

CITY OF SAN JOSE
2022-2023 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

The City's debt service obligations include general obligation bonds, lease revenue bonds, enterprise revenue bonds, commercial paper notes, 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 to make lease payments, and also has issued enterprise revenue bonds and revenue notes.

- **General Obligation Bonds (GO 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 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 lease payments to the CSJFA, in exchange for use of the leased property, and covenants to appropriate funds annually while 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 Notes (CP Notes)** is a short-term promissory note issued by the City or its related entities with a maturity of 270 days or less. Commercial Paper is used principally as interim financing for projects. Maturing CP Notes are repaid from the proceeds of sale of new commercial paper notes or bonds, or from other funds provided by the City.
- **Special Tax Bonds** are issued to finance the construction and/or acquisition of facilities in community facilities districts. The source of repayment for these types of bonds is a special tax on privately-owned properties within the respective 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 GO Bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. As of June 30, 2022, the total assessed value of taxable property was \$230.3 billion, which results in a total debt limit capacity of approximately \$34.5 billion. As of June 30, 2022, the City had \$582.1 million in GO debt outstanding, representing 1.7% of the debt limit and a remaining debt margin of \$34.0 billion (debt limit less outstanding GO debt).

On January 24, 2012, the City Council affirmed its decision to serve as the SARA effective February 1, 2012. SARA has total principal debt outstanding of \$1.29 billion, consisting of three series of Merged Area Tax Allocation Bonds, as of June 30, 2022.

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 \$389.2 million, repaid and/or refunded \$217.6 million of long-term debt in 2021-2022 resulting in an estimated total long-term debt balance of \$2.3 billion as of June 30, 2022. 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 nearly \$2.65 billion as of June 30, 2022. It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution; however long-term lease obligations have been included in this listing for transparency. 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 2021-2022, as well as debt planned for 2022-2023, are provided in the following sections.

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2021-2022 DEBT ISSUANCE

The following debt issuances were completed 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 is the City's 2021-2022 secured property tax plus all other legally available General Fund Revenue, if required.
- **City of San José Financing Authority Commercial Paper Notes.** In June 2021, the City Council authorized CSJFA to issue up to \$95.0 million of CP Notes for the San José Clean Energy program. On July 27, 2021, the City issued \$15.0 million of CSJFA CP Notes to finance the purchase of power and other operating costs. The City issued CSJFA CP Notes through December 2021 for the San José Clean Energy program power purchases and other operating costs totaling \$60.0 million in CP Notes. No additional CP Notes were issued for the San José Clean Energy program through June 30, 2022.

On August 31, 2021, the City extended the expiration date of the CSJFA Commercial Paper Program by three years to March 2025 and expanded its capacity from \$125.0 million to \$175.0 million. That action allows for continued funding of short-term capital projects and other short-term borrowing needs in future years if deemed financially beneficial by City departments including the San José Clean Energy program.

- **City of San José General Obligation Bonds.** On July 29, 2021, the City issued \$200.5 million of GO 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 GO Bonds will be payable from the ad valorem taxes levied upon all properties subject to taxation by the City.
- **City of San José (CSJ) Airport Commercial Paper Notes.** On August 19, 2021, the City extended the CSJ Airport letter of credit facility with Bank of America through September 10, 2024 in the amount of \$75,000,000. On August 31, 2021, the City conducted a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing required to allow continued issuance of the Series B Notes in an aggregate principal amount not to exceed \$600,000,000 (the prior TEFRA was set to expire in September 2021). The Series B Notes are issued pursuant to a plan of finance in order to provide proceeds to pay or reimburse all or a portion of the costs of acquisition, construction, equipping, financing, reconstruction, development, and modification of airport terminal and ancillary facilities that are included in or consistent with the Airport Master Plan for the Norman Y. Mineta San José International Airport (Airport).

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- **City of San José Financing Authority Lease Revenue Bonds.** On November 2, 2021, the City issued \$22.8 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 also refinanced on a current basis: all of the CSJFA's Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project); and a portion of the CSJFA's outstanding CP Notes for the Central Service Yard project.
- **City of San José Financing Authority Lease Revenue Bonds.** On April 21, 2022, the City issued \$165.8 million in CSJFA Taxable Lease Revenue Bonds, Series 2022A to: (a) refinance, on a current basis, all of the City's outstanding Special Hotel Tax Revenue Bonds, Series 2011 (Convention Center Expansion and Renovation Project); (b) refinance, on a current basis, all of the Authority's outstanding Lease Revenue Bonds, Series 2011A (Convention Center Expansion and Renovation Project); (c) refinance all of the Authority's outstanding CP Notes which financed and refinanced certain public capital improvements to the Convention Center (Exhibit Hall and South Hall Commercial Paper Notes); and (d) pay the costs of issuing the 2022A Bonds.

