

City of San José

California

Annual

Debt

Report



Year Ending June 30, 2003





**City of San José
California**

12th Annual Debt Report



Fiscal Year Ending June 30, 2003

Prepared by
Finance Department
Debt & Risk Management Division

Scott P. Johnson
Director of Finance

**12th Annual Debt Report
City of San José
Department of Finance
Debt & Risk Management Division**

Scott P. Johnson
Director of Finance

Julia H. Cooper
Deputy Director of Finance

Debt Management Staff

David Persselin, Debt Administrator
Dariush Asfari, Financial Analyst
Maria Öberg, Financial Analyst
Lisa Taitano, Financial Analyst
Andrea Maestre, Analyst
Melba Griffin, Staff Technician

Special Assistance – Departments and Offices

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

**CITY OF SAN JOSE
FISCAL YEAR 2002-03
ANNUAL DEBT REPORT**

TABLE OF CONTENTS

Letter of Transmittal	v
I. Overview	1
A. Debt Management Program	1
1. Debt Issuance	1
2. Debt Administration.....	2
3. Debt Management Projects	2
B. Review of Debt Management Policies	8
C. Rating Agency Relations and Credit Maintenance	9
1. Credit Analysis Process	9
2. Rating Summary	11
3. Legal Debt Margins	12
D. Legislative and Regulatory Issues.....	12
II. Debt Issuance	13
A. Debt Issued During Fiscal Year 2002-03.....	13
B. Debt Issued and Planned for Fiscal Year 2003-04.....	20
1. Completed Financings	20
2. Planned Financings	24
C. Current and Anticipated Market Conditions	28
D. Selection of Debt Financing Teams	30

III. Debt Administration.....	33
A. Debt Administration System.....	33
B. Compliance and Monitoring.....	33
1. Trustee Activities.....	33
2. Bond Proceeds Expenditures and Reimbursements.....	34
3. Arbitrage Rebate	35
4. Continuing Disclosure	36
C. Investment of Bond Proceeds.....	37
D. Outstanding Variable Rate Debt	38
E. Refunding Opportunities	39
IV. City’s Outstanding Debt Portfolio	41
A. General Obligation Bonds.....	43
B. City of San José Financing Authority Obligations.....	44
1. Non-Self-Supporting Debt with Recourse to the City’s General Fund	45
2. Self-Supporting Debt with Recourse to the City’s General Fund.....	46
3. Self-Supporting Debt with No Recourse to the City’s General Fund.....	49
C. Enterprise Fund Obligations.....	50
1. Airport.....	50
2. Clean Water Financing Authority	52
D. Land-Secured Financing	53
E. Multifamily Housing Revenue Bonds	54
F. Redevelopment Agency.....	56
Appendix A: Current Ratings Summary	59

Appendix B: Summary of Outstanding Debt.....	63
Appendix C: Overlapping Debt Report	67
Appendix D: Airport Commercial Paper Debt Service Certification	71
Appendix E: Special Tax Annual Report.....	75



February 11, 2004

HONORABLE MAYOR AND CITY COUNCIL

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

I am pleased to present the 12th Annual Debt Report for the City of San José (the “Annual Report”) for the fiscal year ended June 30, 2003. The Annual Report is submitted for review and approval by the Making Government Work Better Committee and the City Council in accordance with the City’s Debt Management Policy which was approved by the City Council on May 21, 2002. This Annual Report covers Fiscal Year 2002-03 and discusses the activities undertaken and managed by the Debt Management Program, a section of the Debt and Risk Management Division within the Finance Department. The major sections in the Annual 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 Report only pertain to those activities managed by the City’s Debt Management Program, while the section of the Annual Report reviewing the City’s outstanding debt portfolio includes all debt issued by the City of San José, its Redevelopment Agency and various other financing authorities of which the City is a member.

The Debt Management Program is responsible for managing the debt issuance process for all City borrowings including the issuance and management of tax increment debt for the Housing Department’s Expanded Housing Program. It should be noted that debt issued by the Redevelopment Agency for its Capital Improvement Program 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

Fiscal Year 2002-03 was the most active year for debt issuance in the City's history with respect to total par amount of bonds issued, totaling \$836 million in seventeen series of bonds for twelve projects. In addition to providing these services, Debt Management staff were also involved in a number of debt management projects during Fiscal Year 2002-03 including establishing the Hayes Mansion Line of Credit, activation of the Airport Commercial Paper Program to support the Airport's security projects, confirmation of the City's outstanding long-term ratings of Aa1/AA+/AA+ in July 2003, and review of bond proceeds expenditure and disbursement procedures with City departments.

The debt calendar for Fiscal Year 2003-04 anticipates an equally challenging debt management program with an estimated fourteen series of bonds to be issued during the year totaling approximately \$570 million. As of January 31, 2004, seven of these series have already closed with an aggregate par amount of approximately \$170 million, and the City has also established a \$98 million lease revenue commercial paper program. This activity compares to an outstanding debt portfolio as of June 30, 2003 of over \$3.5 billion with 101 series of bonds outstanding for the City, Redevelopment Agency, and related entities.

Fiscal Year 2003-04 will continue to challenge the City's limited resources given the current economic climate. In addition to the fourteen series of bonds anticipated during Fiscal Year 2003-04, other projects underway include: development and implementation of a website for the City's continuing disclosure requirements; providing financial analysis to support the Airport's security projects; pursuing alternative financing approaches for the City's affordable housing program; and land acquisition for Airport and City use.

DECADE OF INVESTMENT

During Fiscal Year 2002-03 the City continued its "Decade of Investment" effort despite the City's financial downturn. The 2004-08 Five-Year Capital Improvement Program (the "CIP") encompasses 864 projects and programs totaling \$4.05 billion. This "decade of investment" will transform much of the City's infrastructure. The major investments continue to be in facilities most often used by the public – parks, community centers, and libraries – primarily as a result of the funding available from voter-approved bond measures.

A significant portion of the growth in revenue to fund the expanded capital improvement program comes from bond proceeds, with approximately 65% of the projects in the Five-Year CIP funded from bond proceeds. In addition to providing funds for CIP projects, the City also provides financing to support an aggressive affordable housing program. On September 3, 2002 the City Council committed to provide 6,000 units of affordable housing over the next five years. The Debt Management staff continues to be a key partner with the Housing Department in providing viable financing plans to facilitate delivery of these necessary housing units to the community.

ACKNOWLEDGMENTS

The preparation of this Report represents the culmination of a concerted team effort by Debt Management staff of the Finance Department as well as special assistance and support from key departments and offices throughout the City. Of particular note is the special assistance the Finance Department's Debt Management Program receives on a continuous basis from the City Attorney's Office, especially the dedication of Danielle Kenealey and Ed Moran. Special recognition goes to Julia Cooper, Deputy Director of Finance, Debt and Risk Management, and David Persselin, Debt Administrator, who demonstrated personal determination to produce this exemplary document, and for their continued 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 of outstanding debt issues. 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 City's 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.

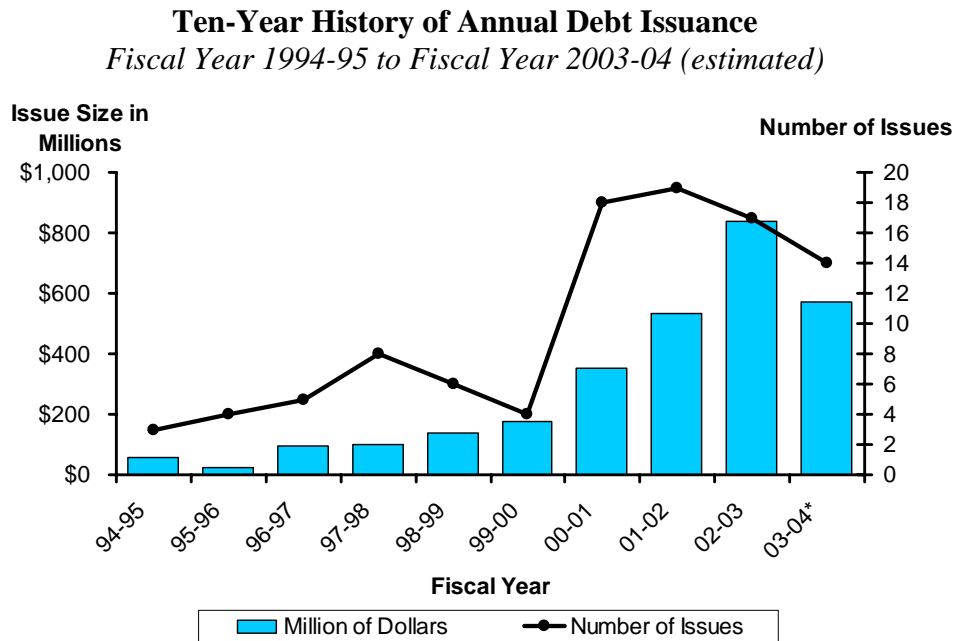
A. Debt Management Program

This section of the report provides an overview of debt issuance, debt administration and debt management projects for Fiscal Year 2002-03, including those debt management projects completed, currently underway or planned for Fiscal Year 2003-04.

1. Debt Issuance

The Debt Management Program, part of the Debt and Risk Management Division within the Finance Department, is responsible for managing the debt issuance process for all City borrowings. Fiscal Year 2002-03 was an active year for City debt issuance, with a total of seventeen series of bonds for twelve projects totaling a record \$836 million. The debt calendar for Fiscal Year 2003-04 is active as well, with an estimated fourteen series of bonds approaching \$570 million. Through January 2004, seven series have already closed with an aggregate par amount of approximately \$170 million, and the City has also established a \$98 million tax-exempt lease revenue commercial paper program.

The graph below illustrates the number of debt series issued in each of the last ten years along with the associated dollar volume.



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 has been incorporated into this Annual Debt Report as Appendix E. Section III of this report, Debt Administration, provides a detailed discussion of debt administration tasks performed by Debt Management staff.

3. Debt Management Projects

In addition to debt issuance and administration, 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 Fiscal Year 2002-03

Airport Land Acquisition Financing: During Fiscal Year 2002-03, the Debt Management staff, the City Attorney's Office, the Airport Department and the City's financing team prepared to issue Financing Authority lease revenue bonds to finance a land acquisition for use by the City's Norman Y. Mineta International Airport. In May 2003, in conjunction with an economic development opportunity in which eBay will expand its headquarters in San José, the City transferred its right to purchase the property, owned by Novell, to eBay, and the bonds were consequently not issued.

PEG/INET Financial Analysis: In July and August 2002, Debt Management staff provided analytical support to the City team negotiating with AT&T for the City cable franchise.

Hayes Mansion Line of Credit: On September 24, 2002, the City Council and the City of San José Financing Authority authorized various actions to facilitate short term economic relief of \$4.85 million for the tenant of the City's Hayes Mansion Conference Center. These actions included deferral of the tenant's obligation to pay rent to the City and extension to the tenant of a line of credit in an amount not to exceed \$3 million. Debt Management and other Finance Department staff, throughout the balance of the fiscal year, assisted the City Manager's Office in administering and monitoring the line of credit and in tracking the status of the Hayes Mansion Trust Fund, which served as the source of debt service payments in lieu of the deferred rent. In June 2003, Debt Management staff finalized the Request for Information ("RFI") to commence the process of finding a new lessee, manager or franchisee for the Hayes Mansion.

Energy Conservation Equipment Financing: Debt staff assisted staff from the Environmental Services Department, the City Attorney's Office, Public Works and General Services in evaluating proposed financing options for energy conservation equipment.

Master Equipment Lease: In January and February, 2003, Debt Management staff worked with staff from Public Works and General Services to establish a Master Equipment Lease for the purpose of financing vehicles, computers and other miscellaneous pieces of equipment. Staff met with several vendors before a Council decision was made to halt all purchases of new equipment.

Activation of Airport CP Program to Support Security Projects: On May 15, 2003, the City initiated issuance of tax-exempt commercial paper in support of the Airport's security projects, including construction of the North Concourse building. This issuance of commercial paper is part of the Airport's commercial paper program, which was authorized by Council in November 1999. The commercial paper will serve as interim financing, and is expected to be redeemed with proceeds of long-term Airport revenue bonds.

Municipal Golf Course Lease Analysis: In May and June 2003, Debt Management staff assisted PRNS staff in analyzing the value of future year lease payments for the City's Municipal Golf Course.

Carlton Plaza Apartments Credit Enhancement Replacement and Remarketing: Early in Fiscal Year 2002-03, Debt Management staff coordinated the replacement of the letter of credit for the Carlton Plaza Senior Apartments Multifamily Housing Revenue Bonds, Series 1998A. The Carlton Bonds were issued in 1998 to provide financing for the development of a 128-unit senior housing project and were credit enhanced with a letter of credit from Heller Financial. On September 10, 2002, City Council approved the substitution of the Heller letter of credit with a credit enhancement agreement from Fannie Mae. In addition to the credit enhancement, Fannie Mae provided \$4.4 million in additional taxable financing. The transaction was completed on October 23, 2002.

City of San José Housing Department Line of Credit Replacement: On April 1, 2003, the City's and the Redevelopment Agency's \$30 million Housing Department Line of Credit with Wachovia Bank expired. Through a competitive process, Bank of New York offered the most favorable terms and conditions and agreed to provide a Line of Credit in the amount of \$50 million with a term that expires on April 1, 2005, subject to further extension. The new Line of Credit was approved by the City Council and the Redevelopment Agency Board on February 25, 2003, and the Credit Agreement was executed and the Line of Credit put in place on March 24, 2003.

The Housing Department Line of Credit allows the Housing Department to fund affordable housing projects when and as needed. Interest is paid only on the portion of the Line of Credit actually drawn down and a nominal standby fee is paid on the unused portion. Upon the draw down of all or substantially all of the Line of Credit, the principal is repaid from sale proceeds of the Agency's Housing Set-Aside Tax Allocation Bonds. Once repaid, the Line of Credit is reinstated to its full amount and again becomes available for the purpose of making additional affordable housing loans. During Fiscal Year 2002-03, \$12.635 million was drawn from the Line of Credit, and as of January 31, 2004, \$16.2 million is outstanding.

Bond Proceeds Expenditures and Disbursement Procedures: Debt Management staff continued to work with other Finance Department staff, the City Attorney's Office and the CIP Action Team to clarify and streamline bond proceeds disbursement procedures. These procedures facilitate compliance with IRS tax rules and the California State Constitution and ensure that bond proceeds are only disbursed to reimburse eligible expenditures.

Technology Projects: Debt Management staff, in coordination with the City Attorney's Office and IT staff, continued planning for a City investor relations disclosure website. This website will make selected items of the City's financial information available to investors, rating agencies, bond insurers, and other interested market participants.

Staff in Debt Management is also working to convert its database of financing-related information to a Microsoft Access platform. This information includes details of each outstanding debt series, debt service payments, vendor payments and consultant and service provider contracts. In Fiscal Year 2002-03, staff developed and implemented the vendor contract module of the database.

Staff is also evaluating a system for the electronic storage of documents and other data that need long-term storage. The City's bonds are currently outstanding for up to 40 years, and for tax and regulatory compliance purposes the bond documents need to be retained for up to six years past the final maturity. An electronic storage system would reduce the amount of space needed to store enormous volumes of bond documents and might make it easier for staff to quickly find the pertinent information. In Fiscal Year 2002-03, staff began a pilot program of scanning trustee statements and bond proceeds reimbursement requisitions into a computer database.

Other: Debt Management continues to monitor federal and state legislation which may affect the City's ability to issue long-term debt. When time and resources allow, staff participates in training sessions and seminars to remain apprised of new financing methods and tax law changes which affect the City's ability to issue debt efficiently.

The Debt Administrator participated as a panelist at the California Society of Municipal Finance Officers/California Municipal Treasurers Association Conference in February 2003. The Deputy Director participated as a panelist at a California Debt and Investment Advisory Commission seminar in March 2003 and at the California Resilience Conference in April 2003. The Deputy Director also serves on the Government Finance Officers Association Committee on Governmental Debt Management.

Affordable Housing Project TEFRA Hearings: The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 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, specifies that the TEFRA hearing for multifamily housing projects be held before the Director of Finance. In Fiscal Year 2002-03, the Finance Department held hearings for ten projects:

Finance Director's TEFRA Hearings for Multifamily Housing Projects

Fiscal Year 2002-03

Date	Project	Amount	Issuer
08/07/2002	Ensenanza Apartments	\$14,000,000	City of San José
08/16/2002 ¹	Almaden Family Apartments	35,000,000	City of San José
01/07/2003	Turnleaf Apartments	16,000,000	City of San José
01/07/2003	Cinnabar Commons	28,000,000	City of San José
01/07/2003 ²	Branham Lane Family Apartments	24,000,000	City of San José
01/07/2003 ³	Oaks of Almaden Apartments	9,000,000	City of San José
02/13/2003 ²	Branham Lane Family Apartments	25,500,000	CA Housing Finance Agency (CalHFA)
04/04/2003 ¹	Almaden Family Apartments	35,000,000	City of San José
04/04/2003 ⁴	Trestles	9,500,000	City of San José
04/25/2003 ⁵	Vintage Tower Apartments	5,500,000	City of San José

¹ A second hearing was required because the hearing must occur within one year of the bond closing, which took place on November 14, 2003.

² A second hearing was required because the issuance amount increased after the first hearing.

³ Referred to as Cherryview at the time of the hearing.

⁴ Referred to as Del Oro Apartments at the time of the hearing.

⁵ A second hearing is scheduled for February 2004, because the hearing must occur within one year of the bond closing, which is anticipated to take place in July 2004.

b. Projects for Fiscal Year 2003-04

Financing Analysis to Support Airport Security Projects: Continuing work from the previous fiscal year, Debt Management staff partnered with staff from the Attorney's Office and the Airport to analyze alternative financing structures for the Airport's security projects, including the North Concourse building. After evaluating scenarios prepared by the City's financial advisors, staff is proceeding with a financing plan expected to result in issuance of long-term Airport revenue bonds in mid-2004.

