

CITY OF SAN JOSE

2024-2025 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

The City debt service obligations include general obligation bonds, lease revenue bonds, enterprise revenue bonds and notes, commercial paper notes, and tax and revenue anticipation notes. The City of San José Financing Authority has issued lease revenue bonds and lease revenue commercial paper notes for which the City is responsible to make lease payments, and also has issued enterprise revenue bonds and revenue notes.

- **General Obligation Bonds (GO 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.
- **City of San José Financing Authority Lease Revenue Bonds (CSJFA)** are secured by the CSJFA pledge of lease revenues received by the CSJFA under a Project Lease of a leased asset between the City and the CSJFA. The City makes lease payments to the CSJFA in exchange for use of the leased property, and covenants to appropriate funds annually while the City has beneficial use of the leased asset. These payments are included in the City budget as part of the annual appropriation process.
- **Enterprise Revenue Bonds and Notes** 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.
- **Commercial Paper Notes (CP Notes)** are short-term promissory notes issued by the City or its related entities with a maturity of 270 days or less. CP Notes are used principally as interim financing for projects. Maturing CP Notes are repaid from the proceeds of the sale of new commercial paper notes or bonds, or from other funds provided by the City.
- **Tax and Revenue Anticipation Note** is a short-term promissory note that is issued for cash flow purposes and repaid by the City from ad valorem property tax revenues or other tax and revenues anticipated to be received by the City within the same fiscal year.
- **Successor Agency to the Redevelopment Agency of the City of San José (SARA)** debt was issued to finance redevelopment activities within, or of benefit to, the Redevelopment Agency's Merged Project Area in accordance with California Community Redevelopment Law. The principal source of repayment for SARA debt is property tax increment revenues from a redevelopment property tax trust fund. No further debt can be issued per California State legislation except for refunding bonds.

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CITY CHARTER AND COUNCIL POLICIES

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.

The City Council has adopted a general debt management policy that 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 Debt Management Policy (Council Policy 1-15) for the City was adopted by the City Council on May 21, 2002, and most recently amended on March 21, 2023. 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, amended on December 6, 2005, and reaffirmed by the City Council on March 27, 2018.

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DEBT STATUS AND CAPACITY

The City of San José Charter limits bonded indebtedness for GO Bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. For tax year 2024, the total assessed value of the taxable property, provided by the County, was approximately \$245.2 billion, which results in a total debt limit capacity of approximately \$36.8 billion. As of June 30, 2024, the City had \$522.8 million in GO debt outstanding, representing 1.4% of the debt limit and leaving a debt margin of \$36.3 billion (debt limit less outstanding GO debt).

On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency (SARA) effective February 1, 2012. SARA has total principal debt outstanding of \$1.09 billion, consisting of three series of Merged Area Tax Allocation Bonds, as of June 30, 2024.

Tables A through 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 SARA. As shown in Table A, the City had no additions in long-term debt and repaid and/or refunded \$78.7 million of long-term debt in 2023-2024, resulting in an estimated total long-term debt balance of \$2.4 billion as of June 30, 2024. Table B summarizes the City's and related entities' long-term (by issuance and final maturity) and short-term debt. The combined outstanding debt balance is over \$2.5 billion as of June 30, 2024. It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution; however, long-term lease obligations have been included in this listing for transparency. Table C summarizes the City and related entities' annual requirements to amortize principal and pay the interest due on all long-term debt outstanding for each of the next five fiscal years and thereafter.

Descriptions of the City of San José and related entity debt issuance for 2023-2024, as well as debt planned for 2024-2025, are provided in the following sections.

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FISCAL YEAR 2023-2024 DEBT ISSUANCE

The following debt issuances/draws were completed in Fiscal Year 2023-2024:

- **City of San José Financing Authority Subordinate Wastewater Revenue Note, Series A.** The CSJFA drew \$40 million of the Subordinate Wastewater Revenue Notes to finance capital improvements at the Treatment Plant in April 2024.
- **San José Mineta International Airport Commercial Paper.** The Airport issued \$17.7 million in new money under CP Series A-1 (Non-AMT) through June 2024 to finance the design and building of the Facilities Division Building.
- **City of San José Financing Authority Commercial Paper Notes.** The CSJFA issued \$952,000 in June 2024 to reimburse the Parks and Recreation Neighborhood Services 2017 floods project.

FISCAL YEAR 2024-2025 PLANNED DEBT ISSUANCE

- **San José Mineta International Airport** The Airport plans to issue tax-exempt revenue refunding bonds in an aggregate principal amount not to exceed \$85 million designated as the City of San José Airport Revenue Refunding Bonds, Series 2024A through direct placement for the refunding of all or a portion of the outstanding City of San José Airport Revenue Refunding Bonds, Series 2014A (AMT), Series 2014B (Non-AMT), and Series 2014C (Non-AMT).

