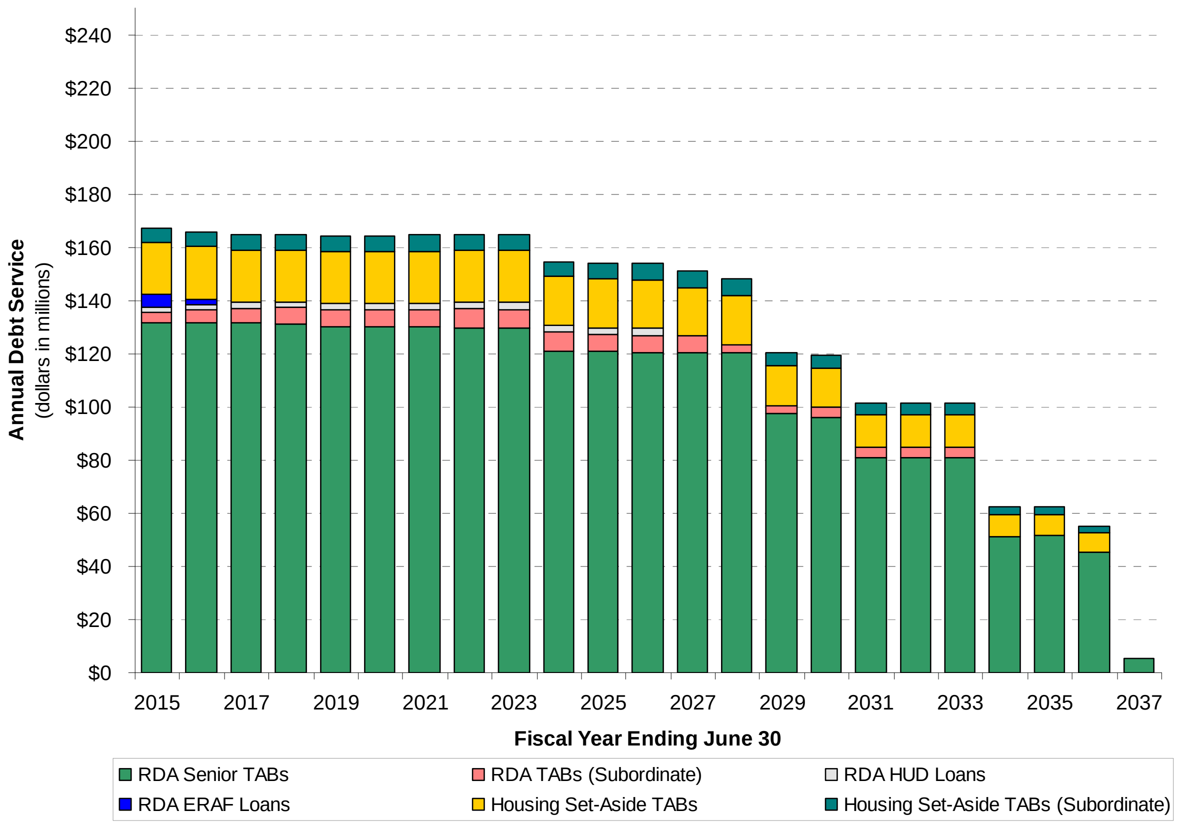
The SARA was created to serve as a custodian for the assets and to wind down the affairs of the Agency. The SARA is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Santa Clara ("County") representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and Santa Clara Valley Water District.

In general, the SARA's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the SARA will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the Agency until all enforceable obligations of the Agency have been paid in full and all assets have been liquidated.

As of June 30, 2014, SARA had total debt outstanding of $1.98 billion, consisting of approximately $1.64 billion in Merged Area TABs (80% debt), $309 million in Housing Set-Aside TABs (20% debt), and $32 million in ERAF and HUD loans.

The following chart illustrates the total annual debt service requirements for former Redevelopment Agency debt outstanding.

**Former Redevelopment Agency Tax Increment Debt** [(1)]
*Annual Debt Service*




(1) Does not include other bonded debt that the former Redevelopment Agency has an obligation to pay with available tax-increment revenue (City of San José Financing Authority Series 2001A and 2001F Bonds).

Senior Merged Area Tax Allocation Bonds: The Merged Area Tax Allocation Bonds ("TABs"), which are comprised of Series 1993, Series 1997, Series 1999, Series 2002, Series 2003, Series 2004A, Series 2005A/B, Series 2006A/B, Series 2006C/D, Series 2007 A-T/B and Series 2008A/B, are secured primarily by a pledge of redevelopment property tax revenues (i.e. former tax increment), consisting of a portion of all taxes levied upon all taxable properties within each of the tax generating redevelopment project areas constituting the Merged Area Redevelopment Project, and are equally and ratably secured on a parity with each TAB series.

Senior Housing Set-Aside Tax Allocation Bonds: Housing Set-Aside Tax Allocation Bonds (comprised of Series 1997E, Series 2003J/K, Series 2005A/B and Series 2010A-1, A-2 & B, collectively the "Senior Housing TABs") were issued to finance affordable housing projects and are secured by a pledge of and lien upon the 20% redevelopment property tax revenue (i.e. former tax increment) set aside for the low and moderate income housing fund.

Subordinate Tax Allocation Bonds – Variable Rate Demand Bonds:

*1996 Merged Area Revenue Bonds* – In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B, for $29,500,000 each, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996 Bonds are subordinate to the 1993 Merged Area Refunding Tax Allocation Bonds. In June 2014, the interest rates on the variable rate demand bonds remain at a flexible rate in callable commercial paper mode. As of June 30, 2014, the Series 1996 Bonds had an outstanding principal obligation of $41,600,000.

*2003 Merged Area Revenue Bonds* – In August 2003, the Agency issued Merged Area Revenue Bonds Series A and Series B aggregating $60,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003 Merged Area Revenue Bonds are ratably and equally secured by a pledge of the subordinated revenues and subordinate to the debt service payment of senior obligations of the SARA. In June 2014, the interest rates on the variable rate demand bonds remain at a flexible rate in callable commercial paper mode. As of June 30, 2014, the Series 2003 Bonds had an outstanding principal obligation of $44,055,000

| | Credit Facility Description | | | |
|---|---|---|---|---|
| | Principal Amount | | Provider | Expiration Date |
| **Revenue Bonds** | | | | |
| Series 1996A (Merged Area) | $ | 20,800 | JP Morgan Chase Bank | 3/31/2017 |
| Series 1996B (Merged Area) | | 20,800 | JP Morgan Chase Bank | 3/31/2017 |
| Series 2003A (Taxable) (Merged Area) | | 29,055 | JP Morgan Chase Bank | 3/31/2017 |
| Series 2003B (Merged Area) | | 15,000 | JP Morgan Chase Bank | 3/31/2017 |
| **Total Variable-rate revenue bonds** | $ | 85,655 | | |

In the event the LOCs are not renewed or a substitute LOC cannot be obtained from another institution, the full amount of the outstanding 1996 and 2003 Merged Area Revenue Bonds becomes “due and payable”.

*2010 Housing Set-Aside Tax Allocation Bonds* – On April 29, 2010, the Agency issued $93,000,000 in taxable subordinate housing set-aside tax allocation variable rate bonds, Series 2010C. The 2010C bonds were issued to (1) refinance the Bank of New York term loan and (2) finance and refinance the City’s gap loans made or to be made in connection with certain affordable housing developments. The 2010C bonds are secured by 20% housing set-aside tax allocation revenues on a basis subordinate to the senior bonds. The 2010C bonds were issued as multi-modal, variable rate bonds with a taxable interest rate that resets weekly. The Series 2010C were directly purchased by Wells Fargo Bank. Because the bonds were directly purchased, the bond indenture did not require a credit facility to support the debt service payments until the bank’s mandatory purchase date of April 29, 2013 or such other date agreed to in writing by the SARA and Wells Fargo Bank. On September 12, 2013, Wells Fargo Bank and the SARA entered into an Amended and Restated Continuing Covenant Agreement pursuant to which Wells Fargo Bank and the SARA agreed to extend the Mandatory Purchase Date for the 2010C bonds to April 29, 2016. The all-in fixed interest rate is 3.36%. Debt service payments are made quarterly. As of June 30, 2014, the Series 2010C Bonds had an outstanding principal obligation of $83,590,000.

4th & San Fernando Streets Parking Facility Agency Pledge Agreement: In March 2001, the City of San José Financing Authority (the “Financing Authority”) issued revenue bonds Series 2001A in the amount of $48,675,000 to finance the construction of the 4th & San Fernando Parking Facility Project. The Agency entered into the Agency Pledge Agreement with the Financing Authority, whereby the Agency payments are payable from and secured by surplus Agency Revenues and, therefore, this debt reflects only the Fourth Street Garage obligation. The Agency Pledge Agreement was assumed by SARA. The obligated payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the garage. Surplus Agency Revenues consist of, (i) estimated tax increment revenues, which are pledged to the payment of the Agency’s outstanding tax allocation bonds and deemed to be “surplus” in the current fiscal year in accordance with the resolution or indenture pursuant to which the outstanding tax allocation bonds were issued, plus (ii) all legally available revenues of the Agency. As of June 30, 2014, the Series 2001A Bonds had an outstanding principal obligation of $31,695,000.

Convention Center Refunding Reimbursement Agreement: In July 2001, the Financing Authority issued the Convention Center Lease Revenue Refunding Bonds, Series 2001F (tax-exempt) and Series 2001G (taxable) amounting to $186,150,000 and $4,850,000 respectively. The bonds were issued to refund the 1993 Revenue Bonds, Series C, which have all been redeemed as of June 30, 2013. In connection with the issuance of the 2001 Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement under which the Agency is obligated to use redevelopment property tax revenues or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Second Amended and Restated Reimbursement Agreement was assumed by SARA. The 2001F bonds (tax-exempt) mature in 2022 and have an outstanding balance of $110,300,000 at June 30, 2014.

California Statewide Communities Development Authority (CSCDA) Educational Revenue Augmentation Fund (ERAF) Loan: Prior to dissolution, the Agency was required to make payment to the State of California's Educational Revenue Augmentation Fund ("ERAF") through the County of Santa Clara. To finance the 2005 and 2006 ERAF payments, the Agency participated in the California Redevelopment Association/Educational Revenue Augmentation Fund ("CRA/ERAF") Loan Program. The loan was assumed by SARA. As of June 30, 2014, the 2005 loan had an outstanding balance of $2,595,000, and matures on August 1, 2015. The 2006 loan had an outstanding balance of $3,705,000 and matures on August 1, 2016.

HUD Section 108 Loans: In 1997, the Agency received loan proceeds of $5,200,000 under the provisions of the U.S. Department of Housing and Urban Development ("HUD") Section 108. The proceeds were used to finance the following downtown projects: Security Building; Bassler & Haynes and Beach Buildings ("Eu Bldgs"), and the Masson Building. In 2006, the Agency received loan proceeds aggregating to $31,000,000 under the provisions of HUD Section 108. The proceeds were used to finance the CIM Mixed-use Project (Central Place/Tower 88) ($13,000,000) and for reimbursement of costs incurred on the Story/King Retail Project ($18,000,000). As of June 30, 2014, the outstanding loans due to HUD totaled $26,175,000. The HUD loans are secured by several City and SARA owned capital assets (Convention Center-South Hall, José Theater, and Arena Lot D) with an aggregate gross value of $31,595,000 as of June 30, 2014, and CDBG Grants that were awarded or will be awarded to the City.

