

CITY OF SAN JOSE

2014-2015 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue and lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, and San Jose Redevelopment Agency debt that was transferred to the Successor Agency of the Redevelopment Agency of the City of San José on February 1, 2012.

- **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 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.
- **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

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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.

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/capital lease obligations. In addition, the City Council has approved a supplemental Multi-Family Housing Revenue Bond Policy and Residential Development Guidelines.

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, 2014, the total assessed value of taxable property was \$137.0 billion, which results in a total debt limit capacity of approximately \$20.6 billion. As of June 30, 2014, the City had \$421.4 million of General Obligation bonds outstanding which represents approximately 2.1% of the debt limit.

As shown in Table A, the City and related entities (excluding Multi-Family Housing Revenue conduit debt) added \$19.3 million and repaid \$157.7 million of long-term debt in 2013-2014 resulting in a total long-term debt balance of \$4.8 billion as of June 30, 2014. Table B summarizes the City's and related entities' long-term debt (excluding Multi-Family Housing Revenue conduit debt) by issuance and maturity, as well as short-term commercial paper notes for a combined estimated outstanding debt balance of \$4.8 billion as of June 30, 2014. 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 affirmed annually by the City Council. The Debt Management Policy was subsequently amended on December 5, 2012 and, most recently June 10, 2014. The first set of program-specific financing policies for debt issued for multifamily 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 2013-2014, as well as issues planned for 2014-2015, are provided in the following sections.

2013-2014 DEBT ISSUES

The following debt issues were completed in 2013-2014:

- **2013 Tax and Revenue Anticipation Note** The City issued a short-term note (the "2013 Note") to facilitate the prefunding of employer retirement contributions for 2013-2014. The \$100 million note was purchased by Bank of America, N.A. on July 1, 2013. Security for repayment of the 2013 Note is a pledge of the City's 2013-2014 secured property tax revenues and sales tax revenues plus all other legally available General Fund revenues, if required. The City fully repaid the 2013 Note on February 10, 2014.
- **Lease-Purchase Agreement – Energy Conservation Equipment** The City entered into a \$19.3 million taxable lease-purchase agreement with Banc of America Public Capital Corp on May 29, 2014 to finance the acquisition and installation of energy conservation equipment at City-owned facilities and for the replacement of streetlights.

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2014-2015 PLANNED DEBT ISSUES

The following debt issues are being planned for, or have been completed in, 2014-2015:

- **2014 Tax and Revenue Anticipation Note** The City issued a short-term note (the “2014 Note”) to facilitate the prefunding of employer retirement contributions for 2014-2015. The \$100 million note was purchased by Bank of America, N.A. on July 1, 2014. Security for repayment of the 2014 Note is a pledge of the City’s 2014-2015 secured property tax revenues and sales tax revenues plus all other legally available General Fund revenues, if required.
- **City of San José Airport Revenue Bonds, Series 2014 (Refunding of Series 2001A, Series 2004C and Series 2004D)** The City anticipates refunding Airport Revenue Bonds, Series 2001A, Series 2004C, and Series 2004D based on the economic and financial benefits expected given the current market conditions. The City anticipates the refunding bonds to be issued in fall 2014.
- **Lease-Purchase Agreement – Energy Conservation Equipment** The City anticipates executing an approximately \$7.7 million tax-exempt lease in September 2014 to finance the acquisition and installation of energy conservation equipment at City-owned facilities. The agreement will be executed under the master equipment lease-purchase agreement entered into on May 29, 2014, with Banc of America Public Capital Corp.
- **City of San José General Obligation Bonds, Series 2015 (Libraries and Public Safety Projects)** The City budgeted an issuance of \$9.2 million of General Obligation Bonds in 2014-2015. The issuance would utilize all of the remaining unissued bond authorization approved by voters in November 2000 and March 2002 for libraries and public safety projects. Concurrent with this issuance, the City would likely refund General Obligation Bonds, Series 2001, Series 2002, and Series 2004 if market conditions provide sufficient economic and financial benefits.
- **Multifamily Housing Revenue Bonds** Federal Tax law requires an allocation of the State’s private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received allocations from the California Debt Limit Allocation Committee (CDLAC) for the following projects:
 - Cambrian Center Apartments (\$41.533 million): CDLAC allocation received May 21, 2014; expected issuance in September 2014.

The City has applied for allocations from CDLAC for the following projects:

- Parkview Family/Senior Apartments (\$29.5 million): expected issuance in November 2014.

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(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2014
(In Thousands of Dollars)

