

CITY OF SAN JOSE

2012-2013 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 José 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 José 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.

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2012-2013 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

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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, 2011, the total assessed value of taxable property was \$123.4 billion, which results in a total debt limit capacity of approximately \$18.5 billion. As of June 30, 2012, the City had \$460.67 million of General Obligation bonds outstanding which represents approximately 2.5% 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 \$508.6 million and repayments of \$234.4 million in 2011-2012 resulting in a total long-term debt balance of \$5.1 billion as of June 30, 2012. 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 outstanding debt balance of \$5.2 billion as of June 30, 2012. 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.

CITY OF SAN JOSE
2012-2013 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

DEBT STATUS AND CAPACITY

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 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 2011-2012, as well as issues planned for 2012-2013, are provided in the following sections.

2011-2012 DEBT ISSUES

The following debt issues have been completed in 2011-2012.

- **2011 Tax and Revenue Anticipation Note** The City issued a short-term note (the "2011 Note") in an amount not to exceed \$125 million for cash flow purposes to facilitate the prefunding of employer retirement contributions. The 2011 Note was purchased by JP Morgan Chase Bank, N.A. in July 2011 in an amount of \$100 million at an interest rate of LIBOR plus 0.40%. Security for repayment of the 2011 Note was a pledge of the City's 2011-2012 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 principal (\$100 million) and interest (\$379,098) on the 2011 Note on February 1, 2012.
- **City of San José Airport Revenue Bonds, Series 2011A-1/A-2** On July 28, 2011, the City issued \$236.8 million of Airport Revenue Bonds, Series 2011A-1 (AMT) and Series 2011A-2 (non-AMT) to refund outstanding commercial paper notes and fixed-rate debt. Specifically, bond proceeds were used for the following purposes: (1) redeem \$129.6 million of subordinated commercial paper notes, which were originally issued to refund the Airport's Series 2004AB bonds which were originally used to fund a portion of the construction of terminal and ancillary facilities at the Airport; (2) refund all of the outstanding Series 1998A bonds totaling \$6.5 million, as well as a portion of the Series 2001A bonds totaling \$85.6 million; and (3) fund a debt service reserve fund, and to pay the costs related to issuing the bonds.
- **City of San José Airport Revenue Bonds, Series 2011B** On December 14, 2011, the City issued \$271.8 million of Airport Revenue Bonds to refund outstanding taxable commercial paper notes and fund various accounts and costs associated with the financing. This series of bonds refunded taxable commercial paper notes primarily used to fund the construction of the Airport's new consolidated rental car facility (the "ConRAC").

CITY OF SAN JOSE
2012-2013 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

2011-2012 DEBT ISSUES

- **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 July 20, 2011, resulting in bond issuance in 2011:

- Taylor Oaks Apartments (\$6.3 million); closed October 19, 2011.

Allocations awarded on October 19, 2011, resulting in bond issuance in 2012:

- Mayfair Court Apartments (\$22 million); closed April 20, 2012.

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

- 1st and Rosemary Family Apartments (\$35.5 million); closed April 19, 2012.
- 1st and Rosemary Senior Apartments (\$15.5 million); closed April 19, 2012.

2012-2013 DEBT ISSUES

- **2012 Tax and Revenue Anticipation Note** The City issued short-term notes (the "2012 Notes") in an amount not to exceed \$125 million for cash flow purposes to facilitate the prefunding of employer retirement contributions. An initial portion of \$100 million of the 2012 Notes was purchased by U.S. Bank, N.A. in July 2012 at a fixed interest rate of 0.95170%. Any subsequent issuances up to the \$125 million authorization will pay interest at a variable rate of 30-day LIBOR plus 0.25%. Security for repayment of the 2012 Notes is a pledge of the City's 2012-2013 secured property tax revenues (excluding property taxes levied for general obligation bonds) and sales tax revenues received during 2012-2013 plus all other legally available General Fund revenues of the City, if required. The initial fixed rate portion of the 2012 Notes has a final maturity of February 14, 2013. Any subsequent variable rate issuances will have a final maturity of June 28, 2013.
- **City of San José General Obligation Bonds, Series 2012 (Libraries and Public Safety Projects)** The City anticipates issuing approximately \$9.2 million of General Obligation Bonds in fall 2012. 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 and Series 2002, if market conditions provide sufficient economic and financial benefits.

