

CITY OF SAN JOSE
2021-2022 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 ("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.

- **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.
- **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.

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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 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. As of June 30, 2021, the total assessed value of taxable property was \$215.3 billion, which results in a total debt limit capacity of approximately \$32.3 billion. After the issuance of \$200.5 million of General Obligation Bonds in July 2021, there is \$647.0 million in General Obligation bonds outstanding¹, representing 2.0% of the debt limit and a remaining debt margin of \$31.6 billion (debt limit less outstanding GO debt).

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 has 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, repaid and/or refunded \$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 \$2.4 billion as of 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 issued and planned for 2021-2022, are provided in the following sections.

¹ The \$647.0 million in GO debt outstanding includes \$40,870,000 of Series 2021C bonds that will be redeemed on September 1, 2021 from proceeds of the 2021 bond sale.

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2020-2021 DEBT ISSUANCE

The following debt issuances were completed in 2020-2021:

- **2020 Tax and Revenue Anticipation Notes.** On July 1, 2020, the City issued two \$65 million short-term Tax and Revenue Anticipation Notes (“2020 Notes”), for a total of \$130 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 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. The 2020 Notes were fully repaid in May 2021.
- **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; and 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, 2021, the City issued \$428.1 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, refund a portion of outstanding Series 2014A, 2017A and 2017B Bonds (collectively, the “Refunded 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.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes.** On June 23, 2021 the City issued \$0.9 million of previously authorized Commercial Paper Notes for the Parks, Recreation & Neighborhood Services Department’s Flood Improvement projects. On June 28, 2021 the City issued \$15 million of Commercial Paper Notes authorized by Council on June 22, 2021 as part of a larger \$95 million authorization for San José Clean Energy (“SJCE”) to finance the purchase of power and other operating costs.

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2021-2022 PLANNED DEBT ISSUANCE

The following debt has been issued and/or is planned for issuance in 2021-2022:

- **2021 Tax and Revenue Anticipation Note.** On July 1, 2021, the City issued a \$285 million short-term Tax and Revenue Anticipation Note (“2021 Note”) to facilitate the prefunding, in combination with \$141.3 million of cash, of certain employer retirement contributions in 2021-2022. The 2021 Note was purchased by Bank of America, N.A. Security for repayment of the 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.** On July 29, 2021, the City sold \$200.5 million of General Obligation Bonds, Series 2021ABC, the second issuance 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 \$23 million in CSJFA Lease Revenue Bonds to finance the acquisition, construction, and equipping of the City’s Fire Department Training Center and additional improvements to and equipping of the Central Service Yard. The financing will also refinance on a current basis: all of the CSJFA’s Series 2003A Bonds (Central Service Yard Refunding Project); and a portion of the CSJFA’s outstanding Commercial Paper Notes for the Central Service Yard project.
- **City of San José (“CSJ”) Airport Commercial Paper Notes.** The CSJ Airport’s letter of credit facility with Bank of America (“BofA”) and TEFRA approval for the Series B Notes is scheduled to expire in September 2021. Before that September expiration, a new TEFRA hearing is scheduled for August 2021 and is required to allow continued issuance of the Series B Notes. The City anticipates renewing that letter of credit facility with BofA that supports the Airport’s Commercial Paper program in the fall of 2021 in the amount of \$75,000,000 for a three year extended term to September 2024.
- **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 expanding the standby letter of program in the next calendar year to support additional medium and long term power purchase agreements. The City has been using its City of San José Financing Authority Lease Revenue Commercial Paper program as a more cost effective and flexible alternative to the line of credit which is expected to expire without renewal.

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- **City of San José Financing Authority Commercial Paper Notes.** On July 27, 2021 the City issued \$15.0 million of previously authorized CSJFA Commercial Paper Notes to finance the purchase of power and other operating costs. The City anticipates issuing CSJFA Commercial Paper Notes monthly through February 2022 for SJCE power purchases and other operating costs. Together with amounts issued in June 2021 and July 2021, SJCE was authorized by Council to issue up to \$95 million of notes. In early calendar year 2022 the City also expects to issue such notes for Public Works projects in the anticipated amount of \$4.2 million for the Fire Department Training Center project.

In anticipation of continued utilization of the CSJFA Commercial Paper program by SJCE and other departments, the City anticipates extending the expiration date by three years to March 2025 and expanding the capacity of the CSJFA Commercial Paper program from \$125 million to \$175 million. These actions allow for continuing to provide funding of short-term capital projects and other short-term borrowing needs in future years if deemed financially beneficial.

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(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 ADOPTED 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	76,359
Total City of San José Financing Authority			\$ 616,724
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			\$ 2,396,332

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**(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	\$ 87,764	\$ 12,492	\$ 33,595	\$ 45,705
2023	58,634	12,491	36,411	47,482
2024	50,159	12,162	36,466	69,405
2025	49,206	8,209	35,245	71,409
2026	48,428	8,208	35,501	72,987
Thereafter	743,262	131,365	565,077	1,452,701
Total	\$ 1,037,453	\$ 184,928	\$ 742,295	\$ 1,759,689