Commercial Paper Obligation: During fiscal 2010, the Agency was provided $12 million in proceeds from the Authority's commercial paper program to use for its housing projects and provide available cash to the Agency for a SERAF loan. The Oversight Board approved this obligation, along with accrued interest and fees, as an enforceable obligation.

Conduit Debt: In August 1997, the Agency served as the conduit issuer of $10,595,000 in Multifamily Housing Revenue Bonds to provide funds for a mortgage loan to a private developer for a rental housing project on Agency-owned land. The Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as a timely payment of principal and interest by the Government National Mortgage Association. Additionally, the loan is secured on a non-recourse basis and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d) (4) of the National Housing Act. The Agency's only conduit debt issuance for multifamily housing revenue bonds was paid off in May 2014.

## I. Summary of Outstanding Debt

The following table summarizes all outstanding debt by series, excluding multifamily housing revenue bonds, pension, OPEB, and other liabilities of the City.

| Summary of Oustanding Debt<br>As Of 6/30/2014 | | | | |
|---|---|---|---|---|
| | Issue Amount *(thousands)* | Issue Date | Final Maturity | Balance *(thousands)* |
| **Long-Term Debt** | | | | |
| **Governmental Activities** | | | | |
| City of San Jose | | | | |
| General Obligation Bonds: | | | | |
| Series 2001 (Libraries and Parks) | $ 71,000 | 06/06/2001 | 09/01/2031 | $ 42,570 |
| Series 2002 (Libraries, Parks, Public Safety) | 116,090 | 07/18/2002 | 09/01/2032 | 73,520 |
| Series 2004 (Libraries, Parks, Public Safety) | 118,700 | 07/14/2004 | 09/01/2034 | 83,105 |
| Series 2005 (Libraries and Public Safety) | 46,300 | 06/23/2005 | 09/01/2035 | 33,980 |
| Series 2006 (Libraries and Parks) | 105,400 | 06/29/2006 | 09/01/2036 | 80,830 |
| Series 2007 (Parks and Public Safety) | 90,000 | 06/20/2007 | 09/01/2037 | 72,000 |
| Series 2008 (Libraries and Parks) | 33,100 | 06/25/2008 | 09/01/2038 | 27,575 |
| Series 2009 (Public Safety) | 9,000 | 06/25/2009 | 09/01/2039 | 7,800 |
| | | | | 421,380 |
| HUD Section 108 Note (Land Acquisition) | 25,810 | 02/10/2005 | 08/01/2024 | 14,706 |
| Lease-Purchase Agreement (Taxable) | 19,286 | 05/29/2014 | 06/01/2034 | 19,286 |
| | $ 634,686 | | | $ 455,372 |
| City of San Jose Financing Authority | | | | |
| Lease Revenue Bonds: | | | | |
| Series 2001F (Convention Center) | 186,150 | 07/01/2001 | 09/01/2022 | 110,300 |
| Series 2003A (Central Service Yard) | 22,625 | 09/18/2003 | 10/15/2023 | 13,400 |
| Series 2006A (Civic Center Project) | 57,440 | 06/01/2006 | 06/01/2039 | 56,125 |
| Series 2007A (Recreational Facilities) | 36,555 | 06/28/2007 | 08/15/2030 | 28,665 |
| Series 2008C (Hayes Mansion) | 10,915 | 06/26/2008 | 06/01/2027 | 10,915 |
| Series 2008D (Taxable) (Hayes Mansion) | 47,390 | 06/26/2008 | 06/01/2025 | 28,920 |
| Series 2008E-1 (Taxable) (Ice Centre) | 13,015 | 07/03/2008 | 06/01/2025 | 10,575 |
| Series 2008E-2 (Taxable) (Ice Centre) | 13,010 | 07/03/2008 | 06/01/2025 | 10,565 |
| Series 2008F (Taxable) (Land Acquisition) | 67,195 | 06/11/2008 | 06/01/2034 | 62,105 |
| Series 2011A (Conventional Center) | 30,985 | 04/12/2011 | 05/01/2042 | 30,985 |
| Series 2013A (Civic Center Project) | 305,535 | 05/28/2013 | 06/01/2039 | 305,535 |
| Series 2013B (Civic Center Garage Project) | 30,445 | 06/19/2013 | 06/01/2039 | 30,445 |
| Revenue Bonds: | | | | |
| Series 2001A (4th & San Fernando Garage) | 48,675 | 04/10/2001 | 09/01/2026 | 31,695 |
| | $ 869,935 | | | $ 730,230 |
| Special Assessment Bonds | | | | |
| Series 24Q (Hellyer-Piercy) | $ 27,595 | 06/26/2001 | 09/02/2023 | $ 16,055 |
| Series 24R (2002 Consolidated Refunding) | 13,940 | 07/03/2002 | 09/02/2015 | 1,880 |
| | $ 41,535 | | | $ 17,935 |
| Special Tax Bonds | | | | |
| CFD No. 1 (Capitol Expressway Auto Mall) | $ 4,100 | 11/18/1997 | 11/01/2022 | $ 2,150 |
| CFD No. 6 (Great Oaks-Route 85) | 12,200 | 12/18/2001 | 09/01/2023 | 6,855 |
| CFD No. 9 (Bailey/Highway 101) | 13,560 | 02/13/2003 | 09/01/2032 | 10,765 |
| CFD No. 10 (Hassler-Silver Creek) | 12,500 | 07/23/2003 | 09/01/2023 | 7,605 |
| Series 2011 (Convention Center) | 107,425 | 04/12/2011 | 05/01/2042 | 107,025 |
| | $ 149,785 | | | $ 134,400 |
| **Government Activities Totals** | **$ 1,695,941** | | | **$ 1,337,937** |

| Summary of Oustanding Debt (Continued) As Of 6/30/2014 | Issue Amount *(thousands)* | Issue Date | Final Maturity | Balance *(thousands)* |
|---|---|---|---|---|
| **Private Purpose Trust Activities**[1] | | | | |
| Redevelopment Agency | | | | |
| Tax Allocation Bonds: | | | | |
| Series 1993 (Merged Area Refunding) | $ 692,075 | 12/15/1993 | 08/01/2024 | $ 18,195 |
| Series 1997 (Merged Area) | 106,000 | 03/27/1997 | 08/01/2028 | 5,155 |
| Series 1999 (Merged Area) | 240,000 | 01/06/1999 | 08/01/2031 | 12,920 |
| Series 2002 (Merged Area) | 350,000 | 01/24/2002 | 08/01/2032 | 13,165 |
| Series 2003 (Merged Area) | 135,000 | 12/22/2003 | 08/01/2033 | 127,545 |
| Series 2004A (Merged Area) | 281,985 | 05/27/2004 | 08/01/2019 | 142,640 |
| Series 2005A (Merged Area) | 152,950 | 07/25/2005 | 08/01/2028 | 130,985 |
| Series 2005B (Merged Area) | 67,130 | 07/25/2005 | 08/01/2015 | 25,025 |
| Series 2006A (Taxable) (Merged Area) | 14,300 | 11/14/2006 | 08/01/2022 | 13,300 |
| Series 2006B (Merged Area) | 67,000 | 11/14/2006 | 08/01/2035 | 67,000 |
| Series 2006C (Merged Area) | 423,430 | 12/15/2006 | 08/01/2032 | 423,430 |
| Series 2006D (Merged Area) | 277,755 | 12/15/2006 | 08/01/2023 | 274,275 |
| Series 2007A (Taxable) (Merged Area) | 21,330 | 11/07/2007 | 08/01/2017 | 9,875 |
| Series 2007B (Merged Area) | 191,600 | 11/07/2007 | 08/01/2036 | 191,600 |
| Series 2008A (Merged Area) | 37,150 | 12/17/2008 | 08/01/2018 | 20,745 |
| Series 2008B (Merged Area) | 80,145 | 11/13/2008 | 08/01/2035 | 80,145 |
| Revenue Bonds (Subordinate): | | | | |
| Series 1996A (Merged Area) | 29,500 | 06/27/1996 | 07/01/2026 | 20,800 |
| Series 1996B (Merged Area) | 29,500 | 06/27/1996 | 07/01/2026 | 20,800 |
| Series 2003A (Taxable) (Merged Area) | 45,000 | 08/27/2003 | 08/01/2028 | 29,055 |
| Series 2003B (Merged Area) | 15,000 | 08/27/2003 | 08/01/2032 | 15,000 |
| HUD Section 108 Note (Masson/Dr. Eu/Security) | 5,200 | 02/11/1997 | 08/01/2016 | 1,305 |
| HUD Section 108 Note (CIM Block 3/Central Place) | 13,000 | 02/08/2006 | 08/01/2025 | 10,600 |
| HUD Section 108 Note (Story/King Retail) | 18,000 | 06/30/2006 | 08/01/2025 | 14,270 |
| CSCDA - 2005 ERAF Loan | 19,085 | 04/27/2005 | 08/01/2015 | 2,355 |
| CSCDA - 2006 ERAF Loan | 14,920 | 05/03/2006 | 08/01/2016 | 3,705 |
| Housing Set-Aside Tax Allocation Bonds: | | | | |
| Series 1997E (AMT) (Merged Area) | 17,045 | 06/23/1997 | 08/01/2027 | 16,340 |
| Series 2003J (Taxable) (Merged Area) | 55,265 | 07/10/2003 | 08/01/2024 | 30,180 |
| Series 2003K (Merged Area) | 13,735 | 07/10/2003 | 08/01/2029 | 5,435 |
| Series 2005A (Merged Area) | 10,445 | 06/30/2005 | 08/01/2024 | 10,445 |
| Series 2005B (Taxable) (Merged Area) | 119,275 | 06/30/2005 | 08/01/2035 | 103,515 |
| Series 2010A-1 (Merged Area) | 54,055 | 04/29/2010 | 08/01/2035 | 54,055 |
| Series 2010A-2 (Merged Area) | 2,655 | 04/29/2010 | 08/01/2017 | 2,655 |
| Series 2010B (Taxable) (Merged Area) | 10,695 | 04/29/2010 | 08/01/2015 | 2,610 |
| Housing Set-Aside Tax Allocation Bonds (Subordinate): | | | | |
| Series 2010C (Taxable) (Merged Area) | 93,000 | 04/29/2010 | 08/01/2035 | 83,590 |
| **Private Purpose Trust Activities Totals** | **$ 3,703,225** | | | **$ 1,982,715** |

| Summary of Oustanding Debt (Continued)<br>As Of 6/30/2014 | Issue Amount *(thousands)* | Issue Date | Final Maturity | Balance *(thousands)* |
|---|---|---|---|---|
| **Business-Type Activities** | | | | |
| Norman Y. Mineta San Jose International Airport | | | | |
| Revenue Bonds: | | | | |
| Series 2001A | $ 158,455 | 08/14/2001 | 03/01/2031 | $ 45,710 |
| Series 2004C (AMT) | 75,730 | 06/24/2004 | 03/01/2026 | 69,730 |
| Series 2004D | 34,270 | 06/24/2004 | 03/01/2028 | 34,270 |
| Series 2007A (AMT) | 545,755 | 09/13/2007 | 03/01/2047 | 539,975 |
| Series 2007B | 179,260 | 09/13/2007 | 03/01/2037 | 177,015 |
| Series 2011A-1 (AMT) | 150,405 | 07/28/2011 | 03/01/2034 | 139,900 |
| Series 2011A-2 | 86,380 | 07/28/2011 | 03/01/2034 | 80,390 |
| Series 2011B | 271,820 | 12/14/2011 | 03/01/2041 | 264,085 |
| Series 2012A (Non-AMT) | 49,140 | 11/08/2012 | 03/01/2018 | 33,605 |
| | $ 1,551,215 | | | $ 1,384,680 |
| Clean Water Financing Authority | | | | |
| Revenue Bonds: | | | | |
| Series 2005A | $ 54,020 | 10/05/2005 | 11/15/2016 | 16,445 |
| Series 2009A | 21,420 | 01/29/2009 | 11/15/2020 | 21,420 |
| State of California - Revolving Fund Loan | 73,566 | 06/24/1997 | 05/01/2019 | 18,720 |
| | $ 149,006 | | | $ 56,585 |
| **Business-Type Activity Totals** | **$ 1,700,221** | | | **$ 1,441,265** |
| **Long-Term Debt Totals** | **$ 7,099,387** | | | **$ 4,761,917** |
| **Short-Term Debt** | | | | |
| City of San Jose Financing Authority | | | | |
| Lease Revenue Commercial Paper Notes | $ 85,000 | Various | Various | $ 46,403 |
| Norman Y. Mineta San Jose International Airport | | | | |
| Airport Revenue Commercial Paper Notes | 60,000 | Various | Various | $ 41,159 |
| **Short-Term Debt Totals** | **$ 145,000** | | | **$ 87,562** |
| **GrandTotals** | **$ 7,244,387** | | | **$ 4,849,479** |

