

CITY OF SAN JOSE

2009-2010 PROPOSED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

Overview

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

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue and lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its related entities that has 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.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts. The source of repayment for community facilities district bonds is a special tax on privately owned properties within the community facilities districts.
- **San Jose Redevelopment Agency debt** is issued to finance redevelopment activities within, or of benefit to, the Agency's Merged Area Redevelopment Project in accordance with California Community Redevelopment law. The principal source of repayment for San Jose Redevelopment Agency debt is future property tax increment revenues.

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

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Overview (Cont'd.)

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

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

Debt Status and Capacity

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. Based on the most recent figure available (July 1, 2008), the total taxable assessed value on the City's 2008-2009 tax roll is estimated at \$125.3 billion, which results in a total debt capacity of approximately \$18.8 billion. As of June 30, 2009, the City estimates it will have approximately \$528.6 million of General Obligation bonds outstanding.

The City, City of San José Financing Authority, San Jose Redevelopment Agency, and San José-Santa Clara Clean Water Financing Authority total estimated outstanding debt as of June 30, 2009 is \$5.22 billion (See Table B). It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. The first set of program-specific policies, related to the City's Multi-Family Housing Program, was adopted by the City Council on June 11, 2002 and subsequently amended on December 6, 2005.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Debt Status and Capacity (Cont'd.)

During 2009-2010, the Business Plan of the Strategic Support City Service Area includes development of additional program-specific policies tailored to certain types of financings which may include, but are not limited to, the City's general obligation, lease revenue, enterprise, and land-secured financings.

Descriptions of City of San José and related entity debt activity for 2008-2009, as well as issues planned for 2009-2010, are provided in the following sections.

2008-2009 Debt Issues

The following debt issues have been completed:

- **City of San José Financing Authority Lease Revenue Bonds, Series 2008E (Taxable) (Ice Centre Refunding Project)** On July 3, 2008, the Authority issued \$28.07 million of Series 2008E Taxable Lease Revenue Bonds. The proceeds of the Series 2008E Bonds were used to current refund the Authority's Series 2000C (taxable) and Series 2004A (taxable) Lease Revenue Bonds (together, the "2000/2004 Bonds") issued to finance and refinance real property and improvements to the City's Ice Centre of San José. Debt service on the bonds will be paid from base rental payments received by the City from the Ice Centre operator, Silicon Valley Sports and Entertainment.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the 2000/2004 Bonds, which had been negatively impacted by disruptions in the financial markets related to auction rate securities and rating agency downgrades of bond insurers. The Series 2008E Bonds financing structure eliminated the bond insurance which provided credit enhancement to the 2000/2004 Bonds and replaced it with a direct-pay letter of credit. The Series 2008E Bonds, which are supported by an irrevocable direct-pay letter of credit provided by Bank of America and the California State Teachers' Retirement System, bear interest at weekly variable rates and have a final maturity date of June 1, 2025.

- **City of San José Financing Authority Lease Revenue Bonds, Series 2008B (Civic Center Garage Refunding Project)** On July 10, 2008, the Authority issued \$36.58 million of Series 2008B Lease Revenue Bonds. The proceeds of the Series 2008B Bonds were used to current refund the portion of the Authority's Lease Revenue Commercial Paper Notes issued as an interim financing mechanism to finance land acquisition and construction of the Civic Center Employee Parking Garage and certain improvements to the Civic Center. Debt service on the Series 2008B bonds will be paid from the General Fund, special funds, and capital funds.

This refunding of variable-rate commercial paper notes with a series of variable-rate bonds provides long-term financing for the Civic Center Garage. The Series 2008B Bonds, which are supported by an irrevocable direct-pay letter of credit provided by Bank of America and the California State Teachers' Retirement System, bear interest at weekly variable rates and have a final maturity date of June 1, 2039.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2008-2009 Debt Issues (Cont'd.)