CITY OF SAN JOSE
2012-2013 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

2012-2013 DEBT ISSUES

- **Refunding of Various Existing City Debt** The City plans to review and identify opportunities to refund or restructure the debt portfolio with the goal of reducing the City's annual debt service obligations. Although fixed rate bonds can only be redeemed on or after the first call date specified in the financing documents, variable rate bonds can be redeemed on any tender date. The bonds that are currently considered to be candidates for refunding are: City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center), Series 2002B (Civic Center), 2008A (Civic Center), and 2008B (Civic Center Garage). In addition, City of San José Airport Revenue Bonds, Series 2001A and Series 2002A are also under consideration.

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

Allocations awarded on September 28, 2011, with an expected bond issuance in 2012:

- 3rd Street Apartments (\$7.3 million); expected close fall 2012.

Allocations awarded on July 18, 2012, with an expected bond issuance in 2012:

- La Moraga Apartments (\$53.5 million); expected close fall 2012.

CITY OF SAN JOSE
2012-2013 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2012
(In Thousands of Dollars)

	Balance July 1, 2011	Additions to Long-Term Obligations	Current Maturities and Retirements	Balance June 30, 2012
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 480,320	\$ -	\$ 19,650	\$ 460,670
HUD Section 108 Loan	21,877	-	1,074	20,803
Special Assessment Bonds with Limited Governmental Commitment	163,904	-	3,594	160,310
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 1993B	1,528	-	765	763
Lease Revenue Bonds, Series 1997B	755	-	390	365
Lease Revenue Bonds, Series 2001F	137,805	-	8,785	129,020
Lease Revenue Bonds, Series 2002B	291,650	-	875	290,775
Lease Revenue Bonds, Series 2003A	16,500	-	995	15,505
Lease Revenue Bonds, Series 2006A	57,440	-	-	57,440
Lease Revenue Bonds, Series 2007A	32,485	-	1,010	31,475
Lease Revenue Bonds, Series 2008A	56,920	-	-	56,920
Lease Revenue Bonds, Series 2008B-1	17,280	-	370	16,910
Lease Revenue Bonds, Series 2008B-2	17,280	-	375	16,905
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	43,385	-	2,085	41,300
Lease Revenue Bonds, Series 2008E-1 (Taxable)	12,460	-	590	11,870
Lease Revenue Bonds, Series 2008E-2 (Taxable)	12,455	-	595	11,860
Lease Revenue Bonds, Series 2008F (Taxable)	67,195	-	1,605	65,590
Lease Revenue Bonds, Series 2011A	30,985	-	-	30,985
Revenue Bonds, Series 2001A	36,710	-	1,605	35,105
REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	247,540	-	7,160	240,380
Housing Tax Allocation Bonds (Subordinate)	90,900	-	2,300	88,600
Redevelopment Tax Allocation Bonds	1,711,000	-	49,200	1,661,800
Redevelopment Tax Allocation Bonds (Sub.)	96,870	-	3,215	93,655
HUD Section 108 Loans	31,420	-	1,675	29,745
CSCDA ERAF Loans	17,330	-	3,570	13,760
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,025,870	508,605	114,080	1,420,395
Sewer Revenue Bonds/State Revolving Fund Loan	83,907	-	8,850	75,057
TOTAL	\$ 4,814,686	\$ 508,605	\$ 234,413	\$ 5,088,878