Changes to debt service schedule will be available after the transaction is executed. Therefore, the schedules of long-term debt as of June 30, 2024 do not demonstrate the anticipated impact of the refunding.

Additionally, the Airport anticipates issuing \$11.5 million under CP Series A-1 (Non-AMT) during Fiscal Year 2024-2025 to finance the design and building of the Facilities Division Building.

- **City of San José Financing Authority Lease Revenue Commercial Paper Notes.** The City forecasts issuing up to \$52.0 million of CP Notes for the construction of a Water Resources Administration & Operations facility, implementation of advanced metering infrastructure throughout the entire Muni Water service area, and flood improvement projects.
- **City of San José General Obligation Bonds.** The City anticipates issuing General Obligation Bonds in summer 2025 under the Measure T authorization for Disaster Preparedness, Public Safety, and Infrastructure, approved by the voters in November 2018. The debt service on the General Obligation Bonds will be payable from the ad valorem taxes levied upon all property subject to taxation by the City.

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(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2024
(In Thousands of Dollars)

	<u>Balance July 1, 2023</u>	<u>Additions to Long-Term Obligations</u>	<u>Current Maturities and Retirements</u>	<u>Balance June 30, 2024</u>
GENERAL LONG-TERM DEBT				
General Obligation Bonds	\$ 548,595	-	\$ 25,780	\$ 522,815
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2013B	22,850	-	1,035	21,815
Lease Revenue Bonds, Series 2020A	304,010	-	16,685	287,325
Lease Revenue Bonds, Series 2020B	143,720	-	2,900	140,820
Lease Revenue Bonds, Series 2021A	21,410	-	1,470	19,940
Lease Revenue Bonds, Series 2022A	165,815	-	2,700	163,115
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,044,800	-	24,155	1,020,645
CITY OF SAN JOSE FINANCING AUTHORITY				
Wastewater Revenue Bonds Series 2022B	268,355	-	3,950	264,405
TOTAL	<u>\$ 2,519,555</u>	<u>-</u>	<u>\$ 78,675</u>	<u>\$ 2,440,880</u>

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B) Summary of Bonds and Notes Outstanding at June 30, 2024 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2019A-1	2050	5.0%	\$ 140,360
General Obligation Bonds, Series 2019B	2028	2.35-2.60%	66,500
General Obligation Bonds, Series 2019C	2036	5.0%	151,435
General Obligation Bonds, Series 2019D	2025	2.3%	17,075
General Obligation Bonds, Series 2021A	2052	5.0%	147,445
Total City of San José			<u>\$ 522,815</u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2013B	2039	3.50-5.00%	\$ 21,815
Lease Revenue Bonds, Series 2020A	2039	0.84-2.88%	287,325
Lease Revenue Bonds, Series 2020B	2051	0.99-3.52%	140,820
Lease Revenue Bonds, Series 2021A	2035	4.0%	19,940
Lease Revenue Bonds, Series 2022A	2052	2.92-4.86%	163,115
Commercial Paper Notes	Short Term	Variable	5,967
Total City of San José Financing Authority			<u>\$ 638,982</u>
ENTERPRISE FUNDS			
San José Mineta International Airport			
Revenue Bonds, Series 2014A (AMT)	2026	3.00-5.00%	\$ 9,315
Revenue Bonds, Series 2014B (Non-AMT)	2028	3.10-5.00%	28,010
Revenue Bonds, Series 2014C (Non-AMT)	2031	3.63-5.00%	40,285
Revenue Bonds, Series 2017A (AMT)	2047	4.00-5.00%	400,380
Revenue Bonds, Series 2017B (Non-AMT)	2047	4.00-5.00%	127,385
Revenue Bonds, Series 2021A (AMT)	2034	4.00-5.00%	81,480
Revenue Bonds, Series 2021B (Non-AMT)	2034	4.00-5.00%	47,125
Revenue Bonds, Series 2021C (Taxable)	2041	0.65-3.29%	286,665
Commercial Paper Notes	Short Term	Variable	27,728
City of San José Financing Authority			
Wastewater Revenue Bonds, Series 2022B	2053	5.0%	264,405
Subordinate Wastewater Revenue Note	Short Term	Variable	40,098
Total Enterprise Funds			<u>\$ 1,352,876</u>
GRAND TOTAL			<u><u>\$ 2,514,673</u></u>

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**(C) Annual Requirements to Amortize Principal and Interest Due
on All Long-Term Debt Outstanding as of June 30, 2024**

(In Thousands of Dollars)

Year Ending June 30	City of San José	City of San José Financing Authority	Enterprise Funds
2025	49,206	45,894	88,681
2026	48,428	46,406	90,256
2027	47,477	47,801	91,424
2028	46,446	47,809	91,406
2029	45,280	47,808	91,681
Thereafter	604,059	656,677	1,644,483
Total	\$ 840,896	\$ 892,396	\$ 2,097,930