Hayes Mansion Management Agreement: Debt Management and Finance Department staff, in coordination with the City Manager's Office, played an integral role in the solicitation, selection and agreement negotiation process to establish a new operator for the Hayes Mansion. The Management Agreement with Dolce International/San José, Inc. was approved by the City Council in December 2003.

In addition to the extensive work associated with bringing a new operator to the Hayes Mansion, significant effort was also expended to develop the transition plan which included a line of credit agreement with Comerica Bank-California and an agreement with Devcon Construction Incorporated to assume repayment of the principal of a loan made to Hayes Renaissance, L.P. Finance staff continues to be actively involved in the oversight of the operations of the Hayes Mansion.

Transition of Logitech Ice Centre Oversight to San José Arena Authority: Debt Management staff worked with the Office of Economic Development in the first quarter of the fiscal year to begin the transfer of the administration of the City's Lease and Management Agreement (the "Lease Agreement") for Logitech Ice Centre from City staff to the San José Arena Authority. In addition to a comprehensive review of the Lease Agreement, Debt Management staff conducted an analysis of the City's Community Facilities Revenue Fund as preparation for establishing a stand-alone fund for deposit and withdrawal of moneys related to the Ice Centre.

Alternative Financing Approaches for Affordable Housing: As part of the City's effort to provide more affordable housing, Debt Management staff coordinated a Workforce Housing presentation by representatives from Citigroup Global Markets, Inc., for the Housing Department in October 2003. Debt Management staff is also currently working with the California Debt Limit Allocation Committee (CDLAC), the Housing Department, and its Housing Department general financial advisor to develop a program whereby the City, along with other issuers in the state, could apply for a tax-exempt CDLAC private activity allocation for the purpose of issuing tax allocation bonds ("TABs"). While the City received an allocation in 1997 for this purpose, CDLAC rules for private activity allocation have changed. This type of program would allow the City to fund its loans to developers for affordable housing projects. Although unconventional under CDLAC's current program guidelines, if approved, this program would reduce the financing cost of Redevelopment Agency Housing Set-Aside TABs.

Parking System Bonding Capacity Analysis: During the second quarter of the fiscal year, Debt Management staff assisted the Department of Transportation in developing a debt capacity analysis of the City Parking Fund. The results of the analysis were presented to Council in October 2003, along with recommendations for prioritizing projects within the Parking Capital Program.

Land Acquisition for Airport and City Use: In September 2003, Debt Management staff began working with the Office of Economic Development to explore financing structures which could be used to acquire land near to the Airport, a portion of which would be leased by the Airport from the City of San José Financing Authority for aviation purposes.

Evergreen Smart Growth Initiative: In the third quarter of the fiscal year, Debt Management staff began to work with Public Works and Planning staff in support of the Evergreen Smart Growth Initiative.

IRS Audits of Multifamily Housing Revenue Bonds: The IRS recently launched a new audit program for Multifamily Housing Bonds. Two City of San José projects were randomly selected to be part of the initial pilot testing of the audit program: the North White Road Apartments and The Gardens Apartments. Debt Management staff worked with the developers and the Housing Department in compiling the requested information and transmitting it to the IRS. The IRS conducted a walk-through inspection of the North

White Road Apartments in July 2003 and is expected to conduct a similar inspection of The Gardens in early 2004.

Affordable Housing Project Credit Enhancement Substitution: In Fiscal Year 2003-04, Debt Management staff have assisted the Housing Department and affordable housing developers in obtaining substitute credit enhancement for the projects summarized below.

Somerset Park Credit Enhancement Substitution – The Somerset Park Apartments Multifamily Housing Revenue Bonds Series 1987A were issued in 1987 to provide financing for a 128-unit housing project. The bonds were credit enhanced with a letter of credit from Bank of America. On June 24, 2003, City Council approved the substitution of the Bank of America letter of credit with a credit facility from Fannie Mae. The transaction closed on July 31, 2003.

Fairway Glen & Foxchase Drive Credit Enhancement Substitution – The Fairway Glen and Foxchase Drive Apartments Multifamily Housing Revenue Bonds Series 1985A and 1985B were issued in 1985 to provide financing for the development of two 144-unit housing projects. The bonds are currently credit enhanced with a letter of credit from Financial Guarantee Insurance Corporation (“FGIC”). On January 13, 2004, City Council approved the substitution of the FGIC letter of credit with a credit enhancement agreement from Fannie Mae. The transaction is scheduled to close on February 24, 2004.

Ohlone-Chynoweth Credit Enhancement Substitution – The Ohlone-Chynoweth Apartments Multifamily Housing Revenue Bonds Series 1999A and taxable 1999B were issued in 1999 to provide financing for the development of a 195-unit housing project. In July 2003, the Developer was informed that the current letter of credit bank (Bay View Bank, N.A.) intended to dissolve on September 30, 2003. The letter of credit was assumed by Bay View Capital Corporation (“BVCC”) effective October 1, 2003. Since BVCC wishes to exit the letter of credit business, staff anticipates that we will move forward with a credit enhancement substitution in mid-2004.

Debt Policies: During Fiscal Year 2003-04, work is anticipated to commence on program-specific policies for land secured financings and for the use of derivative debt instruments, to the extent workload and staffing levels permit. These policies will be brought forward to the City Council as they are developed.

Technology Projects: In Fiscal Year 2003-04, Debt Management staff will continue to pursue its investor relations and disclosure website, Debt Management database, and electronic document storage projects, subject to resource and staff availability.

Affordable Housing Project TEFRA Hearings: In Fiscal Year 2003-04, the Finance Department has held hearings for five projects:

Finance Director's TEFRA Hearings for Multifamily Housing Projects			
<i>Fiscal Year 2003-04 through January 2004</i>			
Date	Project	Amount	Issuer
11/20/2003	Almaden Plaza/ Twin Trees Apartments	\$ 9,000,000	CA Statewide Communities Dev't. Authority (CSCDA)
01/09/2004 ¹	Fairway Glen Apartments	9,580,000	City of San José
01/09/2004 ¹	Foxchase Drive Apartments	9,600,000	City of San José
02/09/2004 ^{2,3}	Vintage Tower Apartments	6,000,000	City of San José
02/09/2004 ²	Delmas Park Apartments	20,000,000	City of San José

¹ Bonds were previously issued, but a maturity extension in conjunction with a credit enhancement substitution necessitated a hearing.

² Scheduled hearing dates.

³ An initial hearing occurred on April 25, 2003, but a second hearing is scheduled because the hearing must occur within one year of the bond closing, which is anticipated to take place in July 2004.

B. Review of Debt Management Policies

On May 21, 2002, City Council adopted by Resolution #70977 a Debt Management Policy which establishes 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; 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 amendments or changes to the Debt Management Policy are recommended at this time.

In addition, the Council approved by Resolution #71023 on June 11, 2002, a supplemental Policy for the Issuance of Multifamily Housing Revenue Bonds. Among its other provisions, the Policy specifies that the bonds for any project that utilizes City funds must be issued by the City.

In Fiscal Year 2002-03, an exception to the Multifamily Housing Revenue Bonds Policy was granted for the Branham Lane Family Apartments project. The Branham Lane

Family Apartments project has a City subsidy of approximately \$14 million, but was issued by the California Housing Finance Authority (“CalHFA”), rather than by the City, since the CalHFA structure allowed the City subsidy to be reduced from approximately \$93,000 per unit to approximately \$80,000 per unit.

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 issuers’ 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 the 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 on its 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 coverage¹ is evaluated. 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 the 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 keeps in regular contact with the rating agencies is well-regarded.

As part of the credit analysis process, the rating agencies look at several quantitative indicators. The table below provides a summary of San José’s key debt indicators in comparison with corresponding medians for California cities with AA-category general obligation bond ratings. The California city medians are derived from Fiscal Year 2001-02 data reported by Moody’s Investors Service, the most recent year for which Moody’s has published medians. The City of San José ratios are based on non-self-supporting debt with recourse to the City’s General Fund as of June 30, 2003.

¹ *Debt Service Coverage* is 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.

Comparison of Rating Agency Medians to City of San José Debt Ratios

As of June 30, 2003

	Rating Agency Median¹	City of San José²
Net Direct Debt		
Per Capita (\$)	\$577.8	\$493.5
As a % of Assessed Value	0.3%	0.5%
Net Lease Burden		
5-Year Average of Annual Lease Payments as a % of Current General Fund Revenue	2.6%	2.5%

¹ Comparison to AA-category California cities.

² Lease burden ratio net of debt service payments made from capitalized interest.

Source: Medians for California Cities: Fiscal 2002, Moody's Investors Service, January 2004.

As illustrated in the table, the City is relatively close to the AA-category California city medians. Note, however, that capitalized interest for the City of San José Financing Authority Lease Revenue Bonds, Series 2002 (Civic Center Project), ends in April 2006. At that time, the net lease burden will correspondingly increase significantly. The terms used in the table are defined below.

Net Direct Debt: Tax-supported debt, net of self-supporting and revenue anticipation debt. Includes the City's non-self-sustaining lease revenue debt. Excludes the City's general obligation and special assessment/tax bonds, which are paid from voter-approved special assessments or taxes, lease revenue bonds paid from non-general fund sources, and the airport, parking and sewer revenue bonds, which are limited obligations of those enterprise funds. Also excludes redevelopment tax allocation debt.

Net Lease Burden: Average scheduled annual payment in the five years following the audit year for all outstanding lease obligations (excluding leases which are self-supporting from non-general fund sources) combined, divided by total general fund revenues and other sources of funds for the audit year.

2. Rating Summary

The four factors described above were instrumental in the City receiving its general obligation bond ratings from the three major rating agencies: Aa1 from Moody's; AA+ from Standard & Poor's; and AA+ from Fitch. These ratings, initially assigned in February 2001 and reconfirmed in July 2003, place San José in the second highest rating category (only one "notch" below Aaa/AAA/AAA), ranking it higher than the State of California and the County of Santa Clara, and as one of the highest rated large cities in California. The ratings for the City's general obligation, lease revenue, and enterprise debt are summarized in Appendix A.

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. General obligation debt is debt secured by the City's property tax revenues. According to the City's Fiscal Year 2002-03 Comprehensive Annual Financial Report, based on the Fiscal Year 2002-03 assessed valuation of \$88.634 billion, the City's legal debt limit is approximately \$13.295 billion. As of June 30, 2003 the City had approximately \$185 million in general obligation debt outstanding, representing 0.21% of the assessed value of taxable property; therefore the City's debt margin was \$13.110 billion (debt limit less outstanding general obligation debt).

D. Legislative and Regulatory Issues

Debt Management staff review 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 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 ("NABLA"), the National Federation of Municipal Analysts ("NFMA"), the National Association of State Auditors, Comptrollers and Treasurers ("NASACT") and the Government Finance Officers Association ("GFOA").

II. DEBT ISSUANCE

A. Debt Issued During Fiscal Year 2002-03

Fiscal Year 2002-03 was an active year for debt issuance, with a total of seventeen series of bonds for twelve projects totaling over \$836 million. These financings are described below and are presented in the summary table at the end of this section.

City of San José Financing Authority Lease Revenue Bond Anticipation Notes, Series 2002A (Civic Center Project)

On July 2, 2002, the Authority issued \$85 million of lease revenue bond anticipation notes (“BANs”). The BANs proceeds were used to: (1) repay the Redevelopment Agency for land acquisition and site preparation costs for the Civic Center Plaza and the related off-site Parking Facility sites; (2) fund additional land acquisition; (3) fund initial construction costs of the new Civic Center and off-site Parking Facility; and (4) pay the costs of issuing the BANs. The yield on the BANs was 1.32%, and they had a final maturity date of December 12, 2002. The BANs were redeemed with the proceeds of the Authority’s Lease Revenue Bonds, Series 2002C and Series 2002D (Civic Center Project), which were issued on November 14, 2002.

City of San José Limited Obligation Refunding Bonds, Reassessment District No. 02-219SJ (2002 Consolidated Refunding), Series 24R

On July 3, 2002, the City issued \$13.94 million of Series 24R limited obligation refunding bonds (the “Refunding Bonds”) to refund prior bonds issued for three improvement districts and one reassessment district: (1) Series 23W, Improvement District No. 85-193SJ (Blossom Hill-Coniston); (2) Series 24G, Improvement District No. 91-207SJ (Senter-Burke); (3) Series 24L, Improvement District No. 93-213SJ (Capitol-Copperfield); and (4) Series 24P, Reassessment District No. 98-216SJ (Silver Creek 1998 Refunding) (collectively, the “Refunded Bonds”). The Consolidated Refunding benefited property owners in the four districts by reducing their assessments, and benefited the City by removing some of the more cumbersome administrative tasks required as a result of contingent liens related to the Silver Creek Development. The Refunding Bonds are secured by unpaid assessments levied on property within Reassessment District No. 02-219SJ, bear interest at fixed rates ranging from 1.70% to 4.375%, and have a final maturity date of September 2, 2015.

The refunding achieved economic savings for the property owners within Reassessment District No. 02-219SJ, consistent with the Debt Management Policy of producing net present value savings of at least 3 percent (3%), in the following amounts:

Economic Savings Achieved by 2002 Consolidated Refunding				
<i>Bond Series 24R</i>				
	Series 23W ID 85-193SJ (Blossom Hill- Coniston)	Series 24G ID 91-207SJ (Senter- Burke)	Series 24L ID 93-213SJ (Capitol- Copperfield)	Series 24P ID 98-216SJ (Silver Creek)
Aggregate Debt Service Savings (net available funds)	\$11,738	\$102,437	\$751,645	\$4,852,874
Net Present Value (NPV) Debt Service Savings	\$5,427	\$40,522	\$273,933	\$1,279,296
NPV Savings as a percentage of Refunded Principal	3.62%	12.10%	10.52%	11.14%

City of San José General Obligation Bonds, Series 2002 (Libraries, Parks and Public Safety Projects)

The City issued \$116.09 million of Series 2002 general obligation bonds on July 18, 2002. The proceeds were used to fund \$30 million for library projects, \$46.715 million for neighborhood parks and recreation projects, and \$39.375 million for public safety projects. The Series 2002 bonds bear interest at fixed rates ranging from 2.50% to 5.10%, and have a final maturity date of September 1, 2032.

As of June 30, 2003, the City had issued \$187.09 million in general obligation bonds of which \$184.72 million remained outstanding. The table below summarizes the various voter authorizations for general obligation bonds.

City of San José General Obligation Bonds Summary
As of June 30, 2003

<u>Date of Election</u>	<u>Projects</u>	<u>Amount Authorized</u>	<u>Amount Issued to Date</u>	<u>Amount Authorized but Unissued</u>
11/07/2000	San José Neighborhood Libraries Bonds	\$211,790,000	\$ 61,000,000	\$150,790,000
11/07/2000	San José Neighborhood Parks and Recreation Bonds	228,030,000	86,715,000	141,315,000
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	159,000,000	39,375,000	119,625,000
Total		\$598,820,000	\$187,090,000	\$411,730,000

City of San José Financing Authority Lease Revenue Bonds, Series 2002B, Series 2002C, and Series 2002D (Civic Center Project)

On November 14, 2002, the Authority issued \$292.425 million of Series 2002B, \$60 million of Series 2002C, and \$60 million of Series 2002D lease revenue bonds (the “2002 Bonds”). The proceeds of the 2002 Bonds were used to: (1) finance the cost of acquisition and construction of the new Civic Center facility; (2) redeem the Series 2002A (Civic Center Project) BANs when they matured on December 12, 2002; (3) refund the Series 2000A (Civic Center-Phase I) variable rate lease revenue bonds; and (4) fund costs of issuance, capitalized interest and a debt service reserve fund. The Series 2002B bonds bear interest at fixed rates ranging from 3.00% to 5.25%, and have a final maturity date of June 1, 2037. The Series 2002C and Series 2002D bonds bear interest at long rate yielding 3.25% through the initial period until June 1, 2006. At the end of the long period the Series 2002C and Series 2002D Bonds will convert to weekly variable rate demand bonds.

The refunding of the Series 2000A Bonds allowed the City to release the existing city hall facility as an asset pledged to the financing and replace it with the asset being financed, the new Civic Center facility.

City of San José, California, Airport Revenue Refunding Bonds, Series 2002A (Non-AMT) and Series 2002B (AMT)

The City issued \$53.6 million of Series 2002A and \$37.945 million of Series 2002B airport revenue refunding bonds on January 9, 2003. Bond proceeds were used to refund a portion of the City’s Airport Revenue Bonds, Series of 1992, and the City’s Airport Revenue Bonds, Series of 1993 (together, the “Refunded Bonds”). The Series 2002A Bonds bear interest at fixed rates ranging from 4.00% to 5.375%, and have a final maturity date of March 1, 2018. The Series 2002B Bonds bear interest at fixed rates ranging from 3.00% to 5.00%, and have a final maturity date of March 1, 2012.

The refunding achieved approximately \$4.202 million in aggregate debt service savings net of available funds, or \$6.266 million on a present value basis, which is 6.4% of the refunded principal.

City of San José Community Facilities District No. 9 (Bailey-Highway 101) Special Tax Bonds

On February 13, 2003, the City issued \$13.560 million of special tax bonds (the “Refunding Bonds”) to fund a portion of interchange costs and refund the outstanding assessment district bonds, Series 24DA, Improvement District No. 89-205SJ (Bailey-Santa Teresa) (the “Refunded Bonds”). The bonds are secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 9 (“CFD No. 9”). The CFD No. 9 bonds bear interest at fixed rates ranging from 2.00% to 6.65%, and have a final maturity date of September 1, 2032.

The refunding allowed the property owners in CFD No. 9 to extend the term of their debt service payments by seventeen years, resulting in annual debt service reductions of approximately \$535,000 during what would have been the remaining life of the Refunded Bonds. The net present value savings from the refunding was \$78,198, or 0.71% of the refunded principal. This refunding was undertaken to meet the needs of the community and the district by providing funding for a portion of the Bailey/Highway 101 Interchange costs.

