

**CITY OF SAN JOSE**  
**2011-2012 ADOPTED CAPITAL BUDGET**

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**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 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.
- **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**

**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, 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, 2010, the total assessed value of taxable property was \$127.1 billion, which results in a total debt limit capacity of approximately \$19.1 billion. As of June 30, 2011, the City had \$480.32 million of General Obligation bonds outstanding which represents approximately 2.5% of the debt limit.

As shown in Table A, the City and related entities (excluding Multi-Family Housing Revenue conduit debt) had additions in long-term debt of \$138.5 million and repayments of \$128.6 million in 2011 resulting in a total long-term debt balance of \$4.8 billion as of June 30, 2011. Table B summarizes the City and related entities' long-term debt (excluding Multi-Family Housing Revenue conduit debt) by issuance and maturity, as well as short-term commercial paper notes for a combined outstanding debt balance of \$5.3 billion as of June 30, 2011. 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.

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**DEBT SERVICE OBLIGATIONS**

**Debt Status and Capacity (Cont'd.)**

The Debt Management Policy (Council Policy 1-15) for the City was adopted by the City Council on May 21, 2002, and is affirmed annually by the City Council. 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.

Descriptions of City of San José and related entity debt activity for 2010-2011, as well as issues planned for 2011-2012, are provided in the following sections.

**2010-2011 Debt Issues**

The following debt issues have been completed in 2010-2011.

- **2010 Tax and Revenue Anticipation Note** The City issued a short-term note (the "2010 Note") in an amount not to exceed \$75 million for cash flow purposes to facilitate the prefunding of employer retirement contributions. The 2010 Note was purchased by JP Morgan Chase Bank, N.A. in two installments (July and October 2010) at an interest rate of LIBOR plus 0.60%. Security for repayment of the 2010 Note is a pledge of the City's 2010-2011 secured property tax revenues received on and after April 1, 2011 plus all other legally available General Fund revenues legally available to the City, if required. The City fully repaid principal (\$75 million) and interest (\$403,280) on the 2010 Note on January 31, 2011.
- **City of San José Convention Center Special Hotel Tax Revenue Bonds, Series 2011 and Lease Revenue Bonds Series 2011A** On April 11, 2011, the City issued \$107.4 million of special tax revenue bonds and \$31.0 million of lease revenue bonds to finance a portion of the Convention Center renovation and expansion project (see Table A). The bonds will be secured by special tax revenues paid by the owners of taxable parcels in Convention Center Facilities District No. 2008-1. The bonds are also secured by the portion of the transient occupancy tax (1.5%) that has been historically appropriated for convention uses to the extent it is appropriated by the City Council as a source of repayment for the 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 received the following allocations from the California Debt Limit Allocation Committee (CDLAC):

*Allocations awarded on March 24, 2010, resulting in bond issuance in 2010:*

- Orvieto Family Apartments (\$14.2 million); closed July 20, 2010

*Allocations awarded on September 23, 2009, resulting in bond issuance in 2010:*

- Kings Crossing Apartments (\$25.4 million); closed September 17, 2010

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**DEBT SERVICE OBLIGATIONS**

**2011-2012 Debt Issues**

- **2011 Tax and Revenue Anticipation Note** The City issued a short-term note (the “2011 Note”) in an amount not to exceed \$125 million for cash flow purposes to facilitate the prefunding of employer retirement contributions. An initial portion of \$100 million of the 2011 Note was purchased by JP Morgan Chase Bank, N.A. in July 2011 at an interest rate of LIBOR plus 0.40%. Security for repayment of the 2011 Note is a pledge of the City’s 2011-2012 secured property tax revenues (excluding property taxes levied for general obligation bonds) and sales tax revenues received during 2011-2012 plus all other legally available General Fund revenues of the City, if required. The 2011 Note must be fully repaid by June 30, 2012.

