

Comprehensive Annual Debt Report



Fiscal Year Ended June 30, 2012
San José, California



**City of San José
California**

**21st Comprehensive
Annual Debt Report**



Fiscal Year Ended June 30, 2012

Prepared by
Finance Department
Treasury Division

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**21st Comprehensive Annual Debt Report
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City Manager's Office
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Fire Department
Housing Department
Library Department
Norman Y. Mineta San José International Airport
Parks, Recreation & Neighborhood Services Department
Police Department
Public Works Department
Redevelopment Agency
Transportation Department

**CITY OF SAN JOSE
COMPREHENSIVE ANNUAL DEBT REPORT
FISCAL YEAR ENDED JUNE 30, 2012**

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November 5, 2012

HONORABLE MAYOR AND CITY COUNCIL

**THE COMPREHENSIVE ANNUAL DEBT REPORT
OF THE CITY OF SAN JOSE**

I am pleased to present the 21st Comprehensive Annual Debt Report for the City of San José (the “Annual Debt Report”) for the fiscal year (“FY”) ended June 30, 2012. The Annual Debt Report is submitted for review and approval by the City Council in accordance with the City’s Debt Management Policy that was approved by the City Council on May 21, 2002. This Annual Debt Report covers FY 2011-12 and discusses the activities undertaken and managed by the Debt Management Program, a program within the Treasury Division of the Finance Department. The major sections in the Annual Debt Report include:

- Overview of the City’s Debt Management Program
- Summary of Recent Debt Issuance Activity
- Discussion of Key Debt Administration Tasks
- Review of the City’s Outstanding Debt Portfolio

In addition, the Annual Debt Report includes a glossary to help guide the reader in understanding municipal finance terms.

The discussions of debt management activities in the Annual Debt Report only pertain to those activities managed by the City’s Debt Management Program, while the section of the Annual Debt Report reviewing the City’s outstanding debt portfolio includes all debt issued by the City of San José, City of San José Financing Authority (the “Authority”), the Redevelopment Agency of the City of San José (“Agency”), Clean Water Financing Authority, and other financing authorities of which the City is a member.

Debt Management staff is responsible for managing the debt issuance process for all external borrowings in which the City participates. Pursuant to California State Law, redevelopment agencies were dissolved with ABX1 26 effective February 1, 2012. It should be noted that debt that was issued by the Redevelopment Agency (the “Agency”) is currently administered separately by the Successor Agency to the Redevelopment Agency of San José (“SARA”) staff. However, given the reduced staffing of both the Agency prior to dissolution and SARA, Debt Management staff has become increasingly involved in the ongoing administration of the Agency’s debt portfolio and is actively

collaborating with SARA staff to manage its financial affairs and potential impacts on the City.

In addition to the activities and programs described above, the Annual Debt Report also includes a review of Debt Management Policies, rating agency relations and credit maintenance issues, and a discussion of legislative and regulatory issues.

DEBT MANAGEMENT ACTIVITIES

Despite the conclusion of the City's "Decade of Investment", debt issuance remains a key component of the Debt Management staff activities. As illustrated in the graph on page 2, FY 2011-12 activities reflected debt issuance totaling over \$713.0 million, including the issuance of seven (7) series of bonds, a tax and revenue anticipation note, and commercial paper notes.

The City continues to receive high general credit ratings from all three national rating agencies despite the difficult financial and economic conditions nationally and locally. In March 2012, Moody's Investors Service ("Moody's") downgraded the City's general obligation rating from Aaa to Aa1 citing a multi-year erosion of the City's General Fund reserves and the City's management being significantly challenged to manage retirement costs. In April 2012, Standard & Poor's ("S&P") also downgraded City's general obligation rating from AAA to AA+ reflecting long-term structural budget challenges. These downgrades follow actions from Fitch Ratings ("Fitch") in 2011 when Fitch downgraded the City's general obligation rating from AAA to AA+ reflecting a reduction of fund balance in the General Fund following several years of structural imbalance, high and rising pension and retiree healthcare costs, and reduced expenditure flexibility following significant labor concessions and service reductions already implemented.

The City's current general obligation credit ratings are Aa1/AA+/AA+ from Moody's, S&P, and Fitch, respectively. Although the Moody's and S&P ratings reflect a one-notch downgrade from the prior year, the City remains the highest rated large city (with population over 250,000) in California, and third highest among the nation's ten largest cities. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence and sound financial operations and strong budgetary practices. However, rating agencies express concern that years of budget pressures resulting in service cuts and labor concessions may make future cuts more challenging. Overall, the current maintenance of these ratings translates to significant interest cost savings in the City's debt program which in turn benefit the taxpayers of the San José community. In addition to providing debt issuance services, a significant amount of Debt Management staff resources were devoted to providing financial advisory services to numerous citywide projects during FY 2011-12. These projects include the following:

- Negotiating the renewal of letters of credit, financial modeling, and transition for the Agency and SARA;
- Performing financial analyses associated with the prepayment of annual employer retirement contributions;

- Performing financial analyses and private activity calculations associated with procuring power purchase agreements to install solar systems at a variety of City facilities;
- Evaluating financing alternatives for pavement maintenance and LED streetlight funding;
- Completing and executing the financing plan for funding additional projects for the Convention Center Expansion and Renovation Project;
- Continuing the close-out process of inactive improvement districts that is anticipated to end in FY 2013-14;
- Evaluating the financial feasibility of development proposals for the Airport West property and the sale of other City assets; and
- Supporting various compliance projects related to multi-family housing.

The Debt Management Program work plan for FY 2012-13 anticipates continued opportunities and challenges for the City and SARA. Total debt issuance for the City and its related entities is estimated at approximately \$854.1 million, including six (6) series of bonds, a tax revenue anticipation note, and commercial paper notes to fund new projects or refund certain existing debt. This activity is in addition to administration of the existing debt portfolio of over \$5.7 billion outstanding as of June 30, 2012, consisting of 129 series of bonds including multifamily housing revenue bonds, two commercial paper programs and seven outstanding loans of funds borrowed by the Agency, the City, and the City's related entities. Other projects for FY 2012-13 include, but are not limited to: continued financial management and transition planning for SARA; review strategies to prepay the City's annual employer retirement contributions; continued administration of the Supplemental Educational Revenue Augmentation Fund ("SERAF") loan; development of financing strategies to support the sale of the Airport West property, golf courses and sale of other City assets; continued financial analyses and private activity calculations of opportunities to install photovoltaic solar systems at City facilities; and continued close-out of inactive improvement districts. Debt Management staff participates on an interdepartmental team to select an energy service company ("ESCO") to increase energy efficiency of City infrastructure. Following the selection, Debt Management staff would advise the team on the financial feasibility of energy efficiency projects proposed by the vendor, and would develop a plan to fund feasible projects.

As the City continues to look for creative ways to address ongoing fiscal challenges, one potential alternative is changing the business models of existing City facilities that were constructed and/or improved with the use of tax-exempt bond proceeds. The strategy involves significant inter-departmental coordination and analysis among Debt Management, City Attorney's Office, and the project departments to conduct private activity analyses as required by certain Internal Revenue Service regulations. This represents a significant work effort for the Debt Management Program for the current year and future years as more facilities are identified for alternative business models.

THE "DECADE OF INVESTMENT"

At the end of FY 2010-11, the City has largely completed its "Decade of Investment". Capital investments planned over the next five years are well below levels experienced

in recent years but still remain significant with an Adopted 2012-2013 Capital Budget and the 2013-2017 Capital Improvement Program (CIP) of \$864 million and \$1.68 billion, respectively. Specific planned capital investments financed with debt anticipated for FY 2012-13 include the final issuance of voter approved general obligation debt for the library and public safety programs as well as commercial paper issuance for additional projects related to the Convention Center Expansion and Renovation Project.

In addition to providing funds for the City's CIP projects, the City has historically provided financing through 20% Housing Set-Aside funds and other restricted funds to support an affordable housing program. Debt Management staff continue to be a key partner with the Housing Department in providing viable financing plans to facilitate delivery of these necessary affordable housing units to the community following the dissolution of the Agency and the availability of 20% Housing Set-Aside funds.

ACKNOWLEDGMENTS

The preparation of this Annual Debt Report represents the culmination of a concerted team effort led by the Finance Department's Debt Management staff as well as special assistance and support from key departments and offices throughout the City. Of particular note is the ongoing collaboration and support between the Finance Department and the City Attorney's Office. The support received from the City Attorney's Office cannot be overlooked and is integral to the success of the City's Debt Management program. In addition, City departments who have participated in partnership with the Debt Management program should be recognized for responding so positively to the requests for detailed information that are required for every debt issuance, as well as for the information they provide to the Debt Management staff for the ongoing management and monitoring of the City's outstanding debt portfolio. The City's financial advisors and bond counsels should also be acknowledged for providing a significant contribution to the City's success in its Debt Management program, especially for the role they have played in helping to secure and maintain the City's excellent bond ratings.

Finally, I wish to express my sincere appreciation to the Mayor, City Council, and the City Manager for providing leadership, policy direction, and support in guiding the City to a secure, strong financial condition. Their leadership assures that financial resources can be available to provide capital facilities and affordable housing to the community.

Respectfully submitted,



JULIA H. COOPER
Acting Director of Finance

I. OVERVIEW

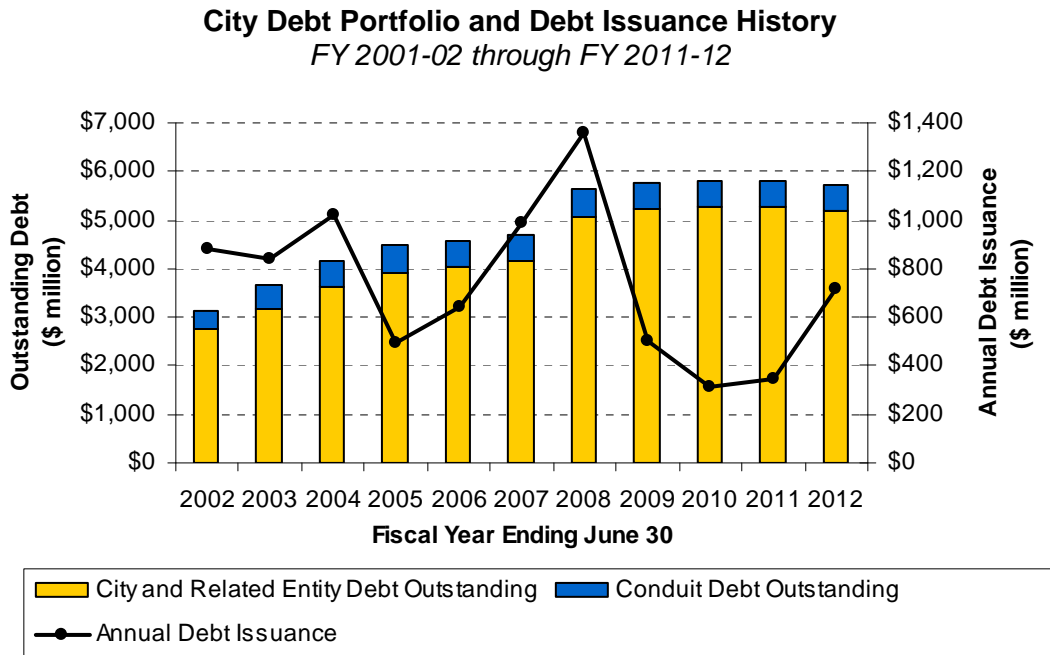
The Overview section of the Annual Debt Report includes a discussion of the Debt Management Program, Review of Debt Management Policies, Rating Agency Relations and Credit Maintenance, and Legislative and Regulatory Issues.

A. Debt Management Program

This section of the report provides an overview of debt issuance, debt administration, and debt management projects for FY 2011-12 and projects that have been completed, are currently underway, or are planned for FY 2012-13.

1. Debt Issuance

Debt Management, a section of the Treasury Division within the Finance Department, is responsible for managing the debt issuance process for all City borrowings. FY 2011-12 debt issuances totaled \$713.0 million. This amount is composed of seven series of bonds in the amount of \$587.9 million, a tax revenue anticipation note in the amount of \$125 million, and total lease revenue commercial paper notes issuance of \$0.1 million. The Debt Management Program work plan for FY 2012-13 includes total debt issuance of \$854.1 million, composed of six series of bonds totaling \$719.1 million, a tax and revenue anticipation note (“TRAN”) totaling \$125.0 million, and commercial paper notes totaling \$10.0 million to fund new projects and refund certain existing debt. The graph below illustrates the size of the City’s debt portfolio and the dollar volume of debt issued in each of the last ten years.



2. Debt Administration

After debt has been issued, Debt Management is responsible for administering the debt portfolio. As part of the City's statutory compliance program, the Special Tax Annual Report (required by State law) has been incorporated into this Annual Debt Report as Appendix F. Section III of this report, Debt Administration, provides a detailed discussion of debt administration tasks performed by Debt Management staff.

3. Debt Management Projects

In addition to debt issuance and administration, Debt Management staff serve in a financial advisory role to other City departments and work on other projects as necessary.

a. Projects for FY 2011-12

Financial Management and Transition of the Redevelopment Agency: Assisted the City Manager's Office, Housing Department and SARA and assumed a lead role in evaluating SARA's financial condition related to its ability to pay current and future obligations including senior and subordinate debt obligations. Debt Management staff also assisted in the transition of the Agency to ensure compliance with current State legislation.

Supplemental Education Revenue Augmentation Fund ("SERAF") Loan Accounting: Debt Management staff continued to coordinate the accounting of loans for the interdepartmental groups that manage the funds that provided cash to fund the SERAF Loan to the Redevelopment Agency.

Power Purchase Agreement for Solar Photovoltaic System: During FY 2011-12, Debt Management staff continued to participate with an interdepartmental project team to install solar systems at various City facilities using a power purchase agreement ("PPA"). The PPA financing structure allows the City to enter into an agreement with a private company for the acquisition, operation and maintenance of the systems, in exchange for the City's payments for the power produced for a fixed price over the term of the PPA. On September 27, 2011, City Council authorized the City Manager or designee to execute and negotiate PPAs with SolarCity Corporation for various facilities.

Debt Management's work on the team has primarily been related to the private activity consequences of the PPA. IRS regulations restrict the use of facilities financed with tax-exempt bonds by private parties. These regulations are referred to as private activity regulations. Staff has devoted significant time to auditing the construction of these facilities to ensure that the level of private activity associated with them remains within allowable limits.

Renewable Energy Financing Strategies: During FY 2011-12, Debt Management staff continued to assist the Environmental Services Department and other City departments with the development of financing strategies for renewable energy projects. At the end of FY 2011-12, the City began an RFP process to contract with an energy service company ("ESCO") to provide upgrades to City facilities that would

increase energy efficiency. One objective of the project is to utilize the resulting savings to fund the conversion of the City's streetlight inventory to new, more efficient, light-emitting diode technology ("LED").

Approximately \$11.8 million in tax allocation credits were allocated to the City in 2009 to finance renewable energy projects under the American Recovery and Reinvestment Act of 2009 and the Energy Improvement Extension Act of 2009. Approximately \$9.8 million was in the form of Qualified Energy Conservation Bonds ("QECBs") and \$2 million was in Clean and Renewable Energy Bonds ("CREBs"). The CREBs allocation expired in October 2012, and no viable projects were identified and financed.

Administration of Letters of Credit and Direct Placement for Variable-Rate Programs:

The City's outstanding debt portfolio includes certain variable rate bonds and commercial paper notes that are secured by letters of credit. The letters of credit are drawn on by the trustee and/or issuing and paying agent when necessary to make payments of principal and/or interest on the outstanding debt.

- Agency 1996AB and 2003AB Renewal - On October 24, 2011, J.P. Morgan extended the letters of credit supporting the Agency's variable rate bonds totaling \$93 million (1996 Series A/B and 2003 Series A/B) to July 1, 2012. The letters of credit were extended to September 1, 2012 due to the uncertainty surrounding the amount of property tax increment that would be distributed by Santa Clara County to SARA. Following the efforts of SARA to avoid potential default in August 2012, J.P. Morgan agreed to extend the letter of credit to March 1, 2013.
- Airport Commercial Paper – Reduction of LOC Facilities - With the completion of the Airport's Terminal Area Improvement Program ("TAIP") in June 2010, the capacity of the Airport commercial paper program has been significantly reduced to reflect the decrease in capital funding needs. By the end of FY 2012-13, it is anticipated that the Airport commercial paper program will be supported by a single letter of credit with a capacity of \$81.7 million, which is significantly reduced from its highest capacity of \$590 million.

Inactive Improvement Districts Close-out: Debt Management staff previously identified 50 expired special assessment districts with remaining fund balances for which assessment bonds were repaid or refunded between 1985 and 2005. During FY 2010-11, Debt Management staff implemented the close-out plan. The refund notification program began in March 2011 and refunds were disbursed starting in FY 2011-12. Staff processed 415 property-specific claims from 253 recipients totaling \$4.5 million. The deadline to claim assessment funds was March 27, 2012. Reserve funds and water main deposit repayment funds are claimable until FY 2013-14.

Infrastructure Maintenance Funding: Debt Management staff worked with a multi-departmental group to identify financing options to fund traffic and pavement infrastructure with deferred maintenance requirements throughout the City. Financing costs associated with voter-approved general taxes were analyzed, including general obligation bonds and a parcel tax.

Asset Sale Analysis: Debt Management staff provided financial analysis related to the sale, alternative uses, or development of the Hayes Mansion, Los Lagos Golf Course, Rancho del Pueblo Golf Course, and Airport West property.

Request for Proposal for Financial Advisors: Debt Management staff conducted a request for proposals (“RFP”) process for financial advisory services for the City General Financial Advisor, the Airport General Financial Advisor, the Affordable Housing Program General Financial Advisor, Environmental Services Department General Financial Advisor, and for the formation of financial advisory pools in the following areas: general obligation, lease revenue and sewer revenue financings, affordable housing financings, and land-secured financings (improvement districts and community facilities districts).

Hellyer-Piercy Deferred Assessment Program Termination Analysis: Debt Management staff conducted an effort to analyze the effects and to summarize the procedures involved with terminating four deferred assessment agreements. Four real property owners in a Hellyer-Piercy area improvement district participated in the City’s Deferred Assessment Program that provides a method for eligible property owners to receive a loan to defer the financial burden of annual assessment payments. It was determined that the City would fund the loans in FY 2012-13 but terminate the agreements and cease funding in FY 2013-14. The Public Work Department has initiated outreach to the property owners.

Airport Series 2004 Unspent Proceeds: In May 2012, Debt Management staff coordinated a transfer of the remaining Airport Revenue Bonds, Series 2004 from the Trustee to the City. These proceeds funded a number of capital projects at the Airport, which had been completed. Working with outside bond counsel and the City Attorney’s Office, the remaining Series 2004ABC bonds were transferred to the City to pay operating costs of the security projects, while the remaining 2004D bonds were transferred to fund debt service on these bonds.

General Obligation Bonds’ Expenditures: Debt Management staff tracks capital project costs through a bond expenditure tracking process, including the incurrence of indirect, overhead-type operating costs. Debt Management staff worked with the program managers and the Budget Office to account for and reallocate bond-eligible direct expenses booked in funds that are eligible to be spent on bond projects and facilitate the disbursement of bond proceeds to those funds. This was necessary to ensure sufficient funding for all the project costs.

Lenzen Square Apartments Refinance: Staff participated in a multi-department financing team to facilitate the refinance and payoff of the Lenzen Square Apartments multifamily housing revenue bonds issued by the City to fund the construction of the project.

Affordable Housing Project TEFRA Hearings: The Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”) requires a published notice, public hearing and approval by elected officials for issuance of qualified private activity bonds, such as multifamily housing revenue bonds. The City’s Policy for the Issuance of Multifamily Housing Revenue Bonds, adopted by Council in June 2002, and San José Municipal Code Chapter 5.06 specify that the TEFRA hearing for multifamily housing projects

be held before the Director of Finance. In FY 2011-12, the Finance Department held hearings for five projects.

TEFRA Hearings for Multifamily Housing Projects			
<i>FY 2011-12</i>			
Date	Project	Amount	Issuer
07/25/2011	3 rd Street Apartments	\$ 9,000,000	City of San José
09/14/2011	Mayfair Court Apartments	24,000,000	City of San José
12/12/2011	First and Rosemary Family Apartments	36,000,000	City of San José
12/12/2011	First and Rosemary Senior Apartments	15,500,000	City of San José
02/02/2012	La Moraga Apartments	53,500,000	City of San José

TEFRA Hearings for Other Conduit Financings: Debt Management staff coordinated with an outside agency to prepare the required documentation for the City Council to hold or delegate the authority to hold a TEFRA hearing and approve the issuance of tax-exempt bonds for the following project located in the City:

- UTS Renewable Energy Facilities – A public hearing was held on August 9, 2011 for the California Municipal Finance Authority’s (“CMFA”) proposed issuance of tax-exempt revenue bonds in an aggregate amount not to exceed \$24 million to finance and refinance the acquisition, construction, improvement and equipping of a facility for the treatment of anaerobic digester gas, one or more fuel cell power plants and related facilities to be located at the San José/Santa Clara Water Pollution Control Plant, at 700 Los Esteros Road.

b. Projects for FY 2012-13

Financial Management and Transition of the Redevelopment Agency: Continue to assist the City Manager’s Office, Housing Department and SARA in evaluating SARA’s financial condition related to its ability to pay current and future obligations including senior and subordinate debt obligations.

Administration of Letters of Credit and Direct Placement for Variable Rate Programs: The City’s and Agency’s outstanding debt portfolios, as described in Section IV, include variable rate bonds and commercial paper notes that are secured by letters of credit. The letters of credit are drawn on by the trustee and/or issuing and paying agent when necessary to make payments of principal and/or interest on the outstanding debt. As outlined in the table below, the City and Agency currently have approximately \$659 million in letters of credit and direct placement supporting 17 series of variable rate bonds and commercial paper notes.

Summary of Letters of Credit and Direct Placement Banks
As of October 31, 2012

Bond Series	Project Description	Bank	Amount¹	Expiration Date
Redevelopment Agency Tax Allocation Bonds Series 1996AB and 2003AB	Redevelopment Agency projects	J.P. Morgan	\$90,355,000	3/1/2013
Airport Commercial Paper Series ABC	Airport Terminal Area Improvement Program	J.P. Morgan Wells Fargo Bank	50,000,000 82,000,000	1/11/2013 1/13/2014
City of San José Financing Authority Commercial Paper	Various City projects	State Street/ CalSTRS	116,000,000	1/27/2013
Redevelopment Agency Housing Set-Aside Tax Allocation Bonds Series 2010C (Direct Placement Variable Rate Bonds)	Affordable housing	Wells Fargo Bank	88,600,000	4/29/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008A	Civic Center	Union Bank	56,920,000	10/21/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008B-1 and Series 2008B-2	Civic Center Garage	Bank of America/ Union Bank	33,815,000	10/21/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008CD	Hayes Mansion	US Bank	52,215,000	10/21/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008E-1 and Series 2008E-2	Ice Centre	Bank of America/ US Bank	23,730,000	10/21/2013
City of San José Financing Authority Lease Revenue Bonds Series 2008F	Land Acquisition	Bank of America	65,590,000	5/2/2014
Total			\$659,225,000	

¹Outstanding principal amount or total commercial paper authorization.

The management and administration of the letter of credit facilities present a significant work effort for Debt Management staff and the City Attorney's Office. Due to the continued weakness in the financial markets and tightening of bank credit availability, the negotiating process for securing renewals and/or new letter of credit facilities has become increasingly difficult in recent years. A concerted effort has been underway to reduce the City's variable rate exposure. The amount of variable rate debt outstanding has decreased from a high of \$1.04 billion in FY 2009-10 to \$659 million as of June 30, 2012. Efforts are expected to continue in FY 2012-13 with the amount outstanding at June 30, 2013 expected to be \$518 million.

- City of San José Financing Authority Commercial Paper Program and Series 2008F (Land Acquisition) Letters of Credit Procurement – In September 2012, Debt Management staff circulated a RFP to banks requesting direct-pay letters of credit or alternative credit products to support the City of San José Financing Authority Commercial Paper Program ("CP Program") and the Series 2008F (Land Acquisition) lease revenue bonds ("2008F Bonds"). The CP Program's current letter of credit will expire on January 27, 2013 and the 2008F Bonds' letter of credit will expire on May 2, 2014.
- In October 2012, the Finance Department selected State Street Bank and U.S. Bank as joint providers, each providing 50% to support the CP Program. Bank of America Merrill Lynch was selected as the direct placement bank for the 2008F Bonds. The 2008F Bonds were included in the solicitation at this time in order to facilitate the phased sale of the Airport West property. Final agreements are anticipated to be brought to Council in early 2013.
- Agency 1996AB and 2003AB Renewal – The letters of credit supporting the 1996AB and 2003AB bonds will expire on March 1, 2013. During FY 2012-13, Finance staff will be the lead department in the letter of credit renewal process.
- Agency HSA TAB 2010C Direct Placement Renewal – A downgrade of the ratings of these bonds by Moody's to below Baa1 on June 8, 2012 triggered a Special Termination Event. A Forbearance Agreement was negotiated with Wells Fargo Bank to November 15, 2012. An inter-departmental team will work on the renewal process in anticipation of the April 2013 expiration.
- CSJFA 2008CD & 2008E-1/E-2 Letters of Credit Renewal – Letters of credit supporting variable rate demand bonds that refinanced Hayes Mansion and Ice Centre projects expire on October 21, 2013. Debt Management staff anticipates beginning for the renewal or replacement of the letters during FY 2012-13.

Four Megawatt Renewable Energy Project and Private Activity Analysis: Debt Management staff will continue to assist the Environmental Services Department in the citywide project to install up to four megawatts of renewable energy systems on City facilities and/or land. On September 27, 2011, City Council adopted a resolution authorizing the City Manager to execute PPAs with SolarCity to install solar arrays at City facilities. Debt Management staff will complete a present value financial analysis of the proposed installation at each facility to ensure that it will provide

savings to the City. Debt Management staff will also perform the analysis to determine that the City remains in compliance with private activity limitations.

Investor Relations Website: The Government Finance Officers Association (“GFOA”) best practice on disclosure recommends that issuers create a centralized website to present relevant information to existing and potential investors of the bonds issued by the City or its related entities. In the late 2012 or early 2013, Debt Management will launch an Investor Relations website, which will include a list of outstanding bonds issued by the City and its related entities. Links will be included to the Municipal Securities Rulemaking Board’s disclosure website (EMMA: Electronic Municipal Market Access) where investors can view electronic copies of the Official Statements and continuing disclosure for these bonds. Debt Management will maintain the website and update the information presented as necessary.

Inactive Improvement Districts Close-out: Debt Management staff will continue to manage the process of refund claims for expired special assessment districts with remaining fund balances. Consistent with the procedures approved by City Council, unclaimed assessment funds will be transferred to the General Fund and the respective accounts will be closed. Reserve funds and water main deposit repayment funds are claimable until FY 2013-14.

Request for Proposals for Special Tax Consultant: Debt Management plans to issue a RFP for Special Tax Consultant to assist the City with the formation of special districts and assist in the development of bonding capacity analyses related to the properties in any such proposed district.

