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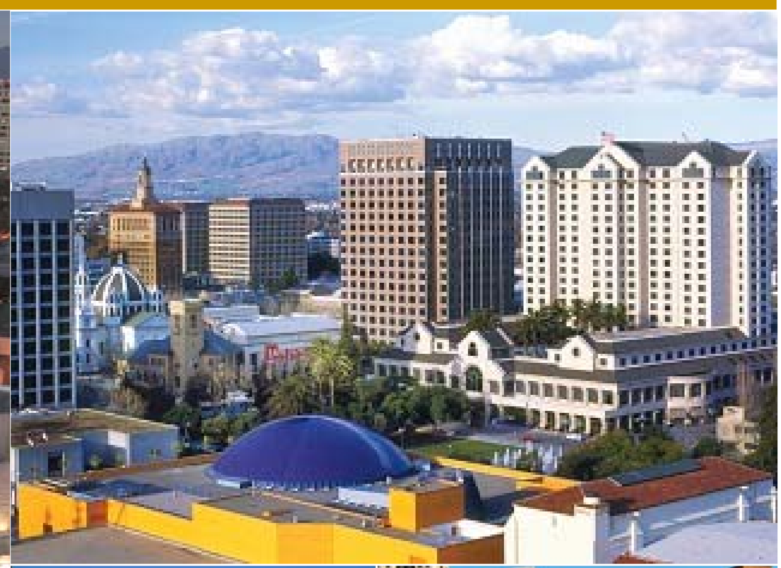
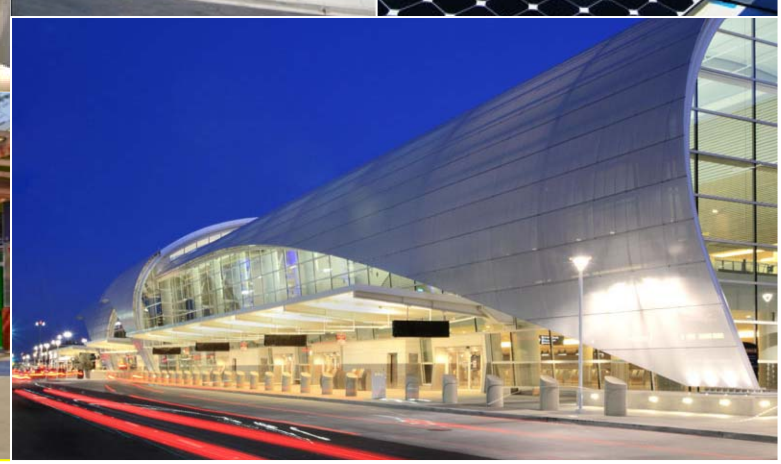
CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

2010 Comprehensive Annual Debt Report

Fiscal Year Ended June 30, 2010

San José, California





CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José
California

19th Comprehensive Annual Debt Report

Fiscal Year Ended June 30, 2010

Prepared by
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Treasury Division

Scott P. Johnson
Director of Finance

19^{th} Comprehensive Annual Debt Report
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Special Assistance – Departments and Offices

City Attorney's Office
City Manager's Office
Environmental Services Department
Fire Department
Housing Department
Library Department
Norman Y. Mineta San José International Airport
Parks, Recreation & Neighborhood Services Department
Police Department
Public Works Department
Redevelopment Agency
Transportation Department

CITY OF SAN JOSE
COMPREHENSIVE ANNUAL DEBT REPORT
FISCAL YEAR 2009-10

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

November 23, 2010

HONORABLE MAYOR AND CITY COUNCIL

THE COMPREHENSIVE ANNUAL DEBT REPORT OF THE CITY OF SAN JOSE

I am pleased to present the 19th Comprehensive Annual Debt Report for the City of San José (the "Annual Debt Report") for the fiscal year ended June 30, 2010. 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 approved by the City Council on May 21, 2002. This Annual Debt Report covers FY 2009-10 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

The discussions of debt management activities in the Annual Debt Report only pertain to those activities managed by the City's Debt Management Program, while the section of the Annual Debt Report reviewing the City's outstanding debt portfolio includes all debt issued by the City of San José, City of San José Financing Authority, Redevelopment Agency, Clean Water Financing Authority and other financing authorities of which the City is a member.

The Debt Management Program is responsible for managing the debt issuance process for all external borrowings in which the City participates, including the issuance and management of tax increment debt for the Housing Department's Affordable Housing Program. It should be noted that debt issued by the Redevelopment Agency is administered separately by Redevelopment Agency staff.

In addition to the activities and programs described above, the Annual Debt Report also 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

As illustrated in the graph on page 1, FY 2009-10 activities reflected debt issuance totaling over $310 million, including the issuance of eight (8) series of bonds and commercial paper notes.

The City continues to receive the highest general credit ratings from all three national rating agencies of any large city with a population over 250,000 in California despite the difficult financial and economic conditions the national and local economy has been faced with. In August 2010 Standard & Poor's ("S&P") reaffirmed the City's general credit rating of AAA and as part of an overall recalibration of their ratings to a global scale, both Moody's and Fitch revised the City's underlying rating to Aaa and AAA respectively. As the rating agencies confirm the City's credit ratings, they consistently cite the City's strong unreserved fund balances and the City's resolute response to its budget challenges.

In addition to providing debt issuance services, a significant amount of Debt Management staff resources have been devoted to providing financial advisory services to numerous City-wide projects during FY 2009-10. These projects include the following:

- The evaluation of Pension Obligation Bonds;
- Financial evaluation and modeling of Redevelopment Agency Budget;
- Financial analysis associated with the prepayment of annual employer retirement contributions;
- Renewals of letters of credit for the City's variable rate debt programs;
- Financial analysis associated with procuring a power purchase agreement for a 1.3 megawatt solar system at the Central Service Yard, the 50 megawatt renewal energy project, clean and renewable energy bonds and qualified energy conservation bonds;
- Development and implementation of a loan to the Redevelopment Agency to fund the Agency's Supplemental Education Revenue Augmentation Fund ("SERAF") obligation;
- Analysis and recommendations to City Council on the plan of action for the Proposition 1A securitization project;
- Financial modeling for the financing plan for the convention center expansion;
- Inactive improvement district close-out;
- Evaluation of the financial feasibility of development proposals for the Airport West Property; and
- Various projects related to multi-family housing.

The Debt Management Program work plan for FY 2010-11 anticipates continued opportunities and challenges for the City and Redevelopment Agency with total debt issuance estimated at approximately $357 million, including six (6) series of bonds and commercial paper notes. This activity is in addition to administration of an existing debt portfolio of over $5.8 billion outstanding as of June 30, 2010, consisting of 120 series of bonds for the City, Redevelopment Agency, and related entities. In addition to the debt anticipated to be issued during FY 2010-11, other projects underway include, but are not limited to: continued financial modeling of the Redevelopment Agency's financial condition, review of strategies to prepay the City's annual employer retirement contributions, continued administration of the SERAF loan to the Agency, development of Airport West Property, letter of credit renewals for the City's variable-rate debt programs, financing plans for the convention center expansion project, County of Santa Clara's 911 emergency medical response request for proposals, and the 50 megawatt renewable energy project.

THE "DECADE OF INVESTMENT"

At the end of FY 2009-10, the City has largely completed its "Decade of Investment". The City's capital investments planned over the next five years are well below levels experienced in recent years, but remain significant, with an Adopted 2010-2011 Capital Budget and the 2011-2015 Capital Improvement Program (CIP) of $918 million and $1.7 billion respectively. Specific debt-financed capital investments anticipated for 2010-11 include the final issuance of voter approved general obligation debt in early 2011 for the libraries and public safety programs, airport projects, and the convention center expansion project.

In addition to providing funds for the City's CIP projects, the City also provides financing through 20% Housing Set-Aside funds and other restricted funds to support an affordable housing program. Debt Management staff continues to be a key partner with the Housing Department in providing viable financing plans to facilitate delivery of these necessary affordable housing units to the community.

ACKNOWLEDGMENTS

The preparation of this Annual Debt Report represents the culmination of a concerted team effort led by the Finance Department's Treasury Division Manager, Debt Administrator and Debt Management staff as well as special assistance and support from key departments and offices throughout the City. Of particular note is the on-going collaboration and support between the Finance Department and the City Attorney's Office. The support received from the City Attorney's Office on a continuing basis cannot be overlooked and is integral to the success of the City's Debt Management Program. In addition to this support, special recognition goes to the Debt Management

Team for their dedication in managing the daily operations of the 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 issue, as well as for the information they provide to the Debt Management staff for the on-going management and monitoring required of the City's outstanding debt portfolio. The role of the City's financial advisors and bond counsels should also be acknowledged as 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 are available through the Debt Management Program to provide capital facilities and affordable housing to the community.

Respectfully submitted,

SCOTT P. JOHNSON
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.

A. Debt Management Program

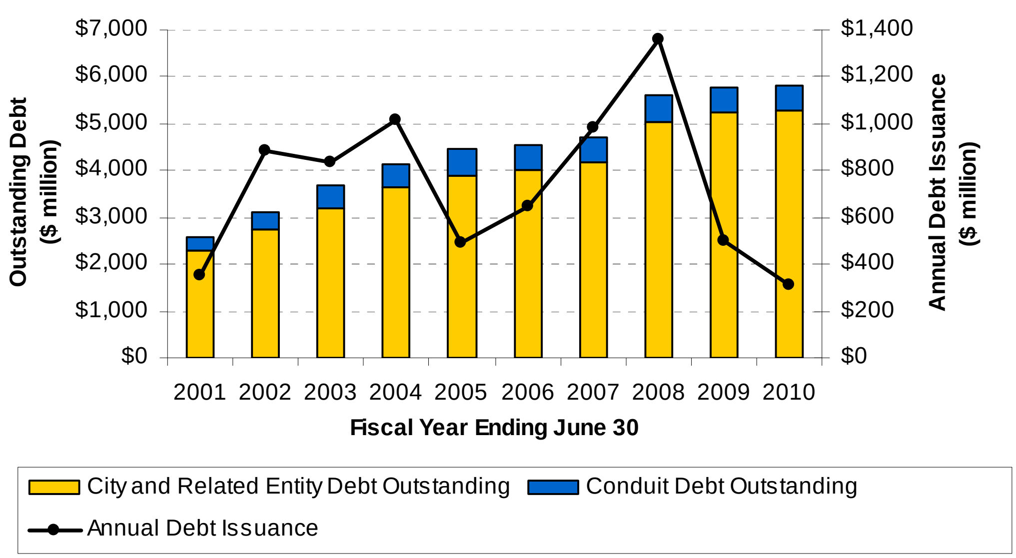
This section of the report provides an overview of debt issuance, debt administration and debt management projects for FY 2009-10 and projects that have been completed, are currently underway, or are planned for FY 2010-11.

1. Debt Issuance

The Debt Management Program, a section of the Treasury Division within the Finance Department, is responsible for managing the debt issuance process for all City borrowings. FY 2009-10 debt issuances totaled $310.2 million. This amount is composed of eight series of bonds in the amount of $196.6 million and total commercial paper note issuance of $113.6 million. The Debt Management Program work plan for FY 2010-11 includes total debt issuance of $357.5 million, composed of five series of bonds totaling $167.5 million, Tax and Revenue Anticipation Notes ("TRANs") totaling $75.0 million, and commercial paper notes of $115.0 million.

The graph below illustrates the size of the City's debt portfolio and the dollar volume of debt issued in each of the last ten years.

City Debt Portfolio and Debt Issuance History
FY 2000-01 through FY 2009-10



2. Debt Administration

After debt has been issued, the Debt Management Program is responsible for managing and 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 G. 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, the Debt Management Program serves in a financial advisory role to other City departments, and works on other projects as necessary.

a. Projects Completed During FY 2009-10

<u>Evaluation of Pension Obligation Bonds ("POBs")</u>: In the Mayor's March Budget Message, the City Manager was directed to identify the potential benefits and drawbacks of Pension Obligation Bonds. Debt Management staff worked with staff from the City Manager's Office and the Department of Retirement Services to provide a comprehensive analysis of POBs in the unique context of the City's two retirement plans. The City Manager reported the results of staff's analysis to the City Council at its meeting on May 10, 2010.

<u>Financial Modeling of Redevelopment Agency Budget</u>: Debt Management staff assisted the City Manager's Office and the Housing Department in evaluating the Redevelopment Agency's financial condition related to its ability to repay existing obligations to the City including a loan to finance the Redevelopment Agency's obligation to the Supplemental Education Revenue Augmentation Fund pursuant to state budget actions. The analysis included the development of a dynamic model of the Redevelopment Agency's Budget to rapidly assess different "what-if" scenarios.

<u>Prepayment of Annual Employer Retirement Contributions</u>: Debt Management staff worked as part of an interdepartmental team to analyze the most cost effective strategy to prepay the City's annual employer retirement contributions. The FY 2009-10 pre-payment required complex iterative calculations to contemplate alternative scenarios related to changes proposed for funding retirement contributions that were proposed as part of the City's ongoing labor negotiations.

<u>Renewals of Letters of Credit for Variable-Rate Programs</u>: The City's outstanding debt portfolio includes certain variable rate bonds and commercial paper notes that are secured by letters of credit issued by various banks. The letters of credit are drawn on by the trustee and/or issuing and paying agent when necessary to make payments of principal and/or interest on the outstanding debt and to provide liquidity support in the case of a failed remarketing. Debt Management staff successfully completed renewal of the letter

of credit supporting the City of San José Financing Authority's $116 million lease revenue commercial paper program, and began the negotiation process for the letters of credit supporting the Authority's $174 million in variable-rate bonds.

Power Purchase Agreement for Solar Photovoltaic System: Debt Management staff worked with Purchasing, Environmental Services and General Services to complete the negotiation of a power purchase agreement ("PPA") for the installation, operation, and maintenance of a 1.3 megawatt solar photovoltaic system at the Central Service Yard. Under the terms of the PPA, SunEdison is required to construct, operate, and maintain an approximately 125,532 sq. ft. solar power generation system consisting of a mixture of parking lot canopies and roof installation with photovoltaic arrays, in exchange for the City's payments for the power produced at the rate of $0.16 per kilowatt hour and escalated at 4% per annum. SunEdison will own the system throughout the term of the PPA. The system's generation capacity is estimated to meet 75% - 80% of the electrical power requirements of the Central Service Yard.

Clean and Renewable Energy Bonds: Debt Management staff worked with the Environmental Services Department in evaluating the Clean and Renewable Energy Bonds ("CREBs") program for financing the installation of a solar energy system at the Fowler Pump Station. Pursuant to the American Recovery and Reinvestment Act of 2009 and the Energy Improvement Extension Act of 2009, an allocation of $2.4 billion in tax credit volume cap was authorized nationally to provide low-interest financing to qualified issuers for renewable energy projects. An allocation for the Fowler Pump Station solar project in the amount of $2 million was awarded to the City on October 23, 2009.

Qualified Energy Conservation Bonds: Debt Management staff worked with the Environmental Services Department in evaluating the Qualified Energy Conservation Bonds ("QECBs") program for financing renewable energy and energy efficiency projects. Pursuant to the American Recovery and Reinvestment Act of 2009 and the Energy Improvement Extension Act of 2009, an allocation of $3.2 billion in tax credit volume cap was authorized nationally to provide low-interest financing to qualified issuers for qualified renewable energy and energy efficiency projects. An allocation totaling $9.8 million in QECB tax credits was awarded to the City.

Redevelopment Agency Supplemental Education Revenue Augmentation Fund ("SERAF") Payments: In July 2009 the State Legislature adopted, and the Governor signed, Assembly Bill No. 26x4, which mandated redevelopment agencies in the State make deposits to the SERAF accounts established in each State county treasury with deposits totaling $1.7 billion for FY 2009-10 and $350 million for FY 2010-11. The Agency was informed by the State Director of Finance that the total payable by May 10, 2010 was $62.2 million and the Agency has estimated that the total amount payable by May 10, 2011 will be $12.8 million.

Debt Management staff led the structuring, negotiation and implementation of the SERAF Loan with initial principal of $75 million to enable the Agency to make the SERAF payments to the State. The SERAF Loan was funded from the following sources:

- A total of $65 million from the Low and Moderate Income Housing Fund. The proceeds of two financing transactions were used to support various affordable housing projects and programs which freed up a corresponding amount in the Low and Moderate Housing Income Fund to be loaned to the Agency: (1) $40 million from the issuance of Housing Set-Aside Tax Increment Allocation Bonds (the General Fund is not liable for this portion of the SERAF Loan); and (2) $25 million initial principal from proceeds of City of San José Financing Authority Lease Revenue Commercial Paper Notes. Under the SERAF Loan Agreement, the Agency has the option to make interest payments on an ongoing basis, or to pay accrued interest upon final payment of the SERAF Loan in FY 2015-16. If, as expected, the Agency elects to pay the accrued interest with its repayment of the outstanding principal of the SERAF Loan in FY 2015-16, the outstanding principal amount is projected to increase from $25 million to approximately $35 million by FY 2015-16. This is a General Fund backed program and therefore, to the extent that the Commercial Paper Notes are required to be redeemed for any reason, and the Agency is unable to repay the portion of the SERAF Loan funded from the Commercial Paper Notes, and the Housing Fund is unable to repay, then the General Fund or any other legally available fund would be required to make the necessary payment.

- $10 million from the fund balances of various capital funds (Subdivision Park Trust Fund; Sewage Treatment Plant Connection Fee Fund; Ice Centre Revenue Fund). To the extent that those special capital funds require replenishment at any time due to the capital needs of the respective programs, and the Agency is unable to repay the Loan in whole or in part, the General Fund or any other legally available fund would be required to make the necessary payment.

<u>Proposition 1A Securitization</u>: In accordance with the California Constitution (enacted by Proposition 1A), the 2009-2010 California State Budget ("State Budget") suspended the prohibition on the Legislature from modifying the apportionment of property taxes. Per the State Budget, local governments were required to lend 8% of property tax revenues to the State. The State is required to repay the loan with interest by June 2013. As part of the State Budget package, various statutes were amended in order to provide local governments with the opportunity to receive 100% of the monies being borrowed by the State upfront through a securitization financing. The California Statewide Communities Development Authority (the "CSCDA") managed the Proposition 1A Securitization program to local governments. Debt Management staff led the City's participation in the Proposition 1A Securitization Program and secured the City's receipt of the full amount of approximately $20 million in property tax revenues loaned to the State in FY 2009-10.

<u>Convention Center Expansion</u>: Debt Management staff worked with the City Manager's Office, Redevelopment Agency, and the City Attorney's Office in the formation of a Convention Center Facilities District to fund capital improvements to and expansion of the Convention Center. Debt Management staff worked with the City Attorney's Office on the lawsuit filed to validate the special tax. Additionally, with the elimination of the

Agency's capital participation in the project, staff developed various financing plan alternatives that were presented to the City Council in February 2010.

Inactive Improvement District Close-out: The City currently has 51 expired special assessment districts (the "Districts") with remaining fund balances where the bonds have been repaid or refunded between 1989 and 2005. Debt Management staff worked with the Public Works Department and the City Attorney's Office to review and analyze all related records and prepared a detailed summary of each of the expired districts with the recommended close-out plan that was brought forward for the City Council's approval in May 2010. Disbursement of funds will commence in FY 2010-11.

Multifamily Housing Underwriter Pool: Debt Management staff conducted a Request for Proposals ("RFP") process to establish a pool of underwriters and remarketing agents for multifamily housing revenue bond transactions. Selected firms will assist the City in structuring and marketing publicly offered housing bonds for the duration of the pool, which will be in effect until June 30, 2012.

Airport West Property Line Adjustment: Debt Management staff worked with the City Manager's Office and the City Attorney's Office to facilitate a lot line adjustment of the Airport West property with an adjacent property. The property is located on 1125 Coleman Avenue, and consists of 74.88 acres of real property located in the City of San José and City of Santa Clara, and the County of Santa Clara. The adjustment straightens the property line to accommodate future development on the site.

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 2009-10, the Finance Department held hearings for four projects.

Finance Director's TEFRA Hearings for Multifamily Housing Projects
FY 2009-10

Date	Project	Amount	Issuer
07/06/2009	Orvieto Family Apartments[1]	16,500,000	City of San José
06/01/2010	North Fourth Street Family Apartments[2]	26,775,000	City of San José
06/01/2010	Orvieto Family Apartments[2]	14,200,000	City of San José
06/01/2010	Kings Crossing Apartments[2]	25,380,000	City of San José
06/15/2010	Belovida at Newbury Park Senior Apartments[2]	28,235,000	California Housing Finance Agency

[1] The TEFRA hearing on 7/6/2009 is the second hearing for Orvieto Family Apartments project to reflect a new developer/owner.
[2] TEFRA hearings for the project were previously held, however a TEFRA hearing is only valid for one year from the date of the hearing. In order to continue with the financing process, an additional TEFRA hearing was held.

b. Projects for FY 2010-11

Financial Modeling of Redevelopment Agency Budget: Debt Management staff will continue to work with the City Manager's Office and the Housing Department in evaluating the Redevelopment Agency's financial condition related to its ability to repay existing obligations to the City including the SERAF loan. The analysis will include updates and further enhancements to a dynamic model of the Redevelopment Agency's Budget that allows for rapid "what-if" scenario analysis.

