

CITY OF SAN JOSE

2016-2017 ADOPTED 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.

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, 2015, the total assessed value of taxable property was \$150.0 billion, which results in a total debt limit capacity of approximately \$22.5 billion. As of June 30, 2015, the City had \$401.7 million of General Obligation bonds outstanding which represents approximately 1.8% of the debt limit.

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 and related entities did not issue any new long-term debt however, \$86.6 million of long-term debt was repaid in 2015-2016 resulting in an estimated total long-term debt balance of \$2.5 billion as of June 30, 2016. Table B summarizes the City's and related entities' long-term debt by issuance and maturity, plus short-term commercial paper notes, for a combined estimated outstanding debt balance of \$2.6 billion estimated at June 30, 2016. 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 5, 2012, and most recently on June 9, 2015. 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 2015-2016, as well as issues planned for 2016-2017, are provided in the following sections.

2015-2016 DEBT ISSUES

The following debt issues were completed in 2015-2016:

- **2015 Tax and Revenue Anticipation Note** The City issued a short-term note (the "2015 Note") to facilitate the prefunding of employer retirement contributions for 2015-2016. The \$100 million note was purchased by Bank of America, N.A. on July 1, 2015. Security for repayment of the 2015 Note was a pledge of the City's 2015-2016 secured property tax revenues and sales tax revenues plus all other legally available General Fund revenues, if required.

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2016-2017 PLANNED DEBT ISSUES

The following debt issues are planned for 2016-2017:

- **2016 Tax and Revenue Anticipation Note** The City will issue a short-term note (the “2016 Note”) to facilitate the prefunding of employer retirement contributions for 2016-2017, in an estimated amount of \$100 million. The Note was sold on July 1, 2016. Security for repayment of the 2016 Note is a pledge of the City’s 2016-2017 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** The City anticipates issuing approximately \$1.2 million in commercial paper notes in 2016-2017 to provide funding to the San José Municipal Water System for the replacement of approximately 5,000 remaining manual-read water meters with remote-read water meters.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Energy Conservation Equipment** The City anticipates executing approximately \$7.5 million in tax-exempt and taxable commercial paper notes during fiscal year 2016-2017 to finance the acquisition and installation of energy conservation equipment at City-owned facilities.
- **Refinancings** The Finance Department is reviewing alternatives for refinancing existing General Obligation Bonds, Airport Revenue Bonds and Lease Revenue Bonds issued by the City.

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(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2016
(In Thousands of Dollars)

	Balance June 30, 2015	Additions to Long-Term Obligations	Current Maturities and Retirements	Estimated Balance June 30, 2016
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 401,735	\$ -	\$ 19,650	\$ 382,085
HUD Section 108 Loan	1,196	-	239	957
Lease-Purchase Agreement (Taxable)	19,173	-	1,224	17,949
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	145,895	-	4,790	141,105
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2001F	100,260	-	10,530	89,730
Lease Revenue Bonds, Series 2003A	12,290	-	1,150	11,140
Lease Revenue Bonds, Series 2006A	54,765	-	-	54,765
Lease Revenue Bonds, Series 2007A	26,830	-	1,920	24,910
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	26,330	-	2,790	23,540
Lease Revenue Bonds, Series 2008E-1 (Taxable)	9,860	-	750	9,110
Lease Revenue Bonds, Series 2008E-2 (Taxable)	9,850	-	750	9,100
Lease Revenue Bonds, Series 2008F (Taxable)	39,685	-	1,290	38,395
Lease Revenue Bonds, Series 2011A	30,985	-	430	30,555
Lease Revenue Bonds, Series 2013A	302,605	-	4,830	297,775
Lease Revenue Bonds, Series 2013B	29,720	-	750	28,970
Revenue Bonds, Series 2001A	29,880	-	1,895	27,985
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,337,140	-	23,660	1,313,480
Sewer Revenue Bonds/State Revolving Fund Loan	46,942	-	9,993	36,949
TOTAL	\$ 2,636,056	\$ -	\$ 86,641	\$ 2,549,415