City of San José, California, San José International Airport Subordinated Commercial Paper Notes, Series A (Non-AMT), Series B (AMT), and Series C (Taxable)

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 several series in an amount not to exceed \$100 million. The 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 November 19, 2002, the City Council authorized use of the commercial paper program to fund costs associated with the Airport’s Series 2002A Revenue Refunding Bonds, and on April 1, 2003, the City Council authorized use of the commercial paper program to fund costs associated with implementation of the requirements under the federal Aviation and Transportation Security Act (ATSA).

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

On June 30, 2003, \$1.2 million of Series B (subject to alternative minimum tax) commercial paper notes were outstanding at an interest rate of 1.15%, and \$5.458 million of Series C (taxable) commercial paper notes were outstanding at an interest rate of 1.10%.

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 allocations from the California Debt Limit Allocation Committee ("CDLAC") and completed financings for the following seven projects.

Multifamily Housing Revenue Bonds Issuance Summary *Fiscal Year 2002-03*

Project Name	Date Issued	Amount Issued	Affordable Units
Monte Vista Senior II	07/24/2002	\$ 3,465,000	48
Pollard Plaza Apartments	08/06/2002	14,000,000	129
Evans Lane Apartments	10/08/2002	31,000,000	236
Hacienda Villa Apartments	10/10/2002	7,000,000	79
Pollard Plaza Apartments (Escrow Close)	11/07/2002	N/A	none ¹
Kennedy Apartments	12/11/2002	14,000,000	99
Monte Vista Senior II (2nd piece)	12/13/2002	200,000	none ²
Fallen Leaves Apartments	12/18/2002	18,800,000	159
Turnleaf Apartments	06/26/2003	15,290,000	151
Totals		\$103,755,000	901

¹ Escrow closing of the August 6, 2002, financing.

² Follow-on to the main financing for this project completed on July 24, 2002. An additional amount of CDLAC allocation was necessary to fund the project's cash flow.

Summary of Debt Issued During Fiscal Year 2002-03

The table on the following pages presents a summary of debt issued in Fiscal Year 2002-03.

Summary of Debt Issuance
Fiscal Year 2002-03

<u>Issue Date</u>	<u>Issue</u>	<u>Size</u>	<u>Type</u>	<u>Sale Type</u>	<u>Financial Advisor</u>	<u>Bond Counsel</u>	<u>Underwriter</u>	<u>Credit Enhancement</u>
July 2002	Civic Center BANs	\$85 million	Lease Revenue Bond Anticipation Note	Negotiated	Public Resources Advisory Group	Jones Hall	UBS PaineWebber	None
July 2002	2002 Consolidated Refunding	\$13.94 million	Reassessment District	Competitive	E. Wagner & Associates	Orrick, Herrington & Sutcliffe	Salomon Smith Barney	MBIA
July 2002	GO Bonds Library, Parks, Public Safety	\$116.09 million	General Obligation	Competitive	Public Resources Advisory Group	Jones Hall	Lehman Brothers	None
July 2002	Monte Vista Gardens Senior II	\$3.465 million	Multifamily Housing	Private Placement	E. Wagner & Associates	Orrick, Herrington & Sutcliffe	N/A	None
August 2002, November 2002	Pollard Plaza	\$14 million	Multifamily Housing	Negotiated	Ross Financial	Jones Hall	UBS PaineWebber	Freddie Mac
October 2002	Evans Lane	\$31 million	Multifamily Housing	Negotiated	Ross Financial	Orrick, Herrington & Sutcliffe	UBS PaineWebber	Fannie Mae ¹
October 2002	Hacienda Villa Creek Senior	\$7 million	Multifamily Housing	Private Placement	E. Wagner & Associates	Orrick, Herrington & Sutcliffe	N/A	None
November 2002	Civic Center Series 2002B	\$292.425 million	Lease Revenue	Negotiated	Public Resources Advisory Group	Jones Hall	Bear Stearns	Ambac
November 2002	Civic Center Series 2002C	\$60 million	Lease Revenue	Negotiated	Public Resources Advisory Group	Jones Hall	Goldman Sachs	Ambac
November 2002	Civic Center Series 2002D	\$60 million	Lease Revenue	Negotiated	Public Resources Advisory Group	Jones Hall	UBS PaineWebber	Ambac
December 2002	Kennedy Apartment Homes	\$14 million	Multifamily Housing	Negotiated	Ross Financial	Quint & Thimmig	Newman & Associates	Fannie Mae ²

¹ Credit enhancement provided through a Bank of America letter of credit during the construction period.

² Credit enhancement provided through a GMAC Guaranty during the construction and lease-up period.

Summary of Debt Issuance
Fiscal Year 2002-03 (continued)

<u>Issue Date</u>	<u>Issue</u>	<u>Size</u>	<u>Type</u>	<u>Sale Type</u>	<u>Financial Advisor</u>	<u>Bond Counsel</u>	<u>Underwriter</u>	<u>Credit Enhancement</u>
December 2002	Monte Vista Gardens Senior Phase II ³	\$200,000	Multifamily Housing	Private Placement	E. Wagner & Associates	Orrick, Herrington & Sutcliffe	N/A	None
December 2002	Fallen Leaves	\$18.8 million	Multifamily Housing	Series J-1 Negotiated Series J-2 & J-3 Private Placement	Ross Financial	Sidley, Austin, Brown & Wood	Series J-1, RBC Dain Rauscher	Ambac Assurance Corp. ⁴
January 2003	Airport Refunding Series 2002A	\$53.6 million	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	UBS PaineWebber	FSA
January 2003	Airport Refunding Series 2002B	\$37.945 million	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	UBS PaineWebber	FSA
January 2003	CFD #9 (Bailey-Highway 101)	\$13.56 million	Community Facilities District/ Special Tax	Negotiated	E. Wagner & Associates	Jones Hall	Stone & Youngberg	None
June 2003	Turnleaf Apartments	\$15.29 million	Multifamily Housing	Negotiated	CSG Advisors	Jones Hall	RBC Dain Rauscher	Freddie Mac
<u>FY 2002-03</u>	<u>17 Series</u>	<u>\$836.315 million</u>						

³ This financing is in addition to the main financing for this project completed on July 24, 2002. An additional amount of CDLAC allocation was necessary to fund the project's cash flow.

⁴ Credit enhancement provided through an AIG SunAmerica credit facility during the construction and lease-up period.

B. Debt Issued and Planned for Fiscal Year 2003-04

The Debt Management Program has identified twelve financing projects which are expected to result in issuance of fourteen series of bonds and establishment of a lease revenue commercial paper program by the end of Fiscal Year 2003-04. Through January 2004, seven series of bonds have closed with an aggregate par amount of approximately \$170 million, and the City has also established a \$98 million tax-exempt lease revenue commercial paper program. 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.

1. Completed Financings

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds, Series 2003J (Taxable) and Series 2003K

On July 10, 2003, the Redevelopment Agency issued \$55.265 million of Series 2003J (taxable) and \$13.735 million of Series 2003K housing set-aside tax allocation bonds (the “Refunding Bonds”). The bond proceeds were used to current refund the Agency’s Series 1993A and Series 1993B housing set-aside tax allocation bonds and advance refund the Agency’s Series 1993C housing set-aside tax allocation bonds (collectively, the “Refunded Bonds”), repay \$12.635 million of the existing \$50 million line of credit with Bank of New York and fund additional affordable housing projects. The Series 2003J bonds bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2024. The Series 2003K bonds bear interest at fixed rates ranging from 2.00% to 4.45%, and have a final maturity date of August 1, 2029.

The refunding achieved economic savings in the following amounts:

Economic Savings Achieved by Housing Set-Aside Tax Allocation Bonds			
<i>Series 2003J (taxable) and Series 2003K</i>			
	Series 1993A	Series 1993B	Series 1993C
Aggregate Debt Service Savings (net available funds)	\$1.001 million	\$1.812 million	\$2.406 million
Net Present Value (NPV) Debt Service Savings	\$1.447 million	\$1.079 million	\$2.664 million
NPV Savings as a percentage of Refunded Principal	11.03%	13.78%	13.20%

City of San José CFD No. 10 (Hassler Parkway – Silver Creek), Special Tax Bonds, Series 2003

On July 23, 2003, the City issued \$12.5 million of special tax bonds to finance the

acquisition of certain roadway improvements necessitated by development in the Silver Creek area. The bonds are secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 10 (“CFD No. 10”). The CFD No. 10 bonds bear interest at fixed rates ranging from 3.30% to 5.25%, and have a final maturity date of September 1, 2023.

City of San José Financing Authority Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project)

On September 18, 2003, the City of San José Financing Authority issued \$22.625 million of Series 2003A lease revenue bonds. The bond proceeds were used to current refund the Authority’s Series 1993D lease revenue bonds issued to acquire and construct the City’s Central Service Yard. The refunding generated a net present value saving of \$987,721. This saving represents a 4.45% net present value reduction in debt service payments while maintaining the final maturity date of the debt. The Series 2003A bonds, which are insured by Ambac, bear interest at fixed rates ranging from 3.00% to 4.70%, and have a final maturity date of October 15, 2023.

City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Program

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 Civic Center and non-construction costs for technology, furniture, equipment and relocation services for the new Civic Center.

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 letter of credit provided by State Street Bank and Trust Company and the California State Teachers’ Retirement System (CalSTRS).

On January 28, 2004, the Authority completed its initial issuance of commercial paper notes in the aggregate amount of \$20.38 million with maturities ranging from April 8, 2004 through June 8, 2004 and at annual rates ranging from 0.95% to 0.97%.

Multifamily Housing Revenue Bonds

The City received allocations from the California Debt Limit Allocation Committee (“CDLAC”) and completed financings for the following projects.

Multifamily Housing Revenue Bonds Issuance Summary			
<i>Fiscal Year 2003-04 through January 2004</i>			
Project Name	Date Issued	Amount Issued	Affordable Units
Oaks of Almaden Apartments	07/29/2003	\$ 8,350,000	99
Cinnabar Commons Apartments	08/07/2003	25,340,000	243
Almaden Family Apartments	11/14/2003	31,300,000	223
Totals		\$64,990,000	565

Summary of Debt Issued During Fiscal Year 2003-04 to Date

The table on the following page presents a summary of debt issued in Fiscal Year 2003-04 through January 2004.

Summary of Debt Issuance
Fiscal Year 2003-04 through January 2004

Issue Date	Issue	Size	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
July 2003	RDA Housing TABs, Series J and Series K	\$69 million	Tax Allocation	Competitive	Kitahata & Company	Jones Hall	Stone & Youngberg/ Prudential Securities	XL Capital Assurance
July 2003	CFD No. 10 (Hassler Parkway – Silver Creek)	\$12.5 million	Community Facilities District/Special Tax	Competitive	Kelling, Northcross & Nobriga	Quint & Thimmig	Citigroup Global Markets	None
July 2003	Oaks of Almaden	\$8.35 million	Multifamily Housing	Private Placement	E. Wagner & Associates	Nixon Peabody, LLP	N/A	Fannie Mae
August 2003	Cinnabar Commons	\$25.34 million	Multifamily Housing	Negotiated	Ross Financial	Orrick Herrington & Sutcliffe	UBS Financial Services	Freddie Mac
September 2003	Central Service Yard Refunding	\$22.625 million	Lease Revenue	Competitive	RBC Dain Rauscher	Jones Hall	Citigroup Global Markets	Ambac
November 2003	Almaden Family Apartments	\$31.3 million	Multifamily Housing	Negotiated	E. Wagner & Associates	Sidley, Austin, Brown & Wood	Newman & Associates	Fannie Mae
January 2004	Commercial Paper Program (Civic Center)	\$98 million	Lease Revenue	Negotiated	Public Resources Advisory Group	Jones Hall	Lehman Brothers	State Street Bank and CalSTRS ¹
FY 2003-04	7 Series	\$169.115 million						

¹ State Street Bank and CalSTRS are providing liquidity support to the lease revenue commercial paper program.

2. Planned Financings

Debt Management staff anticipates completing financings for the following five projects during the remainder of Fiscal Year 2003-04.

City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2004A (Ice Centre Expansion Project)

In October, 2003, Debt Management staff began working with the Office of Economic Development, the Attorney's Office and Silicon Valley Sports and Entertainment (SVSE) to develop a plan of finance for an additional skating rink at the City's Logitech Ice Centre. Staff currently anticipates issuing approximately \$8 million of City of San José Financing Authority lease revenue bonds in Spring 2004 to fund the costs of the Ice Centre expansion. Debt service on the bonds will be paid from base rental payments received by the City from SVSE, the Ice Centre operator.

General Obligation Bond Series 2004 (Libraries, Parks and Public Safety)

The City plans to issue another series of general obligation bonds in late Spring 2004. The proceeds of those bonds will be used to fund a portion of the libraries, parks and public safety projects approved by voters in November 2000 and March 2002. The size and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed. Staff currently anticipates an issuance of approximately \$75 million.

City of San José Airport Revenue Bonds, Series 2004 (Security Projects)

Debt Management staff are partnering with Airport and Attorney's Office staff in implementing a financing program to fund the Airport's security projects, including construction of the North Concourse building. Initial costs of the projects are being paid from proceeds of the Airport's tax-exempt commercial paper notes. Those notes will be redeemed and additional costs funded with approximately \$250 million of proceeds of Airport Revenue Bonds expected to be issued in June 2004. Staff estimates an additional \$150 to \$160 million of Airport Revenue Bond proceeds will be needed to fully fund the projects in Summer 2005. The Airport's commercial paper program will again be utilized as an interim source of funding to provide flexibility between the anticipated June 2004 bond issuance and the anticipated Summer 2005 bond issuance.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Taxable Revenue Bonds

In Summer 2004, the Redevelopment Agency is planning to issue a series of housing set-aside tax allocation bonds. The bond proceeds will be used to refund the Agency's outstanding Housing Set-Aside Revenue Bonds, Series 1993D, to repay draws on the \$50 million Housing Department Line of Credit, and to fund additional affordable housing projects. The timing of this issuance depends on the programmatic cash flow needs of

the Housing Department and the resulting speed with which it draws down its Line of Credit. Additionally, as discussed earlier, Debt Management staff is working with CDLAC to develop a program whereby the City would apply for tax-exempt CDLAC private activity allocation for the purpose of issuing tax-exempt bonds to fund the City's loans to affordable housing projects.

Multifamily Housing Revenue Bonds

In December 2003, the City received an allocation from CDLAC to finance the Trestles Apartments project in the amount of \$8,625,000. It is anticipated that this project, providing an estimated 70 affordable units, will close on or before March 26, 2004.

The table on the following page presents a summary of debt which the City plans to issue during the remainder of Fiscal Year 2003-04.

Summary of Planned Debt Issuance
Fiscal Year 2003-04

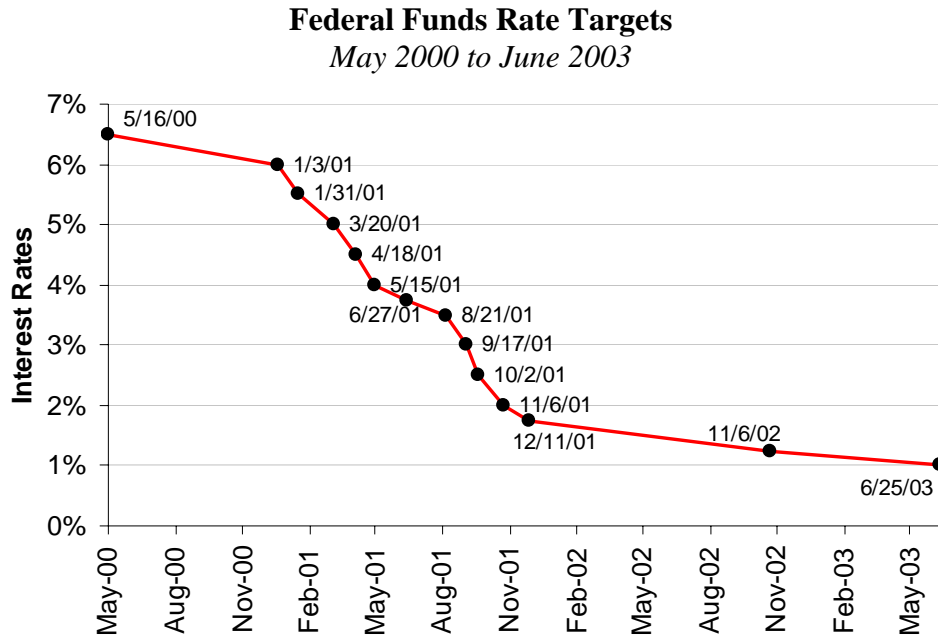
Estimated Issue Date	Issue¹	Estimated Size	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
March 2004	Trestles Apartments	\$8.625 million	Multifamily Housing	Series A-1 Negotiated A-2 Private Placement	Ross Financial	Jones Hall	E.J. De La Rosa	Freddie Mac
April 2004	Ice Centre Expansion	\$8 million	Lease Revenue	Negotiated	Public Resources Advisory Group	Jones Hall	TBD	MBIA
June 2004	GO Bonds Library, Parks, Public Safety	\$75 million	General Obligation	Competitive	TBD	TBD	TBD	TBD
June 2004	Airport Security Projects	\$250 million (multiple series)	Airport Revenue	TBD	Public Resources Advisory Group/ Fullerton & Friar	Orrick	TBD	TBD
Summer 2004	Housing TABs Series 2004L	\$60 million	Tax Allocation	Competitive	Ross Financial	Nixon Peabody	TBD	TBD
FY 2003-04 Planned	7 Series	\$401.625 million						

¹ Debt planned to be issued after January 2004, to be used for discussion and planning purposes only.