(1) Private Purpose Trust Activities exclude the following indebtedness: CSJFA Revenue Bonds Series 2001A & Lease Revenue Bonds Series 2001F (refer to governmental activities), CSJ SERAF Loan, CSJFA Commercial Paper Program ($14,227,000), County Pass Through,

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

# APPENDIX A:

# DEBT MANAGEMENT POLICY

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

# *City of San José, California*

# COUNCIL POLICY

| **TITLE** DEBT MANAGEMENT POLICY | **PAGE** 1 of 6 | **POLICY NUMBER** 1-15 |
| --- | --- | --- |
| **EFFECTIVE DATE** 5/21/02 | **REVISED DATE** 06/10/2014 | |

**APPROVED BY COUNCIL ACTION**

5/21/02, Item 3.3, Res. No. 70977; 12/4/12, Item 3.7(b), Res. No. 76500, 6/10/14, Item 3.6(d), Res. No. 77020

## POLICY

This Debt Management Policy sets forth certain debt management objectives for the City, and establishes overall parameters for issuing and administering the City's debt. Recognizing that cost-effective access to the capital markets depends on prudent management of the City's debt program, the City Council has adopted this Debt Management Policy by resolution.

## DEBT MANAGEMENT OBJECTIVES

The purpose of this Debt Management Policy is to assist the City in pursuit of the following equally-important objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure compliance with applicable State and Federal laws.

## GENERAL PROVISIONS

### I. SCOPE OF APPLICATION

These policies establish the parameters within which debt may be issued by the City of San José, the City of San José Financing Authority, and the City of San José Parking Authority. Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, and conduit-type financing by the City for multifamily housing or industrial development projects.

The City Council, as a member of Joint Powers Authorities such as the San José-Santa Clara Clean Water Financing Authority, shall take these policies into account when considering the issuance of Joint Powers Authority debt.

Supplemental policies, tailored to the specifics of certain types of financings, may be adopted by the City Council in the future. These supplemental policies may address, but are not limited to, the City's general obligation, lease revenue, enterprise, multifamily housing, and land-secured financings.

## II. RESPONSIBILITY FOR DEBT MANAGEMENT ACTIVITIES

The Finance Department shall be responsible for managing and coordinating all activities related to the issuance and administration of debt. The Director of Finance is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City Charter, Article VIII, Section 806, the Director of Finance is charged with responsibility for the conduct of all Finance Department functions.

Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

### A. Debt Management Policy Review and Approval

This policy shall be adopted by City Council resolution, and reviewed annually by the Finance Department to insure its consistency with respect to the City's debt management objectives. Any modifications to this policy shall be reviewed and approved by the City Council Committee assigned the responsibility for review of Finance Department reports and forwarded to the City Council for approval by resolution, unless otherwise directed by the City Council.

### B. Annual Debt Report

The Finance Department shall prepare an annual debt report for review and approval by the Finance and Infrastructure Committee and the City Council, containing a summary of the City's credit ratings, outstanding and newly-issued debt, a discussion of current and anticipated debt projects, refunding opportunities, a review of legislative, regulatory, and market issues, and an outline of any new or proposed changes to this Debt Management Policy.

### C. Debt Administration Activities

The Finance Department is responsible for the City's debt administration activities, particularly investment of bond proceeds, compliance with bond covenants, continuing disclosure, and arbitrage compliance, which shall be centralized within the Department.

## III. PURPOSES FOR WHICH DEBT MAY BE ISSUED

### A. Long-term Borrowing

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs which may be legally capitalized. Long-term borrowing shall not be used to fund City operating costs.

### B. Short-term Borrowing

Short-term borrowing, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years. Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

### C. Refunding

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

### D. Lease Financing

1. As used in this section, the term “lease financing” means any lease or sublease made between the City and another party for the purpose of financing the acquisition, construction or improvement by the City of real property or equipment. By way of example and not limitation, the term “lease financing” includes certificates of participation, lease revenue bonds or lease revenue notes.

2. Prior to bringing a lease financing to the City Council for approval, the Finance Department shall perform initial due diligence on the project to be financed. The Finance Department's due diligence review will include the following elements:

    a. Any lease financing must have an identified revenue source for repayment, which may include the general fund, eligible special funds or project revenues.

    b. Prior to embarking on a lease financing in which project revenues are identified as the repayment source, a feasibility study will be performed to determine the volatility of the revenue and provide a sensitivity analysis on project revenue projections including worst/best case scenarios, including without limitation, the impact on any repayment source identified as the backstop to the project revenues as the repayment source.

    c. The Finance Department will present the results of the due diligence review including any feasibility study to the City Council for review and consideration, in order to proceed with the preparation of the documents necessary for the lease financing, two-thirds majority approval by the City Council of the proposed plan of finance is required.

    d. At the time the Finance Department brings forward the lease financing for City Council approval, the Finance Department will also provide the City Council with an update to the due diligence report and any feasibility study. Approval of the lease financing will require two-thirds majority approval by the City Council.

3. The provisions of this section will not apply to a refunding of a lease financing transaction

## DEBT ISSUANCE

### I. DEBT CAPACITY

The City will keep outstanding debt within the limits of the City's Charter and any other applicable law, and at levels consistent with its creditworthiness objectives.

The City shall assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the City has limited capacity for debt service in its budget, and that each newly issued financing will obligate the City to a series of payments until the bonds are repaid.

**II. CREDIT QUALITY**
The City seeks to obtain and maintain the highest possible credit ratings for all categories of short-and long-term debt. The City will not issue bonds directly or on behalf of others that do not carry investment grade ratings. However, the City will consider the issuance of non-rated special assessment, community facilities, multifamily housing, and special facility bonds.[i]

**III. STRUCTURAL FEATURES**

**A. Debt Repayment**
Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The City shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

**B. Variable-rate Debt**
The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with the City's creditworthiness objectives. When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, and the overall debt portfolio structure when issuing variable rate debt for any purpose.

**C. Derivatives**
Derivative products[ii] may have application to certain City borrowing programs. In certain circumstances these products can reduce borrowing cost and assist in managing interest rate risk. However, these products carry with them certain risks not faced in standard debt instruments. The Director of Finance shall evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

**IV. PROFESSIONAL ASSISTANCE**
The City shall utilize the services of independent financial advisors and bond counsel on all debt financings. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net City debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The City Attorney's Office shall be responsible for selection of bond counsel and, in those circumstances where the City Attorney's Office determines it to be

necessary or desirable, disclosure counsel. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost.

**V. METHOD OF SALE**
Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The City's preferred method of sale is competitive bid. However, other methods such as negotiated sale and private placement may be considered on a case-by-case basis.

## DEBT ADMINISTRATION

**I. INVESTMENT OF BOND PROCEEDS**
Investments of bond proceeds shall be consistent with federal tax requirements, the City's Investment Policy as modified from time to time, and with requirements contained in the governing bond documents.

**II DISCLOSURE PRACTICES AND ARBITRAGE COMPLIANCE**

**A. Financial Disclosure**
The City is committed to full and complete primary and secondary market financial disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and Municipal Securities Rulemaking Board, as may be amended from time to time. The City is also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information.

**B. Arbitrage Compliance**
The Department of Finance shall maintain a system of record keeping and reporting to meet the arbitrage compliance requirements of federal tax law.

[i] In most cases, a bond which cannot achieve an investment-grade rating will not be rated at all, because there is little value from a bond-marketing perspective in a below investment-grade rating.
[ii] A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.

## **APPENDIX B:**

## **POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS**

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

# *CITY OF SAN JOSE, CALIFORNIA*

# CITY COUNCIL POLICY

| Title | Page | Policy Number |
|---|---|---|
| **POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS** | **1 of 11** | **1-16** |
| | **Effective Date** | **Revised Date** |
| | **06/11/02** | **12/06/05** |

**Approved By Council Action**

**June 11, 2002, Item 3.7, Resolution No. 71023**

## GENERAL MATTERS

### I. ISSUER

The City of San Jose (the "City") shall be the issuer of all bonds financing multifamily housing rental projects (a "Project" or "Projects") within the City, except as provided below. The City's Housing Department and Finance Department will consider other issuing agencies as follows:

**A. The Redevelopment Agency**

The Redevelopment Agency may issue bonds for any Project located within a redevelopment project area.

**B. ABAG, CSCDA, Other Conduits**

The City may agree to the issuance of bonds by the Association of Bay Area Governments ("ABAG"), California Statewide Community Development Authority ("CSCDA") or a similar issuing conduit provided that the City is not making a loan or grant to the Project *and* the Project is one of multiple projects being financed by the Project Sponsor through such issuing conduit agency in the same California Debt Limit Allocation Committee ("CDLAC") round under a similar financing program so as to result in economies of issuance.

**C. Special circumstances**

Another agency may issue bonds when merited by special circumstances of the Project and the financing.

Where the City is not the issuer of bonds for a Project, it shall be the City's policy to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal tax and state laws. Where feasible, however, the City shall seek to hold The Equity and Fiscal Responsibility Act of 1986 Hearing, better known as the "TEFRA" Hearing for such Project.

## II. FINANCING TEAM

The City shall select the financing team for all multifamily housing revenue bonds issued by the City. The Finance Department is responsible for selecting the financial advisor, trustee and the investment banker/underwriter (assuming a negotiated public sale of bonds). The City Attorney's Office is responsible for selecting the bond counsel firm. The financial advisor, investment banker and bond counsel shall be selected from approved lists determined from time to time by a request for qualifications/proposal process.

## III. COORDINATION AMONG CITY DEPARTMENTS

The City recognizes that the issuance of housing bonds entails a coordinated effort among the Housing Department, Finance Department and City Attorney's Office. The Housing Department shall ensure that the Finance Department and the City Attorney's Office are provided with regular updates on projects that may involve the issuance of bonds.