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DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2016 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>Estimated (\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	5.00-5.125%	\$ 37,840
General Obligation Bonds, Series 2002	2032	4.25-5.00%	65,780
General Obligation Bonds, Series 2004	2034	4.125-5.00%	75,190
General Obligation Bonds, Series 2005	2035	4.00-4.50%	30,900
General Obligation Bonds, Series 2006	2036	4.00-5.00%	73,810
General Obligation Bonds, Series 2007	2037	4.00-5.50%	66,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	25,365
General Obligation Bonds, Series 2009	2039	4.00-5.00%	7,200
HUD Section 108 Loan	2024	Variable Rate	957
Lease-Purchase Agreement (Taxable)	2034	3.21-6.01%	17,949
Total City of San José			<u><u>\$ 400,991</u></u>
SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	4.75-6.65%	<u><u>\$ 141,105</u></u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2001F	2022	5.00%	\$ 89,730
Lease Revenue Bonds, Series 2003A	2023	4.00-4.70%	11,140
Lease Revenue Bonds, Series 2006A	2039	4.25-5.00%	54,765
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	24,910
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	23,540
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	9,110
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	9,100
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	38,395
Lease Revenue Bonds, Series 2011A	2042	3.00-5.75%	30,555
Lease Revenue Bonds, Series 2013A	2039	4.00-5.00%	297,775
Lease Revenue Bonds, Series 2013B	2039	3.00-5.00%	28,970
Revenue Bonds, Series 2001A	2026	4.50-5.25%	27,985
Commercial Paper Notes	Short Term	Various	37,000
Total City of San José Financing Authority			<u><u>\$ 693,890</u></u>

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(B) Summary of Bonds and Notes Payable at June 30, 2016 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>Estimated (\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 2007A (AMT)	2047	5.00-6.00%	\$ 527,530
Revenue Bonds, Series 2007B	2037	4.375-5.00%	172,235
Revenue Bonds, Series 2011A-1 (AMT)	2034	5.00-5.75%	132,970
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	4.00-5.25%	76,430
Revenue Bonds, Series 2011B	2041	4.09-5.70%	262,790
Revenue Bonds, Series 2012A	2018	1.53%	17,045
Revenue Bonds, Series 2014A (AMT)	2026	2.00-5.00%	56,185
Revenue Bonds, Series 2014B (Non-AMT)	2028	5.00%	28,010
Revenue Bonds, Series 2014C (Non-AMT)	2031	5.00%	40,285
Commercial Paper Notes	Short Term	Various	37,926
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2005A	2016	3.75%	5,130
Revenue Refunding Bonds, Series 2009A	2020	3.00-3.50%	21,420
State of California Revolving Loan	2019	Various	10,399
Total Enterprise Funds			<u>\$ 1,388,355</u>
GRAND TOTAL			<u><u>\$ 2,624,341</u></u>

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**(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term
Debt Outstanding as of June 30, 2016***

(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
2017	\$ 39,830	\$ 13,511	\$ 54,745	\$ 106,973
2018	39,042	13,509	56,378	106,361
2019	38,158	13,498	59,130	100,712
2020	37,216	13,498	58,336	99,060
2021	36,114	13,492	58,707	99,708
Thereafter	399,257	196,742	680,654	1,985,701
Total	\$ 589,617	\$ 264,250	\$ 967,950	\$ 2,498,515

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

	Tax-Exempt	Taxable	HUD Section 108
2016-2017	1.27%	1.51%	1.46%
2017-2018	1.68%	2.10%	2.01%
2018-2019	2.03%	2.59%	2.43%
2019-2020	2.24%	2.90%	2.77%
2020-2021	2.44%	3.18%	3.04%
Thereafter	2.44%	3.18%	3.04%