C. Current and Anticipated Market Conditions

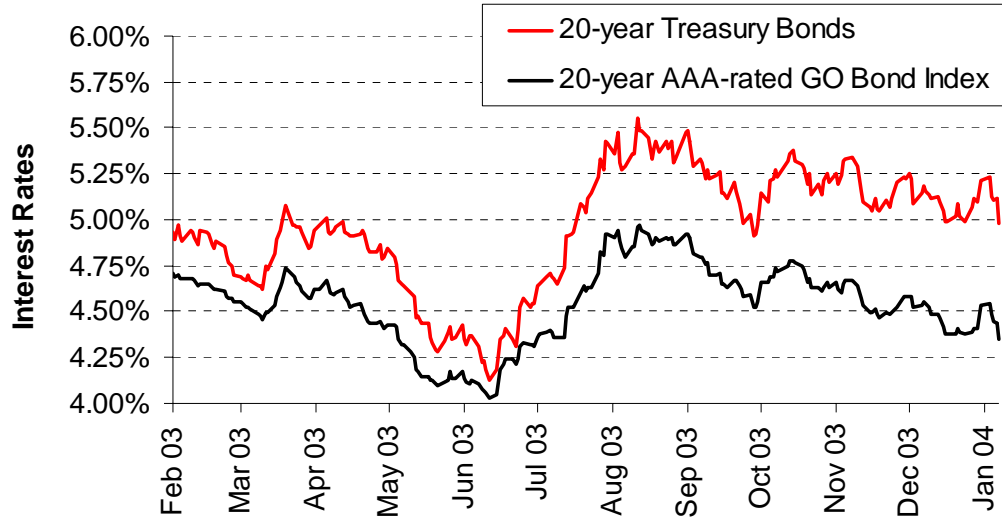
On June 25, 2003, the Federal Open Market Committee (the “FOMC”) of the Federal Reserve Board (the “Fed”) lowered the federal funds rate by 25 basis points to 1.00%. This cut in the target federal funds rate was the first cut to occur since November 2002, and marked the 13th consecutive downward move by the FOMC since May 2000. At its meeting on January 27-28, 2004, the FOMC voted to maintain the federal funds target at 1.00%, the lowest level since 1958.



The Fed continues to believe that an accommodative stance on monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. Recent signs point to surging housing activity, strong demand for computers and software, and declining business caution, all of which are aiding in the current economic expansion. The latest FOMC statement used language that appears to indicate the need for greater flexibility to raise interest rates in the future should the economy continue to expand. Although the economy has exhibited strong growth in recent quarters, the Fed will likely keep the federal funds target at its current level until it feels more confident about labor market recovery.

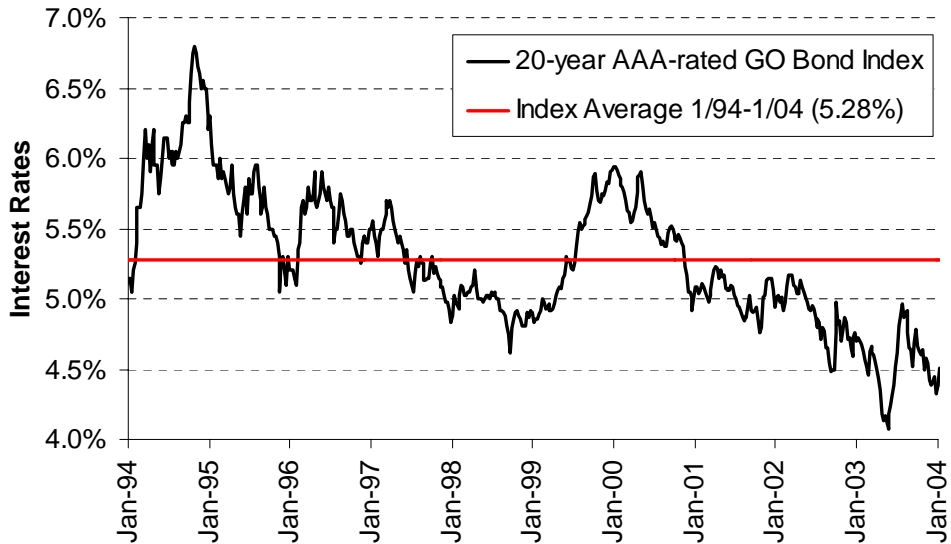
The volume of municipal issuances over the past year continued to be high as interest rates hit historical lows, and the consequences can be seen in the chart shown below. That high volume drove municipals to clearly outperform Treasuries during the Spring and early Summer of 2003, with the spread between the two dropping to ten basis points in June. As municipal issuance slacked off toward the end of the year, tax-exempt yields dropped and the spread widened, but still remains below historical levels.

Comparison of Tax-Exempt and Taxable Interest Rates
February 2003 to January 2004



As can be seen in the chart below, tax-exempt interest rates have exhibited significant volatility during the past year, but they have remained well below their ten-year average. Declining issuance volume in recent months may have contributed to the most recent downward trend.

Ten-Year History of Tax-Exempt Interest Rates
January 1994 to January 2004



D. Selection of Debt Financing Teams

The selection of the financial advisor and underwriter for a financing project is generally done in the form of a competitive request for proposal/qualifications (RFP) process. The RFP is prepared by Debt Management staff in coordination with the issuing department and the City Attorney’s Office. Written proposals are reviewed by representatives from these departments and, when appropriate, by other cities’ finance directors or finance personnel.

The Finance Department conducted a competitive selection process in Fiscal Year 2000-01 for the City’s general financial advisor and for financial advisory services for a number of other pending City projects. As a result of this process, a pool of eligible financial advisors was created and approved by the City Council on April 24, 2001 (see table below). This pool will remain in place until June 30, 2005. Considering the large number of financing projects Debt Management staff is working on, a pool of eligible financial advisors is crucial. It allows for a more efficient selection of financing teams for each separate bond issue, minimizing the time and the costs spent preparing and reviewing requests for proposals, and shortens the timeline required to finance City projects for the community.

Financial Advisory Pool Eligible List	
Financial Advisory Firms Approved by the City Council on April 24, 2001 <i>May 2001 to June 2005</i>	
<u>City General Financial Advisor</u> Public Resources Advisory Group	<u>Housing Program Financial Advisor</u> Ross Financial Group
<u>General Obligation Bonds</u> Public Resources Advisory Group RBC Dain Rauscher	<u>Lease Revenue Bonds</u> Kitahata & Company Public Resources Advisory Group RBC Dain Rauscher Ross Financial Group
<u>Multifamily Housing Revenue Bonds</u> CSG Advisors E. Wagner & Associates Ross Financial Group	<u>Land-Secured Financings</u> E. Wagner & Associates Kelling, Northcross & Nobriga Public Financial Management
<u>Housing Set-Aside Tax Allocation Bonds</u> CSG Advisors Kitahata & Company Stone & Youngberg	

The Finance Department, in coordination with the Airport Department, conducted a separate RFP process for financial advisory services for the Airport in the Fall of 1999. As a result of this process, Fullerton & Friar and Public Resources Advisory Group serve

as co-financial advisors to the City for Airport related services and financing projects under a Master Agreement with a current termination date of June 30, 2004, with one remaining one-year option to renew up to June 30, 2005.

In addition to its project-specific financial advisors, the Debt Management Program continues to utilize the expertise of its general financial advisor, Public Resources Advisory Group (“PRAG”). PRAG has assisted the City in the examination of several financing options for various City projects, including the Civic Center Financial Feasibility Analysis, the 2002 Series of General Obligation Bonds, the development of a debt capacity model, as well as the development of debt policies and procedures. In addition, PRAG was instrumental in preparing the rating agency presentation materials which resulted in a re-affirmation of the City’s General Obligation Bond ratings of Aa1/AA+/AA+ in July 2003; among the highest ratings of any city with a population of over 250,000 in the State of California.

In March 2003, Debt Management in coordination with the Housing Department staff began the RFP process to select a new underwriting pool for the City’s multifamily housing revenue bond program. This underwriting pool was approved by the City Council on May 13, 2003, and will remain in place until December 31, 2004 (see table below).

Multifamily Housing Revenue Bond Underwriting Pool
Underwriting Firms Approved by the City Council on May 13, 2003
April 14, 2003 to December 31, 2004

Banc of America Securities	RBC Dain Rauscher
E.J. De La Rosa & Co. Inc.	Red Capital Markets, Inc.
Newman & Associates	UBS Financial Services

In July 2000, an RFP process was undertaken for an underwriting pool for the Airport Master Plan. This underwriting pool was approved by the Council on October 31, 2000, and will remain in place until December 31, 2005.

As a result of changes in personnel and the level of airport-specific financing expertise at firms in the Airport pool, in September 2002 a questionnaire was sent to those firms designated as Senior Managers and Co-Managers for the purpose of reevaluating assignments in the pool. Based on the responses from that questionnaire, on November 19, 2002, staff recommended and Council approved a reallocation of underwriting roles within the Airport pool.

Airport Master Plan Financing Underwriting Pool
Underwriting Firms Approved by the City Council on October 31, 2000
(Incorporating Changes Approved by City Council on November 19, 2002)
November 1, 2000 to December 31, 2005

Senior Managers

Lehman Brothers
Morgan Stanley & Company
Citigroup (formerly Salomon Smith Barney)
UBS Financial Services

Co-Managers

E.J. De La Rosa & Company
Merrill Lynch & Company
RBC Dain Rauscher

Selling Group

A.G. Edwards & Sons
Bank of America
eBondTrade
Prudential Securities Incorporated
Raymond James & Associates

The Summary of Debt Issuance tables shown earlier in this section provide a summary of information on all of the financing team participants for debt issues completed in Fiscal Year 2002-03 and for the debt issues completed and underway in Fiscal Year 2003-04.

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, and contracts with financial services providers. These inputs provide the data needed to ensure that the City is complying with its bond covenants, that reporting to third parties is done timely and accurately, that its bond funds are appropriately allocated and invested, that its debt service payments are timely and accurate, that it has correctly calculated its estimated arbitrage rebate liabilities, that its variable rates are set at market levels, that its investment agreements are properly collateralized, and that its liquidity and credit enhancement contracts are renewed in a timely manner.

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 December 31, 2003, the City has over \$528 million in bond funds that are held by three trustees and invested in 225 funds and accounts. These figures do not include the Redevelopment Agency's Merged Area bonds, Airport commercial paper, or the City's multifamily housing 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 Summary¹
as of December 31, 2003

Trustee	Number of Bond Issues	Original Par Amount of Bonds	Trustee Fund Balance
Bank of New York	7	\$ 308,075,000	\$ 63,957,245
US Bank	17	463,868,854	38,423,621
Wells Fargo Bank	18	957,100,000	426,362,699
Total	42	\$1,729,043,854	\$528,743,564

¹ Does not include RDA Merged Area TABs, Airport Commercial Paper, or Multifamily Housing Revenue Bond Funds.

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 governing documents for 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 monitor cash flows to and from each fund under management, including payment of debt service obligations, to insure accuracy and timeliness.

2. Bond Proceeds Expenditures and Reimbursements

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 bond-financed project. The 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. As of December 31, 2003, of the \$529 million held by the trustees, over \$350 million is construction proceeds from the sale of both taxable and tax-exempt bonds. 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.

3. Arbitrage Rebate

The Debt Management Program 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 requires 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 spend-down exceptions for bond proceeds, it is allowed to keep any positive arbitrage interest earnings. Arbitrage regulations apply to all of the City's tax-exempt financings.

Debt Management staff, working in conjunction with the City's Finance Department Treasury 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 negative arbitrage earnings in one bond fund of a series to offset positive arbitrage in another fund of the same series.

In Fiscal Year 2002-03, 202 funds and accounts held by trustees or by the City, containing \$581 million of tax-exempt bond proceeds, were actively monitored for arbitrage compliance. Debt Management staff continually monitors 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 all of the City's debt, except the conduit multifamily housing revenue bonds. 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 Bond Logistix, 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 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, and is currently conducting audits on two of the City’s multifamily housing revenue bond issues.

The table below lists the City’s bonds with positive arbitrage, the balance in their respective Rebate Funds, and the next installment date:

Summary of Rebate Fund Balances		
<i>as of December 31, 2003</i>		
Bond Issue	Rebate Fund Balance	Next Rebate Installment Date
City of San José Financing Authority, Series 1997A	\$ 12,289.41	09/08/2007
City of San José Financing Authority, Series 1997B	6,793.36	09/27/2007
City of San José Financing Authority, Series 2001D	112,727.03	04/15/2006
City of San José Financing Authority, Series 2001E	31,753.65	01/01/2006
Clean Water Financing Authority, Series 1995A and C	123,215.32	01/14/2006
Total	\$286,778.77	

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 December 31, 2003, the City had 25 series of bonds subject to continuing disclosure requirements, excluding Redevelopment Agency bonds and multifamily housing revenue bonds, some of which are also subject to continuing disclosure requirements under the Rule. In cooperation with other City departments and with the assistance of the City Attorney’s Office, the Finance Department collects, validates, and disseminates financial and operating information to the national repositories. 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 constitutes a significant part of Debt Management's compliance activity for the life of each series of bonds.

C. Investment of Bond Proceeds

Debt Management works closely with bond trustees as well as with the Finance Department's 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 in June 17, 2003. 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, 2003, is briefly summarized below.

City of San José Airport, Series 2001A Reserve Account: The Series 2001A Airport Bond Reserve Account was invested with MBIA in August 2001 and has a maturity of March 1, 2031. The amount invested was \$10.5 million and the balance as of June 30, 2003, was \$10.5 million. The agreement is collateralized with US Treasuries at 104% and Agencies at 105%, and has a yield of 5.78%. The bond yield on these fixed rate bonds is 5.01%.

The Airport's Improvement Fund was previously invested in an investment agreement at a rate of 3.46%. This investment agreement matured on April 1, 2003. As the runway project has been delayed, the balance has been transferred to the Local Agency Investment Fund ("LAIF"). The Reserve Account investment agreement earns a yield above that of the bond yield. Positive arbitrage earnings in the Reserve Account will be available to offset a portion of the negative arbitrage earnings in the Improvement Fund.

City of San José Financing Authority Lease Revenue Bonds, Series 2002B,C,D (Civic Center Project) Reserve Fund: The Reserve Fund for the Series 2002 Civic Center Bonds was invested with AIG Matched Funding Corporation in November 2002 and has a maturity of June 1, 2005. The amount invested was \$32.8 million and the balance as of June 30, 2003, was \$32.8 million. The agreement is collateralized with US Treasuries at 104% and Agencies at 105%, and has a yield of 2.41%. The blended bond yield on these fixed and variable rate bonds is 5.06%.

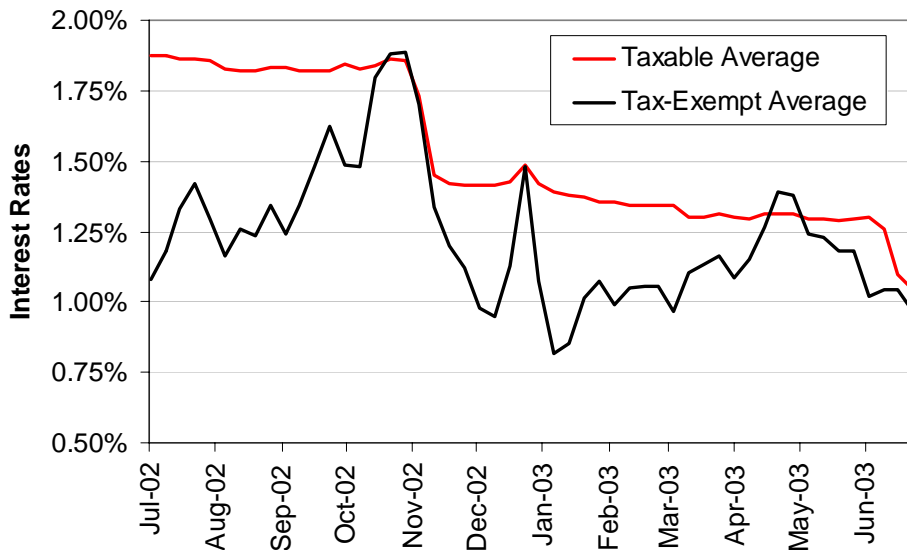
The term of this investment agreement was limited to the expected construction period for the Civic Center Project to provide the City with maximum flexibility. Upon completion of the Project, the City can decide whether to reinvest the Reserve Fund, possibly at a higher yield than was available at the time of the financing, or to purchase a surety bond for all or a portion of the Reserve Requirement. Purchase of a surety bond would release a corresponding amount of Reserve funds, which could then be applied to City capital projects such as City space planning needs.


D. Outstanding Variable Rate Debt

During Fiscal Year 2002-03, the City had seventeen variable-rate bond series outstanding, of which nine are multifamily housing issues. Of the seventeen, five are taxable and twelve are tax exempt. Debt Management staff track the rates weekly to ensure that the rates are consistent with market conditions, taking into consideration the differences among securities, ratings, and letters of credit. Variable rates have been tracking significantly below fixed-rate debt, even during the recent period of historically low long-term rates.