## THE FINANCING PROCESS

## I. INITIAL MEETING WITH PROJECT SPONSOR

### A. Prior Due Diligence

Prior to arranging an initial meeting with the Project Sponsor, the Housing Department shall perform initial due diligence on the Project Sponsor, including whether the Project Sponsor has ever failed to use an allocation from CDLAC and whether the Project Sponsor has failed to comply with the terms of any other City financings or City loans.

### B. Determination of Readiness

Following the initial meeting, City representatives shall determine if the project is in a state of sufficient "readiness" to proceed with the CDLAC application process. This includes the status of the project in terms of the development process. In general, a project will be deemed "not ready" if the discretionary planning approvals will not have been completed by the time of the CDLAC application.

### C. Selection of Financing Team

Following a determination of readiness, the Finance Department and City Attorney shall recommend the financial advisor, underwriter (if applicable) and bond counsel, as the case may be, for each project.

## II. DEPARTMENTAL APPROVALS

Pursuant to the Delegation of Authority by the City Council, both the City's Directors of Finance and Housing must approve each Project, the financing, and the filing of a CDLAC application before the City can make an application to CDLAC for private activity bond allocation. The approval of the Finance and Housing Directors shall be evidenced by a jointly signed "Notice to Proceed" addressed to the Project Sponsor. The Notice to Proceed shall describe the project, identify the developer or Project Sponsor, the affordability mix, the proposed plan of finance and the amount of bond funding requested.

### A. Resolution

The City Attorney's Office will be responsible for preparing a resolution for joint approval by the Directors of Finance and Housing. The resolution will:

1. Memorialize the Council's intent to issue the debt in order to induce others to provide project financing;
2. Authorize the filing of a CDLAC application; and
3. Authorize the execution of a Deposit and Escrow Agreement.

### B. TEFRA Hearing

The TEFRA hearing will be held before the Director of Finance on the date specified in the TEFRA Notice. The Director of Finance has the discretion to have the TEFRA hearing held by the City Council.

## III. CDLAC APPLICATIONS

### A. Description

Before the City is legally able to issue private activity tax-exempt bonds for a project, an application must be filed with CDLAC in Sacramento and an allocation of the State ceiling on qualified private activity bonds must be approved by CDLAC.

### B. City to File

The City is the applicant to CDLAC for each project to be financed with tax-exempt bonds issued by the City. The Housing Department will file all applications to CDLAC on behalf of project sponsors.

### C. Project Sponsor to Prepare Application

Each project sponsor shall take responsibility for preparing the CDLAC application for its project with input from City representatives, the City's financial advisor and bond counsel.

### D. Deposit and Escrow Agreement

The City will not file a Project Sponsor's CDLAC application unless the Project Sponsor executes a Deposit and Escrow Agreement **and makes the necessary deposits specified in this Agreement**. The Deposit and Escrow Agreement shall contain the items identified below. It shall be the responsibility of the Housing Department to see that all requirements under the Deposit and Escrow Agreement are met.

#### 1. CDLAC Performance Deposit

The Deposit and Escrow Agreement must require the payment of the CDLAC performance deposit, provided that current CDLAC rules require the payment of such deposit to the issuer.

**2. City of San Jose Performance Deposit**

In addition to the CDLAC performance deposit, the Deposit and Escrow Agreement shall require the Project Sponsor to deposit $50,000 with the City as a City of San Jose performance deposit. This deposit shall be forfeited in the event that the City, on behalf of the Project Sponsor, receives an allocation but does not issue bonds. The deposit may be applied to pay costs of issuance or returned to the Project Sponsor as soon as practicable. By agreement between the City and the Project Sponsor, the Project Sponsor may designate its City loan as the source of payment in the event of forfeiture.

**3. Financing Team Fees**

The Deposit and Escrow Agreement shall identify, if available, the fees of the bond counsel, financial advisor, and underwriter (if applicable). It shall be the responsibility of the Finance Department and the City Attorney's Office to identify these fees.

## IV. COUNCIL APPROVAL

### A. Staff Report

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall prepare a staff report recommending final Council approval for a bond issue. The staff report shall be submitted to the City Manager's Office in accordance with the timing requirements of the then-current City procedures.

The staff report shall specify the approvals that are recommended, provide background on the project being financed, describe the financing structure, indicate any exceptions to the City's investment policy, describe the financing documents to be approved, identify the financing team participants, and seek approval of consultant agreements and financing participants that have not previously been approved by Council. The staff report should indicate if a separate City loan is being provided. However, the terms of that loan should be discussed in a separate staff report which, whenever possible, shall be submitted for the same agenda. The staff report shall be signed by the Directors of Finance and Housing.

The staff report should be submitted only after the major transaction terms (e.g., financing structure, security provisions, bond amount, maximum maturity, etc.) are identified and agreed to by the parties. The staff report may note that the bond issue is contingent upon certain other approvals and may identify certain issues to be resolved at a later time.

### B. Substantially Final Documents

The City Council shall approve documents that are "substantially final" documents. Documents are in "substantially final" form if they identify the final security provisions and financing structure for the transaction. The City Attorney's Office shall determine whether documentation is in substantially final form.

### C. Council Meeting

The Council meeting shall occur on a date after which all approvals from major financial participants (e.g., credit enhancement provider, bond purchaser, tax credit investor) have been obtained. At the discretion of the City Attorney and Finance Department, the Council may proceed with its approval process without such other final approvals if: (1) such final approval is likely; (2) the Council's approval is subject to such other party's final approval; and (3) the Council approval process cannot be delayed without jeopardizing the financing.

## V. BOND SALE AND CLOSING

### A. Timing

The bond sale and closing may commence only after the Council authorizes the bond issue, including the distribution of a Preliminary Official Statement, if applicable.

### B. Investment Agreements

If authorized by the Council, the Project Sponsor, through its representative, which may include the underwriter or financial advisor, may solicit investment agreement providers for the purpose of reinvesting bond proceeds and revenues. The investment agreement providers must meet the City's requirements and the requirements in the bond resolution and trust indenture for the bonds. Bond counsel and the financial advisor shall review the investment agreement solicitation forms, the eligible providers, and the investment agreements.

### C. Payment of Issuance Fee

The City's issuance fee shall be funded from the Costs of Issuance Fund held by the Trustee.

### D. Information Memorandum to Council

Promptly after the issuance of all bonds for a CDLAC round, the City Finance Department shall prepare an information memorandum summarizing the salient points of each bond issue.

# CITY FEES

## I. TEFRA HEARING FEE

The City shall charge a fee of $5,000 for the administrative costs associated with holding a TEFRA hearing relating to a Project. The fee shall be payable prior to the date that notice of the TEFRA hearing is published. No separate TEFRA hearing fee shall be charged if the City or Redevelopment Agency is issuing the bonds for the Project.

## II. ISSUANCE FEE

The City shall charge a fee for the administrative costs associated with issuing the bonds for a Project Sponsor. The fee shall be payable at bond closing and may be contingent on the bond sale. The issuance fee shall be based on the total amount of the bonds (both tax-exempt and taxable) to be issued in accordance with the following sliding scale:

***$0 to $10 million***: 0.5% of the principal amount of bonds issued, with a minimum fee of $30,000.

***Over $10 million***: 0.5% of the first $10 million principal amount of bonds; 0.25% of any additional amount.

### III. ANNUAL MONITORING FEE

The City shall charge an annual fee for monitoring the restricted units. The fee shall be in an amount equal to 0.125% of the original principal amount of tax-exempt bonds issued. Except for non-profit or government agency Project Sponsors, the fee shall not be reduced until all of the tax-exempt bonds are retired and the bond regulatory agreement ceases to have validity or is no longer in effect, at which time it will terminate. Upon conversion to permanent financing, a nonprofit or government agency Project Sponsor, may have a reduction in their annual fee to 0.125% of the permanent bond amount after conversion subject, to a minimum annual fee of $7,500.

The City annual monitoring fee shall be paid "above the line," i.e., on a parity with bond debt service and trustee fees. This parity provides the greatest assurance that the City's fee will be paid, although it may reduce the amount that the Project Sponsor's lender may be willing to underwrite. The City may determine, at its sole discretion, to subordinate all or a portion of its annual fee to bond debt service only when the Housing Department has made a substantial loan to the Project, so long as the Project Sponsor provides adequate assurance of the payment of such fees. The City shall not subordinate its fee in circumstances where no City funds are subsidizing the Project.

## CREDIT CONSIDERATIONS

### I. CREDIT ENHANCEMENT

#### A. General Policy

It shall be the general policy of the City to encourage the use of credit enhancement for bonds issued by the City. Credit enhancement shall be a requirement for any multifamily bonds that are publicly distributed. The minimum rating on such credit enhancement shall be "A" or higher by Moody's, Standard & Poor's, and/or Fitch. This policy shall be subject to the exceptions described below.

#### B. Forms of Credit Enhancement

Credit enhancement may be in the form of a bank letter of credit, bond insurance, surety, financial guaranty, mortgage-backed security (e.g., Fannie Mae, Freddie Mac or Ginnie Mae) or other type of credit enhancement approved by the market. If the City has not previously issued bonds with a particular kind of credit enhancement, the Finance Department and financial advisor shall determine whether such credit enhancement is acceptable and whether marketing restrictions shall be imposed.

#### C. Project Sponsor Responsibility

It shall be the responsibility of the Project Sponsor to obtain and pay for the costs of credit enhancement. The City will assume no responsibility therefor.

## II. NON-CREDIT ENHANCED BONDS

### A. General Policy

It shall be the general policy of the City to require bonds that are not secured with credit enhancement to be sold through private placement or through a limited public offering to institutional or accredited investors. As an exception to this policy, the City may authorize the public distribution of non-credit enhanced bonds that are rated at least in the "A" category by Moody's, Standard & Poor's, and/or Fitch, after consultation with the underwriter and financial advisor. In connection with such authorization, the City shall consider the sophistication of the Project Sponsor, its financial resources, commitment to the community and other factors.

### B. Additional Requirements for Non-Rated Bonds

Non-rated bonds must comply with the following additional requirements:

#### 1. Minimum Denominations and Number of Bondholders

In order to limit the transferability of non-rated bonds, the City shall seek minimum denominations of at least $100,000. In addition, the City may also limit the number of bondholders to further limit the transferability of non-rated bonds.

#### 2. Qualified Institutional Buyer ("QIB") Letter

The bond purchaser in a private placement or limited public offering must certify that it is a qualified or accredited investor (a "big boy letter"). Such letter must be signed by subsequent bond purchasers so long as the bonds remain unrated.

## REFUNDING/RESTRUCTURING/REMARKETING

## I. GENERAL

The City has issued both fixed rate and variable rate multifamily bonds. On occasion, the Project Sponsor may ask the City to refund those bonds to lower the interest rate, to remarket the bonds with a new credit enhancement, and/or to remarket the bonds as fixed rate bonds. The Project Sponsor will be responsible for all costs and fees related to the refunding.

## II. OPTIONAL REFUNDING

### A. Reasons to Refund Outstanding Bonds

A Project Sponsor may ask the City to refund its outstanding bonds for one of several reasons:

1. Lower the interest rate on fixed rate bonds at the call date (through the issuance of fixed rate or variable rate refunding bonds);
2. Substitute a new credit structure that was not expressly provided for in the existing documents; or
3. Restructure the existing debt.

