COUNCIL/AUTHORITY AGENDA: 06-03-08
ITEM: SJFA #2

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

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

FROM: Julia H. Cooper
Jennifer A. Maguire

SUBJECT: **SEE BELOW**

DATE: May 14, 2008

Approved
Date 5/15/08

COUNCIL DISTRICT: Citywide

SUBJECT: **APPROVAL OF THE SALE AND ISSUANCE OF BONDS AND RELATED BOND DOCUMENTS FOR CITY OF SAN JOSE FINANCING AUTHORITY LEASE REVENUE BONDS, SERIES 2008ABCDEF (VARIOUS PROJECTS) AND ADOPTION OF APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN VARIOUS FUNDS**

RECOMMENDATION

a. Actions related to the City of San José Financing Authority Lease Revenue Bonds, ***Series 2008A (Civic Center Refunding Project)***

1. Adopt the following 2007-2008 Appropriation Ordinance amendments in the City Hall Debt Service Fund (210):

    i. Increase the appropriation for City Hall Debt Service by $250,000; and

    ii. Decrease the appropriation for City Hall Garage Debt Service by $250,000.

2. Adoption of a resolution of the City Council approving, authorizing and directing execution of certain financing documents and direct certain related actions in connection with the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008A (Civic Center Refunding Project) (the "Civic Center Refunding Bonds") in an aggregate principal amount not to exceed $61,000,000, in connection with the refinancing of certain public capital improvements of the City of San José, to be sold through negotiated sale, and authorizing the City Manager or the City Manager's authorized designees

("Designated Officers") to take other actions as necessary in connection with the issuance of the Civic Center Refunding Bonds.

3. Adoption of a resolution of the City of San José Financing Authority Board:

    i. Authorizing the issuance of the Civic Center Refunding Bonds, in an aggregate principal amount not to exceed $61,000,000, in connection with the refinancing of certain public capital improvements of the City of San José to be sold through negotiated sale; and

    ii. Approving, authorizing and directing the execution of various financing documents related to the Civic Center Refunding Bonds and authorizing the Authority's Executive Director or the Executive Director's authorized designees ("Designated Officers") to take other actions as necessary in connection with the issuance of the Civic Center Refunding Bonds.

b. Actions related to the City of San José Financing Authority Lease Revenue Bonds, ***Series 2008B (Civic Center Garage Refunding Project)***

1. Adoption of a resolution of the City Council approving, authorizing and directing execution of certain financing documents and direct certain related actions in connection with the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008B (Civic Center Garage Refunding Project) (the "Civic Center Garage Refunding Bonds") in an aggregate principal amount not to exceed $35,000,000, in connection with the refinancing of certain public capital improvements of the City of San José, to be sold through negotiated sale, and authorizing the Designated Officers to take other actions as necessary in connection with the issuance of the Civic Center Garage Refunding Bonds.

2. Adoption of a resolution of the City of San José Financing Authority Board:

    i. Authorizing the issuance of the Civic Center Garage Refunding Bonds, in an aggregate principal amount not to exceed $35,000,000, in connection with the refinancing of certain public capital improvements of the City of San José to be sold through negotiated sale; and

    ii. Approving, authorizing and directing the execution of various financing documents related to the Civic Center Garage Refunding Bonds and authorizing the Designated Officers to take other actions as necessary in connection with the issuance of the Civic Center Garage Refunding Bonds.

c. Actions related to the City of San José Financing Authority Lease Revenue Bonds, ***Series 2008C and 2008D (Hayes Mansion Refunding Project)***

1. Adopt the following 2007-2008 Appropriation Ordinance amendments in the Community Facilities Revenue Fund (422):

   i. Increase the appropriation for Debt Service Payments for the Hayes Phase III by $750,000; and

   ii. Decrease the Ending Fund Balance by $750,000.

2. Adoption of a resolution of the City Council approving, authorizing and directing execution of certain financing documents and direct certain related actions in connection with the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008C (Hayes Mansion Refunding Project) in an aggregate amount not to exceed $11,000,000 and the City of San José Financing Authority Taxable Lease Revenue Bonds Series 2008D (Hayes Mansion Refunding Project) (collectively the "Hayes Mansion Refunding Bonds") in an aggregate principal amount not to exceed $48,000,000, in connection with the refinancing of certain public capital improvements of the City of San José, to be sold through negotiated sale, and authorizing the Designated Officers to take other actions as necessary in connection with the issuance of the Hayes Mansion Refunding Bonds.

3. Adoption of a resolution of the City of San José Financing Authority Board:

   i. Authorizing the issuance of the Hayes Mansion Refunding Bonds, in an aggregate principal amount not to exceed $11,000,000 for the Series 2008C Bonds and $48,000,000 for the Series 2008D Bonds, in connection with the refinancing of certain public capital improvements of the City of San José to be sold through negotiated sale; and

   ii. Approving, authorizing and directing the execution of various financing documents related to the Hayes Mansion Refunding Bonds and authorizing the Designated Officers to take other actions as necessary in connection with the issuance of the Hayes Mansion Refunding Bonds.

d. Actions related to the City of San José Financing Authority Taxable Lease Revenue Bonds, ***Series 2008E (Ice Centre Refunding Project)***

1. Adopt the following 2007-2008 Appropriation Ordinance amendments in the Ice Centre Revenue Fund (432):

   i. Increase the Transfer for Debt Service Payment for the Ice Centre by $250,000; and

   ii. Decrease the Ending Fund Balance by $250,000.

2. Adoption of a resolution of the City Council approving, authorizing and directing execution of certain financing documents and direct certain related actions in connection with the issuance of the City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2008E (Ice Centre Refunding Project) (the "Ice Centre Refunding Bonds") in an aggregate principal amount not to exceed $28,000,000, in connection with the refinancing of certain public capital improvements of the City of San José, to be sold through negotiated sale, and authorizing the Designated Officers to take other actions as necessary in connection with the issuance of the Ice Centre Refunding Bonds.

3. Adoption of a resolution of the City of San José Financing Authority Board:

   i. Authorizing the issuance of the Ice Centre Refunding Bonds, in an aggregate principal amount not to exceed $28,000,000, in connection with the refinancing of certain public capital improvements of the City of San José to be sold through negotiated sale; and

   ii. Approving, authorizing and directing the execution of various financing documents related to the Ice Centre Refunding Bonds and authorizing the Designated Officers designee to take other actions as necessary in connection with the issuance of the Ice Centre Refunding Bonds.

e. Actions related to the City of San José Financing Authority Taxable Lease Revenue Bonds, ***Series 2008F (Land Acquisition Refunding Project)***

1. Adopt the following 2007-2008 Appropriation Ordinance and Funding Sources Resolution amendments in the General Fund:

   i. Increase the estimate for Other Revenue by $675,000; and

   ii. Increase the City-Wide Expenses appropriation for FMC Debt Service Payments - Airport by $675,000.

2. Adopt the following 2007-2008 Appropriation Ordinance and Funding Sources Resolution amendments in the Airport Revenue Fund (521):

   i. Increase estimate for Earned Revenue by $382,000 to reflect additional commercial paper proceeds; and

   ii. Increase the Transfer to the Airport Maintenance and Operation Fund by $382,000.

3. Adopt the following 2007-2008 Appropriation Ordinance and Funding Sources Resolution amendments in the Airport Maintenance and Operation Fund (523):

   i. Increase the estimate for Transfers by $382,000; and

   ii. Increase the appropriation to the Airport Department for Property Lease Payment by $382,000.

