CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL / SUCCESSOR AGENCY BOARD

FROM: Julia H. Cooper

SUBJECT: **RESULTS OF SALE OF TAX ALLOCATION REFUNDING BONDS**

DATE: January 12, 2018

Approved D. DSyC Date 1/12/18

INFORMATION

On December 21, 2017, the Successor Agency to the Redevelopment Agency of the City of San José (the "Successor Agency") closed on the issuance of Tax Allocation Refunding Bonds in the aggregate principal amount $1,677,540,000 (the "Bonds"). The Bonds were issued in three series over two liens: (i) $79,825,000 of tax-exempt senior lien 2017 Series A (the "2017 Series A Bonds"), (ii) $1,333,325,000 of taxable senior lien 2017 Series A-T (the "2017 Series A-T Bonds" and with the 2017 Series A Bonds, the "2017 Senior Lien Bonds") and (iii) $264,390,000 of tax-exempt subordinate lien 2017 Series B (the "2017 Series B Bonds"). The Bonds refunded all 25 series of outstanding obligations of the former Redevelopment Agency of the City of San José. Bond proceeds also were used to pay transaction costs. The Bond sale represented the largest tax allocation bond issue in California history.

SALE SUMMARY

General. The Successor Agency Board approved the issuance of the Bonds on May 16, 2017, the Oversight Board on May 18, 2017, and the State Department of Finance on July 21, 2017. The Bonds are secured by a pledge of tax revenues ("Tax Revenues") allocable to the Successor Agency and deposited in the Redevelopment Property Tax Trust Fund ("RPTTF"), excluding the County's pension and State Water Project overrides. The statutory payment obligations to the taxing entities in the County were subordinated to debt service of the Bonds, except for amounts due to the San José Unified School District. The Bonds were structured in accordance with the policy objectives approved by the Successor Agency Board and the Oversight Board.

Underwriting Team. The Bond sale was accomplished by an underwriting team consisting of:

Joint Book-running Senior Managers:	Stifel Nicolaus & Company, Incorporated ("Stifel") J.P. Morgan Securities LLC ("J.P. Morgan")	
Co-Senior Managers:	Morgan Stanley	Raymond James
Co-Managers:	Backstrom McCarley Berry Piper Jaffray	Hilltop Securities Siebert Cisnernos Shank

Bond Overview The tax-exempt 2017 Series A Bonds mature on August 1, 2034 and 2035 and were issued as premium bonds with 5% coupons. The taxable 2017 Series A-T Bonds mature on August 1, 2034 and were issued with fixed interest rates ranging from 1.898% to 3.375%. The tax-exempt 2017 Series B Bonds mature on August 1, 2029 and were issued as premium bonds with 5% coupons in each maturity, except for a 2% coupon on Bonds maturing on August 1, 2018. The all-in true interest cost (“TIC”) of the Bonds was 3.2174%.

The Bonds were issued without bond insurance. Build America Mutual provided reserve account insurance policies for the Bonds in lieu of cash funding the reserve accounts with Bond proceeds. Fiscal Year 2018 Tax Revenues cover debt service on the Senior Bonds by 2.5 times. Debt service coverage on all the Bonds is 1.94 times.

Sale Overview Demand for the Bonds was very high. The taxable 2017 Series A-T Bonds, with a total par size of $1.333 billion, garnered orders of $7.147 billion. The tax-exempt 2017 Series A and 2017 Series B Bonds, with an aggregate par size of $345.3 million, garnered orders of $2.035 billion. The Bonds were oversubscribed by approximately 5.5x (i.e., 5.5 times more orders than bonds to sell). Notably, the largest maturity - $361.8 of the taxable 2017 Series A-T Bonds – was more than 10x oversubscribed with orders that aggregated $3.635 billion.