ESCO RFP: The City engaged an RFP process to contract with an energy service company (“ESCO”), to provide upgrades to City facilities that would increase energy efficiency. The City received proposals from six firms and is currently in negotiation with a preferred vendor. It is anticipated that City staff will present a final contract to the City Council for approval. Debt Management staff will continue to participate in this project by performing financial analyses of proposed projects and developing financing options.

PACE Program: Environmental Services Department staff has expressed an interest to participate in a Property Assessed Clean Energy (“PACE”) which Santa Clara County is seeking to establish. The program will facilitate loans to owners of commercial property, who wish to install solar arrays. The City anticipates that it will participate in County’s program by linking the program website to the City website.

2007 Airport Unspent Proceeds Analysis: Following the completion of the Airport’s Terminal Area Improvement Program (“TAIP”) in June 2010, unspent bond proceeds remain from the issuance of the 2007A/B Series Airport Revenue Bonds. Ongoing Airport projects, such as Taxiway W, continue to be funded from these bonds. Debt Management staff will participate on an interdepartmental team working with bond counsel to ensure that the disposition of these proceeds will conform to applicable laws and regulations.

Asset Sale Analysis: Debt Management staff continue to work with the City Manager’s Office and the City Attorney’s Office to assess the feasibility of proposals

to sell, determine alternative uses, or develop City-owned properties including the Hayes Mansion, Los Lagos Golf Course, Rancho del Pueblo Golf Course, E-Lot, and Airport West property.

TEFRA Hearings: As discussed above, the Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”) requires a published notice, public hearing and approval by elected officials for issuance of qualified private activity bonds, such as multifamily housing revenue bonds. The following TEFRA hearings have been held by the City as of October 31, 2012:

- Rocketship Seven – On August 6, 2012, the City Council held a TEFRA hearing and approved the issuance of \$12 million of tax-exempt 501(c)(3) revenue bonds by California Municipal Finance Authority (“CMFA”) to finance and refinance certain improvements located at 198 West Alma Avenue.

Supplemental Education Revenue Augmentation Fund (“SERAF”) Loan Accounting: Debt Management staff will continue to coordinate the accounting of loans for the inter-departmental groups that manage the funds that provided cash to fund the SERAF Loan to the Redevelopment Agency.

General Obligation Bonds’ Expenditures: Debt Management staff will continue to work with City staff to account for bond-eligible direct expenses and facilitate the disbursement of bond proceeds to the appropriate funds.

B. Review of Debt Management Policies

1. Debt Management Policy

On May 21, 2002, City Council adopted by Resolution No. 70977 a Debt Management Policy which establishes the following equally important objectives in order to obtain cost-effective access to the capital markets:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting; and
- Ensure compliance with applicable State and Federal laws.

The general Debt Management Policy establishes parameters for when and how the City may enter into debt obligations but permits sufficient flexibility to allow the City to take advantage of opportunities that may arise.

At the June 19, 2012 City Council meeting, the City Council directed the Finance Department to review short-term borrowing and issuance of variable rate debt and develop a plan or policy for using it. Debt Management staff will present proposed amendments to the short-term and variable rate debt policy components of the Debt Management Policy in connection with the City Council’s annual review of the policy.

This updated policy will be submitted as a separate document for City Council review and approval along with the FY 2011-12 Annual Debt Report.

2. Policy for the Issuance of Multifamily Housing Revenue Bonds

In addition to the general Debt Management Policy, the City Council approved by Resolution No. 71023 on June 11, 2002 a supplemental Policy for the Issuance of Multifamily Housing Revenue Bonds (the "Housing Policy") (Appendix B), which was subsequently revised on December 6, 2005. Additional modifications to this policy are currently under review and will be brought forward for City Council review and approval at a later time.

C. Rating Agency Relations and Credit Maintenance

1. Credit Analysis Process

Municipal bond ratings provide investors with a simple way to compare the relative investment quality of different bonds. Bond ratings express the opinions of the rating agencies as to the issuer's ability and willingness to pay debt service when it is due. In general, the credit rating analysis includes the evaluation of the relative strengths and weaknesses of the following four factors as they affect an issuer's ability to pay debt service:

a. Fiscal Factors

Financial results have the most significant impact on the rating process. The rating review involves an examination of results of operations, including a review of the actual fiscal performance versus planned budget performance. The financial statements are examined with emphasis on current financial position and fund balances, as well as three- to five-year trends in planning and budgeting procedures. Pension liabilities are also important in the analysis process.

b. Economic Factors

The overall economic strength is heavily weighted in the evaluation of creditworthiness by diversity of both the economic base and, as applicable, the tax base. The diversity of industries reflects an agency's ability to weather industry-specific downturns as well as general economic recession. Property values, employment levels, income levels, costs of living, and other factors impacting the wealth of the taxpayers provide an indication of the strength of a tax base.

c. Debt Factors

Overall debt burden is considered in the credit analysis process. In addition to government-regulated debt ceilings, the ability to maintain manageable debt levels and debt service coverage is evaluated. Other positive indicators are proper management of existing debt, proactive efforts in identifying and executing financially prudent refunding opportunities, and closely matching capital financing structures to the funding needs of the project.

d. Administrative/Management Factors

Administrative and management factors include the examination of the form of government and assessment of ability to implement plans as well as to fulfill legal requirements. The focus is on the capabilities of management staff and related entities, which is seen as a vital ingredient in assessing its credit quality. Managerial and legislative willingness to make difficult decisions, the development of financial policies, and the reliability and continuity of regularly-updated accounting and financial information are key. Management that maintains regular contact with the rating agencies is well regarded.

2. Rating Summary

The ratings for the City's general obligation, lease revenue, enterprise debt, and the Agency's tax allocation bonds are summarized in Appendix C. A brief overview of the City's current general ratings is provided in the section below.

a. General Credit Rating

In March 2012, Moody's Investors Service ("Moody's") downgraded the City's general credit rating from Aaa to Aa1 with a stable outlook. The downgrade reflects the multi-year erosion of the City's General Fund reserves, indicating difficulty faced to manage costs versus weakened revenues resulting from the economic downturn and a very slow and tenuous recovery.

In April 2012, Standard & Poor's Ratings Services ("S&P") downgraded the City's general credit rating from AAA to AA+ with a negative outlook. In taking this rating action, S&P commented on the budget pressures that persist despite modest revenue growth, significant compensation reductions, and position eliminations. In addition, the long-term structural challenges to the budget will be a challenge to resolve during the near to medium term given the narrowing budget-balancing options and a currently slow economic recovery."

The City's current general obligation credit ratings are Aa1/AA+/AA+ from Moody's, S&P, and Fitch, respectively. Although the Moody's and S&P ratings reflect a one-notch downgrade from the prior year, the City remains the highest rated large city (with population over 250,000) in California, and third highest among the nation's ten largest cities. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence and sound financial operations and strong budgetary practices. However, rating agencies express concern that years of budget pressures resulting in service cuts and labor concessions may make future cuts more challenging. Overall, the current maintenance of these ratings translates to significant interest cost savings in the City's debt program which in turn benefit the taxpayers of the San José community.

3. Legal Debt Margins

General obligation debt is debt secured by the City's property tax revenues. Section 1216 of the San José City Charter limits outstanding general obligation debt of the City to 15% of the total assessed value of all real and personal property within the City limits

("debt limit"). As of June 30, 2012, the total assessed value of taxable property was \$124.4 billion, which results in a total debt capacity of approximately \$18.7 billion (total assessed value x 15% = debt limit). As of June 30, 2012, the City had \$460.7 million in general obligation debt outstanding, representing 0.37% of the assessed value of taxable property and a debt margin of \$18.2 billion (debt limit less outstanding general obligation debt).

D. Legislative and Regulatory Issues

Debt Management staff review federal and state legislative referrals for potential impact to the outstanding debt portfolio. Staff also monitor regulatory changes proposed by governmental agencies such as the Internal Revenue Service ("IRS"), the Securities and Exchange Commission ("SEC"), and the Municipal Securities Rule Making Board ("MSRB"), as well as industry organizations such as the National Association of Bond Lawyers ("NABL"), the National Federation of Municipal Analysts ("NFMA"), the National Association of State Auditors, Comptrollers and Treasurers ("NASACT"), and the Government Finance Officers Association ("GFOA").

The Acting Director of Finance is a member of the GFOA Executive Board and actively participates in several task forces and working groups to review pending federal legislation and regulations, which impact the ability of the City to issue and administer tax-exempt debt.

II. DEBT ISSUANCE

A. Debt Issued During FY 2011-12

FY 2011-12 debt issuances totaled over \$713.0 million to fund projects or to refund certain existing debt. This amount is composed of \$508.6 million to refund existing debt, a \$125.0 million tax revenue anticipation note issuance, lease revenue commercial paper note issuance of \$0.1 million, and affordable housing conduit debt issuance of \$79.3 million. These financings are described below and are presented in the summary table at the end of this section.

City of San José 2011 Tax and Revenue Anticipation Note: The City issued a short-term note for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. Of the \$125 million principal amount, a \$100 million Note was purchased by J.P. Morgan Chase Bank, N.A. on July 1, 2011. Security for repayment of the 2011 Note was a pledge of the City's FY 2011-12 secured property tax and sales tax revenues and all other legally available General Fund revenues of the City, if required. The 2011 Note was fully repaid in February 2012 after the first portion of secured property tax revenues was received from the County Auditor-Controller.

City of San José Financing Authority Lease Revenue Commercial Paper Notes: The City's CP Program utilizes a lease revenue financing structure. Under this program, the Authority is able to issue commercial paper notes ("CP Notes") with maturity not exceeding 270 days. The CP Notes are secured by a pledge of lease revenues from various City assets (Tech Museum, the Animal Care Center, Fire Station No. 1, and the South San José Police Substation) and a direct-pay letter of credit ("LOC") provided by State Street Bank and Trust Company ("State Street") and the California State Teachers' Retirement System ("CalSTRS") (together, the "Banks"). The current Letter of Credit Agreement between the Authority and the Banks expires on January 27, 2013.

During FY 2011-12, the Authority issued \$136,000 in commercial paper notes as a loan to the Low-Moderate Housing Fund, and redeemed \$1.4 million in CP Notes including \$0.4 million for the consolidated utility billing system projects, \$0.6 million for the HP Pavilion project, and \$0.4 million for Phase II improvements at the City's Central Service Yard.

As of June 30, 2012, \$45.4 million of CP Notes were outstanding, including \$26.3 million of tax-exempt CP Notes at an interest rate of 0.20% and \$19.1 million of taxable CP Notes at an interest rate of 0.50%.

The CP Program was initially established in January 2004 and has been amended and expanded through various City Council and Authority Board actions over time. A summary of these program amendments is provided below.

<u>Date</u>	<u>City Council/City of San José Financing Authority Board Actions – City Commercial Paper Program</u>
January 13, 2004	Established CP Program and authorized the issuance of tax-exempt lease revenue commercial paper notes in an amount not to exceed \$98 million to finance public improvements of the City including the offsite parking garage for the new City Hall and non-construction costs for technology, furniture, equipment, and relocation services for the new City Hall.
November 9, 2004	Authorized use of the commercial paper program to finance the acquisition of the City's consolidated utility billing system.
June 21, 2005	Authorized the issuance of taxable lease revenue commercial paper notes, under the same \$98 million not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable commercial paper notes to pay for expenses otherwise authorized under the commercial paper program, but ineligible to be paid from tax-exempt commercial paper proceeds.
November 15, 2005	Authorized expanding the capacity of the lease revenue commercial paper program from \$98 million to \$116 million and authorizing the issuance of commercial paper notes to pay a portion of the costs of the Phase II improvements at the City's Central Service Yard and a portion of the demolition and clean-up costs at the City's Main Service Yard.
May 22, 2007	Authorized the issuance of lease revenue commercial paper notes to pay for capital improvements at the City's HP Pavilion.
October 21, 2008	Authorized the issuance of lease revenue commercial paper notes to refund bonds and other obligations of the City or the Authority pursuant to Government Code Sections 53570 et seq and 53580 et seq.
December 8, 2009	Authorized staff to amend and renew the letter of credit agreement supporting the lease revenue commercial paper notes. The current Letter of Credit Agreement between the Authority and the Banks expires on January 27, 2013.
April 27, 2010	Authorized the issuance of lease revenue commercial paper notes to fund a loan to Low-Mod Housing Fund and to fund short-term cash flow needs of the City.
March 15, 2011	Authorized the execution and delivery of a Third Amendment to the Site Lease, a Third Amendment to the Sublease, and other related actions pertaining to the Authority's Lease Revenue Commercial Paper Program in order to provide for the substitution of certain components of the property under the Site Lease and the Sublease. The facilities currently subject to the Site Lease and Sublease are: the Tech Museum, the Animal Care Center, Fire Station No. 1, and the South San José Police Substation.
June 19, 2012	Authorized the issuance of up to \$10 million of lease revenue commercial paper notes to fund additional projects as part of the Convention Center Expansion and Renovation Project.

City of San José, California, Airport Revenue Bonds Series 2011A-1 (AMT), Series 2011A-2 (Non-AMT) and Series 2011B (Taxable): On July 28, 2011, the City issued the Airport Revenue Bonds, Series 2011A-1 (AMT) and Series 2011A-2 (non-AMT) in the amount of \$236.8 million to refund outstanding commercial paper notes (“Airport CP Notes”) and fixed-rate debt. Specifically, bond proceeds were used for the following purposes: (1) redeem \$129.6 million of subordinated Airport CP Notes, which were originally issued to refund the Airport’s Series 2004AB bonds issued to fund a portion of the construction of terminal and ancillary facilities at the Airport; (2) refund all of the outstanding Series 1998A bonds totaling \$6.5 million, as well as a portion of the Series 2001A bonds totaling \$86.6 million; and (3) fund a debt service reserve fund, and to pay the costs of issuance.

On December 14, 2011, the City issued the Airport Revenue Bonds, Series 2011B in the amount of \$271.8 million (the “2011B Bonds”). Specifically, bond proceeds were used to: (1) redeem \$224.7 million of subordinated Airport CP Notes issued to fund the construction of the Airport’s Consolidated Rental Car Garage (“ConRAC”); (2) pay a portion of interest to accrue on the 2011B Bonds through March, 2014; (3) make a cash deposit to the 2011B Account of the Bond Reserve Fund; (4) fund an increase to the Airport’s rolling coverage; and (5) pay the costs of issuance.

City of San José, California, San José International Airport Subordinated Commercial Paper Notes: The Airport CP program was established in November 1999, pursuant to Council Resolution 69200, to provide interim financing for Airport capital needs in anticipation of issuance of long term fixed rate airport revenue bonds. Airport CP Notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues. Net General Airport Revenues are the Airport’s gross revenues less maintenance and operation expenses.

With the completion of the Airport TAIP and the refunding of over \$354 million of outstanding commercial paper notes, the level of credit support has been significantly reduced. The Lloyds letter of credit was terminated on August 26, 2011 after the related Airport CP Notes were refunded in connection with the issuance of Airport Revenue Bonds, Series 2011A in July 2011. The Citibank letter of credit was terminated on December 16, 2011 after related CP notes were refunded in connection with the issuance of Airport Revenue Bonds, Series 2011B. Finally, in August 2012, the City terminated its letter of credit with Bank of America without penalty after Moody’s downgraded Bank of America’s short-term rating from P-1 to P-2.

As of October 2012, the Airport CP program is supported by two letters of credit and reimbursement agreements with each of J.P. Morgan Chase Bank, N.A. (“JPMorgan”) and Wells Fargo Bank, N.A (“Wells Fargo Bank”). The terms of the agreements range from two years to three years and provide aggregate credit support of \$136 million to the Airport CP program. The J.P. Morgan facility will terminate upon its expiration in January 2013.

<u>Date</u>	<u>City Council Actions – Airport Commercial Paper Program</u>
November 2, 1999	Council adopted Resolution No. 69200 approving the implementation of a commercial paper program (the “Airport CP Program”) for the Norman Y. Mineta San José International Airport (the “Airport”), which authorized the issuance of up to \$100 million through a combination of three series of commercial paper notes: Series A (Non-AMT), Series B (AMT), and Series C (Taxable).
June 20, 2006	Council approved an expansion of the Airport CP Program from \$100 million to \$200 million to ensure that funding would be available for the award of the design and construction contracts related to the amended Airport Master Plan projects and to pay costs related to the Airport’s lease of the former FMC property.
January 9, 2007	Council approved an expansion of the Airport CP Program from \$200 million to \$450 million to ensure that funding would be available for the design and construction contracts related to the rephased Airport Master Plan projects. The Series A-C Notes of the Airport CP Program were secured by letters of credit issued on a several, not joint, basis by J.P. Morgan Chase Bank, N.A. (“J.P. Morgan”), Bank of America, N.A. (“Bank of America”), and Dexia Credit Local, acting through its New York Branch (“Dexia”), pursuant to the Second Amended and Restated Letter of Credit and Reimbursement Agreement (the “JPM/BofA/Dexia Agreement”).
March 25, 2008	Council approved an expansion of the Airport CP Program from \$450 million to \$600 million primarily to refund the Series 2004A/B Bonds that were adversely impacted by disruptions in the financial markets related to auction rate securities. This expansion was accomplished through a combination of three additional series of commercial paper notes: Series D (Non-AMT), Series E (AMT), and Series F (Taxable)), and is secured by a letter of credit issued by Lloyds TSB Bank plc, acting through its New York Branch (“Lloyds”), pursuant to a Letter of Credit and Reimbursement Agreement (the “Agreement”).
September 1, 2009	Council adopted a resolution authorizing the issuance of tax-exempt private activity Non-AMT commercial paper notes as provided for in the American Recovery and Reinvestment Act of 2009. At that time, the Series A Notes were redesignated as Series A-1 (Non-AMT) and Series A-2 (Non-AMT/Private Activity) and the Series D Notes were authorized to be redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity).
November 9, 2010	Council authorized an amendment to the JPM/BofA/Dexia Agreement that extended the term of the agreement for two months from December 2, 2010 to February 2, 2011, removed Dexia Credit Local as a party to the agreement, reduced the amount of available credit from \$450 million to approximately \$283 million, and amended other terms of the Agreement. The two-month extension provided additional time to complete negotiations related to the replacement letters of credit approved by the City Council on January 11, 2011.

January 11, 2011 Council approved letter of credit and reimbursement agreements with each of J.P. Morgan, Bank of America, Citibank, and Wells Fargo Bank. The terms of the agreements range from one year to three years and the replacement letters of credit provide aggregate credit support of \$383 million to the Airport CP program.

April 26, 2011 Council approved an amended and restated letter of credit and reimbursement agreement (the "Amended Agreement") with Lloyds, which provided for the extension of the credit facility for the Series D, Series E and Series F Notes to September 7, 2011 from its previous termination date of May 7, 2011. The Amended Agreement, which provided aggregate credit support of \$140 million to the Airport CP program, was terminated on August 26, 2011 according to its terms.

On June 30, 2012, \$12,683,000 of Series A-2 notes were outstanding at an interest rate of 0.19%, \$13,937,000 of Series B notes were outstanding at interest rate of 0.19%, and \$21,317,000 of Series C commercial paper notes were outstanding at interest rate of 0.47%.

Multifamily Housing Revenue Bonds: Federal tax law limits the amount of tax-exempt private activity debt that may be issued by a local agency. Prior to financing multifamily housing projects on a tax-exempt basis, these projects must receive an allocation of the State's private activity volume cap. The City received an allocation from the California Debt Limit Allocation Committee ("CDLAC") and completed financings for the following projects.

Multifamily Housing Revenue Bonds Issuance Summary
FY 2011-12

Project Name	Date Issued	Amount Issued	Affordable Units
Taylor Oaks Apartments	10/21/2011	\$ 6,300,000	58
First and Rosemary Family Apartments	04/19/2012	35,500,000	184
First and Rosemary Senior Apartments	04/19/2012	15,500,000	106
Mayfair Court Apartments	04/20/2012	22,000,000	92
Total		<u>\$ 79,300,000</u>	<u>440</u>

Summary of Debt Issued During FY 2011-12

The table on the following page presents a summary of debt issued in FY 2011-12.

Summary of Completed Debt Issuance
FY 2011-12

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter/ Private Placement	Credit Enhancement
07/1/2011	CSJ 2011 Tax and Revenue Anticipation Note	\$125.0	Tax and Revenue Anticipation Note	Private Placement	Public Resources Advisory Group	Hawkins, Delafield & Wood	J.P. Morgan	N/A
07/28/2011	CSJ 2011A-1/A-2 Airport Revenue Bonds	150.4 86.4	Airport Revenue	Public Offering	PFM/ Public Resources Advisory Group	Orrick, Herrington & Sutcliffe	Citigroup/ Bank of America Merrill Lynch/ Goldman Sachs	N/A
10/21/2011	CSJ 2011A-1/A-2 Taylor Oaks Apartments	6.3	Multifamily Housing	Negotiated	Ross Financial	Jones Hall	Citi	Freddie Mac
12/14/2011	CSJ 2011B Airport Revenue Bonds	271.8	Airport Revenue	Public Offering	PFM/ Public Resources Advisory Group	Orrick, Herrington & Sutcliffe	J.P. Morgan/ Barclays Capital/ Morgan Stanley	Assured Guaranty
04/19/2012	CSJ 2012C 1st & Rosemary Family Apartments	35.5	Multifamily Housing	Private Placement	Ross Financial	Orrick, Herrington & Sutcliffe	Citi	N/A
04/19/2012	CSJ 2012D 1st & Rosemary Senior Apartments	15.5	Multifamily Housing	Private Placement	Ross Financial	Orrick, Herrington & Sutcliffe	Citi	N/A
04/20/2012	CSJ 2012B-1/B-2 Mayfair Court Apartments	22.0	Multifamily Housing	Private Placement	Ross Financial	Jones Hall	J.P. Morgan	N/A
Various	CSJFA Lease Revenue Commercial Paper ⁽¹⁾	0.1	Lease Revenue Commercial Paper	Dealer	Public Resources Advisory Group	Jones Hall	Barclays Capital	State Street/ CalSTRS
Total		\$713.0						

Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority.

⁽¹⁾ The reported size of commercial paper debt issuance includes only new money to fund existing and/or new projects, and does not include redemptions.

B. Debt Planned for FY 2012-13

Debt Management staff anticipate debt issuance in FY 2012-13 of approximately \$854.1 million; composed of an estimated six series of bonds totaling \$719.1 million, and commercial paper note issuance of \$10.0 million by the Authority. In addition, the City issued a tax and revenue anticipation note ("TRAN") in July of this year totaling \$125.0 million. These financings are briefly described below and are presented in the summary table at the end of this section. With the exception of the TRAN, the information presented relating to the financings in progress should be considered preliminary and used for discussion and planning purposes only.

City of San José 2012 Tax and Revenue Anticipation Note: The City issued a short-term note to facilitate the prefunding of employer retirement contributions for FY 2012-13. The Initial Note Portion of \$100 million was purchased by U.S. Bank, on July 2, 2012. At the City's discretion, additional borrowings may occur under the terms of the 2012 Note and the Note Purchase Agreement at any time up to the Commitment Termination Date of June 30, 2013 and up to the Unutilized Commitment amount of \$25 million. Security for repayment of the 2012 Note is a pledge of the City's FY 2012-13 secured property tax revenues and sales tax revenues plus all other legally available General Fund revenues, if required. The final maturity for the 2012 Note is June 30, 2013; however, staff anticipates that repayment of the 2012 Note will occur in February 2013 after the first portion of secured property tax revenues is received from the County Auditor-Controller.

City of San José General Obligation Bonds, Series 2013A (Libraries and Public Safety Projects): In Winter 2013, the City plans to issue \$9.23 million of general obligation bonds, which is the remaining authorization for libraries and public safety projects approved by voters in November 2000 and March 2002.

City of San José General Obligation Bonds, Series 2013B (Libraries, Parks, and Public Safety Projects Refunding): In conjunction with the new-money issuance of the Series 2013A general obligation bonds, the City plans, depending on market conditions, to refund all \$219.6 million of outstanding Series 2001, Series 2002, and Series 2004 general obligation bonds in order to take advantage of interest-rate savings.

City of San José Financing Authority Lease Revenue Bonds, Series 2013A (Civic Center Project Refunding): The outstanding Civic Center and Civic Center Garage debt includes the following series of fixed and variable rate lease revenue bonds: 2002B, 2006A, 2008A, and 2008B-1 and 2008B-2. The current interest rate environment provides for substantial debt service savings for a refunding of the 2002B fixed rate bonds. The refunding of the variable rate bonds (series 2008A, and 2008B-1 and 2008B-2) with fixed rate bonds reduces variable rate exposure and letters of credit renewal risk. The refunding will allow for near-term savings and level debt service across all series. The principal amount of bonds expected to be refunded is \$381.5 million.

City of San José Financing Authority Lease Revenue Commercial Paper Notes: In FY 2012-13, staff anticipates issuing \$10.0 million of commercial paper notes to finance additional projects related to the Convention Center Expansion and Renovation Project per City Council actions approved on June 19, 2012.

City of San José Airport Revenue Bonds, Series 2012A (Refunding of Series 2002A): The City plans to refund the \$49.1 million in outstanding Airport Revenue Bonds, Series 2002A as a direct placement with Bank of America. This will provide savings to the Airport of approximately \$1.0 million per year through the maturity of the refunding bonds.

Multifamily Housing Revenue Bonds: The City submitted several applications to CDLAC during 2012. The following is a description of the projects that have received CDLAC allocations.

3rd Street Apartments – This project was awarded an allocation of \$7,298,412 at the CDLAC meeting on September 28, 2011 and received a carry-forward authorization through 2012 on December 14, 2011. Bonds are planned for issuance in December 2012 up to the allocation amount to provide financing for the construction of 37 affordable housing units for low-income and very low-income households.

La Moraga Apartments – The developer for this project was awarded an application for allocation of \$52,440,000 at the CDLAC meeting on July 18, 2012. A total of \$52.4 million of bonds was issued in 2012 and provide financing for the construction of 57 affordable housing units.

The table on the following page presents a summary of debt anticipated to be issued during FY 2012-13.