4. Adoption of a resolution of the City Council approving, authorizing and directing execution of certain financing documents and direct certain related actions in connection with the issuance of the City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2008F (Land Acquisition Refunding Project) (the "Land Acquisition Refunding Bonds") in an aggregate principal amount not to exceed $68,000,000, in connection with the refinancing of certain public capital improvements of the City of San José, to be sold through negotiated sale, and authorizing the Designated Officers to take other actions as necessary in connection with the issuance of the Land Acquisition Refunding Bonds.

5. Adoption of a resolution of the City of San José Financing Authority Board:

   i. Authorizing the issuance of the Land Acquisition Refunding Bonds, in an aggregate principal amount not to exceed $68,000,000, in connection with the refinancing of certain public capital improvements of the City of San José to be sold through negotiated sale; and

   ii. Approving, authorizing and directing the execution of various financing documents related to the Land Acquisition Refunding Bonds and authorizing the Designated Officers to take other actions as necessary in connection with the issuance of the Land Acquisition Refunding Bonds.

f. Adoption of a resolution of the City Council authorizing the City Attorney to negotiate and execute an agreement with Jones Hall, A Professional Law Corporation ("Jones Hall") for bond counsel and disclosure counsel services related to the issuance of the City of San José Lease Revenue Bonds Series 2008A through 2008F in an amount not to exceed $400,000.

OUTCOME

Approval of these recommendations will allow the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008ABCDEF ("Refunding Bonds") for the purpose of refinancing certain capital improvements financed with variable rate debt of the City.

EXECUTIVE SUMMARY

This staff report recommends the issuance of variable rate lease revenue bonds to refinance the City's existing series of variable rate lease revenue bonds and fund related financing costs. It describes the terms and conditions of the financing documents required for City Council/Authority Board approval. In addition, this report recommends certain budget actions related to the City's variable rate lease revenue bonds reflecting increased debt service costs in Fiscal Year 2007-08 due to the recent disruption in the municipal bond market.

The City has selected the Bank of Nova Scotia ("BNS") and the California State Teachers' Retirement System ("CalSTRs") to provide the letters of credit on a several and not a joint basis for four of the five issues of Refunding Bonds. On May 12, 2008, City staff was notified that credit approval was not received from BNS for their 50 percent component of the 2008B (Civic Center Garage Refunding Project) and 2008E (Ice Centre Refunding Project) bonds. BNS gave approval for the 2008A Bonds (Civic Center Refunding Project) and the Series 2008C and the Series 2008D (Hayes Mansion Refunding Project). CalSTRs' approval is still pending. Staff is working diligently and aggressively to find another bank(s) to provide the letters of credit. A supplemental memo will be forthcoming prior to June 3, 2008 with either the terms and conditions of the alternative bank or a recommendation for a substituted refinancing plan. It is critical to keep these approvals on the Council/Authority Board agendas to ensure that the refundings proceed as expeditiously as possible.

BACKGROUND

The uncertainty in the financial markets related to the default potential of subprime mortgages has disrupted the variable rate municipal bond market. This disruption is evidenced by the downgrades of several of the bond insurers that insured mortgage-backed securities in addition to municipal bonds. The ramifications of these events are being felt throughout the municipal bond market and many issuers across the country are working to address these issues as they impact their various debt portfolios.

Prior to January 2008, the City's variable rate lease revenue bonds were rated AAA due to credit enhancement provided by various bond insurance companies. With the subsequent downgrades of several bond insurers, all of the City's variable lease revenue bond series have been downgraded by at least one rating agency to the City's underlying rating of AA. With respect to the Authority's outstanding variable rate lease revenue bonds, the market disruption has resulted in interest rates on these bonds in excess of the rates typically paid on variable rate bonds. Additionally, certain series of these bonds experienced failed remarketings.

On February 15, 2008 the City Council and City of San José Financing Authority Board (the "Authority") held a special meeting to address a proposed amendment to a remarketing agreement with J.P. Morgan Securities Inc. ("JP Morgan") related to the City of San José Financing Authority Lease Revenue Bonds, Series 2005B ("2005B Bonds"). The City Council/Authority Board approved staff's recommendation to reject JP Morgan's proposal. In anticipation of the 2005B Bonds becoming Bank Bonds, the Authority Board and City Council directed staff to commence a dialogue with Bank of America to negotiate revisions to the terms of the standby bond purchase agreement supporting the 2005B Bonds. These revisions reduced the City's financial exposure by extending the terms under the 60-day grace period by an additional 60 days on the 2005B Bonds to allow staff to continue work on implementation of long-term mitigation strategies. The amendment was executed and the grace period will expire on June 14, 2008. Staff anticipates that the 2005B Bonds will be refunded prior to the expiration of the grace period.

In order to provide staff with the authority to respond quickly to proposals to address the market disruption in the variable rate bond market, the Authority Board and the City Council each adopted a resolution delegating authority to the Executive Director and the City Manager, respectively, or their authorized designees to take actions as they deemed prudent with respect to the variable rate debt of the Authority and the City through March 11, 2008. On March 11, 2008, the Authority Board and the City Council extended the delegation of authority to June 23, 2008. Staff does not envision a reason to extend the delegation of authority past June 23, 2008. The weekly reports will cease to be prepared as of the last week in June. A final report will be prepared and distributed as an informational memo in July highlighting the change in weekly rates and the final calculation of the budgetary impact for FY 2007-08.

At the March 11, 2008 Council meeting, staff recommended refunding eight series of the Authority's variable rate lease revenue bonds totaling $218.03 million as the long-term mitigation solution to remove the bond insurance. The refunding includes the following series of outstanding variable rate lease revenue bonds:

City of San José Financing Authority
Variable Rate Lease Revenue Bonds

				Current Ratings as of May 2, 2008		
Series	**Project Name**	**Tax Status**	**Bond Insurer**	**Moody's Investors Service**	**Standard & Poor's**	**Fitch Ratings**
2000C	Ice Centre Refunding	Taxable	MBIA Insurance Corp.	Aaa	AAA	AA
2001B	Hayes Mansion	Taxable	Ambac Assurance Corp.	Aaa	AAA	AA
2001C	Hayes Mansion	Taxable	Ambac Assurance Corp.	Aaa	AAA	AA
2001D	Hayes Mansion	Tax-Exempt	Ambac Assurance Corp.	Aaa	AAA	AA
2002C	Civic Center Project	Tax-Exempt	Ambac Assurance Corp.	Aaa	AAA	AA
2004A	Ice Centre Expansion	Taxable	MBIA Insurance Corp.	Aaa	AAA	AA
2005A	Land Acquisition	Taxable	XL Capital Assurance Inc.	Aa3	AA	AA
2005B	Land Acquisition	AMT	XL Capital Assurance Inc.	Aa3	AA	AA

ANALYSIS

The decline of the subprime mortgage market and the significant loss of value of mortgage-backed securities have led to a liquidity crisis in the variable rate debt market. Banks have been unable to allocate capital to municipal issuers' variable rate and auction rate bond programs. Furthermore, the weakness of bond insurers causes concern for investors, such as money market funds, that may be unable to purchase securities rated below AA. As a result, the interest the City pays on its variable rate bonds has increased significantly over the last three months. As of May 1, 2008, staff is projecting that interest costs will exceed the budget by approximately $1,925,000 in aggregate for all eight series of bonds listed in the table above. In order to meet the debt service projections on the 2005 Bonds, the Airport requires a budget increase of $382,000 and the General Fund requires an increase of 675,000 to each amount to $6.182 million, thus the table in the Budget Reference section shows a total additional funding requirement of $1,632,000.