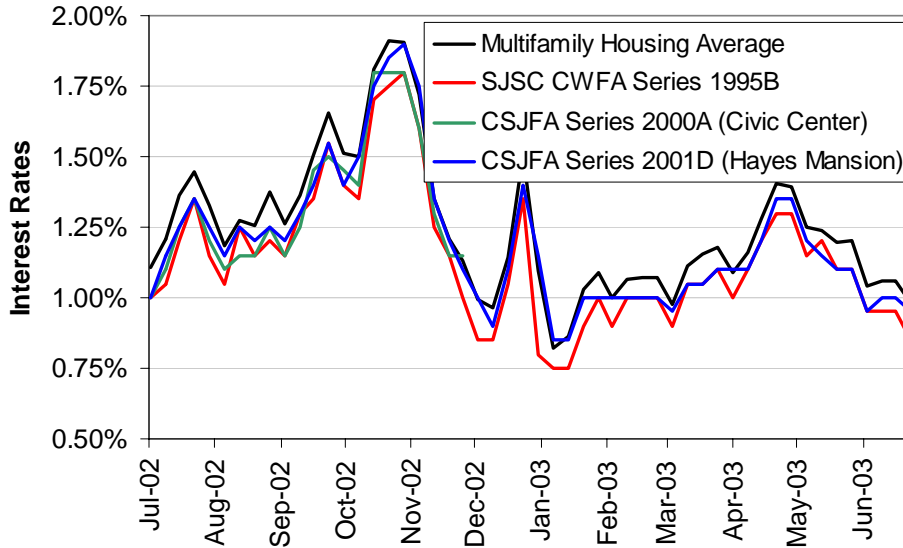
The graph below provides a history of the average variable rates the City paid during Fiscal Year 2002-03 for both taxable and tax-exempt bond issues. The graph clearly shows the decline in taxable rates over the last fiscal year and the increased volatility of the tax-exempt market as compared to the taxable market. As rates have continued to decline, short-term interest rates have compressed resulting in an abnormal convergence of taxable and tax-exempt rates. For example, as of December 31, 2003, the average weekly taxable interest rate and the average weekly tax-exempt interest rate were both 1.15%. This compares to the 2.00% historical spread between weekly taxable and tax-exempt interest rates. .

Average Weekly Taxable and Tax-Exempt Rates
Fiscal Year 2002-03



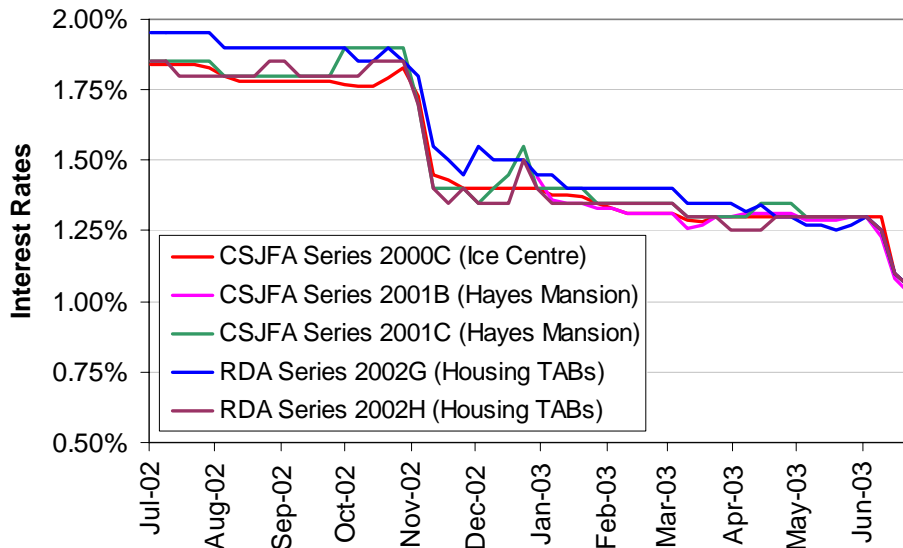
The graph below illustrates the weekly rates for the City's outstanding tax-exempt variable-rate bonds. The graph includes  rates for the Series 1995B San José-Santa Clara Clean Water Financing Authority Bonds, the Series 2000A Civic Center Phase I Bonds (through December 2, 2002, at which time they were refunded from proceeds of Series 2002 Bonds), and the Series 2001D Hayes Mansion Bonds. An average of the eight outstanding tax-exempt variable-rate multifamily housing bonds is provided for comparison purposes. All of the non-housing bonds are insured.

Tax-Exempt Weekly Variable Interest Rates
Fiscal Year 2002-2003



The following graph illustrates the weekly interest rates for the City’s outstanding taxable variable-rate bonds, and includes the rates for the Series 2000C Ice Centre Bonds, the Series 2001B and 2001C Hayes Mansion Bonds and the Agency’s Series 2002G and H Housing Tax Allocation Bonds.


Taxable Weekly Variable Interest Rates
Fiscal Year 2002-03




E. Refunding Opportunities

As part of its role as manager of the City’s debt portfolio, Debt Management undertakes a continual review and analysis of all outstanding debt. The objective of this ongoing

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 Fiscal Year 2002-03, refundings to date in Fiscal Year 2003-04, and anticipated refundings for the remainder of Fiscal Year 2003-04 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.

 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.

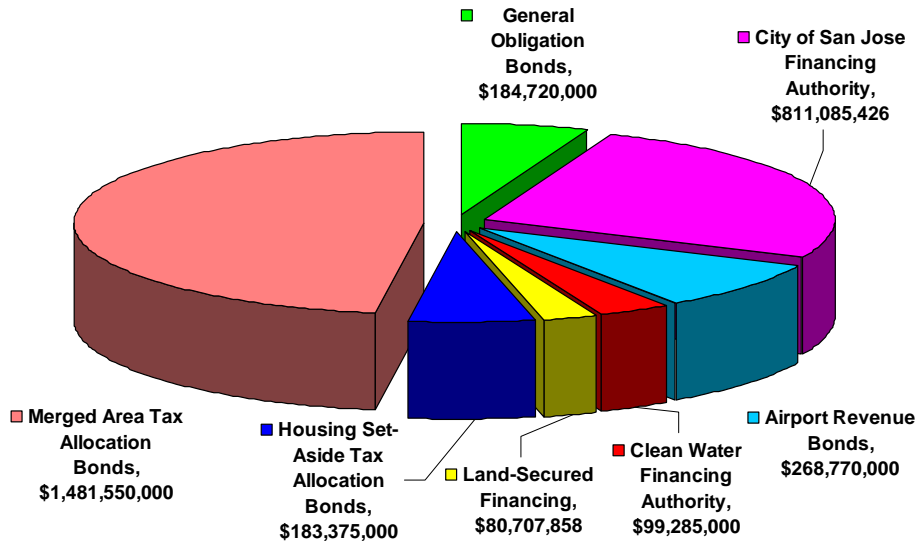
IV. CITY'S OUTSTANDING DEBT PORTFOLIO

Debt Management continues the task of ongoing development and maintenance of a debt management database and tracking system. This database and tracking system provides the opportunity to prepare detailed analyses and track issues and requirements related to the City's debt portfolio. The following section includes both a descriptive and illustrative presentation of the City's debt portfolio as of June 30, 2003. This analysis includes all debt issued by the City of San José, its Redevelopment Agency, and various other financing authorities of which the City is a member. *Note that the City has no obligation or connection in any way to Redevelopment Agency Debt.*

As of June 30, 2003, the City, the Redevelopment Agency, and related entities had 54 series of bonds outstanding, totaling \$3.1 billion. The pie chart below shows the distribution of outstanding bonds among the various categories of debt issued by the City and its related entities: general obligation, City of San José Financing Authority, airport, sewer (Clean Water Financing Authority), land-secured (assessment district and community facilities district), and Redevelopment Agency tax increment debt (Housing Set-Aside and Agency Merged Area TABs). The chart below does not include outstanding Airport commercial paper, amounts drawn on the Housing Department Line of Credit, or multifamily housing revenue bonds, but those items are addressed in the more detailed breakouts that follow.

A table of the 47 series of outstanding multifamily housing revenue bonds, totaling over \$492 million is shown later in this section of the report, and a summary table of all other debt by series is presented in Appendix B.

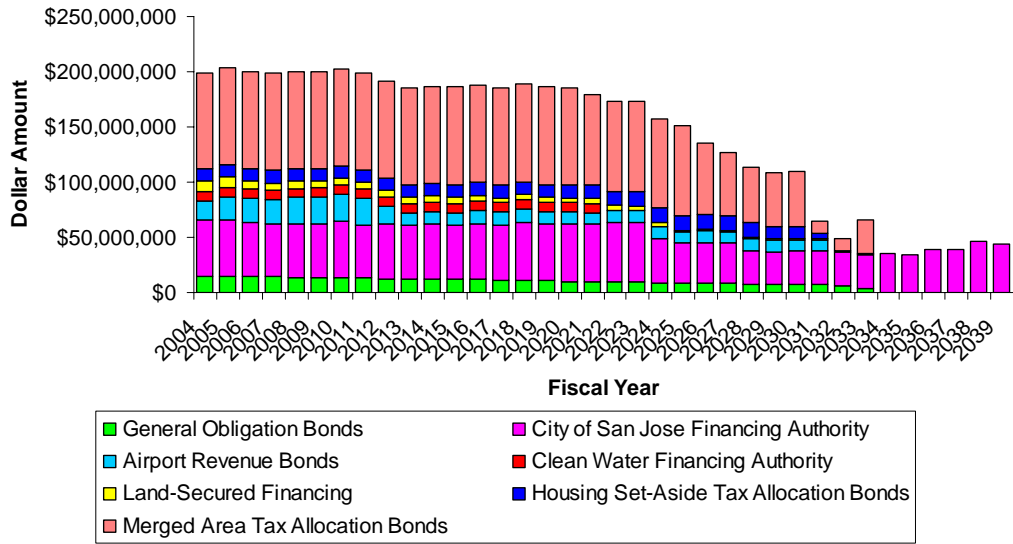
Outstanding Bonds Issued by All Agencies
Outstanding Debt as of June 30, 2003: \$3,109,493,284



In addition to examining the par amount of debt outstanding, it is helpful to also examine the debt service repayment schedule. With the exception of the City's conduit multi-

family housing revenue bonds, the stacked bar graph below illustrates the annual debt service payments for all of the debt category types shown in the above 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.

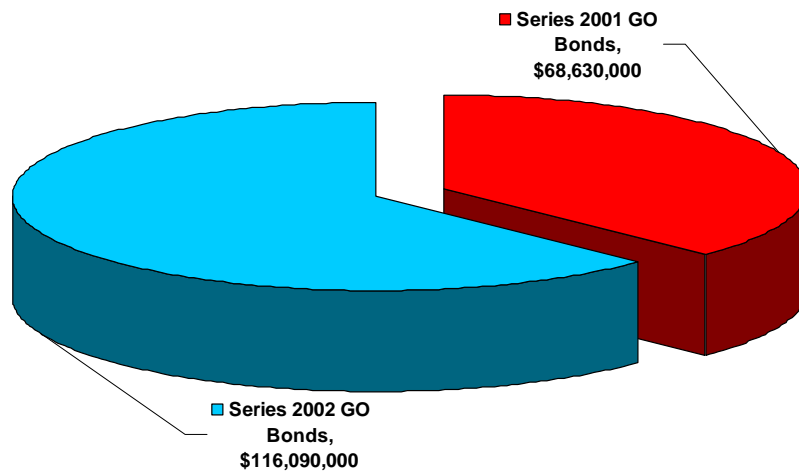
Outstanding Bonds Issued by All Agencies
Annual Debt Service



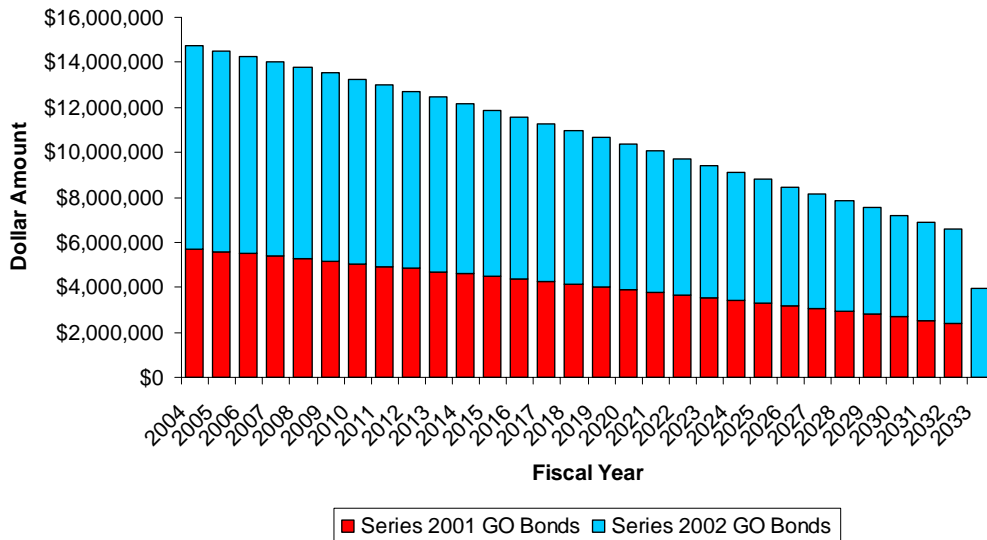
A. General Obligation Bonds

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 bonds for library, parks, and public safety projects which are secured by the taxing power of the City. As of June 30, 2003, the City of San José had issued \$187.09 million of general obligation bonds with the proceeds split for three purposes: library projects (\$61 million), parks and recreation projects (\$86.715 million), and public safety projects (\$39.375 million).

General Obligation Bonds
Outstanding Debt as of June 30, 2003: \$184,720,000



General Obligation Bonds
Annual Debt Service



B. City of San José Financing Authority Obligations

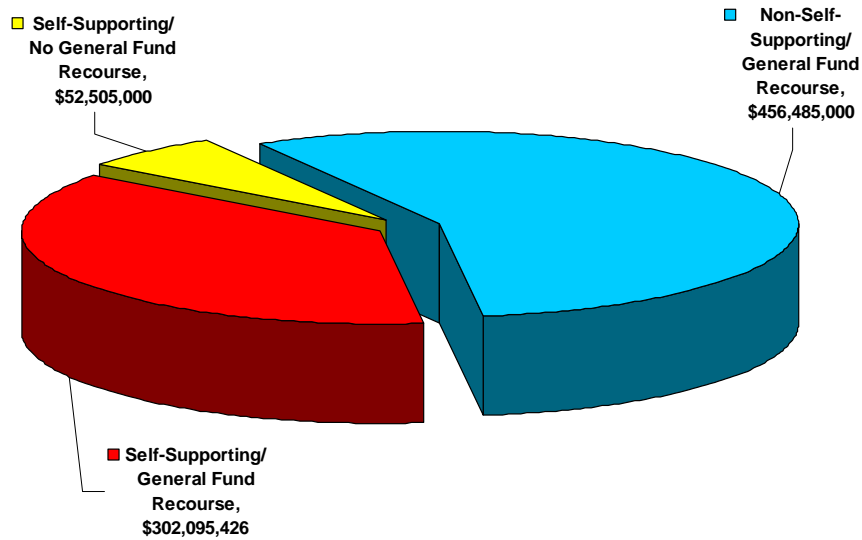
The City of San José Financing Authority (the “Authority”) is a joint exercise of powers authority established under state law between the City and the Redevelopment Agency, and is authorized to finance public capital improvements for public entities. Bonds and notes issued by the Authority are repaid 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 a few of the Authority’s obligations is limited to specific revenue sources, most of the Authority’s obligations are 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:

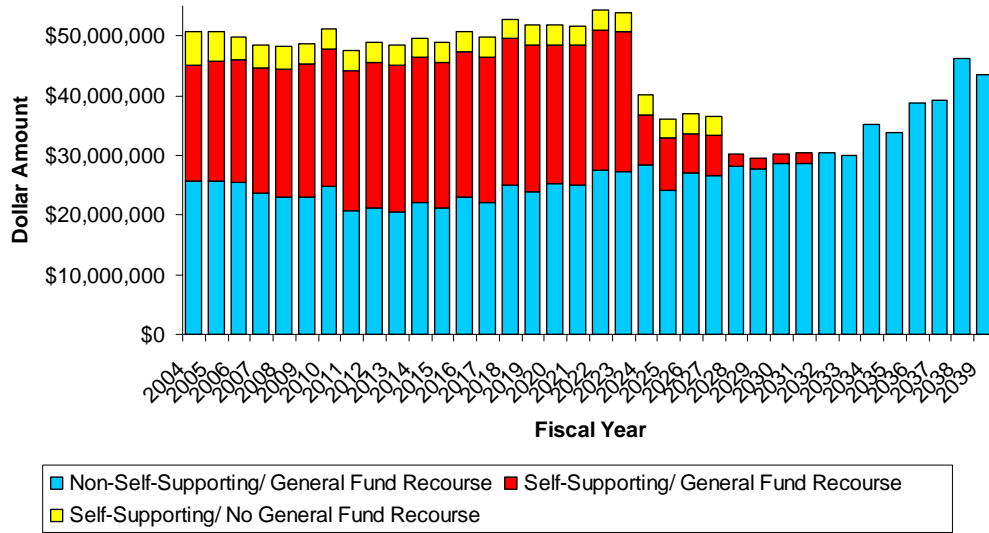
1. Non-Self-Supporting Debt with Recourse to the City’s General Fund;
2. Self-Supporting Debt with Recourse to the City’s General Fund; and
3. Self-Supporting Debt with No Recourse to the City’s General Fund.

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, 2003: \$811,085,426



City of San José Financing Authority Obligations
Annual Debt Service



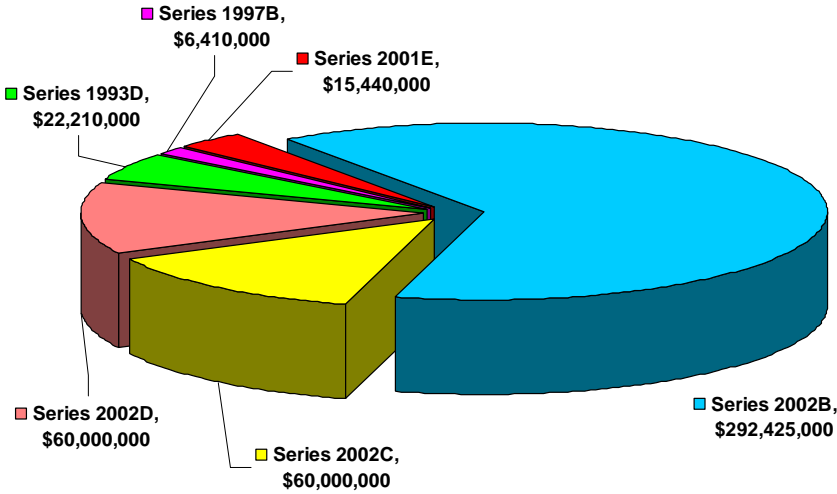
1. Non-Self-Supporting Debt with Recourse to the City’s General Fund

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.