Summary of Completed and Planned Debt Issuance
FY 2012-13

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter/Private Placement	Credit Enhancement
7/2/2012	CSJ 2012 Tax and Revenue Anticipation Note	\$125.0	Tax and Revenue Anticipation Note	Private Placement	Public Resources Advisory Group	Hawkins Delafield & Wood	US Bank	N/A
August 2012	CSJ 2012E La Moraga Apartments	52.4	Multifamily Housing	Private Placement	Ross Financial	Jones Hall	US Bank	TBD
December 2012	CSJ 2012A 3 rd Street Residential Apartments	7.3	Multifamily Housing	Private Placement	Ross Financial	Hawkins Delafield & Wood	TBD	TBD
Winter 2013	CSJ 2012A Airport Revenue Bonds (Refunding)	49.1	Airport Revenue Bonds	Private Loan	PFM/Public Resources Advisory Group	Orrick, Herrington & Sutcliffe	Bank of America Public Capital Corp	N/A
Winter 2013	CSJ 2013A Libraries & Public Safety Projects	9.2	General Obligation	Competitive	Public Resources Advisory Group	Jones Hall	TBD	TBD
Winter 2013	CSJ 2013B Libraries, Public Safety, & Parks Projects Refunding	219.6	General Obligation Refunding	Competitive	Public Resources Advisory Group	Jones Hall	TBD	TBD
Winter 2013	CSJFA 2013A Civic Center/Civic Center Garage Project Refunding	381.5	Lease Revenue Bonds Refunding	Negotiated	Public Resources Advisory Group	Jones Hall	Bank of America Merrill Lynch	TBD
Various	CSJFA Lease Revenue Commercial Paper ⁽¹⁾	10.0	Lease Revenue Commercial Paper	N/A	Public Resources Advisory Group	Jones Hall	Barclays Capital	State Street/ CalSTRS
Total		\$854.1						

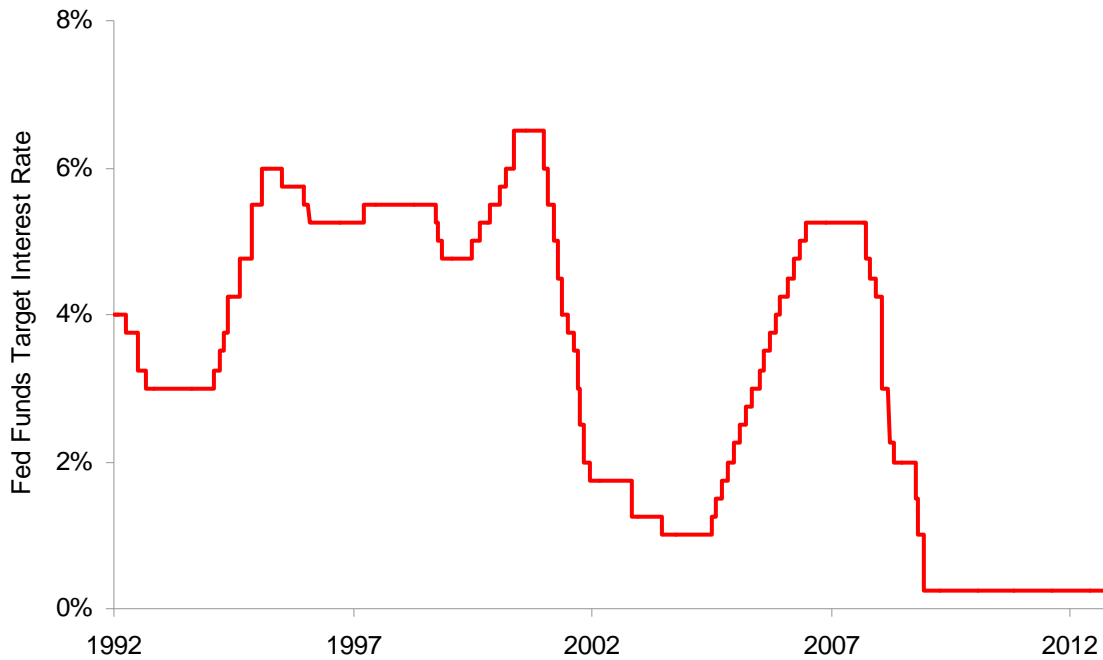
Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority.

⁽¹⁾ The reported size of commercial paper debt issuance includes only new money to fund existing and/or new projects, and does not included redemptions.

C. Current Market Conditions

In response to the deteriorating economy and financial market disruptions, the Federal Open Market Committee (the “FOMC”) aggressively reduced the Fed Funds target interest rate from 2.00% in April 2008 to a range of 0.00% to 0.25% in December 2008. The FOMC has maintained this range of 0.00% to 0.25% since December 2008 through the publication date of this report.

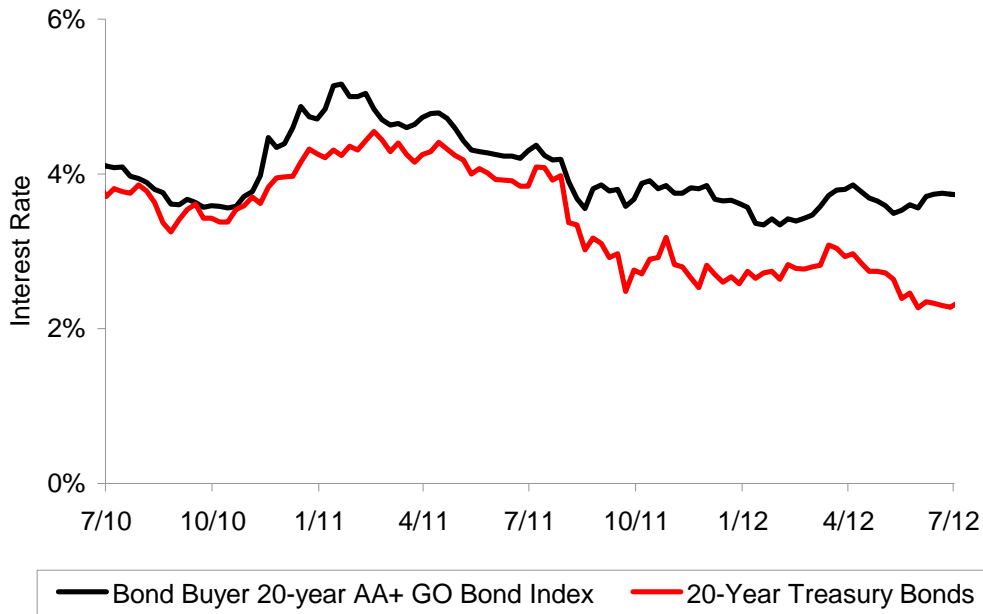
Federal Funds Target Interest Rates
January 1992 through October 2012



In the aftermath of the financial market crisis, the financial industry has transformed and consolidated significantly, which has contributed to a tightening of credit standards, decreased the availability of credit facilities, and produced more stringent capital adequacy requirements for banks. Debt Management staff anticipate that the cost of maintaining letters of credit for the variable rate debt portfolio will continue to increase and the ability to secure a letter of credit will continue to be challenging. Although the historical trend for variable rate bonds has been consistently lower than fixed rate bonds, this may not hold true in the future. Staff continue to monitor how future regulatory, proposals to regulate the banking industry, such as Basel III, and financial market changes may impact the City’s variable rate program and will recommend adjustments to the program as appropriate.

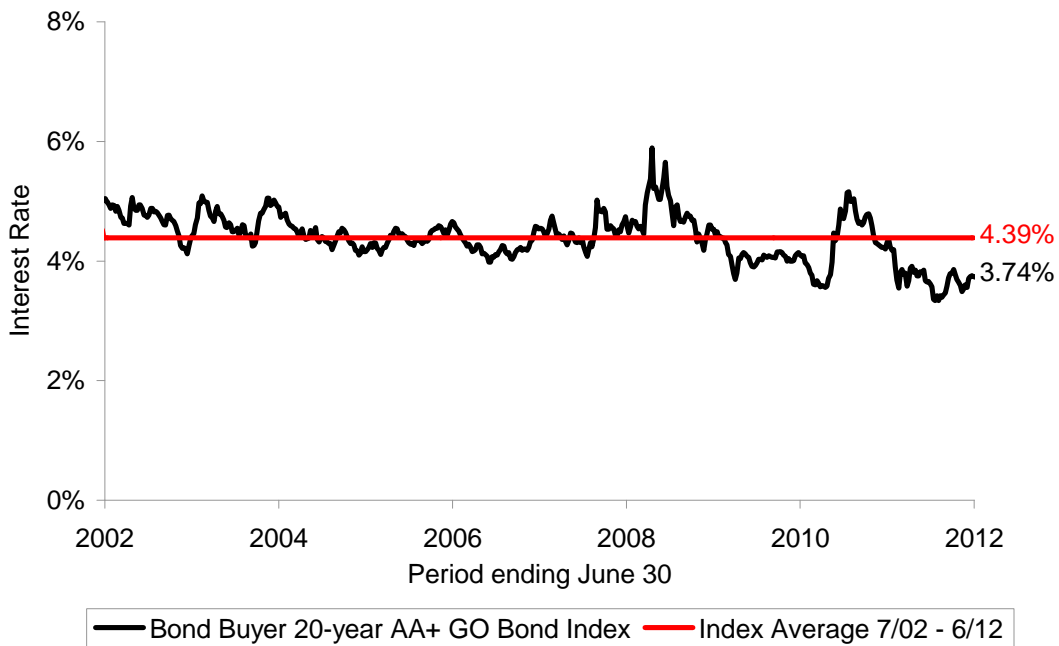
The chart below illustrates the changes in interest rates between tax-exempt (Bond Buyer 20-Year AA+ GO Bond Index) and taxable interest rates (20-Year Treasury Bonds) beginning in July 2009 through June 2012. Historically, taxable bonds have interest rates that are higher than tax-exempt bonds; however, weak demand for tax-exempt bonds due to the global recession has resulted in the current trend where tax-exempt bonds are trading at higher interest rates than taxable bonds.

Comparison of Tax-Exempt and Taxable Interest Rates
July 2010 through June 2012



Despite the market disruptions and changes in investor demand for tax-exempt bonds, as can be seen in the following chart, tax-exempt long-term interest rates remained near their ten-year average for most of FY 2011-12.

Ten-Year History of Tax-Exempt Interest Rates
July 2002 through June 2012



D. Selection of Debt Financing Teams

The selection of the financial advisor and underwriter for a financing project is generally done in the form of a competitive request for proposals (“RFP”) or request for qualifications (“RFQ”) process. Written proposals are reviewed by representatives from the Finance Department and other City departments involved with the financing.

Financial Advisory Pool: Debt Management staff conducted a RFP process for financial advisory services including City General Financial Advisor, Airport General Financial Advisor, Affordable Housing Program General Financial Advisor, Environmental Services Department General Financial Advisor, and financial advisory pools in the following areas: general obligation, lease revenue, and sewer revenue financings, affordable housing financings, and land-secured financings (improvement districts and community facilities districts).

The general financial advisors selected will remain in effect from July 2012 through June 2015 with two additional one-year options to extend the term of the agreements to June 30, 2017. A pool of eligible financial advisors allows for a more efficient selection of financing teams for each separate bond issue. The recent dissolution of the Agency reduced financing activity for the affordable housing program, therefore an Affordable Housing pool was not established.

General Financial Advisors and Financial Advisory Pool Eligible List
July 2012 to June 2015

City General Financial Advisor:	Public Resources Advisory Group
Airport Co- Financial Advisor:	Public Financial Management Public Resources Advisory Group
Affordable Housing Program General Financial Advisor:	Ross Financial
Environmental Services Department General Financial Advisors:	Public Financial Management Public Resources Advisory Group
General Obligation/Lease Revenue/Sewer Revenue Financings:	Fieldman, Rolapp & Associates KNN Public Finance Public Resources Advisory Group Ross Financial Stone & Youngberg
Land-Secured Financings:	CSG Advisors Fieldman, Rolapp & Associates Public Financial Management Stone & Youngberg

Multifamily Housing Underwriter Pool: On July 3, 2009, the Finance Department issued an RFP to investment banking firms for the purpose of establishing a new eligibility list for the City's multifamily housing underwriting pool. The multifamily housing underwriting pool eligibility list is used to assist the City in the formulation of debt financing strategies for multifamily housing projects.

Multifamily Housing Underwriter Pool Eligibility List

Citi Community Capital	RBC Capital Markets
E. J. De La Rosa & Co., Inc.	Red Capital Markets, Inc.
Jefferies & Company, Inc.	Stern Brothers & Co
Merchant Capital, LLC	Stone & Youngberg
Raymond James Morgan Keegan	Wells Fargo Institutional Securities, LLC



III. DEBT ADMINISTRATION

A. Debt Administration System

The Debt Management staff continually work to improve the comprehensive debt administration system. Inputs to the system come from financing documents, trustee reports, reports from the City's remarketing agents and collateral agents, contracts with financial services providers, and reports and requests from City staff. These inputs provide the data needed to ensure that the City meets its debt administration obligations to:

- Pay debt service;
- Invest and disburse bond funds;
- Monitor trustee-held accounts and investment agreements;
- Comply with bond covenants and IRS requirements;
- Provide continuing disclosure and other reports to the municipal bond market;
- Ensure market pricing of variable rate debt;
- Manage liquidity and credit enhancement contracts; and
- Evaluate potential refunding opportunities.

B. Compliance and Monitoring

Compliance and monitoring activities constitute a large and growing portion of the Debt Management staff's daily tasks. While the process of assembling a specific bond financing project may take only six to nine months, compliance with the provisions of bond covenants last the entire life that the bonds are outstanding, up to 40 years or more. Debt Management staff work very closely with other City departments as well as with the City Attorney's Office and the Budget Office to manage the investment, disbursement, and compliance/continuing disclosure requirements of the debt portfolio.

The table on the following page presents a list of compliance items currently monitored and provided by Debt Management staff.

SUMMARY OF COMPLIANCE REQUIREMENTS

Item Descriptions	Airport	Airport CP	CWFA	GO	Housing Set-Aside	Lease-Backed	Lease-Backed CP	Land-Backed	TRAN
1. Annual Compliance Report/Certificate	✓	✓	✓						
2. Budget Distribution		✓			✓	✓			
3. CAFR Distribution	✓	✓		✓	✓	✓	✓		
4. CDIAC Yearly Mello-Roos Fiscal Status Report								✓	
5. Certificate of adequate Budgeted Debt Service			✓			✓	✓		
6. Certificate of Property Insurance	✓	✓				✓	✓		
7. Certificate of the City/ No Event of Default Certificate						✓	✓		✓
8. Continuing Disclosure (SEC Rule 15c2-12) ⁽¹⁾									
i) Annual Report:									
• Annual Financial Information and Operating Data	✓	✓	✓	✓	✓	✓	✓	✓	
• Audited Financial Statements or CAFR	✓	✓	✓	✓	✓	✓	✓	✓	
ii) Material Events Notice:									
• Principal / Interest Payment Delinquency	✓	✓	✓	✓	✓	✓	✓	✓	
• Non-payment Related Default	✓	✓	✓	✓	✓	✓	✓	✓	
• Unscheduled Draw on Debt Service Reserve Reflecting Financial Difficulties	✓	✓	✓	✓	✓	✓	✓	✓	
• Unscheduled Draw on Credit Enhancement Reflecting Financial Difficulties	✓	✓	✓	✓	✓	✓	✓	✓	
• Substitution of Credit or Liquidity Provider, or Its Failure to Perform	✓	✓	✓	✓	✓	✓	✓	✓	
• Adverse Tax Opinion or Event Affecting the Tax-exempt Status of the	✓	✓	✓	✓	✓	✓	✓	✓	
• Modification to the Rights of Security Holders	✓	✓	✓	✓	✓	✓	✓	✓	
• Bond Call/Defeasance	✓	✓	✓	✓	✓	✓	✓	✓	
• Release, Substitution or Sale of Property Securing Repayment of the	✓	✓	✓	✓	✓	✓	✓	✓	
• Rating Change	✓	✓	✓	✓	✓	✓	✓	✓	
• Failure to Provide Event Filing Information as Required	✓	✓	✓	✓	✓	✓	✓	✓	
• Tender Offer / Secondary Market Purchases ⁽²⁾	✓	✓	✓	✓	✓	✓	✓	✓	
• Merger, Consolidation / Acquisition and Sale of All or Substantially All	✓	✓	✓	✓	✓	✓	✓	✓	
• Bankruptcy, Insolvency, Receivership or Similar Event ⁽²⁾	✓	✓	✓	✓	✓	✓	✓	✓	
• Successor, Additional or Change in Trustee ⁽²⁾	✓	✓	✓	✓	✓	✓	✓	✓	
9. Investment Policy	✓					✓			

SUMMARY OF COMPLIANCE REQUIREMENTS

Item Descriptions	Airport	Airport CP	CWFA	GO	Housing Set-Aside	Lease-Backed	Lease-Backed CP	Land-Backed	TRAN
10. Special Reporting									
i) Tax Roll				✓				✓	
ii) Quarterly billing						✓			
iii) Other Available Funds Report	✓								
iv) Quarterly Financials & Compliance Certificate/Quarterly Report		✓			✓				✓
v) Special Tax Annual Report					✓			✓	
vi) Airport Commercial Paper Debt Service Certification		✓							

(1) The variable rate Lease Revenue Bonds or the CP programs are not subject to Continuing Disclosure obligations.

(2) This reportable material event is only applicable for municipal bonds issued on or after December 1, 2010.

1. Trustee Activities

As of June 30, 2012, the City had approximately \$498 million in bond and commercial paper note funds held by four banking institutions acting as trustee or fiscal agent (collectively, "trustees"). This amount does not include the Agency's merged area redevelopment project (80%) bonds or the City's multifamily housing revenue bonds. The table below summarizes the City's trustee activity.

Trustee Summary¹ <i>as of June 30, 2012</i>			
Trustee	Number of Bond/CP Issues	Original Par Amount of Bonds	Trustee Fund Balance
Bank of New York	11	\$1,631,115,000	\$231,516,865
US Bank	13	495,484,854	143,441,219
Wells Fargo Bank	28	1,611,415,000	123,244,605
Deutsche Bank ²	N/A	N/A	69,545
Total	52	\$3,738,014,854	\$498,272,234

¹ Does not include Agency bonds issued for merged area redevelopment projects or multifamily housing revenue bonds. Includes Bond Reserve Funds held by Trustee.

² Amount represents general Airport revenues held by the issuing and paying agent to pay interest due on maturing Airport Commercial Paper Notes.

2. Bond Proceeds Expenditures and Reimbursement Procedures

The City's use of tax-exempt bond proceeds is limited by Federal and State law, and in some cases, by the ballot language authorizing the debt. Generally, tax-exempt bond proceeds, including interest earnings on bond funds, may only be spent for governmental purposes and only on capital projects. In the case of voter-approved debt, the bond proceeds may only be used for the purposes described in the ballot language authorizing the debt.

To provide accountability in managing bond funds, most of the City's bond-financed project funds are held by trustees, who disburse the construction or improvement funds only after Debt Management staff has reviewed a disbursement request from the City department managing the project. As of June 30, 2012, of the \$498 million held by the trustees, approximately \$275 million is construction proceeds from the sale of both taxable and tax-exempt bonds and commercial paper notes. These are funds awaiting disbursement for expenditures related to the construction of specific improvements or acquisition of real property as defined in the governing documents of each bond series.

Disbursement requests are reviewed and approved by department heads or their deputies before they are submitted to Debt Management. Debt Management staff then reviews, reconciles, and qualifies the bond-financed project expenditures before submitting disbursement requests to the trustees. When there is an ambiguity, the City Attorney's Office assists in determining the eligibility of expenditure items.

3. Arbitrage Rebate

Debt Management staff actively monitor proceeds of tax-exempt bonds for arbitrage compliance purposes. Arbitrage is the profit that results from investing low-yield tax-exempt bond proceeds in higher-yield securities (also referred to as positive arbitrage). Federal law stipulates that investment earnings in excess of the bond yield are arbitrage earnings and must be rebated to the U.S. Treasury. However, if a jurisdiction meets certain IRS expenditure exceptions for bond proceeds, the arbitrage earnings do not have to be rebated to the U.S. Treasury.

The investment of bond proceeds is in accordance with the City's Investment Policy and the Permitted Investment provisions of the governing documents of each series of bonds. For some types of bond funds, particularly a construction fund that must be held in short-term securities, a fund may earn at a rate less than the bond yield. Then, the fund is said to be earning negative arbitrage. Through careful management of its investments, the City can use positive arbitrage earnings in one account of a bond series to offset negative arbitrage in another account of the same series.

Although arbitrage earnings are rebated to the U.S. Treasury on a five-year installment basis, Debt Management staff conduct annual rebate calculations to assure that the City stays current on compliance issues and to facilitate appropriate budgeting and accounting for any potential rebate liability.

In addition to performing its own annual calculations, the City retains the services of the BLX Group, a subsidiary of Orrick, Herrington & Sutcliffe LLP, to: (1) review the City's arbitrage compliance at five-year anniversary dates when rebate is actually due to the Federal Government; (2) compute annual and five-year installment arbitrage rebate liability on the more complex financings; and (3) provide technical assistance to the City in the area of arbitrage rebate compliance. This third-party review provides an added level of confidence that the City is in compliance with the arbitrage regulations. Such review is particularly important given that the IRS has increased its random audit and target audit programs for tax-exempt bond issues. The table below lists the City's tax-exempt bond issues that have a positive arbitrage rebate liability and the next rebate installment date:

Summary of Bond Issues with Positive Rebate Liabilities		
<i>as of June 30, 2012</i>		
Bond Issue	Estimated Rebate Liability	Next Rebate Installment Date
City of San José Financing Authority, Series 2008A	712	8/13/2013
Clean Water Financing Authority, Series 2009A	47,299	1/29/2014
Total	<u>\$ 48,011</u>	

4. Continuing Disclosure

On November 10, 1994, the Securities and Exchange Commission (“SEC”) adopted amendments to existing federal regulations (“Rule 15c2-12” or the “Rule”) under which municipalities issuing securities on or after July 3, 1995 are required to:

1. Prepare official statements meeting current requirements of the Rule;
2. Annually file certain financial information and operating data with national and state repositories; and
3. Prepare announcements of the significant events enumerated in the Rule.

Effective July 1, 2009, the SEC requires all municipal issuers and other obligated persons to make all continuing disclosure filings electronically to an on-line, electronic filing system, known as the Electronic Municipal Market Access system (“EMMA”) maintained by the Municipal Securities Rulemaking Board (“MSRB”) instead of making these continuing disclosure filings with national and state repositories as originally required by Rule 15c2-12. Subsequently, the SEC amended Rule 15c2-12, for municipal bonds issued on or after December 1, 2010, to: (1) increase the number of events required to be reported as significant events from 11 to 15; (2) require that certain events previously required to be reported only if material to be reported regardless of materiality; (3) impose the requirement to report significant events within 10 business days from the occurrence of the event; (4) remove the exemption from the continuing disclosure for variable rate demand and other demand securities; and (5) amend the provisions regarding reporting of certain adverse tax events.

Most challenging during FY 2011-12 was the continuing disclosure activities associated with the Redevelopment Agency dissolution. As an example, during the period between February 1, 2012 and June 30, 2012, a total of 11 information postings were made to EMMA in efforts to maintain positive investor relations and to keep the market informed of issues which may impact the ability to meet obligations to bondholders.

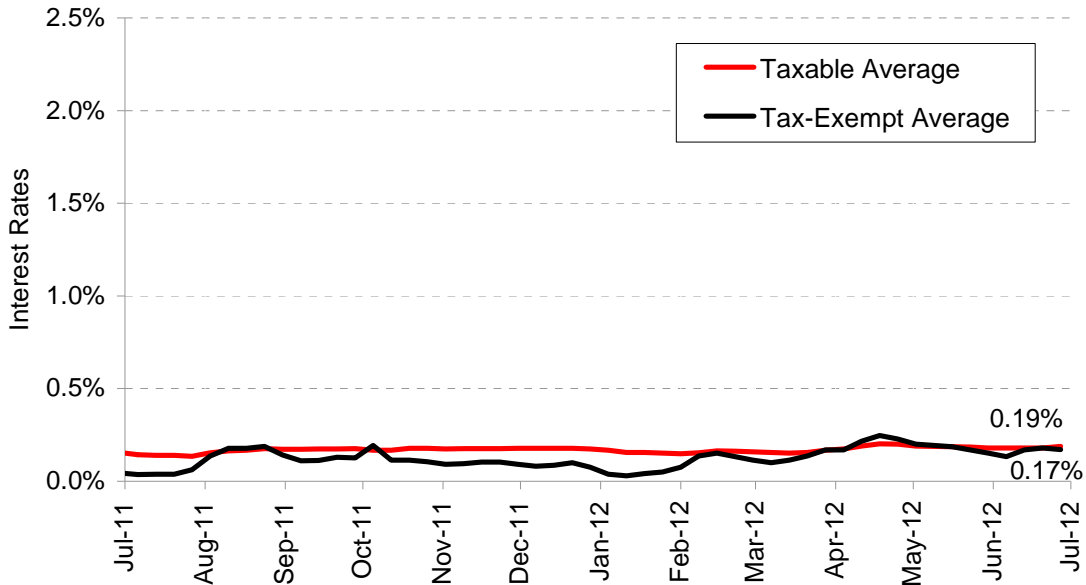
C. Investment of Bond Proceeds

Debt Management staff work closely with bond trustees and Investment staff to manage the investment and disbursement of bond proceeds. Bond proceeds are invested in accordance with bond covenants and with the provisions of the City’s Investment Policy, which was most recently amended on August 28, 2012.

D. Outstanding Variable-Rate Debt

The following chart provides a history of the average variable rates the City and related entities paid during FY 2011-12 for both taxable and tax-exempt bond issues. Interest rates remained at all time lows throughout the period.

Average Weekly Taxable and Tax-Exempt Rates
FY 2011-12



E. Refunding Opportunities

Debt Management staff review and analyze the outstanding debt portfolio with the goal of identifying opportunities to refund or restructure certain series to reduce annual debt service obligations.

Generally, fixed rate bonds can be refunded in two ways: as a current refunding or as an advance refunding. A current refunding is a refinancing in which the refunding bonds (new bonds) are issued less than 90 days before a date on which the refunded bonds (old bonds) can be called. The proceeds of the refunding bonds are applied immediately to pay principal, interest, and a call premium, if any, on the refunded bonds. Thereafter, the revenues originally pledged to the payment of the refunded bonds are pledged to the payment of the refunding bonds.

An advance refunding is the refinancing of outstanding bonds by the issuance of a new issue of bonds more than 90 days prior to the date on which the outstanding bonds are callable. Certain types of tax-exempt bonds, such as the bonds issued to finance airport terminal improvements, are not eligible to be advance refunded. The proceeds of advance refunding bonds are invested in an escrow until the first call date of the bonds to be refunded. Accordingly, for a period of time, both the issue being refunded and the refunding bond issue are outstanding until the refunded bonds are redeemed from the refunding escrow on their call date. The IRS restricts the yield which may be earned on investment of the proceeds of the refunding bonds and allows for only one advance refunding of any eligible series of tax-exempt bonds issued after 1986.