Financing Structure

The eight series of bonds proposed as part of this refunding consist of all of the City/Authority's outstanding variable rate lease revenue bonds. Staff is not recommending a change from variable rate to fixed rate given both long-term budgetary advantages of having a portion of the debt portfolio in a variable rate mode and the flexibility it provides the City to facilitate changes in utilization of the property and/or prepay debt at any point in time, a feature not available with fixed rate bonds.

A lease revenue transaction is one where either (1) the City leases a City-owned facility to the City of San José Financing Authority (the "Authority") and then the Authority leases it back to the City or (2) the Authority leases an Authority-owned facility to the City. In either case, the lease payments made by the City to the Authority secure the Authority's repayment of bonds issued by the Authority.

The proposed financing structure eliminates the bond insurance (providing credit enhancement) and standby bond purchase agreement (providing liquidity support) and replaces the structure with a direct pay letter of credit (providing both liquidity support and credit enhancement). Liquidity support is a requirement for variable rate demand bonds. The liquidity facility provides a mechanism for holders of variable rate bonds to "put" the bonds back to the bank after a specified notice period when they are not able to be resold to another investor.

Variable rate demand bonds have interest rates which are subject to change at specified time periods. In the case of the Authority's bonds, the interest rate is set for weekly periods. The owner of a bond may, on a weekly basis, tender the bond to the designated remarketing agent for purchase. If the remarketing agent is unable to locate another buyer, a bank that provides liquidity support for the bonds through a letter of credit or standby bond purchase agreement purchases the tendered bonds and the bonds become "Bank Bonds". Bank Bonds are subject to the interest rate and repayment terms specified in the particular letter of credit agreement. A more complete description of the mechanics of variable rate demand bonds is set forth in Appendix F. The Authority's bonds which have become Bank Bonds as of May 2, 2008 are listed in Appendix G.

The purpose of credit enhancement is to provide additional security to improve the rating on the bonds and thereby lowers the borrowing cost to the City. The higher rating of the credit enhancement provider is relied on by investors, rather than the underlying rating of the issuer, so that the investors will demand a lower interest rate and thereby more than compensating for the cost of the credit enhancement. By eliminating the bond insurance, staff anticipates that the interest rate paid on the City's variable rate bonds will trade at lower rates and within the range budgeted by the City.

The proposed refunding structure collapses the outstanding eight series of variable rate lease revenue bonds into the six series under a direct pay letter of credit financing structure shown below. Prior to the market disruption, City staff intended to bring forward for City Council and

Authority Board approval the issuance of the Civic Center Garage Bonds in Spring 2008 to "take out" the lease revenue commercial paper used to finance the construction of the Civic Center employee garage. The Series 2008B Civic Center Garage Refunding Bonds will provide the permanent financing for the Civic Center Garage Project. The Lease Revenue Commercial Paper Program has not been negatively impacted by the current disruption in the financial markets. Completing the "take out" of the commercial paper issued to fund the Civic Center Garage creates efficiencies when completing this transaction in conjunction with the refinancing of the variable rate bonds negatively impacted by the financial market disruption.

City of San José Financing Authority
Lease Revenue Bonds, Series 2008ABCDEF

Refunding Series	Refunded Series	Project Name	Tax Status	Par Amount*
2008A	2000C	Civic Center	Tax-Exempt	$ 60,185,000
2008B	Commercial Paper	Civic Center Garage	Tax-Exempt	34,045,000
2008C	2001D	Hayes Mansion	Tax-Exempt	10,785,000
2008D	2001B, 2001C	Hayes Mansion	Taxable	47,160,000
2008E	2000C, 2004A	Ice Centre	Taxable	27,740,000
2008F	2005A, 2005B	Land Acquisition	Taxable	66,955,000
			Total:	**$246,870,000**

*Preliminary, subject to change.

Budget Actions
Given the market disruption which commenced in early 2008, debt service payments on the variable rate bonds are projected to exceed the amounts budgeted for Fiscal Year 2007-08, staff recommends that City Council increase the debt service appropriation for the following funds:

- City Hall Debt Service Fund
- Community Facilities Revenue Fund
- Ice Centre Revenue Fund
- General Fund (paid for by the Airport Maintenance and Operation Fund)

Bond Financing Documents
There are a number of bond financing documents which require City Council and/or Authority Board approval to proceed with the issuance of each series of Refunding Bonds. The Series 2008A Bonds (Civic Center Refunding Project), the Series 2008B Bonds (the Civic Center Garage Refunding Project), the Series 2008E Bonds (the Ice Centre Refunding Project) and the Series 2008F Bonds (the Land Acquisition Refunding Project) will each be a separate bond

issue. The Series 2008C Bonds and the Series 2008D Bonds (Hayes Mansion Refunding Project) will be issued together.

Below is a general description of the documents that will require approval for each issue of the Refunding Bonds (alternatively, the Refunding Bond Issue). A complete list of documents requiring approval for each Refunding Bond Issue is included in the appendices of this memorandum. The appendices also provide estimated sources and uses of funds and a discussion of terms and conditions particular for the bond issue. In some cases, the documents described in an appendix will differ due to the specific terms of the particular refunding issue.

Staff recommends that the City Manager or the City Manager's authorized designees and the Authority's Executive Director or the Executive Director's authorized designees ("Designated Officers") be authorized to execute the agreements on behalf of the City and the Authority as described below. As modifications may be required prior to the closing, staff also recommends that the Designated Officers each be authorized to execute the final version of each of these agreements as may be modified upon consultation with the City Attorney's Office.

Official Statement. The Official Statement, or prospectus, has been prepared for the City and the Authority by bond counsel/disclosure counsel for each issue of Refunding Bonds. Appendix A to the Official Statement describes the City's current financial situation and provides other information useful to investors regarding the City. It has been prepared by Finance staff in close coordination with the City Attorney's Office, City Manager's Budget Office, and other City departments as necessary, the financial advisor and bond counsel/disclosure counsel.

The Official Statement generally discloses material information on the bond issue, such as the project to be refinanced, the repayment source, credit enhancement, and credit ratings. Investors use this information to evaluate the credit quality of the issue of Refunding Bonds. Staff has carefully reviewed the information contained in the Official Statement and believes it to be accurate and complete in all material respects.

Staff recommends that the Designated Officers each be authorized to sign the Official Statements for the Refunding Bonds on behalf of the City and the Authority and to make such modifications to these documents as may be necessary upon consultation with the City Attorney's Office. Staff also recommends that the Designated Officers each be authorized to execute certificates regarding these documents as required to comply with securities laws and to authorize the underwriters to distribute these documents for the purpose of marketing the Refunding Bonds.

If any councilmember or Authority Board member has any personal knowledge that any of the material information in the Official Statement is false or misleading, the councilmember/Authority Board member must raise these issues prior to approval of the distribution of the document.

City staff, bond counsel/disclosure counsel, and the financial advisor will be available at the City Council/Authority Board meeting on June 3, 2008, to address any questions, issues and/or concerns.

Indenture of Trust Agreement. The Indenture of Trust (the "Indenture") is between the City of San José Financing Authority and a commercial bank, as the trustee (the "Trustee"). Proceeds of the Refunding Bond Issue will be deposited and expended pursuant to the Indenture. The Indenture pledges the lease payments received from the City to the repayment of the bonds, sets forth terms of the Refunding Bond Issue (including the mechanism for setting variable rates, the terms and conditions of optional and mandatory tender of the bonds and the mechanisms to convert the bonds to fixed rate or to change the tax status of the bonds), establishes the funds and accounts to be held by the Trustee, sets forth the guidelines for the administration, investment and treatment of investment earnings generated by each fund and account and contains the responsibilities and duties of the Trustee and the rights of the bondholders. The Indenture obligates the Authority to pay compensation to the Trustee for services rendered under the Indenture.