Prepayment of Annual Employer Retirement Contributions: Debt Management staff will work as part of an interdepartmental team to analyze the most cost effective strategy to prepay the City's annual employer retirement contributions. Similar to the FY 2010-11 prepayment, labor negotiations that will be conducted in Spring 2011 may impact the City's contributions for retirement benefits and, by extension, the amount that the City will need to be prepay for those benefits.

Redevelopment Agency Supplemental Education Revenue Augmentation Fund Payments: As mentioned in the prior section, Debt Management staff led the structuring, negotiation, and implementation of a SERAF loan from the City to the Redevelopment Agency to enable the Agency to make the state mandated SERAF payments to the County of Santa Clara. Debt Management staff will continue the administration, monitoring and implementation of the SERAF loan until the initial principal and accrued interest and fees are fully repaid by the Redevelopment Agency.

Development of Airport West Property: Debt Management staff will continue to work with the City Manager's Office and the City Attorney's Office to assess the feasibility of development proposals for the Airport West Property.

Renewals of Letters of Credit/Direct Placement for Variable Rate Programs: The City's outstanding debt portfolio, as described in Section IV, includes certain variable rate bonds and commercial paper notes that are secured by letters of credit issued by various banks. The letters of credit are drawn on by the trustee and/or issuing and paying agent when necessary to make payments of principal and/or interest on the outstanding debt and to provide liquidity support in the case of a failed remarketing. The City currently has approximately $1 billion in letters of credit and direct placement variable rate bonds from various banks supporting sixteen series of variable rate bonds and commercial paper notes with various expiration dates as outlined in the table below.

Summary of Letters of Credit/Direct Placement Banks[1]
As of November 2010

Bond Series	Project Description	Bank	Amount	Expiration Date
Airport Commercial Paper Series ABC	Airport Terminal Area Improvement Program	JP Morgan/Bank of America/Dexia	$450,000,000	2/2/2011
Airport Commercial Paper Series DEF	Airport Terminal Area Improvement Program	Lloyds	140,000,000	5/7/2011
City of San José Lease Revenue Bonds Series 2008F	Airport West acquisition	Bank of America	67,195,000	6/11/2011
City of San José Financing Authority Commercial Paper	Various City projects	State Street/CalSTRS	116,000,000	1/27/2013
RDA HSA TAB 2010C *(Direct Placement Variable Rate Bonds)*	Affordable housing	Wells Fargo Bank	93,000,000	4/29/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008A	Civic Center	Union Bank	56,920,000	10/21/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008B	Civic Center Garage	Bank of America/Union Bank	35,280,000	10/21/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008CD	Hayes Mansion	US Bank	55,995,000	10/21/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008E	Ice Centre	Bank of America/Union Bank	26,025,000	10/21/2013
Total			**$1,040,415,000**	

[1] Excludes the Redevelopment Agency's $100 million letter of credit from JP Morgan for the 1996AB and 2003AB Merged Area Tax Allocation Bonds.

The ongoing management and administration of the letter of credit facilities presents a very significant work effort for the Debt Management staff and the City Attorney's Office. Due to the continued weakness in the financial markets and tightening of bank credit availability, the negotiating process for securing renewals and/or new letter of credit facilities has become increasingly difficult in recent years.

In the first half of FY 2010-11, Debt Management staff successfully negotiated the renewal and replacement of $174 million in letters of credit for the Lease Revenue Bonds Series A-E for the Civic Center, Civic Center Garage, Hayes Mansion and Ice Centre projects, extending the expiration date for an additional 3 years to October 21, 2013. Staff is currently negotiating for the renewal and/or replacement of the letters of credit supporting the $450 million Airport Commercial Paper Program (Series ABC). In the second half of FY 2010-11, staff will begin the process to renew or restructure the letters of credit supporting the $140 million Airport Commercial Paper Program (Series DEF) and the $67 million Lease Revenue Bonds Series 2008F for the Airport West project.

It is very important to acknowledge the continued significance of the City's relationships with our various banking partners as we maintain a complex financial portfolio. Without full access to these banking services, the City would be placed in a very difficult fiscal challenge and such actions would pose significant risks to the City's budget situation and overall financial structure. It is in the City's best interest to maintain a strong long-term relationship with lending institutions and encourage new relationships with lending institutions that partner with us to bring new programs and projects to the San José community.

<u>Convention Center Facilities District</u>: The court validation process of a Convention Center Facilities District special tax is expected to be concluded in FY 2010-11. Debt Management staff continues to work with the City Manager's Office, Public Works, and the City Attorney's Office on the plan of finance for the Convention Center renovation and expansion project. Additionally, staff will monitor the collection of special tax revenues from hotel properties citywide and manage the securitization of the special tax revenues to pay for a portion of the Convention Center renovation and expansion project. Bonds are expected to be issued in early 2011.

<u>County 911 Emergency Medical Response RFP</u>: Debt Management staff will continue to advise the City Manager's Office and the Fire Department on the Santa Clara County RFP for County-wide 911 ambulance services. Santa Clara County currently uses a two-tier advanced life support ("ALS") emergency response model with fire departments providing ALS First Responder Services and a County ambulance contractor providing ALS transport services. ALS First Responders are contractually obligated to arrive on scene within eight minutes for 90% of all EMS service requests. County contracted ambulances are contractually obligated to arrive on scene within 12 minutes for 90% of all EMS service requests, with the exception of the City of Palo Alto.

The City of San José Fire Department began providing ALS First Responder service in August 1995. Since initiating its ALS service, the City has received reimbursement for a portion of the cost of the service by the County of Santa Clara's 911 ambulance contractor. The City's current certified costs for its ALS First Responder Services are $4,803,616 and reimbursements received from the current county ambulance contractor are $1,768,874. The City desires to recover a larger percentage of the cost of its first responder ALS program as well as obtain additional revenues through a strategic partnership with the successful bidder for the County's RFP for 911 services.

50 MW Renewable Energy Project: Debt Management staff will continue to assist the Environmental Services Department in the citywide project to install up to 50 megawatts of renewable energy systems on City facilities and/or lands.

TEFRA Hearings: As noted above, 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 following TEFRA Hearings have been held by the City in the first half of FY 2010-11:

- SunPower Corporate Headquarters Expansion - Debt Management staff collaborated with the City Manager's Office to conduct a TEFRA hearing for SunPower to secure $30 million in funding from the California Enterprise Development Authority. This financing will allow SunPower to expand its headquarters facility in San José.
- Lincoln Glen Manor for Senior Citizens Project - Debt Management staff processed the request of California Municipal Financing Authority ("CMFA") for the City Council to hold a TEFRA hearing for CMFA's proposed issuance of tax-exempt conduit bonds for the benefit of Lincoln Glen Manor for Senior Citizens, a nonprofit public benefit corporation. CMFA plans to issue up to $14,000,000 of tax-exempt conduit bonds to refund certain existing debt and finance the conversion, expansion, remodeling and updating of certain facilities located at the Corporation's multi-level facility for the elderly at 2671 Plummer Avenue, San José, CA, to be owned and operated by the Corporation.

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, 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 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. As outlined in the Debt Management Policy, it is to be reviewed annually by the Finance Department to ensure its consistency with respect to the City's debt management objectives. The annual review has been conducted and no substantive amendments or changes to the Debt Management Policy (Appendix A) are recommended at this time.

2. Policy for the Issuance of Multifamily Housing Revenue Bonds

In addition to the general Debt Management Policy, the 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.

The Housing Policy specifies that the bonds for any project that utilizes City funds must be issued by the City. In FY 2009-10, $36.2 million in new money multifamily housing revenue bonds were issued by the City of San José.

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. This review involves an examination of results of operations, including a review of the actual fiscal performance versus planned budget performance, with deviations from the plan to be explained. The general fund financial statement is 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. The early production of the City's Comprehensive Annual Financial Report is a positive step in providing meaningful, valuable, and timely information to rating agencies.

b. Economic Factors

The overall economic strength of the City is heavily weighted in the evaluation of the City's creditworthiness by diversity of both the economic base and tax base. The diversity of the City's industries reflects its ability to weather industry-specific downturns as well as general economic recession. In either scenario, stronger surviving industries carry the ailing industries through the period of downturn. In a truly diverse economy, it is rare that all industries will deteriorate to the same level at the same time.

The strength of the City's tax base is equally crucial. The City relies on taxes collected from residents and businesses for the majority of its revenues. The ability of the City to continue to receive those revenues is directly related to the ability of its taxpayers to pay their taxes. Property values, employment, unemployment, income levels, costs of living, and other factors impacting the wealth of the taxpayers provide an indication of the strength of the City's tax base.

c. Debt Factors

The City's overall debt burden is considered in the credit analysis process. In addition to government-regulated debt ceilings, the City's 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

These factors include the examination of the form of government and assessment of the City's ability to implement plans as well as to fulfill legal requirements. The focus is on the capabilities of management staff within the City, which is seen as a vital ingredient in assessing its credit quality. Managerial and legislative willingness to make difficult decisions, 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, and enterprise debt are summarized in Appendix C. A brief overview of the City's current ratings is provided in the section below.

<u>General Credit Rating</u>

Currently the City is in an enviable position as a "pure AAA" credit, the highest rating possible. Among all California cities with a population greater than 250,000, San José is the only one to have achieved this recognition of credit strength.

In Spring 2010, Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") recalibrated their ratings of U.S. municipal bond issues and issuers from municipal-specific rating scale to a global rating scale. As a part of the recalibration project, Moody's recalibrated the City's general credit rating from "Aa1" to "Aaa" and Fitch revised the City's general credit rating from "AA+" to "AAA" in April 2010.

In July and August 2010, both Fitch and Standard & Poor's ("S&P") respectively affirmed the City's general credit rating of AAA, the highest level. S&P also affirmed its AA+ rating for the City's lease revenue bonds, the second highest level. In making these determinations, both S&P and Fitch cited the above-average levels of wealth, income, and education that prevail in Silicon Valley, as well as strong unreserved fund balance levels. S&P further noted *"…management's demonstrated commitment to a strong financial position…"*, and labeled the City's financial management policies as "strong" in its Financial Management Assessment. This designation describes S&P's view that the City practices are *"…well embedded, and likely sustainable*."

Airport Credit Rating

In September 2009, Fitch downgraded the underlying rating of the City's Airport Revenue Bonds from "A+" to "A-", with a continued negative outlook. In its explanation for the downgrade, Fitch cited continued lower activity levels at the Airport, limited air service offerings, as well as significantly higher debt service costs. The increase in debt service was the result of additional bonds issued to complete the Airport's Terminal Area Improvement Program ("TAIP"). With the completion of the TAIP, debt service is anticipated to increase considerably. The underlying credit ratings from Moody's and S&P remain unchanged at A2 and A, respectively

3. Legal Debt Margins

Section 1216 of the San José City Charter limits outstanding general obligation bonds of the City to 15% of the total assessed value of all real and personal property within the City limits ("debt limit"). General obligation debt is debt secured by the City's property tax revenues. As of June 30, 2010, the total assessed value of taxable property was $127.1 billion, which results in a total debt capacity of approximately $19.1 billion (total assessed value x 15% = debt limit). As of June 30, 2010, the City had approximately $500.0 million in general obligation debt outstanding, representing 0.39% of the assessed value of taxable property; therefore the City's debt margin was $18.6 billion (debt limit less outstanding general obligation debt).

D. Legislative and Regulatory Issues

Debt Management reviews legislative referrals at the request of the Office of Intergovernmental Relations. It is important that bills bearing on the City's ability to access the capital markets are tracked through the legislative process to ensure that the City's position is expressed to members of the State Legislature or Congress. Various Federal tax reform legislation proposals are periodically considered and debated, such as the taxability of corporate dividends, flat tax, and elimination of tax exemption on municipal bonds. These proposals, if enacted, could result in higher borrowing costs for the City.

It is also important for the City to 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"), the National Association of State Auditors, Comptrollers and Treasurers ("NASACT"), and the Government Finance Officers Association ("GFOA").

The Director of Finance is president-elect of the California Society of Municipal Finance Officers ("CSMFO"), a professional organization that actively engages in strategic legislative initiatives to ensure the protection of local revenue raising, collecting and securitization abilities, and promotes professional administration of government finance.

The Assistant Director of Finance was elected to the GFOA Executive Board and actively participates in several task forces and working groups to review pending federal legislation and regulations, which impact the ability of the City to issue and administer tax-exempt debt. Current work includes comments on proposed changes to SEC Rule 15c2-12 and potential changes to federal law regarding municipal securities regulations.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

II. DEBT ISSUANCE

A. Debt Issued During FY 2009-10

FY 2009-10 debt issuances totaled over $310.2 million. This amount is composed of $107.4 million in refunding bonds, $53 million to fund new projects, commercial paper note issuance of $113.6 million, and affordable housing conduit debt issuance of $36.2 million. These financings are described below and are presented in the summary table at the end of this section.

Redevelopment Agency of the City of San José Housing Set-Aside Tax Allocation Bonds, Series 2010A, Series 2010B, and 2010C

On April 28, 2010, the City issued three series of housing set-aside tax allocation bonds in an amount of $160.4 million. The proceeds of the Series 2010A (tax-exempt) and Series 2010B (taxable) bonds were used to refinance the outstanding Series 2005C and Series 2005D Housing Set-Aside Tax Allocation Bonds and cash fund the reserve fund. The bond proceeds of the 2010C (variable-rate taxable) bonds were used to repay an existing term loan with the Bank of New York, make $40 million of housing set-aside funds available for a loan to the San José Redevelopment Agency (the "SJRA") to pay a portion of the SJRA's State mandated SERAF obligation, and fund affordable housing projects.

City of San José Financing Authority Lease Revenue Commercial Paper Notes

On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed $98 million. This commercial paper program was established as a mechanism for financing 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. On November 9, 2004, the City Council and the Authority authorized use of the commercial paper program to finance the acquisition of the City's consolidated utility billing system.

Subsequently, on June 21, 2005, the City Council and the City of San José Financing Authority Board each adopted a resolution authorizing the issuance of taxable lease revenue commercial paper notes, under the same $98 million not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable commercial paper notes to pay for expenses otherwise authorized under the commercial paper program, but ineligible to be paid from tax-exempt commercial paper proceeds.

On November 15, 2005, the City Council and the City of San José Financing Authority Board each adopted a resolution expanding the capacity of the lease revenue commercial paper program from $98 million to $116 million and authorizing the issuance of commercial paper 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.

On May 22, 2007, the City Council and the City of San José Financing Authority Board each adopted a resolution authorizing the issuance of lease revenue commercial paper notes to pay for capital improvements at the City's HP Pavilion.

On October 21, 2008, the City Council and the City of San José Financing Authority Board each adopted a resolution authorizing the issuance of lease revenue commercial paper 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.

On November 23, 2009 the City of San José and the City of San José Financing Authority Board adopted a resolution authorizing staff to amend and renew the letter of credit agreement supporting the lease revenue commercial paper notes. This agreement was subsequently renewed and became effective December 1, 2009.

On April 20, 2010, the City of San José and the City of San José Financing Authority Board adopted a resolution authorizing the issuance of lease revenue commercial paper notes to fund a loan to low and moderate income housing fund and to fund short-term cash flow needs of the City.

Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and additionally secured by a direct-pay letter of credit provided by State Street Bank and Trust Company and the California State Teachers' Retirement System ("CalSTRS").

During FY 2009-10, the Authority issued $14.7 million in commercial paper notes to pay for projects costs including a loan to the low and moderate income fund ($12.9 million), and technology, furniture & equipment ($1.0 million), and other associated costs. Also, during FY 2009-10, the Authority redeemed commercial paper notes issued for the HP Pavilion project in the amount of $1.7 million and $7.1 million for technology, furniture and equipment for City Hall, and the consolidated utility billing system projects.

On June 30, 2010, $34,302,000 of tax-exempt commercial paper notes were outstanding at an interest rate of 0.37%, and $19,228,000 of taxable commercial paper notes were outstanding at rates of 0.40% and 0.45%.

City of San José, California, San José International Airport Subordinated Commercial Paper Notes

On November 2, 1999, the City Council adopted a resolution authorizing the issuance of City of San José, San José International Airport subordinated commercial paper notes in three series (Series A - Tax-Exempt, Series B - Subject to the AMT, Series C - Taxable) in an aggregate amount not to exceed $100 million. The Airport commercial paper program was established to provide an interim source of financing for the initial capital projects in the Airport Master Plan until a permanent financing plan was finalized and implemented. Subsequently, on April 1, 2003, the City Council authorized the use of the Airport commercial paper program to fund costs associated with implementation of the requirements under the federal Aviation and Transportation Security Act ("ATSA").

On June 20, 2006, the City Council approved an expansion of the Airport commercial paper 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 re-phased Airport Master Plan projects. On January 9, 2007, the City Council approved an additional expansion from $200 million to $450 million for the same purpose.

On March 25, 2008, the City Council approved an expansion of the Airport commercial paper program from $450 million to $600 million to provide sufficient capacity to refund the City's outstanding Airport Revenue Bonds (Auction Rate Securities), Series 2004A and Series 2004B. This expansion resulted in three additional series of commercial paper notes (Series D – Tax-Exempt, Series E – Subject to AMT, Series F – Taxable) in an amount not to exceed $150 million.

On September 1, 2009, the City 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 redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity).

The City has invested approximately $1.3 billion in Airport's Terminal Area Improvement Program over the last four years. Various Airport Master Plan projects over the last several years were focused on completion of the North Concourse Projects as well as the implementation of a Terminal Area Improvement Program ("TAIP") which is scheduled to be completed in two phases. The first phase includes, but is not limited to, a new Terminal B, upgrades for the existing Terminal A and improvements to the roadway system, and a new consolidated rental car and public parking garage. Some of the Phase 1 major milestones reached as of June 2010 include the completion and opening of six levels of the consolidated rental car garage, the opening of the new Terminal B and the renovation of Terminal A. The second phase of the TAIP includes an expansion of Terminal B and construction of a new South Concourse facility, adding a total of 12 gates. Construction of the second phase of the TAIP is contingent on meeting certain business activity triggers.

Under the Airport Commercial Paper program, the City is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The Series A-1, Series A-2, Series B, and Series C Notes are secured by a subordinate pledge of the Airport's revenues and additionally secured by the $450 million direct-pay letters of credit issued on a several and not joint basis by JPMorgan Chase Bank, Bank of

America, and Dexia Credit Local. These LOCs were set to expire on December 2, 2010. Staff negotiated an extension of the LOCs with JPMorgan Chase Bank and Bank of America to February 2, 2011 to ensure sufficient time to complete the RFP process to renew these LOCs. Dexia Credit Local did not participate in the two month extension to February 2, 2011 and has been removed from the program. Staff recommendations associated with the RFP process will be presented to Council in January 2011. The Series D-1, Series D-2, Series E, and Series F Notes are secured by a subordinate pledge of the Airport's revenues and additionally secured by a $140 million direct-pay letter of credit issued by Lloyds TSB Bank plc. This LOC is scheduled to expire on May 7, 2011.

During FY 2009-10, no Series D or Series E Notes were issued or outstanding. During FY 2009-10, the City issued $15,205,000 of Series A-2 Notes, $3,540,000 of Series B Notes, $22,191,000 of Series C Notes, and $57,951,000 of Series F Notes. Also during FY 2009-10, the City redeemed $5,100,000 of Series B Notes.

On June 30, 2010, $15,205,000 of Series A-2 Notes were outstanding at interest rates ranging from 0.32% to 0.34%, $148,771,000 of Series B Notes were outstanding at interest rates ranging from 0.36% to 0.38%, $115,491,000 of Series C commercial paper notes were outstanding at interest rates ranging from 0.40% to 0.60%, and $137,881,000 of Series F Notes were outstanding at an interest rate of 0.39%.

Multifamily Housing Revenue Bonds

Federal tax law limits the amount of tax-exempt private activity debt that may be issued. 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 financings for the following projects.

Multifamily Housing Revenue Bonds Issuance Summary
FY 2009-10

Project Name	Date Issued	Amount Issued	Affordable Units
Brookwood Terrace Family Apartments	12/23/2009	$ 13,200,000	83
Fourth Street Apartments	06/04/2010	23,000,000	99
Totals		$ 36,200,000	182

Summary of Debt Issued During FY 2009-10

The table on the following page presents a summary of debt issued in FY 2009-10.