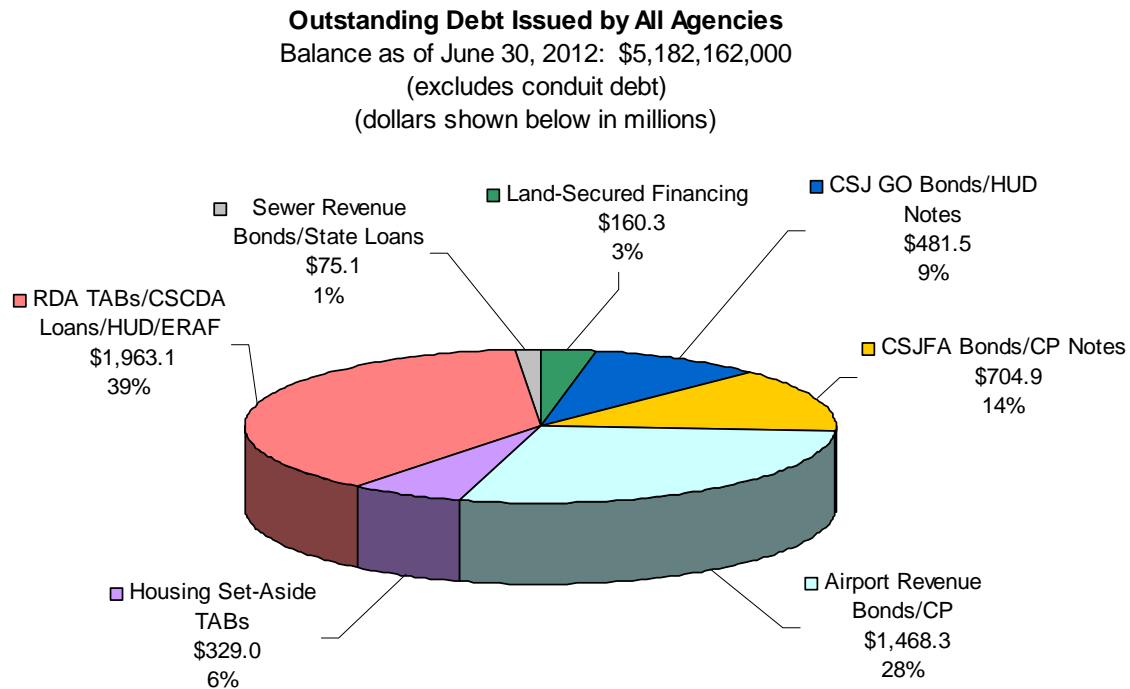


IV. CITY'S OUTSTANDING DEBT PORTFOLIO

This section includes a presentation of the City's debt portfolio, which as of June 30, 2012 was comprised of 129 series of bonds, two commercial paper programs, and seven loans totaling over \$5.7 billion. Of the 129 series of bonds, 72 series are debt of the City, the Agency, or related entities while the remaining 57 series are multifamily housing revenue bonds for which a private developer is the obligor. This analysis includes all debt issued by the City of San José, the Redevelopment Agency, and various financing authorities of which the City is a member. **Note that, except as described below in Section IV.G, the City has no legal obligation or connection in any way to Redevelopment Agency debt.**

As of June 30, 2012, the City and related entities had debt outstanding totaling over \$5.2 billion, excluding \$534 million in multifamily housing revenue bonds. The following chart shows the distribution among the various categories of outstanding debt issued by the City and its related entities: general obligation/City HUD loan, City of San José Financing Authority, airport, sewer (San José-Santa Clara Clean Water Financing Authority), land-secured (assessment districts and community facilities districts), and Redevelopment Agency tax increment debt (Housing Set-Aside and Agency Merged Area TABs and loans).

A summary table of all outstanding debt by series, excluding multifamily housing revenue bonds, is included in subsection H. Summary of Outstanding Debt. The multifamily housing revenue bonds are summarized in a separate table in subsection F. Multifamily Housing Revenue Bonds.



To develop budget estimates for variable rate debt, Debt Management staff undertake a comprehensive analysis which takes into account historical rates and trends and future projections. Interest rates in all following charts are based on the rates reported below.

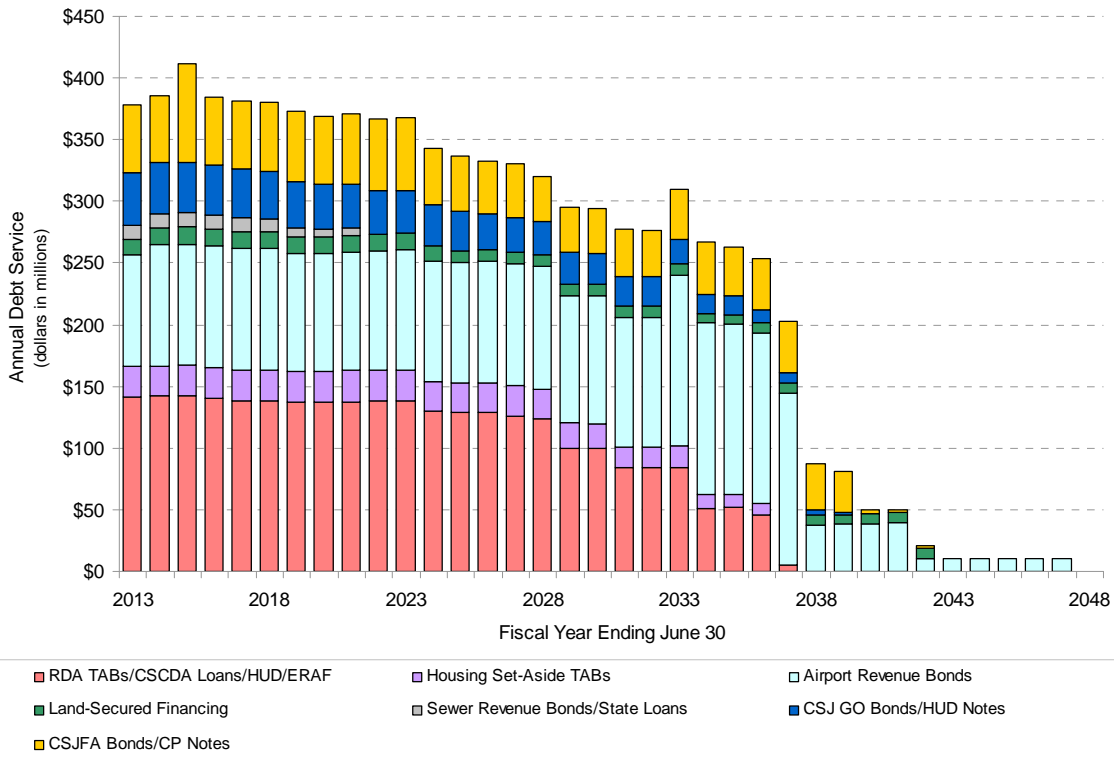
Variable Interest Rate Assumptions
for Annual Debt Service Projections

	<u>Tax-Exempt Rates</u>	<u>Taxable Rates</u>	<u>HUD Section 108 Rates</u>
Rates as of June 30, 2012	0.12% - 0.22%	0.18% - 3.05%	0.667%

Source: City of San José 2012 Comprehensive Annual Financial Report

The following chart illustrates the annual debt service payments except payments related to conduit debt.

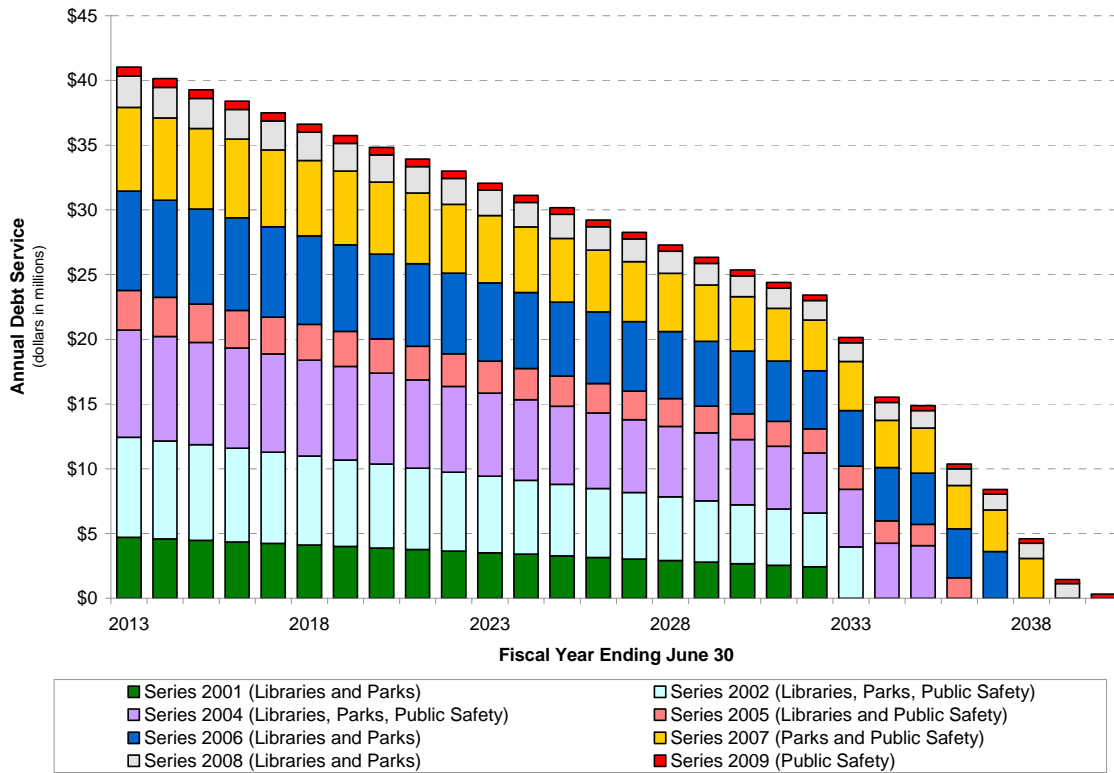
Outstanding Debt Issued by All Agencies
Annual Debt Service



A. General Obligation Bonds

In 2000 and 2002, voters approved three ballot measures (Measures 2000 O and P and Measure 2002 O) that authorized total issuance of \$598,820,000 of general obligation (“GO”) bonds for library, parks, and public safety projects. As of June 30, 2012, the City had issued \$589.6 million of GO bonds with the proceeds allocated among: library projects (\$205.9 million), parks and recreation projects (\$228.0 million), and public safety projects (\$155.7 million). The outstanding balance as of June 30, 2012 was approximately \$460.7 million.

General Obligation Bonds Annual Debt Service

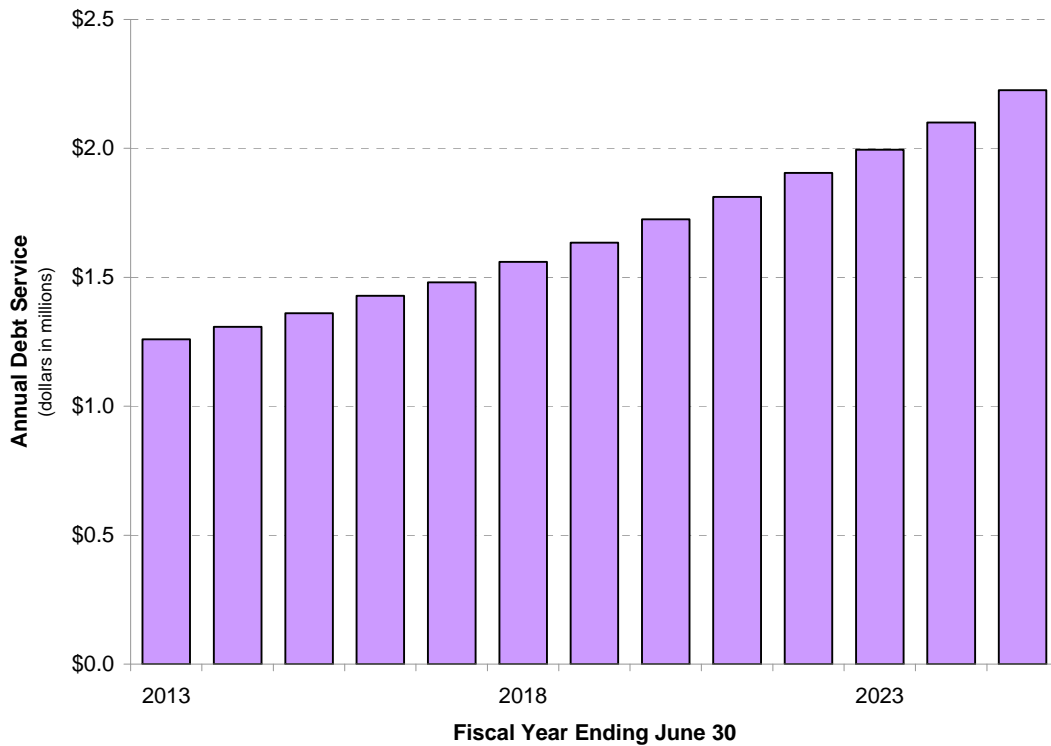


B. City of San José HUD Section 108 Loan

On February 10, 2005, the City received a loan commitment in the amount of \$25,810,000 from the U.S. Department of Housing and Urban Development (“HUD”) under the Section 108 Loan Guarantee Program for the purchase of property adjacent to the Airport. On February 16, 2005, the City made an initial draw on the loan commitment in the amount of \$342,000 to place a deposit on the property and to pay other costs associated with the land acquisition. On May 17, 2006, the City drew an additional \$25,094,000 to complete the purchase. On November 7, 2007, the City drew the final \$374,000 of the loan commitment to pay costs associated with the land acquisition.

The interest rate on the HUD Loan is variable with the interest rate reset monthly at the then effective 3-month LIBOR rate plus 0.20%. Debt service on the HUD loan was initially paid from HUD Brownfields Economic Development Initiative (“BEDI”) grant funds received by the City, and then from the City’s General Fund. As of June 30, 2012, the outstanding amount on the City’s HUD Section 108 Loan was \$20,803,000. The final maturity date of the HUD Loan is August 1, 2024.

City of San José HUD Section 108 Loan
Annual Debt Service



C. City of San José Financing Authority Obligations

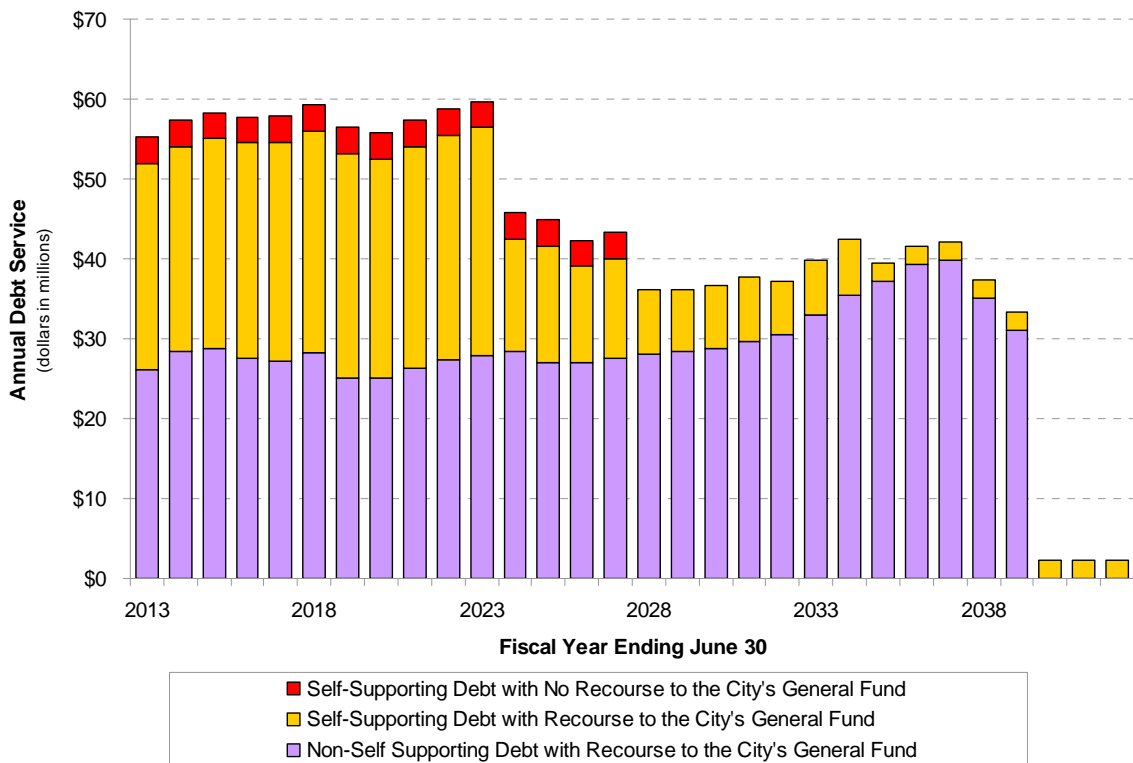
The Authority is a joint exercise of powers authority established under State law between the City and the Agency, and is authorized to finance capital improvements for public entities. Bonds and notes issued by the Authority are repaid through revenues generated by the financed facilities or assets, or lease payments from the City for the use of specified facilities, which in some cases are different from those that were financed. Although payment for one of the Authority’s obligations is limited to specific revenue sources, the remainder of the Authority’s obligations is ultimately payable from the City’s General Fund.

To better illustrate the variety of Authority debt outstanding, Authority obligations are presented here in several categories. These include:

1. Non-Self-Supporting Debt with Recourse to the City’s General Fund;
2. Self-Supporting Debt with Recourse to the City’s General Fund; and
3. Self-Supporting Debt with No Recourse to the City’s General Fund.

The chart below illustrates the annual debt service obligations by category. The composition of each category is discussed in detail on the following pages of this section.

City of San José Financing Authority Obligations
Annual Debt Service



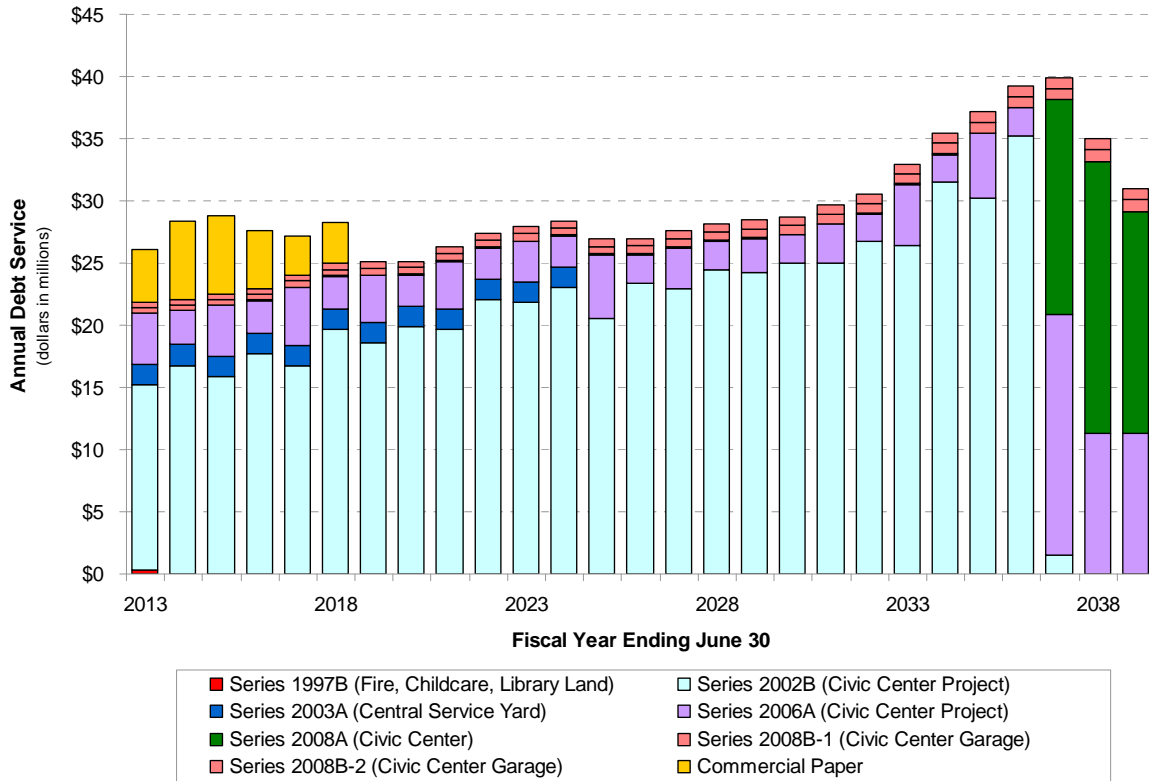
1. Non-Self-Supporting Debt with Recourse to the City's General Fund

The financing projects included in this category do not generate revenues that can be applied to offset the City's lease payments. Although City special funds or other revenue sources may be earmarked to make these payments, the City's General Fund bears the majority of the debt burden. The following bonds are included in this category:

- 1997B Bonds, which financed fire apparatus, childcare facilities, and library land acquisition;
- Series 2002B, 2006A, and 2008A Bonds, which financed or refinanced a portion of the new City Hall project;
- Series 2008B Bonds, which refunded the commercial paper notes issued to finance the land acquisition and construction of the City Hall Employee Parking Garage;
- Series 2003A Bonds, which refunded the bonds issued to finance site acquisition and construction costs of the City's Central Service Yard; and
- Commercial paper notes issued to provide funding for the following projects: Central Service Yard Phase II improvements, Consolidated Utility Billing System, the City's share of capital improvements at the City's HP Pavilion, as well as costs associated with the loan to the Low-Mod Housing Fund related to the Housing Department's loan to the Agency for the Agency's SERAF payment.

As of June 30, 2012, the total amount outstanding in this category was approximately \$500.2 million consisting of \$454.8 million of lease revenue bonds and \$45.4 million of taxable and tax-exempt commercial paper. The following chart illustrates the annual debt service associated with these bonds.

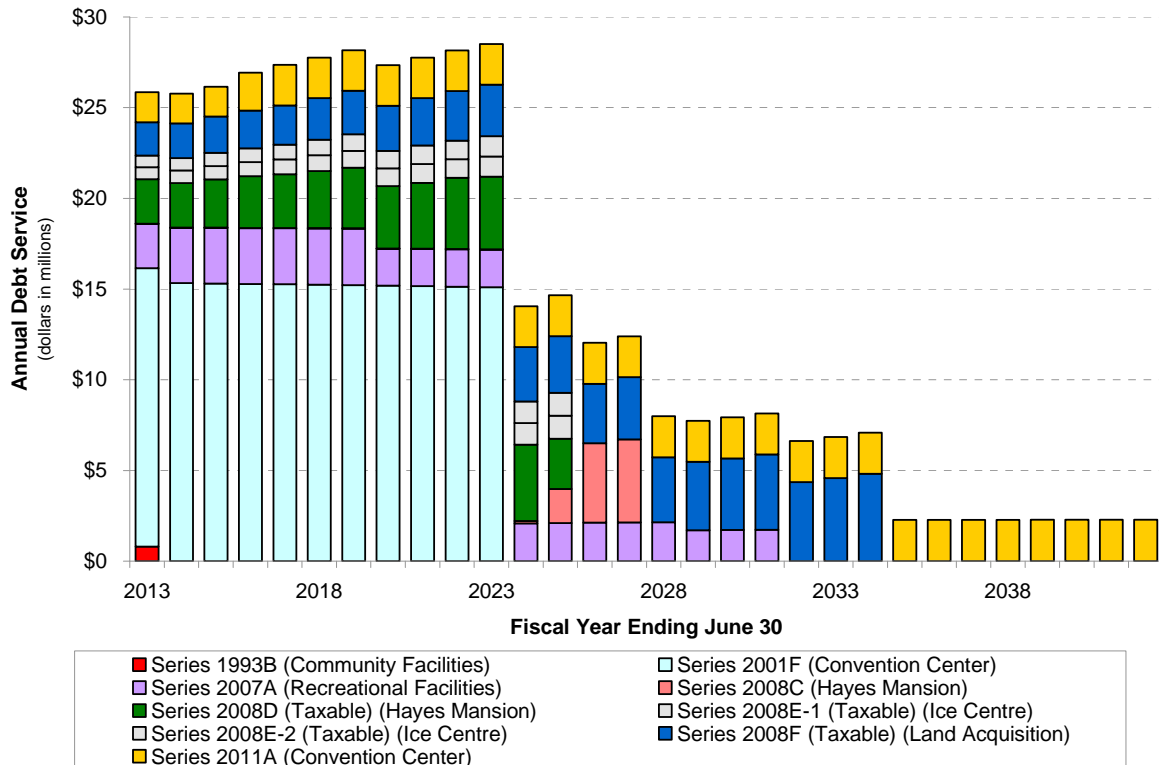
Non-Self-Supporting Debt/ General Fund Recourse Annual Debt Service



2. Self-Supporting Debt with Recourse to the City's General Fund

This category includes bond-financed capital projects which generate revenue that can be applied to offset, in whole or in part, the City's lease payments. To the extent that offsetting revenues are insufficient to completely cover the debt service payments for any of these bonds, the City's General Fund is committed to make up the difference. A short description of each of these self-supporting projects follows the chart. As of June 30, 2012, the outstanding amount was approximately \$333.8 million.

Self-Supporting Debt/ General Fund Recourse
Annual Debt Service



Series 1993B (Community Facilities Project): These fixed rate bonds funded the construction of the Berryessa Community Center and the Ice Centre of San José, acquisition of Murdock Park, and made other City funds available for the improvements to the Hayes Mansion Phase I Improvements project. The Ice Centre portion of these bonds was refunded with proceeds of the Series 2000C Bonds, and a portion of the remaining debt was refunded with proceeds of the Series 2007A Bonds. Debt service on the Series 1993B Bonds is paid from revenues of the Hayes Mansion and construction and conveyance tax revenues from Council Districts #1 and #4. To the extent these revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. In recent years the General Fund has been subsidizing debt service payments on the Series 1993B Bonds that are attributable to the City funds that were made available for Hayes Mansion improvements.

Series 2001F (Convention Center Refunding Project): Under a Reimbursement Agreement between the City and the Agency, the Agency has committed to reimburse the City for debt service on the Series 2001F Bonds, subordinate to all other debt issued by the Agency. To the extent the Agency payments are insufficient to fully pay the debt service, the General Fund or other available funds will make up the difference.

Series 2007A (Recreational Facilities Refunding Project): These fixed rate bonds refunded all or a portion of several series of bonds as summarized below.

Series 1993B (Community Facilities Project): These bonds, which were partially refunded with proceeds of the Series 2007A Bonds, financed the construction of the Berryessa Community Center and the Ice Centre of San José, acquisition of Murdock Park, and made other funds available for the Hayes Mansion Phase I Improvement Project. The portion of Series 2007A Bonds debt service attributable to the refunded portion of the Series 1993B Bonds is paid from revenues of the Hayes Mansion and construction and conveyance tax revenues from Council Districts #1 and #4. In recent years the General Fund has been subsidizing debt service payments on the Series 1993B Bonds attributable to the City funds that were made available for the improvements to the Hayes Mansion

Series 1997A (Golf Course Project): These bonds, which were completely refunded with proceeds of the Series 2007A Bonds, financed the acquisition, renovation, and conversion of an 18-hole course to a 9-hole course with a driving range (the Rancho del Pueblo Golf Course). The portion of Series 2007A Bonds debt service attributable to the 1997A Bonds is paid from golf course revenues.

Series 2000B (Tuers-Capitol Golf Course/Camden Park Refunding): These bonds, which were completely refunded with proceeds of the Series 2007A Bonds, financed construction of the City's 18-hole Los Lagos Golf Course and refunded outstanding certificates of participation issued by the Association of Bay Area Governments ("ABAG") for the Camden Neighborhood Park. The portion of Series 2007A Bonds debt service attributable to the 2000B Bonds is paid from golf course revenues and construction and conveyance tax revenues from Council District #9.

Series 2008C and Series 2008D (Hayes Mansion Refunding Project): These variable rate bonds refunded the Series 2001 Bonds issued to finance the Hayes Mansion Phase III improvements and refund the Series 1995 Bonds issued to finance the Hayes

Mansion Phase II improvements. Under the operator's Management Agreement, revenues of the Hayes Mansion are used to pay debt service and financing costs of the Series 2008C Bonds, the Series 2008D Bonds, the Hayes Mansion share of debt service of the Series 1993B Bonds, and the Series 2007A Bonds. To the extent these payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. In recent years, the General Fund has subsidized debt service payments on these bonds.

