

CITY OF SAN JOSE

2017-2018 PROPOSED CAPITAL 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, 2016, the total assessed value of taxable property was \$155.9 billion, which results in a total debt limit capacity of approximately \$23.4 billion. As of June 30, 2016, the City had \$382.1 million of General Obligation bonds outstanding which represents approximately 1.6% of the debt limit.

On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency of the City of San José, (“SARA”) effective February 1, 2012. As of June 30, 2016, SARA had total debt outstanding of \$1.8 billion, consisting of approximately \$1.5 billion in Merged Area Tax Allocation Bonds (TABs) (80% debt), and \$287 million in Housing Set-Aside TABs (20% debt), and \$22 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 and related entities added \$624.3 million and repaid, or are expected to repay \$774 million of long-term debt in 2016-2017 resulting in an estimated total long-term debt balance of \$2.4 billion as of June 30, 2017. 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 \$2.5 billion estimated at June 30, 2017. 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 2016-2017, as well as issues planned for 2017-2018, are provided in the following sections.

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2016-2017 DEBT ISSUANCE

The following debt issues were completed in 2016-2017:

- **2016 Tax and Revenue Anticipation Note.** The City issued a short-term note (the “2016 Note”) to facilitate the prefunding of employer retirement contributions for 2016-2017. The \$100 million note was purchased by Bank of America, N.A. on July 1, 2016. Security for repayment of the 2016 Note was 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 issued \$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.** The City issued \$8.0 million in commercial paper notes in 2016-2017 to finance installation of remaining energy conservation equipment on City-owned facilities.
- **City of San José Airport Revenue Refunding Bonds, Series 2017AB (Refunding of Series 2007AB).** On April 11, 2017, the City issued the City of San José Airport Revenue Refunding Bonds, Series 2017A, and Series 2017B, in an aggregate principal amount of \$624,270,000, to refund all of the outstanding City of San José Airport Revenue Bonds, Series 2007A, and 2007B, in addition, to pay the costs of issuing the bonds and funding the debt service reserve. The refunding generated \$83.2 million in net present value savings or 12.2% net present value savings.

2017-2018 PLANNED DEBT ISSUANCE

The following debt issues are planned for 2017-2018:

- **2017 Tax and Revenue Anticipation Note.** The City will issue a short-term note (the “2017 Note”) to facilitate the prefunding of employer retirement contributions for 2017-2018, in an estimated amount of \$130 million. It is anticipated that the Note will be sold on July 1, 2017. Security for repayment of the 2017 Note will be 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.

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2017-2018 PLANNED DEBT ISSUANCE

- **City of San José Financing Authority Lease Revenue Commercial Paper Notes – Convention Center Exhibit Hall Lighting and Ceiling Upgrades Project.** The City anticipates issuing approximately \$15 million in commercial paper notes during fiscal year 2017-2018 to finance lighting and ceiling upgrades to the exhibit hall of the San José McEnery Convention Center.
- **SJ-SC Regional Wastewater Facility CIP Commercial Paper Notes.** The City anticipates establishing a \$300 to \$420 million commercial paper program and issuing commercial paper notes, as needed, in fiscal year 2017-2018 to finance improvements at the San José-Santa Clara Regional Wastewater Facility (RWF) as part of the \$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.
- **2017 Tax Allocation Bond Refunding.** The Successor Agency to the Redevelopment Agency of the City of San José plans to issue approximately \$1.8 billion in tax allocation refunding bonds in three to four separate series to refund all or a portion of the Successor Agency's outstanding tax allocation bonds and two obligations of the City of San Jose Financing Authority, Series 2001A Bonds (4th & San Fernando Street Parking Garage) and Series 2001F (Convention Center). These obligations represent twenty-seven (27) separate series of bonds. The expected closing date is late summer 2017.
- **Refinancings.** The Finance Department is reviewing alternatives for refinancing existing General Obligation Bonds, Lease Revenue Bonds and Tax Allocation Bonds issued by the City and Redevelopment Agency.

