

CITY OF SAN JOSE
2020-2021 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

The City's debt service obligations include general obligation bonds, lease revenue bonds and commercial paper notes, enterprise revenue bonds, special assessment bonds, and special tax bonds. 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.

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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 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. For Fiscal Year 2020-21, the total assessed value of taxable property was \$206.4 billion, which results in a total debt limit capacity of approximately \$31.0 billion. As of June 30, 2020, the City had \$469.0 million of General Obligation bonds outstanding which represents approximately 1.5% of the debt limit and a debt margin of \$30.5 billion.

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, 2020, SARA had total debt outstanding of \$1.48 billion, consisting of three series of Merged Area Tax Allocation Bonds (TABs), as of June 30, 2020.

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 additions in long-term debt of \$468,980,000 and repayment, or are expected to repay \$399,575,000 of long-term debt in 2019-2020 resulting in an estimated total long-term debt balance of \$2.1 billion as of June 30, 2020. 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 \$2.4 billion estimated at June 30, 2020. 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 and reaffirmed by the City Council on March 27, 2018.

Descriptions of City of San José and related entity debt activity for 2019-2020, as well as issues planned for 2020-2021, are provided in the following sections.

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2019-2020 DEBT ISSUANCE

The following debt issues were or are expected to be completed in 2019-2020:

- **City of San José General Obligation Bonds.** On November 6, 2018, City of San José voters authorized the issuance of up to \$650,000,000 for the purpose of acquiring property for and constructing improvements in order to improve emergency and disaster response, repair deteriorating bridges vulnerable to earthquakes, repave streets and potholes in the worst condition, prevent flooding and water contamination including the acquisition of land in the Coyote Valley for these purposes, and repair critical infrastructure (“Measure T”). On July 9, 2019, the City sold \$502,020,000 of General Obligation Bonds, Series 2019 A-D (“Series 2019 Bonds”) under the Measure T authorization. Of that amount, the Series 2019 Bonds provided \$239,900,000 for Measure T - Disaster Preparedness, Public Safety, and Infrastructure projects; \$9,230,000 for Library and Public Safety Improvements (utilizing remaining voter approved bond measures); and \$252,890,000 to refund the prior General Obligation Bonds (previously outstanding in the amount of \$323,110,000).
- **City of San José, San José International Airport Subordinate Commercial Paper Notes.** The City issued \$3.0 million in commercial paper notes in 2019-2020 in support of the Airport Interim Facility Project.
- **City of San José Financing Authority Commercial Paper Notes.** The City issued \$1.2 million in commercial paper notes for the completion of the Public Works ESCO-Streetlights Project in June 2020.

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2020-2021 PLANNED DEBT ISSUANCE

The following debt issues are planned for 2020-2021:

- **City of San José Financing Authority Lease Revenue Bonds, Series 2020A.**
The City anticipates the issuance of approximately \$350 million in Lease Revenue Bonds to refund the Lease Revenue Refunding Bonds, Series 2006A, and Lease Revenue Bonds, Series 2007A and ESCO lease payments, and to advance refund the Lease Revenue Refunding Bonds, Series 2013A to achieve economic savings and fund the acquisition and construction of the public improvements benefitting the City, including the build-out of existing space within the 4th and San Fernando Garage for office space to be occupied by the San José Clean Energy Department (“SJCE”) and other city operations.
- **City of San José Financing Authority Lease Revenue Bonds, Series 2020B.**
The City anticipates the issuance of approximately \$150.0 million in Lease Revenue Bonds to provide financing for acquisition and construction of two additional ice rinks and additional renovations at the Solar4America Ice Centre. In addition, the City anticipates refunding the outstanding Taxable Lease Revenue Bonds, Series 2008E-1 and 2008E-2 (Ice Centre Refunding Project) to achieve economic savings.
- **City of San José Financing Authority Commercial Paper Notes.**
The City anticipates the issuance of approximately \$25.0 million in commercial paper notes in 2020-2021 in support of additional Public Works projects for the Central Service Yard.