- **City of San José Financing Authority Lease Revenue Bonds, Series 2008A (Civic Center Refunding Project)** On August 14, 2008, the Authority issued \$60.31 million of Series 2008A Lease Revenue Bonds. The proceeds of the Series 2008A Bonds were used to current refund the Authority's Series 2002C Lease Revenue Bonds issued to finance a portion of the costs of the City Hall project. Debt service on the Series 2008A bonds will be paid from the General Fund, special funds, and capital funds.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the Series 2002C Bonds, which had been negatively impacted by disruptions in the financial markets related to auction rate securities and rating agency downgrades of bond insurers. The Series 2008A Bonds financing structure eliminated the bond insurance which provided credit enhancement to the Series 2002C Bonds and replaced it with a direct-pay letter of credit. The Series 2002C Bonds were redeemed on August 14, 2008, and have been removed from the City's basic financial statements. The Series 2008A Bonds, which are supported by an irrevocable direct-pay letter of credit provided by The Bank of Nova Scotia and the California State Teachers' Retirement System, bear interest at weekly variable rates and have a final maturity date of June 1, 2039.

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2008B** On November 13, 2008, the San Jose Redevelopment Agency (SJRA) issued \$80.145 million of Series 2008B tax allocation bonds. The proceeds of the Series 2008B bonds will be used to finance multiple redevelopment projects within the SJRA's Merged Area Redevelopment Project. Debt service is payable from the SJRA's tax increment revenues. The Series 2008B bonds bear interest at fixed rates ranging from 6.25% to 7.00%, and have a final maturity date of August 1, 2035.
- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2008A** On December 17, 2008, the San Jose Redevelopment Agency (SJRA) issued \$37.15 million of Series 2008A tax allocation bonds. The proceeds of the Series 2008B bonds will be used to finance multiple redevelopment projects within the SJRA's Merged Area Redevelopment Project. Debt service is payable from the SJRA's tax increment revenues. The Series 2008A bonds bear interest at fixed rates ranging from 5.25% to 6.50%, and have a final maturity date of August 1, 2018.
- **San José-Santa Clara Clean Water Financing Authority Sewer Revenue Refunding Bonds, Series 2009A** On January 29, 2009, the Clean Water Financing Authority issued \$21.42 million of Series 2009A sewer revenue refunding bonds. The proceeds of the Series 2009A bonds were used to current refund the Authority's Series 2005B variable-rate sewer revenue refunding bonds. Debt service is payable from the Authority's revenues, which consist primarily of payments from the City of San José's sewer revenues.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2008-2009 Debt Issues (Cont'd.)

This refunding of variable-rate bonds with a series of fixed-rate bonds constitutes a restructuring of the Series 2005B Bonds, which had been negatively impacted by disruptions in the financial markets related to rating agency downgrades of bond insurers and liquidity providers. The Series 2009A Bonds financing structure eliminated the bond insurance, which provided credit enhancement to the Series 2005B Bonds, and the liquidity facility, which provided liquidity support to the Series 2005B Bonds. The Series 2009A bonds bear interest at fixed rates ranging from 3.00% to 5.00%, and have a final maturity date of November 15, 2020.

- **Multi-family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received the following allocation from the California Debt Limit Allocation Committee (CDLAC) and closed the following project while complying with CDLAC regulations:

Partial refunding of bonds originally issued in October 2002, resulting in bond issuance in July 2008:

- Las Ventanas Apartments (\$25.9 million), closed July 15, 2008

2008-2009 Planned Debt Issues

The following debt issues are anticipated to close prior to the end of the fiscal year.

- **City of San José General Obligation Bonds, Series 2009 (Library and Public Safety Projects)** The City anticipates issuing approximately \$18.2 million of Series 2009 General Obligation Bonds in June 2009. The proceeds will be used to fund a portion of the library and public safety projects approved by voters in November 2000 and March 2002. Debt service on the Series 2009 Bonds will be payable from *ad valorem* taxes levied upon all property subject to taxation by the City.

2009-2010 Planned Debt Issues

- **City of San José Pension Obligation Bonds** The City is evaluating the possibility of issuing pension obligation bonds during 2009-2010. The bond proceeds would be used to fund a portion of the Federated City Employees' Retirement System's unfunded actuarial accrued liability (UAAL). Depositing the funds with the Retirement System could raise the funding level to approximately 90% and is anticipated to create budgetary savings by investing the proceeds with the Retirement System at a rate higher than the cost of funds.
- **City of San José Convention Center Facilities District No. 2008-1 Special Tax Bonds, Series 2010** Subject to approval of district formation by property owners in the proposed district, the City anticipates issuing approximately \$100 million of special tax bonds to finance a portion of the Convention Center renovation and expansion project. The bonds will be secured by special tax revenues paid by the owners of taxable parcels in Convention Center Facilities District No. 2008-1.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2009-2010 Planned Debt Issues (Cont'd.)