Site and Facility Lease. The Site and Facility Lease is between the City of San José, as lessor, and the City of San José Financing Authority, as lessee. The Site and Facility Lease sets forth the respective terms and conditions of the lease of the facilities from the City to the Authority. There will not be a Site and Facility Lease for the Series 2008A Bonds and the Series 2008C and Series 2008D Bonds for the reasons described in the appendices.

Project Lease. The Project Lease is between the City of San José Financing Authority, as owner and lessor of the facilities, and the City of San José, as lessee. The Project Lease sets forth the respective terms and conditions of the lease of the facilities from the Authority to the City. The Project Lease obligates the City to pay the Authority lease payments sufficient to cover debt service on the Refunding Bond Issue and additional payments to pay for the costs associated with the Refunding Bond Issue such as compensation to the Trustee, fees and amounts owed to the banks providing credit and/or liquidity support and other fees and expenses associated with the Refunding Bond Issue. The Project Lease also provides that lease payments are reduced or eliminated when there is substantial interference with the City's use and occupancy of the facilities, such as damage or destruction from a fire or earthquake or condemnation by another public agency. These are referred to as "abatement events."

The City also is obligated to maintain certain insurance coverages including title insurance and property and rental interruption insurance for the leased facilities (in some instances only if available from reputable insurers at a reasonable cost). Additionally, the City is required to maintain liability and auto insurance as specified in the Project Lease or if these risks are self-insured to submit an annual report of the City's Risk Manager to the Trustee regarding the City's self-insurance program.

Purchase Contract. The Purchase Contract is an agreement by and among the Authority and the underwriter as the initial purchase of the Refunding Bond Issue. The Purchase Contract specifies the representations and warranties of the Authority and the City, the documents to be executed at closing, the initial weekly rate of the Refunding Bond Issue and the conditions that allow the purchasers to cancel the purchase of the Refunding Bond Issue.

Remarketing Agreement. The Remarketing Agreement is between the Authority and the remarketing agent. The agreement describes the procedures and compensation for arranging the remarketing of the Refunding Bond Issue which will be issued initially in weekly variable rate mode and remarketed every seven days. The agreement includes the annual fees for ongoing remarketing services. The specific terms to each Remarket Agreement is discussed in the appendices of this document.

In order to efficiently manage the Refunding Bonds to respond promptly to changing market conditions, staff recommends that the Designated Officers, without further action of the Authority Board, each be authorized to replace the remarketing agent and to enter into new remarketing agreements, in substantially the form of those approved hereby, with other broker-dealers or banks if the Designated Officer deems it is in the best interest of the Authority to do so. For the same reasons, staff recommends that the Designated Officers each be authorized to select the daily or weekly interest rate modes to be in effect from time to time with respect to the Refunding Bonds and to notify the Trustee and the remarketing agent, and such other parties as may be required by the relevant documents, at such times and in such manner as is necessary or advisable in order to ensure that such interest rate modes take effect.

Letter of Credit Reimbursement Agreement. The Letter of Credit and Reimbursement Agreement outlines the terms of the letter of credit issued by the bank on which the trustee may drawn on when necessary to make payments of principal and/or interest on the bonds and to provide liquidity support in the case of a failed remarketing. The Authority agrees to reimburse the bank for each draw. As compared to bond insurance where the premium is paid upfront at the time of bond issuance and is effective for the life of the bonds, the commitment fee for a letter of credit is paid annually or quarterly and typically has a term that does not exceed three years with the option to annually renew the agreement.

Bank of Nova Scotia/California State Teachers' Retirement System. As described above, the City has selected the Bank of Nova Scotia ("BNS") and the California State Teachers' Retirement System ("CalSTRs") to provide the letters of credit on a several and not a joint basis for all of the Refunding Bond Issues except the 2008F Bonds.

BNS and CalSTRs each is responsible for 50 percent of the credit provided for the 2008A (Civic Center Refunding Project) and the 2008CD (Hayes Mansion Refunding Project) bonds. There will be a letter of credit and reimbursement agreement entered into by and among the Authority, the City, BNS, and CalSTRs for the 2008A Bonds. For the 2008CD Bonds, there is anticipated to be two letter of credit and reimbursement agreements among the Authority, the City, BNS, and CalSTRs.

In addition, the fees payable for the letters of credit will be specified in separate agreements by and among BNS, CalSTRs, the City, and the Authority.
Terms of Agreement:

- Term – Two (2) years
- Origination Fee – 10 basis points
- Annual Fee – 70 basis points

Bank of America. The City will enter into an agreement with Bank of America to provide a letter of Credit on the 2008F Land Acquisition Refunding Bonds. The following outlines the specific terms of each agreement.

Terms of Agreement:

- Term – Three (3) years
- Origination Fee – None
- Annual Fee – 60 basis points

Alternative Bank Arrangement. On May 12, 2008, City staff was notified that credit approval was not received from BNS for their 50 percent component of the 2008B (Civic Center Garage Refunding Project) and 2008E (Ice Centre Refunding Project) bonds. BNS gave approval for the 2008A Bonds (Civic Center Refunding Project) and the Series 2008C and the Series 2008D (Hayes Mansion Refunding Project). CalSTRs' approval is still pending. Staff is working diligently and aggressively to find another bank(s) to provide the letters of credit. A supplemental memo will be forthcoming prior to June 3, 2008 with either the terms and conditions of the alternative bank or a recommendation for a substituted refinancing plan. It is critical to keep these approvals on the Council/Authority Board agendas to meet the necessary agenda posting deadlines which ensures that the refundings proceed as expeditiously as possible.

Consultant Agreements Requiring Council Approval

The City Attorney's Office is recommending that the City Attorney be authorized to negotiate and execute an agreement with Jones Hall for bond counsel and disclosure counsel services related to the financing in an amount not to exceed $400,000. As disclosure counsel, the firm prepares the Final Official Statements. The firm's compensation is contingent on the sale of bonds and is to be paid from bond proceeds.

Financing Team Participants

The financing team participants consist of:

- Financial Advisor – PRAG serves as the City's General Financial Advisor and is also in the City's pool for financial advisory services selected through a request for proposal ("RFP") process in January 2007 by the Finance Department. Under the City Manager's authority, an agreement with Public Resources Advisory Group ("PRAG") has been executed for the purposes of providing financial advisory services.

- Bond Counsel/Disclosure Counsel – Jones Hall was selected through a RFP process conducted in February 2008 by the City Attorney's Office.

- Trustee – Wells Fargo Bank was retained as Trustee as they acted as Trustee for the prior refunded bond issues.

- Letter of Credit Banks – Due to the market disruption and increasing demand for services, banks are not responding to request for proposals for new business. The City negotiated with BNS, Bank of America, and JP Morgan as they currently provide liquidity support for the City's existing variable rate lease revenue portfolio. Bank of America and BNS, in conjunction with CalSTRs, provided bids to provide direct pay letters of credit. JP Morgan declined to provide a bid. Discussions are still underway with alternative banks to provide a letter(s) of credit or the 2008B and 2008E bonds.

- Remarketing Agent – Staff selected remarketing agents with experience with the City's existing variable rate portfolio that had a proven record of quality performance.

