

CITY OF SAN JOSE
2013-2014 ADOPTED 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. With the dissolution of the former Redevelopment Agency, the principal source of repayment for former Redevelopment Agency debt is future property tax increment revenues of the Successor Agency to the Redevelopment Agency of the City of San José, a public entity, and is administered by the Successor Agency. No further debt can be issued per State legislation.

CITY OF SAN JOSE
2013-2014 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

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. As of June 30, 2012, the total assessed value of taxable property was \$124.4 billion, which results in a total debt limit capacity of approximately \$18.7 billion. As of June 30, 2013, the City had \$441.03 million of General Obligation bonds outstanding which represents approximately 2.4% of the debt limit.

As shown in Table A, the City and related entities (excluding Multi-Family Housing Revenue conduit debt) had additions in long-term debt of \$385.1 million and repayments of \$573.6 million in 2012-2013 resulting in a total estimated long-term debt balance of \$4.9 billion as of June 30, 2013. 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 \$5.0 billion as of June 30, 2013. It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

CITY OF SAN JOSE
2013-2014 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

DEBT STATUS AND CAPACITY

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. 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 2012-2013, as well as issues planned for 2013-2014, are provided in the following sections.

2012-2013 DEBT ISSUES

The following debt issues have been completed in 2012-2013.

- **2012 Tax and Revenue Anticipation Note** The City issued a short-term note (the "2012 Note") in a total commitment amount not to exceed \$125 million for cash flow purposes to facilitate the prefunding of employer retirement contributions. The Initial Note Portion of the 2012 Note was purchased by U.S. Bank on July 2, 2012 in the amount of \$100 million at an interest rate of LIBOR plus 0.10%. Security for repayment of the 2012 Note was a pledge of the City's 2012-2013 secured property tax and sales tax revenues plus all other legally available General Fund revenues legally available to the City, if required. The City fully repaid the 2012 Note on February 14, 2013.
- **City of San José Airport Revenue Bonds, Series 2012A (Refunding of Series 2002A)** The City refunded the \$49.1 million in outstanding Airport Revenue Bonds, Series 2002A as a direct placement with Bank of America. The refunding provided savings to the Airport of approximately \$1.0 million per year through the maturity of the refunding bonds.
- **City of San José Financing Authority Lease Revenue Refunding Bonds, Series 2013A (Civic Center Project Refunding) and Series 2013B (Civic Center Garage Project)** The City refinanced \$347.7 million in outstanding Series 2002B and 2008A Civic Center bonds on May 28, 2013 with Series 2013A fixed-rate bonds in the principal amount of \$305.5 million. The City also refinanced \$33.8 million in combined outstanding Series 2008B-1 and 2008B-2 Civic Center Garage bonds on June 19, 2013 with Series 2013B fixed-rate bonds in the principal amount of \$30.4 million. The City will achieve an estimated combined gross debt service savings of \$95.4 million, and an estimated \$46.8 million in net present value savings or 12.3% of the refunded bonds. In addition to the interest rate savings, the refunding reduced the City's variable rate exposure by \$90.7 million.

CITY OF SAN JOSE
2013-2014 ADOPTED CAPITAL BUDGET
DEBT SERVICE OBLIGATIONS

DEBT STATUS AND CAPACITY

- **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 received the following allocations from the California Debt Limit Allocation Committee (CDLAC):

Allocations awarded on March 13, 2013 resulting in bond issuance in 2013:

- 3rd Street Apartments (\$7.0 million); closed June 27, 2013.

Allocations awarded on July 18, 2012, resulting in bond issuance in 2012:

- La Moraga Apartments (\$52.4 million); closed September 7, 2012.

2013-2014 PLANNED DEBT ISSUES

- **2013 Tax and Revenue Anticipation Note** The City anticipates issuing a short-term note in 2013 to facilitate the prefunding of employer retirement contributions for 2013-2014. Staff is currently performing cash flow and feasibility analysis and evaluating potential financing options to meet necessary cash flow needs for 2013-2014.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes** The City anticipates issuing up to \$10.0 million in commercial paper notes in late 2013 to complete work on the Convention Center Renovation and Expansion project.
- **City of San José General Obligation Bonds, Series 2014 (Libraries and Public Safety Projects)** The City anticipates issuing approximately \$9.2 million of General Obligation Bonds in spring 2014. 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.
- **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) for 2013-2014.

CITY OF SAN JOSE
2013-2014 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2013
(In Thousands of Dollars)