Series 2008E-1 and 2008E-2 (Ice Centre Refunding Project): These variable rate bonds refunded the Series 2000C Bonds, which financed or refinanced the construction of the Ice Centre and the construction of an additional ice rink at the facility, and the Series 2004A Bonds, which financed the expansion and renovation of the facility including construction of a fourth ice rink. Under the operator's Lease and Management Agreement with the City, the City receives fixed quarterly payments to cover debt service on the bonds and to fund capital repair and replacement reserves. To the extent these payments are insufficient to fully pay the debt service, the General Fund or other available funds will make up the difference.

Series 2008F (Land Acquisition Refunding Project): These variable rate bonds refunded the Series 2005 Bonds issued to finance acquisition of property adjacent to the Airport ("Airport West"). Through FY 2009-10 the Authority received rental payments from the City to cover debt service on the bonds under an Operating Sublease with the City for aviation uses. The Airport stopped its use of the Airport West Property as of June 30, 2010 and the Operating Sublease was terminated retroactively to June 30, 2010. As of FY 2010-11, the City's General Fund pays the debt service requirements for the 2008F Bonds pursuant to the General Sublease between the City and the Authority which took effect automatically on the termination of the Operating Sublease.

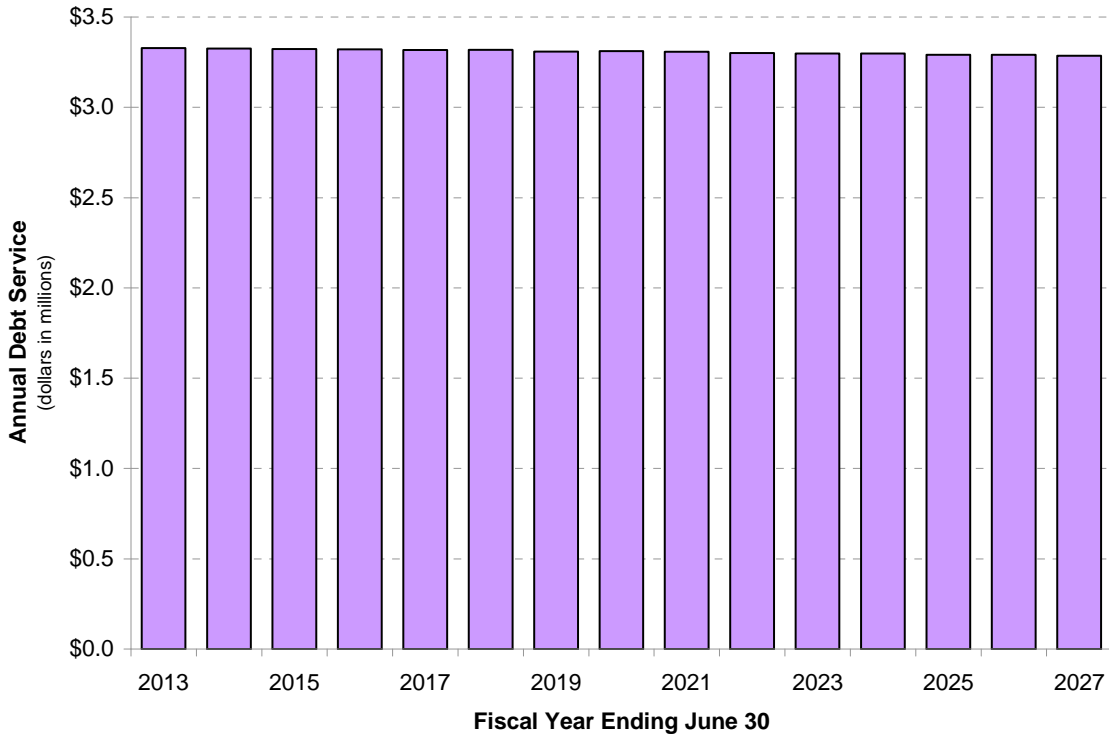
Series 2011A (Convention Center Expansion and Renovation Project): On April 12, 2011, a total of \$138,400,000 of tax-exempt bonds were sold in two series. The City of San José issued \$107,425,000 of special hotel tax bonds and the Authority issued its \$30,985,000 Series 2011A tax-exempt lease revenue bonds to finance the costs of the Project. Only the lease revenue bonds are included in this category. The special hotel bonds are reflected in the Land-Secured Financing section later in this report.

3. Self-Supporting Debt with No Recourse to the City's General Fund

This category includes Authority bond issues for which repayment is limited to specific sources of revenue, and for which bondholders do not have recourse to the City's General Fund in the event those revenues are insufficient to pay debt service on the bonds. Only one series of Authority bonds is currently in this category.

Series 2001A (4th & San Fernando Parking Garage): The Series 2001A Bonds are revenue bonds issued by the Authority to finance construction of the City parking garage located on the corner of North 4th Street and East San Fernando Street (the "4th & San Fernando Parking Garage"). Repayment of these revenue bonds is limited to gross revenues of the City's parking system if any surplus revenues of the Agency are not available to pay debt service.

Self-Supporting Debt/ No General Fund Recourse (2001A)
Annual Debt Service



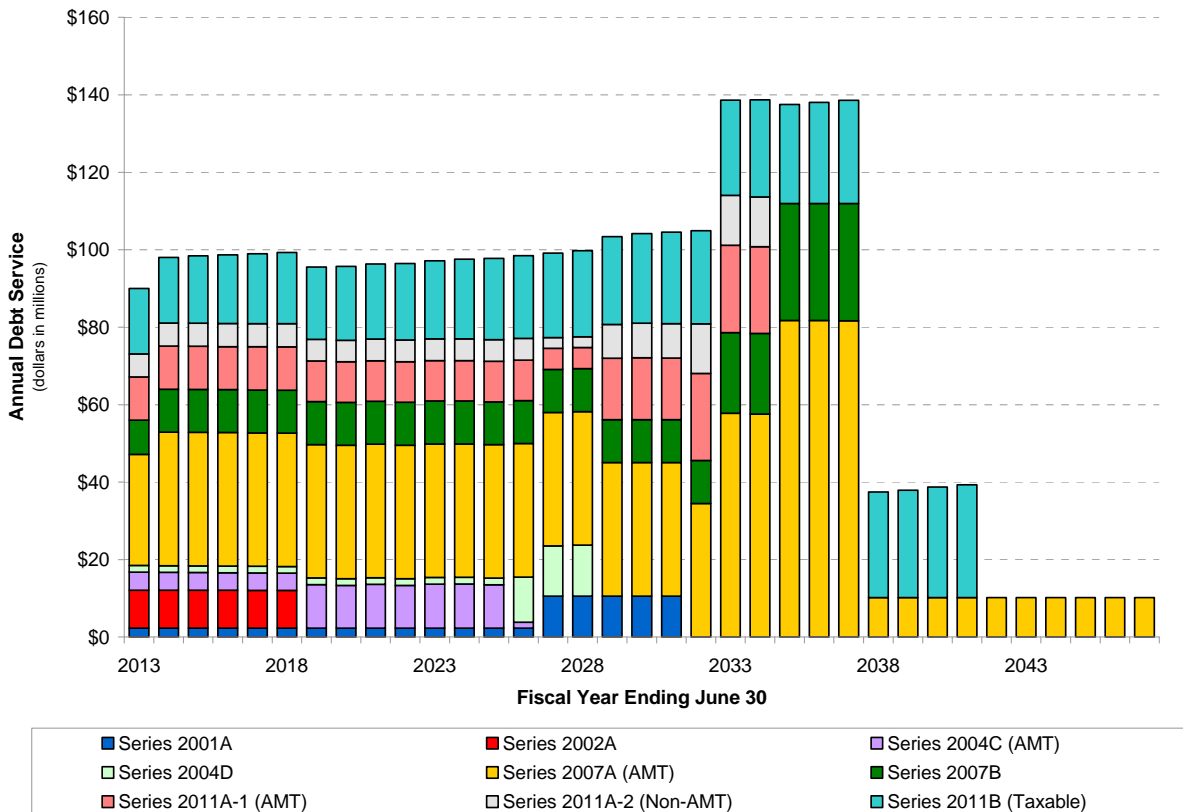
D. Enterprise Fund Obligations

1. Norman Y. Mineta San José International Airport

As of June 30, 2012, the total amount of Airport obligations outstanding was \$1,468.3 million, consisting of senior debt of \$1,420.4 million and \$47.9 million of outstanding commercial paper (“CP”). The Airport’s CP is subordinate to the revenue bonds.

The following chart illustrates the annual debt service requirements. CP is not shown in the graph because CP provides flexibility with amortization of principal and does not have a fixed amortization schedule. Appendix E provides the annual CP debt service certification, which gives an estimate of the annual debt service payments that would result from refunding the outstanding CP with sale proceeds of long-term bonds.

Airport Revenue Bonds
Annual Debt Service



The spike in debt service payments in 2033 is attributable to the Series 2007 Bonds. The original bond structure for the 2007 Bonds was designed with level debt service payments over the 40-year life of the bonds. However, at the time the bonds were priced, demand for 40-year securities deteriorated. To address this sudden deterioration in demand, the financing team restructured the debt service repayment and transferred most of the principal originally scheduled to mature between years 31 and 40 into the 26 to 30 year maturity range, producing a non-level debt service structure. At the City’s

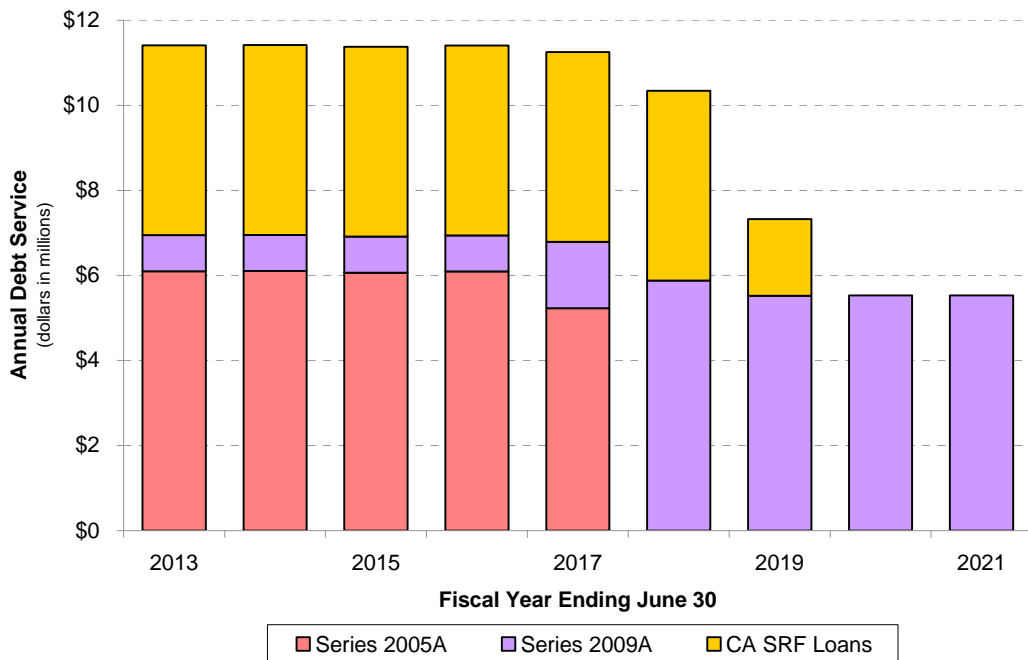
option, the 2007 Bonds can be redeemed on or after March 1, 2017, at a redemption price equal to 100% of the principal amount of the 2007 Bonds called for redemption. The City intends to evaluate the feasibility of refunding these bonds and restructuring the debt service to create a more level debt service profile prior to March 1, 2017.

2. San José-Santa Clara Clean Water Financing Authority

The total amount of outstanding sewer revenue bonds issued by the San José-Santa Clara Clean Water Financing Authority and the outstanding principal on the City’s California State Revolving Fund Loans (“CA SRF Loans”) as of June 30, 2012 was \$75.1 million. The Improvement Agreement by and among the San José-Santa Clara Clean Water Financing Authority, the City of San José, and the City of Santa Clara provides the terms and conditions under which the City of San José and the City of Santa Clara agree to make payments to the Clean Water Financing Authority for debt service on the bonds. With respect to the Series 2005A Bonds and the Series 2009A Bonds, the City of Santa Clara has no repayment obligation under the Improvement Agreement. The City of Santa Clara cash-funded its share of the South Bay Water Recycling Project in lieu of participating in the bond financings that were refunded by the Series 2005A Bonds and the Series 2009A Bonds.

The City of San José and the City of Santa Clara have agreements with each of the tributary agencies for those agencies’ share of capital costs and on-going operation expenses of the waste water treatment system. These revenue streams along with other revenue sources generated from the waste water treatment system are applied toward the payment obligation the cities of San José and Santa Clara have to the Clean Water Financing Authority and the City’s obligations under the CA SRF Loans. The tributary agencies include the City of Milpitas, West Valley Sanitation District, Cupertino Sanitation District, Burbank Sanitary District, and County Sanitation District 2-3.

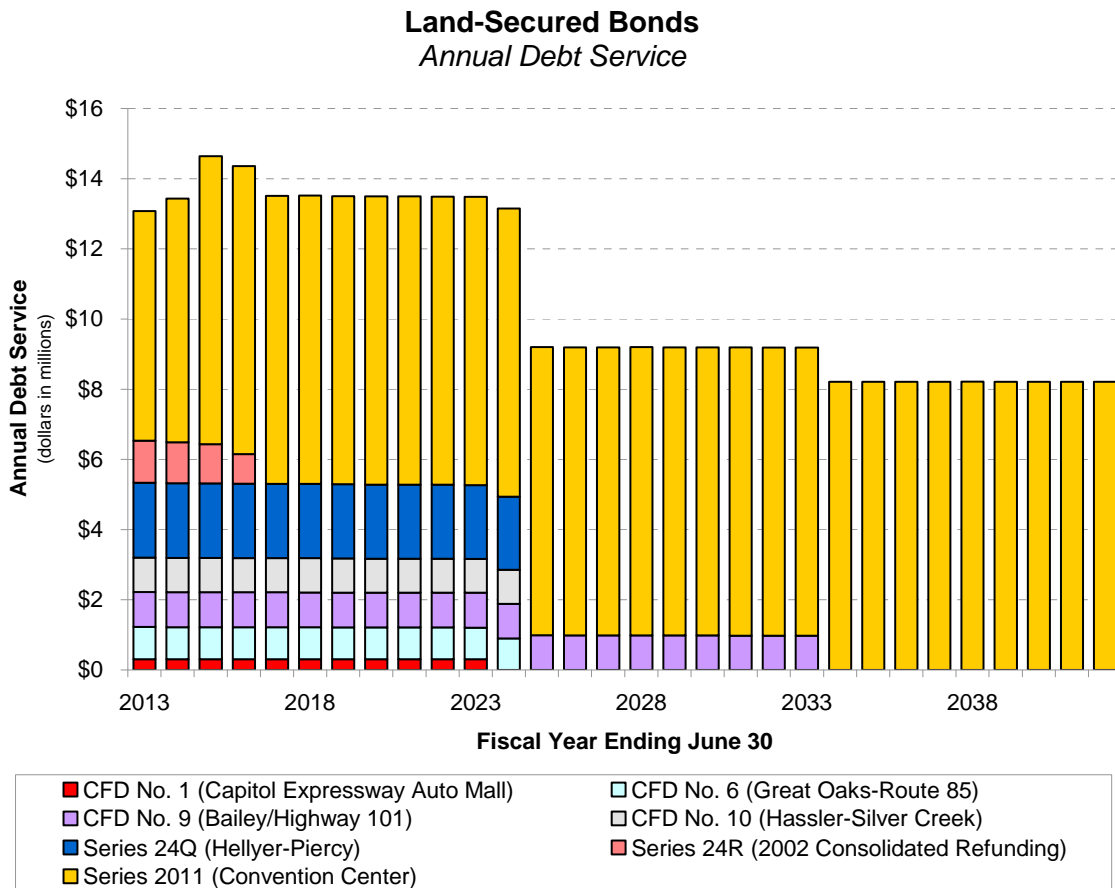
San José-Santa Clara Clean Water Financing Authority Debt and CA SRF Loans
Annual Debt Service



E. Land-Secured Financing

As of June 30, 2012, the City had four community facilities district (“CFD”), two improvement district special assessment bond (“SAB”), and a special hotel tax bond (“STB”) issues outstanding totaling \$163.9 million. The largest issue was STB Series 2011, Convention Center Expansion and Renovation Project. The City issued \$107.4 million of special hotel tax bonds and the Authority issued \$31.0 million in lease revenue bonds.

The chart below illustrates the total annual debt service requirements for the improvement district and community facilities district debt outstanding.



F. Multifamily Housing Revenue Bonds

Multifamily housing revenue bonds are issued to finance the development (which includes new construction as well as acquisition and rehabilitation) by private developers of certain rental apartment projects. The City issues the bonds, typically on a tax-exempt basis, and then lends the proceeds to the developer/borrower. The bonds are limited obligations of the City, payable solely from loan repayments by the borrower and any credit enhancement. For multifamily housing revenue bonds to qualify for tax-exemption, generally one of two restrictions must apply: either at least 20 percent of the units in the housing development must be reserved for occupancy by individuals and families of very-low income (50% of area median income) or at least 40 percent of the units must be reserved for occupancy by individuals and families of low income (60% of area median income).

Since November 1985, the City has issued \$919.8 million of bonds for the City's multifamily housing program, which has financed 6,600 affordable housing units. As of June 30, 2012, the total principal amount of bonds outstanding for the housing program was \$534.4 million. It is important to note that in addition to conduit financing through multifamily housing revenue bonds, there are other vehicles available to the City to assist with the financing of affordable housing units, including loans, grants and 9% tax-credits. The information presented in this report only represents affordable housing projects that were financed, in whole or in part, with bonds issued by the City. The table presented on the following pages summarizes the City's portfolio of multifamily revenue bonds.

**Multifamily Housing Revenue Bonds
As of June 30, 2012**

Project Name	Series	Date Issued	Issue Amount (thousands)	Balance (thousands)	Maturity/ Redemption	Affordable Units	Annual Fees
Fairway Glen	1985A	11/18/85	10,100	-	04/15/07	29	
Foxchase Drive	1985B	11/18/85	11,700	-	05/15/08	29	
Somerset Park Apartments	1987A	11/20/87	8,000	-	08/01/05	26	
Timberwood Apartments	1990A	02/01/90	13,425	-	09/01/05	166	
Timberwood Apartments	1990B (Sub.)	02/01/90	1,500	-	08/01/05	0	
Countrybrook Apartments	1992A	04/15/92	20,090	-	03/01/10	72	
Countrybrook Apartments	1992B (Tax.)	04/15/92	1,000	-	04/01/97	0	
Siena at Renaissance Square	1996A	08/22/96	50,000	60,000	12/01/29	271	75,000
Siena at Renaissance Square	1996B	08/22/96	10,000	-	04/01/98	0	
Almaden Lake Village Apartments	1997A	03/27/97	25,000	25,000	03/01/32	142	33,750
Almaden Lake Village Apartments	1997B	03/27/97	2,000	-	03/29/00	0	
Coleman Senior Apartments	1998	04/24/98	8,050	6,782	05/01/30	140	8,535
Italian Gardens Senior Apartments	1998	04/24/98	8,000	6,739	05/01/30	139	8,480
Carlton Plaza	1998A	04/24/98	12,000	12,000	10/15/32	26	15,000
Carlton Plaza	1998A (Tax.)	04/24/98	2,600	-	04/02/01	0	
The Gardens Apartments	1999A	05/12/99	18,970	-	01/01/32	286	6,000
The Gardens Apartments	1999B (Tax.)	05/12/99	2,930	-	01/01/11	0	
Helzer Court Apartments	1999A	06/02/99	16,948	15,618	12/01/41	154	26,122
Helzer Court Apartments	1999B	06/02/99	3,950	-	12/01/08	0	
Helzer Court Apartments	1999B (Tax.)	06/02/99	2,271	-	12/01/04	0	
Ohlone-Chynoweth Commons Apartments	1999	06/04/99	16,200	-	05/30/09	192	10,125
Kimberly Woods Apartments	1999A	12/20/99	16,050	16,050	12/01/29	42	20,062
Almaden Lake Village Apartments	2000A	03/29/00	2,000	2,000	03/01/32	0	na
Sixth and Martha Family Apartments Phase I	2000	07/21/00	9,900	8,550	03/01/33	102	12,375
Craig Gardens Apartments	2000A	12/05/00	7,100	4,123	12/01/32	89	8,875
El Parador Apartments	2000A	12/07/00	6,130	5,660	01/01/41	124	14,412
El Parador Apartments	2000B	12/07/00	900	345	01/01/16	0	na
El Parador Apartments	2000C	12/07/00	4,500	-	01/01/04	0	
Monte Vista Gardens Senior Housing	2000A	12/08/00	3,740	2,957	07/15/33	68	9,350
Willow Glen Senior Apartments	2000A	12/08/00	9,700	-	02/01/03	132	
Willow Glen Senior Apartments	2000B	12/08/00	1,320	-	02/01/03	0	
San Jose Lutheran Seniors Apartments	2001A-1	07/11/01	3,850	3,356	02/15/34	62	6,250
San Jose Lutheran Seniors Apartments	2001A-2	07/11/01	1,150	-	02/15/04	0	

**Multifamily Housing Revenue Bonds
As of June 30, 2012**

Project Name	Series	Date Issued	Issue Amount (thousands)	Balance (thousands)	Maturity/ Redemption	Affordable Units	Annual Fees
Sixth and Martha Family Apartments Phase II	2001C	08/01/01	9,000	7,200	04/01/34	87	11,250
The Villages Parkway Senior Apartments	2001D	08/01/01	6,800	5,080	04/01/34	78	8,500
Lenzen Housing	2001B	08/22/01	8,395	7,735	02/20/43	87	11,868
Lenzen Housing	2001B (Sub.)	08/22/01	1,100	-	10/01/03	0	
Terramina Square Apts/North White Rd Proj	2001F	11/15/01	16,845	16,010	04/01/44	156	21,056
Villa de Guadalupe Apartments	2001E	11/27/01	6,840	6,840	01/01/32	100	9,687
Villa de Guadalupe Apartments	2001E (Tax.)	11/27/01	760	26	04/01/12	0	na
Almaden Senior Housing Apartments	2001G	12/05/01	6,050	2,940	07/15/34	65	7,562
Betty Anne Gardens Apartments	2002A	04/05/02	11,000	6,690	04/01/34	75	13,750
El Paseo Apartments	2002B	04/05/02	9,600	4,645	10/01/34	97	12,000
Sunset Square Apartments	2002E	06/26/02	10,904	4,069	06/01/34	94	13,360
Villa Monterey Apartments	2002F	06/27/02	11,000	10,300	07/15/35	119	13,750
Monte Vista Gardens Senior Hsg Apts, Phase II	2002C-1	07/24/02	3,465	2,835	02/01/35	48	4,581
Monte Vista Gardens Senior Hsg Apts, Phase II	2002C-2	12/13/02	200	-	02/01/05	0	
Pollard Plaza Apartments	2002D	08/06/02	14,000	6,895	08/01/35	129	17,500
Evans Lane Apartments	2002H	10/08/02	31,000	-	04/15/36	236	38,750
Hacienda Villa Creek Senior Apartments	2002G-1	10/10/02	4,453	3,560	12/01/34	79	8,750
Hacienda Villa Creek Senior Apartments	2002G-2	10/10/02	2,547	-	05/12/06	0	
Kennedy Apartment Homes	2002K	12/11/02	14,000	9,075	12/15/35	78	17,500
Fallen Leaves Apartments	2002J-1	12/18/02	13,360	11,110	06/01/36	159	23,500
Fallen Leaves Apartments	2002J-2 (Sub.)	12/18/02	3,340	2,860	05/01/36	0	na
Fallen Leaves Apartments	2002J-3 (Jr. Sub.)	12/18/02	2,100	-	07/31/07	0	
Turnleaf Apartments	2003A	06/26/03	15,290	15,090	06/21/36	151	19,112
The Oaks of Almaden Apartments	2003B-1	07/29/03	4,365	3,754	02/15/36	125	10,437
The Oaks of Almaden Apartments	2003B-2	07/29/03	3,985	-	10/04/05	0	
Cinnabar Commons	2003C	08/07/03	25,900	25,000	02/01/37	243	32,375
Almaden Family Apartments	2003D	11/14/03	31,300	24,615	11/15/37	223	39,125
Trestles Apartments	2004A	03/04/04	7,325	7,325	03/01/37	70	10,781
Trestles Apartments	2004A (Sub.)	03/04/04	1,300	1,131	04/15/37	0	na
Vintage Tower Apartments	2004B-1	06/28/04	4,150	3,139	01/15/37	59	6,875
Vintage Tower Apartments	2004B-2	06/28/04	1,350	-	11/01/06	0	
Delmas Park	2004C-1	10/15/04	13,780	12,834	01/01/47	122	24,223
Delmas Park	2004C-2	10/15/04	5,599	-	06/01/07	0	

Multifamily Housing Revenue Bonds
As of June 30, 2012

Project Name	Series	Date Issued	Issue Amount (thousands)	Balance (thousands)	Maturity/ Redemption	Affordable Units	Annual Fees
Raintree Apartments	2005A	02/01/05	21,100	20,600	02/01/38	174	26,375
Paseo Senter I	2005B-1	12/21/05	6,142	4,825	12/01/38	115	7,500
Paseo Senter I	2005B-2	12/21/05	23,805	-	06/01/09	0	
Paseo Senter II	2005C-1	12/21/05	4,903	3,737	06/01/38	99	7,500
Paseo Senter II	2005C-2	12/21/05	19,776	-	12/01/08	0	
Casa Feliz Studio Apartments	2007A	06/13/07	11,000	-	12/01/09	59	7500
Almaden Family Apartments	2007B (Sub.)	12/17/07	6,385	4,037	11/15/37	0	na
Curtner Studios	2007C-1	12/19/07	5,520	5,280	12/01/39	178	7,500
Curtner Studios	2007C-2	12/19/07	3,275	-	06/01/09	0	
Fairgrounds Senior Housing Apartments	2008B	05/08/08	26,000	13,335	05/01/41	199	32,500
Las Ventanas Apartments	2008B	07/15/08	25,900	25,900	07/01/38	0	na
Brookwood Terrace Family Apts	2009B-1	12/23/09	7,780	7,650	01/01/44	83	17,000
Brookwood Terrace Family Apts	2009B-2	12/23/09	5,445	-	01/01/44	0	na
Fourth Street Apts	2010A-1	06/02/10	5,620	5,620	01/01/14	99	28,750
Fourth Street Apts	2010A-2	06/02/10	17,380	16,729	01/01/14	0	na
Orvieto Family Apartments	2010B-1	07/20/10	7,760	7,760	08/01/29	91	17,750
Orvieto Family Apartments	2010B-2	07/20/10	6,440	4,158	08/01/29		
Kings Crossing Apartments	2010C	09/17/10	24,125	17,628	09/01/45	92	30,156
Taylor Oaks Apartments	2011A-1	10/21/11	3,950	3,950	10/01/28	58	7,875
Taylor Oaks Apartments	2011A-2	10/21/11	2,350	2,350	04/01/24	0	na
1st and Rosemary Family Apartments	2012C	04/19/12	35,500	14,819	10/01/44	184	44,375
1st and Rosemary Senior Apartments	2012D	04/19/12	15,500	4,442	10/01/44	106	19,375
Mayfair Court Apartments	2012B-1	04/20/12	5,220	1,645	10/01/44	92	27,500
Mayfair Court Apartments	2012B-2	04/20/12	16,780	-	10/01/44	0	na
Grand Total			\$ 919,834	\$ 534,401		6,600	\$912,284