The following table summarizes financing team participants by series of bonds:

	2008A Civic Center	2008B Garage	2008CD Hayes Mansion	2008E Ice Centre	2008F Land Acquisition
Financial Advisor	PRAG	PRAG	PRAG	PRAG	PRAG
Bond Counsel/ Disclosure Counsel	Jones Hall	Jones Hall	Jones Hall	Jones Hall	Jones Hall
Trustee	Wells Fargo Bank	Wells Fargo Bank	Wells Fargo Bank	Wells Fargo Bank	Wells Fargo Bank
Letter of Credit Bank	BNS/ CalSTRs	TBD	BNS/ CalSTRs	TBD	Bank of America
Remarketing Agent	Goldman Sachs	Bank of America	Lehman Brothers/ Citigroup	Citigroup	Goldman Sachs

<u>Financing Schedule</u>
The Finance Department, together with the City Attorney's Office, is continuing on this aggressive schedule to close each series prior to the end of the fiscal year. The anticipated key dates to meet this schedule are highlighted below:

	2008A Civic Center	2008B Garage*	2008CD Hayes Mansion	2008E Ice Centre*	2008F Land Acquisition
Council approval of the financing and related documents	6/3/2008	6/3/2008	6/3/2008	6/3/2008	6/3/2008
Pricing Date	6/9/2008	7/8/2008	6/23/2008	7/1/2008	6/9/2008
Bond Closing	6/11/2008	7/10/2008	6/25/2008	7/3/2008	6/11/2008

*Schedule assumes alternative bank is found prior to June 3rd Council/Authority Board meeting.

In order to avoid potentially negative tax issues, the tax-exempt issuances need to be separated by 15 days.

EVALUATION AND FOLLOW-UP

This memorandum presents the set of recommendations related to the City Council's approval of the issuance of the Bonds and requires no follow-up to the City Council.

PUBLIC OUTREACH/INTEREST

☒ **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 staff report has been prepared by the Finance Department in coordination with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

The proposed financing plan is consistent with the City's Debt Management Policy which establishes the following equally important objectives in order to obtain cost-effective access to the capital markets:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting; and
- Ensure compliance with applicable State and Federal laws.

COST SUMMARY/IMPLICATIONS

Costs associated with the refunding will be paid from bond proceeds. The financial advisor and bond counsel/disclosure counsel work on a contingency basis and are only paid upon the successful sale and close of the Refunding Bonds.

BUDGET REFERENCE

The table below identifies the funds and appropriations proposed to fund the actions recommended in this memorandum.

Fund No.	Appn No.	Appropriation. Name	Total Appn	Additional Amount for Debt Service	2007-08 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
210	3452	City Hall Garage Debt Service	$ 855,268	$ 250,000	XI-17	
422	8999	Community Facilities Revenue Fund Ending Fund Balance	917,996	750,000	XI-22	10/16/07, Ord. No. 28143
432	8999	Ice Centre Ending Fund Balance	3,396,873	250,000	XI-42	10/16/07, Ord. No. 28143
521	0005	Transfer to the Airport Maintenance and Operation Fund	107,289,901	382,000	XI-5	02/16/07, Ord. No. 28241
Total Additional Funding				**$1,632,000**		

CEQA

Not a project.

Julia H Cooper
JULIA H. COOPER
Deputy Director, Finance

Jennifer A. Maguire
JENNIFER A. MAGUIRE
Acting Budget Director

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in Fiscal Year 2007-2008 moneys in excess of those heretofore appropriated therefrom:

General Fund	$675,000
Airport Revenue Fund	382,000
Airport Maintenance and Operation Fund	382,000

JENNIFER A. MAGUIRE
Acting Budget Director

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

APPENDIX A

City of San Jose Financing Authority Lease Revenue Bonds, Series 2008A (Civic Center Refunding Project)

Summary Points for the 2008A Bonds

- ***Purpose of the Bond Issue.*** The purpose of the 2008A Bonds is to refinance the existing 2002C Bonds to replace the bond insurance and standby purchase agreement structure with a direct pay letter of credit. This change is necessary as a result of bond insurer downgrades which have caused disruption in the municipal bond market and negatively impacting the interest rate on the bonds.

- ***Source of Payment on Bonds.*** The source of payment of the 2008A Bonds is the Civic Center Debt Service Fund which includes transfers from other funds. Although City special funds or other revenue sources may be allocated to make these payments, the City's General Fund is the ultimate source of repayment.

- ***Risk Related to Source of Repayment Insufficient to Repay Bonds.*** The 2008A Bonds are a General Fund lease obligation. The City has covenanted to annually appropriate for debt service. The risks and limitations related to repayment of these bonds are described in the Official Statement. Please refer in particular to Appendix A of the Official Statement and the following sections of the Official Statement: "CERTAIN RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

Sources and Uses of Funds

A summary of the estimated sources and uses of the Series 2008A Bonds is presented below:

City of San José Financing Authority
Lease Revenue Bonds, Series 2008A
(Civic Center Refunding Project)
Estimated Sources and Uses of Funds*

Sources	
Par Amount of Bonds	$ 60,185,000
Transfer from Prior Issue Debt Service Reserve Funds	4,813,658
Total Sources	$ 64,998,658
Uses:	
Deposit to Escrow Fund	$ 60,000,000
Deposit to Debt Service Reserve Fund (DSRF)	4,813,658
Costs of Issuance	124,815
Total Underwriter's Discount	60,185
Total Uses	$ 64,998,658

* *Preliminary, subject to change.*

The amount of underwriters' discount for the Series 2008A Bonds shall not exceed 0.19 percent of the principal amount of the Series 2008A Bonds. The final maturity of the Bonds shall be no later than June 1, 2039, and the total aggregate principal amount of the Series 2008A Bonds issued shall not exceed $61,000,000. The underwriters will be paid a takedown for the Civic Center Refunding Bonds of $1.00/$1,000 of the par amount issued.

Bond Financing Documents

The following bond financing documents will require City Council and/or Authority Board approval to proceed with the issuance of the Civic Center Refunding Bonds. On or about May 15, 2008 the Official Statement, in substantially final form, will be transmitted to the City Council/Authority Board and will be available in the Clerk's Office. The remaining documents described below, in substantially final form, will be available for review in the City Clerk's Office on or about May 22, 2008.

Second Supplemental Indenture of Trust. In order to issue the Series 2008A Bonds, the Authority and the Trustee will enter into a Second Supplemental Indenture of Trust to set forth the specific terms governing the Series 2008A Bonds. The Series 2008A Bonds differ from the other Refunding Bond Issues in that they are being issued as Additional Bonds pursuant to the Indenture of Trust between the Authority and Wells Fargo Bank, N.A. for the issuance of the (i) $292,425,000 City of San José Financing Authority Lease Revenue Bonds, Series 2002B (Civic Center Project) (the "Series 2002B Bonds"); $60,000,000 City of San José Financing Authority Lease Revenue Bonds, Series 2002C (Civic Center Project)" (the "Series 2002C Bonds"); and (iii) $60,000,000 City of San José Financing Authority Lease Revenue Bonds, Series 2002D (Civic Center Project)" (the "Series 2002D Bonds" and, together with the Series 2002B Bonds and the Series 2002C Bonds, the "Series 2002 Bonds").

In 2006, the Authority issued as Additional Bonds its Lease Revenue Refunding Bonds, Series 2006A (Civic Center Project) in the amount of $57,440,000 (the "Series 2006A Bonds") pursuant to a First Supplemental Indenture of Trust dated as of May 1, 2006 (the "First Supplemental Indenture") between the Authority and the Trustee in order to refund, in full, the Series 2002D Bonds.