Summary of Debt Issuance
FY 2009-10

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter/Private Placement	Credit Enhancement
12/23/2009	CSJ 2009B-1 Brookwood Terrace	$7.8	Multifamily Housing	Private Placement	Ross Financial	Quint & Thimmig	US Treasury	N/A
12/23/2009	CSJ 2009B-2 Brookwood Terrace	5.4	Multifamily Housing	Negotiated	Ross Financial	Quint & Thimmig	RBC Capital Markets Corp	JP Morgan
04/29/2010	RDA 2010A-1 Housing Set-Aside Tax Allocation	54.1	Tax Allocation	Negotiated	Ross Financial	Hawkins, Delafield & Wood	Stone & Youngberg/Banc of America Merrill Lynch	N/A
04/29/2010	RDA 2010A-2 Housing Set-Aside Tax Allocation	2.6	Tax Allocation	Negotiated	Ross Financial	Hawkins, Delafield & Wood	Stone & Youngberg/Banc of America Merrill Lynch	N/A
04/29/2010	RDA 2010B Housing Set-Aside Tax Allocation	10.7	Tax Allocation	Negotiated	Ross Financial	Hawkins, Delafield & Wood	Stone & Youngberg/Banc of America Merrill Lynch	N/A
04/29/2010	RDA 2010C Housing Set-Aside Tax Allocation	93.0	Tax Allocation	Private Placement	Ross Financial	Hawkins, Delafield & Wood	Wells Fargo Bank	N/A
06/04/2010	CSJ 2010A-1 Fourth Street	5.6	Multifamily Housing	Private Placement	CSG Advisors	Jones Hall	US Bank	N/A
06/04/2010	CSJ 2010A-2 Fourth Street	17.4	Multifamily Housing	Private Placement	CSG Advisors	Jones Hall	US Bank	N/A
Various	CSJFA Lease Revenue Commercial Paper	14.7	Lease Revenue Commercial Paper	N/A	Public Resources Advisory Group	Jones Hall	Barclays Capital	State Street /CalSTRS
Various	CSJ Airport Commercial Paper	98.9	Airport Commercial Paper	N/A	PFM/ Public Resources Advisory Group	Orrick, Herrington & Sutcliffe	Barclays Capital/Citi /Morgan Stanley	JP Morgan/ Bank of America /Dexia/Lloyds TSB
Total		**$310.2**						

Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority; RDA-Redevelopment Agency of the City of San José.

B. Debt Planned for FY 2010-11

The Debt Management Program anticipates debt issuance in FY 2010-11 of approximately $357.5 million; composed of an estimated five series of bonds totaling $167.5 million and commercial paper note issuance of $115.0 million. In addition, early in 2010-11, the City issued a Tax and Revenue Anticipation Note ("TRAN") in July of this year totaling $75.0 million to accommodate cash flow needs, largely associated with the annual prefunding of retirement contributions. These financings are briefly described below and are presented in the summary table at the end of this section. 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 2010 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. The Initial Note Portion of $40 million was purchased by JPMorgan Chase Bank, N.A., on July 1, 2010. At the City's discretion, additional borrowings may occur under the terms of the 2010 Note and the Note Purchase Agreement; specifically, at any time up to the Commitment Termination Date of June 30, 2011 and up to the Unutilized Commitment amount of $35 million. On October 8, 2010 a note portion of $35 million was purchased by JP Morgan Case Bank, N.A. Security for repayment of the 2010 Note is a pledge of the City's FY 2010-11 secured property tax revenues received on and after April 1, 2011 plus all other legally available General Fund revenues of the City, if required. The final maturity for the 2010 Note is June 30, 2011; however, staff anticipates that repayment of the 2010 Note will begin in January 2011 after the first half of secured property tax revenues is received from the County Auditor-Controller and General Fund cash balances begin to rise.

City of San José Convention Center Facilities District No. 2008-1

Subject to court validation of the special tax, the City anticipates issuing approximately $120 million of special tax and lease revenue bonds to finance the Convention Center renovation and expansion project. The bonds will be secured by special tax revenues paid by the owners of hotel parcels in Convention Center Facilities District No. 2008-1 and by a portion of the City's special transient occupancy tax, subject to annual appropriation by the City Council.

City of San José General Obligation Bonds, Series 2011 (Libraries and Public Safety Projects)

The City plans to issue $9,230,000 series of general obligation bonds in Spring 2011, which represents the remaining unissued authorization for libraries and public safety projects approved by voters in November 2000 and March 2002.

City of San José Financing Authority Lease Revenue Commercial Paper Notes

As described under "*Debt Issued During FY 2009-10,*" the City has an active Lease Revenue Commercial Paper Program. In FY 2010-11, staff anticipates that an additional $22 million of commercial paper notes will be issued to finance currently approved projects.

The Commercial Paper program is supported by a letter of credit from CALSTRs and State Street Bank. As noted in *"Projects for FY 2010-11"*, the ongoing management and administration of the letter of credit facilities presents a very significant work effort for the Debt Management staff and the City Attorney's Office. Due to the continued weakness in the financial markets and tightening of bank credit availability, the negotiating process for securing renewals and/or new letter of credit facilities has become more challenging in recent years.

City of San José, California, San José International Airport Subordinated Commercial Paper Notes

As described under "*Debt Issued During FY 2009-10*", the City has an active Airport Commercial Paper Program. In FY 2010-11, staff anticipates that an additional $93.0 million of commercial paper notes will be issued to finance currently approved projects as contemplated under the Airport Master Plan.

The Series A-1, Series A-2, Series B, and Series C Notes are secured by a subordinate pledge of the Airport's revenues and additionally secured by direct-pay letters of credit issued on a several and not joint basis by JPMorgan Chase Bank, Bank of America, and Dexia Credit Local. These LOCs are set to expire on December 2, 2010; staff is working on agreements with existing and new LOC providers. Several related Council actions are expected in November 2010 and January 2011. The Series D-1, Series D-2, Series E, and Series F Notes are secured by a subordinate pledge of the Airport's revenues and additionally secured by a direct-pay letter of credit issued by Lloyds TSB Bank plc. This LOC is scheduled to expire on May 7, 2011.

Multifamily Housing Revenue Bonds

The City submitted applications to CDLAC in Summer/Fall 2009. The following is a description of the projects that have received CDLAC allocations.

> ***Orvieto Family Apartments* –** This project was awarded an allocation of $16,500,000 at the CDLAC meeting on July 22, 2009. A total of $14.2 million of bonds were issued in July 2010 and provided financing for the construction of 91 affordable housing units for extremely low-income and very low-income households.
>
> ***Kings Crossing Family Apartments* –** This project was awarded an allocation of $29,995,000 at the CDLAC meeting on September 23, 2009. A total of $24.1 million in bonds were issued in September 2010 and provide financing for the construction of 92 affordable housing units for extremely low-income and very low-income households.

The table on the following page presents a summary of debt anticipated to be issued during FY 2010-11.

Summary of Completed and Planned Debt Issuance

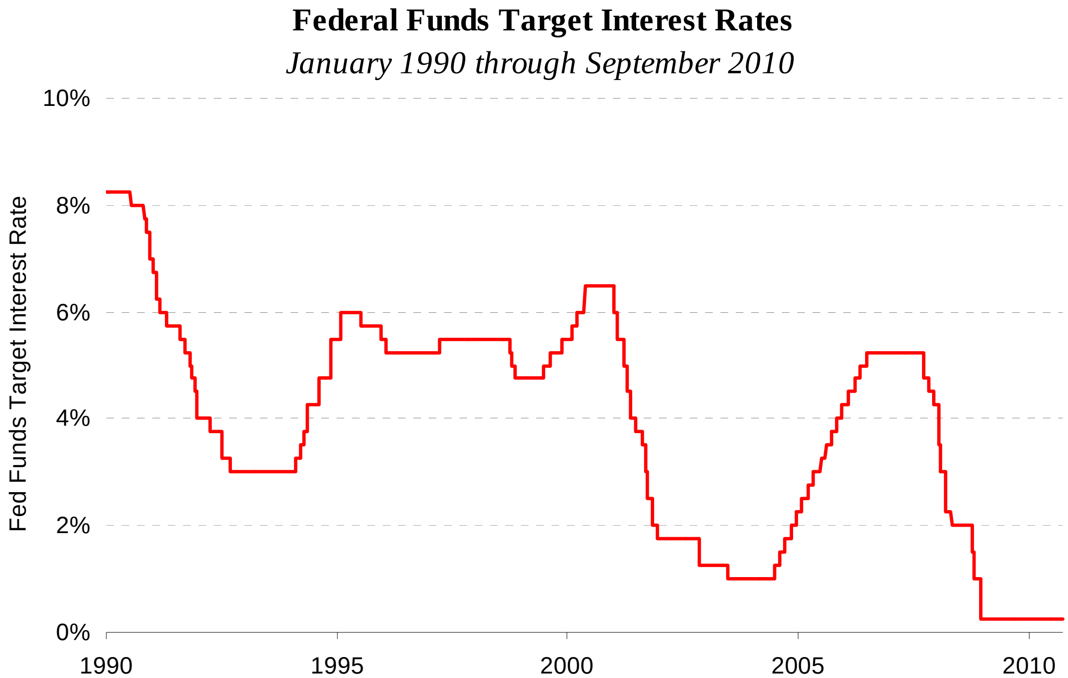
FY 2010-11

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter/ Private Placement	Credit Enhancement
7/1/2010	CSJ 2010 Tax and Revenue Anticipation Note	$75.0	Tax and Revenue Anticipation Note	Private Placement	Public Resources Advisory Group	Orrick	JP Morgan	N/A
7/20/2010	CSJ 2010B-1 Orvieto Family Apartments	7.8	Multifamily Housing	Negotiated	Ross Financial	Quint & Thimmig	RBC Capital	Freddie Mac
7/20/2010	CSJ 2010B-2 Orvieto Family Apartments	6.4	Multifamily Housing	Public Offering	Ross Financial	Quint & Thimmig	N/A	N/A
9/17/2010	CSJ 2010C Kings Crossing Apartments	24.1	Multifamily Housing	Back-to-Back Loan	E. Wagner & Associates	Hawkins Delafield & Wood	Citi	N/A
Winter 2010	Convention Center Expansion	120.0	Special Tax/Lease Revenue	Negotiated	Stone & Youngberg	Orrick, Herrington & Sutcliffe	Bank of America/ Wells Fargo/Citi	TBD
Spring 2011	CSJ 2010 Libraries & Public Safety Projects	9.2	General Obligation	Public Offering	Public Resources Advisory Group	TBD	TBD	TBD
Various	CSJFA Lease Revenue Commercial Paper	22.0	Lease Revenue Commercial Paper	N/A	Public Resources Advisory Group	Jones Hall	Barclays Capital	State Street/ CalSTRS
Various	CSJ Airport Commercial Paper	93.0	Airport Commercial Paper	N/A	PFM/ Public Resources Advisory Group	Orrick, Herrington & Sutcliffe	Barclays Capital/ Citi/ Morgan Stanley	JPMorgan/ Bank of America/ Dexia/ Lloyds TSB
Total		**$357.5**						

Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority; RDA-Redevelopment Agency of the 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 to the present.



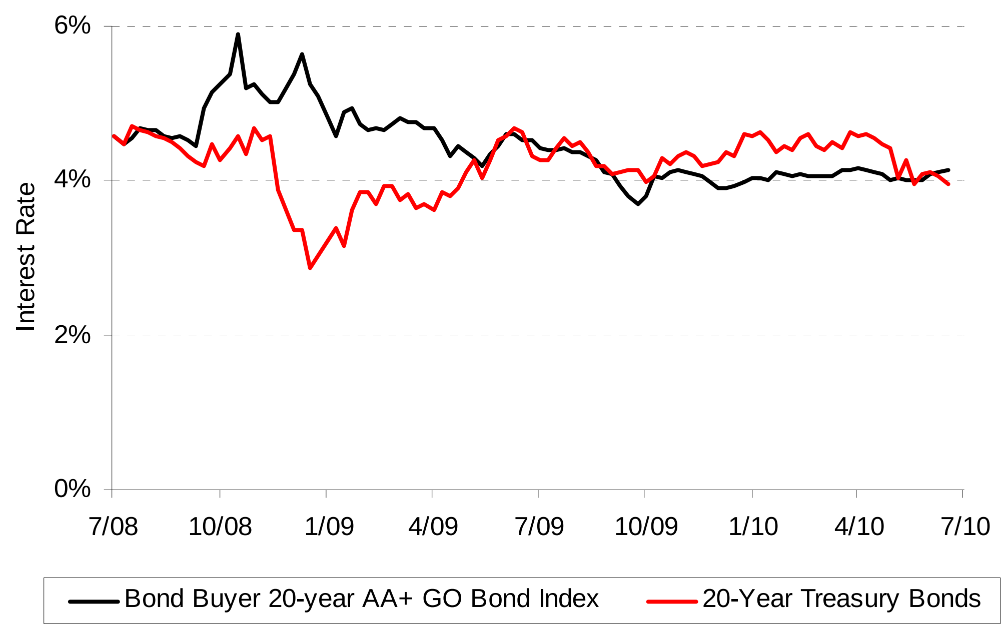
In the latest statement released on November 3, 2010, the FOMC stated that it will maintain the target range for the federal funds rate at 0.00% to 0.25% and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. Current economic information suggests that the speed of the nation's recovery has slowed recently, and is likely to remain subdued in the near term. Household spending is increasing slowly, but remains constrained by high unemployment, sluggish income growth, lower housing wealth, and tight credit. Business spending is rising, and though at a slower pace than last year, firms remain reluctant to add to payrolls.

Given these reduced rates of spending among both households and firms, the resulting resource slack in the economy is likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time.

In the aftermath of the financial market crisis, the industry has transformed and consolidated significantly, which has contributed to a tightening of credit standards, decreased the availability of credit facilities, and has produced more stringent capital adequacy requirements for banks. All of these factors have led to a shrinking supply of credit and an increase in the cost of utilizing credit. The City and the Authority anticipate that the cost of maintaining letters of credit for the Authority's variable-rate debt portfolio will increase significantly in the next fiscal year in light of these market changes. Ongoing positive and collaborative working relationship with financial institutions will be critical in maintaining and securing the City's cost effective access to the capital markets. While the cost increase and renewal efforts are increasingly more complex, maintaining an active variable-rate program is currently advantageous to the City to meet ongoing business needs and achieve cost savings. 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 continues to monitor how future regulatory and/or financial market changes may impact the City's variable rate program and will recommend adjustments to the program as appropriate.

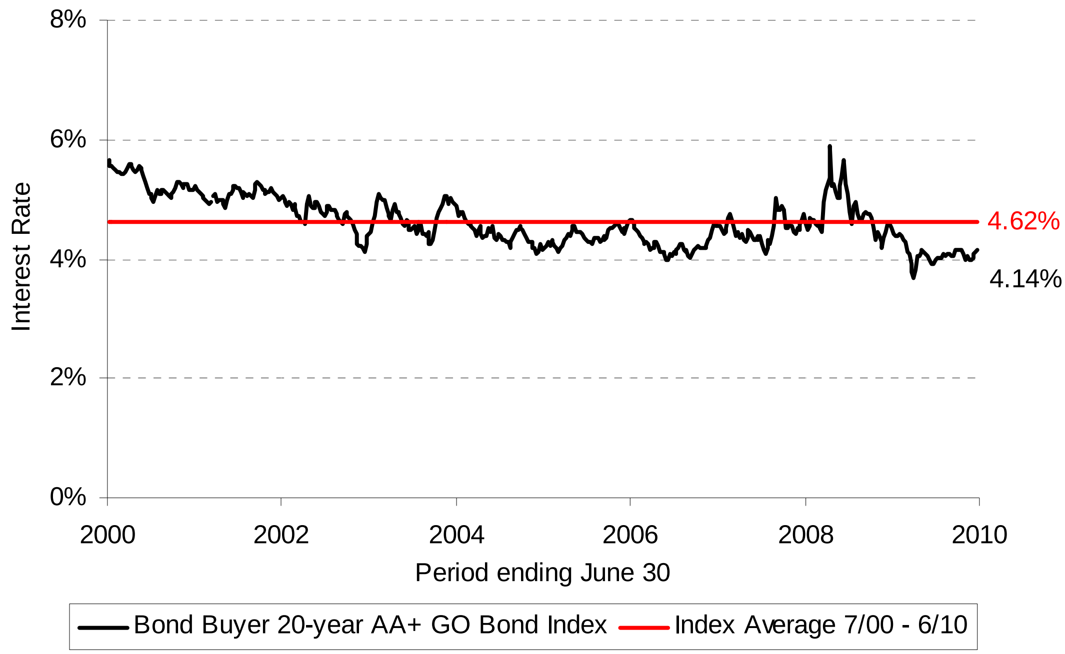
The market disruption that began in August 2007 also resulted in a shift of investment to U.S. Treasury securities, which are perceived as the safest investment vehicle. As a consequence, the demand in the market for other types of debt, including high-grade municipal bonds, has dropped. Historically, highly rated tax-exempt municipal bonds carry interest rates lower than comparable US Treasury Bonds given the tax advantage for bond holders. Changes in investors' perceived risk between US Treasuries and highly rated tax-exempt GO bonds during this period of market disruption have altered this historical relationship. Additionally, the introduction of Build America Bonds again altered the relationship and decreased the supply of tax-exempt municipal bonds which resulted in increased rates. The chart below illustrates the changes in interest rates between tax-exempt and taxable interest rates beginning in July 2008 through June 2010.

Comparison of Tax-Exempt and Taxable Interest Rates
July 2008 through June 2010



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 below their ten-year average for most of FY 2009-10.

Ten-Year History of Tax-Exempt Interest Rates
July 2000 through June 2010



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 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 and, when appropriate, by other cities' finance directors or finance personnel.

Financial Advisory Pool

The Finance Department conducted a RFP process in FY 2006-07 for financial advisory services in a number of specialized financing areas. The RFP sought proposals for services as the City General Financial Advisor, the Airport General Financial Advisor, the Affordable Housing Program General Financial Advisor, and for the formation of financial advisory pools in the following areas: general obligation and lease revenue financings, affordable housing financings, and land-secured financings (improvement districts and community facilities districts). As a result of this process, general financial advisors and a pool of eligible financial advisors was selected and approved by the City Council on February 27, 2007. The pool of financial advisors remained in effect from March 2007 through June 2010. In July 2010, the City exercised the first option to extend the pool through June 2011. The City anticipates that it will exercise the second and final option in July 2011 to extend the pool to June 2012.

A pool of eligible financial advisors is crucial, as it allows for a more efficient selection of financing teams for each separate bond issue, minimizes the time and the costs spent preparing and reviewing requests for proposals, and shortens the timeline required to finance City projects for the community.

General Financial Advisors and Financial Advisory Pool Eligible List
March 2007 to June 2011

City General Financial Advisor	**Airport Co-Financial Advisors**
Public Resources Advisory Group	Public Financial Management[1]
	Public Resources Advisory Group
GO Bonds/Lease Revenue Bonds	**Housing Program Financial Advisors**
First Southwest	CSG Advisors
KNN	Ross Financial
Public Financial Management	
Public Resources Advisory Group	
Ross Financial	
Stone & Youngberg	
Land-Secured Financings	**Affordable Housing Financings**
CSG Advisors	CSG Advisors
E. Wagner & Associates	E. Wagner & Associates
KNN	Kitahata & Company
Public Financial Management	Public Financial Management
Stone & Youngberg	Ross Financial

1. Formerly Fullerton & Friar, acquired by Public Financial Management in April, 2010.

The Summary of Debt Issuance tables shown earlier in this section provide a summary of all of the financing team participants for debt issues completed in FY 2009-10 and for the debt issues underway in FY 2010-11.

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 eligible list is used to assist the City in the formulation of debt financing strategies and establish a list of eligible underwriters and remarketing agents for a variety of multifamily housing projects. The firms selected were highly qualified in terms of experience and capabilities with California multifamily housing revenue bond transactions. The firms included in the City's multifamily housing underwriting pool eligible list for the period of July 22, 2009 to June 30, 2012 are as follows:

Multifamily Housing Underwriter Pool Eligible List
July, 2009 to June, 2012[1]

Citi Community Capital	RBC Capital Markets
E. J. De La Rosa & Co., Inc.	Red Capital Markets, Inc.
Jefferies & Company, Inc.	Stern Brothers & Co
Merchant Capital, LLC	Stone & Youngberg
Morgan Keegan	Wells Fargo Institutional Securities, LLC

1. The City has the option to extend the pool beyond 2012 if required.

III. DEBT ADMINISTRATION

A. Debt Administration System

The Debt Management Program continually works to improve its 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 Program's daily tasks. While the process of assembling a specific bond financing project may take only three to six 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 work very closely with other City departments as well as with the City Attorney's Office and the Budget Office to coordinate the investment and disbursement of bond funds to assure expenditures are in compliance with IRS Regulations and the California State Constitution. Debt Management staff also work closely with the bond trustees and the Finance Department's Treasury cash management staff and Accounting Division staff to ensure that bond proceeds are invested properly, funds and accounts are properly established, cash flows are fully accounted for, and all bond covenants are complied with.

1. Trustee Activities

As of June 30, 2010, the City had approximately $525 million in bond and commercial paper note funds that are held by three trustees and invested in 184 active funds and accounts. These figures do not include the Redevelopment Agency's merged area redevelopment project (80%) bonds, Airport commercial paper program, or the City's multifamily housing revenue bonds. Each Fund is managed separately according to the provisions of a trust indenture or fiscal agent agreement, tax certificate, and other documents governing the issuance of the bonds. Depending on the terms of the bond issue, bond funds may include, but are not limited to, construction and improvement, capitalized interest, escrow, reserve, debt service and other funds held for the benefit of the bondholders. The table below summarizes the City's trustee activity.

Trustee Summary[1]
as of June 30, 2010

Trustee	Number of Bond/CP Issues	Original Par Amount of Bonds	Trustee Fund Balance
Bank of New York	10	$1,201,600,000	$323,667,242
US Bank	12	357,897,984	16,791,262
Wells Fargo Bank	26	1,680,910,000	184,355,819
Deutsche Bank[2]	N/A	N/A	49,332
Total	49	$3,240,407,984	$524,863,655

[1] Does not include Agency bonds issued for merged area redevelopment projects, Airport commercial paper, or multifamily housing revenue bonds.
[2] Amount represents general Airport revenues held by the issuing and paying agent to pay interest due on maturing Airport Commercial Paper Notes.