Sources and Uses The final sources and uses of the Bonds are presented in the following table:

Successor Agency to the Redevelopment Agency of the City of San José
Tax Allocation Refunding Bonds
Final Sources and Uses of Funds

	2017 Series A Bonds	2017 Series A-T Bonds	2017 Series B Bonds	Total
Sources:				
Principal Amount	$79,825,000.00	$1,333,325,000.00	$264,390,000.00	$1,677,540,000.00
Plus: Original Issue Premium	17,535,502.75	--	45,391,276.50	62,926,779.25
Less: Original Issue Discount	--	(11,800,099.15)	--	(11,800,099.15)
Plus: Funds on hand from Refunded Obligations	11,057,474.00	20,260,459.46	10,060,611.12	41,378,544.58
Total Sources	**$108,417,976.75**	**$1,341,785,360.31**	**$319,841,887.62**	**$1,770,045,224.68**
Uses:				
Refunding of Refunded Obligations	$107,977,859.64	$1,330,512,080.03	$318,152,469.08	$1,756,642,408.75
Underwriters’ Discount	283,408.65	4,733,802.97	938,683.50	5,955,895.12
Other Costs of Issuance (1)	156,708.46	6,539,477.31	750,735.04	7,446,920.81
Total Uses	**$108,417,976.75**	**$1,341,785,360.31**	**$319,841,887.62**	**$1,770,045,224.68**

(1) Other Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Fiscal Consultant, Municipal Advisors, Trustee, printing expenses, rating fees, premiums for reserve sureties, payment of arbitrage rebate liability, and other costs related to the issuance of the Bonds.

Savings Summary As a result of the transaction, the Successor Agency achieved total debt service savings of $253.86 million and net present value savings of $185.60 million, or 10.82%, of the Refunded Bonds over the next eighteen years (final maturity of the Bonds). The table below shows debt service savings by year:

Dollar Savings by Year

Date	Prior Debt Service	Refunding Debt Service	$ Savings
8/1/2018	$183,072,752	$144,300,929	$38,771,796
8/1/2019	184,229,540	144,297,387	39,932,153
8/1/2020	184,482,478	144,297,328	40,185,149
8/1/2021	184,763,550	144,299,719	40,463,831
8/1/2022	184,613,324	144,299,329	40,313.995
8/1/2023	155,522,420	144,299,798	11,222,622
8/1/2024	155,670,937	144,301,130	11,369,807
8/1/2025	155,434,683	144,300,446	11,134,237
8/1/2026	154,803,644	144,298,799	10,504,845
8/1/2027	148,596,539	144,297,424	4,299,115
8/1/2028	120,796,706	120,796,150	556
8/1/2029	122,262,784	122,382,737	7,166
8/1/2030	103,878,123	122,255,619	9,604
8/1/2031	103,846,585	103,868,519	1,760
8/1/2032	103,924,073	103,922,075	1,998
8/1/2033	63,963,255	63,958,519	4,736
8/1/2034	64,029.418	64,026,963	2,456
8/1/2035	56,500,770	56,500,500	270
8/1/2036	5,629,500	0	5,629,500
Total	**$2,436,021,054**	**$2,182,165,459**	**$253,855,595**

This savings structure accomplishes the policy objectives approved by the Successor Agency Board and Oversight Board at their meetings on May 16 and May 18, respectively:

- Successor Agency will now be placed in a sufficiency of funds situation.
- Near term savings has enabled the Successor Agency to repay its previously unpaid and current enforceable obligations to the County, the City, and other third parties following before June 1, 2018 RPTTF distribution.
- Distribution of residual revenues to all taxing agencies will be accelerated, with an estimated $60 million expected to flow to other taxing entities from the June 1, 2018 RPTTF distribution, $15 million expected from the January 2, 2019 RPTTF distribution, and $37 million expected from the June 1, 2019 RPTTF distribution. These distributions will increase by the amount of proceeds generated from the remaining real property sales.

The Bonds were structured with 10-year par calls, making them eligible for current refunding on August 1, 2027. The tax-exempt Bonds cannot be advance refunded due to the change in federal law which removed the ability of municipalities to advance refund tax-exempt bonds after December 31, 2017. It is anticipated that the Successor Agency will take advantage of refunding opportunities after the call date on the Bonds.