Second Amendment to Project Lease. In connection with the Series 2002 Bonds, the City and the Authority entered into a Site and Facility Lease and a Project Lease for the Civic Center site. Related to the issuance of the Series 2006A Bonds, the City and the Authority entered into a First Amendment to the Project Lease that had been executed in connection with the issuance of the Series 2002 Bonds. The City and the Authority will enter into the Second Amendment to Project Lease to specify the lease terms specific to the Series 2008A Bonds.

Remarketing Agreement. The Remarketing Agreement is between the Authority and Goldman Sachs. This agreement describes the procedures and compensation for arranging the remarketing of the Civic Center Refunding Bonds. The Remarketing Agent fee is 0.075% per annum of the weighted average of the principal amount of Bonds outstanding during each three month period. The Authority will pay the fee quarterly.

Bond Documents for Council/Authority Board Approval

- Official Statement
- Second Supplemental Indenture of Trust
- Second Amendment to Project Lease
- Purchase Contract
- Remarketing Agreement
- Letter of Credit Reimbursement Agreement/Fee Agreement

APPENDIX B

City of San Jose Financing Authority Lease Revenue Bonds, Series 2008B (Civic Center Garage Project)

Summary Points for the 2008B Bonds

- ***Purpose of the Bond Issue.*** The purpose of the 2008A Bonds is to refinance the lease revenue commercial paper used to fund the Civic Center Garage construction with a direct pay letter of credit.

- ***Source of Payment on Bonds.*** The source of payment of the 2008A Bonds is the Civic Center Debt Service Fund which includes transfers from other funds. Although City special funds or other revenue sources may be earmarked to make these payments, the City's General Fund is the ultimate source of repayment.

- ***Risk Related to Source of Repayment Insufficient to Repay Bonds.*** The 2008B Bonds are a General Fund lease obligation. The City has covenanted to annually appropriate for debt service. The risk limitations related to repayment of these bonds are described in the Official Statement. Please refer in particular to Appendix A of the Official Statement and the following sections of the Official Statement: "CERTAIN RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

Sources and Uses of Funds

A summary of the estimated sources and uses of the Series 2008B Bonds is presented below:

City of San José Financing Authority
Lease Revenue Bonds, Series 2008B
(Civic Center Garage Project)
Estimated Sources and Uses of Funds*

Sources	
Par Amount of Bonds	$ 34,045,000
Total Sources	$ 34,045,000
Uses:	
Deposit to Commercial Paper Redemption Fund	$ 32,102,052
Deposit to Debt Service Reserve Fund (DSRF)	1,821,474
Costs of Issuance	70,407
Total Underwriter's Discount	51,067
Total Uses	$ 34,045,000

* *Preliminary, subject to change.*

The amount of underwriters' discount for the Series 2008B Bonds shall not exceed 0.30 percent of the principal amount of the Series 2008B Bonds. The final maturity of the Bonds shall be no later than June 1, 2039, and the total aggregate principal amount of the Series 2008B Bonds issued shall not exceed $35,000,000. The underwriters will be paid a takedown for the Civic Center Garage Refunding Bonds of $1.50/$1,000 of the par amount issued.

Status of Bank Approval
Staff is working diligently and aggressively to find another bank(s) to provide the letter of credit for the 2008B Bonds. A supplemental memo will be forthcoming prior to June 3, 2008 with either the terms and conditions of the alternative bank or a recommendation for a substituted refinancing plan.

Bond Financing Documents
The following bond financing documents will require City Council and/or Authority Board approval to proceed with the issuance of the Civic Center Garage Refunding Bonds. As the bank approval is unknown, staff cannot estimate when these documents will be available for review in the City Clerk's Office.

Remarketing Agreement. The Remarketing Agreement is between the Authority and Bank of America. This agreement describes the procedures and compensation for arranging the remarketing of the Civic Center Garage Refunding Bonds. The Remarketing Agent fee is 0.075% per annum of the weighted average of the principal amount of Bonds outstanding during each three month period. The Authority will pay the fee quarterly.

Bond Documents for Council/Authority Board Approval

- Official Statement
- Indenture of Trust
- Site and Facility Lease
- Project Lease
- Purchase Contract
- Remarketing Agreement
- Letter of Credit Reimbursement Agreement/Fee Agreement

APPENDIX C

City of San Jose Financing Authority Lease Revenue Bonds, Series 2008C and Series 2008D (Hayes Mansion Refunding Project)

Summary Points for the 2008CD Bonds

- ***Purpose of the Bond Issue.*** The purpose of the 2008CD Bonds is to refinance the existing 2001BCD Bonds to replace the bond insurance and standby purchase agreement structure with a direct pay letter of credit. This change is necessary as a result of bond insurer downgrades which have caused disruption in the municipal bond market and negatively impacting the interest rate on the bonds.

- ***Source of Payment on Bonds.*** Under the City's Management Agreement with the Hayes Mansion operator, revenues of the Hayes Mansion are used to pay debt service and financing costs.

- ***Risk Related to Source of Repayment Insufficient to Repay Bonds.*** The 2008CD bonds are a General Fund lease obligation. The City has covenanted to annually appropriate for debt service. To the extent operator payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. To date, the revenues from the operation of the Hayes Mansion have not been sufficient to fully pay the debt service on the existing 2001BCD Bonds. The risk limitations related to repayment of these bonds are described in the Official Statement. Please refer in particular to Appendix A of the Official Statement and the following sections of the Official Statement: "CERTAIN RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

Sources and Uses of Funds

A summary of the estimated sources and uses of the 2008C and 2008D Bonds are presented below:

City of San José Financing Authority
Lease Revenue Bonds, Series 2008C and Series 2008D
(Hayes Mansion Refunding Project)
Estimated Sources and Uses of Funds*

	Series 2008C	Series 2008D	Total
Sources			
Par Amount of Bonds	$ 10,785,000	$ 47,160,000	$ 57,945,000
Transfer from Prior Issue Debt Service Reserve Funds	1,132,789	-	1,132,789
Total Sources	$ 11,917,789	$ 47,160,000	$ 59,077,789
Uses:			
Deposit to Escrow Fund	$ 10,800,000	$ 42,300,000	$ 53,100,000
Deposit to Debt Service Reserve Fund (DSRF)	1,078,500	4,716,000	5,794,500
Costs of Issuance	23,112	96,840	119,952
Total Underwriter's Discount	16,177	47,160	63,337
Total Uses	$ 11,917,789	$ 47,160,000	$ 59,077,789

* *Preliminary, subject to change.*

The amount of underwriters' discount for the Series 2008C Bonds shall not exceed 0.60 percent of the principal amount of the Series 2008C Bonds. The final maturity of the 2008C Bonds shall be no later than June 1, 2027, and the total aggregate principal amount of the Series 2008C Bonds issued shall not exceed $11,000,000. The amount of the underwriters' discount for the Series 2008D Bonds shall not exceed 0.20 percent of the principal amount of the Series 2008D Bonds. The final maturity of the 2008D Bonds shall be no later than July 1, 2024, and the total aggregate principal amount of the Series 2008D Bonds issued shall not exceed $48,000,000. The underwriters will be paid a takedown for the Series 2008C Hayes Mansion Refunding Bonds of $1.50/$1,000 of the par amount issued and $1.00/$1,000 for the Series 2008D Hayes Mansion Refunding Bonds.

Bond Financing Documents
The following bond financing documents will require City Council and/or Authority Board approval to proceed with the issuance of the Hayes Mansion Refunding Bonds. On or about May 15, 2008 the Official Statement, in substantially final form, will be transmitted to the City Council/Authority Board and will be available in the Clerk's Office. The remaining documents described below, in substantially final form, will be available for review in the City Clerk's Office on or about May 22, 2008.