**B. Financing Team**

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

**C. Legal/Documentation**

New documents shall be prepared to meet the City's then-current legal, credit, financial, and procedural requirements. The City shall follow the documentation process applicable to new bonds. Because the City's primary purpose in issuing multifamily housing bonds is to preserve and increase the supply of affordable housing in the City, if federal or state affordability, income, and/or rent restrictions have changed between the time of the original financing and the refunding bonds, the more restrictive provisions shall apply. If new requirements are more restrictive than existing requirements, the new requirements shall be applied in phases to new tenants over a period of time, not to exceed five (5) years, as determined by the Housing Department staff and the City Attorney.

**D. Bond Maturity**

Subject to the approval of bond counsel, the final maturity of the refunding bonds may be later than the final maturity of the prior bonds so as to allow the Project Sponsor the longest possible period for repayment under federal law.

**E. Compliance**

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

**F. Fees**

The Project Sponsor shall pay the following City fees in connection with the refunding:

**1. Issuance Fee**

The City shall charge an issuance fee in accordance with the City's current policy on issuance fees for new projects.

**2. Annual Monitoring Fee**

The City shall continue to charge the same annual fee for monitoring the Project as for the original bonds. Such fee shall not be reduced even if the refunding bond size is lower.

**G. Cash Flow Savings**

Cash flow savings from refunding fixed rate bonds at a lower fixed interest rate or a variable rate shall be applied as follows:

**1. Projects with a City Loan**

A portion of the projected cash flow savings, to be determined by the Housing Department, shall be used to accelerate the repayment of the City loan, subject to restrictions in existing documents.

**2. Projects with No City Loan**

The City Housing Department shall require the Project Sponsor to provide affordability or other financial concessions to the City as a condition for refunding. Such concessions may include increasing the percentage of affordable units and extending the term of affordability restrictions.

### H. City Council Approval

All refunding bonds and related legal documentation must be approved by the City Council in accordance with the procedures set for the issuance of new bonds.

## III. DEFAULT REFUNDING

### A. General

In the event of a default on the bonds or the underlying mortgage, a fixed rate bond issue may be refundable in advance of the call date without premium. The issue does not arise with variable rate bonds, as such bonds are callable at any time. Default refunding bonds are an area of potential sensitivity for the City as it will not want a developer to manufacture a default to take advantage of more favorable interest rates.

### B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

### C. Confirming the Default

To confirm a default, the City must receive a notice from an independent party, such as the bond trustee. If applicable, notice of cash flow insufficiency is then filed as part of the Continuing Disclosure Certificate. In addition, the City shall retain, at the expense of the Project Sponsor, an independent feasibility consultant to review the default. The City will proceed with the transaction only if a review by staff and the independent consultant indicates that:

1. Net cash flow from the Project is currently insufficient to pay debt service on the outstanding bonds and is unlikely to do so within a reasonable period;
2. The Project is being operated in accordance with reasonable real estate management practices and the net operating income has not been artificially reduced by failing to rent units actively, inflating operating expenses, or other reasons within the control of the Project Sponsor; and

3. The Project Sponsor has provided audited operating statements, Continuing Disclosure filings (if applicable), and arbitrage rebate reports for all years, has cooperated in providing requested information, and has used operating income and other resources to pay debt service.

## D. Additional Requirements

### 1. Indemnification

The City shall be indemnified as to any costs incurred as a result of the refunding. Such indemnification shall come from a party or parties with adequate net worth or other financial capacity and whose assets are not limited to ownership of the Project.

### 2. Future Debt Coverage

The analysis of the feasibility consultant shall show that, upon the refunding, the Project's current net operating income will be at least sufficient to pay the revised debt service plus a reasonable coverage ratio (or adequate non-bond proceeds will be available to cover such deficiencies). In other words, ***the City shall not proceed with the refunding if it will not cure the cash flow problem*.**

### 3. Bond Counsel Review

Bond counsel shall have determined that the original bond and disclosure documents provided adequate disclosure of such a potential redemption and that the provisions of the prior documents have been satisfied.

### 4. Compliance

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

## E. Fees

The fees and expenses of the feasibility consultant, financial advisor and bond counsel shall **not** be contingent on their findings or completion of a refunding. The City shall require that the Project Sponsor deposit the estimated fees and expenses with the City **prior** to the commencement of any analysis.

## F. Affordability Restrictions

The affordability requirements for a default refunding shall be the same as those listed under "Legal/Documentation" for an optional refunding.

## G. City Council Approval.

### 1. Initial City Council Approval

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain initial City Council approval prior to proceeding with any documentation for a default refunding. Initial City Council approval shall occur after the independent feasibility consultant performs the initial analysis, a default is confirmed, and it is determined that a refunding will cure the cash flow problem.

**2. Final City Council Approval**

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain final City Council authorizing the bond issue and execution of the relevant documentation.

### H. City Fees

The City shall charge the same issuance fee and annual monitoring fee that it otherwise would in conjunction with a new bond issue.

## IV. REMARKETING

### A. General

A Project Sponsor may ask the City to remarket outstanding bonds under one of three basic scenarios: (1) converting variable rate bonds to fixed rate bonds; (2) a mandatory tender of bonds; or (3) substituting a new credit enhancement for the bonds in accordance with existing documentation.

### B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

### C. Legal/Documentation

A remarketing of fixed rate bonds will not require new legal documentation. However, the City Attorney's Office, in conjunction with bond counsel, may require a new disclosure document. A remarketing of bonds with a new credit enhancement may require amended documentation, as well as a new disclosure document, as determined by the City Attorney's Office and bond counsel.

### D. Fees

A remarketing will not result in the payment of additional or revised City issuance or annual fees. However, the City shall charge a fee of $10,000 to $25,000 to the Project Sponsor for administrative costs.

### E. Council Approval

All remarketed bonds and any related documentation shall be approved by the City Council prior to any remarketing.

# APPENDIX C:

# CURRENT RATINGS SUMMARY

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

## CURRENT RATINGS SUMMARY

The table below shows the long-term and short-term ratings scales from Moody's Investor Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch). The ratings for bonds issued by the City and its related entities are summarized on the Current Ratings Summary table on the following pages.

| Rating Scale | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Moody's** | | | | **S&P** | | **Fitch** | |
| **Long-term** | **Short-term** | | | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| Aaa | MIG1 | VMIG1 | P-1 | AAA | A-1+ | AAA | F1+ |
| Aa1 | | | | AA+ | | AA+ | |
| Aa2 | | | | AA | | AA | |
| Aa3 | | | | AA- | | AA- | |
| A1 | | | | A+ | A-1 | A+ | F1 |
| A2 | | | | A | | A | |
| A3 | MIG2 | VMIG2 | P-2 | A- | A-2 | A- | F2 |
| Baa1 | MIG3 | VMIG3 | | BBB+ | | BBB+ | |
| Baa2 | | | P-3 | BBB | A-3 | BBB | F3 |
| Baa3 | | | | BBB- | | BBB- | |
| Ba1 | SG | SG | Not prime | BB+ | B | BB+ | B |
| Ba2 | | | | BB | | BB | |
| Ba3 | | | | BB- | | BB- | |
| B1 | | | | B+ | | B+ | |
| B2 | | | | B | | B | |
| B3 | | | | B- | | B- | |
| Caa1 | | | | CCC+ | C | CCC | C |
| Caa2 | | | | CCC | | | |
| Caa3 | | | | CCC- | | | |
| Ca | | | | CC | | | |
| | | | | C | | | |
| C | | | | D | / | DDD | / |
| / | | | | | | DD | |
| / | | | | | | D | |

A-category = Highest quality
B-category = Medium grade, speculative
C-category = Lowest grade, highest speculation
D-category = Default, questionable value

**Current Ratings Summary**
*As of October 16, 2014*

| | Moody's | S&P | Fitch[1] |
|---|---|---|---|
| **City of San José** | | | |
| ***General Obligation Bonds*** | | | |
| Series 2001 (Libraries and Parks) | | | |
| Insured by: National Public Finance Guarantee Corp. | Aa1 | AA+ | - |
| Underlying Rating | Aa1 | AA+ | AA+ |
| Series 2002 (Libraries, Parks, Public Safety) | | | |
| Insured by: National Public Finance Guarantee Corp. | Aa1 | AA+ | - |
| Underlying Rating | Aa1 | AA+ | AA+ |
| Series 2004 (Libraries, Parks, Public Safety) | | | |
| Insured by: National Public Finance Guarantee Corp. | Aa1 | AA+ | - |
| Underlying Rating | Aa1 | AA+ | AA+ |
| Series 2005 (Libraries and Public Safety) | | | |
| Insured by: National Public Finance Guarantee Corp. | Aa1 | AA+ | - |
| Underlying Rating | Aa1 | AA+ | AA+ |
| Series 2006 (Libraries and Parks) | | | |
| Insured by: National Public Finance Guarantee Corp. | Aa1 | AA+ | - |
| Underlying Rating | Aa1 | AA+ | AA+ |
| Series 2007 (Parks and Public Safety) | | | |
| Insured by: National Public Finance Guarantee Corp. | Aa1 | AA+ | - |
| Underlying Rating | Aa1 | AA+ | AA+ |
| Series 2008 (Libraries and Parks) | | | |
| Underlying Rating | Aa1 | AA+ | AA+ |
| Series 2009 (Public Safety) | | | |
| Underlying Rating | Aa1 | AA+ | AA+ |
| **City of San José Financing Authority** | | | |
| ***Lease Revenue Bonds*** | | | |
| Series 2001F (Convention Center) | | | |
| Insured by: National Public Finance Guarantee Corp. | Aa3 | AA | - |
| Underlying Rating | Aa3 | AA | AA |
| Series 2003A (Central Service Yard) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | Aa3 | AA | AA |

**Current Ratings Summary**
*As of October 16, 2014*

| | Moody's | S&P | Fitch[(1)] |
|---|---|---|---|
| Series 2006A (Civic Center Project) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | Aa3 | AA | AA |
| Series 2007A (Recreational Facilities) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | Aa3 | AA | AA |
| Series 2008C (Hayes Mansion) | | | |
| Bank-Owned: U.S. Bank (expires 12/18/2016) | Not rated | Not rated | Not rated |
| Underlying Rating | | | |
| Series 2008D (Taxable) (Hayes Mansion) | | | |
| Bank-Owned: U.S. Bank (expires 12/18/2016) | Not rated | Not rated | Not rated |
| Underlying Rating | | | |
| Series 2008E (Taxable) (Ice Centre) | | | |
| Bank-Owned: U.S. Bank (expires 12/18/2016) | Not rated | Not rated | Not rated |
| Underlying Rating | | | |
| Series 2008F (Taxable) (Land Acquisition) | | | |
| Bank-Owned: Bank of America (expires 06/26/2017) | Not rated | Not rated | Not rated |
| Underlying Rating | | | |
| Series 2011A (Convention Center) | | | |
| Underlying Rating | Aa3 | AA | --- |
| Series 2013A (Civic Center) | | | |
| Underlying Rating | Aa3 | AA | AA |
| Series 2013B (Civic Center Garage) | | | |
| Underlying Rating | Aa3 | AA | AA |
| ***Revenue Bonds*** | | | |
| Series 2001A (4th & San Fernando Garage) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | A1 | - | BBB- |
| ***Lease Revenue Commercial Paper Notes*** | | | |
| Lease Revenue Commercial Paper Notes | | | |
| LOC: State Street/U.S. Bank (expires 8/28/2015) | P-1 | A-1+ | F1+ |