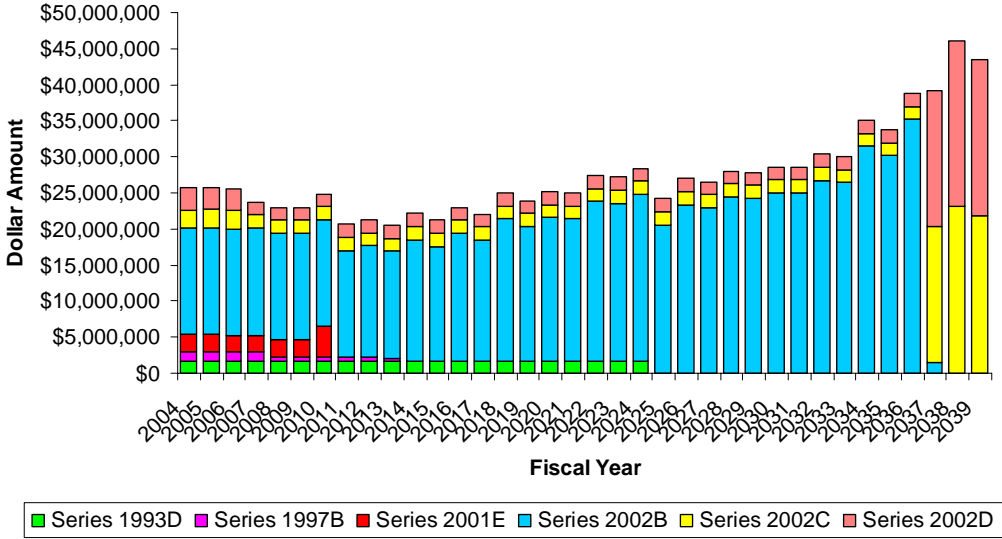
The financing projects included in this category do not generate revenues that can be applied to offset the City’s lease payments. Although City special funds or other revenue sources may be earmarked to make these payments, the City’s General Fund bears the majority of the debt burden. The Series 1993D Bonds financed site acquisition and construction costs of the City’s Central Service Yard, the 1997B Bonds financed fire apparatus, childcare facilities, and library land acquisition, the Series 2001E Bonds refunded the City’s outstanding debt on its Communications Center, and the Series 2002B, 2002C, and 2002D Bonds financed a portion of the new Civic Center project.

The next chart illustrates the total amount of outstanding debt in the category of non-self-supporting Authority bonds with recourse to the General Fund, and the subsequent bar chart illustrates the annual debt service obligations for this category.

Non-Self-Supporting Debt/ General Fund Recourse
Outstanding Debt as of June 30, 2003: \$456,485,000



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



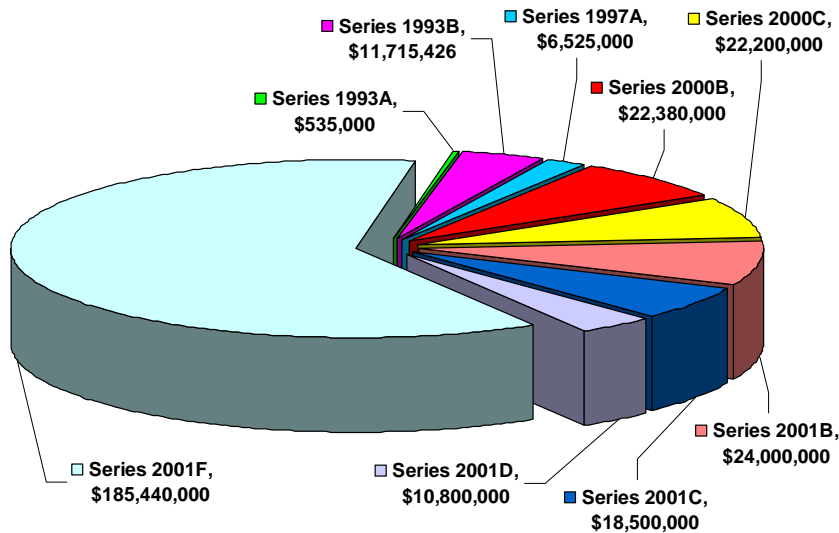
2. Self-Supporting Debt with Recourse to the City’s General Fund

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.

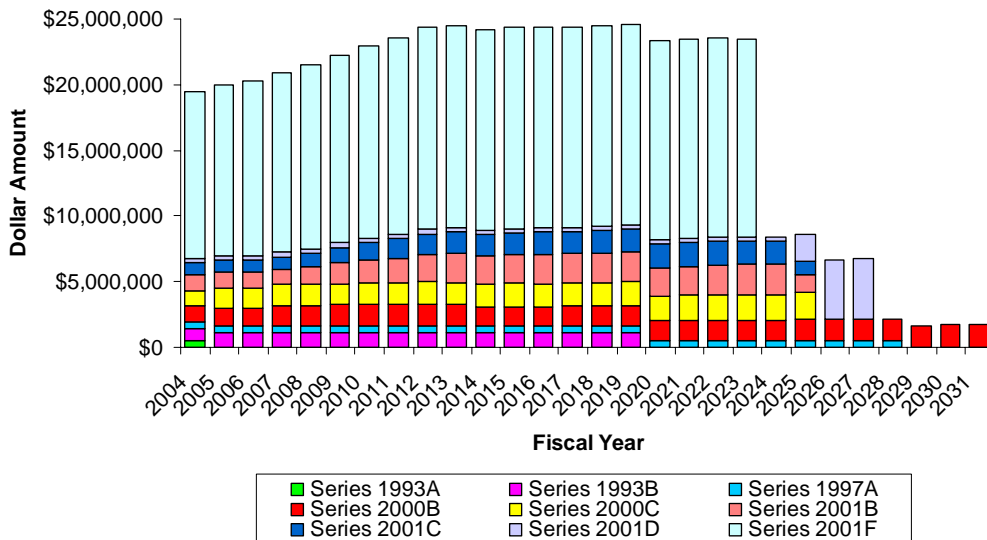
This category, Self-Supporting Debt with Recourse to the City’s General Fund, includes bond-financed capital projects which generate revenue that can be applied to offset the City’s lease payments. This category also includes the Convention Center refunding, for

which the City's lease payments 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, 2003: \$302,095,426



Self-Supporting Debt/ General Fund Recourse
Annual Debt Service



Series 1993A and 1993B (Community Facilities Project): These fixed-rate bonds funded the first phase of renovation for the Hayes Mansion, construction of the Berryessa Community Center, acquisition of Murdock Park, and construction of the City's Logitech

Ice Centre. The Ice Centre portion of these bonds was refunded with proceeds of the Series 2000C Bonds. Debt service on the Series 1993A and 1993B Bonds is paid primarily from revenues of the Hayes Mansion.

Series 1997A (Golf Course Project): These fixed-rate 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). Debt service on the 1997A Bonds is paid from golf course revenues. To the extent golf course revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. The Series 1997A Bonds are backed by motor vehicle license fee revenues under the State Controller's Intercept Program. Under that program, the State Controller only makes payments to the Trustee from the City's motor vehicle license fees if the City fails to meet its obligations under the Project Lease.

Series 2000B (Tuers-Capitol Golf Course/Camden Park Refunding): These fixed-rate 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. Debt service on the 2000B Bonds is paid from golf course revenues and construction and conveyance tax revenues from Council District #9 funds. To the extent these revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. The Series 2000B Bonds are backed by motor vehicle license fee revenues under the State Controller's Intercept Program.

Series 2000C (Ice Centre of San José Refunding and Improvement Project): These variable-rate bonds refunded the Ice Center portion of the Series 1993B Bonds and financed construction of an additional ice rink at the facility. Under the operator's Management Agreement with the City, the City receives fixed quarterly payments sufficient to cover debt service on the bonds and to fund capital repair and replacement reserves.

Series 2001B, 2001C, and 2001D (Hayes Mansion Phase III Improvement and Refunding Project): These variable-rate bonds financed the Hayes Mansion Phase III improvements and refunded the Series 1995 Bonds issued to finance the Hayes Mansion Phase II improvements. Under the tenant's Lease Agreement with the City, the City receives fixed monthly payments sufficient to cover debt service on the bonds, to pay financing costs of the bonds, and to fund a reserve to protect the City from unexpected increases in variable interest rates.

Due to financial difficulties experienced by the tenant, in September 2002 Council took action to amend and restate the Lease Agreement, deferring the remainder of the tenant's payments for Fiscal Year 2002-03. During the deferral period, debt service on the bonds was paid out of the interest rate reserve. The City has subsequently terminated the Lease Agreement and replaced the tenant with a facility manager. Under the new Management Agreement, revenues of the Hayes Mansion will be used to pay debt service and financing costs of the Series 2001 Hayes Mansion Bonds.

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.

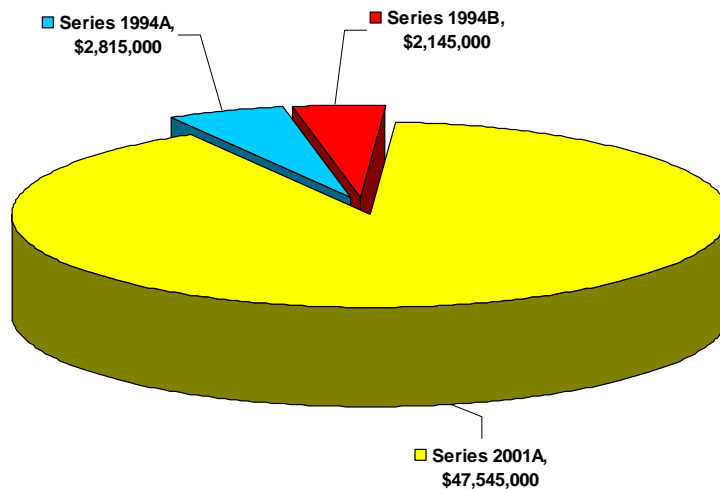
3. Self-Supporting Debt with No Recourse to the City’s General Fund

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.

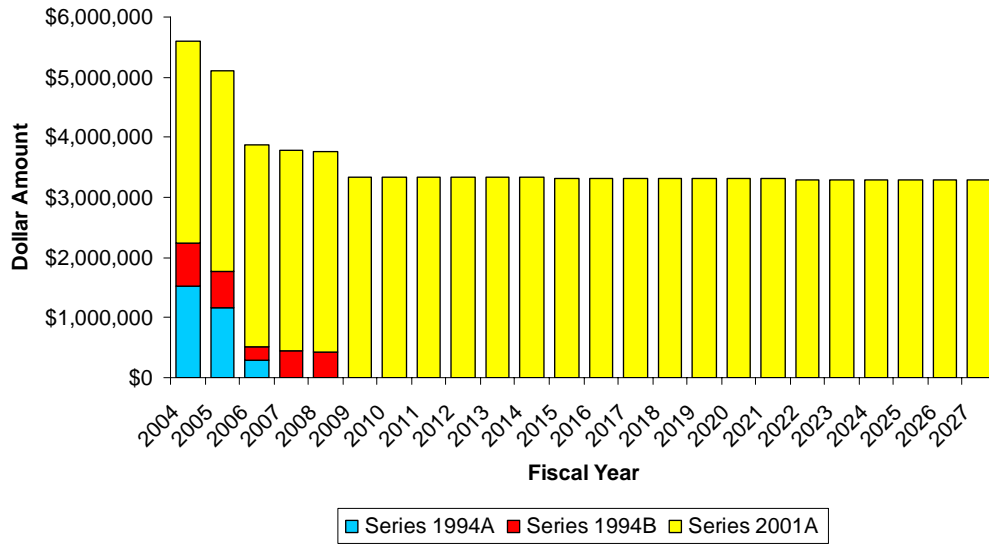
The Series 1994A and Series 1994B are reassessment revenue bonds issued by the Authority to consolidate and refund six series of improvement district bonds. The refunding was accomplished by first creating a consolidated reassessment district and issuing the City of San José Limited Obligation Refunding Bonds, Series 24M. The proceeds of the Authority’s Series 1994A and 1994B Bonds were then used to purchase the Series 24M Bonds. Repayment of the Authority reassessment revenue bonds is limited to special assessments levied on property-owners in Consolidated Reassessment District No. 94-214SJ.

The Series 2001A 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.

Self-Supporting Debt/ No General Fund Recourse
Outstanding Debt as of June 30, 2003: \$52,505,000



Self-Supporting Debt/ No General Fund Recourse
Annual Debt Service

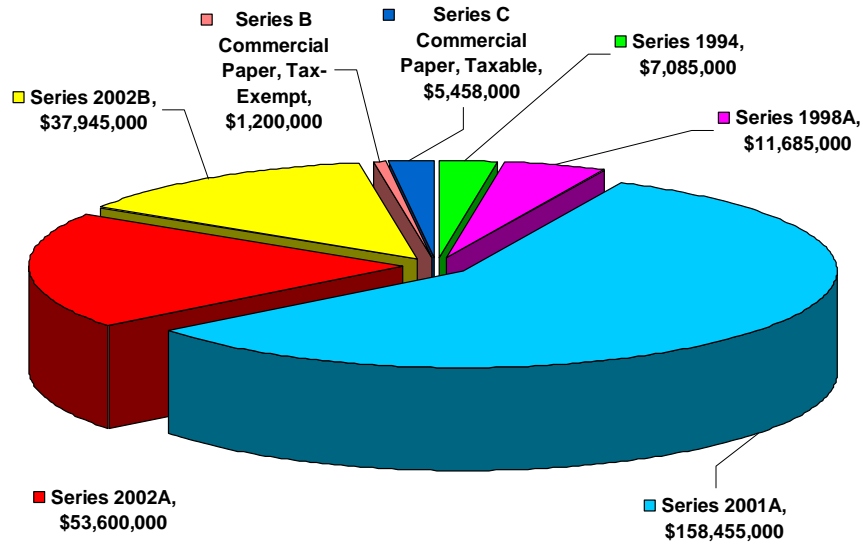


Enterprise Fund Obligations

1. Airport

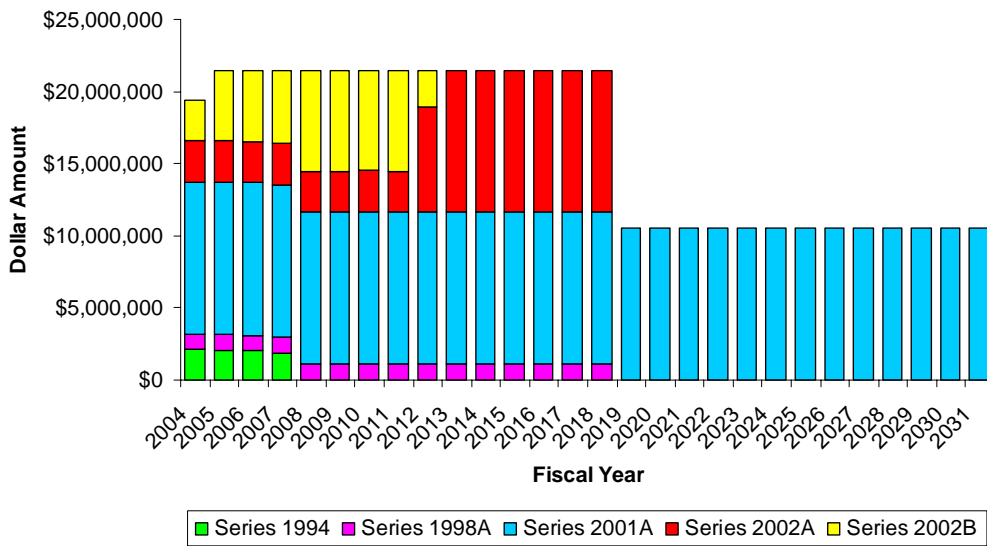
The following pie chart illustrates the total amount of outstanding Airport debt, secured by Airport revenues, broken out by issue series and type. The Airport Revenue Refunding Bonds, Series 2002, paid off all of the 1992 and 1993 Revenue Bonds. As of June 30, 2003, the total amount of Airport obligations outstanding was \$275,428,000, consisting of senior debt of \$268,770,000 and \$6,658,000 in outstanding Commercial Paper. The Airport’s commercial paper is subordinate to the revenue bonds.

Airport Obligations
Outstanding Debt as of June 30, 2003: \$275,428,000



The following bar graph illustrates the annual debt service requirements by airport revenue bond issue. The commercial paper is not included in the bar graph since the interest due on the notes is “rolled” and funded from the issuance of additional commercial paper notes. The outstanding commercial paper is anticipated to be repaid from bond proceeds from the future sale of long-term debt. Appendix C 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

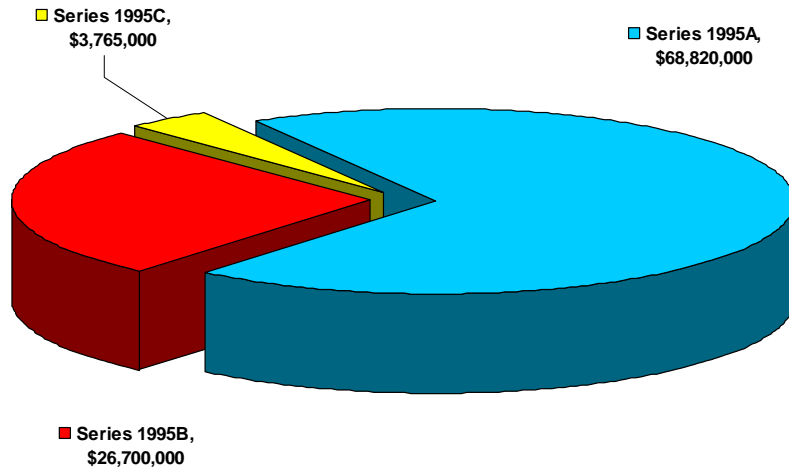


2. Clean Water Financing Authority

The pie chart below illustrates the total amount of outstanding sewer revenue bonds issued by the San José-Santa Clara Clean Water Financing Authority of \$99,285,000. The Clean Water Financing Authority is the obligor for repayment of all of this debt. 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 for the terms and conditions under which the Cities of San José and Santa Clara agree to make payments to the Authority for debt service on the bonds.

