

CITY OF SAN JOSE
2014-2015 PROPOSED CAPITAL 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 primary collateral for repayment is the ad valorem tax on property within the City.
- **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.
- **City of San José Financing Authority revenue and lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. 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.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts. The source of repayment for community facilities district bonds is a special tax on privately-owned properties within the community facilities districts.
- **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 Jose Redevelopment Agency debt is future property tax increment revenues. No further debt can be issued per State legislation.

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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.

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. The total assessed value of taxable property on the City's 2012-2013 tax roll was \$126.2 billion, which results in a total debt limit capacity of approximately \$18.9 billion. As of June 30, 2013, the City had \$441.03 million of General Obligation bonds outstanding, which represents approximately 2.3% of the debt limit.

As shown in Table A, the City and related entities (excluding Multi-Family Housing Revenue conduit debt) had no additions of long-term debt and repayments of \$156.7 million in 2013-2014 resulting in a total estimated long-term debt balance of \$4.7 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

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DEBT STATUS AND CAPACITY

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 4, 2012. The first set of program-specific policies, related to the City's Multi-Family Housing Program, was adopted by the City Council on June 11, 2002, and 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 have been, or are expected to be, 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.
- **Multi-Family 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 has not yet received any allocations from the California Debt Limit Allocation Committee (CDLAC) in 2013-2014.

2014-2015 PLANNED DEBT ISSUES

The following debt issues are being planned for 2014-2015:

- **2014 Tax and Revenue Anticipation Note** The City anticipates issuing a short-term note in 2014 to facilitate the prefunding of employer retirement contributions for 2014-2015. Staff is currently performing cash flow and feasibility analysis and evaluating potential financing options to meet necessary cash flow needs for 2014-2015.
- **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 to be issued in fall 2014.

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2014-2015 PLANNED DEBT ISSUES

- **City of San José General Obligation Bonds, Series 2015 (Libraries and Public Safety Projects)** The City anticipates issuing approximately \$9.2 million of General Obligation Bonds in winter 2015. The issuance will utilize all of the remaining unissued bond authorization approved by voters in November 2000 and March 2002 for libraries and public safety projects. The City also anticipates refunding 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 anticipates receiving allocations from the CDLAC in 2014-2015 for the following projects:
 - Cambrian Center Apartments (\$41.533 million): expected issuance in fall 2014.

 - Parkview Family/Senior Apartments (\$9.5 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)

	Balance June 30, 2013	Additions to Long-Term Obligations	Current Maturities and Retirements	Estimated Balance June 30, 2014
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 441,025	\$ -	\$ 19,645	\$ 421,380
HUD Section 108 Loan	14,706	-	-	14,706
Special Assessment and Community Facilities District Bonds with Limited Governmental Commitment	156,545	-	4,210	152,335
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	-	3,700	86,655
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	\$ 4,900,355	\$ -	\$ 156,724	\$ 4,743,631

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DEBT SERVICE OBLIGATIONS

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

	<u>Due To</u>	<u>Effective</u>	<u>Estimated</u> <u>(\$ 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
Total City of San José			\$ 436,086
SPECIAL ASSESSMENT AND COMMUNITY FACILITIES DISTRICT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	3.00-6.65%	\$ 152,335
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	46,927
Total City of San José Financing Authority			\$ 777,157
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	86,655
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			\$ 1,983,715

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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>
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	45,380
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			<u>\$ 1,486,645</u>
GRAND TOTAL			<u><u>\$ 4,835,938</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, 2014*

(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment Bonds	City of San José Financing Authority	Successor Agency to the Redevelopment Agency	Enterprise Funds
2015	\$ 39,456	\$ 14,641	\$ 53,368	\$ 167,359	\$ 108,752
2016	38,719	14,357	55,294	165,423	109,031
2017	38,118	13,511	57,569	164,295	109,141
2018	38,644	13,509	59,507	164,346	108,527
2019	37,856	13,498	62,292	163,656	102,879
Thereafter	468,137	223,732	829,210	2,145,332	2,212,334
Total	\$ 660,930	\$ 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%

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