G. Redevelopment Agency

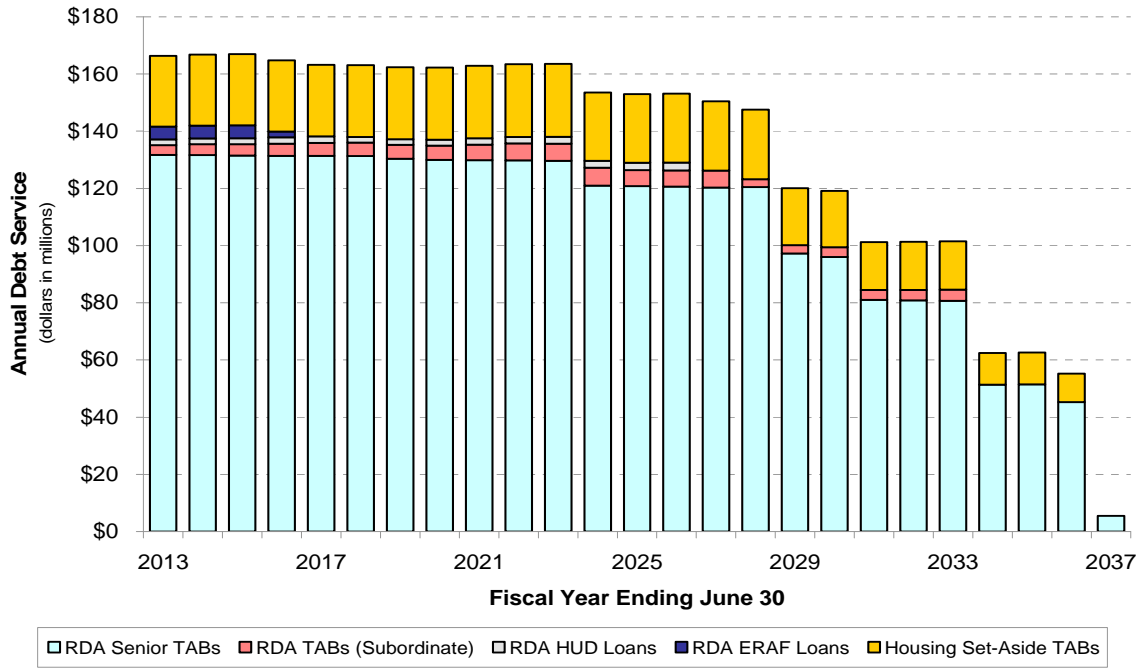
Prior to February 1, 2012, the Council had been acting as the Redevelopment Agency Board and had the authority to appoint the Director of the Redevelopment Agency to administer redevelopment projects and programs. Pursuant to the passage of state legislation in 2011, ABX1 26, redevelopment agencies in California were dissolved effective February 1, 2012. Effective February 1, 2012, the Council became the Successor Agency of the Redevelopment Agency (“SARA”) and per the legislation all assets, properties, contracts, leases, books, records, buildings and equipment were transferred to SARA on February 1, 2012. SARA is responsible for the management of City redevelopment projects currently underway, making payments identified on the Enforceable Obligation Payment Schedule (EOPS) and the subsequent Recognized Obligation Payment Schedules (ROPS), and the orderly disposition of assets and properties. Activities of SARA are supervised by a seven-member Oversight Board that has authority over the Agency’s financial affairs and is comprised of representatives of the local taxing agencies that serve the San José redevelopment project area: the City, County of Santa Clara, special districts, and educational agencies.

Redevelopment Agency debt includes debt issued for the 80% tax increment redevelopment program and the 20% tax increment affordable housing program. It also includes Agency loan repayments to the California Statewide Communities Development Authority for funds borrowed to make payments to the Educational Revenue Augmentation Fund in 2005 and 2006 (“CSCDA ERAF Loans”) and HUD Section 108 loans. In the event that the Agency does not timely make its scheduled payments on the CSCDA ERAF Loans, the County Auditor-Controller will transfer the first available ad valorem property tax revenues due to the City to make the payment. With respect to the HUD Section 108 loans, in the event that the Agency does not make timely payments, then HUD may reduce the amount owed by the Agency from payments of City’s Community Development Block Grants.

As of June 30, 2012, the Agency has total debt outstanding of \$2,369.6 million consisting of approximately \$2.0 billion in 80% debt, \$48 million in ERAF and HUD loans, and \$338 million in 20% debt.

The following chart illustrates the total annual debt service requirements for the Agency debt outstanding.

Redevelopment Agency Tax Increment Debt *Annual Debt Service*



H. Summary of Outstanding Debt

The following table summarizes all outstanding debt by series, excluding multifamily housing revenue bonds.

Summary of Outstanding Debt				
As Of 6/30/2012				
	Issue Amount		Final	Balance
	<i>(thousands)</i>	Issue Date	Maturity	<i>(thousands)</i>
<u>Long-Term Debt</u>				
Governmental Activities				
City of San Jose				
General Obligation Bonds:				
Series 2001 (Libraries and Parks)	\$ 71,000	06/06/2001	09/01/2031	\$ 47,300
Series 2002 (Libraries, Parks, Public Safety)	116,090	07/18/2002	09/01/2032	81,260
Series 2004 (Libraries, Parks, Public Safety)	118,700	07/14/2004	09/01/2034	91,015
Series 2005 (Libraries and Public Safety)	46,300	06/23/2005	09/01/2035	37,060
Series 2006 (Libraries and Parks)	105,400	06/29/2006	09/01/2036	87,850
Series 2007 (Parks and Public Safety)	90,000	06/20/2007	09/01/2037	78,000
Series 2008 (Libraries and Parks)	33,100	06/25/2008	09/01/2038	29,785
Series 2009 (Public Safety)	9,000	06/25/2009	09/01/2039	8,400
HUD Section 108 Note (FMC)	25,810	02/10/2005	11/01/2024	20,803
	<u>\$ 615,400</u>			<u>\$ 481,473</u>
City of San Jose Financing Authority				
Lease Revenue Bonds:				
Series 1993B (Community Facilities)	\$ 18,045	04/13/1993	11/15/2018	\$ 763
Series 1997B (Fire, Childcare, Library Land)	9,805	07/29/1997	08/01/2012	365
Series 2002B (Civic Center Project)	292,425	11/14/2002	06/01/2037	290,775
Series 2003A (Central Service Yard)	22,625	09/18/2003	10/15/2023	15,505
Series 2006A (Civic Center Project)	57,440	06/01/2006	06/01/2039	57,440
Series 2007A (Recreational Facilities)	36,555	06/28/2007	08/15/2030	31,475
Series 2008A (Civic Center)	60,310	08/14/2008	06/01/2039	56,920
Series 2008B-1 (Civic Center Garage)	17,640	07/10/2008	06/01/2039	16,910
Series 2008B-2 (Civic Center Garage)	17,640	07/10/2008	06/01/2039	16,905
Series 2008C (Hayes Mansion)	10,915	06/26/2008	06/01/2027	10,915
Series 2008D (Taxable) (Hayes Mansion)	47,390	06/26/2008	06/01/2025	41,300
Series 2008E-1 (Taxable) (Ice Centre)	13,015	07/03/2008	06/01/2025	11,870
Series 2008E-2 (Taxable) (Ice Centre)	13,010	07/03/2008	06/01/2025	11,860
Series 2008F (Taxable) (Land Acquisition)	67,195	06/11/2008	06/01/2034	65,590
Series 2011A (Conventional Center)	30,985	04/12/2011	05/01/2042	30,985
	<u>\$ 714,995</u>			<u>\$ 659,578</u>
Special Assessment Bonds				
Series 24Q (Hellyer-Piercy)	\$ 27,595	06/26/2001	09/02/2023	\$ 18,455
Series 24R (2002 Consolidated Refunding)	13,940	07/03/2002	09/02/2015	3,995
	<u>\$ 41,535</u>			<u>\$ 22,450</u>
Special Tax Bonds				
CFD No. 1 (Capitol Expressway Auto Mall)	\$ 4,100	11/18/1997	11/01/2022	\$ 2,500
CFD No. 6 (Great Oaks-Route 85)	12,200	12/18/2001	09/01/2023	7,845
CFD No. 9 (Bailey/Highway 101)	13,560	02/13/2003	09/01/2032	11,340
CFD No. 10 (Hassler-Silver Creek)	12,500	07/23/2003	09/01/2023	8,750
Series 2011 (Convention Center)	107,425	04/12/2011	05/01/2042	107,425
	<u>\$ 149,785</u>			<u>\$ 137,860</u>

**Summary of Outstanding Debt
As Of 6/30/2012**

	Issue Amount (thousands)	Issue Date	Final Maturity	Balance (thousands)
Redevelopment Agency				
Tax Allocation Bonds:				
Series 1993 (Merged Area Refunding)	\$ 692,075	12/15/1993	08/01/2024	\$ 18,195
Series 1997 (Merged Area)	106,000	03/27/1997	08/01/2028	5,810
Series 1999 (Merged Area)	240,000	01/06/1999	08/01/2031	12,920
Series 2002 (Merged Area)	350,000	01/24/2002	08/01/2032	13,165
Series 2003 (Merged Area)	135,000	12/22/2003	08/01/2033	127,545
Series 2004A (Merged Area)	281,985	05/27/2004	08/01/2019	193,215
Series 2005A (Merged Area)	152,950	07/25/2005	08/01/2028	130,985
Series 2005B (Merged Area)	67,130	07/25/2005	08/01/2015	67,130
Series 2006A (Taxable) (Merged Area)	14,300	11/14/2006	08/01/2022	13,300
Series 2006B (Merged Area)	67,000	11/14/2006	08/01/2035	67,000
Series 2006C (Merged Area)	423,430	12/15/2006	08/01/2032	423,430
Series 2006D (Merged Area)	277,755	12/15/2006	08/01/2023	275,560
Series 2007A (Taxable) (Merged Area)	21,330	11/07/2007	08/01/2017	14,085
Series 2007B (Merged Area)	191,600	11/07/2007	08/01/2036	191,600
Series 2008A (Merged Area)	37,150	12/17/2008	08/01/2018	27,715
Series 2008B (Merged Area)	80,145	11/13/2008	08/01/2035	80,145
Revenue Bonds (Subordinate):				
Series 1996A (Merged Area)	29,500	06/27/1996	07/01/2026	23,000
Series 1996B (Merged Area)	29,500	06/27/1996	07/01/2026	23,000
Series 2003A (Taxable) (Merged Area)	45,000	08/27/2003	08/01/2028	32,655
Series 2003B (Merged Area)	15,000	08/27/2003	08/01/2032	15,000
City of San Jose Financing Authority Revenue Bonds (Subordinate):				
Series 2001A (4th & San Fernando Garage)	48,675	04/10/2001	09/01/2026	35,105
Series 2001F (Convention Center)	186,150	07/01/2001	09/01/2022	129,020
HUD Section 108 Note (Masson/Dr. Eu/Security)	5,200	02/11/1997	08/01/2016	2,035
HUD Section 108 Note (CIM Block 3/Central Place)	13,000	02/08/2006	08/01/2025	11,830
HUD Section 108 Note (Story/King Retail)	18,000	06/30/2006	08/01/2025	15,880
CSCDA - 2005 ERAF Loan	19,085	04/27/2005	08/01/2015	6,735
CSCDA - 2006 ERAF Loan	14,920	05/03/2006	08/01/2016	7,025
Housing Set-Aside Tax Allocation Bonds:				
Series 1997E (AMT) (Merged Area)	17,045	06/23/1997	08/01/2027	17,045
Series 2003J (Taxable) (Merged Area)	55,265	07/10/2003	08/01/2024	34,910
Series 2003K (Merged Area)	13,735	07/10/2003	08/01/2029	5,905
Series 2005A (Merged Area)	10,445	06/30/2005	08/01/2024	10,445
Series 2005B (Taxable) (Merged Area)	119,275	06/30/2005	08/01/2035	109,855
Series 2010A-1 (Merged Area)	54,055	04/29/2010	08/01/2035	54,055
Series 2010A-2 (Merged Area)	2,655	04/29/2010	08/01/2017	2,655
Series 2010B (Taxable) (Merged Area)	10,695	04/29/2010	08/01/2015	5,510
Housing Set-Aside Tax Allocation Bonds (Subordinate):				
Series 2010C (Taxable) (Merged Area)	93,000	04/29/2010	08/01/2035	88,600
	\$ 3,938,050			\$ 2,292,065
Government Activities Totals	\$ 5,459,765			\$ 3,593,426

**Summary of Outstanding Debt
As Of 6/30/2012**

	Issue Amount <i>(thousands)</i>	Issue Date	Final Maturity	Balance <i>(thousands)</i>
Business-Type Activities				
Norman Y. Mineta San Jose International Airport				
Revenue Bonds:				
Series 2001A	\$ 158,455	08/14/2001	03/01/2031	\$ 45,710
Series 2002A	53,600	01/09/2003	03/01/2018	49,140
Series 2002B (AMT)	37,945	01/09/2003	03/01/2012	-
Series 2004C (AMT)	75,730	06/24/2004	03/01/2026	71,730
Series 2004D	34,270	06/24/2004	03/01/2028	34,270
Series 2007A (AMT)	545,755	09/13/2007	03/01/2047	545,755
Series 2007B	179,260	09/13/2007	03/01/2037	179,260
Series 2011A-1 (AMT)	150,405	07/28/2011	03/01/2034	146,370
Series 2011A-2	86,380	07/28/2011	03/01/2034	84,075
Series 2011B	<u>271,820</u>	12/14/2011	03/01/2041	<u>264,085</u>
	\$ 1,593,620			\$ 1,420,395
Clean Water Financing Authority				
Revenue Bonds:				
Series 2005A	\$ 54,020	10/05/2005	11/15/2016	\$ 26,890
Series 2009A	21,420	01/29/2009	11/15/2020	21,420
State of California - Revolving Fund Loan	73,566	06/24/1997	05/01/2019	26,746
	<u>\$ 149,006</u>			<u>\$ 75,056</u>
Business-Type Activity Totals	<u>\$ 1,742,626</u>			<u>\$ 1,495,451</u>
Long-Term Debt Totals	<u>\$ 7,202,391</u>			<u>\$ 5,088,877</u>
Short-Term Debt				
City of San Jose Financing Authority				
Lease Revenue Commercial Paper Notes	\$ 116,000	Various	Various	\$ 45,348
Norman Y. Mineta San Jose International Airport				
Airport Revenue Commercial Paper Notes	600,000	Various	Various	47,937
Short-Term Debt Totals	<u>\$ 716,000</u>			<u>\$ 93,285</u>
GrandTotals	<u>\$ 7,918,391</u>			<u>\$ 5,182,162</u>

APPENDIX A:
DEBT MANAGEMENT POLICY



CITY OF SAN JOSE, CALIFORNIA

CITY COUNCIL POLICY

TITLE	PAGE	POLICY NUMBER
DEBT MANAGEMENT POLICY	1 OF 5	1-15
	EFFECTIVE DATE	REVISED DATE
	5/21/02	

APPROVED BY COUNCIL ACTION

May 21, 2002, Item 3.3, Resolution No. 70977

POLICY

This Debt Management Policy sets forth certain debt management objectives for the City, and establishes overall parameters for issuing and administering the City’s debt. Recognizing that cost-effective access to the capital markets depends on prudent management of the City’s debt program, the City Council has adopted this Debt Management Policy by resolution.

DEBT MANAGEMENT OBJECTIVES

The purpose of this Debt Management Policy is to assist the City in pursuit of the following equally-important objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure compliance with applicable State and Federal laws.

GENERAL PROVISIONS

I. SCOPE OF APPLICATION

These policies establish the parameters within which debt may be issued by the City of San José, the City of San José Financing Authority, and the City of San José Parking Authority. Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, and conduit-type financing by the City for multifamily housing or industrial development projects.

The City Council, as a member of Joint Powers Authorities such as the San José-Santa Clara Clean Water Financing Authority, shall take these policies into account when considering the issuance of Joint Powers Authority debt.

Supplemental policies, tailored to the specifics of certain types of financings, may be adopted by the City Council in the future. These supplemental policies may address, but are not limited to, the City's general obligation, lease revenue, enterprise, multifamily housing, and land-secured financings.

II. RESPONSIBILITY FOR DEBT MANAGEMENT ACTIVITIES

The Finance Department shall be responsible for managing and coordinating all activities related to the issuance and administration of debt. The Director of Finance is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City Charter, Article VIII, Section 806, the Director of Finance is charged with responsibility for the conduct of all Finance Department functions.

Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

A. Debt Management Policy Review and Approval

This policy shall be adopted by City Council resolution, and reviewed annually by the Finance Department to insure its consistency with respect to the City's debt management objectives. Any modifications to this policy shall be reviewed and approved by the Finance and Infrastructure Committee and forwarded to the City Council for approval by resolution.

B. Annual Debt Report

The Finance Department shall prepare an annual debt report for review and approval by the Finance and Infrastructure Committee and the City Council, containing a summary of the City's credit ratings, outstanding and newly-issued debt, a discussion of current and anticipated debt projects, refunding opportunities, a review of legislative, regulatory, and market issues, and an outline of any new or proposed changes to this Debt Management Policy.

C. Debt Administration Activities

The Finance Department is responsible for the City's debt administration activities, particularly investment of bond proceeds, compliance with bond covenants, continuing disclosure, and arbitrage compliance, which shall be centralized within the Department.

III. PURPOSES FOR WHICH DEBT MAY BE ISSUED

A. Long-term Borrowing

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs which may be legally capitalized. Long-term borrowing shall not be used to fund City operating costs.

B. Short-term Borrowing

Short-term borrowing, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

C. Refunding

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

DEBT ISSUANCE

I. DEBT CAPACITY

The City will keep outstanding debt within the limits of the City's Charter and any other applicable law, and at levels consistent with its creditworthiness objectives.

The City shall assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the City has limited capacity for debt service in its budget, and that each newly issued financing will obligate the City to a series of payments until the bonds are repaid.

II. CREDIT QUALITY

The City seeks to obtain and maintain the highest possible credit ratings for all categories of short- and long-term debt. The City will not issue bonds directly or on behalf of others that do not carry investment grade ratings. However, the City will consider the issuance of non-rated special assessment, community facilities, multifamily housing, and special facility bonds.¹

III. STRUCTURAL FEATURES

A. Debt Repayment

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The City shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

B. Variable-rate Debt

The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with the City's creditworthiness objectives.

C. Derivatives

Derivative products² may have application to certain City borrowing programs. In certain circumstances these products can reduce borrowing cost and assist in managing interest rate risk. However, these products carry with them certain risks not faced in standard debt instruments. The Director of Finance shall evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

¹ In most cases, a bond which cannot achieve an investment-grade rating will not be rated at all, because there is little value from a bond-marketing perspective in a below investment-grade rating.

² A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index

IV. PROFESSIONAL ASSISTANCE

The City shall utilize the services of independent financial advisors and bond counsel on all debt financings. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net City debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The City Attorney's Office shall be responsible for selection of bond counsel and, in those circumstances where the City Attorney's Office determines it to be necessary or desirable, disclosure counsel. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost.

V. METHOD OF SALE

Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The City's preferred method of sale is competitive bid. However, other methods such as negotiated sale and private placement may be considered on a case-by-case basis..

DEBT ADMINISTRATION

I. INVESTMENT OF BOND PROCEEDS

Investments of bond proceeds shall be consistent with federal tax requirements, the City's Investment Policy as modified from time to time, and with requirements contained in the governing bond documents.

II. DISCLOSURE PRACTICES AND ARBITRAGE COMPLIANCE

A. Financial Disclosure

The City is committed to full and complete primary and secondary market financial disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and Municipal Securities Rulemaking Board, as may be amended from time to time. The City is also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information.

B. Arbitrage Compliance

The Department of Finance shall maintain a system of record keeping and reporting to meet the arbitrage compliance requirements of federal tax law.



APPENDIX B:
POLICY FOR THE ISSUANCE OF MULTIFAMILY
HOUSING REVENUE BONDS



CITY OF SAN JOSE, CALIFORNIA

CITY COUNCIL POLICY

Title POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS	Page 1 of 11	Policy Number 1-16
	Effective Date 06/11/02	Revised Date 12/06/05

Approved By Council Action

June 11, 2002, Item 3.7, Resolution No. 71023

GENERAL MATTERS

I. ISSUER

The City of San Jose (the “City”) shall be the issuer of all bonds financing multifamily housing rental projects (a “Project” or “Projects”) within the City, except as provided below. The City’s Housing Department and Finance Department will consider other issuing agencies as follows:

A. The Redevelopment Agency

The Redevelopment Agency may issue bonds for any Project located within a redevelopment project area.

B. ABAG, CSCDA, Other Conduits

The City may agree to the issuance of bonds by the Association of Bay Area Governments (“ABAG”), California Statewide Community Development Authority (“CSCDA”) or a similar issuing conduit provided that the City is not making a loan or grant to the Project *and* the Project is one of multiple projects being financed by the Project Sponsor through such issuing conduit agency in the same California Debt Limit Allocation Committee (“CDLAC”) round under a similar financing program so as to result in economies of issuance.

C. Special circumstances

Another agency may issue bonds when merited by special circumstances of the Project and the financing.

Where the City is not the issuer of bonds for a Project, it shall be the City’s policy to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal tax and state laws. Where feasible, however, the City shall seek to hold The Equity and Fiscal Responsibility Act of 1986 Hearing, better known as the “TEFRA” Hearing for such Project.

II. FINANCING TEAM

The City shall select the financing team for all multifamily housing revenue bonds issued by the City. The Finance Department is responsible for selecting the financial advisor, trustee and the investment banker/underwriter (assuming a negotiated public sale of bonds). The City Attorney's Office is responsible for selecting the bond counsel firm. The financial advisor, investment banker and bond counsel shall be selected from approved lists determined from time to time by a request for qualifications/proposal process.

III. COORDINATION AMONG CITY DEPARTMENTS

The City recognizes that the issuance of housing bonds entails a coordinated effort among the Housing Department, Finance Department and City Attorney's Office. The Housing Department shall ensure that the Finance Department and the City Attorney's Office are provided with regular updates on projects that may involve the issuance of bonds.

THE FINANCING PROCESS

I. INITIAL MEETING WITH PROJECT SPONSOR

A. Prior Due Diligence

Prior to arranging an initial meeting with the Project Sponsor, the Housing Department shall perform initial due diligence on the Project Sponsor, including whether the Project Sponsor has ever failed to use an allocation from CDLAC and whether the Project Sponsor has failed to comply with the terms of any other City financings or City loans.

B. Determination of Readiness

Following the initial meeting, City representatives shall determine if the project is in a state of sufficient "readiness" to proceed with the CDLAC application process. This includes the status of the project in terms of the development process. In general, a project will be deemed "not ready" if the discretionary planning approvals will not have been completed by the time of the CDLAC application.

C. Selection of Financing Team

Following a determination of readiness, the Finance Department and City Attorney shall recommend the financial advisor, underwriter (if applicable) and bond counsel, as the case may be, for each project.

II. DEPARTMENTAL APPROVALS

Pursuant to the Delegation of Authority by the City Council, both the City's Directors of Finance and Housing must approve each Project, the financing, and the filing of a CDLAC application before the City can make an application to CDLAC for private activity bond allocation. The approval of the Finance and Housing Directors shall be evidenced by a jointly signed "Notice to Proceed" addressed to the Project Sponsor. The Notice to Proceed shall

describe the project, identify the developer or Project Sponsor, the affordability mix, the proposed plan of finance and the amount of bond funding requested.

A. Resolution

The City Attorney's Office will be responsible for preparing a resolution for joint approval by the Directors of Finance and Housing. The resolution will:

1. Memorialize the Council's intent to issue the debt in order to induce others to provide project financing;
2. Authorize the filing of a CDLAC application; and
3. Authorize the execution of a Deposit and Escrow Agreement.

B. TEFRA Hearing

The TEFRA hearing will be held before the Director of Finance on the date specified in the TEFRA Notice. The Director of Finance has the discretion to have the TEFRA hearing held by the City Council.

III. CDLAC APPLICATIONS

A. Description

Before the City is legally able to issue private activity tax-exempt bonds for a project, an application must be filed with CDLAC in Sacramento and an allocation of the State ceiling on qualified private activity bonds must be approved by CDLAC.

B. City to File

The City is the applicant to CDLAC for each project to be financed with tax-exempt bonds issued by the City. The Housing Department will file all applications to CDLAC on behalf of project sponsors.

C. Project Sponsor to Prepare Application

Each project sponsor shall take responsibility for preparing the CDLAC application for its project with input from City representatives, the City's financial advisor and bond counsel.

D. Deposit and Escrow Agreement

The City will not file a Project Sponsor's CDLAC application unless the Project Sponsor executes a Deposit and Escrow Agreement **and makes the necessary deposits specified in this Agreement**. The Deposit and Escrow Agreement shall contain the items identified below. It shall be the responsibility of the Housing Department to see that all requirements under the Deposit and Escrow Agreement are met.

1. CDLAC Performance Deposit

The Deposit and Escrow Agreement must require the payment of the CDLAC performance deposit, provided that current CDLAC rules require the payment of such deposit to the issuer.

2. City of San Jose Performance Deposit

In addition to the CDLAC performance deposit, the Deposit and Escrow Agreement shall require the Project Sponsor to deposit \$50,000 with the City as a City of San Jose performance deposit. This deposit shall be forfeited in the event that the City, on behalf of the Project Sponsor, receives an allocation but does not issue bonds. The deposit may be applied to pay costs of issuance or returned to the Project Sponsor as soon as practicable. By agreement between the City and the Project Sponsor, the Project Sponsor may designate its City loan as the source of payment in the event of forfeiture.

3. Financing Team Fees

The Deposit and Escrow Agreement shall identify, if available, the fees of the bond counsel, financial advisor, and underwriter (if applicable). It shall be the responsibility of the Finance Department and the City Attorney's Office to identify these fees.

IV. COUNCIL APPROVAL

A. Staff Report

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall prepare a staff report recommending final Council approval for a bond issue. The staff report shall be submitted to the City Manager's Office in accordance with the timing requirements of the then-current City procedures.

The staff report shall specify the approvals that are recommended, provide background on the project being financed, describe the financing structure, indicate any exceptions to the City's investment policy, describe the financing documents to be approved, identify the financing team participants, and seek approval of consultant agreements and financing participants that have not previously been approved by Council. The staff report should indicate if a separate City loan is being provided. However, the terms of that loan should be discussed in a separate staff report which, whenever possible, shall be submitted for the same agenda. The staff report shall be signed by the Directors of Finance and Housing.

