

CITY OF SAN JOSE

2018-2019 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

The City's debt service obligations include general obligation bonds, enterprise revenue bonds and commercial paper notes, special assessment bonds, special tax bonds, and a tax and revenue anticipation note. The City of San José Financing Authority has issued lease revenue bonds and lease revenue commercial paper notes for which the City is responsible for making lease payments, and has also issued revenue bonds. The City is also responsible for making lease payments on equipment that was procured through a lease-purchase agreement.

- **General obligation bonds** are issued to finance various public improvements in the City for which the source for repayment is the levy of additional ad valorem tax on property within the City.
- **Revenue bonds** are issued by the City or one of its related entities to acquire or construct assets owned or co-owned by the City whereby the City or a related entity pledges revenues derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority lease revenue bonds** are secured by the Authority's pledge of lease revenues received by the Authority under a Project Lease of a leased asset between the City and the Authority. The City makes the lease payments to the Authority in exchange for use of the leased property and covenants to annually appropriate funds so long as the City has beneficial use of the leased asset. These payments are included in the City budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its related entities with a maturity of 270 days or less. Maturing commercial paper notes are repaid from the proceeds of sale of new commercial paper notes or bonds, or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately-owned properties benefited by the improvements for which the bonds were issued.
- **Special tax bonds** are issued to finance the construction and/or acquisition of facilities in community facilities districts, including the City's convention center facilities district. The source of repayment for these types of bonds is a special tax on privately-owned properties within the community facilities districts.
- **A tax and revenue anticipation note** is a short-term promissory note that is issued for cash flow purposes and repaid by the City from ad valorem property tax revenues or other tax and revenues anticipated to be received by the City within the same fiscal year.

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- **Lease-purchase agreements** are entered into to finance various public improvements or equipment in the City, including energy conservation equipment installed at City-owned facilities and for the replacement of streetlights. The City's lease-purchase agreements for energy conservation equipment are secured by lease payments for the City's beneficial use of the equipment that the City appropriates on an annual basis and which may be offset by utility cost savings and electricity rebates.
- **San Jose Redevelopment Agency debt** was issued to finance redevelopment activities within, or of benefit to, the Agency's Merged Redevelopment Project Area in accordance with California Community Redevelopment Law. The principal source of repayment for San José Redevelopment Agency debt is future property tax increment revenues. No further debt can be issued per State legislation except for refunding bonds.

The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt obligations. In addition, the City Council has approved two supplemental financing policies: (1) Multi-Family Housing Revenue Bond Policy and (2) Criteria and Guidelines for Bond Financing of Residential Development Policy.

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

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

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DEBT STATUS AND CAPACITY

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. As of June 30, 2017, the total assessed value of taxable property was \$166.5 billion, which results in a total debt limit capacity of approximately \$25.0 billion. As of June 30, 2017, the City had \$362.4 million of General Obligation bonds outstanding which represents approximately 1.5% of the debt limit.

On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redeployment Agency of the City of San José, (“SARA”) effective February 1, 2012. As of June 30, 2017, SARA had total debt outstanding of \$1.7 billion, consisting of approximately \$1.4 billion in Merged Area Tax Allocation Bonds (TABs) (80% debt), and \$275 million in Housing Set-Aside TABs (20% debt), and \$20 million in U.S. Department of Housing and Urban Development (HUD) loans. Additionally, the SARA has enforceable obligations related to the 4th & San Fernando Street Parking Facility and the Convention Center Refunding, issued by the City of San José Financing Authority, Series 2001A and Series 2001F, respectively.

Tables A to C in the following pages illustrate the debt service obligations of the City and its related entities, excluding Multi-Family Housing Revenue conduit debt and debt issued by the Successor Agency to the Redevelopment Agency of the City of San José. As shown in Table A, the City had no additions of long-term debt and repaid, or are expected to repay \$239.2 million of long-term debt in 2017-2018 resulting in an estimated total long-term debt balance of \$2.2 billion as of June 30, 2018. Table B summarizes the City’s and related entities’ long-term debt by issuance and final maturity, plus short-term commercial paper notes, for a combined estimated outstanding debt balance of \$2.2 billion estimated at June 30, 2018. It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution. Table C summarizes the City and related entities’ annual requirements to amortize principal and pay interest due on all long-term debt outstanding for each of the next five fiscal years and thereafter.

The Debt Management Policy (Council Policy 1-15) for the City was adopted by the City Council on May 21, 2002, and is reviewed annually by the City Council. The Debt Management Policy was subsequently amended on December 4, 2012, June 10, 2014, June 9, 2015, and most recently on March 7, 2017. The first set of program-specific financing policies for debt issued for multi-family housing projects in the City (Council Policy 1-16) was adopted by the City Council on June 11, 2002, and was subsequently amended on December 6, 2005.