**Current Ratings Summary**
*As of October 16, 2014*

| | Moody's | S&P | Fitch[1] |
|---|---|---|---|
| **Redevelopment Agency** | | | |
| ***Housing Set-Aside Tax Allocation Bonds*** | | | |
| Series 1997E (AMT) (Merged Area)(HSA) | | | |
| Insured by: National Public Finance Guarantee Corp. | Baa1 | AA- | - |
| Underlying Rating | Ba1 | A | A |
| Series 2003J (Taxable) (Merged Area) (HSA) | | | |
| Insured by: Syncora Guarantee Inc. | - | - | - |
| Underlying Rating | Ba1 | A | A |
| Series 2003K (Merged Area) (HSA) | | | |
| Insured by: Syncora Guarantee Inc. | - | - | - |
| Underlying Rating | Ba1 | A | A |
| Series 2005A (Merged Area) (HSA) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba1 | A | A |
| Series 2005B (Taxable) (Merged Area) (HSA) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba1 | A | A |
| Series 2010A-1 (Merged Area) (HSA) | | | |
| Underlying Rating | Ba1 | A | A |
| Series 2010A-2 (Merged Area) (HSA) | | | |
| Underlying Rating | Ba1 | A | A |
| Series 2010B (Taxable) (Merged Area) (HSA) | | | |
| Underlying Rating | Ba1 | A | A |
| ***Redevelopment Project Tax Allocation Bonds*** | | | |
| Series 1993 (Merged Area Refunding) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba2 | BBB | BBB- |
| Series 1997 (Merged Area) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba2 | BBB | BBB- |
| Series 1999 (Merged Area) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | Ba3 | BBB | BBB- |

**Current Ratings Summary**
*As of October 16, 2014*

| | Moody's | S&P | Fitch(1) |
|---|---|---|---|
| Series 2002 (Merged Area) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba3 | BBB | BBB- |
| Series 2003 (Merged Area) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba2 | BBB | BBB- |
| Series 2004A (Merged Area) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba2 | BBB | BBB- |
| Series 2005A (Merged Area) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba2 | BBB | BBB- |
| Series 2005B (Merged Area) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | Ba3 | BBB | BBB- |
| Series 2006A (Taxable) (Merged Area) | | | |
| Insured by: Radian Asset Assurance Inc. | Ba1 | BBB | - |
| Underlying Rating | Ba3 | BBB | BBB- |
| Series 2006B (Merged Area) | | | |
| Insured by: Radian Asset Assurance Inc. | Ba1 | BBB | - |
| Underlying Rating | Ba3 | BBB | BBB- |
| Series 2006C (Merged Area) | | | |
| Insured by: National Public Finance Guarantee Corp. | A3 | AA- | - |
| Underlying Rating | Ba2 | BBB | BBB- |
| Series 2006D (Merged Area) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | Ba3 | BBB | BBB- |
| Series 2007A (Taxable) (Merged Area) | | | |
| Insured by: Syncora Guarantee Inc. | - | - | - |
| Underlying Rating | Ba3 | BBB | BBB- |
| Series 2007B (Merged Area) | | | |
| Insured by: Syncora Guarantee Inc. | - | - | - |
| Underlying Rating | Ba3 | BBB | BBB- |
| Series 2008A (Merged Area) | | | |
| Underlying Rating | Ba2 | BBB | BBB- |
| Series 2008B (Merged Area) | | | |
| Underlying Rating | Ba2 | BBB | BBB- |

**Current Ratings Summary**
*As of October 16, 2014*

| | Moody's | S&P | Fitch[1] |
|---|---|---|---|
| ***Redevelopment Project Revenue Bonds (Subordinate)*** | | | |
| Series 1996A (Merged Area) (Subordinate) | | | |
| LOC: J.P. Morgan Chase Bank (expires 3/31/2017) | Aa3/VMIG1 | A+/A-1 | - |
| Series 1996B (Merged Area) (Subordinate) | | | |
| LOC: J.P. Morgan Chase Bank (expires 3/31/2017) | Aa3/VMIG1 | A+/A-1 | - |
| Series 2003A (Taxable) (Merged Area) (Subordinate) | | | |
| LOC: J.P. Morgan Chase Bank (expires 3/31/2017) | Aa3/VMIG1 | A+/A-1 | - |
| Series 2003B (Merged Area)(Subordinate) | | | |
| LOC: J.P. Morgan Chase Bank (expires 3/31/2017) | Aa3/VMIG1 | A+/A-1 | - |
| **Norman Y. Mineta San José International Airport** | | | |
| ***Airport Revenue Bonds*** | | | |
| Series 2007A (AMT) | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | A2 | A- | BBB+ |
| Series 2007B | | | |
| Insured by: AMBAC | - | - | - |
| Underlying Rating | A2 | A- | BBB+ |
| Series 2011A-1 (AMT) | | | |
| Underlying Rating | A2 | A- | BBB+ |
| Series 2011A-2 (Non-AMT) | | | |
| Underlying Rating | A2 | A- | BBB+ |
| Series 2011B (Taxable) | | | |
| Insured by: Assured Guaranty Municipal Corp. | A2 | AA | - |
| Underlying Rating | A2 | A- | BBB+ |
| Series 2014A (AMT) | | | |
| Underlying Rating | A2 | A- | BBB+ |
| Series 2014B (Non-AMT) | | | |
| Underlying Rating | A2 | A- | BBB+ |
| Series 2014C (Non-AMT) | | | |
| Underlying Rating | A2 | A- | BBB+ |
| ***Subordinated Commercial Paper Notes*** | | | |
| CP Series A-1 (Non-AMT) | | | |
| LOC: Barclays Bank PLC (expires 2/10/2017) | P-1 | A-1 | F1+ |
| CP Series A-2 (Private Activity Non-AMT) | | | |
| LOC: Barclays Bank PLC (expires 2/10/2017) | P-1 | A-1 | F1+ |

| Current Ratings Summary<br>*As of October 16, 2014* | | | |
|---|---|---|---|
| | **Moody's** | **S&P** | **Fitch[1]** |
| CP Series B (AMT) | | | |
| LOC: Barclays Bank PLC (expires 2/10/2017) | P-1 | A-1 | F1+ |
| CP Series C (Taxable) | | | |
| LOC: Barclays Bank PLC (expires 2/10/2017) | P-1 | A-1 | F1+ |
| **Clean Water Financing Authority** | | | |
| ***Sewer Revenue Refunding Bonds*** | | | |
| Series 2005A | | | |
| Insured by: Assured Guaranty Municipal Corp. | Aa2 | AAA | - |
| Underlying Rating | Aa2 | AAA | AAA |
| Series 2009A | | | |
| Underlying Rating | Aa2 | AAA | AAA |
| **Special Assessment Bonds** | | | |
| Series 24R (2002 Consolidated Refunding) | | | |
| Insured by: National Public Finance Guarantee Corp. | Baa1 | A | - |
| Underlying Rating | - | - | - |
| **Special Hotel Tax Revenue Bonds** | | | |
| Series 2011 (Convention Center) | | | |
| Underlying Rating | A2 | A- | - |

[1] Fitch no longer rates any of the bond insurance companies, for bond series that are insured, the underlying rating shown is the rating on the bonds.

CITY OF
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# APPENDIX D:

# OVERLAPPING DEBT REPORT

CITY OF
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## OVERLAPPING DEBT REPORT

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 June 30, 2014, is shown in this appendix. The City makes no representations as to the completeness or accuracy of such statement.

### CITY OF SAN JOSÉ
### STATEMENT OF DIRECT AND OVERLAPPING DEBT

| Direct and Overlapping Tax and Assessment Debt: | % Applicable | Debt 6/30/14 |
|---|---|---|
| Santa Clara County | 39.410% | 317,132,270 |
| Foothill-De Anza Community College District | 4.462 | 27,360,060 |
| Gavilan Joint Community College District | 6.168 | 6,193,289 |
| San José-Evergreen Community College District | 85.794 | 370,497,055 |
| West Valley Community College District | 33.453 | 98,459,760 |
| Milpitas Unified School District | 0.00004 | 35 |
| Morgan Hill Unified School District | 14.038 | 13,765,528 |
| San José Unified School District | 98.400 | 517,985,458 |
| Santa Clara Unified School District | 23.466 | 97,832,101 |
| Campbell Union High School District | 60.286 | 91,881,893 |
| East Side Union High School District | 96.381 | 639,162,121 |
| Fremont Union High School District | 9.855 | 28,635,684 |
| Los Gatos-Saratoga Joint Union High School District | 0.564 | 235,780 |
| Alum Rock Union School District | 77.258 | 80,987,754 |
| Berryessa Union School District | 96.609 | 28,990,459 |
| Cambrian School District | 64.539 | 9,787,303 |
| Campbell Union School District | 47.233 | 75,896,373 |
| Cupertino Union School District | 16.324 | 42,642,118 |
| Evergreen School District | 99.470 | 97,999,398 |
| Evergreen School District Community Facilities District No. 92-1 | 100.000 | 2,150,000 |
| Franklin-McKinley School District | 99.724 | 86,106,885 |
| Los Gatos Union School District | 1.184 | 1,217,981 |
| Luther Burbank School District | 22.641 | 2,266,995 |
| Moreland School District | 75.971 | 72,045,493 |
| Mount Pleasant School District | 87.829 | 14,601,564 |
| Oak Grove School District | 99.843 | 109,567,061 |
| Orchard School District | 100.000 | 45,450,291 |
| Union School District | 73.115 | 47,259,129 |
| **City of San José** | **100.000** | **421,380,000** |
| City of San José Community Facilities Districts | 100.000 | 27,375,000 |
| City of San José Special Assessment Bonds | 100.000 | 17,935,000 |
| Santa Clara Valley Water District Benefit Assessment District | 39.410 | 45,339,235 |
| Total Direct and Overlapping Tax and Assessment Debt | | $ 3,438,139,073 |

**(Continued)**
**CITY OF SAN JOSÉ**
**STATEMENT OF DIRECT AND OVERLAPPING DEBT**

| **Direct and Overlapping General Fund Debt:** | **% Applicable** | **Debt 6/30/14** |
|---|---|---|
| Santa Clara County General Fund Obligations | 39.410% | 298,654,624 |
| Santa Clara County Pension Obligations | 39.410 | 147,952,685 |
| Santa Clara County Board of Education Certificates of Participation | 39.410 | 3,834,593 |
| Foothill-De Anza Community College District Certificates of Participation | 4.462 | 600,973 |
| San José-Evergreen Community College District Benefit Obligations | 85.794 | 40,709,253 |
| West Valley-Mission Community College District General Fund Obligations | 33.453 | 21,776,230 |
| Morgan Hill Unified School District Certificates of Participation | 14.038 | 1,895,832 |
| San José Unified School District Certificates of Participation | 98.400 | 5,904,000 |
| Santa Clara Unified School District Certificates of Participation | 23.466 | 3,151,484 |
| East Side Union High School District Benefit Obligations | 96.381 | 29,680,529 |
| Los Gatos-Saratoga Joint Union High School District Certificates of Participation | 0.564 | 44,697 |
| Campbell Union High School District General Fund Obligations | 60.286 | 6,124,992 |
| Alum Rock Union School District Certificates of Participation | 77.258 | 19,314,500 |
| Campbell Union School District General Fund Obligations | 47.233 | 1,653,155 |
| Franklin-McKinley School District Certificates of Participation | 99.724 | 1,653,155 |
| **City of San José General Fund Obligations** | **100.000** | **706,145,000** |
| Midpeninsula Regional Open Space Park District General Fund Obligations | 0.014 | 18,649 |
| Santa Clara County Vector Control District Certificates of Participation | 39.410 | 1,290,678 |
| Total Direct and Overlapping General Fund Debt | | $ 1,293,598,460 |
| **Total Direct Debt** | | **$ 1,127,525,000** |
| Total Overlapping Debt | | $ 5,344,441,508 |
| Combined Total Debt[1] | | $ 6,471,966,508 |
| Ratios to 2013-14 Assessed Valuation: | | |
| **Direct Debt ($421,380,000)** | **0.32%** | |
| Total Direct and Overlapping Tax and Assessment Debt | 2.61% | |
| Ratios to Adjusted Assessed Valuation: | | |
| **Combined Direct Debt ($1,127,525,000)** | **0.86%** | |
| Combined Total Debt | 4.91% | |

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

*Source: California Municipal Statistics, Inc.*

# APPENDIX E:

## SPECIAL TAX ANNUAL REPORT

CITY OF
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## SPECIAL TAX ANNUAL REPORT

This information is provided in the Annual Debt Report to the City Council pursuant to California Government Code Sections 50075 and 50075.3. California Government Code Section 50075 requires that on or after January 1, 2001, any local special tax measure that is subject to voter approval that would provide for the imposition of a special tax by a local agency shall provide accountability measures that include an annual report.