Remarketing Agreement. The Remarketing Agreement for the Series 2008C Bonds is between the Authority and Citigroup. The Remarketing Agreement for the Series 2008D is between the City and Lehman Brothers. These agreements describe the procedures and compensation for arranging the remarketing of the 2008C Bonds and 2008D Bonds. The Remarketing Agent fee is 0.075% per annum on the 2008C Bonds and 0.075% per annum on the 2008D Bonds of the weighted average of the principal amount of Bonds outstanding during each three month period. The Authority will pay the fee quarterly.

Bond Documents for Council/Authority Board Approval

- Official Statement
- Indenture of Trust
- Project Lease
- Purchase Contract
- Remarketing Agreements
- Letter of Credit Reimbursement Agreement/Fee Agreement

<u>**APPENDIX D**</u>

City of San Jose Financing Authority Taxable Lease Revenue Bonds, Series 2008E (Ice Centre Refunding Project)

Summary Points for the 2008F Bonds

- ***Purpose of the Bond Issue.*** The purpose of the 2008E Bonds is to refinance the existing 2000C Bonds and 2004A to replace the bond insurance and standby purchase agreement structure on the 2000C Bonds with a direct pay letter of credit. This change is necessary as a result of bond insurer downgrades which have caused disruption in the municipal bond market and negatively impacting the interest rate on the bonds. The 2004A Bonds will be converted from auction rate bonds to variable rate demand bonds and together with the 2000C Bonds will create the 2008E Bonds.

- ***Source of Payment on Bonds.*** Under the Operator's Lease and Management Agreement with the City, the City receives fixed quarterly payments to cover debt service on the bonds and to fund capital repair and replacement reserves.

- ***Risk Related to Source of Repayment Insufficient to Repay Bonds.*** The 2008E bonds are a General Fund lease obligation. The City has covenanted to annually appropriate for debt service. To the extent Operator payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. The risk limitations related to repayment of these bonds are described in the Official Statement. Please refer in particular to Appendix A of the Official Statement and the following sections of the Official Statement: "CERTAIN RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

Sources and Uses of Funds

A summary of the estimated sources and uses of the 2008E Bonds is presented below:

City of San José Financing Authority
Taxable Lease Revenue Bonds, Series 2008E
(Ice Centre Refunding Project)
Estimated Sources and Uses of Funds*

Sources	
Par Amount of Bonds	$ 27,740,000
Transfer from Prior Issue Debt Service Reserve Funds	3,142,538
Total Sources	$ 30,882,538
Uses:	
Deposit to Escrow Fund	$ 28,125,000
Deposit to Debt Service Reserve Fund (DSRF)	2,670,125
Costs of Issuance	59,673
Total Underwriter's Discount	27,740
Total Uses	$ 30,882,538

* *Preliminary, subject to change.*

The amount of underwriters' discount for the Series 2008E Bonds shall not exceed 0.28 percent of the principal amount of the Series 2008E Bonds. The final maturity of the Bonds shall be no later than June 1, 2025, and the total aggregate principal amount of the Series 2008E Bonds issued shall not exceed $28,000,000. The underwriters will be paid a takedown for the Ice Centre Refunding Bonds of $1.00/$1,000 of the par amount issued.

Status of Bank Approval

Staff is working diligently and aggressively to find another bank(s) to provide the letter of credit for the 2008E Bonds. A supplemental memo will be forthcoming prior to June 3, 2008 with either the terms and conditions of the alternative bank or a recommendation for a substituted refinancing plan.

Bond Financing Documents

The following bond financing documents will require City Council and/or Authority Board approval to proceed with the issuance of the Ice Centre Refunding Bonds. As the bank approval is unknown, staff cannot estimate when these documents will be available for review in the City Clerk's Office.

Remarketing Agreement. The Remarketing Agreement is between the Authority and Goldman Sachs. This agreement describes the procedures and compensation for arranging the remarketing of the Ice Centre Refunding Bonds. The Remarketing Agent fee is 0.075% per annum of the weighted average of the principal amount of Bonds outstanding during each three month period. The Authority will pay the fee quarterly.

Bond Documents for Council/Authority Board Approval

- Official Statement
- Indenture of Trust
- Site and Facility Lease
- Project Lease
- Purchase Contract
- Remarketing Agreement
- Letter of Credit Reimbursement Agreement/Fee Agreement

APPENDIX E

City of San Jose Financing Authority Taxable Lease Revenue Bonds, Series 2008F (Land Acquisition Refunding Project)

Summary Point for the 2008F Bonds

- ***Purpose of the Bond Issue.*** The purpose of the 2008F Bonds is to refinance the existing 2005 Bonds to replace the bond insurance and standby purchase agreement structure with a direct pay letter of credit. This change is necessary as a result of bond insurer downgrades which have caused disruption in the municipal bond market and negatively impacting the interest rate on the bonds.

- ***Source of Payment on Bonds.*** As described in more detail below, the source of repayment for the 2008F Bonds anticipated to be Option Payments (as defined below) and secondly Airport Operating Funds under the Operating Sublease and ultimately the General Fund.

- ***Risk Related to Source of Repayment Insufficient to Repay Bonds.*** The 2008F bonds are a General Fund lease obligation. The City has covenanted to annually appropriate for debt service. The risk limitations related to repayment of these bonds are described in the Official Statement. Please refer in particular to Appendix A of the Official Statement and the following sections of the Official Statement: "CERTAIN RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

Sources and Uses of Funds

The City of San José Financing Authority Lease Revenue Bonds Series 2005A (Taxable) and Series 2005B (AMT) (together the "2005 Bonds") were issued to purchase approximately 52 acres of the Airport West Property and to make certain improvements to the property before the City could use it for its intended purpose. Approximately $15 million remains in the 2005 Bonds Project Fund of which approximately $5 million is programmed to be disbursed for current projects. City staff recommends using the remaining approximately $10 million in the Project Fund to redeem bonds and lower the outstanding principal amount.

The two series of the outstanding 2005 Bonds will be combined into a single taxable series of bonds as part of this refunding. This is required due to expected receipt of option payments of $3 million semi-annually pursuant to an option agreement for the purchase of the Airport West Property that is anticipated to result from a Memorandum of Understanding between the City and Coleman Airport Partners, LLC, FWSH Partners, LLC and Earthquakes Soccer, LLC (the "Developers"). The estimated debt service schedule places the first principal payment on the 2008F Bonds after 2010 when the Airport West Property is expected to be sold and the 2008F Bonds redeemed in their entirety.

A summary of the estimated sources and uses of the 2008F Bonds is presented below:

City of San José Financing Authority
Taxable Lease Revenue Bonds, Series 2008F
(Land Acquisition Refunding Project)
Estimated Sources and Uses of Funds*

Sources	
Par Amount of Bonds	$ 66,955,000
Transfer from Prior Issue Debt Service Reserve Funds	1,859,398
Series 2005A Project Fund	10,081,397
Total Sources	$ 78,895,795
Uses:	
Deposit to Escrow Funds	$ 76,800,000
Deposit to Debt Service Reserve Fund (DSRF)	1,859,398
Costs of Issuance	135,965
Total Underwriter's Discount	100,432
Total Uses	$ 78,895,795

* *Preliminary, subject to change.*

The amount of underwriters' discount for the Series 2008F Bonds shall not exceed 0.23 percent of the principal amount of the Series 2008F Bonds. The final maturity of the Bonds shall be no later than June 1, 2034, and the total aggregate principal amount of the Series 2008F Bonds issued shall not exceed $68,000,000. The underwriters will be paid a takedown for the Land Acquisition Refunding Bonds of $1.50/$1,000 of the par amount issued.