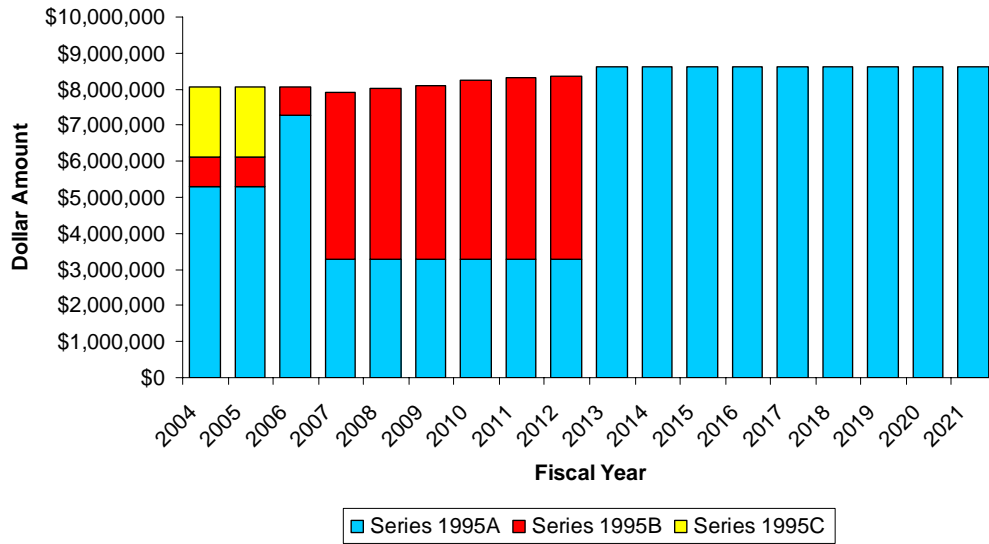
The City of San José and the City of Santa Clara have separate agreements with tributary agencies for those agencies' share of capital costs and ongoing operation expenses of the water treatment system. These revenue streams along with other revenue sources generated from the water treatment system are applied toward the payment obligation the cities of San José and Santa Clara have to the Authority. 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.

Clean Water Financing Authority Sewer Revenue Bonds
Outstanding Debt as of June 30, 2003: \$99,285,000



The bar graph below illustrates the annual debt service requirements by each Clean Water Financing Authority issue.

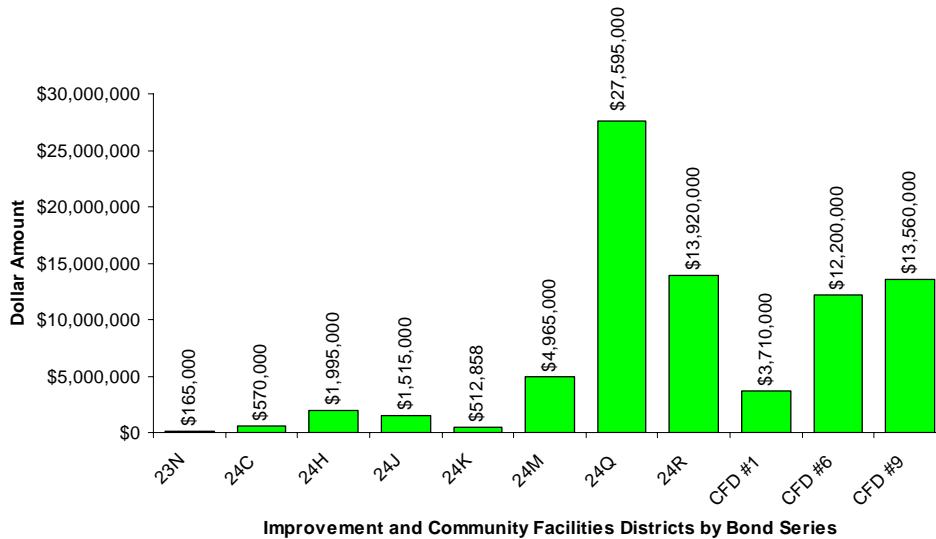
Clean Water Financing Authority Sewer Revenue Bonds
Annual Debt Service



D. Land-Secured Financing

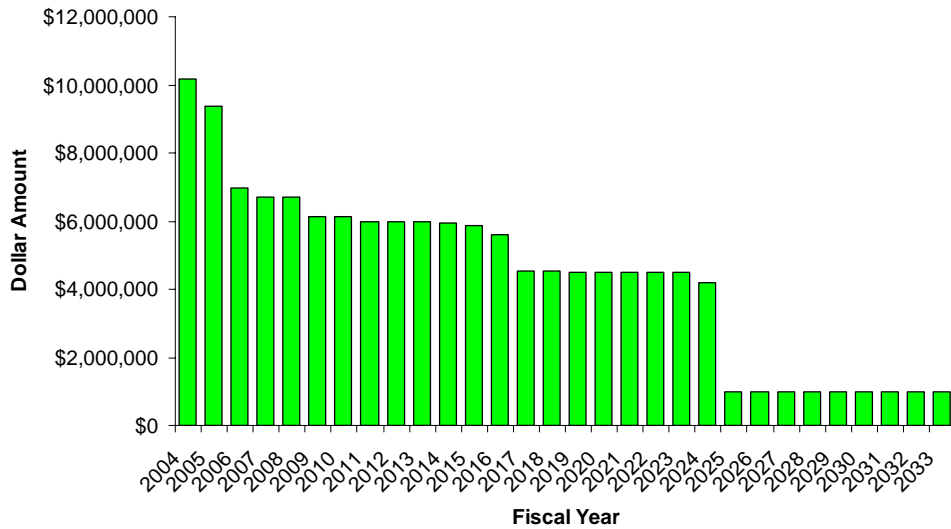
The following bar chart illustrates the total amount of land-secured debt outstanding backed by special assessments and special taxes. As of June 30, 2003, the City had three community facilities district and eight improvement district bond issues outstanding. The largest issue was Series 24Q, the Hellyer-Piercy Improvement District. This bond issue represented 29% of all land-secured outstanding debt.

Land-Secured Bonds
Outstanding Debt as of June 30, 2003: \$80,707,858



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

Land-Secured Bonds
Annual Debt Service



E. Multifamily Housing Revenue Bonds

Multifamily housing revenue bonds are issued to finance the development (including 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).

Given the strong demand for housing units in Santa Clara County, the City’s activity in issuing conduit multifamily housing revenue bonds is increasing significantly. The table presented on the next page summarizes the City’s portfolio of outstanding multifamily revenue bonds. As of June 30, 2003, the total principal amount of bonds outstanding for the City’s multifamily housing program was \$492,255,102, which has financed 4,150 affordable housing units. 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 with tax-exempt bonds issued by the City.

Outstanding Multifamily Housing Revenue Bonds

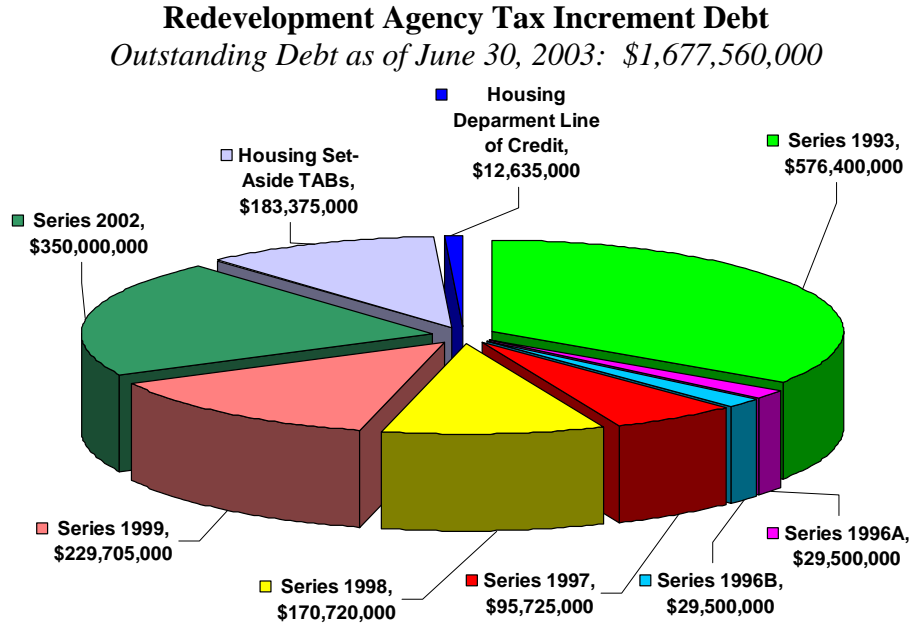
As of June 30, 2003

Project Name	Date Issued	Bonds Outstanding	Affordable Units
Fairway Glen	11/01/1985	\$ 9,580,000	29
Foxchase Drive	11/01/1985	9,600,000	29
Somerset Park Apartments	11/01/1987	7,800,000	26
Timberwood Apartments (2 series)	02/01/1990	12,565,000	166
Countrybrook Apartments	03/15/1992	17,990,000	72
Siena at Renaissance Square (Reissued in 2001)	08/20/1996	60,000,000	271
<i>Subtotal for Fiscal Years 1985-1997</i>		\$117,535,000	593
Carlton Plaza	04/24/1998	12,000,000	26
Coleman Senior Apartments	04/24/1998	7,950,000	140
Italian Gardens Senior Apartments	04/24/1998	7,900,000	139
<i>Subtotal for Fiscal Year 1997-1998</i>		\$ 27,850,000	305
The Gardens Apartments Project (2 series)	05/01/1999	\$ 21,585,000	286
Helzer Court Apartments (3 series)	05/01/1999	21,609,000	154
Ohlone-Chynoweth Commons Apartments	06/01/1999	13,970,000	192
<i>Subtotal for Fiscal Year 1998-1999</i>		\$ 57,164,000	632
Kimberly Woods Apartments	12/20/1999	16,050,000	42
Almaden Lake Village Apartments (2 series)	03/29/2000	27,000,000	142
<i>Subtotal for Fiscal Year 1999-2000</i>		\$ 43,050,000	184
Sixth and Martha Family Apartments Phase I	07/21/2000	\$ 9,900,000	102
Craig Gardens Senior Housing	12/05/2000	4,835,562	89
El Parador Senior Housing (3 series)	12/01/2000	11,505,000	124
Monte Vista Gardens Senior Housing Phase I	12/08/2000	3,740,000	68
Willow Glen Senior Housing (2 series)	12/08/2000	9,700,000	132
<i>Subtotal for Fiscal Year 2000-2001</i>		\$ 39,680,562	515
Immanuel Lutheran Senior Housing	07/11/2001	\$ 5,000,000	62
Sixth and Martha Family Apartments Phase II	08/01/2001	9,000,000	87
Villages Parkway Senior Apartments	08/01/2001	6,800,000	78
Lenzen Affordable Housing Project (2 series)	08/23/2001	9,495,000	87
North White Road Family Apartments	11/15/2001	16,845,000	156
Villa de Guadalupe Apartments (2 series)	11/27/2001	7,526,540	100
Almaden Senior Apartments	12/05/2001	6,050,000	65
Betty Anne Gardens	04/05/2002	11,000,000	75
El Paseo Studios	04/05/2002	9,600,000	97
Sunset Square Apartments	06/26/2002	10,904,000	94
Villa Monterey	06/27/2002	11,000,000	119
<i>Subtotal for Fiscal Year 2001-2002</i>		\$103,220,540	1,020
Monte Vista Gardens Senior Housing Phase II	07/24/2002	\$ 3,665,000	48
Pollard Plaza Apartments	08/06/2002	14,000,000	129
Evans Lane Apartments	10/08/2002	31,000,000	236
Hacienda Villa Apartments	10/10/2002	7,000,000	79
Kennedy Apartments	12/11/2002	14,000,000	99
Fallen Leaves Apartments	12/18/2002	18,800,000	159
Turnleaf Apartments	06/26/2003	15,290,000	151
<i>Subtotal for Fiscal Year 2002-03</i>		\$103,755,000	901
Grand Total		\$492,255,102	4,150

F. Redevelopment Agency

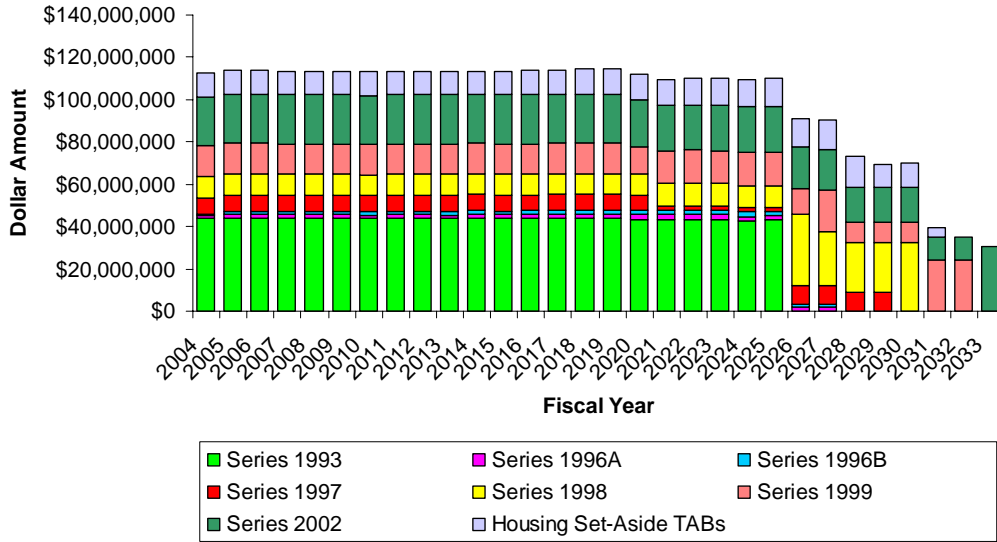
Please note that the City has no obligation or connection in any way to debt issued by the Redevelopment Agency.

The pie chart below illustrates the total amount of direct redevelopment agency tax increment debt outstanding. This includes both the debt issued for the 80% program and the 20% housing program. The Agency’s HUD Notes payable are not included in the pie chart.



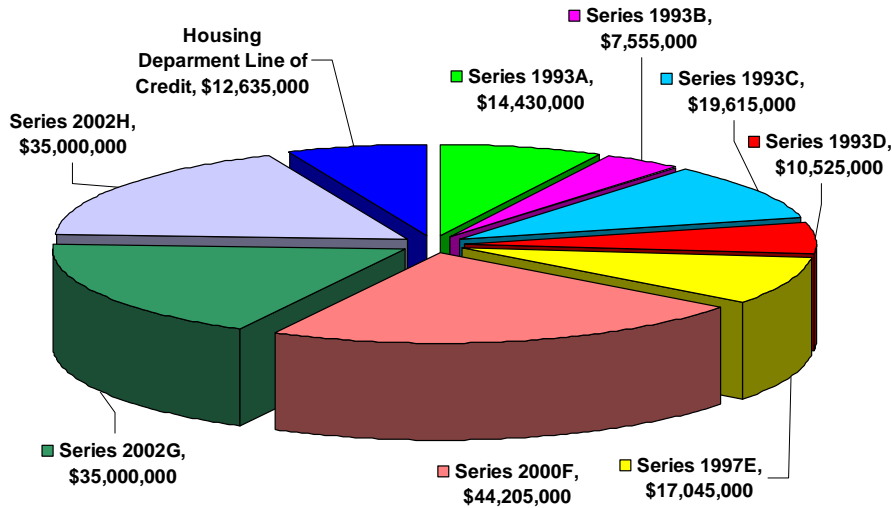
The following bar graph illustrates the total annual debt service requirements for all of the Agency debt outstanding, except for the Housing Department Line of Credit, which will be redeemed with proceeds of future housing set-aside tax allocation bonds.

Redevelopment Agency Tax Increment Debt
Annual Debt Service



The pie chart below provides a more detailed view of the Agency’s outstanding housing set-aside tax allocation bonds and the \$50 million line of credit with Bank of New York. As of June 30, 2003, the balance outstanding on the Line of Credit was \$12,635,000.

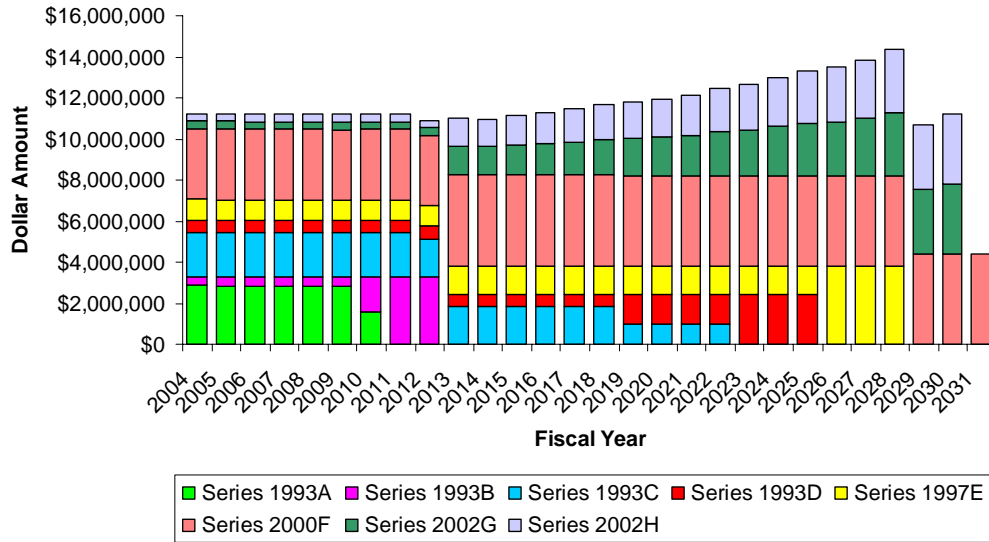
Agency Housing Set-Aside Tax Allocation Bonds and Housing Line of Credit
Outstanding Debt as of June 30, 2003: \$196,010,000



The bar graph below illustrates the annual debt service requirements for the Agency’s housing set-aside tax allocation bond issues, except for the Housing Department Line of Credit, which will be redeemed with proceeds of future housing set-aside tax allocation bonds.. Please note that the graph also does not include the \$69 million Series 2003J and

2003K TABs issued in July 2003, which refunded the Series 1993A, 1993B and 1993C TABs.

