

CITY OF SAN JOSE
2023-2024 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

OVERVIEW

The City debt service obligations include general obligation bonds, lease revenue bonds, enterprise revenue bonds, subordinate wastewater revenue notes, commercial paper notes, and tax and revenue anticipation notes. The City of San José Financing Authority 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.
- **Enterprise 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 (CSJFA)** 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 the sale of new commercial paper notes or bonds, or from other funds provided by the City.
- **Subordinate Wastewater Revenue Note** is an interim financing facility that can be outstanding at any one time in an amount not to exceed \$300 million to finance capital improvements at the Treatment Plant.
- **Tax and Revenue Anticipation Note** is a short-term promissory note that is issued for cash flow purposes and repaid by the City from ad valorem property tax revenues or other tax and revenues anticipated to be received by the City within the same fiscal year.
- **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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CITY CHARTER AND COUNCIL POLICIES

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.

The City Council has adopted a general debt management policy that 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 Debt Management Policy (Council Policy 1-15) for the City was adopted by the City Council on May 21, 2002, and recently amended on March 21, 2023. 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.

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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, 2023, the City estimates \$548.6 million in GO debt outstanding, representing 1.6% of the debt limit and leaving a 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 \$1.19 billion, consisting of three series of Merged Area Tax Allocation Bonds, as of June 30, 2023.

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 \$268.4 million and repaid and/or refunded \$61.1 million of long-term debt in 2022-2023, resulting in an estimated total long-term debt balance of \$2.5 billion as of June 30, 2023. 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 estimated to be over \$2.6 billion as of June 30, 2023. 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.

Descriptions of the City of San José and related entity debt activity for 2022-2023, as well as debt planned for 2023-2024, are provided in the following sections.

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FISCAL YEAR 2022-2023 DEBT ISSUANCE/PLANNED

The following debt issuances were completed in Fiscal Year 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 Financing Authority Wastewater Revenue Bonds.** On December 15, 2022, the City issued \$268.4 million in CSJFA Wastewater Revenue Bonds, Series 2022B to: (a) repay the Authority's Subordinate Wastewater Revenue Notes, Series A which financed certain improvements at the Treatment Plant; and (b) pay the costs of issuing the 2022B Bonds.

The following debt issuances are planned for the remainder of Fiscal Year 2022-2023:

- **City of San José Financing Authority Lease Revenue Commercial Paper Notes.** The CSJFA anticipates issuing \$2.7 million of previously authorized Taxable CP Notes for the Parks, Recreation & Neighborhood Services Department's flood improvement projects in June 2023.
- **City of San José Financing Authority Subordinate Wastewater Revenue Note.** The CSJFA anticipates issuing \$40 million of the Subordinate Wastewater Revenue Note to finance capital improvements at the Treatment Plant in June 2023.

FISCAL YEAR 2023-2024 PLANNED DEBT ISSUANCE

The following debt issuances are planned for Fiscal Year 2023-2024:

- **City of San José Financing Authority Lease Revenue Commercial Paper Notes.** The City is forecasting to issue \$30.2 million of CP Notes for the construction of a Water Resources Administration & Operations facility, implementation of advanced metering infrastructure throughout the entire Muni Water service area, and flood improvement projects.
- **City of San José Financing Authority Subordinate Wastewater Revenue Note, Series A.** The current agreement for the interim financing facility with Wells Fargo Bank expires on October 18, 2023. Staff anticipates extending the short-term facility for another three years to provide interim financing for capital improvements of the Regional Wastewater Facilities.
- **San José Mineta International Airport Commercial Paper.** The Airport is forecasting to issue CP under Series A-1 (Non-AMT) to finance the design and building of the Facilities Division Building. The staff is currently evaluating the spending of the project to determine the CP issuance schedule and amounts.

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(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2023
(In Thousands of Dollars)

	<u>Balance June 30, 2022</u>	<u>Additions to Long-Term Obligations</u>	<u>Current Maturities and Retirements</u>	<u>Balance June 30, 2023</u>
GENERAL LONG-TERM DEBT				
General Obligation Bonds	\$ 582,110	-	\$ 33,515	\$ 548,595
Special Assessment and Special Tax Bonds with Limited Governmental Commitment	3,525	-	3,525	-
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 2013B	23,835	-	985	22,850
Lease Revenue Bonds, Series 2020A	320,590	-	16,580	304,010
Lease Revenue Bonds, Series 2020B	146,535	-	2,815	143,720
Lease Revenue Bonds, Series 2021A	22,825	-	1,415	21,410
Lease Revenue Bonds, Series 2022A	165,815	-	-	165,815
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,047,025	-	2,225	1,044,800
City of San José Financing Authority				
Wastewater Revenue Bonds Series 2022B	-	268,355	-	268,355
TOTAL	<u>\$ 2,312,260</u>	<u>\$ 268,355</u>	<u>\$ 61,060</u>	<u>\$ 2,519,555</u>

**CITY OF SAN JOSE
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B) Summary of Bonds and Notes Outstanding at June 30, 2023 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2019A-1	2050	5.0%	\$ 140,360
General Obligation Bonds, Series 2019B	2028	2.35-2.60%	66,500
General Obligation Bonds, Series 2019C	2036	5.0%	153,795
General Obligation Bonds, Series 2019D	2025	2.3%	38,090
General Obligation Bonds, Series 2021A	2052	5.0%	149,850
Total City of San José			<u>\$ 548,595</u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 2013B	2039	3.50-5.00%	\$ 22,850
Lease Revenue Bonds, Series 2020A	2039	0.84-2.88%	304,010
Lease Revenue Bonds, Series 2020B	2051	0.99-3.52%	143,720
Lease Revenue Bonds, Series 2021A	2035	4.0%	21,410
Lease Revenue Bonds, Series 2022A	2052	2.92-4.86%	165,815
Commercial Paper Notes	Short Term	Variable	48,415
Total City of San José Financing Authority			<u>\$ 706,220</u>
ENTERPRISE FUNDS			
San José Mineta International Airport			
Revenue Bonds, Series 2014A (AMT)	2026	3.00-5.00%	\$ 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	0.65-3.29%	289,895
Commercial Paper Notes	Short Term	Variable	-
City of San José Financing Authority			
Wastewater Revenue Bonds, Series 2022B	2053	5.0%	268,355
Subordinate Wastewater Revenue Note	Short Term	Variable	40,000
Total Enterprise Funds			<u>\$ 1,353,155</u>
GRAND TOTAL			<u><u>\$ 2,607,970</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, 2023**

(In Thousands of Dollars)

Year Ending June 30	City of San José	City of San José Financing Authority	Enterprise Funds
2024	50,159	45,028	86,674
2025	49,206	45,894	88,681
2026	48,428	46,406	90,256
2027	47,477	47,801	91,424
2028	46,446	47,809	91,406
Thereafter	649,339	704,486	1,736,164
Total	\$ 891,055	\$ 937,424	\$ 2,184,604