The staff report should be submitted only after the major transaction terms (e.g., financing structure, security provisions, bond amount, maximum maturity, etc.) are identified and agreed to by the parties. The staff report may note that the bond issue is contingent upon certain other approvals and may identify certain issues to be resolved at a later time.

B. Substantially Final Documents

The City Council shall approve documents that are "substantially final" documents. Documents are in "substantially final" form if they identify the final security provisions and financing structure for the transaction. The City Attorney's Office shall determine whether documentation is in substantially final form.

C. Council Meeting

The Council meeting shall occur on a date after which all approvals from major financial participants (e.g., credit enhancement provider, bond purchaser, tax credit investor) have been obtained. At the discretion of the City Attorney and Finance Department, the Council

may proceed with its approval process without such other final approvals if: (1) such final approval is likely; (2) the Council's approval is subject to such other party's final approval; and (3) the Council approval process cannot be delayed without jeopardizing the financing.

V. BOND SALE AND CLOSING

A. Timing

The bond sale and closing may commence only after the Council authorizes the bond issue, including the distribution of a Preliminary Official Statement, if applicable.

B. Investment Agreements

If authorized by the Council, the Project Sponsor, through its representative, which may include the underwriter or financial advisor, may solicit investment agreement providers for the purpose of reinvesting bond proceeds and revenues. The investment agreement providers must meet the City's requirements and the requirements in the bond resolution and trust indenture for the bonds. Bond counsel and the financial advisor shall review the investment agreement solicitation forms, the eligible providers, and the investment agreements.

C. Payment of Issuance Fee

The City's issuance fee shall be funded from the Costs of Issuance Fund held by the Trustee.

D. Information Memorandum to Council

Promptly after the issuance of all bonds for a CDLAC round, the City Finance Department shall prepare an information memorandum summarizing the salient points of each bond issue.

CITY FEES

I. TEFRA HEARING FEE

The City shall charge a fee of \$5,000 for the administrative costs associated with holding a TEFRA hearing relating to a Project. The fee shall be payable prior to the date that notice of the TEFRA hearing is published. No separate TEFRA hearing fee shall be charged if the City or Redevelopment Agency is issuing the bonds for the Project.

II. ISSUANCE FEE

The City shall charge a fee for the administrative costs associated with issuing the bonds for a Project Sponsor. The fee shall be payable at bond closing and may be contingent on the bond sale. The issuance fee shall be based on the total amount of the bonds (both tax-exempt and taxable) to be issued in accordance with the following sliding scale:

\$0 to \$10 million: 0.5% of the principal amount of bonds issued, with a minimum fee of \$30,000.

Over \$10 million: 0.5% of the first \$10 million principal amount of bonds; 0.25% of any additional amount.

III. ANNUAL MONITORING FEE

The City shall charge an annual fee for monitoring the restricted units. The fee shall be in an amount equal to 0.125% of the original principal amount of tax-exempt bonds issued. Except for non-profit or government agency Project Sponsors, the fee shall not be reduced until all of the tax-exempt bonds are retired and the bond regulatory agreement ceases to have validity or is no longer in effect, at which time it will terminate. Upon conversion to permanent financing, a nonprofit or government agency Project Sponsor, may have a reduction in their annual fee to 0.125% of the permanent bond amount after conversion subject, to a minimum annual fee of \$7,500.

The City annual monitoring fee shall be paid “above the line,” i.e., on a parity with bond debt service and trustee fees. This parity provides the greatest assurance that the City’s fee will be paid, although it may reduce the amount that the Project Sponsor’s lender may be willing to underwrite. The City may determine, at its sole discretion, to subordinate all or a portion of its annual fee to bond debt service only when the Housing Department has made a substantial loan to the Project, so long as the Project Sponsor provides adequate assurance of the payment of such fees. The City shall not subordinate its fee in circumstances where no City funds are subsidizing the Project.

CREDIT CONSIDERATIONS

I. CREDIT ENHANCEMENT

A. General Policy

It shall be the general policy of the City to encourage the use of credit enhancement for bonds issued by the City. Credit enhancement shall be a requirement for any multifamily bonds that are publicly distributed. The minimum rating on such credit enhancement shall be “A” or higher by Moody’s, Standard & Poor’s, and/or Fitch. This policy shall be subject to the exceptions described below.

B. Forms of Credit Enhancement

Credit enhancement may be in the form of a bank letter of credit, bond insurance, surety, financial guaranty, mortgage-backed security (e.g., Fannie Mae, Freddie Mac or Ginnie Mae) or other type of credit enhancement approved by the market. If the City has not previously issued bonds with a particular kind of credit enhancement, the Finance Department and financial advisor shall determine whether such credit enhancement is acceptable and whether marketing restrictions shall be imposed.

C. Project Sponsor Responsibility

It shall be the responsibility of the Project Sponsor to obtain and pay for the costs of credit enhancement. The City will assume no responsibility therefor.

II. NON-CREDIT ENHANCED BONDS

A. General Policy

It shall be the general policy of the City to require bonds that are not secured with credit enhancement to be sold through private placement or through a limited public offering to institutional or accredited investors. As an exception to this policy, the City may authorize the public distribution of non-credit enhanced bonds that are rated at least in the “A” category by Moody’s, Standard & Poor’s, and/or Fitch, after consultation with the underwriter and financial advisor. In connection with such authorization, the City shall consider the sophistication of the Project Sponsor, its financial resources, commitment to the community and other factors.

B. Additional Requirements for Non-Rated Bonds

Non-rated bonds must comply with the following additional requirements:

1. Minimum Denominations and Number of Bondholders

In order to limit the transferability of non-rated bonds, the City shall seek minimum denominations of at least \$100,000. In addition, the City may also limit the number of bondholders to further limit the transferability of non-rated bonds.

2. Qualified Institutional Buyer (“QIB”) Letter

The bond purchaser in a private placement or limited public offering must certify that it is a qualified or accredited investor (a “big boy letter”). Such letter must be signed by subsequent bond purchasers so long as the bonds remain unrated.

REFUNDING/RESTRUCTURING/REMARKETING

I. GENERAL

The City has issued both fixed rate and variable rate multifamily bonds. On occasion, the Project Sponsor may ask the City to refund those bonds to lower the interest rate, to remarket the bonds with a new credit enhancement, and/or to remarket the bonds as fixed rate bonds. The Project Sponsor will be responsible for all costs and fees related to the refunding.

II. OPTIONAL REFUNDING

A. Reasons to Refund Outstanding Bonds

A Project Sponsor may ask the City to refund its outstanding bonds for one of several reasons:

1. Lower the interest rate on fixed rate bonds at the call date (through the issuance of fixed rate or variable rate refunding bonds);
2. Substitute a new credit structure that was not expressly provided for in the existing documents; or
3. Restructure the existing debt.

B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

C. Legal/Documentation

New documents shall be prepared to meet the City's then-current legal, credit, financial, and procedural requirements. The City shall follow the documentation process applicable to new bonds. Because the City's primary purpose in issuing multifamily housing bonds is to preserve and increase the supply of affordable housing in the City, if federal or state affordability, income, and/or rent restrictions have changed between the time of the original financing and the refunding bonds, the more restrictive provisions shall apply. If new requirements are more restrictive than existing requirements, the new requirements shall be applied in phases to new tenants over a period of time, not to exceed five (5) years, as determined by the Housing Department staff and the City Attorney.

D. Bond Maturity

Subject to the approval of bond counsel, the final maturity of the refunding bonds may be later than the final maturity of the prior bonds so as to allow the Project Sponsor the longest possible period for repayment under federal law.

E. Compliance

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

F. Fees

The Project Sponsor shall pay the following City fees in connection with the refunding:

1. Issuance Fee

The City shall charge an issuance fee in accordance with the City's current policy on issuance fees for new projects.

2. Annual Monitoring Fee

The City shall continue to charge the same annual fee for monitoring the Project as for the original bonds. Such fee shall not be reduced even if the refunding bond size is lower.

G. Cash Flow Savings

Cash flow savings from refunding fixed rate bonds at a lower fixed interest rate or a variable rate shall be applied as follows:

1. Projects with a City Loan

A portion of the projected cash flow savings, to be determined by the Housing Department, shall be used to accelerate the repayment of the City loan, subject to restrictions in existing documents.

2. Projects with No City Loan

The City Housing Department shall require the Project Sponsor to provide affordability or other financial concessions to the City as a condition for refunding. Such concessions may include increasing the percentage of affordable units and extending the term of affordability restrictions.

H. City Council Approval

All refunding bonds and related legal documentation must be approved by the City Council in accordance with the procedures set for the issuance of new bonds.

III. DEFAULT REFUNDING

A. General

In the event of a default on the bonds or the underlying mortgage, a fixed rate bond issue may be refundable in advance of the call date without premium. The issue does not arise with variable rate bonds, as such bonds are callable at any time. Default refunding bonds are an area of potential sensitivity for the City as it will not want a developer to manufacture a default to take advantage of more favorable interest rates.

B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

C. Confirming the Default

To confirm a default, the City must receive a notice from an independent party, such as the bond trustee. If applicable, notice of cash flow insufficiency is then filed as part of the Continuing Disclosure Certificate. In addition, the City shall retain, at the expense of the Project Sponsor, an independent feasibility consultant to review the default. The City will proceed with the transaction only if a review by staff and the independent consultant indicates that:

1. Net cash flow from the Project is currently insufficient to pay debt service on the outstanding bonds and is unlikely to do so within a reasonable period;
2. The Project is being operated in accordance with reasonable real estate management practices and the net operating income has not been artificially reduced by failing to rent units actively, inflating operating expenses, or other reasons within the control of the Project Sponsor; and

3. The Project Sponsor has provided audited operating statements, Continuing Disclosure filings (if applicable), and arbitrage rebate reports for all years, has cooperated in providing requested information, and has used operating income and other resources to pay debt service.

D. Additional Requirements

1. Indemnification

The City shall be indemnified as to any costs incurred as a result of the refunding. Such indemnification shall come from a party or parties with adequate net worth or other financial capacity and whose assets are not limited to ownership of the Project.

2. Future Debt Coverage

The analysis of the feasibility consultant shall show that, upon the refunding, the Project's current net operating income will be at least sufficient to pay the revised debt service plus a reasonable coverage ratio (or adequate non-bond proceeds will be available to cover such deficiencies). In other words, *the City shall not proceed with the refunding if it will not cure the cash flow problem.*

3. Bond Counsel Review

Bond counsel shall have determined that the original bond and disclosure documents provided adequate disclosure of such a potential redemption and that the provisions of the prior documents have been satisfied.

4. Compliance

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

E. Fees

The fees and expenses of the feasibility consultant, financial advisor and bond counsel shall **not** be contingent on their findings or completion of a refunding. The City shall require that the Project Sponsor deposit the estimated fees and expenses with the City **prior** to the commencement of any analysis.

F. Affordability Restrictions

The affordability requirements for a default refunding shall be the same as those listed under "Legal/Documentation" for an optional refunding.

G. City Council Approval.

1. Initial City Council Approval

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain initial City Council approval prior to proceeding with any documentation for a default refunding. Initial City Council approval shall occur after the

independent feasibility consultant performs the initial analysis, a default is confirmed, and it is determined that a refunding will cure the cash flow problem.

2. Final City Council Approval

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain final City Council authorizing the bond issue and execution of the relevant documentation.

H. City Fees

The City shall charge the same issuance fee and annual monitoring fee that it otherwise would in conjunction with a new bond issue.

IV. REMARKETING

A. General

A Project Sponsor may ask the City to remarket outstanding bonds under one of three basic scenarios: (1) converting variable rate bonds to fixed rate bonds; (2) a mandatory tender of bonds; or (3) substituting a new credit enhancement for the bonds in accordance with existing documentation.

B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

C. Legal/Documentation

A remarketing of fixed rate bonds will not require new legal documentation. However, the City Attorney's Office, in conjunction with bond counsel, may require a new disclosure document. A remarketing of bonds with a new credit enhancement may require amended documentation, as well as a new disclosure document, as determined by the City Attorney's Office and bond counsel.

D. Fees

A remarketing will not result in the payment of additional or revised City issuance or annual fees. However, the City shall charge a fee of \$10,000 to \$25,000 to the Project Sponsor for administrative costs.

E. Council Approval

All remarketed bonds and any related documentation shall be approved by the City Council prior to any remarketing.



APPENDIX C:
CURRENT RATINGS SUMMARY



CURRENT RATINGS SUMMARY

The table below shows the long-term and short-term ratings scales from Moody's Investor Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch). The ratings for City's bonds are summarized on the Current Ratings Summary table on the following pages.

Rating Scale								
Moody's				S&P		Fitch		
<u>Long-term</u>	<u>Short-term</u>			<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	
Aaa	MIG1	VMIG1	P-1	AAA	A-1+	AAA	F1+	
Aa1				AA+		AA+		
Aa2				AA		AA		
Aa3				AA-		AA-		
A1				A+	A+			
A2	MIG2	VMIG2	P-2	A	A-1	A	F1	
A3				A-	A-2	A-	F2	
Baa1				BBB+	BBB+			
Baa2	MIG3	VMIG3	P-3	BBB	A-3	BBB	F3	
Baa3				BBB-		BBB-		
Ba1				BB+		BB+		
Ba2	SG	SG	Not prime	BB	B	BB	B	
Ba3				BB-		BB-		
B1				B+		B+		
B2				B		B		
B3				B-		B-		
Caa1				CCC+	C	CCC		C
Caa2				CCC				
Caa3				CCC-				
Ca				CC				
				C				
C	D	/	/	DDD	/	DD		
/				D				
/								

A-category = Highest quality
 B-category = Medium grade, speculative
 C-category = Lowest grade, highest speculation
 D-category = Default, questionable value

Current Ratings Summary*As of October 31, 2012*

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
<u>City of San José</u>			
<i>General Obligation Bonds</i>			
Series 2001 (Libraries and Parks)			
Insured by: National Public Finance Guarantee Corp.	Aa1	AA+	AA+
Underlying Rating	Aa1	AA+	AA+
Series 2002 (Libraries, Parks, Public Safety)			
Insured by: National Public Finance Guarantee Corp.	Aa1	AA+	AA+
Underlying Rating	Aa1	AA+	AA+
Series 2004 (Libraries, Parks, Public Safety)			
Insured by: National Public Finance Guarantee Corp.	Aa1	AA+	AA+
Underlying Rating	Aa1	AA+	AA+
Series 2005 (Libraries and Public Safety)			
Insured by: National Public Finance Guarantee Corp.	Aa1	AA+	AA+
Underlying Rating	Aa1	AA+	AA+
Series 2006 (Libraries and Parks)			
Insured by: National Public Finance Guarantee Corp.	Aa1	AA+	AA+
Underlying Rating	Aa1	AA+	AA+
Series 2007 (Parks and Public Safety)			
Insured by: National Public Finance Guarantee Corp.	Aa1	AA+	AA+
Underlying Rating	Aa1	AA+	AA+
Series 2008 (Libraries and Parks)			
Underlying Rating	Aa1	AA+	AA+
Series 2009 (Public Safety)			
Underlying Rating	Aa1	AA+	AA+
<u>City of San José Financing Authority</u>			
<i>Lease Revenue Bonds</i>			
Series 1993B (Community Facilities)			
Underlying Rating	Aa3	AA	---
Series 1997B (Fire, Childcare, Library Land)			
Insured by: AMBAC	Aa3	---	AA
Underlying Rating	Aa3	---	AA
Series 2001F (Convention Center)			
Insured by: National Public Finance Guarantee Corp.	Aa3	AA	AA
Underlying Rating	Aa3	AA	AA

Current Ratings Summary
As of October 31, 2012

	Moody's	S&P	Fitch
Series 2002B (Civic Center Project)			
Insured by: AMBAC	Aa3	AA	AA
Underlying Rating	Aa3	AA	AA
Series 2003A (Central Service Yard)			
Insured by: AMBAC	Aa3	AA	AA
Underlying Rating	Aa3	AA	AA
Series 2006A (Civic Center Project)			
Insured by: AMBAC	Aa3	AA	AA
Underlying Rating	Aa3	AA	AA
Series 2007A (Recreational Facilities)			
Insured by: AMBAC	Aa3	AA	AA
Underlying Rating	Aa3	AA	AA
Series 2008A (Civic Center)			
LOC: Union Bank (expires 10/21/2013)	Aa1/VMIG1	AAA/A-1	AAA/F1
Underlying Rating	Aa3	AA	AA
Series 2008B-1 (Civic Center Garage)			
LOC: Bank of America (expires 10/21/2013)	Aa1/VMIG2	AAA/A-1	AAA/F1
Underlying Rating	Aa3	AA	AA
Series 2008B-2 (Civic Center Garage)			
LOC: Union Bank (expires 10/21/2013)	Aa1/VMIG1	AAA/A-1	AAA/F1
Underlying Rating	Aa3	AA	AA
Series 2008C (Hayes Mansion)			
LOC: U.S. Bank (expires 10/21/2013)	Aa1/VMIG1	AAA/A-1	AAA/F1+
Underlying Rating	Aa3	AA	AA
Series 2008D (Taxable) (Hayes Mansion)			
LOC: U.S. Bank (expires 10/21/2013)	Aa1/VMIG1	AAA/A-1	AAA/F1+
Underlying Rating	Aa3	AA	AA
Series 2008E-1 (Taxable) (Ice Centre)			
LOC: Bank of America (expires 10/21/2013)	Aa1/VMIG2	AAA/A-1	AAA/F1
Underlying Rating	Aa3	AA	AA
Series 2008E-2 (Taxable) (Ice Centre)			
LOC: U.S. Bank (expires 10/21/2013)	Aa1/VMIG1	AAA/A-1	AAA/F1+
Underlying Rating	Aa3	AA	AA
Series 2008F (Taxable) (Land Acquisition)			
LOC: Bank of America (expires 10/21/2013)	Aa1/VMIG2	AAA/A-1	AAA/F1
Underlying Rating	Aa3	AA	AA
Series 2011A (Convention Center)			
Underlying Rating	Aa3	AA	---

Current Ratings Summary
As of October 31, 2012

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Revenue Bonds			
Series 2001A (4th & San Fernando Garage)			
Insured by: AMBAC	A1	---	BB
Underlying Rating	A1	---	BB
Lease Revenue Commercial Paper Notes			
Lease Revenue Commercial Paper Notes			
LOC: State Street/CalSTRS (expires 1/27/2013)	P-1	A-1+	F1+
Redevelopment Agency			
Housing Set-Aside Tax Allocation Bonds			
Series 1997E (AMT) (Merged Area)(HSA)			
Insured by: National Public Finance Guarantee Corp.	Baa2	A	A
Underlying Rating	Ba1	A	A
Series 2003J (Taxable) (Merged Area) (HSA)			
Insured by: Syncora Guarantee Inc.	Ba1	A	A
Underlying Rating	Ba1	A	A
Series 2003K (Merged Area) (HSA)			
Insured by: Syncora Guarantee Inc.	Ba1	A	A
Underlying Rating	Ba1	A	A
Series 2005A (Merged Area) (HSA)			
Insured by: National Public Finance Guarantee Corp.	Ba1	A	A
Underlying Rating	Ba1	A	A
Series 2005B (Taxable) (Merged Area) (HSA)			
Insured by: National Public Finance Guarantee Corp.	Ba1	A	A
Underlying Rating	Ba1	A	A
Series 2010A-1 (Merged Area) (HSA)			
Underlying Rating	Ba1	A	A
Series 2010A-2 (Merged Area) (HSA)			
Underlying Rating	Ba1	A	A
Series 2010B (Taxable) (Merged Area) (HSA)			
Underlying Rating	Ba1	A	A
Redevelopment Project Tax Allocation Bonds			
Series 1993 (Merged Area Refunding)			
Insured by: National Public Finance Guarantee Corp.	Baa2	BBB	BB-
Underlying Rating	Ba2	BBB	BB-

Current Ratings Summary
As of October 31, 2012

	Moody's	S&P	Fitch
Series 1997 (Merged Area)			
Insured by: National Public Finance Guarantee Corp.	Baa2	BBB	BB-
Underlying Rating	Ba2	BBB	BB-
Series 1999 (Merged Area)			
Insured by: AMBAC	Ba3	BBB	BB-
Underlying Rating	Ba3	BBB	BB-
Series 2002 (Merged Area)			
Insured by: National Public Finance Guarantee Corp.	Baa2	BBB	BB-
Underlying Rating	Ba3	BBB	BB-
Series 2003 (Merged Area)			
Insured by: National Public Finance Guarantee Corp.	Ba2	BBB	BB
Underlying Rating	Ba2	BBB	BB
Series 2004A (Merged Area)			
Insured by: National Public Finance Guarantee Corp.	Baa2	BBB	BB-
Underlying Rating	Ba2	BBB	BB-
Series 2005A (Merged Area)			
Insured by: National Public Finance Guarantee Corp.	Baa2	BBB	BB-
Underlying Rating	Ba2	BBB	BB-
Series 2005B (Merged Area)			
Insured by: AMBAC	Ba3	BBB	BB-
Underlying Rating	Ba3	BBB	BB-
Series 2006A (Taxable) (Merged Area)			
Insured by: Radian Asset Assurance Inc.	Ba1	BBB	BB-
Underlying Rating	Ba3	BBB	BB-
Series 2006B (Merged Area)			
Insured by: Radian Asset Assurance Inc.	Ba1	BBB	BB-
Underlying Rating	Ba3	BBB	BB-
Series 2006C (Merged Area)			
Insured by: National Public Finance Guarantee Corp.	Baa2	BBB	BB-
Underlying Rating	Ba2	BBB	BB-
Series 2006D (Merged Area)			
Insured by: AMBAC	Ba3	BBB	BB-
Underlying Rating	Ba3	BBB	BB-
Series 2007A (Taxable) (Merged Area)			
Insured by: Syncora Guarantee Inc.	Ba3	BBB	BB-
Underlying Rating	Ba3	BBB	BB-

Current Ratings Summary
As of October 31, 2012

	Moody's	S&P	Fitch
Series 2007B (Merged Area)			
Insured by: Syncora Guarantee Inc.	Ba3	BBB	BB-
Underlying Rating	Ba3	BBB	BB-
Series 2008A (Merged Area)			
Underlying Rating	Ba2	BBB	BB
Series 2008B (Merged Area)			
Underlying Rating	Ba2	BBB	BB
Redevelopment Project Revenue Bonds (Subordinate)			
Series 1996A (Merged Area) (Subordinate)			
LOC: J.P. Morgan Chase Bank (expires 9/1/2012)	---	A+/A-1	---
Series 1996B (Merged Area) (Subordinate)			
LOC: J.P. Morgan Chase Bank (expires 9/1/2012)	---	A+/A-1	---
Series 2003A (Taxable) (Merged Area) (Subordinate)			
LOC: J.P. Morgan Chase Bank (expires 9/1/2012)	---	A+/A-1	---
Series 2003B (Merged Area)(Subordinate)			
LOC: J.P. Morgan Chase Bank (expires 9/1/2012)	---	A+/A-1	---
Norman Y. Mineta San José International Airport			
Airport Revenue Bonds			
Series 2001A			
Insured by: National Public Finance Guarantee Corp.	A2	A-	BBB+
Underlying Rating	A2	A-	BBB+
Series 2002A			
Insured by: Assured Guaranty Municipal Corp	Aa3	AA-	BBB+
Underlying Rating	A2	A-	BBB+
Series 2004C (AMT)			
Insured by: National Public Finance Guarantee Corp.	A2	A-	BBB+
Underlying Rating	A2	A-	BBB+
Series 2004D			
Insured by: National Public Finance Guarantee Corp.	A2	A-	BBB+
Underlying Rating	A2	A-	BBB+
Series 2007A (AMT)			
Insured by: AMBAC	A2	A-	BBB+
Underlying Rating	A2	A-	BBB+

Current Ratings Summary
As of October 31, 2012

	Moody's	S&P	Fitch
Series 2007B			
Insured by: AMBAC	A2	A-	BBB+
Underlying Rating	A2	A-	BBB+
Series 2011A-1 (AMT)			
Underlying Rating	A2	A-	BBB+
Series 2011A-2 (Non-AMT)			
Underlying Rating	A2	A-	BBB+
Series 2011B (Taxable)			
Insured by: Assured Guaranty Municipal Corp.	Aa3	AA-	BBB+
Underlying Rating	A2	A-	BBB+
Subordinated Commercial Paper Notes			
CP Series A1-A1A (Private Activity Non-AMT)			
LOC: J.P. Morgan Chase Bank (expires 1/11/2013)	P-1	A-1	F-1
CP Series A1-A2A (Private Activity Non-AMT)			
LOC: Bank of America (expires 1/13/2013)	P-2	A-1	F-1
CP Series A1-A3A (Private Activity Non-AMT)			
LOC: Wells Fargo Bank (expires 1/13/2014)	P-1	A-1+	F-1+
CP Series A2-A1B (Private Activity Non-AMT)			
LOC: J.P. Morgan Chase Bank (expires 1/11/2013)	P-1	A-1	F-1
CP Series A2-A2B (Private Activity Non-AMT)			
LOC: Bank of America (expires 1/13/2013)	P-2	A-1	F-1
CP Series A2-A3B (Private Activity Non-AMT)			
LOC: Wells Fargo Bank (expires 1/13/2014)	P-1	A-1+	F-1+
CP Series B-1 (AMT)			
LOC: J.P. Morgan Chase Bank (expires 1/11/2013)	P-1	A-1	F-1
CP Series B-2 (AMT)			
LOC: Bank of America (expires 1/13/2013)	P-2	A-1	F-1
CP Series B-3 (AMT)			
LOC: Wells Fargo Bank (expires 1/13/2014)	P-1	A-1+	F-1+
CP Series C-1 (Taxable)			
LOC: J.P. Morgan Chase Bank (expires 1/11/2013)	P-1	A-1	F-1
CP Series C-2 (Taxable)			
LOC: Bank of America (expires 1/13/2013)	P-2	A-1	F-1
CP Series C-3 (Taxable)			
LOC: Wells Fargo Bank (expires 1/13/2014)	P-1	A-1+	F-1+

Current Ratings Summary
As of October 31, 2012

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
<u>Clean Water Financing Authority</u>			
<i>Sewer Revenue Refunding Bonds</i>			
Series 2005A			
Insured by: Assured Guaranty Municipal Corp.	Aa2	AAA	AAA
Underlying Rating	Aa2	AAA	AAA
Series 2009A			
Underlying Rating	Aa2	AAA	AAA
<u>Special Assessment Bonds</u>			
Series 24R (2002 Consolidated Refunding)			
Insured by: National Public Finance Guarantee Corp.	Baa2	BBB	---
Underlying Rating	---	BBB	---
<u>Special Hotel Tax Revenue Bonds</u>			
Series 2011 (Convention Center)			
Underlying Rating	A2	A-	---

APPENDIX D:
OVERLAPPING DEBT REPORT



OVERLAPPING DEBT REPORT

Contained within the City are overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics, Inc., as of June 30, 2012, is shown in this appendix. The City makes no representations as to the completeness or accuracy of such statement.