Transaction Costs

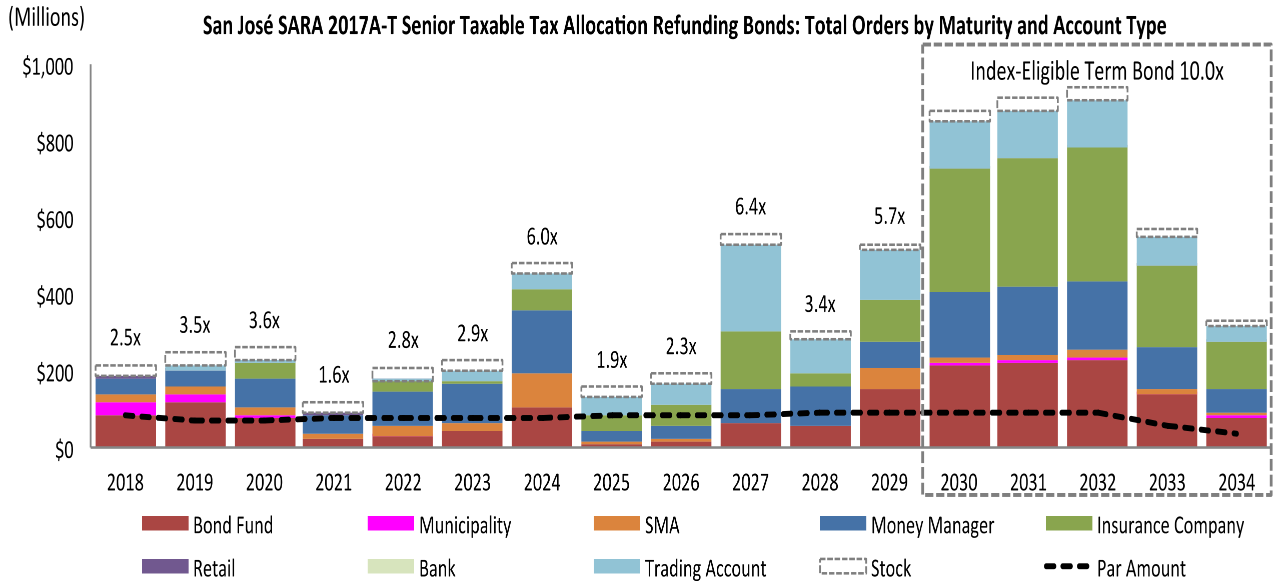
The transaction costs include the underwriters' discount, the premiums of reserve account insurance policies, the outstanding arbitrage rebate liability, and other transaction costs.

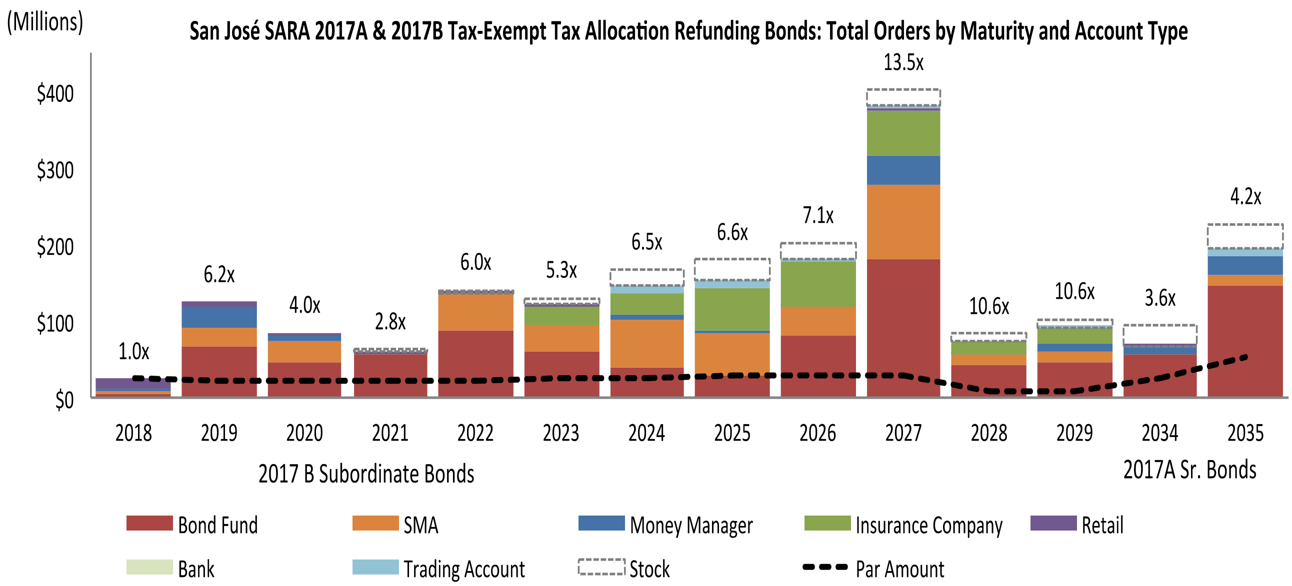
The underwriters' discount for the Bonds was $3.55/$1,000. The arbitrage rebate amount was $3,888,978. The remaining issuance costs, apart from the reserve account insurance policies, was $1,547,733, including Bond/Disclosure Counsel, Co-Municipal Advisors, and rating agency fees. These costs are within the parameters approved by the Successor Agency Board and Oversight Board.