CITY OF SAN JOSE
2012-2013 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2012 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	5.00-5.125%	\$ 47,300
General Obligation Bonds, Series 2002	2032	4.00-5.00%	81,260
General Obligation Bonds, Series 2004	2034	4.00-5.00%	91,015
General Obligation Bonds, Series 2005	2035	3.00-4.50%	37,060
General Obligation Bonds, Series 2006	2036	4.00-5.00%	87,850
General Obligation Bonds, Series 2007	2037	4.00-5.50%	78,000
General Obligation Bonds, Series 2008	2038	4.00-5.00%	29,785
General Obligation Bonds, Series 2009	2039	4.00-5.00%	8,400
HUD Section 108 Loan	2024	Variable Rate	20,803
Total City of San José			<u>\$ 481,473</u>
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2042	3.00-6.65%	<u>\$ 160,310</u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 1993B	2018	6.00%	\$ 763
Lease Revenue Bonds, Series 1997B	2012	4.875%	365
Lease Revenue Bonds, Series 2001F	2022	4.25-5.00%	129,020
Lease Revenue Bonds, Series 2002B	2037	4.00-5.25%	290,775
Lease Revenue Bonds, Series 2003A	2023	3.70-4.70%	15,505
Lease Revenue Bonds, Series 2006A	2039	4.00-5.00%	57,440
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	31,475
Lease Revenue Bonds, Series 2008A	2039	Variable Rate	56,920
Lease Revenue Bonds, Series 2008B-1	2039	Variable Rate	16,910
Lease Revenue Bonds, Series 2008B-2	2039	Variable Rate	16,905
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	41,300
Lease Revenue Bonds, Series 2008E-1 (Taxable)	2025	Variable Rate	11,870
Lease Revenue Bonds, Series 2008E-2 (Taxable)	2025	Variable Rate	11,860
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	65,590
Lease Revenue Bonds, Series 2011A	2042	3.00-5.75%	30,985
Revenue Bonds, Series 2001A	2026	4.125-5.25%	35,105
Commercial Paper Notes	Short Term	Various	45,348
Total City of San José Financing Authority			<u>\$ 869,051</u>
REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2035	3.40-5.85%	\$ 240,380
Housing Tax Allocation Bonds (Sub.)	2035	Variable Rate	88,600
Redevelopment Tax Allocation Bonds	2036	3.75-7.00%	1,661,800
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	93,655
HUD Section 108 Loans	2025	Variable Rate	29,745
CSCDA ERAF Loans	2016	4.77-5.67%	13,760
Total Redevelopment Agency			<u>\$ 2,127,940</u>

CITY OF SAN JOSE
2012-2013 ADOPTED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

(B) Summary of Bonds and Notes Payable at June 30, 2012 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 2001A	2031	5.00%	\$ 45,710
Revenue Refunding Bonds, Series 2002A	2018	5.375%	49,140
Revenue Bonds, Series 2004C (AMT)	2026	4.625-5.25%	71,730
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	2.00-6.25%	146,370
Revenue Bonds, Series 2011A-2 (Non-AMT)	2034	2.00-5.25%	84,075
Revenue Bonds, Series 2011B	2041	1.00-6.75%	264,085
Commercial Paper Notes	Short Term	Various	47,937
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2005A	2016	3.50-5.00%	26,890
Revenue Refunding Bonds, Series 2009A	2020	3.00-5.00%	21,420
State of California Revolving Loan	2019	Various	26,747
Total Enterprise Funds			<u>\$ 1,543,389</u>
GRAND TOTAL			<u><u>\$ 5,182,163</u></u>

CITY OF SAN JOSE
2012-2013 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, 2012*
 (In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment Bonds	City of San José Financing Authority	Redevelopment Agency	Enterprise Funds
2013	\$ 42,378	\$ 13,080	\$ 37,113	\$ 189,720	\$ 101,437
2014	41,571	13,442	38,274	190,152	109,406
2015	40,854	14,656	40,094	190,713	109,817
2016	40,255	14,366	43,545	189,722	110,095
2017	39,368	13,520	44,689	187,756	110,208
Thereafter	543,862	250,819	962,020	2,631,847	2,424,808
Total	\$ 748,288	\$ 319,883	\$ 1,165,735	\$ 3,579,910	\$ 2,965,771

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

	Tax-Exempt	Taxable	HUD Section 108	RDA HSA 2010C
2012-2013	2.20%	2.20%	1.09%	3.27%
2013-2014	2.60%	2.80%	1.29%	3.47%
2014-2015	3.00%	3.40%	1.89%	4.07%
2015-2016	3.90%	4.75%	3.24%	5.42%
2016-2017	3.90%	4.75%	3.24%	5.42%