

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

The City's debt service obligations include general obligation bonds, lease revenue bonds and commercial paper notes, enterprise revenue bonds, special assessment bonds, and special tax bonds. The City of San José Financing Authority has issued lease revenue bonds and lease revenue commercial paper notes for which the City is responsible for making lease payments, and has also issued revenue bonds. The City is also responsible for making lease payments on equipment that was procured through a lease-purchase agreement.

- **General obligation bonds** are issued to finance various public improvements in the City for which the source for repayment is the levy of additional ad valorem tax on property within the City.
- **Revenue bonds** are issued by the City or one of its related entities to acquire or construct assets owned or co-owned by the City whereby the City or a related entity pledges revenues derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority lease revenue bonds** are secured by the Authority's pledge of lease revenues received by the Authority under a Project Lease of a leased asset between the City and the Authority. The City makes the lease payments to the Authority in exchange for use of the leased property and covenants to annually appropriate funds so long as the City has beneficial use of the leased asset. These payments are included in the City budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its related entities with a maturity of 270 days or less. Maturing commercial paper notes are repaid from the proceeds of sale of new commercial paper notes or bonds, or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately-owned properties benefited by the improvements for which the bonds were issued.
- **Special tax bonds** are issued to finance the construction and/or acquisition of facilities in community facilities districts, including the City's convention center facilities district. The source of repayment for these types of bonds is a special tax on privately-owned properties within the community facilities districts.
- **Lease-purchase agreements** are entered into to finance various public improvements or equipment in the City, including energy conservation equipment installed at City-owned facilities and for the replacement of streetlights. The City's lease-purchase agreements for energy conservation equipment are secured by lease payments for the City's beneficial use of the equipment that the City appropriates on an annual basis and which may be offset by utility cost savings and electricity rebates.

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

- **San Jose Redevelopment Agency** debt was issued to finance redevelopment activities within, or of benefit to, the Agency's Merged Redevelopment Project Area in accordance with California Community Redevelopment Law. The principal source of repayment for San José Redevelopment Agency debt is future property tax increment revenues. No further debt can be issued per State legislation except for refunding bonds.

The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt obligations. In addition, the City Council has approved two supplemental financing policies: (1) Multi-Family Housing Revenue Bond Policy and (2) Criteria and Guidelines for Bond Financing of Residential Development Policy.

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

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

DEBT STATUS AND CAPACITY

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. As of June 30, 2018, the total assessed value of taxable property was \$195.2 billion, which results in a total debt limit capacity of approximately \$29.3 billion. As of June 30, 2019, the City had \$502.02 million of General Obligation bonds outstanding which represents approximately 1.7% of the debt limit.

CITY OF SAN JOSE

2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

DEBT STATUS AND CAPACITY

On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redeployment Agency of the City of San José, (“SARA”) effective February 1, 2012. SARA total debt outstanding of \$1.57 billion, consisting of three series of Merged Area Tax Allocation Bonds (TABs), as of June 30, 2019.

Tables A to C in the following pages illustrate the debt service obligations of the City and its related entities, excluding Multi-Family Housing Revenue conduit debt and debt issued by the Successor Agency to the Redevelopment Agency of the City of San José. As shown in Table A, the City had no additions of long-term debt and repaid, or are expected to repay \$107.3 million of long-term debt in 2018-2019 resulting in an estimated total long-term debt balance of \$2.1 billion as of June 30, 2019. Table B summarizes the City’s and related entities’ long-term debt by issuance and final maturity, plus short-term commercial paper notes, for a combined estimated outstanding debt balance of \$2.2 billion estimated at June 30, 2019. It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution. Table C summarizes the City and related entities’ annual requirements to amortize principal and pay interest due on all long-term debt outstanding for each of the next five fiscal years and thereafter.

The Debt Management Policy (Council Policy 1-15) for the City was adopted by the City Council on May 21, 2002, and is reviewed annually by the City Council. The Debt Management Policy was subsequently amended on December 4, 2012, June 10, 2014, June 9, 2015, and most recently on March 7, 2017. The first set of program-specific financing policies for debt issued for multi-family housing projects in the City (Council Policy 1-16) was adopted by the City Council on June 11, 2002, and was subsequently amended on December 6, 2005 and reaffirmed by the City Council on March 27, 2018.

Descriptions of City of San José and related entity debt activity for 2018-2019, as well as issues planned for 2019-2020, are provided in the following sections.