Pursuant to Government Code Section 50075.3, the Chief Financial Officer of the levying local agency shall file the annual report with its governing body no later than January 1, 2002, and at least once a year thereafter. The annual report shall contain both of the following: (a) the amount of funds collected and expended; and (b) the status of any project required or authorized to be funded as identified in the special tax measure indicating the specific purposes of the special tax.

**Special Tax Annual Report**
*FY 2013-14*

| Date of Election | Special Tax Measure | Funds Collected[1] | Funds Expended[1] | Status of Funded Projects |
|---|---|---|---|---|
| 11/07/2000 | San José Neighborhood Libraries Bonds | See Note 2 | See Note 2 | 19 Completed<br>1 Design/Construction |
| 11/07/2000 | San José Neighborhood Parks and Recreation Bonds | See Note 2 | See Note 2 | 95 Completed<br>2 Design/Construction |
| 03/05/2002 | San José 911, Fire, Police and Paramedic Neighborhood Security Act | See Note 2 | See Note 2 | 28 Completed<br>3 Design/Construction |
| 03/27/2001 | Community Facilities District No. 6 (Great Oaks-Route 85) | $943,670 | $933,984 | Project Completed |
| 06/19/2001 | Community Facilities District No. 5A (North Coyote Valley Facilities) | $0 | $0 | No Activity |
| 06/19/2001 | Community Facilities District No. 5B (North Coyote Valley Services) | $0 | $0 | No Activity |
| 09/03/2002 | Community Facilities District No. 8 (Communications Hill) | $466,403 | $486,185 | On-going Maintenance |
| 12/17/2002 | Community Facilities District No. 9 (Bailey/Highway 101) | $1,011,712 | $1,008,021 | Project Completed |
| 04/01/2003 | Community Facilities District No. 10 (Hassler-Silver Creek) | $1,046,744 | $1,049,313 | Project Completed |
| 11/02/2004 | Library Parcel Tax (Measure S) | $7,696,908 | $6,036,736 | On-going |
| 06/07/2005 | Community Facilities District No. 11 (Adeline-Mary Helen) | $54,296 | $28,443 | On-going Maintenance |
| 11/08/2005 | Community Facilities District No. 12 (Basking Ridge) | $222,159 | $191,201 | On-going Maintenance |
| 06/16/2009 | Convention Center Financing District | $9,811,002 | $6,546,013 | Project Completed |
| 10/02/2012 | Community Facilities District No. 13 (Guadalupe Mines) | $179,979 | $13,036 | On-going Maintenance |
| 09/20/2011 | Community Facilities District No. 14 (Raleigh-Charlotte) | $370,983 | $366,325 | On-going Maintenance |
| 06/17/2014 | Community Facilities District No. 15 | $0 | $0 | On-going Maintenance when improvements completed |

[1] Fund collected include property taxes (General Obligation Bonds), special taxes (Community Facilities Districts and Convention Center Financing District), and parcel taxes (Measure S 2004, library parcel tax). Funds expended include debt service and administration charges for General Obligation Bonds and for those bonds for certain Community Facilities Districts and for the Convention Center Financing District. Funds expended for maintenance Community Facilities Districts include maintenance services. Funds expended from library parcel tax proceeds are for the library purposes outlined in Measure S 2004. A more detailed annual report on the expenditure of library parcel taxes is prepared by the City's external auditor, which is available on the City Auditor's website.

[2] The City has issued eight series of General Obligation Bonds through FY 2013-14 for a total of $589,590,000 to fund projects authorized by voters under these measures. In FY 2013-14, a total of $39,312, 947 was collected and $40,322,915 was expended to pay debt service on the series 2001, 2002, 2004, 2005, 2006 2007, 2008, and 2009 Bonds. The City's external auditor prepares a more detailed annual report on each of the General Obligation Bond measures which is available on the City Auditor's website.

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## GLOSSARY

**Accrued Interest**: In general, interest that has been earned on a bond, but not yet paid – usually because it is not yet due. More specifically, this term is often used to refer to interest earned on a bond from its dated date to the closing date.

**Ad Valorem Tax**: A tax which is based on the value (assessed value) of property.

**Advance Refunding**: A procedure whereby outstanding bonds are refinanced from the proceeds of a new bond issue more than ninety (90) days prior to the date on which the outstanding bonds ("refunded bonds") become due or are callable.

**Alternative Minimum Tax (AMT)**: An income tax based on a separate and alternative method of calculating taxable income and separate and alternative schedule of rates. With respect to bonds, the interest on certain types of qualified tax-exempt private activity bonds is included in income for purposes of the individual and corporate alternative minimum tax.

**Arbitrage**: With respect to municipal bonds, "arbitrage" is the profit made from investing the proceeds of tax-exempt bonds in higher-yielding securities.

**Arbitrage Rebate**: Payment of arbitrage profits to the United States Treasury by a tax-exempt bond issuer.

**Basis Point**: One basis point is equal to 1/100 of one percent. If interest rates increase from 4.50% to 4.75%, the difference is referred to as a 25 basis point increase.

**Bond**: Any interest-bearing or discounted government or corporate security that obligates the issuer (borrower) to pay the bondholder a specific sum of money (interest), usually at specific intervals, and to repay the principal amount of the loan at maturity.

**Bond Counsel**: An attorney or a firm of attorneys, retained by the issuer, that gives the legal opinion delivered with the bonds confirming that (i) the bonds are valid and binding obligations of the issuer; (ii) the issuer is authorized to issue the proposed securities; (iii) the issuer has met all legal requirements necessary for issuance, and; (iv) and in the case of tax-exempt bonds, that interest on the bonds is exempt from federal and state income taxes.

**Bond Insurance**: Noncancellable insurance purchased from a bond insurer by the issuer or purchaser of a bond or series of bonds pursuant to which the insurer promises to make scheduled payments of interest, principal and mandatory sinking fund payments on an issue if the issuer fails to make timely payments. When an issue is insured, the investor relies on the creditworthiness of the insurer rather than the issuer. Payment of an installment by the insurer does not relieve the issuer of its obligation to pay that installment; the issuer remains liable to pay that installment to the insurer.

**Bond Insurer**: A company that pledges to make all interest and principal payments when due if the issuer of the bonds defaults on its obligations. In return, the bond issuer or purchaser pays a premium ("bond insurance premium") to the insurance company. Insured bonds generally trade on the rating of the bond insurer rather than the rating on the underlying bonds, since the bond insurer is ultimately at risk for payment of the principal and interest due on the bonds.

**Bond Purchase Contract or Agreement**: In a negotiated sale, the bond purchase contract is an agreement between an issuer and an underwriter or group of underwriters in a syndicate or selling group who have agreed to purchase the issue pursuant to the price, terms and conditions outlined in the agreement.

**Bond Resolution**: See Indenture/Bond Resolution/Trust Agreement.

**Bond Series**: An issue of bonds may be structured as multiple bond series reflecting differences in tax status, priority of debt service payment, or interest rate mode, as well as to facilitate marketing of the bonds.

**Bondholder**: The owner of a bond. Bondholders may be individuals or institutions such as banks, insurance companies, mutual funds, and corporations. Bondholders are generally entitled to receive regular interest payments and return of principal when the bond matures.

**Call**: The terms of the bond giving the issuer the right or requiring the issuer to redeem or "call" all or portion of an outstanding issue of bonds prior to their stated date of maturity at a specified price, usually at or above par.

**CSJFA:** City of San José Financing Authority.

**Closing Date (Delivery Date)**: The date on which an issue is delivered by the issuer to, and paid for by, the original purchaser (underwriter), also called the delivery date. This date may be a different date than the sale date or the dated date.

**Commercial Paper**: Short-term, unsecured promissory notes, usually backed by a line of credit and/or letter of credit with a bank, with maturities between 1 day through 270 days.

**Competitive Sale**: The sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale (also called a "public sale").

**Coupon**: Interest rate on a bond or note that the issuer promises to pay to the bondholder until maturity, expressed as an annual percentage of the face value of the bond.

**CUSIP:** The acronym for "Committee on Uniform Security Identification Procedures", which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, United States government and corporate securities. A separate CUSIP number is assigned for each maturity of each issue and is printed on each bond and generally on the cover of the Official Statement.

**CWFA:** San José-Santa Clara Clean Water Financing Authority.

**Dated Date**: The dated date is the date on which interest on the bonds begins to accrue to the benefit of bondholders.

**Debt Retirement**: Repayment of debt.

**Debt Service**: The total interest, principal and mandatory sinking fund payments due at any one time.

**Debt Service Coverage**: The ratio of pledged revenues available annually to pay debt service on the annual debt service requirement. Pledged revenues are either calculated before operating and maintenance expenses ("Gross Revenue") or net of operating and maintenance expenses ("Net Revenue"). This ratio is one indication of the margin of safety for payment of debt service.

**Debt Service Reserve Fund/Account**: An account from which moneys may be drawn to pay debt service on an issue of bonds if pledged revenues and other amounts available to satisfy debt service are insufficient. The size of the debt service reserve fund and investment of moneys in the fund/account are subject to restrictions contained in federal tax law for tax-exempt bonds.

**Default or Event of Default**: Failure to make prompt debt service payment or to comply with other covenants and requirements specified in the financing agreements for the bonds.

**Defeasance**: Usually occurs in connection with the refunding of an outstanding issue by final payment or provision for future payment of principal and interest on a prior issue. In an advance refunding, the defeasance of the bonds being refunded is generally accomplished by establishing an escrow of high quality securities to provide for payment of debt service on the bonds to redemption or maturity.

**Direct Placement or Direct Purchase**: See "Private Placement".

**EMMA:** Electronic Municipal Market Access ("EMMA") is the municipal disclosure website sponsored by the Municipal Securities Rule Making Board ("MSRB"). As of July 1, 2009, municipal issuers are required to file disclosure through EMMA in lieu of filing disclosure with the NRMSIRs.