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds** The City is evaluating the possibility of issuing housing set-aside tax allocation bonds during 2009-2010. The bond proceeds would be used to finance and refinance affordable housing projects and/or refund all or a portion of the SJRA's Series 1997E, Series 2005C and Series 2005D Housing Set-Aside Tax Allocation Bonds.

- **Multi-family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City has not yet applied for nor received any allocations from the California Debt Limit Allocation Committee (CDLAC) for 2009-2010.

CITY OF SAN JOSE
2009-2010 PROPOSED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(A) Summary of Estimated Changes in Long-Term Debt for the Year Ending June 30, 2009
(In Thousands of Dollars)

	Balance July 1, 2008	Additions to Long-Term Obligations	Current Maturities and Retirements	Balance June 30, 2009
GENERAL LONG TERM DEBT				
General Obligation Bonds*	\$ 528,565	\$ 18,230	\$ 18,245	\$ 528,550
HUD Section 108 Loan	24,876	-	953	23,923
Special Assessment Bonds with Limited Governmental Commitment	68,151	-	3,265	64,886
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 1993B	3,534	183	810	2,907
Lease Revenue Bonds, Series 1997B	1,935	-	375	1,560
Lease Revenue Bonds, Series 2000C (Taxable)	18,900	-	18,900	-
Lease Revenue Bonds, Series 2001E	6,135	-	2,095	4,040
Lease Revenue Bonds, Series 2001F	160,070	-	6,760	153,310
Lease Revenue Bonds, Series 2002B	292,145	-	165	291,980
Lease Revenue Bonds, Series 2002C	60,000	-	60,000	-
Lease Revenue Bonds, Series 2003A	19,310	-	910	18,400
Lease Revenue Bonds, Series 2004A (Taxable)	9,225	-	9,225	-
Lease Revenue Bonds, Series 2006A	57,440	-	-	57,440
Lease Revenue Bonds, Series 2007A	35,200	-	860	34,340
Lease Revenue Bonds, Series 2008A	-	60,310	3,490	56,820
Lease Revenue Bonds, Series 2008B	-	36,580	605	35,975
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	47,390	-	1,010	46,380
Lease Revenue Bonds, Series 2008E (Taxable)	-	28,070	985	27,085
Lease Revenue Bonds, Series 2008F (Taxable)	67,195	-	-	67,195
Revenue Bonds, Series 2001A	41,170	-	1,430	39,740
REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	199,905	-	5,150	194,755
Housing Tax Allocation Bonds (Subordinate)	62,770	-	1,785	60,985
Redevelopment Tax Allocation Bonds	1,716,260	117,295	31,320	1,802,235
Redevelopment Tax Allocation Bonds (Sub.)	111,000	-	2,800	108,200
HUD Section 108 Loans	34,220	-	265	33,955
CSCDA ERAF Loans	27,070	-	3,090	23,980
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,060,815	-	11,180	1,049,635
Sewer Revenue Bonds/State Revolving Fund Loan	114,828	21,420	35,309	100,939
TOTAL	\$ 4,779,024	\$ 282,088	\$ 220,982	\$ 4,840,130

* June 30, 2009, balance includes preliminary estimates for debt not yet issued as of the date of publication.