Bond Financing Documents

The following bond financing documents will require City Council and/or Authority Board approval to proceed with the issuance of the Series 2008F Bonds. On or about May 15, 2008 the Official Statement, in substantially final form, will be transmitted to the City Council/Authority Board and will be available in the Clerk's Office. The remaining documents described below, in substantially final form, will be available for review in the City Clerk's Office on or about May 22, 2008.

Remarketing Agreement. The Remarketing Agreement is between the Authority and Goldman Sachs. This agreement describes the procedures and compensation for arranging the remarketing of the Land Acquisition Refunding Bonds. The Remarketing Agent fee is 0.075% per annum of the weighted average of the principal amount of Bonds outstanding during each three month period. The Authority will pay the fee quarterly.

Operating Sublease and General Sublease. The Series 2008F Bonds differ from the other Refunding Bond Issues in that the City and the Authority will enter into an Operating Sublease and General Sublease of the property formerly known as the FMC property and currently referred to as the Airport West property. This is consistent with the approach taken in 2005 when the Authority issued the Series 2005A and Series 2005B Bonds to fund the acquisition of the Airport West property. The reason for the two subleases is that the initial use of the Airport West Property is and continues to be for aviation related purposes related to the implementation of the Airport Master Plan. As it was unknown whether there would be long-term aviation uses of the Airport West Property, the Operating Sublease entered into in 2005 provided for an initial term expiring on June 30, 2014, with options to extend for an aggregate term of thirty years. The length of the initial term was consistent with the interim aviation uses of the Airport West Property. The Airport continues to use the Airport West Property for construction laydown, rental car storage, and third-party parking operations.

The Operating Sublease to be entered into in connection with the Series 2008F Bonds provides for an initial term expiring on May 31, 2014, with the option to extend for additional periods totaling not more than twenty additional years, for an aggregate term of thirty years. The term of the Operating Sublease may also terminate earlier under certain circumstances, such as full repayment of the Series 2008F Bonds or if the Airport West Property is no longer needed for aviation-related purposes in which case the General Sublease, as described below, will immediately go into effect. Under the Operating Sublease, the City agrees to make monthly lease payments for the use and occupancy of the Airport West Property in an amount sufficient to pay debt service payments and additional expenses associated with the Series 2008F Bonds,

Unless the City enters into the option agreement described below, the lease payments (debt service) are expected to be paid from Airport operating funds and the proceeds of Airport Subordinated Taxable Commercial Paper Notes during the term of the Operating Sublease, but if such funds are not available, or if the Airport West Property is no longer being used for aviation purposes, the City will be obligated to pay the lease payments from the General Fund or other available funds.

The City will also enter into a General Sublease Agreement (the "General Sublease") with the Authority pursuant to which the City will continue to lease the Property for general City purposes after termination or expiration of the Operating Sublease. When the term of the General Sublease commences, the City will be required to make lease payments from the City's General Fund or other available funds until the earlier of final maturity date of the Series 2008F Bonds or payment in full on the Series 2008F Bonds. Both the Operating Sublease and the General Sublease contain an option for the City to purchase the Authority's interest in the Property at any time during the term by redeeming the outstanding Series 2008F Bonds, at which time the applicable lease will terminate. Other than the provisions related to use of the Airport West Property, the terms of the Operating Sublease and the General Lease are the same.

On May 20, 2008, the City Council is scheduled to consider a recommendation made to the Council's Community and Economic Development Committee that the City enter into a Memorandum of Understanding relating to the Airport West Property. The Memorandum of Understanding outlines the terms of a proposed option agreement with the Developers for the purchase of the Airport West Property. The term of the proposed Memorandum of Understanding is June 30, 2008, unless earlier terminated as set forth in the Memorandum of Understanding. As consideration for the option, the Developers will pay the City $3 million, and it would pay an additional $3 million for each extension that it exercised. The amount of the option payment is expected to cover debt service on the Airport West Property. The option payments would be credited to the sales price.

The insurance provisions in both subleases are different from the provisions in other Authority lease financings due to the unique nature of the Airport West Property. Property damage insurance is generally not available to cover land value (as opposed to improvements) and the

City's blanket property damage insurance policy specifically excludes surface parking lots from coverage. Lease financings typically impose a covenant on the City to maintain property damage insurance on the subject property in an amount equal to the greater of its replacement cost or the par amount of outstanding Series 2008F Bonds. In addition, the City is required to maintain rental interruption insurance in an amount equal to two years of debt service payments. Since rental interruption insurance is provided as a rider to the City's property damage insurance policy, it has the same limitations as the property damage insurance as described above. Consequently, this coverage is also not available for the Airport West Property. As an option to satisfy the property and business interruption insurance requirements of the rating agencies and the credit and/or liquidity provider, the City covenants in the Operating Sublease to replenish any draws on the debt service reserve fund for up to a four-year period that may be caused by an abatement event. The City's covenant to replenish the reserve is subject to appropriation by the City Council and a finding that such action is in the public interest in order to maintain the City's credit standing and access to the capital markets.

Bond Documents for Council/Authority Board Approval

- Official Statement
- Indenture of Trust
- Site and Facility Lease
- Operating Sublease
- General Sublease
- Purchase Contract
- Remarketing Agreement
- Letter of Credit and Reimbursement Agreement

APPENDIX F

TECHNICAL ASPECTS OF
MULTI-MODAL VARIABLE RATE DEMAND BONDS ("VRDBs")

The interest rate on a multi-modal VRDB is established by a Remarketing Agent appointed by the City. The rate can be reset as often as daily or can be fixed for longer periods. The most common reset frequency is weekly. Interest reset periods are also referred to as "modes", thus the characterization of the VRDBs as "multi-modal." The Remarketing Agent is required to set the rate based on its impression of current market interest rates. If an investor no longer wishes to hold the VRDB, the investor is permitted to notify the Tender Agent and "put" the bond back to the City and "demand" repayment - hence the term "demand bond."

In such an event, the Remarketing Agent will attempt to remarket the bonds so "put" to another investor. If the Remarketing Agent is unable to find a substitute investor, for any reason, the Tender Agent is authorized to draw on a liquidity facility established by the City for this purpose. The liquidity facility is a line of credit that provides immediate funding to the Tender Agent to repay the bonds that have been "put" by an investor and the Remarketing Agent has not remarketed. The "put" feature associated with VRDBs is essential to the ability and willingness of investors to purchase the bonds and a liquidity facility is required in order to provide substance to the "put" ability. The City pays a quarterly fee to the bank providing the liquidity facility.

Under the Indenture, the City can choose to have the interest on the VRDBs reset with different frequencies. The interest rate modes are (1) daily; (2) weekly; and (3) other terms of varying lengths as selected by City. The City can also choose to convert the VRDBs to a fixed interest rate to their maturity.

Each Series of VRDBs can bear interest at a different mode. In order to switch between interest rate modes, the City must give notices to bond investors and other identified parties and satisfy the conditions set forth in the Indenture. The ability to change interest rate modes provides the City with the ability to manage its interest rate risk during the term of the bonds.

APPENDIX G

The following table summarizes the Authority's bonds which have become Bank Bonds as of May 9, 2008:

Series	Project	Total Outstanding	Bank Bonds
2000C	Ice Centre Refunding	$ 18,900,000	$ 18,100,000
2001C	Hayes Mansion	18,400,000	2,745,000
2005B	Land Acquisition	25,545,000	24,400,000