2022-2023 PLANNED DEBT ISSUANCE

The following debt has been issued and/or is planned for issuance in 2022-2023:

- **2022 Tax and Revenue Anticipation Note.** On July 1, 2022, the City issued a \$275 million short-term Tax and Revenue Anticipation Note (2022 Note) to facilitate the prefunding, in combination with \$146.4 million of cash, of certain employer retirement contributions in 2022-2023. The 2022 Note was purchased by Bank of America, N.A. Security for repayment of the 2022 Note is the City's 2022-2023 secured property tax plus all other legally available General Fund Revenue, if required.
- **City of San José Wastewater Revenue Bonds.** The City anticipates issuing approximately \$450.1 million in Wastewater Revenue Bonds in December 2022. The bond issuance will refinance a \$300.0 million short-term revolving Credit Facility and provide additional capital funds to support the long-range capital plan for the Regional Wastewater Facility, which is estimated to cost \$2.0 billion.
- **City of San José Financing Authority Lease Revenue Commercial Paper Notes.** The CSJFA anticipates issuing approximately \$6.4 million of previously authorized CP Notes for the Parks, Recreation & Neighborhood Services Department's Flood Improvement projects by June 2023.

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(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2022

(In Thousands of Dollars)

	<u>Balance June 30, 2021</u>	<u>Additions to Long-Term Obligations</u>	<u>Current Maturities and Retirements</u>	<u>Balance June 30, 2022</u>
GENERAL LONG-TERM DEBT				
General Obligation Bonds	\$ 446,460	\$ 200,530	\$ 64,880	\$ 582,110
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	104,935	-	101,410	3,525
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2003A	4,630	-	4,630	-
Lease Revenue Bonds, Series 2011A	27,345	-	27,345	-
Lease Revenue Bonds, Series 2013B	24,775	-	940	23,835
Lease Revenue Bonds, Series 2020A	337,080	-	16,490	320,590
Lease Revenue Bonds, Series 2020B	146,535	-	-	146,535
Lease Revenue Bonds, Series 2021A	-	22,825	-	22,825
Lease Revenue Bonds, Series 2022A	-	165,815	-	165,815
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,048,925	-	1,900	1,047,025
TOTAL	<u>\$ 2,140,685</u>	<u>\$ 389,170</u>	<u>\$ 217,595</u>	<u>\$ 2,312,260</u>

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B) Summary of Bonds and Notes Payable at June 30, 2022 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ 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%	156,045
General Obligation Bonds, Series 2019D	2024	2.30-2.35%	59,545
General Obligation Bonds, Series 2021A	2051	5.0%	151,210
General Obligation Bonds, Series 2021B	2022	1.0%	8,450
Total City of San José			<u>\$ 582,110</u>
SPECIAL ASSESSMENT AND SPECIAL TAX BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2023	5.25-6.00%	\$ 3,525
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2013B	2039	3.50-5.00%	\$ 23,835
Lease Revenue Bonds, Series 2020A	2039	0.54-2.88%	320,590
Lease Revenue Bonds, Series 2020B	2051	0.76-3.52%	146,535
Lease Revenue Bonds, Series 2021A	2034	4.0%	22,825
Lease Revenue Bonds, Series 2022A	2052	2.92-4.86%	165,815
Commercial Paper Notes	Short Term	Various	<u>66,947</u>
Total City of San José Financing Authority			<u>\$ 746,547</u>
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%	292,120
Commercial Paper Notes	Short Term	Various	34,112
City of San José Financing Authority			
Regional Wastewater Facility	Short Term	Various	<u>236,870</u>
Total Enterprise Funds			<u>\$ 1,318,007</u>
GRAND TOTAL			<u><u>\$ 2,650,189</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, 2022**

(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Tax Bonds ⁽¹⁾	City of San José Financing Authority	Enterprise Funds
2023	\$ 58,634	\$ 1,865	\$ 42,475	\$ 47,482
2024	50,159	1,861	45,028	69,405
2025	49,206	-	45,894	71,409
2026	48,428	-	46,406	72,987
2027	47,477	-	47,801	74,154
Thereafter	695,785	-	752,294	1,378,547
Total	\$ 949,689	\$ 3,725	\$ 979,899	\$ 1,713,985

(1) The City exercised its option to call the outstanding Special Tax Bonds which will be fully redeemed on September 1, 2022.

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