2018-2019 DEBT ISSUANCE

The following debt issues were completed in 2018-2019:

- **2018 Tax and Revenue Anticipation Note.** The City issued a short-term note (the “2018 Note”) to facilitate the prefunding of employer retirement contributions for 2018-2019. The \$150 million note was purchased by Bank of America, N.A. on July 2, 2018. Security for repayment of the 2018 Note was a pledge of the City’s 2018-2019 secured property tax revenues and sales tax revenues plus all other legally available General Fund revenues, if required. The City will not be prefunding employer retirement contributions in 2019-2020, so Tax and Revenue Anticipation Notes will not be issued.

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

2018-2019 DEBT ISSUANCE

- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Convention Center South Hall.** The City issued \$42.4 million in commercial paper notes in 2018-2019 to finance the purchase of the South Hall property of the Convention Center to provide options for future expansion.
- **City of San José, Norman Y. Mineta San José International Airport Subordinated Commercial Paper Notes** – The City entered into a substitute letter of credit (the “LOC”) for the San José International Airport Commercial Paper Program. The LOC will secure up to \$75 million in aggregate principal amount of subordinated commercial paper notes (“CP Notes”). The CP Notes will provide capacity to finance Phase II of the Terminal Area Improvement Program (TAIP). The City issued \$55 million in commercial paper notes for the Phase II expansion project.
- **City of San José Community Energy Department – Revolving Credit Agreement.** The Community Energy Department amended its existing Revolving Credit Agreement to a principal amount not exceeding \$80 million (from \$50 million). The Revolving Credit Agreement, in the form of either or both a standby Letter of Credit and/or Line of Credit, will be used to finance start-up cost of the City of San José’s Community Energy Program, purchase power, and secure payments under power purchase agreements, and other costs associated and consistent with the Community Energy Implementation Plan.
- **San José-Santa Clara Regional Wastewater Facility CIP Short-Term Financing Facility.** The City entered into a \$300 million short-term financing program in 2017-2018 to finance improvements at the San José-Santa Clara Regional Wastewater Facility (RWF) as part of \$1.4 billion, 10-year RWF Capital Improvement Program. This short-term financing will provide funding to cover a portion of the project costs until reimbursement through the SRF loan, or until the short-term loan is refinanced into long-term financing. The City has issued \$39.8 million of the \$300 million short-term financing program for capital improvement project costs of the RWF.

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

2019-2020 PLANNED DEBT ISSUANCE

The following debt issues are planned for 2019-2020:

- **City of San José General Obligation Bonds.** On November 6, 2018, City of San José voters authorized the issuance of up to \$650 million for Disaster Preparedness, Public Safety, and Infrastructure (“Measure T”). In July 2019, the City issued \$502.02 million in General Obligation Bonds for new money and refunding purposes. The first segment of voter approved Measure T General Obligation Bonds in an amount of \$239.9 million was issued primarily for public infrastructure projects. In conjunction with that issuance, the City also issued the remaining voter approved bond measures, for Library Improvements, \$5.9 million (approved in November 2000) and Public Safety Improvements, \$3.3 million (approved in March 2002), for a total of \$9.2 million in General Obligation Bonds for those capital improvements. The final part of that General Obligation Bond issuance provided \$252.9 million in refunding bonds to refund all of the \$323.11 million of prior general obligation bonds.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Clean Energy.** The City anticipates authorizing issuance of up to \$6.5 million in commercial paper notes in fiscal year 2019-2020 to finance certain capital improvements and full build-out of existing space within the 4th and San Fernando Garage for office space to be occupied by the San José Clean Energy Department and other city operations.
- **Refinancings.** The Finance Department is reviewing alternatives for refinancing existing Lease Revenue Bonds issued by the City.
- **San José-Santa Clara Regional Wastewater Facility CIP Short-Term Financing Facility.** The City entered into a \$300 million short-term financing program in 2017-2018 to finance improvements at the San José-Santa Clara Regional Wastewater Facility (RWF) as part of \$1.4 billion, 10-year RWF Capital Improvement Program. This short-term financing will provide funding to cover a portion of the project costs until reimbursement through the SRF loan, or until the short-term loan is refinanced into long-term financing.