**2011-2012 Planned Debt Issues**

- **Airport Revenue Bonds, Series 2011** The City anticipates issuing approximately \$420 million of Airport Revenue Bonds in multiple series in 2011. The proceeds of the Series 2011A Bonds will be used to redeem a portion of the Airport’s outstanding commercial paper related to the Series 2004 Auction Rate Securities, refund outstanding bonds for which economic savings can be achieved, and pay costs of issuance. The proceeds of the Series 2011B Bonds will be used to refund a portion of the Airport’s outstanding commercial paper related to the Rental Car Center and pay for costs of issuance. Debt service on the Series 2011 bonds will be paid from general airport revenues and certain other funds.
- **City of San José General Obligation Bonds, Series 2011 (Libraries and Public Safety Projects)** The City anticipates issuing approximately \$9.2 million of General Obligation Bonds, Series 2011 in fall 2011, which represents the remaining unissued authorization for libraries and public safety projects approved by voters in November 2000 and March 2002. The City also anticipates refunding General Obligation Bonds, Series 2001 if market conditions provide sufficient economic and financial benefits.
- **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 received and is in the process of obtaining the following allocations from the California Debt Limit Allocation Committee (CDLAC) for 2011-2012:

*Allocations awarded on May 18, 2011, resulting in bond issuance in 2011:*

- Rosemary Family Apartments (\$30.7 million); anticipated closing in October 2011

*Allocations awarded on July 20, 2011, resulting in bond issuance in 2011:*

- Taylor Oaks Apartments (\$7.0 million); anticipated closing in September 2011

*Allocations expected to be awarded on September 28, 2011, resulting in bond issuance in 2011:*

- 3<sup>rd</sup> Street Residential Apartments (\$9.0 million); anticipated closing in December 2011

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**DEBT SERVICE OBLIGATIONS**

**(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2011**  
(In Thousands of Dollars)

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions to</u> <u>Long-Term</u> <u>Obligations</u>	<u>Current</u> <u>Maturities</u> <u>and</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>GENERAL LONG TERM DEBT</b>				
General Obligation Bonds	\$ 499,970	\$ -	\$ 19,650	\$ 480,320
HUD Section 108 Loan	22,915	-	1,038	21,877
Special Assessment Bonds with Limited Governmental Commitment	60,905	107,425	4,426	163,904
<b>CITY OF SAN JOSE FINANCING AUTHORITY</b>				
Lease Revenue Bonds, Series 1993B	2,243	106	810	1,539
Lease Revenue Bonds, Series 1997B	1,165	-	410	755
Lease Revenue Bonds, Series 2001F	145,895	-	8,090	137,805
Lease Revenue Bonds, Series 2002B	291,820	-	170	291,650
Lease Revenue Bonds, Series 2003A	17,465	-	965	16,500
Lease Revenue Bonds, Series 2006A	57,440	-	-	57,440
Lease Revenue Bonds, Series 2007A	33,435	-	950	32,485
Lease Revenue Bonds, Series 2008A	56,920	-	-	56,920
Lease Revenue Bonds, Series 2008B	35,280	-	720	34,560
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	45,080	-	1,695	43,385
Lease Revenue Bonds, Series 2008E (Taxable)	26,025	-	1,110	24,915
Lease Revenue Bonds, Series 2008F (Taxable)	67,195	-	-	67,195
Lease Revenue Bonds, Series 2011A	-	30,985	-	30,985
Revenue Bonds, Series 2001A	38,255	-	1,545	36,710
<b>REDEVELOPMENT AGENCY</b>				
Housing Tax Allocation Bonds	256,845	-	9,305	247,540
Housing Tax Allocation Bonds (Subordinate)	93,000	-	2,100	90,900
Redevelopment Tax Allocation Bonds	1,757,730	-	46,730	1,711,000
Redevelopment Tax Allocation Bonds (Sub.)	100,000	-	3,130	96,870
HUD Section 108 Loans	33,000	-	1,580	31,420
CSCDA ERAF Loans	20,735	-	3,405	17,330
<b>CITY OF SAN JOSE ENTERPRISE FUNDS</b>				
Airport Revenue Bonds	1,037,990	-	12,120	1,025,870
Sewer Revenue Bonds/State Revolving Fund Loan	92,532	-	8,625	83,907
<b>TOTAL</b>	<b>\$ 4,804,755</b>	<b>\$ 138,516</b>	<b>\$ 128,575</b>	<b>\$ 4,814,696</b>