Descriptions of City of San José and related entity debt activity for 2017-2018, as well as issues planned for 2018-2019, are provided in the following sections.

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DEBT SERVICE OBLIGATIONS

2017-2018 DEBT ISSUANCE

The following debt issues were or are expected to be completed in 2017-2018:

- **2017 Tax and Revenue Anticipation Note.** The City issued a short-term note (the “2017 Note”) to facilitate the prefunding of employer retirement contributions for 2017-2018. The \$150 million note was purchased by Bank of America, N.A. on July 3, 2017. Security for repayment of the 2017 Note was a pledge of the City’s 2017-2018 secured property tax revenues and sales tax revenues plus all other legally available General Fund revenues, if required.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Convention Center Exhibit Hall Lighting and Ceiling Upgrades Project.** The City issued \$15 million in commercial paper notes in 2017-2018 to finance lighting and ceiling upgrades to the exhibit hall of the San José McEnergy Convention Center.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Clean Energy.** The City anticipates issuing \$6.1 million in commercial paper notes during fiscal year 2017-2018 to finance startup costs related to the San José Clean Energy program.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Energy Conservation.** The City issued \$0.46 million in commercial paper notes in 2017-2018 to finance installation of remaining energy conservation equipment on City-owned facilities.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Flood Improvement.** The City issued \$2 million in commercial paper notes in 2017-2018 to finance flood recovery and construction improvements at various parks and community facilities damaged during the winter flood event of 2016-2017.
- **San José-Santa Clara Regional Wastewater Facility CIP Short-Term Financing Facility.** The City entered into a \$300 million short-term financing program in 2017-2018 to finance improvements at the San José-Santa Clara Regional Wastewater Facility (RWF) as part of \$1.4 billion, 10-year RWF Capital Improvement Program. This short-term financing will provide funding to cover some or all of the project costs until reimbursement through the SRF loan, or until the short-term loan is refinanced into long-term financing.
- **The Successor Agency to the Redevelopment Agency.** On December 21, 2017, the Successor Agency to the Redevelopment Agency of the City of San José issued Refunding Bonds, Series 2017A, 2017A-T and 2017B in an aggregate principal amount of \$1,677,540,000, to refund all of the outstanding Tax Allocation Bonds (including those obligations issued by the City of San José Financing Authority, Series 2001A and Series 2001F with a tax allocation pledge), in addition, to pay the costs of issuing the bonds and paying the premium on Surety provider which funds the debt service reserve.

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DEBT SERVICE OBLIGATIONS

2018-2019 PLANNED DEBT ISSUANCE

The following debt issues are planned for 2018-2019:

- **2018 Tax and Revenue Anticipation Note.** The City will issue a short-term note (the “2018 Note”) to facilitate the prefunding of employer retirement contributions for 2018-2019, in an estimated amount of \$150 million. It is anticipated that the Note will be sold on July 2, 2018. Security for repayment of the 2018 Note will be a pledge of the City’s 2018-2019 secured property tax revenues and sales tax revenues plus all other legally available General Fund revenues, if required.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Flood Improvement.** The City anticipates issuing remaining \$19.0 million in commercial paper notes during fiscal year 2018-2019 to finance flood and structural damage sustained at City parks as a result of the intense storms during the winter of 2016-2017.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Clean Energy.** The City anticipates issuing remaining \$3.9 million in commercial paper notes during fiscal year 2018-2019 to finance startup costs related to the San José Clean Energy program.
- **City of San José General Obligation Bonds.** The City anticipates issuing the remaining voter approved bond measures, for Library improvements (approved in November 2000) and Public Safety Improvements (approved in March 2002), in the amount of \$9.2 million in General Obligation Bonds for those capital improvements. Of the \$9.2 million issued, \$5.9 million is for continued Library improvements for the branch library system in accordance with Branch Facilities Master Plan. The remaining \$3.3 million is to fund capital projects to enhance police, fire, and medical emergency response services and facilities.
- **Refinancings.** The Finance Department is reviewing alternatives for refinancing existing General Obligation Bonds and Lease Revenue Bonds issued by the City.

