



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL AND CITY  
OF SAN JOSE FINANCING  
AUTHORITY BOARD

**FROM:** Scott P. Johnson

**SUBJECT:** SEE BELOW

**DATE:** May 2, 2007

Approved

*Ray Winer*

Date

*5/4/07*

**COUNCIL DISTRICT:** Citywide

**SUBJECT: CITY OF SAN JOSE FINANCING AUTHORITY COMMERCIAL PAPER PROGRAM AND PUBLIC HEARING**

## RECOMMENDATION

It is recommended that the City Council take the following actions:

- a. Conduct a public hearing of the City Council concerning the approval of the financing by the City of San José Financing Authority's issuance of taxable commercial paper and/or lease revenue bonds in order to finance certain public capital improvements of the City, consisting of additional capital improvements of the HP Pavilion and certain related costs.
- b. Adoption of a resolution of the City Council approving the issuance of commercial paper notes pursuant to the previously established commercial paper program designated as "*City of San José Financing Authority Lease Revenue Commercial Paper Notes*" in the not-to-exceed aggregate amount of \$116 million, and determining that there will be significant public benefits accruing from such financing.

It is recommended that the City of San José Financing Authority Board take the following action:

- a. Adoption of a resolution of the City of San José Financing Authority authorizing the issuance of City of San José Financing Authority Lease Revenue Commercial Paper Notes for the additional purpose of additional capital improvements of the HP Pavilion and certain related costs.

## **OUTCOME**

Approval of these recommendations will allow the issuance of commercial paper notes ("CP Notes") for the purpose of financing additional capital improvements of the HP Pavilion ("HP Pavilion Improvements Project") as scheduled for City Council approval on May 8, 2007.

## **BACKGROUND**

On January 13, 2004, the City Council and the City of San José Financing Authority Board (the "Authority Board") approved the implementation of a tax-exempt Lease Revenue Bond Commercial Paper Program ("CP Program") to provide funding for the off-site parking garage; technology, furniture, equipment and relocation costs; and interim space planning costs, (collectively the "Civic Center Project"). The total amount authorized to be issued under the CP Program at that time was \$98 million. The public hearing held at the January 13, 2004 meeting pursuant to California Government Code Section 6586.5 specifically outlined the proposed uses from the CP Program to include the projects and purposes outlined above.

On June 21, 2005, the City Council and the Authority Board approved the issuance of taxable CP Notes in order to increase the CP Program's flexibility with respect to a portion of the previously identified projects. The aggregate total amount authorized to be issued under the CP Program remained at \$98 million. A public hearing was not required because there were no additional projects being considered under the authorization.

On November 11, 2005, the City Council and the Authority Board approved the expansion of the CP Program to provide additional funding for the "Integrated Utility Billing, Customer Service and Performance Management System" (the "CUSP Project") and the Central Service Yard Phase II Project. The total amount authorized to be issued under the expanded CP program is \$116 million. The public hearing held at the November 15, 2005 meeting pursuant to California Government Code Section 6586.5 specifically outlined the proposed uses from the CP Program to include the projects and purposes outlined above.

The HP Pavilion is San José's arena; owned by the City and operated by San Jose Arena Management under the Amended and Restated San Jose Arena Management Agreement. The City's portion of Capital Enhancements to HP Pavilion for fiscal year 2007-08 is \$8,250,000 (the "Improvements") as described in the "Additional Capital Improvements of the HP Pavilion" staff report, which is scheduled for the City Council consideration at their May 8, 2007 meeting. This staff report is agendized pursuant to the recommendation in that staff report to return to the City Council with the necessary actions to use the CP Program for the purpose of funding the Improvements.

## **ANALYSIS**

It is necessary that Council conduct a public hearing, as required by State law, in order to authorize the issuance of CP Notes for the HP Pavilion Improvement Project. A notice will be published in the *San Jose Mercury News* on or about May 17, 2007, advertising the City Council and Authority Board's public hearing on May 22, 2007.

The public hearing will allow the City Council to hear and consider information concerning the approval of the financing by the City of San José Financing Authority (the "Authority") and the City, by the issuance of CP Notes, of certain public capital improvements of the City, consisting of additional capital improvements of the HP Pavilion, and the significant public benefit of such financing by the Authority. Under State law, "significant public benefit" includes lower costs of financing. Establishing the financing with the Authority as the issuer, rather than the City as the issuer, makes the financing less complicated (due to the fact that the Authority can issue CP Notes whereas the City would have to issue CP Certificates of Participation) and, accordingly, less costly. Additionally, as no amendments to any of the documents that established the CP Program are necessary, the Authority's issuance of CP Notes to finance the HP Pavilion Improvement Project is less costly than any other form of financing available to the City.

On a by-project basis, the currently outstanding amounts of CP Notes are \$57.2 million, \$10.2 million, and \$20.9 million for the Civic Center Project, CUSP Project, and the Central Service Yard Phase II Project, respectively. There is sufficient capacity in the existing CP Program to issue an additional \$8.25 million to fund improvements described in the staff report on the May 8, 2007 agenda. Furthermore, on May 7, 2007, as part of the repayment schedule for outstanding CP Notes, the City will amortize \$7.9 million and \$1.4 million of the outstanding CP Notes for the Civic Center Project and the CUSP Project respectively, which will make \$9.3 million of existing capacity available in the CP Program.

At the time of the City Council/Authority Board approval of the expanded CP Program, approval was received to authorize the Authority to have up to \$116.0 million in CP Notes outstanding at any time. It was also contemplated that the City could at a future date authorize the issuance of CP Notes to provide funding for additional projects; the HP Pavilion Improvement Project is an additional project to be financed through the issuance of taxable CP Notes.

## **PUBLIC OUTREACH/INTEREST**

The City Council will hold a public hearing on May 22, 2007, as required by Section 6586.5 of the Government Code of the State of California to consider information concerning the approval of issuance of the CP Notes. The Notice of Public Hearing to be held in conjunction with the approval of the issuance of the CP Notes will be published in the *San José Mercury News* on or about May 17, 2007 announcing the time and location of the public hearing.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

### **COORDINATION**

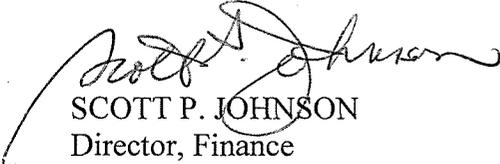
This report was prepared by the Finance Department in coordination with the City Manager's Office, Budget Office, and the City Attorney's Office.

### **COST SUMMARY/IMPLICATIONS**

There are no additional costs to the City for the expansion of the use of the CP Notes. The repayment of the notes will take place over eight years from funds provided for in the Amended and Restated San Jose Arena Management Agreement or generated by arena operations.

### **CEQA**

Not a project.

  
SCOTT P. JOHNSON  
Director, Finance

For questions, please contact David Persselin, Debt Administrator, at (408) 535-7012.