Investor Pre-Marketing Effort and Sale Summary

The Successor Agency implemented a comprehensive pre-marketing strategy to heighten the profile of the Bonds to investors prior to sale. This strategy included in-person presentations to 33 different institutional investors in six cities (San Francisco, Los Angeles, Chicago, Boston, New York, and outside Philadelphia), one-on-one meetings and an electronic presentation that was uploaded more than 140 times by more than 100 different investors.

More than 175 different investors submitted orders for the Bonds. Investor types included bond funds, banks, retail, trading accounts, professional retail (separately managed accounts ("SMAs", bank trusts, and money managers), insurance companies and municipalities. The order mix differed between the tax-exempt 2017 Series A and 2017 Series B Bonds and the taxable 2017 Series A-T Bonds, as shown in the following graphs:


(Millions)
San José SARA 2017A-T Senior Taxable Tax Allocation Refunding Bonds: Total Orders by Maturity and Account Type
$1,000
$800
$600
$400
$200
$0
Index-Eligible Term Bond 10.0x
2.5x
3.5x
3.6x
1.6x
2.8x
2.9x
6.0x
1.9x
2.3x
6.4x
3.4x
5.7x
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
Bond Fund
Municipality
SMA
Money Manager
Insurance Company
Retail
Bank
Trading Account
Stock
Par Amount


(Millions)
San José SARA 2017A & 2017B Tax-Exempt Tax Allocation Refunding Bonds: Total Orders by Maturity and Account Type
$400
$300
$200
$100
$0
1.0x
6.2x
4.0x
2.8x
6.0x
5.3x
6.5x
6.6x
7.1x
13.5x
10.6x
10.6x
3.6x
4.2x
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2034
2035
2017 B Subordinate Bonds
2017A Sr. Bonds
Bond Fund
SMA
Money Manager
Insurance Company
Retail
Bank
Trading Account
Stock
Par Amount

General Market Conditions – Week of December 4, 2017

In the week of pricing, new issue municipal bond supply approximated $21 billion – on the heels of $14 billion issued in the prior week and $24 billion slated for the following week. There were numerous large bond issues the week of December 4, with the Successor Agency's Bonds, by far, the largest of those transactions. In the taxable arena, there were seven issues in excess of $50 million. The 2017 Series A-T Bonds was more than 3 times larger second largest taxable transaction that week in the tax-exempt arena, the 2017 Series A and 2017 Series B Bonds were one of 19 issues in excess of $200 million. With the pending Federal tax law changes, the municipal bond market established a new monthly issuance record in December with $62.5 billion of bonds, according to Thomson-Reuters.

Ratings Summary

The Successor Agency made presentations to Standard & Poor's ("S&P") and Fitch prior to the issuance of the Bonds, and received the following ratings:

	S&P	Fitch
2017 Series A and A-T Bonds (Senior)	AA	AA
2017 Series B Bonds (Subordinate)	AA-	AA-

These high ratings removed the need for the Successor Agency to purchase insurance for the Bonds.

/s/
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For questions or additional information, please contact Julia H. Cooper, Chief Financial Officer, at 408-535-7011.