Debt Management staff maintains frequent contact with trustees with respect to each trustee's fund management responsibilities. Fund management includes review of and compliance with the provisions governing funds and accounts of each series of bonds. Fund management also includes compliance with the City's investment policy, financial reporting requirements, and generally accepted accounting principles. Debt Management staff closely monitor investment and cash flows to and from each fund under management, including payment of debt service obligations, to ensure accuracy and timeliness.

2. Bond Proceeds Expenditures and Reimbursement Procedures

As an issuer of tax-exempt debt, the City's use of 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 has reviewed a disbursement request from the City department managing the project. As of June 30, 2010, of the $525 million held by the trustees, approximately $360 million is construction proceeds from the sale of both taxable and tax-exempt bonds and commercial paper notes. 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. During FY 2009-10, Debt Management staff reviewed and processed 126 disbursement requests totaling over $247 million.

3. Arbitrage Rebate

Debt Management actively monitors the investment and disbursement of 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 Federal Government. However, if a jurisdiction meets certain IRS expenditure exceptions for bond proceeds, the arbitrage earnings will not have to be rebated to the Federal Government. Arbitrage regulations apply to all of the City's tax-exempt financings.

Debt Management staff, working in conjunction with Investment staff, endeavor to invest bond proceeds at the highest yield possible, subject to the City's primary Investment Policy objectives of safety, liquidity and yield. 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, it may be the case that the fund earns at a rate less than the bond yield. Therefore, 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.

In FY 2009-10, of the 184 funds and accounts held by trustees, 69 funds and accounts containing over $486 million of tax-exempt bond proceeds were actively monitored for arbitrage compliance. Debt Management staff continually monitors and documents investments and cash flows of the City's bond funds, and then annually reviews all arbitrage provisions of individual bond funds and computes arbitrage earnings. The resulting arbitrage reports are then submitted to the relevant City departments and bond trustees so that the estimated rebate liability can be budgeted and set aside for future payment. Although arbitrage earnings are rebated to the United States Treasury on a five-year installment basis, Debt Management staff conducts annual rebate calculations to assure that the City stays current on compliance issues and to facilitate accountability for any potential rebate liability.

Debt Management staff prepares the annual arbitrage calculations for most of the City's debt, except the Redevelopment Agency bonds issued for redevelopment projects and the conduit multifamily housing revenue bonds. Agency staff tracks arbitrage for redevelopment project bonds, and in the case of conduit multifamily housing revenue bonds, the developer is responsible for the annual arbitrage calculations during the construction period and thereafter on each fifth-year bond anniversary date. Debt Management staff tracks the developer's compliance with this requirement.

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 Internal Revenue Service has stepped-up its random audit and target audit programs for tax-exempt bond issues. Indeed, within the past few years, the IRS has conducted random audits on two of the City's multifamily housing revenue bond issues and, in both cases, the audits were closed with no change to the status of the bonds or findings by the IRS.

The table below lists the City's tax-exempt bond issues that have a positive arbitrage rebate liability and the next rebate installment date:

Summary of Bond Issues with Positive Rebate Liabilities
as of June 30, 2010

Bond Issue	Estimated Rebate Liability	Next Rebate Installment Date
City of San José Financing Authority, Series 2006A	2,452	06/01/2011
City of San José Airport Commercial Paper, Series B	272,205	04/04/2014
Total	274,657	

4. Continuing Disclosure

On November 10, 1994, the Securities and Exchange Commission ("SEC") adopted amendments to existing federal regulations ("Rule 15c-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.

As of June 30, 2010, the City had 31 series of bonds subject to continuing disclosure requirements, excluding the Redevelopment Agency and multifamily housing revenue bonds, some of which are also subject to continuing disclosure requirements under the Rule. In cooperation with the Redevelopment Agency and other City departments, and with the assistance of the City Attorney's Office, the Finance Department collects, validates, and disseminates financial and operating information through the use of Electronic Municipal Market Access ("EMMA"), the Municipal Securities Rule Making Board's ("MSRB") disclosure website. Debt Management staff also monitors compliance with respect to continuing disclosure obligations of the multifamily housing projects.

Timely and accurate communication with the municipal marketplace is vital in retaining the City's creditworthiness and market access. Continuing disclosure and compliance reporting constitute a significant part of Debt Management's compliance activity for the life of each series of bonds. In FY 2009-10, the City filed 42 material event notices, which were related to different types of rating changes. In some cases, a bond insurer rating change triggered the event, while in others, City ratings were changed as a result of an overall recalibration effort by Fitch and Moody's (please see *"Rating Agency Relations and Credit Maintenance"* for a discussion of the recalibration effort).

C. Investment of Bond Proceeds

Debt Management works closely with bond trustees as well as with Treasury Cash Management and Accounting Division staff in managing 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 28, 2010. As requested in 2002 by the City Council, as part of the approval of the use of investment agreements for bond proceeds, the status of the investment agreements in place as of June 30, 2010 is briefly summarized below.

City of San José Airport, Series 2004 Improvement Funds, Capitalized Fee Fund and Capitalized Interest Accounts: The Series 2004 Improvement Funds, Capitalized Fee Funds, and Capitalized Interest Accounts were invested with Citigroup Global Markets, Inc. in September 2007 in a consolidated agreement. The total initial investment in the consolidated investment agreement was $52.2 million and the amount invested as of June 30, 2010 was $6.1 million. The Improvement Funds had an initial investment of $29.5 million and matured on February 28, 2009. The Capitalized Fee Funds and Capitalized Interest Accounts had an initial investment of $22.7 million and a maturity of July 1, 2010.

The agreement was initially collateralized with US Treasuries at 104% and Agencies at 105%; however, the collateral level was increased to 107% for US Treasuries and 108% for Agencies in response to downgrades of Citigroup Global Markets, Inc. as per the terms of the agreement. The agreement had a yield of 4.732% for the Improvement Funds and had a yield of 4.521% for the Capitalized Fee Funds and Capitalized Interest

Accounts. The bond yield is a blended rate of the redeemed variable rate Series 2004AB Bonds and the fixed rate Series 2004CD Bonds.

With the expiration of this agreement, the remaining bond proceeds have been reinvested in a manner consistent with the City's investment policy and the Master Trust Agreement for the Airport Revenue Bonds.

City of San José Airport, Series 2007 Improvement Funds and Capitalized Interest Accounts: The Series 2007 Improvement Funds and Capitalized Interest Accounts were invested with Citigroup Global Markets, Inc. in September 2007 in a consolidated agreement. The total initial investment in the consolidated investment agreement was $613.9 million and the amount invested as of June 30, 2010 was $233.6 million. The Improvement Funds had an initial investment of $530.5 million and a maturity of August 1, 2010. The Capitalized Interest Accounts had an initial investment of $83.4 million and a maturity of September 1, 2010.

The agreement was initially collateralized with US Treasuries at 104% and Agencies at 105%; however, the collateral level was increased to 107% for US Treasuries and 108% for Agencies in response to downgrades of Citigroup Global Markets, Inc. as per the terms of the agreement. The agreement has a yield of 4.533% for the Improvement Funds and 4.539% for the Capitalized Interest Accounts. The Series 2007AB Bonds bear interest at fixed rates and the arbitrage yield on the Bonds is 5.19%.

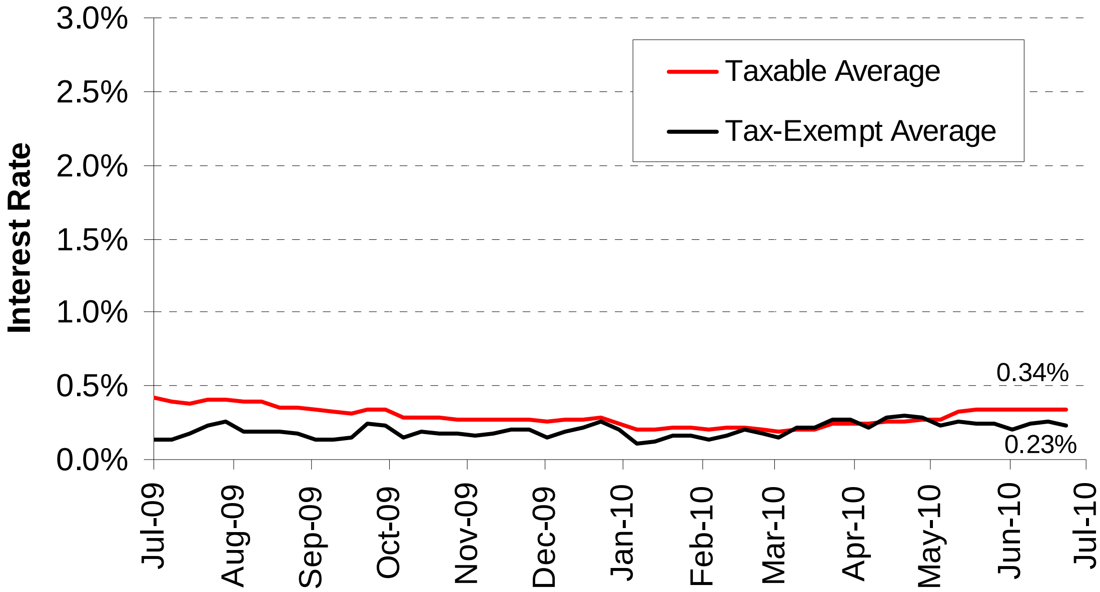
With the expiration of this agreement, the remaining bond proceeds have been reinvested in a manner consistent with the City's investment policy and the Master Trust Agreement for the Airport Revenue Bonds.

D. Outstanding Variable-Rate Debt

During FY 2009-10, the City and related entities had 30 variable rate bond series outstanding, 18 of which were multifamily housing revenue bond issues. Of the 30 series, 4 were taxable and 26 were tax-exempt. Debt Management staff tracks the variable rates weekly to ensure that the rates are consistent with market conditions, taking into consideration the differences among securities, ratings, and credit enhancement.

The following chart provides a history of the average variable rates the City and related entities paid during FY 2009-10 for both taxable and tax-exempt bond issues. Interest rates remained at all time lows throughout the period.

Average Weekly Taxable and Tax-Exempt Rates
FY 2009-10



E. Refunding Opportunities

As part of its role as manager of the City's debt portfolio, consisting of outstanding bonds, commercial paper notes, and certain loans, Debt Management undertakes a continual review and analysis of the outstanding debt. The objective of this on-going process is to identify opportunities to refund or restructure the debt portfolio with the goal of reducing the City's annual debt service obligations. A discussion of bonds refunded in FY 2009-10 is included in the Debt Issuance section of this report. Although fixed rate bonds can only be redeemed on or after the first call date specified in the financing documents, variable rate bonds can be redeemed on any tender date.

Generally, 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. 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 Internal Revenue

Service 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 series of bonds issued after 1986.

IV. CITY'S OUTSTANDING DEBT PORTFOLIO

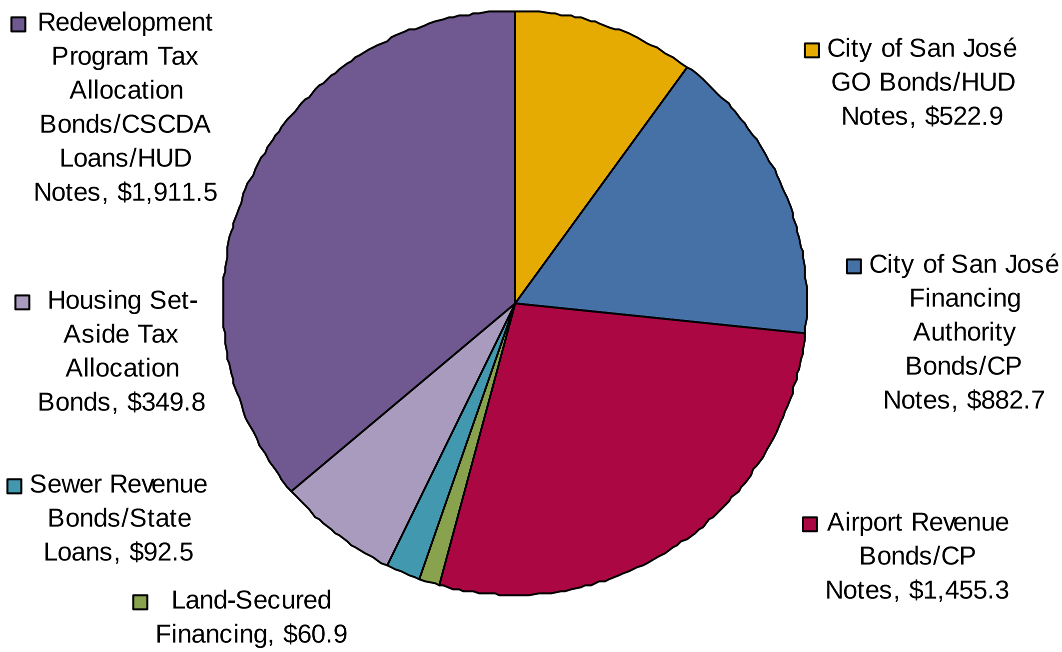
This section includes both a descriptive and illustrative presentation of the City's debt portfolio, comprised of 120 series of bonds, two commercial paper programs and seven loans totaling over $5.8 billion, as of June 30, 2010. Of the 120 series of bonds, 68 series are debt of the City, the Redevelopment Agency, or related entities while the remaining 52 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, its Redevelopment Agency, and various financing authorities of which the City is a member. ***Note that, except as described below in Section IV.G, the City has no obligation or connection in any way to Redevelopment Agency debt.***

As of June 30, 2010, the City and related entities had debt outstanding totaling over $5.3 billion, excluding $519 million in multifamily housing revenue bonds. The following pie 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), and Redevelopment Agency tax increment debt (Housing Set-Aside and Agency Merged Area TABs and loans).

A table of the 52 series of outstanding multifamily housing revenue bonds, totaling over $519 million, is shown later in this section of the report. A summary table of all other debt by series is presented in Appendix D.

Outstanding Debt Issued by All Agencies

Outstanding Debt as of June 30, 2010: $5,275,632,923
(dollars shown below in millions)
(excludes $519 million of conduit debt)



In addition to examining the par amount of debt outstanding, it is helpful to also examine the debt service repayment schedule. Interest projections for variable rate debt in the annual debt service charts that follow are based on the interest rates reported in the 2010 Comprehensive Annual Financial Report ("CAFR") as shown in the table below. Under Governmental Accounting Standards Board ("GASB") Statement Number 38, Certain Financial Statement Note Disclosures, governments should disclose *"Principal and interest requirements to maturity…interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date"*. It should be noted that in the prior years' Comprehensive Annual Debt Report, the variable interest rates used for projecting annual debt service were based on the City's annually adjusted budgetary rates. Beginning with the 2010 Comprehensive Annual Debt Report, the interest rate basis is conformed to be consistent with CAFR reporting requirements.

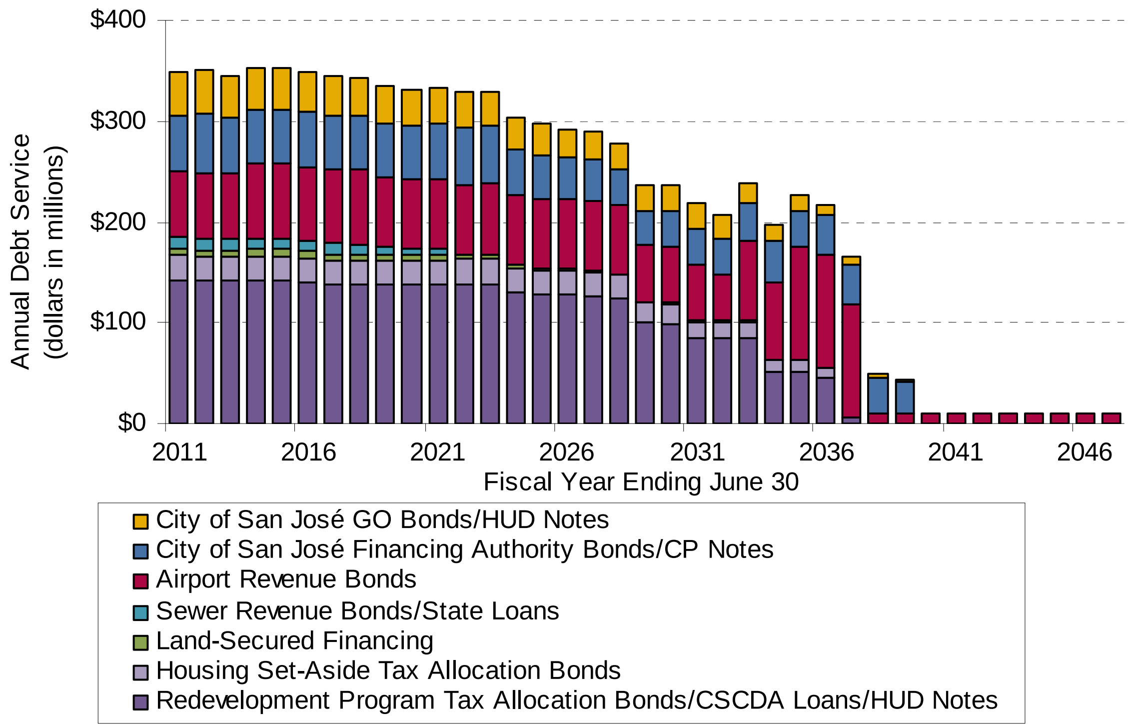
Variable Interest Rate Assumptions
for Annual Debt Service Projections

	Tax-Exempt Rates	Taxable Rates	HUD Section 108 Rates
Rates as of June 30, 2010	0.15% - 0.19%	0.32% - 0.34%	0.74%

Source: Comprehensive Annual Financial Report

With the exception of the portions of outstanding City of San José Airport commercial paper notes that are anticipated to be repaid from issuance of long-term debt and the City's conduit multifamily housing revenue bonds, the following stacked bar chart illustrates the annual debt service payments for all of the debt category types shown in the previous pie chart. The multifamily indebtedness was omitted from the bar graph due to the complicated nature of multifamily housing amortization schedules. In addition, omitting multifamily housing bonds from the chart more appropriately illustrates the annual debt service obligations for which the City/Redevelopment Agency/other agencies are responsible, either through direct payments or through the effort of collecting payments through the tax roll as in the case of general obligation and land-secured debt.

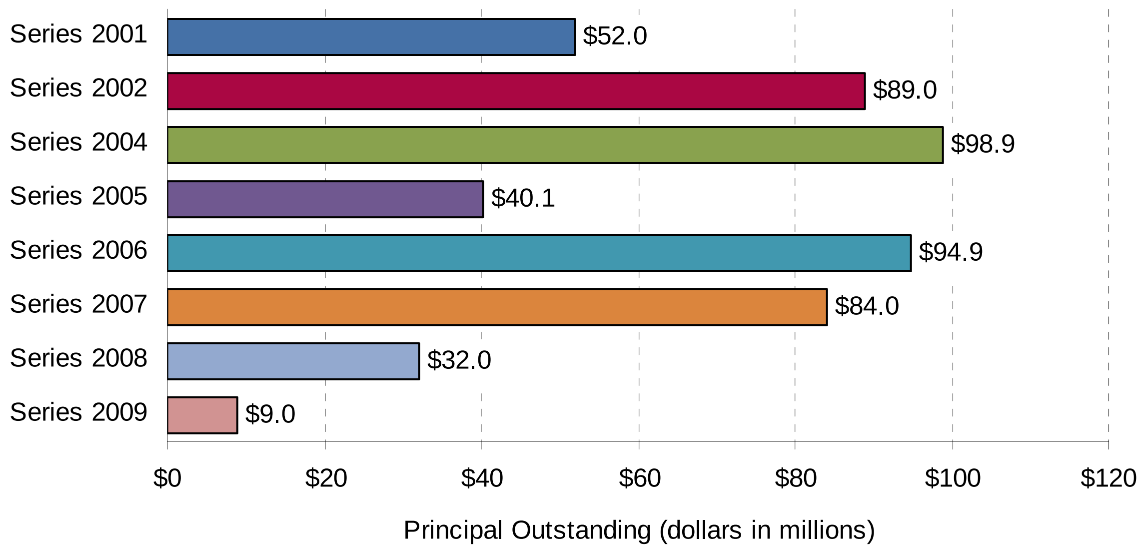
Outstanding Debt Issued by All Agencies
Annual Debt Service



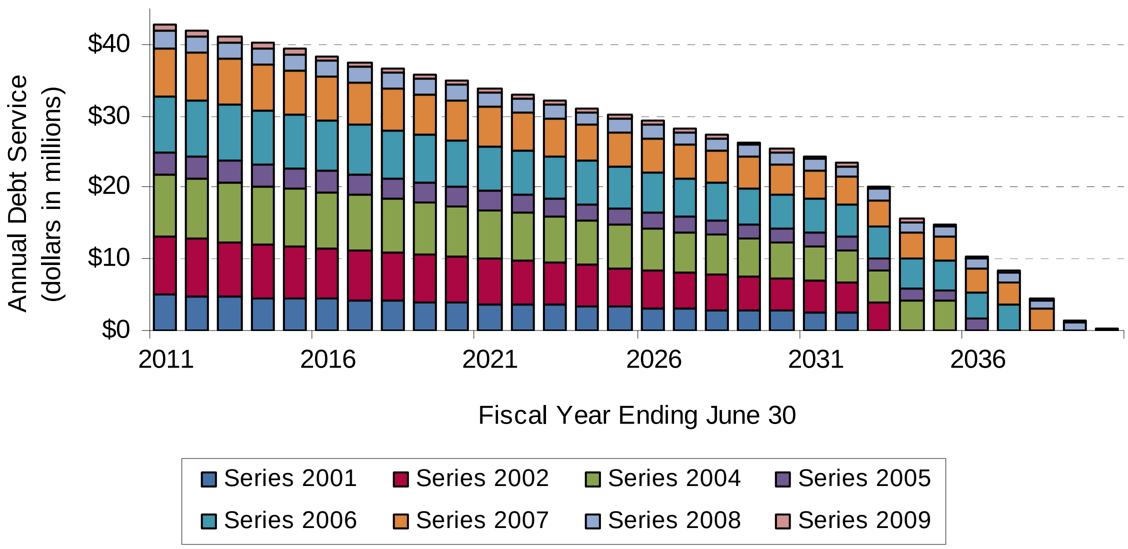
A. General Obligation Bonds

In 2000 and 2002, the voters approved three ballot measures (Measures 2000 O and P and Measure 2002 O) that authorize total issuance of $598,820,000 of general obligation ("GO") bonds for library, parks, and public safety projects which are secured by the taxing power of the City. As of June 30, 2010, the City of San José had issued $589.6 million of GO bonds with the proceeds split for three purposes: library projects ($205.9 million), parks and recreation projects ($228.0 million), and public safety projects ($155.7 million). Through June 30, 2010, $89.6 million in principal payments had been made, resulting in an outstanding balance of approximately $500.0 million.