**CITY OF SAN JOSE**  
**2011-2012 ADOPTED CAPITAL BUDGET**

**DEBT SERVICE OBLIGATIONS**

**(B) Summary of Bonds and Notes Payable at June 30, 2011 by Individual Issue**

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
<b>CITY OF SAN JOSE</b>			
General Obligation Bonds, Series 2001	2031	4.75-5.125%	\$ 49,670
General Obligation Bonds, Series 2002	2032	4.00-5.00%	85,130
General Obligation Bonds, Series 2004	2034	4.00-5.00%	94,970
General Obligation Bonds, Series 2005	2035	3.00-4.50%	38,600
General Obligation Bonds, Series 2006	2036	4.00-5.00%	91,360
General Obligation Bonds, Series 2007	2037	4.00-5.50%	81,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	30,890
General Obligation Bonds, Series 2009	2039	4.00-6.00%	8,700
HUD Section 108 Loan	2024	Variable Rate	21,877
<b>Total City of San José</b>			<u>\$ 502,197</u>
<b>SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT</b>			
	2042	3.00-8.50%	<u>\$ 163,904</u>
<b>CITY OF SAN JOSE FINANCING AUTHORITY</b>			
Lease Revenue Bonds, Series 1993B	2018	5.95-6.00%	\$ 1,539
Lease Revenue Bonds, Series 1997B	2012	4.85-4.875%	755
Lease Revenue Bonds, Series 2001F	2022	4.00-5.00%	137,805
Lease Revenue Bonds, Series 2002B	2037	3.75-5.25%	291,650
Lease Revenue Bonds, Series 2003A	2023	3.25-4.70%	16,500
Lease Revenue Bonds, Series 2006A	2039	4.00-5.00%	57,440
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	32,485
Lease Revenue Bonds, Series 2008A	2039	Variable Rate	56,920
Lease Revenue Bonds, Series 2008B	2039	Variable Rate	34,560
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	43,385
Lease Revenue Bonds, Series 2008E (Taxable)	2025	Variable Rate	24,915
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	67,195
Lease Revenue Bonds, Series 2011A	2042	3.00-5.75%	30,985
Revenue Bonds, Series 2001A	2026	4.00-5.25%	36,710
Commercial Paper Notes	Short Term	Various	46,645
<b>Total City of San José Financing Authority</b>			<u>\$ 890,404</u>
<b>REDEVELOPMENT AGENCY</b>			
Housing Tax Allocation Bonds	2035	3.25-5.85%	\$ 247,540
Housing Tax Allocation Bonds (Sub.)	2035	Variable Rate	90,900
Redevelopment Tax Allocation Bonds	2036	3.75-7.00%	1,711,000
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	96,870
HUD Section 108 Loans	2025	Variable Rate	31,420
CSCDA ERAF Loans	2016	4.69-5.67%	17,330
<b>Total Redevelopment Agency</b>			<u>\$ 2,195,060</u>

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**DEBT SERVICE OBLIGATIONS**

**(B) Summary of Bonds and Notes Payable at June 30, 2011 by Individual Issue (Cont'd.)**

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
<b>ENTERPRISE FUNDS</b>			
Norman Y. Mineta San José International Airport			
Revenue Refunding Bonds, Series 1998A	2018	4.50-4.75%	\$ 6,540
Revenue Bonds, Series 2001A	2031	4.10-5.239%	131,335
Revenue Refunding Bonds, Series 2002A	2018	4.776-5.375%	53,600
Revenue Refunding Bonds, Series 2002B (AMT)	2012	4.809-5.00%	2,380
Revenue Bonds, Series 2004C (AMT)	2026	4.625-5.25%	72,730
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	410,079
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2005A	2016	3.25-5.00%	31,835
Revenue Refunding Bonds, Series 2009A	2020	3.00-4.626%	21,420
State of California Revolving Loan	2019	Various	30,651
<b>Total Enterprise Funds</b>			<u>\$ 1,519,855</u>
<b>GRAND TOTAL</b>			<u><u>\$ 5,271,420</u></u>

**CITY OF SAN JOSE**  
**2011-2012 ADOPTED CAPITAL BUDGET**

**DEBT SERVICE OBLIGATIONS**

(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term  
Debt Outstanding as of June 30, 2011\*

(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment Bonds[1]	City of San José Financing Authority[1]	Redevelopment Agency	Enterprise Funds
2012	\$ 43,342	\$ 13,497	\$ 55,613	\$ 166,261	\$ 76,841
2013	43,157	13,089	61,237	168,286	76,787
2014	42,306	13,451	61,030	169,043	84,762
2015	41,432	14,656	61,581	169,111	84,680
2016	40,567	14,366	62,481	166,908	84,661
Thereafter	584,560	264,338	1,152,439	2,647,088	1,685,854
<b>Total</b>	<b>\$ 795,365</b>	<b>\$ 333,397</b>	<b>\$ 1,454,381</b>	<b>\$ 3,486,697</b>	<b>\$ 2,093,585</b>

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

	Tax-Exempt	Taxable
2011-2012	2.65%	2.75%
Thereafter	3.95%	5.00%