CITY OF SAN JOSE
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DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2009 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	4.75-5.125%	\$ 54,410
General Obligation Bonds, Series 2002	2032	4.0-5.0%	92,870
General Obligation Bonds, Series 2004	2034	4.0-5.0%	102,880
General Obligation Bonds, Series 2005	2035	3.0-7.5%	41,680
General Obligation Bonds, Series 2006	2036	4.0-5.0%	98,380
General Obligation Bonds, Series 2007	2037	4.0-8.0%	87,000
General Obligation Bonds, Series 2008	2038	4.0-5.0%	33,100
General Obligation Bonds, Series 2009*	2039	TBD	18,230
HUD Section 108 Loan	2024	Variable Rate	23,923
Total City of San José			<u>\$ 552,473</u>
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2032	Various	<u>\$ 64,886</u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 1993B	2012	5.90-6.00%	\$ 2,907
Lease Revenue Bonds, Series 1997B	2012	4.75-4.875%	1,560
Lease Revenue Bonds, Series 2001E	2010	5.00%	4,040
Lease Revenue Bonds, Series 2001F	2022	4.00-5.00%	153,310
Lease Revenue Bonds, Series 2002B	2037	3.75-5.25%	291,980
Lease Revenue Bonds, Series 2003A	2023	3.10-4.70%	18,400
Lease Revenue Bonds, Series 2006A	2039	4.00-5.00%	57,440
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	34,340
Lease Revenue Bonds, Series 2008A	2039	Variable Rate	56,820
Lease Revenue Bonds, Series 2008B	2039	Variable Rate	35,975
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	46,380
Lease Revenue Bonds, Series 2008E (Taxable)	2025	Variable Rate	27,085
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	67,195
Revenue Bonds, Series 2001A	2026	3.90-5.25%	39,740
Commercial Paper Notes*	Short Term	Various	56,331
Total City of San José Financing Authority			<u>\$ 904,418</u>
REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2035	3.00-5.85%	\$ 194,755
Housing Tax Allocation Bonds (Sub.)	2035	Variable Rate	60,985
Redevelopment Tax Allocation Bonds	2035	3.75-7.00%	1,802,235
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	108,200
HUD Section 108 Loans	2025	Variable Rate	33,955
CSCDA ERAF Loans	2016	4.59-5.67%	23,980
Total Redevelopment Agency			<u>\$ 2,224,110</u>

* Includes preliminary estimates for debt not yet issued as of the date of publication.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2009 by Individual Issue (Cont'd.)

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Refunding Bonds, Series 1998A	2018	4.50-4.75%	\$ 8,015
Revenue Bonds, Series 2001A	2031	4.00-5.25%	138,840
Revenue Refunding Bonds, Series 2002A	2018	4.00-5.375%	53,600
Revenue Refunding Bonds, Series 2002B (AMT)	2012	4.00-5.00%	15,165
Revenue Bonds, Series 2004C (AMT)	2026	4.625-5.25%	74,730
Revenue Bonds, Series 2004D	2028	5.00%	34,270
Revenue Bonds, Series 2007A (AMT)	2047	5.00-6.00%	545,755
Revenue Bonds, Series 2007B	2037	4.25-5.00%	179,260
Commercial Paper Notes*	Short Term	Various	325,000
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2005A	2016	3.25-5.00%	41,265
Revenue Refunding Bonds, Series 2009A	2020	3.00-5.00%	21,420
State of California Revolving Loan	2019	Various	38,254
Total Enterprise Funds			<u>\$ 1,475,574</u>
GRAND TOTAL			<u><u>\$ 5,221,461</u></u>

* Includes preliminary estimates for debt not yet issued as of the date of publication.

CITY OF SAN JOSE
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DEBT SERVICE OBLIGATIONS (CONT'D.)

(C) Annual Requirements to Amortize All Long-Term Debt Outstanding
as of June 30, 2009*
(In Thousands of Dollars)

Year Ending June 30	City of San José**	Special Assessment Bonds	City of San José Financing Authority	Redevelopment Agency	Enterprise Funds
2010	\$ 45,111	\$ 6,812	\$ 54,549	\$ 162,670	\$ 76,968
2011	45,727	6,787	56,611	166,517	76,918
2012	44,860	6,780	59,584	166,522	76,841
2013	43,965	6,752	60,357	166,257	76,787
2014	43,056	6,732	59,663	166,380	84,762
Thereafter	680,072	64,808	1,215,636	2,861,155	1,855,195
Total	\$ 902,791	\$ 98,671	\$ 1,506,400	\$ 3,689,501	\$ 2,247,471

* The following interest rates were used to project debt service for variable-rate bonds:

	Tax-Exempt	Taxable
2009-2010	2.15%	2.55%
Thereafter	3.90%	5.25%

** Includes preliminary estimates for debt not yet issued as of the date of publication.