General Obligation Bonds
Outstanding Debt as of June 30, 2010: $499,970,000



General Obligation Bonds
Annual Debt Service

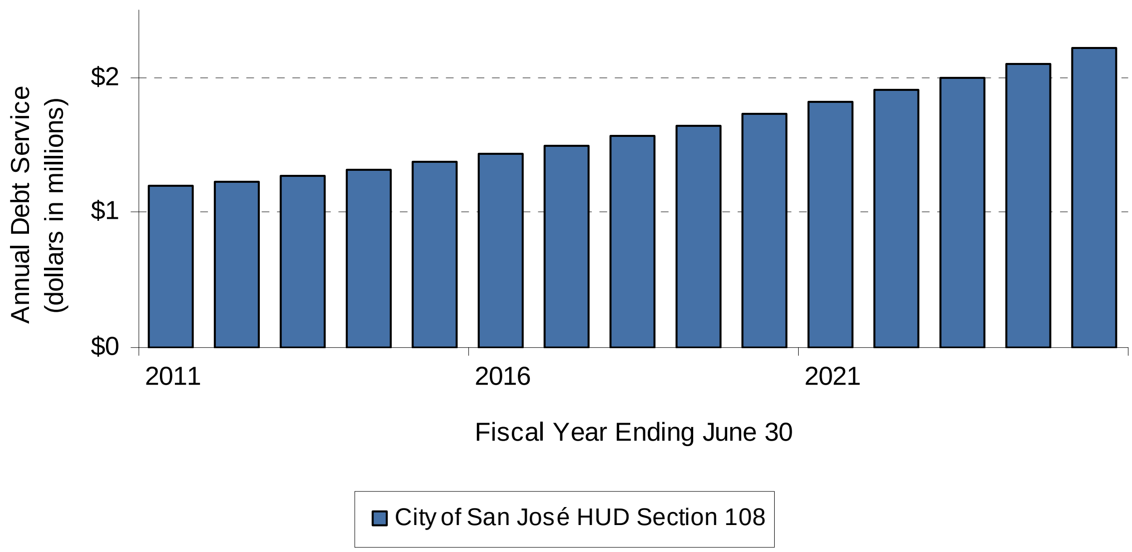


B. City of San José HUD Section 108 Loan

On February 10, 2005, the City of San José received a loan commitment in the amount of $25,810,000 from the U.S. Department of Housing and Urban Development ("HUD") under the Section 108 Loan Guarantee Program for the purchase of property adjacent to the Airport. 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 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. As of June 30, 2010, the outstanding amount on the City's HUD Section 108 Loan was $22,915,000. The final maturity date of the HUD Loan is August 1, 2024.

City of San José HUD Section 108 Loan
Annual Debt Service



C. City of San José Financing Authority Obligations

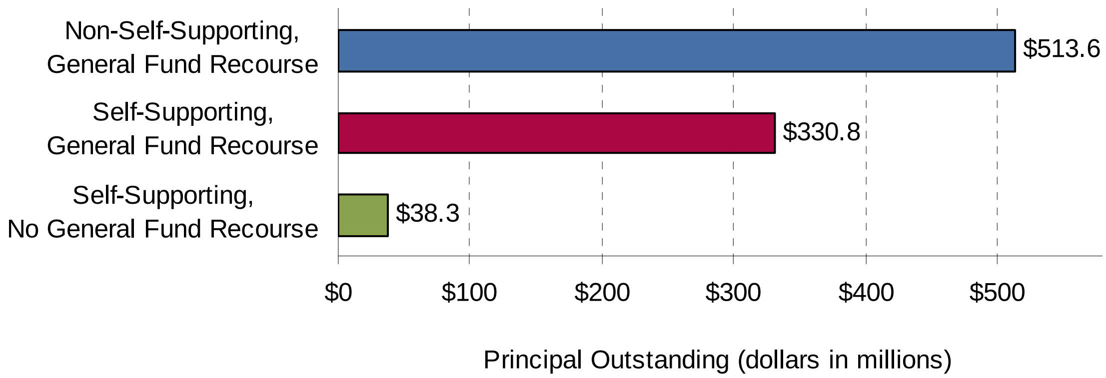
The City of San José Financing Authority (the "Authority") is a joint exercise of powers authority established under State law between the City and the Redevelopment Agency, and is authorized to finance public capital improvements for public entities. Bonds and notes issued by the Authority are repaid 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 several categories. These include:

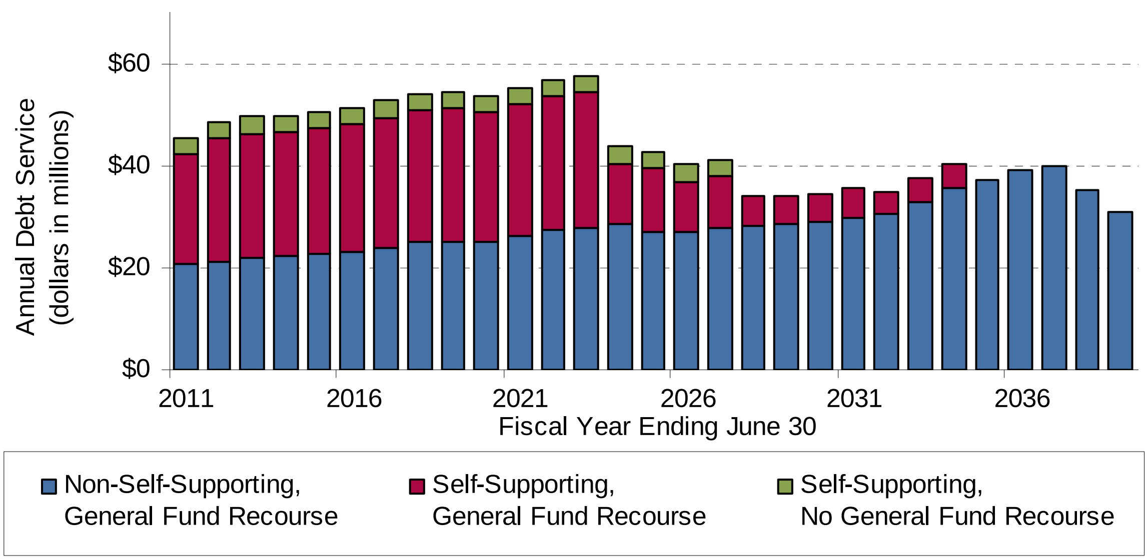
1. Non-Self-Supporting Debt with Recourse to the City's General Fund;
2. Self-Supporting Debt with Recourse to the City's General Fund; and
3. Self-Supporting Debt with No Recourse to the City's General Fund.

The next two charts illustrate the total amount of Authority bonds outstanding by category along with a bar chart illustrating annual debt service obligations by category.

City of San José Financing Authority Obligations
Outstanding Debt as of June 30, 2010: $882,663,039



City of San José Financing Authority Obligations
Annual Debt Service



1. Non-Self-Supporting Debt with Recourse to the City's General Fund

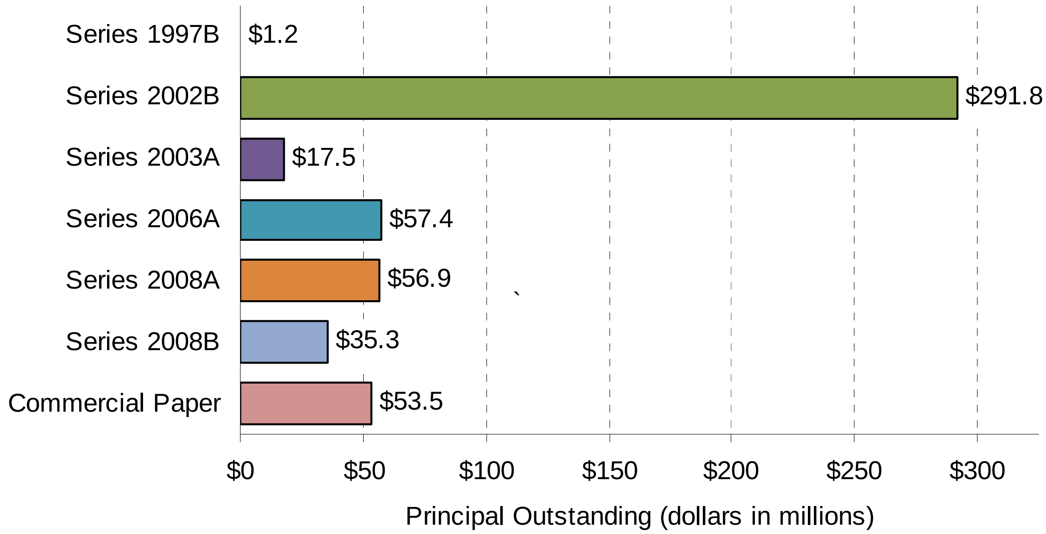
The financings included in this category and the next are structured as lease revenue bonds which are repaid from City lease payments for specified facilities. The leased facilities are typically those that are being financed, but in some cases may consist of other City assets.

The financing projects included in this category 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. The following bonds are included in this category:

- 1997B Bonds financed fire apparatus, childcare facilities, and library land acquisition;
- Series 2002B, 2006A, and 2008A Bonds financed or refinanced a portion of the new City Hall project;
- Series 2008B Bonds refunded the commercial paper notes issued to finance the land acquisition and construction of the City Hall Offsite Parking Garage;
- Series 2003A Bonds refunded the bonds issued to finance site acquisition and construction costs of the City's Central Service Yard; and
- Commercial paper note issuances to provide funding for the following projects: Central Service Yard Phase II improvements; technology, furniture, equipment; relocation expenses associated with the new City Hall; the cost of the 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 low/moderate income housing fund.

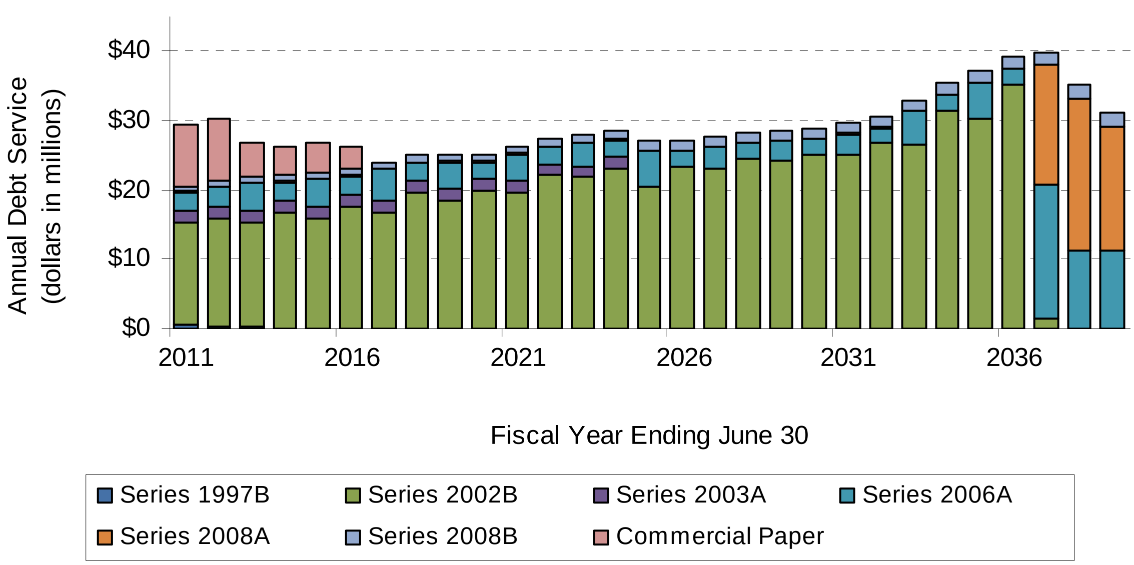
The following bar chart illustrates the total amount of outstanding debt in the category of non-self-supporting Authority debt with recourse to the General Fund. As of June 30, 2010, the total amount was $513,620,000, consisting of $460,090,000 of lease revenue bonds and $53,530,000 of taxable and tax-exempt commercial paper.

Non-Self-Supporting Debt/ General Fund Recourse
Outstanding Debt as of June 30, 2010: $513,620,000



The bar chart illustrates the annual debt service obligations for this category.

Non-Self-Supporting Debt/ General Fund Recourse
Annual Debt Service

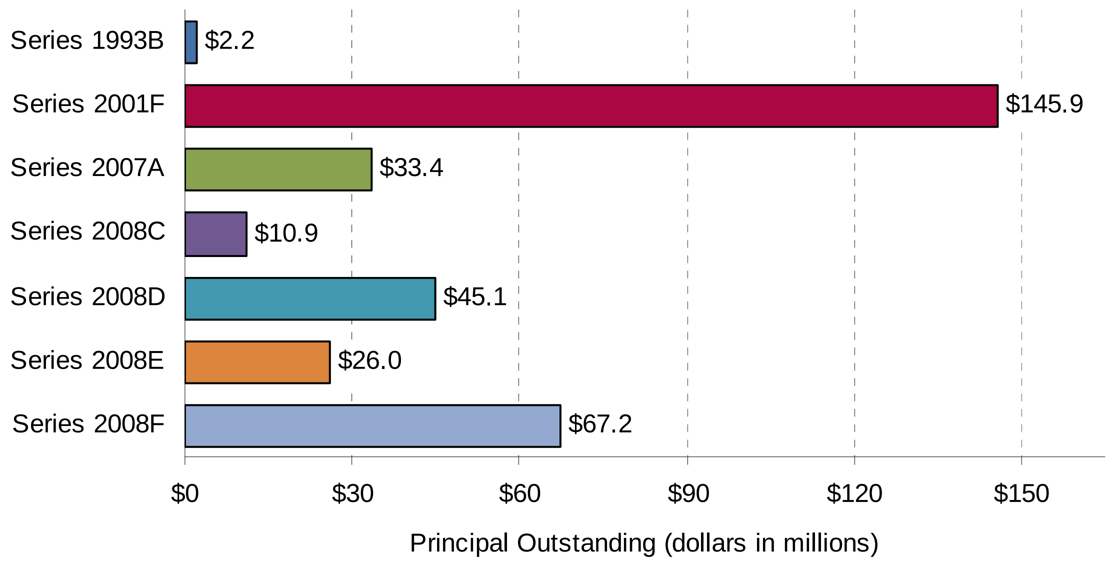


2. Self-Supporting Debt with Recourse to the City's General Fund

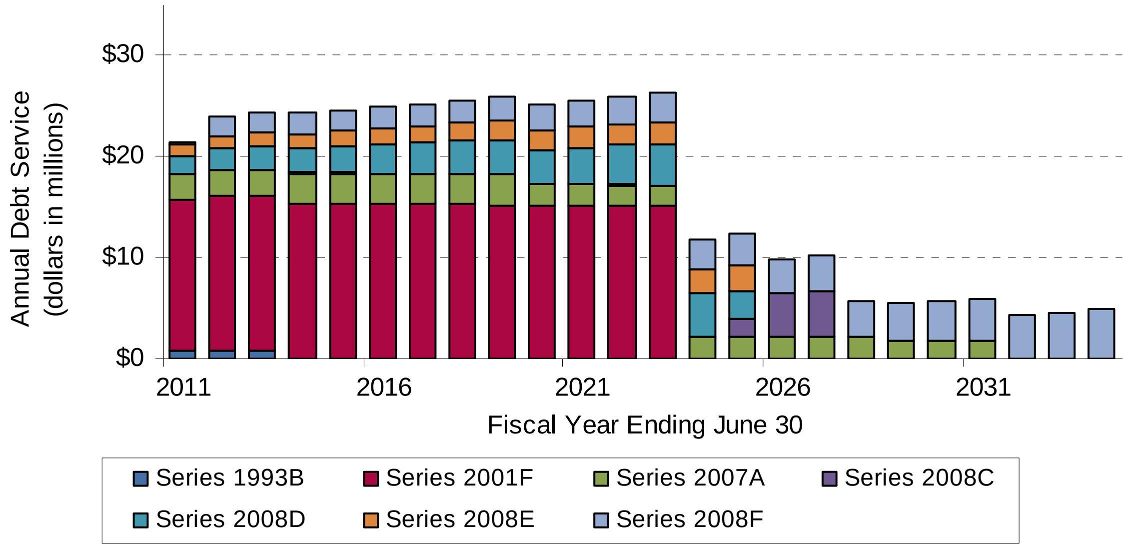
As with the previous category of Authority debt, the financings included in this category are structured as lease revenue bonds which are repaid from City lease payments for specified facilities.

This category, Self-Supporting Debt with Recourse to the City's General Fund, includes bond-financed capital projects which generate revenue that can be applied to offset, in whole or in part, the City's lease payments. This category also includes the Convention Center refunding, for which the City's lease payments currently are reimbursed by the Redevelopment Agency. 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 follows the charts.

Self-Supporting Debt/ General Fund Recourse
Outstanding Debt as of June 30, 2010: $330,788,039



Self-Supporting Debt/ General Fund Recourse
Annual Debt Service



Series 1993B (Community Facilities Project): These fixed-rate bonds funded 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 Improvements project. The Ice Centre portion of these bonds was refunded with proceeds of the Series 2000C Bonds, and a portion of the remaining debt was refunded with proceeds of the Series 2007A Bonds. Debt service on the Series 1993B Bonds is paid from revenues of the Hayes Mansion and construction and conveyance tax revenues from Council Districts #1 and #4. To the extent these revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. In recent years the General Fund has been subsidizing debt service payments on the Series 1993B Bonds attributable to the Hayes Mansion.

Series 2001F (Convention Center Refunding Project): These fixed-rate bonds refunded the Authority's outstanding debt on the City's Convention Center. Under a Reimbursement Agreement between the City and the Redevelopment Agency, the Redevelopment Agency has committed to pay the debt service on the Series 2001F Bonds, subordinate to all other debt issued by the Agency. To the extent the Agency payments are insufficient to fully pay the debt service, the General Fund or other available funds will make up the difference.

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. The portion of Series 2007A Bonds debt service attributable to the refunded portion of the Series 1993B Bonds is paid from revenues of the Hayes Mansion and construction and conveyance tax revenues from Council Districts #1 and #4. In recent years the General Fund has been subsidizing debt service payments on the Series 1993B Bonds attributable to the Hayes Mansion

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). The portion of Series 2007A Bonds debt service attributable to the 1997A Bonds is paid from golf course revenues.

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. The portion of Series 2007A Bonds debt service attributable to the 2000B Bonds is paid from golf course revenues and construction and conveyance tax revenues from Council District #9.

To the extent these revenues are insufficient to fully pay the debt service on the Series 2007A Bonds, the General Fund or other available funds make up the difference.

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. To the extent these payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. In recent years, the General Fund has subsidized debt service payments on these bonds.

Series 2008E (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 an additional 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 the extent these payments are insufficient to fully pay the debt service, the General Fund or other available funds will make up the difference.

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 retroactive to June 30, 2010. Beginning in FY 2010-11, the City's General Fund will support debt service requirements for the 2008F bonds pursuant to the General Sublease between the City and the Authority which takes effect automatically on the termination of the Operating Sublease.