**Federal Open-Market Committee ("FOMC")**: Committee that sets interest and credit policies for the Federal Reserve Board (the "Fed"), the United States' central bank. The Committee's decisions are closely watched and interpreted by economists and stock and bond markets analysts, who try to predict whether the Fed is seeking to tighten credit to reduce inflation or to loosen credit to stimulate the economy.

**Financial Advisor**: A consultant who advises the issuer on matters pertinent to a bond issue, such as structure, cash flow, timing, marketing, fairness of pricing, terms, bond ratings, and at times investment of bond proceeds. A financial advisor may also be hired to provide analysis relating to an issuer's debt capacity or future debt issuance.

**Fiscal Agent**: A commercial bank or trust company designated by an issuer under the Indenture or Bond Resolution to act as a fiduciary and as the custodian of moneys related to a bond issue.  The duties are typically limited to receiving moneys from the issuer which is to be held in funds and accounts created under the Indenture or Bond Resolution and paying out principal and interest to bondholders.

**General Obligation Bond**:  A bond which is secured either by a pledge of the full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both.  With very few exceptions, local agencies in California are not authorized to issue “full faith and credit” bonds.  Typically, general obligation bonds of a city are payable only from ad valorem property taxes which are required to be levied in an amount sufficient to pay debt service.  Under the State Constitution, a city’s authority to issue general obligation bonds must be approved by a two-thirds vote of the electorate and the bond proceeds are limited to the acquisition and improvement of real property.

**Indenture/Bond Resolution/Trust Agreement**:  An agreement executed by an issuer and a fiscal agent/trustee which pledges certain revenues and other property as security for the repayment of the bonds, sets forth the terms of the bonds and contains the responsibilities and duties of the trustee and the rights of the bondholders.  The rights of the bondholders are set forth in the indenture provisions relating to the timing of the interest and principal payments, interest rate setting mechanisms (in the case of variable-rate bonds), redemption provisions, events of default, remedies and the mailing of notices of various events.

**Issuance**:  Sale and delivery of a series of bonds or other securities.

**Issue**:  One or more bonds or series of bonds initially delivered by an issuer in a substantially simultaneous transaction and which are generally designated in a manner that distinguishes them from bonds of other issues.  Bonds of a single issue may vary in maturity, interest rate, redemption and other provisions.

**Issuer**:  An entity that borrows money through the sale of bonds or notes and is committed to making timely payments of interest and principal to bondholders.

**Lease Revenue Bonds**:  Bonds issued by one public entity, such as the City of San José Financing Authority, on behalf of another public entity, such as the City of San José.  A lease revenue bond issue is repaid from lease payments on an asset pledged as security to the bondholders.  The pledged asset is not necessarily the asset financed with the bond proceeds.  The City makes the lease payments to the Authority and covenants to annually budget and appropriate funds to make the lease payments so long as the leased asset is able to be used.  These payments are included in the City Budget as part of the annual appropriation process.

**Letter of Credit**:  An arrangement between an issuer and a bank which provides additional security that money will be available to pay debt service on a bond issue.  Customarily, a letter of credit is issued by a commercial bank directly to the trustee allowing the trustee, if certain conditions are met, to draw upon the letter of credit by submitting to the bank a written request for payment.  Letters of Credit are also referred to as liquidity facilities in connection with obligations such as commercial paper and variable-rate bonds.

**LIBOR**: An acronym for London Interbank Offered Rate, a rate that the most creditworthy international banks dealing in Eurodollars charge each other for large loans. The LIBOR rate is usually the basis for other large Eurodollar loans to less creditworthy corporate and government borrowers. This rate is often used as a benchmark for short-term taxable municipal securities.

**Line of Credit**: A Line of Credit, also referred to as a liquidity facility, is a contract between the issuer and a bank that provides a source of borrowed moneys to the issuer in the event that moneys available to pay debt service, for example on commercial paper.

**Liquidity**: The ease with which an investment may be converted to cash.

**Liquidity Facility**: See “Letter of Credit” and “Line of Credit”.

**Maturity**: With respect to a single bond, the date upon which the principal of the bond is due; with respect to an issue, all of the bonds of an issue which are due on a single date.

**Municipal Securities Rulemaking Board (“MSRB”)**: An independent, self-regulatory organization established by Congress in 1975 having general rulemaking authority over municipal securities market participants, generally brokers and dealers. The MSRB is required by federal law to propose and adopt rules in the areas which include professional qualification standards, rules of fair practice, record keeping, the scope and frequency of compliance examinations, the form and content of municipal bond quotations, and sales to related portfolios during the underwriting period.

**National Association of Security Dealers (“NASD”)**: A self-regulatory organization established as a “registered securities association” pursuant to the Securities Exchange Act of 1934, for the purpose of preventing fraudulent and manipulative acts and practices; promoting just and equitable principles of trade among over-the-counter brokers and dealers; and promoting rules of fair practice and self-discipline in the securities industry.

**Negotiated Sale**: The sale of bonds, the terms and price of which are negotiated by the issuer through an exclusive agreement with a previously selected underwriter and/or underwriting syndicate.

**NRMSIR**: An acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs were the repositories for all annual reports and event notices filed under SEC Rule 15c2-12; however, as of July 1, 2009 issuers are required to file such disclosure with the MSRB’s EMMA system. See *EMMA*.

**Official Statement**: A document containing information about the bonds being offered, the issuer, and the sources of repayment of the bonds. Federal securities law generally requires that if an Official Statement is used to market an issue of bonds, it must fully and accurately disclose all facts that would be of interest (material) to a potential buyer of bonds.

**Par/Par Value**: Refers to the principal amount of a bond or the total principal amount of a bond series or issue.

**<u>Parity Bonds</u>**: Two or more issues of bonds which have the same priority of claim or lien against the issuer's pledge of particular revenues, e.g., revenues from an enterprise such as an airport or parking garage. With respect to the initial issue of bonds, called the "prior issue", the indenture or bond resolution normally provides the requirements which must be satisfied before subsequent issues of bonds, called "additional parity bonds" may be issued.

**<u>Present Value</u>**: The current value of a future payment, or stream of payments, calculated by discounting the future payments by an appropriate interest rate. Alternatively, present value is the amount of money which should be invested today to return a certain sum at a future time.

**<u>Private Placement</u>**: The sale of bonds by the issuer directly to one or more investors rather than through an underwriter. Often, the terms of the issue are negotiated directly between the issuer and the investor. Sometimes, an investment banker will act as the placement agent; bring parties together and acting as an intermediary in the negotiations. Instead of and Official Statement, an Offering Circular, Offering Memorandum or Private Placement Memorandum may be prepared.

**<u>Project Lease</u>**: The document, in a Lease Revenue Bond issue, is the means by which the issuer leases to another public entity (the "obligor") the project to be acquired or constructed with the proceeds of the bond issue and by which the obligor agrees to make periodic lease payments to the issuer, generally for the period of time the bond issue is outstanding.

**<u>Proceeds</u>**: Funds received by the issuer upon sale of the bonds which may include accrued interest and a premium. For tax purposes bond proceeds include interest earnings on the sale proceeds.

**<u>Rating Agencies</u>**: The organizations which provide, for a fee customarily paid by the issuer, an independent appraisal of the credit quality and likelihood of timely repayment of a bond issue. The term is most often used to refer to the three nationally recognized agencies, Moody's Investor Services, Inc., Standard & Poor's Corporation, and Fitch Ratings.

**<u>Redemption</u>**: The payment of principal of a bond, whether at maturity, or, under certain circumstances described in the bond, prior to maturity. Redemption of a bond by the issuer prior to maturity is sometimes referred to as "calling the bond."

**<u>Refunding</u>**: An issue of new bonds (the "refunding bonds") to pay debt service on a prior issue (the "refunded bonds"). Generally, the purpose of a refunding is either to reduce the debt service on the financing or to remove or replace restrictive covenant imposed by the terms of the refunded bonds. The proceeds of the refunding bonds are either deposited in a defeasance escrow to pay the refunded bonds on a date more than 90 days after the issuance ("Advance Refunding") or applied to the payment of the refunded bonds within 90 days of the issuance ("Current Refunding").

**<u>Reserve Fund/Account</u>**: See Debt Service Reserve Fund/Account

**Revenue Bond**: A bond which is payable solely from a specific source of revenue. Revenue bonds do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. 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.

**SARA**: Successor Agency to the Redevelopment Agency of the City of San José.

**Sale Date**: In the case of a negotiated sale, the date on which the bond purchase agreement is signed, and in the case of a competitive sale, the date on which the bonds are awarded to the winning bidder.

**Serial Bonds**: Bonds of an issue which are payable as to principal in amounts due at successive regular intervals, generally annual or semiannual and generally in the early years of the term of the issue. An issue may consist of both serial bonds and term bonds.

**SIFMA Index:** An index published by the Securities Industry and Financial Markets Association ("SIFMA"). The index is produced from Municipal Market Data and is a 7-day high-grade market index comprised of tax-exempt variable-rate demand obligations. SIFMA was formed through the merger between the Securities Industry Association (SIA) and the Bond Market Association ("BMA"). Formerly referred to as the BMA Index.

**Sinking Fund**: An account, sometimes called a debt service fund or sinking fund to provide for the redemption or payment at maturity of term bonds. Generally, sinking fund payments are mandatory in a specified amount for each payment period to provide for the periodic redemption of term bonds prior to their final maturity. The individual term bonds to be redeemed each year are customarily selected at random by the trustee.

**Surety**: In the public finance context, a surety policy is a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issue. Under this arrangement, instead of depositing cash in a reserve fund, the issuer buys a surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. If the reserve fund is needed to make a debt service payment, the trustee notifies the surety provider and the provider makes the payment, up to the face amount of the policy. The issuer then has an obligation to reimburse the provider for the payment, plus interest.

**Tax Allocation Bonds**: Bonds secured by the incremental property tax revenues generated from a redevelopment project area. As usually structured, a project area is designated, its property tax base frozen, and revenue from the incremental growth of the property tax base is used to provide additional funds for further redevelopment or for debt service on bonds issued for redevelopment purposes.

**Tax-Exempt Bonds**: Bonds whose interest is exempt from federal income taxation. In California, the interest on bonds issued by a California governmental entity is also exempt from state income tax.

**Term Loan**: A loan from a bank for a specific amount that has a specified repayment schedule. Term loans generally accrue interest at a floating rate and mature between one and ten years.

**Term Bonds**: Bonds coming due in a single maturity. The issuer generally agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

**Trust Agreement**: See Indenture/Bond Resolution/Trust Agreement.

**Trustee**: Financial institution, with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the Trust Agreement or Indenture.

**Underwriter**: An investment banking firm which, singly or as a member of an underwriting group or syndicate, agrees to purchase a new issue of bonds from an issuer for resale and distribution to investors. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of competitive sale.

**Variable Rate**: An interest rate which periodically changes based upon an index or pricing procedure. Variable-rate bonds generally have a “demand” feature allowing the bondholder to demand that the issuer or another party repurchases the bond upon a specified number of days’ notice or at certain times which reflect the intervals at which the rate varies.

**Yield**: In general, rate of return on bonds or on any capital investment. Technically, yield is the discount rate which makes the present value of all future streams of payments equal to the present value.