**CITY OF SAN JOSE
STATEMENT OF DIRECT AND OVERLAPPING DEBT**

	<u>%</u>	<u>Debt 6/30/12</u>
<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>Applicable</u>	
Santa Clara County	38.191%	120,989,088
Foothill-De Anza Community College District	4.729	29,718,185
Gavilan Joint Community College District	7.747	7,955,394
San José-Evergreen Community College District	87.604	279,604,804
West Valley Community College District	28.354	59,816,146
Milpitas Unified School District	0.0002	87
Morgan Hill Unified School District	18.776	10,419,561
San José Unified School District	98.163	472,407,460
Santa Clara Unified School District	4.247	18,733,305
Campbell Union High School District	61.940	99,844,183
East Side Union High School District	95.743	611,327,364
Fremont Union High School District	10.236	26,675,537
Los Gatos-Saratoga Joint Union High School District	0.671	343,284
Alum Rock Union School District	77.762	58,802,586
Berryessa Union School District	95.793	34,665,601
Cambrian School District	67.634	12,380,366
Campbell Union School District	49.222	73,195,548
Cupertino Union School District	16.750	20,212,650
Evergreen School District	99.455	109,475,639
Evergreen School District Community Facilities District No. 92-1	100.000	3,080,000
Franklin-McKinley School District	99.646	80,470,437
Los Gatos Union School District	1.493	1,404,316
Luther Burbank School District	21.259	2,229,434
Moreland School District	76.310	65,033,912
Mount Pleasant School District	87.643	5,933,424
Oak Grove School District	99.804	106,565,074
Orchard School District	100.000	49,195,671
Union School District	73.594	51,521,718
City of San José	100.000	460,670,000
City of San José Community Facilities Districts	100.000	30,435,000
City of San José Special Assessment Bonds	100.000	22,466,683
Santa Clara Valley Water District Benefit Assessment District	38.191	50,962,070
Total Direct and Overlapping Tax and Assessment Debt		\$ 2,976,534,527

(Continued)
CITY OF SAN JOSE
STATEMENT OF DIRECT AND OVERLAPPING DEBT

	<u>%</u> <u>Applicable</u>	<u>Debt 6/30/12</u>
Direct and Overlapping General Fund Debt:		
Santa Clara County General Fund Obligations.....	38.191%	294,432,369
Santa Clara County Pension Obligations.....	38.191	146,284,829
Santa Clara County Board of Education Certificates of Participation	38.191	4,407,241
Foothill-De Anza Community College District Certificates of Participation.....	4.729	893,308
San José-Evergreen Community College District Benefit Obligations	87.604	41,568,098
West Valley-Mission Community College District General Fund Obligations	28.354	18,632,831
Morgan Hill Unified School District Certificates of Participation.....	18.776	2,535,699
San José Unified School District Certificates of Participation	98.163	103,239,786
Santa Clara Unified School District Certificates of Participation.....	4.247	551,261
East Side Union High School District Benefit Obligations	95.743	30,068,089
Los Gatos-Saratoga Joint Union High School District Certificates of Participation.....	0.671	60,860
Alum Rock Union School District Certificates of Participation	61.940	7,712,468
Franklin-McKinley School District Certificates of Participation	77.762	21,773,360
Luther Burbank School District General Fund Obligations	99.646	5,146,716
City of San José General Fund Obligations	100.000	788,089,412
Midpeninsula Regional Open Space Park District General Fund Obligations	0.016	22,156
Santa Clara County Vector Control District Certificates of Participation....	38.191	1,386,333
Total Direct and Overlapping General Fund Debt		\$ 1,466,804,816
Total Direct Debt		\$ 1,248,759,412
Total Overlapping Debt		\$ 3,194,579,931
Combined Total Debt ⁽¹⁾		\$ 4,443,339,343
<u>Ratios to 2011-12 Assessed Valuation:</u>		
Direct Debt (\$460,670,000)	0.39%	
Total Direct and Overlapping Tax and Assessment Debt.....	2.49%	
<u>Ratios to Adjusted Assessed Valuation:</u>		
Combined Direct Debt (\$1,248,759,412)	1.22%	
Combined Total Debt	4.34%	
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12:		\$ 0

⁽¹⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Source: California Municipal Statistics, Inc.

APPENDIX E:

AIRPORT COMMERCIAL PAPER DEBT SERVICE CERTIFICATION



AIRPORT COMMERCIAL PAPER DEBT SERVICE CERTIFICATION

In accordance with the separate letter of credit and reimbursement agreements with J.P. Morgan Chase Bank NA, and Wells Fargo Bank NA dated January 1, 2011 (the "Series A/B/C Reimbursement Agreements") and the Amended Letter of Credit and Reimbursement Agreement between the City of San José and Lloyds TSB Bank plc, acting through its New York Branch, dated May 1, 2010 (the "Series D/E/F Reimbursement Agreement", and with the Series A/B/C Reimbursement Agreement, the "Reimbursement Agreements"), relating to the City of San José, San José International Airport Subordinated Commercial Paper Notes, the certification presented in this appendix is included in the Annual Debt Report for transmission to the City Council.

Pursuant to the definition of Debt Service set forth in Section 1.1 of the Reimbursement Agreements, the City's financial advisor, Public Financial Management has prepared an estimate of the annual debt service needed to amortize over a 25-year period the outstanding principal, as of June 30, 2012, of the Airport's commercial paper notes. A copy of the memorandum from Public Financial Management indicating the results of this calculation is included on the next page. As specified in the above-referenced definition of Debt Service, the assumed interest rate used in the amortization calculation is 115% of the weighted average rates on the outstanding commercial paper notes during the 90-day period prior to June 30, 2012.

This estimate of annual debt service is used by the City to calculate the debt service coverage ratio pursuant Section 7.9 of each Reimbursement Agreement.





The PFM Group

Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

8200 Bryan Dairy Road
Suite 325
Largo, Florida 33777

727-319-9292
727-319-9203 fax
www.pfm.com

Memorandum

To: City of San Jose

From: Kenneth D. Fullerton 

Re: Information for Debt Service Coverage Calculations Required
in Connection with the Airport's Commercial Paper Program

Date: September 24, 2012

We have developed the calculations required from our firm to enable the City of San Jose (the "City") to comply with the requirements of the "Debt Service Coverage Ratio" covenants and related "Compliance Certificates" contained in the Reimbursement Agreements related to the commercial paper program for San Jose International Airport (the "Airport"). Specifically, we have developed an estimate of what the long-term debt service would have been in the fiscal year ending June 30, 2012 on the portion of the Airport's commercial paper outstanding as of June 30, 2012. In doing so, we have used assumptions we believe are consistent with the requirements described in the definition of "Debt Service" contained in the Reimbursement Agreements.

The results of our calculations are presented in the table on the next page. As required by the Reimbursement Agreements, we have assumed that the principal amount of the commercial paper would be amortized over a period of 25 years from the completion of the projects funded from such commercial paper. As also required, the interest rates we have assumed are 115% of the weighted average rates on the City's Series A (non-AMT), Series B (AMT), Series C (taxable) and Series F (taxable) commercial paper for the 90-day period prior to June 30, 2012.



Type of Commercial Paper	Principal Outstanding as of <u>June 30, 2012</u>	Assumed Interest Rate for Calculation (115% of average rate for prior 90 days)	Assumed Annual Debt Service (based on 23-year amortization at assumed rate for calculation)	Portion of Year During Which Related Projects were Completed	Assumed Debt Service During Portion of Year Projects were Completed
Series A (Non-AMT)	\$12,683,000	0.209%	\$565,371	100% (projects assumed to be completed in June 2010)	\$565,371
Series B (AMT)	\$13,937,000	0.209%	\$621,270	100% (projects assumed to be completed in June 2010)	\$621,270
Series C (Taxable)	\$21,317,000	0.540%	\$988,070	100% (projects assumed to be completed in June 2010)	\$988,070

Please contact me if the City has any questions or requires any additional information.

APPENDIX F:
SPECIAL TAX ANNUAL REPORT



SPECIAL TAX ANNUAL REPORT

This information is provided in the Annual Debt Report to the City Council pursuant to California Government Code Sections 50075 and 50075.3. California Government Code Section 50075 requires that on or after January 1, 2001, any local special tax measure that is subject to voter approval that would provide for the imposition of a special tax by a local agency shall provide accountability measures that include an annual report.

Pursuant to Government Code Section 50075.3, the Chief Financial Officer of the levying local agency shall file the annual report with its governing body no later than January 1, 2002, and at least once a year thereafter. The annual report shall contain both of the following: (a) the amount of funds collected and expended; and (b) the status of any project required or authorized to be funded as identified in the special tax measure indicating the specific purposes of the special tax.

Special Tax Annual Report				
<i>FY 2011-12</i>				
Date of Election	Special Tax Measure	Funds Collected²	Funds Expended²	Status of Funded Projects
11/07/2000	San José Neighborhood Libraries Bonds	See Note 1	See Note 1	19 Completed 1 Design/Construction
11/07/2000	San José Neighborhood Parks and Recreation Bonds	See Note 1	See Note 1	95 Completed 1 Design/Construction 1 Pending Site Selection
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	See Note 1	See Note 1	27 Completed 4 Design/Construction
03/27/2001	Community Facilities District No. 6 (Great Oaks-Route 85)	\$951,462	\$919,476	Project Completed
06/19/2001	Community Facilities District No. 5A (North Coyote Valley Facilities)	\$0	\$0	No Activity
06/19/2001	Community Facilities District No. 5B (North Coyote Valley Services)	\$0	\$0	No Activity
09/03/2002	Community Facilities District No. 8 (Communications Hill)	\$606,353	\$449,286	On-going maintenance
12/17/2002	Community Facilities District No. 9 (Bailey/Highway 101)	\$599,193	\$1,008,248	Project Completed
04/01/2003	Community Facilities District No. 10 (Hassler-Silver Creek)	\$1,090,876	\$1,053,620	Project Completed
06/07/2005	Community Facilities District No. 11 (Adeline-Mary Helen)	\$56,650	\$53,864	On-going maintenance
11/08/2005	Community Facilities District No. 12 (Basking Ridge)	\$270,305	\$202,848	On-going maintenance
09/20/2011	Community Facilities District No. 14 (Raleigh-Charlotte)	\$238,183	\$86,250	On-going maintenance

¹ The City has issued eight series of General Obligation Bonds through FY 2011-12 for a total of \$589,590,000 to fund projects authorized by voters under these measures. In FY 2011-12, a total of \$42,490,666 was collected and \$41,899,719 was expended to pay debt service on the series 2001, 2002, 2004, 2005, 2006 2007, 2008, and 2009 Bonds.

² Funds collected include property taxes for the General Obligation Bonds and special taxes for the Community Facility Districts, plus administrative fees for both. Funds expended include debt service and administration charges for General Obligation Bonds and Community Facilities Districts for which special tax bonds were issued. Funds expended for maintenance Community Facilities Districts include maintenance services and trustee fees.



GLOSSARY

Accrued Interest: In general, interest that has been earned on a bond, but not yet paid – usually because it is not yet due. More specifically, this term is often used to refer to interest earned on a bond from its dated date to the closing date.

Ad Valorem Tax: A tax which is based on the value (assessed value) of property.

Advance Refunding: A procedure whereby outstanding bonds are refinanced from the proceeds of a new bond issue more than ninety (90) days prior to the date on which the outstanding bonds (“refunded bonds”) become due or are callable.

Alternative Minimum Tax (AMT): An income tax based on a separate and alternative method of calculating taxable income and separate and alternative schedule of rates. With respect to bonds, the interest on certain types of qualified tax-exempt private activity bonds is included in income for purposes of the individual and corporate alternative minimum tax.

Arbitrage: With respect to municipal bonds, “arbitrage” is the profit made from investing the proceeds of tax-exempt bonds in higher-yielding securities.

Arbitrage Rebate: Payment of arbitrage profits to the United States Treasury by a tax-exempt bond issuer.

Basis Point: One basis point is equal to 1/100 of one percent. If interest rates increase from 4.50% to 4.75%, the difference is referred to as a 25 basis point increase.

Bond: Any interest-bearing or discounted government or corporate security that obligates the issuer (borrower) to pay the bondholder a specific sum of money (interest), usually at specific intervals, and to repay the principal amount of the loan at maturity.

Bond Counsel: An attorney or a firm of attorneys, retained by the issuer, that gives the legal opinion delivered with the bonds confirming that (i) the bonds are valid and binding obligations of the issuer; (ii) the issuer is authorized to issue the proposed securities; (iii) the issuer has met all legal requirements necessary for issuance, and; (iv) and in the case of tax-exempt bonds, that interest on the bonds is exempt from federal and state income taxes.

Bond Insurance: Noncancellable insurance purchased from a bond insurer by the issuer or purchaser of a bond or series of bonds pursuant to which the insurer promises to make scheduled payments of interest, principal and mandatory sinking fund payments on an issue if the issuer fails to make timely payments. When an issue is insured, the investor relies on the creditworthiness of the insurer rather than the issuer. Payment of an installment by the insurer does not relieve the issuer of its obligation to pay that installment; the issuer remains liable to pay that installment to the insurer.

Bond Insurer: A company that pledges to make all interest and principal payments when due if the issuer of the bonds defaults on its obligations. In return, the bond issuer or purchaser pays a premium (“bond insurance premium”) to the insurance company. Insured bonds generally trade on the rating of the bond insurer rather than the rating on

the underlying bonds, since the bond insurer is ultimately at risk for payment of the principal and interest due on the bonds.

Bond Purchase Contract or Agreement: In a negotiated sale, the bond purchase contract is an agreement between an issuer and an underwriter or group of underwriters in a syndicate or selling group who have agreed to purchase the issue pursuant to the price, terms and conditions outlined in the agreement.

Bond Resolution: See Indenture/Bond Resolution/Trust Agreement.

Bond Series: An issue of bonds may be structured as multiple bond series reflecting differences in tax status, priority of debt service payment, or interest rate mode, as well as to facilitate marketing of the bonds.

Bondholder: The owner of a bond. Bondholders may be individuals or institutions such as banks, insurance companies, mutual funds, and corporations. Bondholders are generally entitled to receive regular interest payments and return of principal when the bond matures.

Call: The terms of the bond giving the issuer the right or requiring the issuer to redeem or “call” all or portion of an outstanding issue of bonds prior to their stated date of maturity at a specified price, usually at or above par.

CSJFA: City of San José Financing Authority.

Closing Date (Delivery Date): The date on which an issue is delivered by the issuer to, and paid for by, the original purchaser (underwriter), also called the delivery date. This date may be a different date than the sale date or the dated date.

Commercial Paper: Short-term, unsecured promissory notes, usually backed by a line of credit and/or letter of credit with a bank, with maturities between 1 day through 270 days.

Competitive Sale: The sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale (also called a “public sale”).

Coupon: Interest rate on a bond or note that the issuer promises to pay to the bondholder until maturity, expressed as an annual percentage of the face value of the bond.

CUSIP: The acronym for “Committee on Uniform Security Identification Procedures”, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, United States government and corporate securities. A separate CUSIP number is assigned for each maturity of each issue and is printed on each bond and generally on the cover of the Official Statement.

CWFA: San José-Santa Clara Clean Water Financing Authority.

Dated Date: The dated date is the date on which interest on the bonds begins to accrue to the benefit of bondholders.

Debt Retirement: Repayment of debt.

Debt Service: The total interest, principal and mandatory sinking fund payments due at any one time.

Debt Service Coverage: The ratio of pledged revenues available annually to pay debt service on the annual debt service requirement. Pledged revenues are either calculated before operating and maintenance expenses (“Gross Revenue”) or net of operating and maintenance expenses (“Net Revenue”). This ratio is one indication of the margin of safety for payment of debt service.

Debt Service Reserve Fund/Account: An account from which moneys may be drawn to pay debt service on an issue of bonds if pledged revenues and other amounts available to satisfy debt service are insufficient. The size of the debt service reserve fund and investment of moneys in the fund/account are subject to restrictions contained in federal tax law for tax-exempt bonds.

Default or Event of Default: Failure to make prompt debt service payment or to comply with other covenants and requirements specified in the financing agreements for the bonds.

Defeasance: Usually occurs in connection with the refunding of an outstanding issue by final payment or provision for future payment of principal and interest on a prior issue. In an advance refunding, the defeasance of the bonds being refunded is generally accomplished by establishing an escrow of high quality securities to provide for payment of debt service on the bonds to redemption or maturity.

EMMA: Electronic Municipal Market Access (“EMMA”) is the municipal disclosure website sponsored by the Municipal Securities Rule Making Board (“MSRB”). As of July 1, 2009, municipal issuers are required to file disclosure through EMMA in lieu of filing disclosure with the NRMSIRs.

Federal Open-Market Committee (“FOMC”): Committee that sets interest and credit policies for the Federal Reserve Board (the “Fed”), the United States’ central bank. The Committee’s decisions are closely watched and interpreted by economists and stock and bond markets analysts, who try to predict whether the Fed is seeking to tighten credit to reduce inflation or to loosen credit to stimulate the economy.

Financial Advisor: A consultant who advises the issuer on matters pertinent to a bond issue, such as structure, cash flow, timing, marketing, fairness of pricing, terms, bond ratings, and at times investment of bond proceeds. A financial advisor may also be hired to provide analysis relating to an issuer’s debt capacity or future debt issuance.

Fiscal Agent: A commercial bank or trust company designated by an issuer under the Indenture or Bond Resolution to act as a fiduciary and as the custodian of moneys related to a bond issue. The duties are typically limited to receiving moneys from the

issuer which is to be held in funds and accounts created under the Indenture or Bond Resolution and paying out principal and interest to bondholders.

General Obligation Bond: A bond which is secured either by a pledge of the full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. With very few exceptions, local agencies in California are not authorized to issue “full faith and credit” bonds. Typically, general obligation bonds of a city are payable only from ad valorem property taxes which are required to be levied in an amount sufficient to pay debt service. Under the State Constitution, a city’s authority to issue general obligation bonds must be approved by a two-thirds vote of the electorate and the bond proceeds are limited to the acquisition and improvement of real property.

Indenture/Bond Resolution/Trust Agreement: An agreement executed by an issuer and a fiscal agent/trustee which pledges certain revenues and other property as security for the repayment of the bonds, sets forth the terms of the bonds and contains the responsibilities and duties of the trustee and the rights of the bondholders. The rights of the bondholders are set forth in the indenture provisions relating to the timing of the interest and principal payments, interest rate setting mechanisms (in the case of variable-rate bonds), redemption provisions, events of default, remedies and the mailing of notices of various events.

Issuance: Sale and delivery of a series of bonds or other securities.

Issue: One or more bonds or series of bonds initially delivered by an issuer in a substantially simultaneous transaction and which are generally designated in a manner that distinguishes them from bonds of other issues. Bonds of a single issue may vary in maturity, interest rate, redemption and other provisions.

Issuer: An entity that borrows money through the sale of bonds or notes and is committed to making timely payments of interest and principal to bondholders.

Lease Revenue Bonds: Bonds issued by one public entity, such as the City of San José Financing Authority, on behalf of another public entity, such as the City of San José. A lease revenue bond issue is repaid from lease payments on an asset pledged as security to the bondholders. The pledged asset is not necessarily the asset financed with the bond proceeds. The City makes the lease payments to the Authority and covenants to annually budget and appropriate funds to make the lease payments so long as the leased asset is able to be used. These payments are included in the City Budget as part of the annual appropriation process.

Letter of Credit: An arrangement between an issuer and a bank which provides additional security that money will be available to pay debt service on a bond issue. Customarily, a letter of credit is issued by a commercial bank directly to the trustee allowing the trustee, if certain conditions are met, to draw upon the letter of credit by submitting to the bank a written request for payment. Letters of Credit are also referred to as liquidity facilities in connection with obligations such as commercial paper and variable-rate bonds.

LIBOR: An acronym for London Interbank Offered Rate, a rate that the most creditworthy international banks dealing in Eurodollars charge each other for large loans. The LIBOR rate is usually the basis for other large Eurodollar loans to less creditworthy corporate and government borrowers. This rate is often used as a benchmark for short-term taxable municipal securities.

Line of Credit: A Line of Credit, also referred to as a liquidity facility, is a contract between the issuer and a bank that provides a source of borrowed moneys to the issuer in the event that moneys available to pay debt service, for example on commercial paper.

Liquidity: The ease with which an investment may be converted to cash.

Liquidity Facility: See “Letter of Credit” and “Line of Credit”.

Maturity: With respect to a single bond, the date upon which the principal of the bond is due; with respect to an issue, all of the bonds of an issue which are due on a single date.

Municipal Securities Rulemaking Board (“MSRB”): An independent, self-regulatory organization established by Congress in 1975 having general rulemaking authority over municipal securities market participants, generally brokers and dealers. The MSRB is required by federal law to propose and adopt rules in the areas which include professional qualification standards, rules of fair practice, record keeping, the scope and frequency of compliance examinations, the form and content of municipal bond quotations, and sales to related portfolios during the underwriting period.

National Association of Security Dealers (“NASD”): A self-regulatory organization established as a “registered securities association” pursuant to the Securities Exchange Act of 1934, for the purpose of preventing fraudulent and manipulative acts and practices; promoting just and equitable principles of trade among over-the-counter brokers and dealers; and promoting rules of fair practice and self-discipline in the securities industry.

Negotiated Sale: The sale of bonds, the terms and price of which are negotiated by the issuer through an exclusive agreement with a previously selected underwriter and/or underwriting syndicate.

NRMSIR: An acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs were the repositories for all annual reports and event notices filed under SEC Rule 15c2-12; however, as of July 1, 2009 issuers are required to file such disclosure with the MSRB’s EMMA system. See *EMMA*.

Official Statement: A document containing information about the bonds being offered, the issuer, and the sources of repayment of the bonds. Federal securities law generally requires that if an Official Statement is used to market an issue of bonds, it must fully and accurately disclose all facts that would be of interest (material) to a potential buyer of bonds.

Par/Par Value: Refers to the principal amount of a bond or the total principal amount of a bond series or issue.

Parity Bonds: Two or more issues of bonds which have the same priority of claim or lien against the issuer's pledge of particular revenues, e.g., revenues from an enterprise such as an airport or parking garage. With respect to the initial issue of bonds, called the "prior issue", the indenture or bond resolution normally provides the requirements which must be satisfied before subsequent issues of bonds, called "additional parity bonds" may be issued.

Present Value: The current value of a future payment, or stream of payments, calculated by discounting the future payments by an appropriate interest rate. Alternatively, present value is the amount of money which should be invested today to return a certain sum at a future time.

Private Placement: The sale of bonds by the issuer directly to one or more investors rather than through an underwriter. Often, the terms of the issue are negotiated directly between the issuer and the investor. Sometimes, an investment banker will act as the placement agent; bring parties together and acting as an intermediary in the negotiations. Instead of an Official Statement, an Offering Circular, Offering Memorandum or Private Placement Memorandum may be prepared.

Project Lease: The document, in a Lease Revenue Bond issue, is the means by which the issuer leases to another public entity (the "obligor") the project to be acquired or constructed with the proceeds of the bond issue and by which the obligor agrees to make periodic lease payments to the issuer, generally for the period of time the bond issue is outstanding.

Proceeds: Funds received by the issuer upon sale of the bonds which may include accrued interest and a premium. For tax purposes bond proceeds include interest earnings on the sale proceeds.

Rating Agencies: The organizations which provide, for a fee customarily paid by the issuer, an independent appraisal of the credit quality and likelihood of timely repayment of a bond issue. The term is most often used to refer to the three nationally recognized agencies, Moody's Investor Services, Inc., Standard & Poor's Corporation, and Fitch Ratings.

Redemption: The payment of principal of a bond, whether at maturity, or, under certain circumstances described in the bond, prior to maturity. Redemption of a bond by the issuer prior to maturity is sometimes referred to as "calling the bond."

Refunding: An issue of new bonds (the "refunding bonds") to pay debt service on a prior issue (the "refunded bonds"). Generally, the purpose of a refunding is either to reduce the debt service on the financing or to remove or replace restrictive covenant imposed by the terms of the refunded bonds. The proceeds of the refunding bonds are either deposited in a defeasance escrow to pay the refunded bonds on a date more than 90 days after the issuance ("Advance Refunding") or applied to the payment of the refunded bonds within 90 days of the issuance ("Current Refunding").

Reserve Fund/Account: See Debt Service Reserve Fund/Account

Revenue Bond: A bond which is payable solely from a specific source of revenue. Revenue bonds do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. 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.

Sale Date: In the case of a negotiated sale, the date on which the bond purchase agreement is signed, and in the case of a competitive sale, the date on which the bonds are awarded to the winning bidder.

Serial Bonds: Bonds of an issue which are payable as to principal in amounts due at successive regular intervals, generally annual or semiannual and generally in the early years of the term of the issue. An issue may consist of both serial bonds and term bonds.

SIFMA Index: An index published by the Securities Industry and Financial Markets Association (“SIFMA”). The index is produced from Municipal Market Data and is a 7-day high-grade market index comprised of tax-exempt variable-rate demand obligations. SIFMA was formed through the merger between the Securities Industry Association (SIA) and the Bond Market Association (“BMA”). Formerly referred to as the BMA Index.

Sinking Fund: An account, sometimes called a debt service fund or sinking fund to provide for the redemption or payment at maturity of term bonds. Generally, sinking fund payments are mandatory in a specified amount for each payment period to provide for the periodic redemption of term bonds prior to their final maturity. The individual term bonds to be redeemed each year are customarily selected at random by the trustee.

Surety: In the public finance context, a surety policy is a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issue. Under this arrangement, instead of depositing cash in a reserve fund, the issuer buys a surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. If the reserve fund is needed to make a debt service payment, the trustee notifies the surety provider and the provider makes the payment, up to the face amount of the policy. The issuer then has an obligation to reimburse the provider for the payment, plus interest.

Tax Allocation Bonds: Bonds secured by the incremental property tax revenues generated from a redevelopment project area. As usually structured, a project area is designated, its property tax base frozen, and revenue from the incremental growth of the property tax base is used to provide additional funds for further redevelopment or for debt service on bonds issued for redevelopment purposes.

Tax-Exempt Bonds: Bonds whose interest is exempt from federal income taxation. In California, the interest on bonds issued by a California governmental entity is also exempt from state income tax.

Term Loan: A loan from a bank for a specific amount that has a specified repayment schedule. Term loans generally accrue interest at a floating rate and mature between one and ten years.

Term Bonds: Bonds coming due in a single maturity. The issuer generally agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

Trust Agreement: See Indenture/Bond Resolution/Trust Agreement.

Trustee: Financial institution, with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the Trust Agreement or Indenture.

Underwriter: An investment banking firm which, singly or as a member of an underwriting group or syndicate, agrees to purchase a new issue of bonds from an issuer for resale and distribution to investors. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of competitive sale.

Variable Rate: An interest rate which periodically changes based upon an index or pricing procedure. Variable-rate bonds generally have a “demand” feature allowing the bondholder to demand that the issuer or another party repurchases the bond upon a specified number of days’ notice or at certain times which reflect the intervals at which the rate varies.

Yield: In general, rate of return on bonds or on any capital investment. Technically, yield is the discount rate which makes the present value of all future streams of payments equal to the present value.