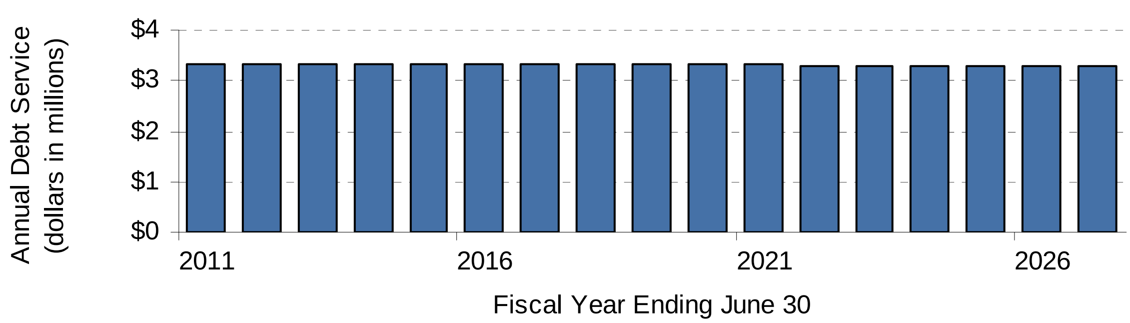
3. Self-Supporting Debt with No Recourse to the City's General Fund

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.

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"). Repayment of these revenue bonds is limited to gross revenues of the City's parking system and surplus revenues of the Redevelopment Agency.

On February 23, 2010 City Council approved a loan to the Agency from the City's Parking Capital Development Fund in an amount not to exceed $6.8 million, for the purpose of reimbursing the Agency for certain debt service payments from FY 2009-10 to FY 2011-12, for the 4th and San Fernando Parking Garage. The loan agreement requires the Agency to pay the City on or before June 30, 2016 with certain conditions as outlined in the agreement. As of June 30, 2010, the outstanding amount on the Series 2001A Bonds was $38,255,000.

Self-Supporting Debt/ No General Fund Recourse (2001A)
Annual Debt Service



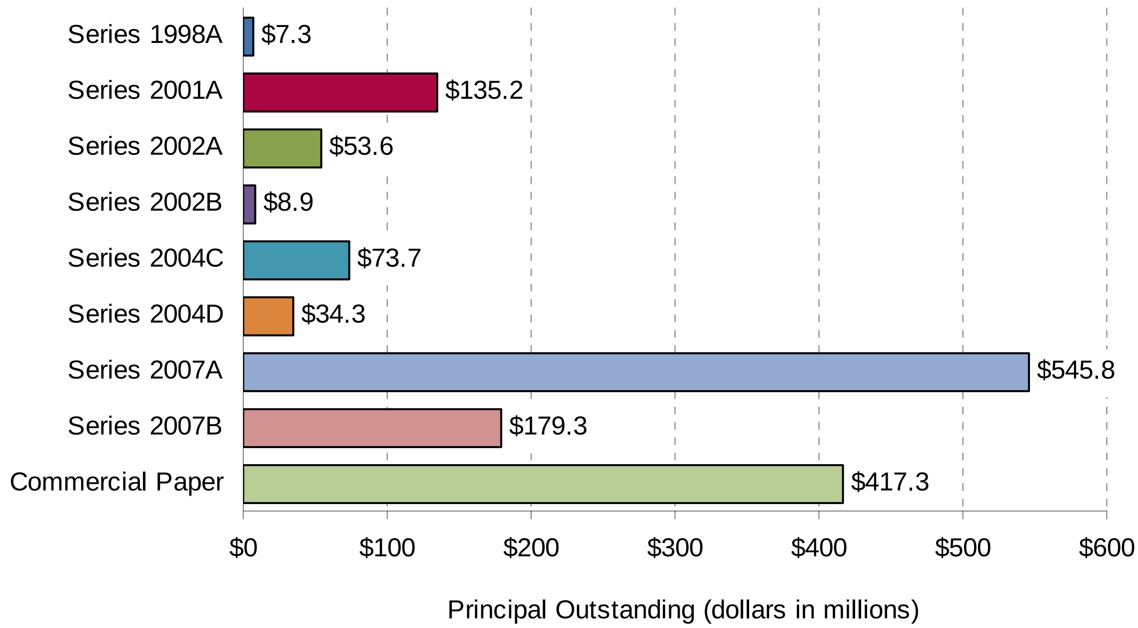
D. Enterprise Fund Obligations

1. Norman Y. Mineta San José International Airport

The following bar chart illustrates the total amount of outstanding Airport debt, secured by Airport revenues, broken out by issue series and type. As of June 30, 2010, the total amount of Airport obligations outstanding was $1,455.3 million, consisting of senior debt of $1,038.0 million and $417.3 million of outstanding commercial paper ("CP"). The Airport's commercial paper is subordinate to the revenue bonds.

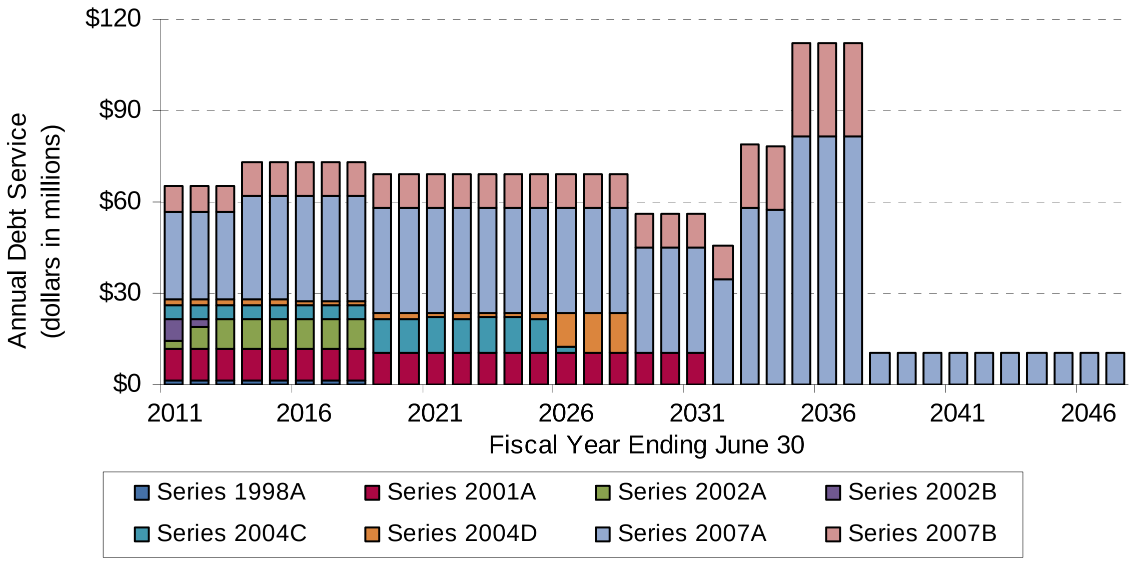
Airport Obligations

Outstanding Debt as of June 30, 2010: $1,455,338,000



The following bar graph illustrates the annual debt service requirements by Airport revenue bond issue. Commercial Paper is not shown in the next graph because Commercial Paper provides flexibility with amortization of principal and a fixed amortization schedule is not available at this time. The outstanding commercial paper is anticipated to be repaid from bond proceeds from the future sale of long term debt. Appendix F provides the annual commercial paper debt service certification, which gives an estimate of the annual debt service payment that would result from refunding the outstanding commercial paper with sale proceeds of long-term bonds.

Airport Revenue Bonds
Annual Debt Service



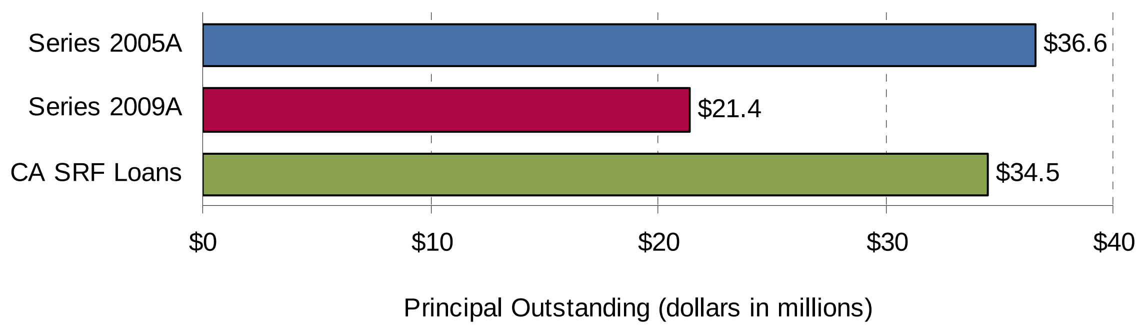
The spike in debt service payments beginning in 2033 is attributable to the Series 2007 Bonds. The original bond structure for the 2007 Bonds was designed with level debt service payments over the 40-year life of the bonds. However, at the time the bonds were priced, demand for 40-year securities deteriorated. 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 prior to the first call date of the 2007 Bonds.

2. San José-Santa Clara Clean Water Financing Authority

The following bar chart illustrates 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, 2010. 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 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.

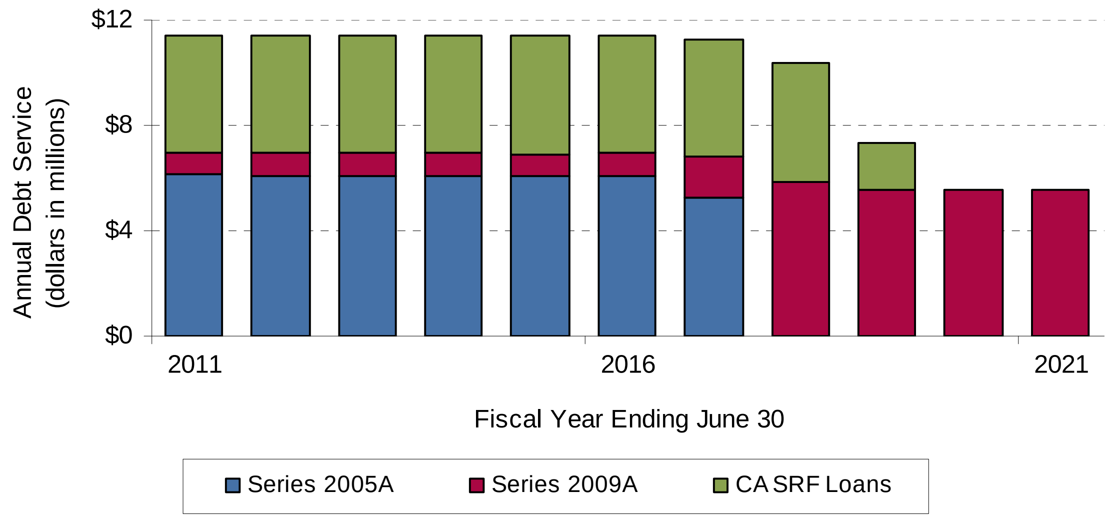
The City of San José and the City of Santa Clara have agreements with each of the tributary agencies for those agencies' share of capital costs and on-going operation expenses of the waste water treatment system. These revenue streams along with other revenue sources generated from the waste water treatment system are applied toward the payment obligation the cities of San José and Santa Clara have to the 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, Sunol Sanitary District and County Sanitation District 2-3.

San José-Santa Clara Clean Water Financing Authority Debt
Outstanding Debt as of June 30, 2010: $92,531,770



The bar graph below illustrates the annual debt service requirements for all of the Clean Water Financing Authority issues and the City's CA SRF Loans.

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

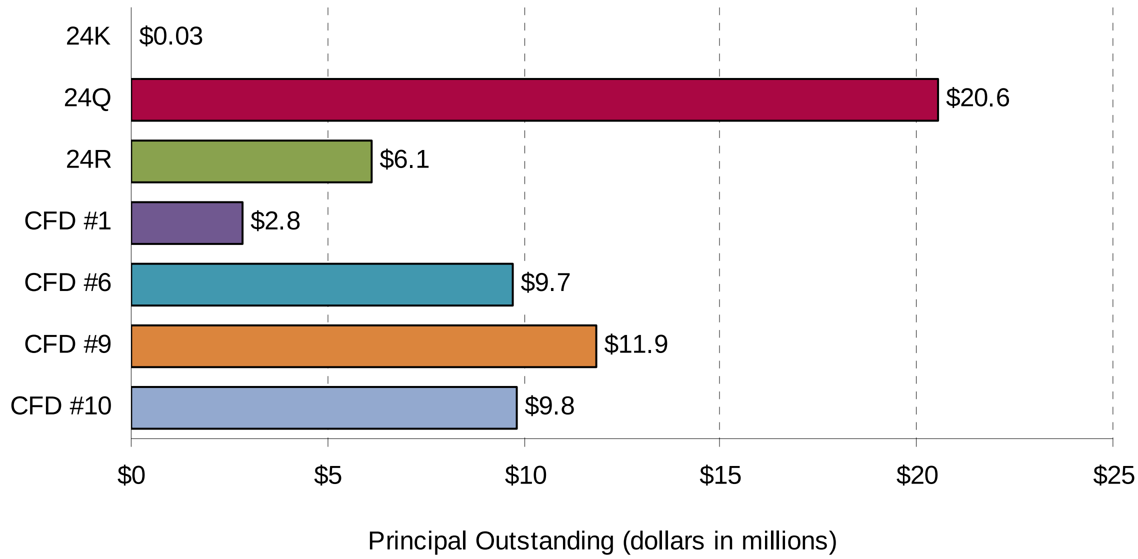


E. Land-Secured Financing

The following bar chart illustrates the total amount of land-secured debt outstanding backed by special assessments and special taxes. As of June 30, 2010, the City had four community facilities district ("CFD") and three improvement district bond issues outstanding. The largest issue was Series 24Q, the Hellyer-Piercy Improvement District, which financed construction and acquisition of public improvements in Edenvale. This bond issue represented 33% of all land-secured outstanding debt.

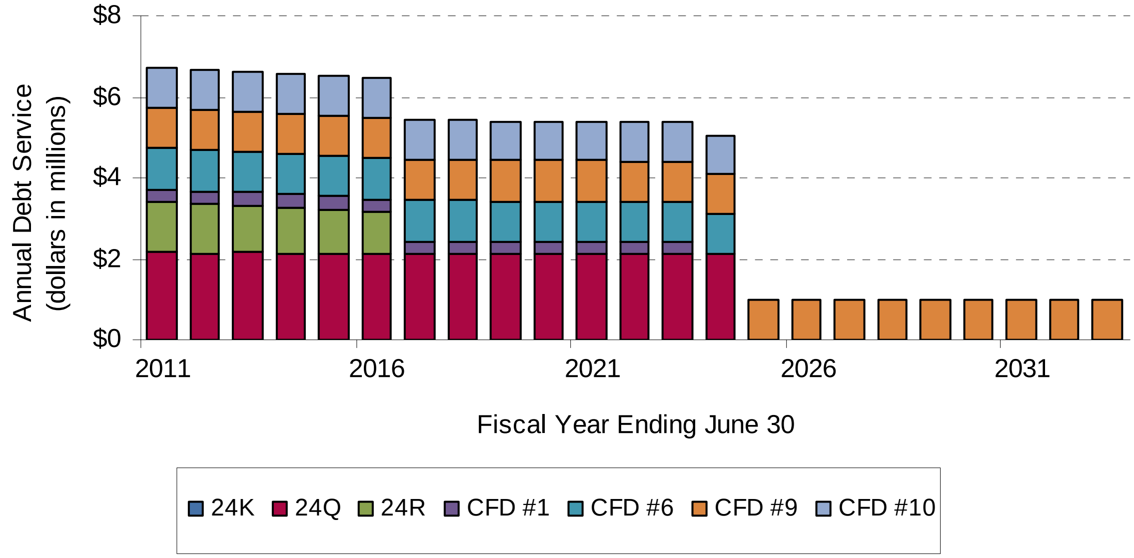
Land-Secured Bonds

Outstanding Debt as of June 30, 2010: $60,905,114



The bar graph below illustrates the total annual debt service requirements for all of the improvement district and community facilities district debt outstanding.

Land-Secured Bonds
Annual Debt Service



F. 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 and then loans the proceeds to the developer/borrower. The bonds are typically issued as tax-exempt securities. 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 (1) 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 (2) at least 40 percent of the units must be reserved for occupancy by individuals and families of low income (60% of area median income).

The City historically has been an active issuer of conduit multifamily housing revenue bonds. However, the frequency of issuance has slowed recently due to a variety of factors, including the softening of the real estate market and diminished resources available to subsidize affordable housing. The table presented on the following pages summarizes the City's portfolio of multifamily revenue bonds.

Since November 1985, the City has issued $802,208,969 of bonds for the City's multifamily housing program, which has financed 5,977 affordable housing units. As of June 30, 2010, the total principal amount of bonds outstanding for the housing program was $519,119,010. It is important to note that in addition to conduit financing through multifamily housing revenue bonds, there are other vehicles available to the City for assisting with financing of affordable housing units, including loans, grants and 9% tax-credits. 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.

Multifamily Housing Revenue Bonds

As of June 30, 2010

(dollars in thousands)

Project Name	Bond Series	Date Issued	Issue Amount	Balance	Final Maturity	Affordable Units[1]
					04/15/07	29
Fairway Glen	1985A	11/18/85	$10,100	-		
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	0
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	60,000	12/01/29	271
Siena at Renaissance Square	1996B	08/22/96	10,000	-	04/01/98	0
Almaden Lake Village Apartments	1997A	03/27/97	25,000	25,000	03/01/32	142
Almaden Lake Village Apartments	1997B	03/27/97	2,000	-	03/29/00	0
Coleman Senior Apartments	1998	04/24/98	8,050	7,129	10/15/32	26
Italian Gardens Senior Apartments	1998	04/24/98	8,000	7,084	04/02/01	0
Carlton Plaza	1998A	04/24/98	12,000	12,000	05/01/30	140
Carlton Plaza	1998A (Tax.)	04/24/98	2,600	-	05/01/30	139
The Gardens Apartments	1999A	05/12/99	18,970	18,970	01/01/32	286
The Gardens Apartments	1999B (Tax.)	05/12/99	2,930	15	01/01/11	0
Helzer Court Apartments	1999A	06/02/99	16,948	15,938	12/01/41	154
Helzer Court Apartments	1999B	06/02/99	3,950	-	12/01/08	0
Helzer Court Apartments	1999B (Tax.)	06/02/99	2,271	-	12/01/04	0
Ohlone-Chynoweth Commons Apartments	1999	06/04/99	16,200	-	06/01/39	192
Kimberly Woods Apartments	1999A	12/20/99	16,050	16,050	12/01/29	42
Almaden Lake Village Apartments	2000A	03/29/00	2,000	2,000	03/01/32	0
Sixth and Martha Family Apartments Phase I	2000	07/21/00	9,900	8,910	03/01/33	102
Craig Gardens Apartments	2000A	12/05/00	7,100	4,361	12/01/32	89
El Parador Apartments	2000A	12/07/00	6,130	5,785	01/01/41	124
El Parador Apartments	2000B	12/07/00	900	485	01/01/16	0
El Parador Apartments	2000C	12/07/00	4,500	-	01/01/04	0
Monte Vista Gardens Senior Housing	2000A	12/08/00	3,740	3,075	07/15/33	68
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	0
San Jose Lutheran Seniors Apartments	2001A-1	07/11/01	3,850	3,498	02/15/34	62
San Jose Lutheran Seniors Apartments	2001A-2	07/11/01	1,150	-	02/15/04	0
Sixth and Martha Family Apartments Phase II	2001C	08/01/01	9,000	7,565	04/01/34	87
The Villages Parkway Senior Apartments	2001D	08/01/01	6,800	5,340	04/01/34	78
Lenzen Housing	2001B	08/22/01	8,395	7,910	02/20/43	87
Lenzen Housing	2001B (Sub.)	08/22/01	1,100	-	10/01/03	0
Terramina Square Apts/North White Rd Proj	2001F	11/15/01	16,845	16,261	04/01/44	156
Villa de Guadalupe Apartments	2001E	11/27/01	6,840	6,840	01/01/32	100
Villa de Guadalupe Apartments	2001E (Tax.)	11/27/01	760	193	04/01/12	0
Almaden Senior Housing Apartments	2001G	12/05/01	6,050	2,995	07/15/34	65
Betty Anne Gardens Apartments	2002A	04/05/02	11,000	7,005	04/01/34	75
El Paseo Apartments	2002B	04/05/02	9,600	4,845	10/01/34	97
Sunset Square Apartments	2002E	06/26/02	10,904	4,269	06/01/34	94
Villa Monterey Apartments	2002F	06/27/02	11,000	10,300	07/15/35	119

(*continued on next page*)

Multifamily Housing Revenue Bonds (continued)

As of June 30, 2010

(dollars in thousands)

Project Name, Bond Series	Bond Series	Date Issued	Issue Amount	Balance	Final Maturity	Affordable Units[1]
Monte Vista Gardens Senior Housing Apartments, Phase II	2002C-1	07/24/02	3,465	2,895	02/01/35	48
Pollard Plaza Apartments	2002D	08/06/02	14,000	7,195	08/01/35	129
Evans Lane Apartments	2002H	10/08/02	31,000	-	04/15/36	236
Hacienda Villa Creek Senior Apartments	2002G-1	10/10/02	4,453	3,694	12/01/34	79
Hacienda Villa Creek Senior Apartments	2002G-2	10/10/02	2,547	-	05/12/06	0
Kennedy Apartment Homes	2002K	12/11/02	14,000	9,275	12/15/35	78
Monte Vista Gardens Senior Housing Apartments, Phase II	2002C-2	12/13/02	200	-	02/01/05	0
Fallen Leaves Apartments	2002J-1	12/18/02	13,360	11,545	06/01/36	159
Fallen Leaves Apartments	2002J-2 (Sub.)	12/18/02	3,340	2,945	05/01/36	0
Fallen Leaves Apartments	2002J-3 (Jr. Sub.)	12/18/02	2,100	-	07/31/07	0
Turnleaf Apartments	2003A	06/26/03	15,290	15,090	06/21/36	151
The Oaks of Almaden Apartments	2003B-1	07/29/03	4,365	3,888	02/15/36	125
The Oaks of Almaden Apartments	2003B-2	07/29/03	3,985	-	10/04/05	0
Cinnabar Commons	2003C	08/07/03	25,900	25,600	02/01/37	243
Almaden Family Apartments	2003D	11/14/03	31,300	24,615	11/15/37	223
Trestles Apartments	2004A	03/04/04	7,325	7,325	03/01/37	70
Trestles Apartments	2004A (Sub.)	03/04/04	1,300	1,169	04/15/37	0
Vintage Tower Apartments	2004B-1	06/28/04	4,150	3,239	01/15/37	59
Vintage Tower Apartments	2004B-2	06/28/04	1,350	-	11/01/06	0
Delmas Park	2004C-1	10/15/04	13,780	13,024	01/01/47	122
Delmas Park	2004C-2	10/15/04	5,599	-	06/01/07	0
Raintree Apartments	2005A	02/01/05	21,100	20,600	02/01/38	174
Paseo Senter I	2005B-1	12/21/05	6,142	4,966	12/01/38	115
Paseo Senter I	2005B-2	12/21/05	23,805	-	06/01/09	0
Paseo Senter II	2005C-1	12/21/05	4,903	3,852	06/01/38	99
Paseo Senter II	2005C-2	12/21/05	19,776	-	12/01/08	0
Casa Feliz Studio Apartments	2007A	06/13/07	11,000	-	12/01/09	59
Almaden Family Apartments	2007B (Sub.)	12/17/07	6,385	6,385	11/15/37	0
Curtner Studios	2007C-1	12/19/07	5,520	5,436	12/01/39	178
Curtner Studios	2007C-2	12/19/07	3,275	-	06/01/09	0
Fairgrounds Senior Housing Apartments	2008B	05/08/08	26,000	26,000	05/01/41	199
Las Ventanas Apartments	2008B	07/15/08	25,900	25,900	07/01/38	0
Brookwood Terrace Family Apts	2009B-1	12/23/09	7,780	7,780	01/01/44	83
Brookwood Terrace Family Apts	2009B-2	12/23/09	5,445	5,445	01/01/44	0
Fourth Street Apts	2010A-1	06/02/10	5,620	55	01/01/14	0
Fourth Street Apts	2010A-2	06/02/10	17,380	17,380	01/01/14	99
Grand Total			**$802,208**	**$519,119**		**5,977**

[1] In cases where multiple bond series have been issued for a single project, the number of affordable units is entered on the row for the first series of bonds issued for that project.