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DEBT SERVICE OBLIGATIONS

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2018
(In Thousands of Dollars)

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions to</u> <u>Long-Term</u> <u>Obligations</u>	<u>Current</u> <u>Maturities</u> <u>and</u> <u>Retirements</u>	<u>Estimated</u> <u>Balance</u> <u>June 30, 2018</u>
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 362,430	\$ -	\$ 19,660	\$ 342,770
HUD Section 108 Loan	808	-	808	-
Lease-Purchase Agreement (Taxable)	16,663	-	1,352	15,311
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	136,070	-	5,305	130,765
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2001F	78,680	-	78,680	-
Lease Revenue Bonds, Series 2003A	9,940	-	1,245	8,695
Lease Revenue Bonds, Series 2006A	52,850	-	-	52,850
Lease Revenue Bonds, Series 2007A	22,890	-	2,120	20,770
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	20,640	-	3,095	17,545
Lease Revenue Bonds, Series 2008E-1 (Taxable)	8,310	-	850	7,460
Lease Revenue Bonds, Series 2008E-2 (Taxable)	8,300	-	850	7,450
Lease Revenue Bonds, Series 2008F (Taxable)	37,050	-	37,050	-
Lease Revenue Bonds, Series 2011A	29,960	-	615	29,345
Lease Revenue Bonds, Series 2013A	293,665	-	7,200	286,465
Lease Revenue Bonds, Series 2013B	28,190	-	800	27,390
Revenue Bonds, Series 2001A	28,190	-	28,190	-
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,229,545	-	41,900	1,187,645
Sewer Revenue Bonds/State Revolving Fund Loan	26,819	-	9,498	17,322
TOTAL	<u>\$ 2,401,915</u>	<u>\$ -</u>	<u>\$ 239,218</u>	<u>\$ 2,162,697</u>

CITY OF SAN JOSE
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DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2018 by Individual Issue

	Due To	Effective	Estimated (\$ Thousands)
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	5.00-5.13%	\$ 33,110
General Obligation Bonds, Series 2002	2032	5.0%	58,040
General Obligation Bonds, Series 2004	2034	5.0%	67,270
General Obligation Bonds, Series 2005	2035	4.00-4.50%	27,810
General Obligation Bonds, Series 2006	2036	4.25-5.00%	66,785
General Obligation Bonds, Series 2007	2037	4.00-4.75%	60,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	23,155
General Obligation Bonds, Series 2009	2039	4.00-5.00%	6,600
Lease-Purchase Agreement (Taxable)	2034	3.94-6.01%	15,311
Total City of San José			\$ 358,081
 SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	5.00-6.65%	\$ 130,765
 CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2003A	2023	4.20-4.70%	\$ 8,695
Lease Revenue Bonds, Series 2006A	2039	4.25-5.00%	52,850
Lease Revenue Bonds, Series 2007A	2030	4.25-4.75%	20,770
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	17,545
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	7,460
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	7,450
Lease Revenue Bonds, Series 2011A	2042	4.00-5.75%	29,345
Lease Revenue Bonds, Series 2013A	2039	4.00-5.00%	286,465
Lease Revenue Bonds, Series 2013B	2039	3.00-5.00%	27,390
Commercial Paper Notes	Short Term	Various	35,613
Total City of San José Financing Authority			\$ 504,498

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(B) Summary of Bonds and Notes Payable at June 30, 2018 by Individual Issue

	Due To	Effective	Estimated (\$ Thousands)
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 2011A-1 (AMT)	2034	5.00-6.25%	\$ 125,455
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	4.00-5.25%	72,140
Revenue Bonds, Series 2011B	2041	4.70-6.75%	260,095
Revenue Bonds, Series 2014A (AMT)	2026	3.38-5.00%	56,040
Revenue Bonds, Series 2014B (Non-AMT)	2028	3.10-5.00%	28,010
Revenue Bonds, Series 2014C (Non-AMT)	2031	5.00%	40,285
Revenue Bonds, Series 2017A (AMT)	2047	4.00-5.00%	459,450
Revenue Bonds, Series 2017B (Non-AMT)	2047	3.00-5.00%	146,170
Commercial Paper Notes	Short Term	Various	25,037
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2009A	2020	3.50%	15,550
State of California Revolving Loan	2019	Various	1,772
Total Enterprise Funds			\$ 1,230,004
GRAND TOTAL			\$ 2,223,348

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(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term Debt Outstanding as of June 30, 2018*

(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment and Special Tax Bonds	City of San José Financing Authority	Enterprise Funds
2019	\$ 38,159	\$ 13,498	\$ 52,361	\$ 99,829
2020	37,214	13,498	51,698	98,785
2021	36,025	13,492	52,229	99,433
2022	35,098	13,486	52,618	94,010
2023	34,165	13,483	51,655	81,926
Thereafter	329,995	169,773	611,342	1,771,984
Total	\$ 510,656	\$ 237,230	\$ 871,903	\$ 2,245,967

* The following all-in interest rates were used to project debt service for the City of San Jose Financing Authority's variable-rate bonds

	Tax-Exempt	Taxable
2018-2019	3.45%	3.27%
2019-2020	3.69%	3.52%
2020-2021	3.76%	3.58%
2021-2022	3.76%	3.58%
2022-2023	3.76%	3.58%
Thereafter	3.76%	3.58%

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