



Memorandum

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

FROM: Scott P. Johnson

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

DATE: November 3, 2004

Approved

Ray Wines

Date

11/3/04

COUNCIL DISTRICT: City-Wide

REASON FOR ADDENDUM

During the finalization of the report to the City Council for the authorization for the City Manager to negotiate and execute agreements with BearingPoint, Inc. and Blue Heron Consulting for Stage I of the CUSP project, the need to hold a Public Hearing to allow for the use of Commercial Paper proceeds to fund Stage 1 of the CUSP project and project related staffing and non-personal costs was identified.

RECOMMENDATION

1. Conduct a Public Hearing of the City Council concerning the approval of the financing by the City of San Jose Financing Authority's issuance of commercial paper and/or lease revenue bonds in order to finance certain public capital improvements of the City, consisting of computer software, software licensing, hardware and certain related costs related to the City's billing systems (CUSP Project).
2. 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 Tax-Exempt Lease Revenue Commercial Paper Notes" in the not to exceed amount of \$98 million, and determining that there will be significant public benefits accruing from such financing.
3. Adoption of a resolution of the City of San José Financing Authority authorizing the issuance of City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Notes for the additional purposes of computer software, software licensing, hardware and certain related costs related to the City's billing systems (CUSP Project).

BACKGROUND

On January 13, 2004, the City Council and the City of San Jose Financing Authority Board (the "Authority") 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 is \$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 29, 2004, the City Council took several actions related to the CSUP project, including directing staff to proceed with the necessary actions to expand the City's commercial paper program including the preparations of the necessary amendments to the Trust Indenture, certain financing documents, and preparation of a new Offering Memorandum for the CP Program. This report is the first step in the process of expanding the City's Lease Revenue CP Program.

ANALYSIS

It is necessary that Council conduct a public hearing, as required by State law, in order to authorize the issuance of commercial paper for the City's billing systems ("CUSP Project"). A notice will be published in the *San Jose Mercury News* on or about November 4, 2004, advertising the City Council's Public Hearing on November 9, 2004.

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 commercial paper and/or lease revenue bonds, of certain public capital improvements of the City, consisting of computer software, software licensing, hardware and related costs associated with the entire CUSP Project, 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 commercial program are necessary, the Authority's issuance of commercial paper to finance Stage 1 of the CUSP project is less costly than any other form of financing available to the City.

To date the Authority has issued approximately \$24.8 million in CP Notes for the Civic Center Project. Staff has analyzed the existing CP program, the expected use of the CP Notes and the timing relating to these uses. Due to the timing of the actual expenditures for these uses occurring, the CP program can be utilized as an interim funding solution for Stage 1 CUSP costs until staff brings the expanded CP program documents to Council in spring 2005. The accompanying staff report describes the estimated project costs for the Stage 1 and Stage 2 of the

CUSP project. There is sufficient capacity in the existing program to fund the expenses as described in that report.

At the time of the City Council/Authority Board approval of the existing CP Program, approval was received to authorize the Authority to have up to \$98.0 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 CUSP project is an additional project to be financed through the issuance of tax-exempt Commercial Paper Notes. These actions are consistent with City Council direction on June 29, 2004 (item 3.7) in which the Council directed staff to proceed with the necessary actions to expand the City's commercial paper program for CUSP related project costs.

PUBLIC OUTREACH

The City Council will hold a public hearing on November 9, 2004, 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 November 4, 2004 announcing the time and location of the public hearing.

COORDINATION

This report was prepared by the Finance Department in coordination with the Departments of Information Technology, General Services, (Purchasing Division) and Environmental Services and the offices of the City Manager, Budget, and the City Attorney.

COST IMPLICATIONS

No additional costs to the City for the expansion of the use of the commercial paper notes. The repayment of the CP Notes will come from the various funds benefiting from the implementation of the CUSP project, as described in the accompanying staff memo.

CEQA

Not a project.


SCOTT P. JOHNSON
Director, Finance Department