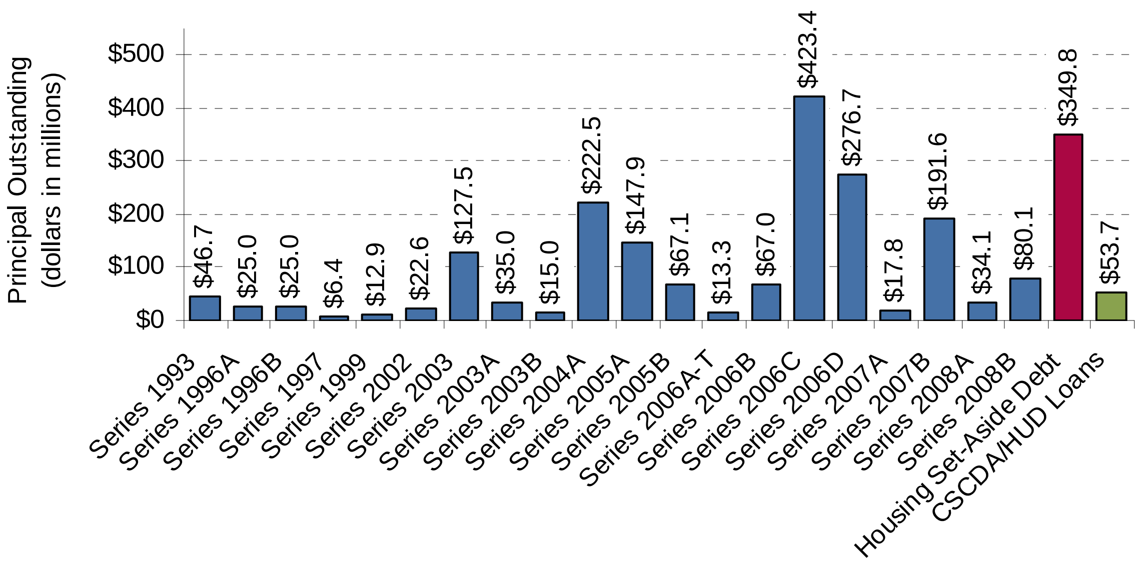
G. Redevelopment Agency

Please note that, except as described below, the City has no obligation or connection in any way to debt issued by the Redevelopment Agency.

The following bar chart illustrates the total amount of direct redevelopment agency tax increment debt outstanding. This includes the debt issued for the 80% program, the 20% affordable housing program, and the Agency's CSCDA ERAF loans and HUD Section 108 loans. In the event that the Agency does not timely repay its scheduled payments on the CSCDA ERAF loans, the County Auditor will be directed to transfer the first available ad valorem property tax revenues due to the City to make the payment. With respect to the HUD Section 108 loans, in the event that the Agency does not make timely payments, then HUD may reduce the amount owed by the Agency from payments of City's Community Development Block Grants.

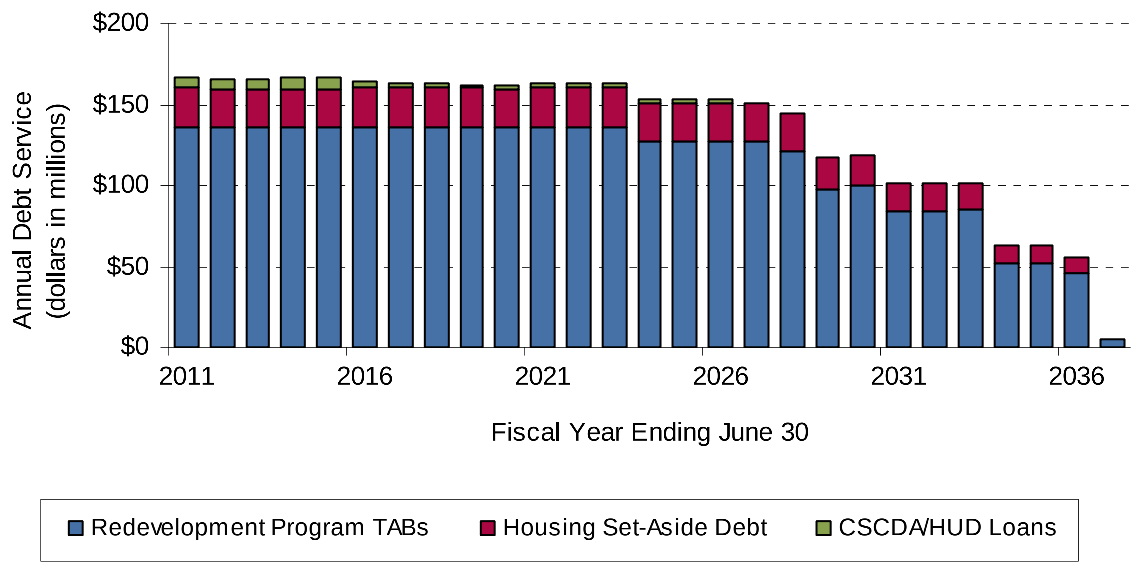
Redevelopment Agency Tax Increment Debt

Outstanding Debt as of June 30, 2010: $2,261,310,000



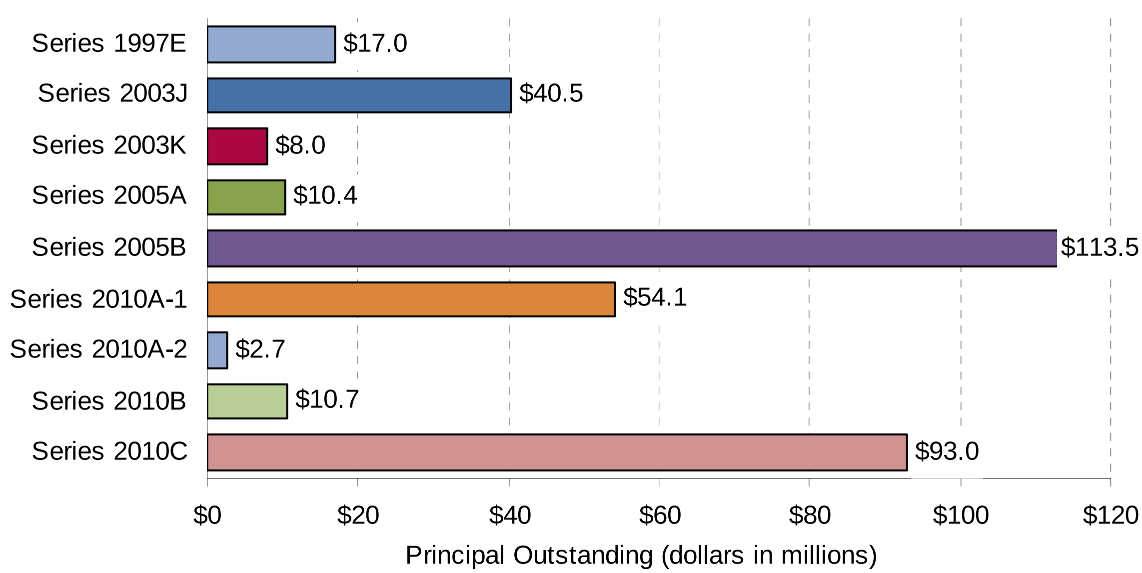
The following bar graph illustrates the total annual debt service requirements for all of the Agency debt outstanding.

Redevelopment Agency Tax Increment Debt
Annual Debt Service



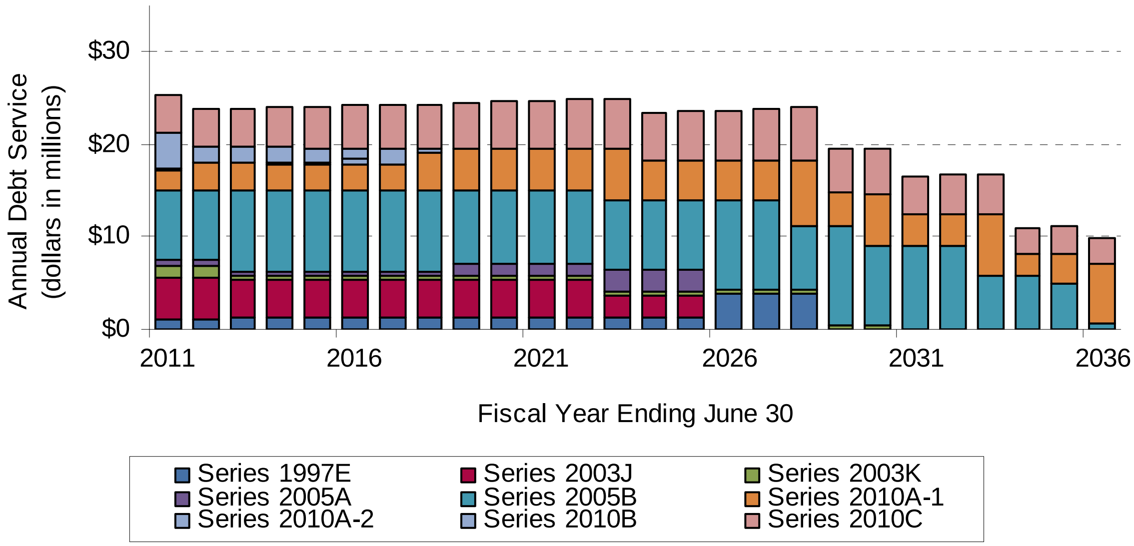
The bar chart below provides a more detailed view of the Agency's outstanding housing set-aside tax allocation bonds.

Redevelopment Agency Housing Set-Aside Debt
Outstanding Debt as of June 30, 2010: $349,845,000



The bar chart below illustrates the annual debt service requirements for the Agency's housing set-aside debt.

Redevelopment Agency Housing Set-Aside Debt
Annual Debt Service



APPENDIX A:

DEBT MANAGEMENT POLICY

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

CITY OF SAN JOSE, CALIFORNIA

CITY COUNCIL POLICY

TITLE	PAGE	POLICY NUMBER
DEBT MANAGEMENT POLICY	**1 OF 5**	**1-15**
	EFFECTIVE DATE	**REVISED DATE**
	5/21/02	

APPROVED BY COUNCIL ACTION

May 21, 2002, Item 3.3, Resolution No. 70977

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 Finance and Infrastructure Committee and forwarded to the City Council for approval by resolution.

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. 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.

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.[1]

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.

C. Derivatives

Derivative products[2] 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.

[1] 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.

[2] 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

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..

<u>DEBT ADMINISTRATION</u>

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

<u>A. Financial Disclosure</u>

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.

<u>B. Arbitrage Compliance</u>

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

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

APPENDIX C:

CURRENT RATINGS SUMMARY

Current Ratings Summary
as of October 31, 2010

	Moody's	S&P	Fitch
City of San José			
General Obligation Bonds, Series 2001			
Maturities Insured by National[1] (2020)	Aaa	AAA	AAA
Uninsured Maturities	Aaa	AAA	AAA
General Obligation Bonds, Series 2002			
Maturities Insured by National[1] (2032)	Aaa	AAA	AAA
Uninsured Maturities	Aaa	AAA	AAA
General Obligation Bonds, Series 2004			
Maturities Insured by National[1]	Aaa	AAA	AAA
Uninsured Maturities (2018-2025)	Aaa	AAA	AAA
General Obligation Bonds, Series 2005			
Maturities Insured by National[1] (2031, 2035)	Aaa	AAA	AAA
Uninsured Maturities	Aaa	AAA	AAA
General Obligation Bonds, Series 2006			
Maturities Insured by National[1] (2020-2026, 2036)	Aaa	AAA	AAA
Uninsured Maturities	Aaa	AAA	AAA
General Obligation Bonds, Series 2007			
Maturities Insured by National[1] (2032, 2037)	Aaa	AAA	AAA
Uninsured Maturities	Aaa	AAA	AAA
General Obligation Bonds, Series 2008	Aaa	AAA	AAA
General Obligation Bonds, Series 2009	Aaa	AAA	AAA
City of San José Financing Authority			
Lease Revenue Bonds, Series 1993B	Aa2	--	--
Lease Revenue Bonds, Series 1997B			
All Maturities Insured by Ambac	Aa3	--	AA+
Underlying Rating	(Aa3)	--	(AA+)
Revenue Bonds, Series 2001A			
All Maturities Insured by Ambac	A1	--	A
Underlying Rating	(A1)	--	(A)
Lease Revenue Bonds, Series 2001F			
Maturities Insured by National[1] (2007-2020)	Aa2	AA+	AA+
Uninsured Maturities	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2002B			
Maturities Insured by Ambac (2008-2037)	Aa2	AA+	AA+
Uninsured Maturities	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2003A			
All Maturities Insured by Ambac	Aa2	AA+	AA+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2006A			
All Maturities Insured by Ambac	Aa2	AA+	AA+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2007A			
All Maturities Insured by Ambac	Aa2	AA+	AA+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2008A[2]			
LOC – Scotiabank/CalSTRS (expires 11/16/10)[3]	Aaa/VMIG1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa2)	(AA+)	(AA+)

Current Ratings Summary

as of October 31, 2010

	Moody's	S&P	Fitch
City of San José Financing Authority (continued)			
Lease Revenue Bonds, Series 2008B[2]			
LOC – BoA/CalSTRS (expires 11/16/10) [3]	Aaa/VMIG1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2008C[2]			
LOC – Scotiabank/CalSTRS (expires 11/16/10)[3]	Aaa/VMIG1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2008D[2]			
LOC – Scotiabank/CalSTRS (expires 11/16/10)[3]	Aaa/VMIG1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2008E[2]			
LOC – BoA/CalSTRS (expires 11/16/10)[3]	Aaa/VMIG1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Bonds, Series 2008F[2]			
LOC – Bank of America (expires 6/11/11)	Aaa/VMIG1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa2)	(AA+)	(AA+)
Lease Revenue Commercial Paper Notes			
LOC – State Street Bank/CalSTRS (expires 1/27/13)	P-1	A-1+	F1+
Redevelopment Agency of the City of San José			
Housing Set-Aside Tax Allocation Bonds			
Series 1997E			
All Maturities Insured by National[1]	A1	A	A+
Underlying Rating	(A1)	(A)	--
Series 2003J			
All Maturities Insured by Syncora	A1	A	A+
Underlying Rating	(A1)	(A)	(A+)
Series 2003K			
All Maturities Insured by Syncora	A1	A	A+
Underlying Rating	(A1)	(A)	(A+)
Series 2005A			
All Maturities Insured by National[1, 4]	A1	A	A+
Underlying Rating	(A1)	(A)	(A+)
Series 2005B			
All Maturities Insured by National[1, 4]	A1	A	A+
Underlying Rating	(A1)	(A)	(A+)
Series 2010A-1	A1	A	A+
Series 2010A-2	A1	A	A+
Series 2010B	A1	A	A+
Redevelopment Project Tax Allocation Bonds			
Series 1993			
Maturities Insured by National[1] (2006-2020, 2024)	A2	A	A
Uninsured Maturities/Underlying Rating	(A2)	--	--
Series 1997			
All Maturities Insured by National[1]	A2	A	A
Underlying Rating	(A2)	--	(A)

Current Ratings Summary
as of October 31, 2010

	Moody's	S&P	Fitch
Redevelopment Project Tax Allocation Bonds (continued)			
Series 1999			
All Maturities Insured by Ambac	A2	A-	A
Underlying Rating	(A2)	(A-)	--
Series 2002			
All Maturities Insured by National[1]	A2	A	A
Underlying Rating	A2	(A-)	(A)
Series 2003			
All Maturities Insured by National[1,4]	A2	A	A
Underlying Rating	(A2)	(A-)	(A)
Series 2004A			
Maturities Insured by National[1] (2007-2019)	A2	A	A
Underlying Rating	(A2)	(A-)	(A)
Series 2005A			
All Maturities Insured by National[1]	A2	A	A
Underlying Rating	(A2)	(A-)	(A)
Series 2005B			
All Maturities Insured by Ambac	A2	A-	A
Underlying Rating	(A2)	(A-)	(A)
Series 2006A-T			
All Maturities Insured by Radian	A2	A-	A
Underlying Rating	(A2)	(A-)	(A)
Series 2006B			
All Maturities Insured by Radian	A2	A-	A
Underlying Rating	(A2)	(A-)	(A)
Series 2006C			
All Maturities Insured by National[1]	A2	A	A
Underlying Rating	(A2)	(A-)	(A)
Series 2006D			
All Maturities Insured by Ambac	A2	A-	A
Underlying Rating	(A2)	(A-)	(A)
Series 2007A-T			
All Maturities Insured by Syncora	A2	A-	A
Underlying Rating	(A2)	(A-)	(A)
Series 2007B			
All Maturities Insured by Syncora	A2	A-	A
Underlying Rating	(A2)	(A-)	(A)
Series 2008A	A2	A-	A
Series 2008B	A2	A-	A
Redevelopment Project Revenue Bonds (Subordinate)			
Series 1996A[2]			
LOC – JP Morgan Chase Bank (expires 11/27/11)	--	AA-/A-1+	--
Series 1996B[2]			
LOC – JP Morgan Chase Bank (expires 11/27/11)	--	AA-/A-1+	--
Series 2003A[2]			
LOC – JP Morgan Chase Bank (expires 11/27/11)	--	AA-/A-1+	--
Series 2003B[2]			
LOC – JP Morgan Chase Bank (expires 11/27/11)	--	AA-/A-1+	--

Current Ratings Summary

as of October 31, 2010

	Moody's	S&P	Fitch
Norman Y. Mineta San José International Airport			
Airport Revenue Refunding Bonds, Series 1998A[5]			
All Maturities Insured by National[1, 4]	A2	A	A-
Underlying Rating	(A2)	(A)	(A-)
Airport Revenue Bonds, Series 2001A[5]			
All Maturities Insured by National[1, 4]	A2	A	A-
Underlying Rating	(A2)	(A)	(A-)
Airport Revenue Refunding Bonds, Series 2002A[5]			
All Maturities Insured by AGMC[5,6]	Aa3	AA+	A-
Underlying Rating	(A2)	(A)	(A-)
Airport Revenue Refunding Bonds, Series 2002B[5]			
All Maturities Insured by AGMC[5,6]	Aa3	AA+	A-
Underlying Rating	(A2)	(A)	(A-)
Airport Revenue Bonds, Series 2004C[5]			
All Maturities Insured by National[1]	A2	A	A-
Underlying Rating	(A2)	(A)	(A-)
Airport Revenue Bonds, Series 2004D[5]			
All Maturities Insured by National[1]	A2	A	A-
Underlying Rating	(A2)	(A)	(A-)
Airport Revenue Bonds, Series 2007A[5]			
All Maturities Insured by Ambac	A2	AAA	A-
Underlying Rating	(A2)	(A)	(A-)
Airport Revenue Bonds, Series 2007B[5]			
All Maturities Insured by Ambac	A2	A	A-
Underlying Rating	(A2)	(A)	(A-)
Subordinated Commercial Paper Notes, Series A-1			
LOC – JP Morgan/BofA/Dexia (expires 2/2/11)	P-1	A-1	F1+
Subordinated Commercial Paper Notes, Series A-2			
LOC – JP Morgan/BofA/Dexia (expires 2/2/11)	P-1	A-1	F1+
Subordinated Commercial Paper Notes, Series B			
LOC – JP Morgan/BofA/Dexia (expires 2/2/11)	P-1	A-1	F1+
Subordinated Commercial Paper Notes, Series C			
LOC – JP Morgan/BofA/Dexia (expires 2/2/11)	P-1	A-1	F1+
Subordinated Commercial Paper Notes, Series D			
LOC – Lloyds TSB Bank (expires 5/7/11)	P-1	A-1	F1+
Subordinated Commercial Paper Notes, Series E			
LOC – Lloyds TSB Bank (expires 5/7/11)	P-1	A-1	F1+
Subordinated Commercial Paper Notes, Series F			
LOC – Lloyds TSB Bank (expires 5/7/11)	P-1	A-1	F1+
San José-Santa Clara Clean Water Financing Authority			
Sewer Revenue Refunding Bonds, Series 2005A			
All Maturities Insured by AGMC[6]	Aa2	AA+	AAA
Underlying Rating	(Aa2)	(AAA)	(AAA)
Sewer Revenue Refunding Bonds, Series 2009A	Aa2	AAA	AAA

Current Ratings Summary
as of October 31, 2010

	Moody's	S&P	Fitch
City of San José Reassessment District No. 02-219SJ			
Limited Obligation Refunding Bonds, Series 24R All Maturities Insured by National[1]	Baa1	A	--

[1] National Public Finance Guarantee Corp. ("National") is a subsidiary established by MBIA to take on MBIA's U.S. public finance business.