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2019
(In Thousands of Dollars)

	<u>Balance June 30, 2018</u>	<u>Additions to Long-Term Obligations</u>	<u>Current Maturities and Retirements</u>	<u>Estimated Balance June 30, 2019</u>
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 342,770	\$ -	\$ 19,660	\$ 323,110
Lease-Purchase Agreement (Taxable)	15,311	-	1,420	13,891
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	130,765	-	5,580	125,185
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2003A	8,695	-	1,295	7,400
Lease Revenue Bonds, Series 2006A	52,850	-	1,180	51,670
Lease Revenue Bonds, Series 2007A	20,770	-	2,220	18,550
Lease Revenue Bonds, Series 2008C	10,915	-	10,915	-
Lease Revenue Bonds, Series 2008D (Taxable)	17,545	-	17,545	-
Lease Revenue Bonds, Series 2008E-1 (Taxable)	7,460	-	910	6,550
Lease Revenue Bonds, Series 2008E-2 (Taxable)	7,450	-	910	6,540
Lease Revenue Bonds, Series 2011A	29,345	-	640	28,705
Lease Revenue Bonds, Series 2013A	286,465	-	8,490	277,975
Lease Revenue Bonds, Series 2013B	27,390	-	835	26,555
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,187,645	-	28,915	1,158,730
Sewer Revenue Bonds	17,322	-	6,737	10,585
TOTAL	\$ 2,162,698	\$ -	\$ 107,252	\$ 2,055,446

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

B) Summary of Bonds and Notes Payable at June 30, 2019 by Individual Issue

	Due To	Effective	Estimated (\$ Thousands)
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	5.00-5.13%	\$ 30,745
General Obligation Bonds, Series 2002	2032	5.0%	54,170
General Obligation Bonds, Series 2004	2034	5.0%	63,310
General Obligation Bonds, Series 2005	2035	4.00-4.50%	26,265
General Obligation Bonds, Series 2006	2036	4.38-5.00%	63,270
General Obligation Bonds, Series 2007	2037	4.00-4.75%	57,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	22,050
General Obligation Bonds, Series 2009	2039	4.00-5.00%	6,300
Lease-Purchase Agreement (Taxable)	2034	3.94-6.01%	13,891
Total City of San José			\$ 337,001
 SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	5.00-6.65%	\$ 125,185
 CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2003A	2023	4.35-4.70%	7,400
Lease Revenue Bonds, Series 2006A	2039	4.38-5.00%	51,670
Lease Revenue Bonds, Series 2007A	2030	4.38-4.75%	18,550
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	-
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	-
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	6,550
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	6,540
Lease Revenue Bonds, Series 2011A	2042	4.00-5.75%	28,705
Lease Revenue Bonds, Series 2013A	2039	4.00-5.00%	277,975
Lease Revenue Bonds, Series 2013B	2039	3.00-5.00%	26,555
Commercial Paper Notes	Short Term	Various	83,510
Total City of San José Financing Authority			\$ 507,455

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2019 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>Estimated (\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 2011A-1 (AMT)	2034	5.00-6.25%	122,100
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	4.00-5.25%	70,230
Revenue Bonds, Series 2011B	2041	4.75-6.75%	258,150
Revenue Bonds, Series 2014A (AMT)	2026	3.38-5.00%	49,155
Revenue Bonds, Series 2014B (Non-AMT)	2028	3.10-5.00%	28,010
Revenue Bonds, Series 2014C (Non-AMT)	2031	5.00%	40,285
Revenue Bonds, Series 2017A (AMT)	2047	4.00-5.00%	448,205
Revenue Bonds, Series 2017B (Non-AMT)	2047	4.00-5.00%	142,595
Commercial Paper Notes	Short Term	Various	40,000
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2009A	2020	4.00-5.00%	10,585
State of California Revolving Loan	2019	Various	-
Regional Wastewater Facility	Short Term	Various	67,780
Total Enterprise Funds			<u>\$ 1,277,095</u>
GRAND TOTAL			<u><u>\$ 2,246,736</u></u>

CITY OF SAN JOSE
2019-2020 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

**(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term
Debt Outstanding as of June 30, 2019***

(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment and Special Tax Bonds	City of San José Financing Authority	Enterprise Funds
2020	\$ 36,972	\$ 13,498	\$ 36,504	\$ 98,785
2021	36,025	13,492	36,594	99,433
2022	35,098	13,486	36,546	94,010
2023	34,165	13,483	36,679	81,926
2024	33,225	13,151	36,803	82,789
Thereafter	296,770	156,622	481,877	1,689,195
Total	\$ 472,255	\$ 223,732	\$ 665,003	\$ 2,146,137

* The following all-in interest rates were used to project debt service for the City of San Jose Financing Authority's variable-rate bonds

	Tax-Exempt	Taxable
2019-2020	3.15%	3.58%
2020-2021	3.16%	3.59%
2021-2022	3.16%	3.60%
2022-2023	3.17%	3.61%
2023-2024	3.18%	3.62%
Thereafter	3.18%	3.62%