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(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2017
(In Thousands of Dollars)

	<u>Balance</u> <u>June 30, 2016</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, 2017</u>
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 382,085	\$ -	\$ 19,655	\$ 362,430
HUD Section 108 Loan	957	-	149	808
Lease-Purchase Agreement (Taxable)	17,949	-	1,286	16,663
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	141,105	-	5,035	136,070
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2001F	89,730	-	11,050	78,680
Lease Revenue Bonds, Series 2003A	11,140	-	1,200	9,940
Lease Revenue Bonds, Series 2006A	54,765	-	1,915	52,850
Lease Revenue Bonds, Series 2007A	24,910	-	2,020	22,890
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	23,540	-	2,900	20,640
Lease Revenue Bonds, Series 2008E-1 (Taxable)	9,110	-	800	8,310
Lease Revenue Bonds, Series 2008E-2 (Taxable)	9,100	-	800	8,300
Lease Revenue Bonds, Series 2008F (Taxable)	38,395	-	1,345	37,050
Lease Revenue Bonds, Series 2011A	30,555	-	595	29,960
Lease Revenue Bonds, Series 2013A	297,775	-	4,110	293,665
Lease Revenue Bonds, Series 2013B	28,970	-	780	28,190
Revenue Bonds, Series 2001A	27,985	-	1,980	26,005
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,313,480	624,270	708,205	1,229,545
Sewer Revenue Bonds/State Revolving Fund Loan	36,949	-	10,130	26,819
TOTAL	<u>\$ 2,549,415</u>	<u>\$ 624,270</u>	<u>\$ 773,955</u>	<u>\$ 2,399,730</u>

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DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2017 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%	\$ 35,475
General Obligation Bonds, Series 2002	2032	5.0%	61,910
General Obligation Bonds, Series 2004	2034	4.25-5.00%	71,230
General Obligation Bonds, Series 2005	2035	4.00-4.50%	29,355
General Obligation Bonds, Series 2006	2036	4.00-5.00%	70,300
General Obligation Bonds, Series 2007	2037	4.00-5.50%	63,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	24,260
General Obligation Bonds, Series 2009	2039	4.00-5.00%	6,900
HUD Section 108 Loan	2020	Variable Rate	808
Lease-Purchase Agreement (Taxable)	2034	3.21-6.01%	16,663
Total City of San José			<u><u>\$ 379,901</u></u>
SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	4.75-6.65%	<u><u>\$ 136,070</u></u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2001F	2022	5.00%	\$ 78,680
Lease Revenue Bonds, Series 2003A	2023	4.125-4.70%	9,940
Lease Revenue Bonds, Series 2006A	2039	4.25-5.00%	52,850
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	22,890
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	20,640
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	8,310
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	8,300
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	37,050
Lease Revenue Bonds, Series 2011A	2042	3.50-5.75%	29,960
Lease Revenue Bonds, Series 2013A	2039	4.00-5.00%	293,665
Lease Revenue Bonds, Series 2013B	2039	3.00-5.00%	28,190
Revenue Bonds, Series 2001A	2026	4.625-5.25%	26,005
Commercial Paper Notes	Short Term	Various	23,438
Total City of San José Financing Authority			<u><u>\$ 650,833</u></u>

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(B) Summary of Bonds and Notes Payable at June 30, 2017 by Individual Issue

	Due To	Effective	Estimated (\$ Thousands)
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 2007A (AMT)	2018	5.50%	\$ 7,025
Revenue Bonds, Series 2011A-1 (AMT)	2034	5.00-5.75%	129,305
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	4.00-5.25%	74,340
Revenue Bonds, Series 2011B	2041	4.22-5.70%	261,635
Revenue Bonds, Series 2012A	2018	1.53%	8,585
Revenue Bonds, Series 2014A (AMT)	2026	2.00-5.00%	56,090
Revenue Bonds, Series 2014B (Non-AMT)	2028	5.00%	28,010
Revenue Bonds, Series 2014C (Non-AMT)	2031	5.00%	40,285
Revenue Bonds, Series 2017A (AMT)	2047	5.00%	473,595
Revenue Bonds, Series 2017B (Non-AMT)	2047	2.00-5.00%	150,675
Commercial Paper Notes	Short Term	Various	34,672
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2009A	2020	3.50%	20,695
State of California Revolving Loan	2019	Various	6,125
Total Enterprise Funds			\$ 1,291,037
GRAND TOTAL			\$ 2,457,841

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**(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term
Debt Outstanding as of June 30, 2017***
(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
2018	\$ 39,042	\$ 13,509	\$ 56,629	\$ 114,110
2019	38,156	13,498	59,382	99,829
2020	37,213	13,498	58,578	98,785
2021	36,025	13,492	58,769	99,433
2022	35,098	13,486	58,895	94,010
Thereafter	364,159	183,257	622,007	1,853,910
Total	\$ 549,693	\$ 250,740	\$ 914,260	\$ 2,360,076

* 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
2017-2018	2.15%	2.40%	2.51%
2018-2019	2.53%	2.88%	2.99%
2019-2020	2.78%	3.20%	3.31%
2020-2021	2.78%	3.20%	-
2021-2022	2.78%	3.20%	-
Thereafter	2.78%	3.20%	-

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