	Balance June 30, 2012	Additions to Long-Term Obligations	Current Maturities and Retirements	Estimated Balance June 30, 2013
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 460,670	\$ -	\$ 19,645	\$ 441,025
HUD Section 108 Loan	20,803	-	6,097	14,706
Special Assessment Bonds with Limited Governmental Commitment	160,310	-	3,765	156,545
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 1993B	763	-	763	-
Lease Revenue Bonds, Series 1997B	365	-	365	-
Lease Revenue Bonds, Series 2001F	129,020	-	9,150	119,870
Lease Revenue Bonds, Series 2002B	290,775	-	290,775	-
Lease Revenue Bonds, Series 2003A	15,505	-	1,035	14,470
Lease Revenue Bonds, Series 2006A	57,440	-	1,315	56,125
Lease Revenue Bonds, Series 2007A	31,475	-	1,070	30,405
Lease Revenue Bonds, Series 2008A	56,920	-	56,920	-
Lease Revenue Bonds, Series 2008B-1	16,910	-	16,910	-
Lease Revenue Bonds, Series 2008B-2	16,905	-	16,905	-
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	41,300	-	2,380	38,920
Lease Revenue Bonds, Series 2008E-1 (Taxable)	11,870	-	630	11,240
Lease Revenue Bonds, Series 2008E-2 (Taxable)	11,860	-	630	11,230
Lease Revenue Bonds, Series 2008F (Taxable)	65,590	-	1,705	63,885
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	35,105	-	1,670	33,435
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	240,380	-	7,420	232,960
Housing Tax Allocation Bonds (Subordinate)	88,600	-	2,425	86,175
Redevelopment Tax Allocation Bonds	1,661,800	-	51,590	1,610,210
Redevelopment Tax Allocation Bonds (Sub.)	93,655	-	3,300	90,355
HUD Section 108 Loans	29,745	-	1,740	28,005
CSCDA ERAF Loans	13,760	-	3,755	10,005
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,420,395	49,140	62,580	1,406,955
Sewer Revenue Bonds/State Revolving Fund Loan	75,056	-	9,102	65,954
TOTAL	\$ 5,088,877	\$ 385,120	\$ 573,642	\$ 4,900,355

CITY OF SAN JOSE
2013-2014 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2013 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%	\$ 44,935
General Obligation Bonds, Series 2002	2032	4.00-5.00%	77,390
General Obligation Bonds, Series 2004	2034	4.00-5.00%	87,060
General Obligation Bonds, Series 2005	2035	4.00-4.50%	35,520
General Obligation Bonds, Series 2006	2036	4.00-5.00%	84,340
General Obligation Bonds, Series 2007	2037	4.00-5.50%	75,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	28,680
General Obligation Bonds, Series 2009	2039	4.00-5.00%	8,100
HUD Section 108 Loan	2024	Variable Rate	14,706
Total City of San José			\$ 455,731
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	3.00-6.65%	\$ 156,545
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2001F	2022	5.00%	\$ 119,870
Lease Revenue Bonds, Series 2003A	2023	3.90-4.70%	14,470
Lease Revenue Bonds, Series 2006A	2039	4.125-5.00%	56,125
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	30,405
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	38,920
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	11,240
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	11,230
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	63,885
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%	33,435
Commercial Paper Notes	Short Term	Various	42,796
Total City of San José Financing Authority			\$ 800,256
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2035	3.45-5.85%	\$ 232,960
Housing Tax Allocation Bonds (Sub.)	2035	Variable Rate	86,175
Redevelopment Tax Allocation Bonds	2036	3.75-7.00%	1,610,210
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	90,355
HUD Section 108 Loans	2025	Variable Rate	28,005
CSCDA ERAF Loans	2016	4.96-5.67%	10,005
Total Successor Agency to the Redevelopment Agency			\$ 2,057,710

CITY OF SAN JOSE
2013-2014 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2013 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%	70,730
Revenue Bonds, Series 2004D	2028	5.00%	34,270
Revenue Bonds, Series 2007A (AMT)	2047	5.00-6.00%	545,755
Revenue Bonds, Series 2007B	2037	4.25-5.00%	179,260
Revenue Bonds, Series 2011A-1 (AMT)	2034	3.00-6.25%	143,180
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	3.00-5.25%	82,255
Revenue Bonds, Series 2011B	2041	3.32-6.75%	264,085
Revenue Bonds, Series 2012A	2018	1.53%	41,710
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%	21,765
Revenue Refunding Bonds, Series 2009A	2020	3.00-5.00%	21,420
State of California Revolving Loan	2019	Various	22,769
Total Enterprise Funds			<u>\$ 1,518,289</u>
GRAND TOTAL			<u><u>\$ 4,988,531</u></u>

CITY OF SAN JOSE
2013-2014 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term
 Debt Outstanding as of June 30, 2013*
 (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
2014	\$ 40,268	\$ 13,432	\$ 48,173	\$ 168,858	\$ 108,343
2015	39,418	14,641	52,881	169,399	108,752
2016	38,592	14,357	54,496	168,033	109,031
2017	37,926	13,511	57,130	167,702	109,141
2018	38,415	13,509	59,271	168,498	108,527
Thereafter	504,943	237,230	864,943	2,345,487	2,315,213
Total	\$ 699,562	\$ 306,680	\$ 1,136,894	\$ 3,187,977	\$ 2,859,007

* The following interest rates were used to project debt service for variable-rate bonds:

	Tax-Exempt	Taxable	HUD Section 108	RDA HSA 2010C
2013-2014	2.40%	2.40%	0.83%	3.96%
2014-2015	2.40%	2.64%	0.96%	4.00%
2015-2016	2.70%	3.13%	1.28%	4.49%
2016-2017	3.55%	4.34%	1.88%	5.70%
2017-2018	4.24%	5.33%	2.40%	6.69%