[2] Variable-rate bonds.

[3] The Letters of Credit ("LOC") on CSJFA Lease Revenue Bonds Series 2008ABCDE will be renewed by November 2010. Details are listed as follows:

CSJFA 2008A LOC – Union Bank of California (expires Nov. 16, 2010)

CSJFA 2008B LOC – Bank of America/Union Bank of California (expires Nov. 16, 2010)

CSJFA 2008CD LOC – U.S. Bank, N.A. (expires Nov. 16, 2010)

CSJFA 2008E LOC – Bank of America/U.S. Bank, N.A. (expires Nov. 16, 2010)

[4] The bonds were initially insured by Financial Guaranty Insurance Company ("FGIC"). FGIC and MBIA Inc. ("MBIA") entered in a Reinsurance Agreement on September 30, 2008 under which MBIA has agreed to pay directly to policyholders 100% of claims payable by FGIC.

[5] On September 14, 2009, the unenhanced long-term rating for the City's Airport Revenue Bonds was downgraded by Fitch Ratings to A- from A+.

[6] On July 1, 2009, Financial Security Assurance Inc. ("FSA") was acquired by Assured Guaranty Ltd. Its name was changed to Assured Guaranty Municipal Corp ("AGMC") as of November 2, 2009.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

APPENDIX D:

SUMMARY OF OUTSTANDING DEBT

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Summary of Outstanding Debt as of June 30, 2010

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance June 30, 2010
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	$ 52,040
Series 2002 (Libraries, Parks, Public Safety)	116,090	07/18/2002	09/01/2032	89,000
Series 2004 (Libraries, Parks, Public Safety)	118,700	07/14/2004	09/01/2034	98,925
Series 2005 (Libraries and Public Safety)	46,300	06/23/2005	09/01/2035	40,140
Series 2006 (Libraries and Parks)	105,400	06/29/2006	09/01/2036	94,870
Series 2007 (Parks and Public Safety)	90,000	06/20/2007	09/01/2037	84,000
Series 2008 (Libraries and Parks)	33,100	06/25/2008	09/01/2038	31,995
Series 2009 (Public Safety)	9,000	06/25/2009	09/01/2039	9,000
General Obligation Bonds Subtotal				499,970
HUD Section 108 Note	25,810	02/10/2005	08/01/2024	22,915
City of San Jose Financing Authority:				
Lease Revenue Bonds:				
Series 1993B (Community Facilities)	18,045	04/13/1993	11/15/2018	2,243
Series 1997B (Fire, Childcare, Library Land)	9,805	07/29/1997	08/01/2012	1,165
Series 2001A (4th & San Fernando)	48,675	04/10/2001	09/01/2026	38,255
Series 2001F (Convention Center)	186,150	07/26/2001	09/01/2022	145,895
Series 2002B (Civic Center Project)	292,425	11/14/2002	06/01/2037	291,820
Series 2003A (Central Service Yard)	22,625	09/18/2003	10/15/2023	17,465
Series 2006A (Civic Center Project)	57,440	06/01/2006	06/01/2039	57,440
Series 2007A (Recreational Facilities)	36,555	06/28/2007	08/15/2030	33,435
Series 2008A (Civic Center)	60,310	08/14/2008	06/01/2039	56,920
Series 2008B (Civic Center Garage)	36,580	07/10/2008	06/01/2039	35,280
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	45,080
Series 2008E (Taxable) (Ice Centre)	28,070	07/03/2008	06/01/2025	26,025
Series 2008F (Taxable) (Land Acquisition)	67,195	06/11/2008	06/01/2034	67,195
City of San Jose Financing Authority Subtotal				829,133
Special Assessment Bonds with Limited Governmental Commitment:				
Special Assessment Bonds:				
Series 24K (Seismic Retrofit)	823	06/29/1993	09/02/2013	30
Series 24Q (Hellyer-Piercy)	27,595	06/26/2001	09/02/2023	20,550
Series 24R (2002 Consolidated Refunding)	13,940	07/03/2002	09/02/2015	6,145
Special Tax Bonds:				
CFD No. 1 (Capitol Expressway Auto Mall)	4,100	11/18/1997	11/01/2022	2,820
CFD No. 6 (Great Oaks-Route 85)	12,200	12/18/2001	09/01/2023	9,695
CFD No. 9 (Bailey/Highway 101)	13,560	02/13/2003	09/01/2032	11,860
CFD No. 10 (Hassler-Silver Creek)	12,500	07/23/2003	09/01/2023	9,805
Special Assessment Bonds Subtotal				60,905

Summary of Outstanding Debt as of June 30, 2010 (Continued)

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance June 30, 2010
Governmental Activities (Cont'd):				
Redevelopment Agency:				
Tax Allocation Bonds:				
Series 1993 (Merged Area Refunding)	692,075	12/15/1993	02/01/2024	46,650
Series 1997 (Merged Area)	106,000	03/27/1997	08/01/2028	6,400
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	22,565
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	222,525
Series 2005A (Merged Area)	152,950	07/25/2005	08/01/2028	147,865
Series 2005B (Merged Area)	67,130	07/25/2005	08/01/2015	67,130
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	276,745
Series 2007A (Taxable) (Merged Area)	21,330	11/07/2007	08/01/2017	17,790
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	34,120
Series 2008B (Merged Area)	80,145	11/13/2008	08/01/2035	80,145
Tax Allocation Bonds Subtotal				1,757,730
Revenue Bonds (Subordinate):				
Series 1996A (Merged Area)	29,500	06/27/1996	07/01/2026	25,000
Series 1996B (Merged Area)	29,500	06/27/1996	07/01/2026	25,000
Series 2003A (Taxable) (Merged Area)	45,000	08/27/2003	08/01/2028	35,000
Series 2003B (Merged Area)	15,000	08/27/2003	08/01/2032	15,000
Revenue Bonds (Subordinate) Subtotal				100,000
HUD Section 108 Note (Masson/Dr. Eu/Security)	5,200	02/11/1997	08/01/2016	2,670
HUD Section 108 Note (CIM Block 3/Central Plac	13,000	02/08/2006	08/01/2025	13,000
HUD Section 108 Note (Story/King Retail)	18,000	06/30/2006	08/01/2025	17,330
HUD Loans Subtotal				33,000
CSCDA - 2005 ERAF Loan	19,085	04/27/2005	08/01/2015	10,725
CSCDA - 2006 ERAF Loan	14,920	05/03/2006	08/01/2016	10,010
CSCDA Loans Subtotal				20,735
Housing Set-Aside Tax Allocation Bonds:				
Series 1997E (AMT) (Merged Area)	17,045	06/23/1997	08/01/2027	17,045
Series 2003J (Taxable) (Merged Area)	55,265	07/10/2003	08/01/2024	40,475
Series 2003K (Merged Area)	13,735	07/10/2003	08/01/2029	8,015
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	113,460
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	10,695
Housing Set-Aside Tax Allocation Bonds Subtotal				256,845
Housing Set-Aside Tax Allocation Bonds (Subordinate):				
Series 2010C (Taxable) (Merged Area)	93,000	04/29/2010	08/01/2035	93,000
Total Governmental Activities - Bonds and Notes Payable				$ 3,674,233

Summary of Outstanding Debt as of June 30, 2010 (Continued)

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance June 30, 2010
Business-type Activities:				
Norman Y. Mineta San Jose International Airport:				
Revenue Bonds:				
Series 1998A (AMT)	14,015	01/27/1998	03/01/2018	7,290
Series 2001A	158,455	08/14/2001	03/01/2031	135,160
Series 2002A	53,600	01/09/2003	03/01/2018	53,600
Series 2002B (AMT)	37,945	01/09/2003	03/01/2012	8,925
Series 2004C (AMT)	75,730	06/24/2004	03/01/2026	73,730
Series 2004D	34,270	06/24/2004	03/01/2028	34,270
Series 2007A (AMT)	545,755	09/13/2007	03/01/2047	545,755
Series 2007B	179,260	09/13/2007	03/01/2037	179,260
Norman Y. Mineta San Jose International Airport Subtotal				1,037,990
Clean Water Financing Authority:				
Revenue Bonds:				
Series 2005A	54,020	10/05/2005	11/15/2016	36,625
Series 2009A	21,420	01/29/2009	11/15/2020	21,420
Clean Water Financing Authority Subtotal				58,045
State of California - Revolving Fund Loan	73,566	Various	05/01/2019	34,487
Total Business-type Activities - Bonds and Loan Payable				$ 1,130,522
Long Term Debt Subtotal				**$ 4,804,755**
<u>Short Term Debt:</u>				
City of San Jose Financing Authority:				
Lease Revenue Commercial Paper Notes	116,000	Various	Various	53,530
Norman Y. Mineta San Jose International Airport:				
Airport Revenue Commercial Paper Notes	600,000	Various	Various	417,348
Short Term Debt Subtotal				**$ 470,878**
Grand Total				**$ 5,275,633**

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

APPENDIX E:

OVERLAPPING DEBT REPORT

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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, 2010, is shown in this appendix. The City makes no representations as to the completeness or accuracy of such statement.

CITY OF SAN JOSE
STATEMENT OF DIRECT AND OVERLAPPING DEBT

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/30/10
Santa Clara County	38.181%	$ 133,633,500
Santa Clara Valley Water District Zone W-1	46.114	419,637
Foothill-De Anza Community College District	4.576	21,931,820
Gavilan Joint Community College District	7.789	5,805,531
San José-Evergreen Community College District	86.997	209,227,835
West Valley Community College District	27.965	60,144,239
Milpitas Unified School District	0.0002	97
Morgan Hill Unified School District	18.876	12,339,060
San José Unified School District	97.772	510,191,881
Santa Clara Unified School District	4.085	10,910,422
Campbell Union High School District	61.253	83,546,029
East Side Union High School District	94.537	534,963,754
Fremont Union High School District	9.829	19,895,370
Los Gatos-Saratoga Joint Union High School District	0.644	379,413
Alum Rock Union School District	74.053	59,809,148
Berryessa Union School District	93.933	38,942,772
Cambrian School District	67.610	12,960,799
Campbell Union School District	48.926	48,056,754
Cupertino Union School District	16.476	20,968,167
Evergreen School District	99.446	121,154,264
Evergreen School District Community Facilities District No. 92-1	100.000	3,940,000
Franklin-McKinley School District	98.428	57,705,707
Los Gatos Union School District	1.440	1,230,408
Luther Burbank School District	20.956	1,859,585
Moreland School District	76.059	55,729,853
Mount Pleasant School District	87.545	7,380,036
Oak Grove School District	99.548	92,654,224
Orchard School District	100.000	46,038,315
Union School District	72.041	54,122,685
City of San José	**100.000**	**499,970,000**
City of San José Community Facilities Districts	100.000	34,180,000
City of San José Special Assessment Bonds	100.000	26,725,114
Santa Clara Valley Water District Benefit Assessment District	38.181	58,203,116
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$ 2,845,019,535

(Continued)
CITY OF SAN JOSE
STATEMENT OF DIRECT AND OVERLAPPING DEBT

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	Debt 6/30/10
Santa Clara County General Fund Obligations	38.181%	$ 315,019,977
Santa Clara County Pension Obligations	38.181	148,159,393
Santa Clara County Board of Education Certificates of Participation	38.181	5,184,980
Foothill-De Anza Community College District Certificates of Participation	4.576	1,073,072
San José-Evergreen Community College District Benefit Obligations	86.997	40,692,847
West Valley-Mission Community College District General Fund Obligations	27.965	15,693,958
Morgan Hill Unified School District Certificates of Participation	18.876	2,557,698
San José Unified School District Certificates of Participation	97.772	109,783,018
Santa Clara Unified School District Certificates of Participation	4.085	530,230
East Side Union High School District Benefit Obligations	94.537	30,076,947
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.644	65,720
Alum Rock Union School District Certificates of Participation	74.053	2,221,590
Franklin-McKinley School District Certificates of Participation	98.428	5,497,204
Luther Burbank School District General Fund Obligations	20.956	451,059
City of San José General Fund Obligations	**100.000**	**789,448,126**
Santa Clara County Vector Control District Certificates of Participation	38.181	1,513,877
Midpeninsula Regional Open Space Park District General Fund Obligations	0.016	18,206
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 1,467,987,905
Less: San José Convention Center Lease Revenue Bonds (100% self-supporting from tax increment revenues)[1]		145,895,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 1,322,092,905
GROSS COMBINED TOTAL DEBT[2]		$ 4,313,007,440
NET COMBINED TOTAL DEBT		$ 4,167,112,440
Ratios to 2009-10 Assessed Valuation:		
Direct Debt ($499,970,000)	**0.41%**	
Total Direct and Overlapping Tax and Assessment Debt	2.33%	
Ratios to Adjusted Assessed Valuation:		
Gross Combined Direct Debt ($1,289,418,126)	**1.25%**	
Net Combined Direct Debt ($1,143,523,126)	**1.11%**	
Gross Combined Total Debt	4.18%	
Net Combined Total Debt	4.04%	
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10:		$ 0

(1) Supported from surplus tax increment revenues pursuant to a Reimbursement Agreement between the City and the Redevelopment Agency.
(2) 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 F: AIRPORT COMMERCIAL PAPER DEBT SERVICE CERTIFICATION

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

AIRPORT COMMERCIAL PAPER DEBT SERVICE CERTIFICATION

In accordance with the Second Amended and Restated Letter of Credit and Reimbursement Agreement by and among the City of San José, JPMorgan Chase Bank, and the other banks thereto dated as of December 1, 2007 (the "Series A/B/C Reimbursement Agreement") and the Letter of Credit and Reimbursement Agreement between the City of San José and Lloyds TSB Bank plc, acting through its New York Branch, dated May 1, 2008 (the "Series D/E/F Reimbursement Agreement", and with the Series A/B/C Reimbursement Agreement, the "Reimbursement Agreements"), relating to the City of San José, San José International Airport Subordinated Commercial Paper Notes, the certification presented in this appendix is included in the Annual Debt Report for transmission to the City Council.

Pursuant to the definition of Debt Service set forth in Section 1.1 of the Reimbursement Agreements, the City's financial advisor, Public Financial Management has prepared an estimate of the annual debt service needed to amortize over a 25-year period the outstanding principal, as of June 30, 2010, of the Airport's commercial paper notes. A copy of the memorandum from Public Financial Management indicating the results of this calculation is included on the next page. As specified in the above-referenced definition of Debt Service, the assumed interest rate used in the amortization calculation is 115% of the weighted average rates on the outstanding commercial paper notes during the 90-day period prior to June 30, 2010.

This estimate of annual debt service is used by the City to calculate the debt service coverage ratio in compliance with Section 7.9 of each Reimbursement Agreement.

CITY OF SAN JOSE

CAPITAL OF SILICON VALLEY

PFM®

The PFM Group

Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

8200 Bryan Dairy
Road, Suite 325
Largo, Florida 33777

727-319-9292
727-319-9203 fax
www.pfm.com

Memorandum

To: City of San Jose

From: Kenneth D. Fullerton

Re: Information for Debt Service Coverage Calculations Required in Connection with the Airport's Commercial Paper Program

Date: October 19, 2010

We have developed the calculations required from our firm to enable the City of San Jose (the "City") to comply with Section 7.9 of its Reimbursement Agreements related to the commercial paper program for San Jose International Airport (the "Airport"). Specifically, we have developed an estimate of what the long-term debt service would have been in the fiscal year ending June 30, 2010 on the portion of the Airport's commercial paper outstanding as of June 30, 2010 which is allocable to completed projects. In doing so, we have used assumptions we believe are consistent with the requirements of Parts (c) and (d) of the definition of "Debt Service" contained in the Reimbursement Agreements.

The results of our calculations are presented below. As required by the Reimbursement Agreements, we have assumed that the principal amount of the commercial paper would be amortized over a period of 25 years. As also required, the interest rates we have assumed are 115% of the weighted average rates on the City's Series A (non-AMT), Series B (AMT) and Series C (taxable) commercial paper for the 90-day period prior to June 30, 2010.

Type of Commercial Paper	Principal Outstanding as of June 30, 2010	Assumed Interest Rate for Calculation (115% of average rate for prior 90 days)	Assumed Annual Debt Service (based on 25-year amortization at average rate)	Portion of Year During Which Related Projects were Completed	Assumed Debt Service During Portion of Year Projects were Completed
Series A (Non-AMT)	$15,205,000	0.361%	$637,162	4.17%	$26,570
Series B (AMT)	$148,771,000	0.401%	$6,266,302	4.17%	$261,305
Series C/F (Taxable)	$253,372,000	0.423%	$10,701,878	4.17%	$446,268

Please contact me if the City has any questions or requires any additional information.

APPENDIX G:

SPECIAL TAX ANNUAL REPORT

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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 2009-10

Date of Election	Special Tax Measure	Funds Collected[2]	Funds Expended[2]	Status of Funded Projects
11/07/2000	San José Neighborhood Libraries Bonds	See Note 1	$15,195,883	15 Completed 4 Design/Construction 1 Pending Site Selection
11/07/2000	San José Neighborhood Parks and Recreation Bonds	See Note 1	$16,917,502	90 Completed 7 Design/Construction
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	See Note 1	$10,806,296	24 Completed 7 Design/Construction [3]
03/27/2001	Community Facilities District No. 6 (Great Oaks-Route 85)	$2,046,873	$1,038,445	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)	$768,052	$282,663	On-going maintenance
12/17/2002	Community Facilities District No. 9 (Bailey/Highway 101)	$1,038,717	$1,016,484	Project Completed
04/01/2003	Community Facilities District No. 10 (Hassler-Silver Creek)	$1,082,027	$1,041,733	Project Completed
06/07/2005	Community Facilities District No. 11 (Adeline-Mary Helen)	$64,362	$51,986	On-going maintenance
11/08/2005	Community Facilities District No. 12 (Basking Ridge)	$325,388	$89,633	On-going maintenance

[1] The City has issued eight series of General Obligation Bonds through FY 2009-10 for a total of $589,590,000 to fund a portion of the projects authorized by voters under these measures. A total of $43,180,560 was collected in FY 2008-09 to pay debt service on the series 2001, 2002, 2004, 2005, 2006 2007, 2008, and 2009 Bonds.

[2] Funds collected include property taxes for the general obligation bonds and special taxes associated with the Community Facility Districts. Funds expended include debt service and administration charges for all special tax bonds and Community Facilities Districts. The funds expended for Community Facilities Districts also include trustee fees and maintenance services.

[3] The total number of Public Safety projects was decreased to 31 due to the defunding of the Driver Safety Training Center project as approved by City Council at its meeting on August 18, 2009. The defunding was required to provide additional funding for the South San José Police Substation project

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.

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.

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.

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.

Parity Bonds: 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.

Present Value: 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.

Private Placement: 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.

Project Lease: 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.

Proceeds: 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.

Rating Agencies: 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.

Redemption: 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."

Refunding: 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").

Reserve Fund/Account: 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.

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.