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(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2020

(In Thousands of Dollars)

	Balance June 30, 2019	Additions to Long-Term Obligations	Current Maturities and Retirements	Balance June 30, 2020
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 323,110	\$ 468,980	\$ 323,110	\$ 468,980
Lease-Purchase Agreement (Taxable)	13,891	-	1,460	12,431
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	125,185	-	14,485	110,700
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2003A	7,400	-	1,355	6,045
Lease Revenue Bonds, Series 2006A	51,670	-	-	51,670
Lease Revenue Bonds, Series 2007A	18,550	-	9,355	9,195
Lease Revenue Bonds, Series 2008E-1 (Taxable)	6,550	-	960	5,590
Lease Revenue Bonds, Series 2008E-2 (Taxable)	6,540	-	955	5,585
Lease Revenue Bonds, Series 2011A	28,705	-	665	28,040
Lease Revenue Bonds, Series 2013A	277,975	-	10,145	267,830
Lease Revenue Bonds, Series 2013B	26,555	-	870	25,685
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,158,730	-	31,040	1,127,690
Sewer Revenue Bonds/State Revolving Fund Loan	10,585	-	5,175	5,410
TOTAL	\$ 2,055,446	\$ 468,980	\$ 399,575	\$ 2,124,851

**CITY OF SAN JOSE
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DEBT SERVICE OBLIGATIONS

B) Summary of Bonds and Notes Payable at June 30, 2020 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>Estimated (\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2019A-1	2049	5.0%	\$ 140,360
General Obligation Bonds, Series 2019B	2027	2.35-2.60%	66,500
General Obligation Bonds, Series 2019C	2035	5.0%	158,185
General Obligation Bonds, Series 2019D	2024	2.30-2.35%	103,935
Lease-Purchase Agreement (Taxable)	2034	3.94-6.01%	12,431
Total City of San José			<u><u>\$ 481,411</u></u>
SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT	2042	5.00-6.65%	<u><u>\$ 110,700</u></u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2003A	2023	4.40-4.70%	6,045
Lease Revenue Bonds, Series 2006A	2039	4.38-5.00%	51,670
Lease Revenue Bonds, Series 2007A	2030	4.50-4.75%	9,195
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	5,590
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	5,585
Lease Revenue Bonds, Series 2011A	2042	4.00-5.75%	28,040
Lease Revenue Bonds, Series 2013A	2039	4.00-5.00%	267,830
Lease Revenue Bonds, Series 2013B	2039	3.00-5.00%	25,685
 Commercial Paper Notes	 Short Term	 Various	 <u>72,526</u>
Total City of San José Financing Authority			<u><u>\$ 472,166</u></u>

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B) Summary of Bonds and Notes Payable at June 30, 2020 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 2011A-1 (AMT)	2034	5.00-6.25%	118,575
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	4.00-5.25%	68,225
Revenue Bonds, Series 2011B	2041	4.75-6.75%	255,760
Revenue Bonds, Series 2014A (AMT)	2026	3.38-5.00%	42,135
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%	435,995
Revenue Bonds, Series 2017B (Non-AMT)	2047	4.00-5.00%	138,705
Commercial Paper Notes	Short Term	Various	51,930
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2009A	2020	4.00-5.00%	5,410
Regional Wastewater Facility	Short Term	Various	106,920
Total Enterprise Funds			<u>\$ 1,291,950</u>
GRAND TOTAL			<u><u>\$ 2,356,227</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, 2020***

(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
2021	\$ 43,358	\$ 12,499	\$ 35,958	\$ 99,433
2022	44,279	12,492	35,899	94,010
2023	43,360	12,491	36,027	81,926
2024	42,427	12,162	36,141	82,789
2025	41,477	8,209	34,576	83,665
Thereafter	532,687	139,573	439,094	1,605,530
Total	\$ 747,588	\$ 197,426	\$ 617,695	\$ 2,047,353

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

	<u>Taxable</u>
2021	2.50%
2022	2.55%
2023	2.60%
2024	2.65%
2025	2.70%
Thereafter	2.80%