	<u>Balance June 30, 2013</u>	<u>Additions to Long-Term Obligations</u>	<u>Current Maturities and Retirements</u>	<u>Estimated Balance June 30, 2014</u>
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 441,025	\$ -	\$ 19,645	\$ 421,380
HUD Section 108 Loan	14,706	-	-	14,706
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	156,545	-	4,210	152,335
Lease-Purchase Agreement (Taxable)	-	19,286	-	19,286
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2001F	119,870	-	9,570	110,300
Lease Revenue Bonds, Series 2003A	14,470	-	1,070	13,400
Lease Revenue Bonds, Series 2006A	56,125	-	-	56,125
Lease Revenue Bonds, Series 2007A	30,405	-	1,740	28,665
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	38,920	-	10,000	28,920
Lease Revenue Bonds, Series 2008E-1 (Taxable)	11,240	-	665	10,575
Lease Revenue Bonds, Series 2008E-2 (Taxable)	11,230	-	665	10,565
Lease Revenue Bonds, Series 2008F (Taxable)	63,885	-	1,780	62,105
Lease Revenue Bonds, Series 2011A	30,985	-	-	30,985
Lease Revenue Bonds, Series 2013A	305,535	-	-	305,535
Lease Revenue Bonds, Series 2013B	30,445	-	-	30,445
Revenue Bonds, Series 2001A	33,435	-	1,740	31,695
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	232,960	-	7,725	225,235
Housing Tax Allocation Bonds (Subordinate)	86,175	-	2,585	83,590
Redevelopment Tax Allocation Bonds	1,610,210	-	54,210	1,556,000
Redevelopment Tax Allocation Bonds (Sub.)	90,355	-	4,700	85,655
HUD Section 108 Loans	28,005	-	1,830	26,175
CSCDA ERAF Loans	10,005	-	3,945	6,060
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,406,955	-	22,275	1,384,680
Sewer Revenue Bonds/State Revolving Fund Loan	65,954	-	9,369	56,585
TOTAL	<u>\$ 4,900,355</u>	<u>\$ 19,286</u>	<u>\$ 157,724</u>	<u>\$ 4,761,917</u>

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(B) Summary of Bonds and Notes Payable at June 30, 2014 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%	\$ 42,570
General Obligation Bonds, Series 2002	2032	4.00-5.00%	73,520
General Obligation Bonds, Series 2004	2034	4.00-5.00%	83,105
General Obligation Bonds, Series 2005	2035	4.00-4.50%	33,980
General Obligation Bonds, Series 2006	2036	4.00-5.00%	80,830
General Obligation Bonds, Series 2007	2037	4.00-5.50%	72,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	27,575
General Obligation Bonds, Series 2009	2039	4.00-5.00%	7,800
HUD Section 108 Loan	2024	Variable Rate	14,706
Lease-Purchase Agreement (Taxable)	2034	3.21-6.01%	19,286
Total City of San José			<u>\$ 455,372</u>
SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	3.00-6.65%	<u>\$ 152,335</u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2001F	2022	5.00%	\$ 110,300
Lease Revenue Bonds, Series 2003A	2023	3.90-4.70%	13,400
Lease Revenue Bonds, Series 2006A	2039	4.125-5.00%	56,125
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	28,665
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2023	Variable Rate	28,920
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	10,575
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	10,565
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	62,105
Lease Revenue Bonds, Series 2011A	2042	3.00-5.75%	30,985
Lease Revenue Bonds, Series 2013A	2039	3.00-5.00%	305,535
Lease Revenue Bonds, Series 2013B	2039	3.00-5.00%	30,445
Revenue Bonds, Series 2001A	2026	4.30-5.25%	31,695
Commercial Paper Notes	Short Term	Various	46,403
Total City of San José Financing Authority			<u>\$ 776,633</u>
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2035	3.45-5.85%	\$ 225,235
Housing Tax Allocation Bonds (Sub.)	2035	Variable Rate	83,590
Redevelopment Tax Allocation Bonds	2036	3.75-7.00%	1,556,000
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	85,655
HUD Section 108 Loans	2025	Variable Rate	26,175
CSCDA ERAF Loans	2016	4.96-5.67%	6,060
Total Successor Agency to the Redevelopment Agency			<u>\$ 1,982,715</u>

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(B) Summary of Bonds and Notes Payable at June 30, 2014 by Individual Issue

	Due To	Effective	Estimated (\$ Thousands)
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 2001A	2031	5.00%	\$ 45,710
Revenue Bonds, Series 2004C (AMT)	2026	4.625-5.25%	69,730
Revenue Bonds, Series 2004D	2028	5.00%	34,270
Revenue Bonds, Series 2007A (AMT)	2047	5.00-6.00%	539,975
Revenue Bonds, Series 2007B	2037	4.25-5.00%	177,015
Revenue Bonds, Series 2011A-1 (AMT)	2034	3.00-6.25%	139,900
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	3.00-5.25%	80,390
Revenue Bonds, Series 2011B	2041	3.32-6.75%	264,085
Revenue Bonds, Series 2012A	2018	1.53%	33,605
Commercial Paper Notes	Short Term	Various	41,159
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2005A	2016	3.75-5.00%	16,445
Revenue Refunding Bonds, Series 2009A	2020	3.00-5.00%	21,420
State of California Revolving Loan	2019	Various	18,720
Total Enterprise Funds			\$ 1,482,424
GRAND TOTAL			\$ 4,849,479

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**(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term
Debt Outstanding as of June 30, 2014***
(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment and Special Tax Bonds	City of San José Financing Authority	Successor Agency to the Redevelopment Agency	Enterprise Funds
2015	\$ 40,541	\$ 14,641	\$ 53,368	\$ 167,359	\$ 108,752
2016	40,889	14,357	55,294	165,423	109,031
2017	40,288	13,511	57,569	164,295	109,141
2018	40,814	13,509	59,507	164,346	108,527
2019	40,026	13,498	62,292	163,656	102,879
Thereafter	485,386	223,732	829,210	2,145,332	2,212,334
Total	\$ 687,944	\$ 293,248	\$ 1,117,240	\$ 2,970,411	\$ 2,750,664

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

	Tax-Exempt	Taxable	HUD Section 108
2014-2015	1.46%	1.56%	1.21%
2015-2016	2.07%	2.36%	2.13%
2016-2017	2.80%	3.27%	3.18%
2017-2018	3.42%	4.05%	4.08%
2018-2019	3.83%	4.56%	4.67%
Thereafter	3.83%	4.56%	4.67%