

CITY OF SAN JOSE
2021-2022 PROPOSED 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 ("CSJFA") 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 CSJFA's pledge of lease revenues received by the CSJFA under a Project Lease of a leased asset between the City and the CSJFA. The City makes the lease payments to the CSJFA 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.

**CITY OF SAN JOSE
2021-2022 PROPOSED OPERATING BUDGET**

DEBT SERVICE OBLIGATIONS

OVERVIEW

- **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.
- **Successor Agency to the Redevelopment Agency of the City of San José ("SARA")** 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 SARA 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.

CITY OF SAN JOSE
2021-2022 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

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, 2020, 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, 2021, the City estimates \$446.5 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. SARA is expected to have total debt outstanding of \$1.38 billion, consisting of three series of Merged Area Tax Allocation Bonds, as of June 30, 2021.

Tables A through 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 SARA. As shown in Table A, the City had additions in long-term debt of \$930,235,000 and expected to repay and refund \$1,028,401,000 of long-term debt in 2020-2021 resulting in an estimated total long-term debt balance of \$2.1 billion as of June 30, 2021. Table B summarizes the City’s and related entities’ long-term (by issuance and final maturity) and short-term debt (commercial paper notes). The combined outstanding debt balance is \$2.3 billion is estimated at June 30, 2021. 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, is reviewed annually by the City Council and was last amended 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, 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 2020-2021, as well as debt issuance planned for 2021-2022, are provided in the following sections.

CITY OF SAN JOSE
2021-2022 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

2020-2021 DEBT ISSUANCE

The following debt issuance were or are expected to be completed in 2020-2021:

- **2020 Tax and Revenue Anticipation Notes.** On July 1, 2020, the City issued two \$65.0 million short-term Tax and Revenue Anticipation Notes (“2020 Notes”), for a total of \$130.0 million, at a variable interest rate to facilitate the prefunding of employer retirement contributions in 2020-2021. The 2020 Notes were purchased by Bank of America, N.A. and U.S. Bank, in the amount of \$65.0 million each. Security for repayment of the 2020 Notes was a pledge of the City’s 2020 2021 secured property tax plus all other legally available General Fund Revenue, if required.
- **City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2020A.** On September 24, 2020, the CSJFA issued \$355.6 million in Taxable Lease Revenue Bonds, Series 2020A that provided financing to: refund on a current basis, the Series 2006A Bonds and Series 2007A Bonds; advance refund the Series 2013A Bonds; prepay all of the City’s outstanding rental obligation of the Master Equipment Lease/Purchase Agreement (ESCO) – all to achieve economic savings; and provide financing 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 and other city operations. The refunding and prepayment of outstanding obligations produced net present value (“NPV”) savings of approximately \$47.0 million, or approximately 13.8% as a percent of the refunded obligations.
- **City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2020B.** On October 15, 2020, the CSJFA issued \$146.5 million in Taxable Lease Revenue Bonds, Series 2020B that provided financing for acquisition and construction of two additional ice rinks and renovations at the Solar4America Ice Centre. In addition, the Series 2020B Bonds refunded the Taxable Lease Revenue Bonds, Series 2008E-1 and 2008E-2 (eliminated interest rate risk on those variable rate bonds) and was structured to allow ramp up lease payments during construction of the expanded Ice Centre.
- **City of San José Airport Revenue Refunding Bonds, Series 2021ABC.** On April 7, 2020, the City issued \$428.08 million Airport Revenue Refunding Bonds, Series 2021A (AMT), Series 2021B (Non-AMT) and Series 2021C (Taxable) to refund all of the outstanding Series, 2011A-1, 2011A-2, 2011B, a portion of outstanding Series 2014A, 2017A and 2017B Bonds. The City achieved a net future savings in current dollars or a “net present value” savings (NPV) of \$148.7 million or 31.4% of refunded bonds.

2021-2022 PLANNED DEBT ISSUANCE

The following debt issuance is planned for 2021-2022:

- **2021 Tax and Revenue Anticipation Note.** The City anticipates issuing 2021 Tax and Revenue Anticipation Note (“2021 Note”) on July 1, 2021 to facilitate the prefunding of certain employer retirement contributions in 2021-2022. Security for repayment of the

CITY OF SAN JOSE
2021-2022 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

2021 Note will be the City's 2021-2022 secured property tax plus all other legally available General Fund Revenue, if required.