Agency Housing Set-Aside Tax Allocation Bonds
Annual Debt Service



APPENDIX A: CURRENT RATINGS SUMMARY

Current Ratings Summary
as of September 26, 2003

Issuer/Issue	Moody's	S&P	Fitch
City of San José			
General Obligation Bonds, Series 2001	Aa1	AA+	AA+
General Obligation Bonds, Series 2002			
Maturities Insured by MBIA (2032)	Aaa	AAA	AAA
Uninsured Maturities	Aa1	AA+	AA+
City of San José Financing Authority			
Lease Revenue Bonds, Series 1993B	A1	AA	--
Lease Revenue Bonds, Series 1997A			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(A1)	--	(AA-)
Lease Revenue Bonds, Series 1997B			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(A1)	--	(AA-)
Lease Revenue Bonds, Series 2000B			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(Con. A1)	--	--
Lease Revenue Bonds, Series 2000C ¹			
MBIA Insured/JPMorgan Chase Liquidity	Aaa/VMIG-1	AAA/A-1+	AAA
Revenue Bonds, Series 2001A			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(A2)	--	(A-)
Lease Revenue Bonds, Series 2001B ¹			
Ambac Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1	AAA/S1+
Lease Revenue Bonds, Series 2001C ¹			
Ambac Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1	AAA/S1+
Lease Revenue Bonds, Series 2001D ¹			
Ambac Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1	AAA/S1+
Lease Revenue Bonds, Series 2001E	Aa3	AA	AA
Lease Revenue Bonds, Series 2001F			
Maturities Insured by MBIA (2002-2020)	Aaa	AAA	AAA
Uninsured Maturities	Aa3	AA	AA
Lease Revenue Bonds, Series 2002B			
Maturities Insured by Ambac (2008-2037)	Aaa	AAA	AAA
Uninsured Maturities	Con. (Aa3)	AA	AA
Lease Revenue Bonds, Series 2002C			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	Con. (Aa3)	--	AA
Lease Revenue Bonds, Series 2002D			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	Con. (Aa3)	--	AA
Lease Revenue Bonds, Series 2003A	Aa3	AA	AA

¹ Variable rate bonds.

Current Ratings Summary (continued)
as of September 26, 2003

Issuer/Issue	Moody's	S&P	Fitch
San José International Airport			
Revenue Refunding Bonds, Series 1994			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Refunding Bonds, Series 1998A			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Subordinated Comm. Paper Notes, Series A			
JPMorgan Chase Letter of Credit	P-1	A-1+	F1
Subordinated Comm. Paper Notes, Series B			
JPMorgan Chase Letter of Credit	P-1	A-1+	F1
Subordinated Comm. Paper Notes, Series C			
JPMorgan Chase Letter of Credit	P-1	A-1+	F1
Revenue Bonds, Series 2001A			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2002A			
All Maturities Insured by FSA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2002B			
All Maturities Insured by FSA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
San José-Santa Clara			
Clean Water Financing Authority			
Revenue Bonds, Series 1995A			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A1)	(AA-)	(AA)
Revenue Bonds, Series 1995B ¹			
FGIC Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1	AAA/F1+
Revenue Bonds, Series 1995C			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A1)	(AA-)	(AA)
¹ Variable rate bonds.			



APPENDIX B: SUMMARY OF OUTSTANDING DEBT

Summary of Outstanding Debt as of June 30, 2003

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance 06/30/03
City of San José				
General Obligation Bonds				
Series 2001 (Libraries and Parks Project)	71,000	06/01/2001	09/01/2031	68,630
Series 2002 (Libraries, Parks and Public Safety Projects)	116,090	07/18/2002	09/01/2032	116,090
General Obligation Bond Subtotal				184,720
Special Assessment Bonds				
Series 23N (Senter Road-Wool Creek)	4,000	06/15/1984	07/02/2004	165
Series 24C (Evergreen Creek)	1,080	09/07/1988	09/02/2009	570
Series 24H (Hellyer-Fontanoso)	8,560	04/15/1992	09/02/2004	1,995
Series 24J (Consolidated Refunding)	11,435	06/08/1993	09/02/2007	1,515
Series 24K (Seismic Retrofit)	823	06/29/1993	09/02/2013	513
Series 24M (Consolidated Refunding)	22,240	06/01/1994	09/02/2007	4,965
Series 24Q (Hellyer-Piercy)	27,595	06/02/2001	09/02/2023	27,595
Series 24R (2002 Consolidated Refunding)	13,940	07/03/2002	09/02/2015	13,920
Special Tax Bonds				
CFD No. 1 (Capitol Expressway Auto Mall)	4,100	11/01/1997	11/01/2022	3,710
CFD No. 6 (Great Oaks-Route 85)	12,200	12/18/2001	09/01/2003	12,200
CFD No. 9 (Bailey/Highway 101)	13,560	02/13/2003	09/01/2032	13,560
Special Assessment and Special Tax Bond Subtotal				80,708
City of San José Financing Authority				
Lease Revenue Bonds				
Series 1993A (Taxable) (Community Facilities)	8,620	02/01/1993	11/15/2003	535
Series 1993B (Community Facilities)	18,045	03/01/1993	11/15/2018	11,715
Series 1993D (Central Service Yard)	24,875	10/15/1993	10/15/2023	22,210
Series 1997A (Golf Course Project)	6,875	07/01/1997	08/15/2027	6,526
Series 1997B (Fire Apparatus, Childcare, Library)	9,805	07/01/1997	08/01/2012	6,410
Series 2000B (Tuers-Capitol/Camden)	22,635	08/08/2000	08/15/2030	22,380
Series 2000C (Taxable) (Ice Centre of San José)	22,200	12/13/2000	12/01/2024	22,200
Series 2001B (Taxable) (Hayes Mansion Phase III)	24,000	02/14/2001	07/01/2024	24,000
Series 2001C (Taxable) (Hayes Mansion Phase III)	18,500	02/14/2001	07/01/2024	18,500
Series 2001D (Hayes Mansion Phase III)	10,800	02/14/2001	07/01/2026	10,800
Series 2001E (Communication Center)	18,610	03/01/2001	05/10/2010	15,440
Series 2001F (Convention Center Refunding)	186,150	07/01/2001	09/01/2022	185,440
Series 2002B (Civic Center Project)	292,425	11/14/2002	06/01/2037	292,425
Series 2002C (Civic Center Project)	60,000	11/14/2002	06/01/2039	60,000
Series 2002D (Civic Center Project)	60,000	11/14/2002	06/01/2039	60,000
Parking Revenue Bonds				
Series 2001A (4th & San Fernando Parking Facility)	48,675	04/10/2001	09/01/2026	47,545
Reassessment Revenue Bonds				
Series 1994A	16,680	06/23/1994	09/02/2005	2,815
Series 1994B (Subordinate)	8,035	06/23/1994	09/02/2007	2,145
City of San José Financing Authority Subtotal				811,086

Summary of Outstanding Debt as of June 30, 2003 (continued)
(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance 06/30/03
Redevelopment Agency:				
Merged Area Revenue Bonds				
Series 1996A (Merged Area)	29,500	06/27/1996	07/01/2026	29,500
Series 1996B (Merged Area)	29,500	06/27/1996	07/01/2026	29,500
Merged Area Tax Allocation Bonds				
Series 1993 (Merged Area)	692,075	12/01/1993	02/01/2024	576,400
Series 1997 (Merged Area)	106,000	03/27/1997	08/01/2028	95,725
Series 1998 (Merged Area)	175,000	03/19/1998	08/01/2029	170,720
Series 1999 (Merged Area)	240,000	01/06/1999	08/01/2031	229,705
Series 2002 (Merged Area)	350,000	01/24/2002	08/01/2032	350,000
Merged Area Revenue/ Tax Allocation Bonds Subtotal				1,481,550
Housing Set-Aside Tax Allocation Bonds				
Series 1993A (Merged Area)	27,445	02/01/1993	08/01/2009	14,430
Series 1993B (Merged Area)	7,555	03/01/1993	08/01/2011	7,555
Series 1993C (Merged Area)	24,475	12/01/1993	08/01/2021	19,615
Series 1993D (Merged Area)	10,525	12/01/1993	08/01/2024	10,525
Series 1997E (Merged Area)	17,045	06/21/1997	08/01/2027	17,045
Series 2000F (Merged Area)	44,205	12/13/2000	08/01/2030	44,205
Series 2002G (Merged Area)	35,000	05/29/2002	08/01/2029	35,000
Series 2002H (Merged Area)	35,000	05/29/2002	08/01/2029	35,000
Housing Set-Aside Tax Allocation Bonds Subtotal				183,375
Clean Water Financing Authority:				
Sewer Revenue Bonds				
Series 1995A	68,820	11/01/1995	11/15/2020	68,820
Series 1995B	26,700	11/30/1995	11/15/2011	26,700
Series 1995C	12,230	11/01/1995	11/15/2004	3,765
Sewer Revenue Bonds Subtotal				99,285
Norman Y. Mineta San José International Airport:				
Airport Revenue Bonds				
Series 1994	19,345	01/25/1994	03/01/2007	7,085
Series 1998A	14,015	01/01/1998	03/01/2018	11,685
Series 2001A	158,455	08/14/2001	03/01/2031	158,455
Series 2002A	53,600	01/09/2003	03/01/2018	53,600
Series 2002B	37,945	01/09/2003	03/01/2012	37,945
Airport Revenue Bonds Subtotal				268,770
Grand Total:				3,109,494



APPENDIX C: OVERLAPPING DEBT REPORT



City of San José Statement of Overlapping Debt
as of June 30, 2003

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt on 6/30/03</u>
Santa Clara County Flood Control and Water Conservation District, Zone W-1	45.049 %	\$ 3,171,450
Santa Clara County Flood Control and Water Conservation District, Zone NC-1	12.901	27,737
Foothill Community College District	4.281	4,449,673
San José Community College District	85.069	105,025,939
Milpitas Unified School District	0.0003	179
Morgan Hill Unified School District	19.503	14,105,107
San José Unified School District	97.695	234,565,266
Santa Clara Unified School District	5.117	6,418,765
Campbell Union High School District	58.934	32,233,951
East Side Union High School District	94.467	251,216,044
Fremont Union High School District	8.875	11,965,719
Los Gatos Joint Union High School District	0.753	553,493
Alum Rock Union School District	74.533	35,978,405
Berryessa Union School District	92.899	47,241,957
Burbank School District	21.173	366,293
Campbell Union School District	44.072	28,095,154
Cupertino Union School District	15.762	19,683,515
Evergreen School District	99.440	74,390,767
Evergreen School District Community Facilities District No. 92-1	100.000	6,455,000
Franklin-McKinley School District	97.779	40,131,552
Los Gatos Union School District	1.708	579,012
Moreland School District	75.202	35,013,541
Mount Pleasant School District	86.715	9,660,051
Oak Grove School District	99.766	59,245,857
Orchard School District	100.000	32,600,697
Union School District	72.378	46,346,905
City of San José	100.000	184,720,000
City of San José Community Facilities Districts	100.000	29,470,000
San José Special Assessment Bonds	100.000	63,597,858
Santa Clara Valley Water District Benefit Assessment District	37.716	76,816,177
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,454,126,064
Less: Santa Clara County Flood Control and Water Conservation District, Zone NC-1 (100% self-		27,737
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,454,098,327

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION:</u>	<u>% Applicable</u>	<u>Debt on 6/30/03</u>
Santa Clara County General Fund Obligations	37.716 %	\$228,747,540
Santa Clara County Board of Education Certificates of Participation	37.716	7,173,583
Community College District Certificates of Participation	Various	16,897,885
San José Unified School District Certificates of Participation	97.695	103,868,709
Santa Clara Unified School District Certificates of Participation	5.117	387,613
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.753	35,240
Alum Rock Union School District Certificates of Participation	74.533	2,083,197
Cupertino Union School District Certificates of Participation	15.762	1,160,871
Franklin-McKinley School District Certificates of Participation	97.779	17,834,067
Moreland School District Certificates of Participation	75.202	4,369,236
City of San José General Fund Obligations ⁽¹⁾	100.000	755,978,204
Midpeninsula Regional Open Space Park District General Fund Obligations	0.017	18,380
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,138,554,525
Less: San José Convention Center (100% self-supporting from tax increment revenues) ⁽²⁾		185,440,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$953,114,525
GROSS COMBINED TOTAL DEBT ⁽³⁾		\$2,592,680,589
NET COMBINED TOTAL DEBT		\$2,407,212,852

(1) Excludes 1993 Certificates of Participation supported by gas tax revenues and Master Equipment Lease Program issues.

(2) Supported from surplus tax increment revenues pursuant to a Reimbursement Agreement between the City and the RDA.

(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital leases

Ratios to 2002-03 Assessed Valuation:

Direct Debt (\$184,720,000)	0.21%
Total Gross Overlapping Tax and Assessment Debt	1.68%
Total Net Overlapping Tax and Assessment Debt	1.68%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt (\$940,698,204)	1.37%
Net Combined Direct Debt (\$755,258,204)	1.10%
Gross Combined Total Debt	3.77%
Net Combined Total Debt	3.50%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: \$15,413,941

Source: California Municipal Statistics, Inc.



**APPENDIX D: AIRPORT COMMERCIAL PAPER DEBT SERVICE
CERTIFICATION**

AIRPORT COMMERCIAL PAPER DEBT SERVICE CERTIFICATION

In accordance with the Letter of Credit and Reimbursement Agreement between the City of San José and JPMorgan Chase Bank, dated November 1, 1999 (the “Reimbursement Agreement”), for the Airport’s Commercial Paper Program, the certification presented in this appendix is included in the Annual Debt Report for transmission to the City Council.

Pursuant to Section 1.1(c) of the Reimbursement Agreement, the Airport’s financial advisor, Fullerton & Friar, Inc., has prepared an estimate of the annual debt service needed to amortize over a 25-year period the outstanding principal, as of June 30, 2003, on the Airport’s commercial paper notes. As specified in Section 1.1(c), the assumed interest rate is the average of the outstanding commercial paper notes during the 90-day period prior to June 30, 2003.

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 the Reimbursement Agreement.

FULLERTON & FRIAR, INC.

333 THIRD AVENUE NORTH, SUITE 330
ST. PETERSBURG, FLORIDA 33701

TELEPHONE: (727) 822-4688
FACSIMILE: (727)-822-4681
E-MAIL: kfullerton@fullertonfriar.com

Memorandum

To: City of San Jose

From: Ken Fullerton

Re: Information for Debt Service Coverage Calculations Required
in Connection with the Commercial Paper Program for San Jose
International Airport

Date: August 25, 2003

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 Agreement with Morgan Guaranty Trust Company 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 on the Airport's commercial paper outstanding as of June 30, 2003. In doing so, we have used assumptions we believe are consistent with the requirements of Part (c) of the definition of "Debt Service" contained in the Reimbursement Agreement.

The results of our calculations are presented below. As required by the Reimbursement Agreement, 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 the weighted average rates on the City's Series B (tax-exempt) and Series C (taxable) commercial paper for the 90 day period prior to June 30, 2003:

<u>Type of CP</u>	<u>Principal Outstanding</u>	<u>Assumed Interest Rate</u>	<u>Assumed Debt Service</u>
Series B (tax-exempt)	\$1,200,000	1.15%	\$ 55,504
Series C (taxable)	5,458,000	1.30%	257,119
Total	\$6,658,000	N.A.	\$312,623

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



APPENDIX E: SPECIAL TAX ANNUAL REPORT



SPECIAL TAX ANNUAL REPORT

This information is provided in the Annual Debt Report to the City Council pursuant to California Government Code Section 50075. 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.

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 a statement indicating the specific purposes of the special tax.

Special Tax Annual Report				
<i>Fiscal Year 2002-03</i>				
Date of Election	Special Tax Measure	Funds Collected	Funds Expended	Status of Funded Projects
11/07/2000	San José Neighborhood Libraries Bonds	See Note 1	\$5,114,663	None Completed 8 Under Design or Construction
11/07/2000	San José Neighborhood Parks and Recreation Bonds	See Note 1	\$7,270,786	47 Completed 44 Under Design or Construction
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	See Note 1	\$3,301,473	None Completed 12 Under Design or Construction
03/27/2001	Community Facilities District No. 6 (Great Oaks-Route 85)	See Note 2	See Note 2	98% 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
12/17/2002	Community Facilities District No. 9 (Bailey/Highway 101)	\$0	\$0	5% Completed
04/01/2003	Community Facilities District No. 10 (Hassler-Silver Creek)	\$0	\$0	Completed Project Acquired in FY 2003-04

¹ The City has issued two series of General Obligation Bonds for a total of \$116,090,000 to fund a portion of the projects authorized by voters under these measures. A total of \$17,679,220, net of the County administration fee, was collected in Fiscal Year 2002-03 to pay debt service on those bonds.

² Debt service through September 2003 was funded with capitalized interest.