- **City of San José General Obligation Bonds**. The City anticipates issuing approximately \$200.5 million of General Obligation Bonds, Series 2021A and taxable Series 2021B in July 2021 under the Measure T authorization for Disaster Preparedness, Public Safety, and Infrastructure, approved by the voters in November 2018. The debt service on the General Obligation Bonds will be payable from the ad valorem taxes levied upon all property subject to taxation by the City.
- **City of San José Financing Authority Lease Revenue Bonds**. The City anticipates issuing approximately \$30 million in CSJFA Lease Revenue Bonds to provide financing for the Fire Training Center (FTC) and the Emergency Operations Center (EOC) relocation project and to refund the Lease Revenue Refunding Bonds, Series 2003A and outstanding balance of Commercial Paper Notes assigned to the Central Service Yard to achieve economic savings sufficient to pay the new obligations to minimize the budget impact of borrowing.
- **City of San José (“CSJ”) Airport Commercial Paper Notes**. The CSJ Airport anticipates renewing or replacing the credit facility for Commercial Paper Notes in September 2021. The Letter of Credit and Reimbursement Agreement is between the City and Bank of America (“BofA”). BofA issued its irrevocable transferrable letter of credit in the initial stated amount of \$81,658,000 (to cover principal of \$75,000,000 and interest on the Subordinated Commercial Paper Notes accruing calculated at a rate of 12% for 270 days based on a 365-day year) that is scheduled to expire on September 10, 2021. The CSJ Airport anticipates renewing the Commercial Paper Notes in September 2021.
- **City of San José Clean Energy (“SJCE”) Credit Facility**. SJCE has a Revolving Credit Agreement (“Agreement”) by and between the City and Barclays Bank PLC. in the form of a revolving line of credit facility and a standby letter of credit facility in an aggregate amount not to exceed \$80 million. The line of credit facility has a credit capacity of \$30 million and expires in November 2021. The standby letter of credit facility has a credit capacity of \$65 million (but the sum of the line of credit and letter credit cannot exceed \$80 million) and expires in November 2023. SJCE anticipates renewing or replacing the line of credit facility by November 2021 along with expanding its total credit facilities program to support additional medium- and long-term power purchase agreements.
- **City of San José Financing Authority Commercial Paper Notes**. The City anticipates renewing and potentially expanding the CSJFA Commercial Paper Notes (“CSJFA CP Notes”). The current amount of the CSJFA CP Notes is \$125 million split evenly between State Street Bank and U.S. Bank (\$62.5 million) and terminates in February 2022. The additional increase of the CSJFA CP Notes program would continue to fund short term capital projects and other short-term needs in future years if it is financially beneficial. The City would be required to pledge owned properties as security for this increase.

CITY OF SAN JOSE
2021-2022 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2021

(In Thousands of Dollars)

	Balance June 30, 2020	Additions to Long-Term Obligations	Current Maturities and Retirements	Balance June 30, 2021
GENERAL LONG-TERM DEBT				
General Obligation Bonds	\$ 468,980	\$ -	\$ 22,520	\$ 446,460
Lease-Purchase Agreement (Taxable)	12,431	-	12,431	-
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	110,700	-	5,765	104,935
CITY OF SAN JOSÉ FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2003A	6,045	-	1,415	4,630
Lease Revenue Bonds, Series 2006A	51,670	-	51,670	-
Lease Revenue Bonds, Series 2007A	9,195	-	9,195	-
Lease Revenue Bonds, Series 2008E-1 (Taxable)	5,590	-	5,590	-
Lease Revenue Bonds, Series 2008E-2 (Taxable)	5,585	-	5,585	-
Lease Revenue Bonds, Series 2011A	28,040	-	695	27,345
Lease Revenue Bonds, Series 2013A	267,830	-	267,830	-
Lease Revenue Bonds, Series 2013B	25,685	-	910	24,775
Lease Revenue Bonds, Series 2020A	-	355,620	18,540	337,080
Lease Revenue Bonds, Series 2020B	-	146,535	-	146,535
CITY OF SAN JOSÉ ENTERPRISE FUNDS				
Airport Revenue Bonds	1,127,690	428,080	620,845	1,048,925
Sewer Revenue Bonds	5,410	-	5,410	-
TOTAL	\$ 2,124,851	\$ 930,235	\$ 1,028,401	\$ 2,140,685

**CITY OF SAN JOSE
2021-2022 PROPOSED OPERATING BUDGET**

DEBT SERVICE OBLIGATIONS

B) Summary of Bonds and Notes Payable at June 30, 2021 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%	81,415
Total City of San José			\$ 446,460
SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	5.00-6.50%	\$ 104,935
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2003A	2023	4.60-4.70%	4,630
Lease Revenue Bonds, Series 2011A	2042	4.50-5.75%	27,345
Lease Revenue Bonds, Series 2013B	2039	3.50-5.00%	24,775
Lease Revenue Bonds, Series 2020A	2039	0.54-2.88%	337,080
Lease Revenue Bonds, Series 2020B	2051	0.76-3.52%	146,535
Commercial Paper Notes	Short Term	Various	60,475
Total City of San José Financing Authority			\$ 540,425
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 2014A (AMT)	2026	3.38-5.00%	18,240
Revenue Bonds, Series 2014B (Non-AMT)	2028	3.10-5.00%	28,010
Revenue Bonds, Series 2014C (Non-AMT)	2031	3.63-5.00%	40,285
Revenue Bonds, Series 2017A (AMT)	2047	4.00-5.00%	405,350
Revenue Bonds, Series 2017B (Non-AMT)	2047	4.00-5.00%	128,960
Revenue Bonds, Series 2021A (AMT)	2034	4.00-5.00%	85,860
Revenue Bonds, Series 2021B (Non-AMT)	2034	4.00-5.00%	48,200
Revenue Bonds, Series 2021C (Taxable)	2041	0.24-3.29%	294,020
Commercial Paper Notes	Short Term	Various	51,930
San José-Santa Clara Clean Water Financing Authority:			
Regional Wastewater Facility	Short Term	Various	127,358
Total Enterprise Funds			\$ 1,228,213
GRAND TOTAL			\$ 2,320,033

CITY OF SAN JOSE
2021-2022 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

**(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term
Debt Outstanding as of June 30, 2021**

(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
2022	\$ 42,174	\$ 12,492	\$ 33,595	\$ 45,705
2023	41,255	12,481	36,411	47,482
2024	40,322	12,173	36,466	69,405
2025	39,372	8,209	35,245	71,409
2026	38,598	8,208	35,501	72,987
Thereafter	489,502	131,365	565,077	1,452,701
Total	\$ 691,223	\$ 184,928	\$ 742,295	\$ 1,759,689