COUNCIL AGENDA: 11-15-11
ITEM: 6.1(a)

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: **ISSUANCE OF CITY OF SAN JOSE AIRPORT REVENUE BONDS, SERIES 2011B/C**

DATE: October 24, 2011

Approved   Date 11/1/11

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

It is recommended that the City Council adopt the Seventeenth Supplemental Resolution (the "Resolution") of the City Council:

(a) Authorizing the issuance of City of San José Airport Revenue Bonds, Series 2011B and Series 2011C (the "2011B/C Bonds") in a total aggregate principal amount of not to exceed $315 million to be sold through negotiated sale;
(b) Approving substantially final forms of Supplemental Trust Agreement, Preliminary Official Statement, Bond Purchase Agreement and Continuing Disclosure Certificate;
(c) Authorizing the distribution of one or more Preliminary Official Statements and Final Official Statements; and
(d) Authorizing and approving other related actions in connection with the issuance of the 2011B/C Bonds.

OUTCOME

Approval of the recommendations will allow the issuance of the Series 2011B/C Bonds to refund a portion of the outstanding City of San José, San José International Airport Subordinated Commercial Paper Notes ("CP Notes") and to refund certain outstanding City of San José Airport Revenue Bonds to the extent such refunding of Airport Revenue Bonds meets the City's Debt Management Policy savings objectives and the requirements stipulated in the Airport's Master Trust Agreement.

EXECUTIVE SUMMARY

This staff report recommends approving the issuance of Airport Revenue Bonds in an amount not to exceed $315 million to refund outstanding taxable CP Notes and, where market conditions are favorable, to refund certain outstanding airport revenue tax-exempt bonds previously issued in 2001. This taxable CP Notes refunding is the second step of a larger financing strategy that will result in the refunding of taxable CP Notes primarily used to fund the construction of the Airport's new consolidated rental car facility (the "ConRAC"). The first phase of the CP Notes refunding strategy was completed in July 2011 when the City issued $236,785,000 of Airport Revenue Bonds, Series 2011A-1 and Series 2011A-2 (the "2011A Bonds"). The 2011A Bonds refunded outstanding tax-exempt CP Notes, all of the outstanding Airport Revenue Bonds, Series 1998A and a portion of the outstanding Airport Revenue Bonds, Series 2001A (the "2001A Bonds").

The 2011B/C refunding plan meets several objectives. It complies with the Airport's original plan of finance to refund short-term CP Notes with long term fixed rate bonds. The CP Notes were an interim financing vehicle used during the construction period of the Airport Master Plan. Refunding of CP Notes mitigates future letter of credit renewal risk and allows the Airport to substantially reduce the size of the CP program at a time when market conditions have made it increasingly difficult and expensive to obtain the credit facilities required to support the CP program. Finally, due to continued improvements in the municipal market, refunding some or all of the remaining 2001A Bonds could achieve economic savings for the Airport in the form of lower debt service.

BACKGROUND

The Airport CP Program

The Airport CP program was established in November 1999, pursuant to Council Resolution 69200, to provide interim financing for Airport capital needs in anticipation of issuance of long term fixed rate Airport Revenue Bonds. Airport CP Notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues. Net General Airport Revenues are the Airport's gross revenues less maintenance and operation expenses.

The Airport CP program has been amended and expanded since its inception in November 1999. In particular, in March 2008[1] City Council approved an expansion of the Airport CP program from $450 million to $600 million, primarily to refund the Airport Revenue Bonds, Series 2004A and Series 2004B (the "2004A/B Bonds") that were adversely impacted by disruptions in the financial markets related to auction rate securities. This expansion was accomplished through the creation of three additional series of commercial paper notes: Series D (Non-AMT), Series E (AMT), and Series F (Taxable), secured by a letter of credit issued by Lloyds TSB Bank plc,

[1] Council Agenda 3/25/2008, Item #6.4

acting through its New York Branch ("Lloyds"). This letter of credit was terminated on August 26, 2011 after the related CP notes were refunded in connection with the 2011A Bonds issuance in July 2011. A full legislative history of the Airport CP program has been included in Attachment A of this memo.

The Airport CP program is currently supported by four letters of credit and reimbursement agreements with each of JPMorgan Chase Bank, N.A. ("JP Morgan"), Bank of America, N.A. ("Bank of America"), Citibank, N.A. ("Citibank") and Wells Fargo Bank, N.A ("Wells Fargo Bank"). The terms of the agreements range from one year to three years and provide aggregate credit support of $383 million to the Airport CP Program.

Phase 1 of the Airport Development Program

Construction of the Phase 1 projects was substantially complete in fiscal year 2010-11. The Phase 1 projects included nine new gates and approximately 366,000 square feet of new terminal space; design and construction of the new Terminal B; improvements to the existing Terminal A, including new ticketing facilities, a new in-line baggage system that serves both Terminals A and B and security checkpoint, lobby concessions and other improvements; the phased demolition of Terminal C; design and construction of the ConRAC; realignment and improvement of existing terminal roadways; parking improvements; airfield projects, including noise mitigation and the reconstruction of Taxiway Y; and other improvements, including construction of a new belly freight facility and an aircraft rescue and fire fighting facility. The Phase 1 projects also include design of certain Phase 2 projects, but under the Airline Lease Agreement the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. All of these projects have been financed, in part, with bond proceeds and CP Notes.

ANALYSIS

Proposed Financing Strategy

The Airport currently has approximately $280 million of CP Notes outstanding. Approximately $250 million of the outstanding CP Notes were issued on a taxable basis for projects such as the construction of the ConRAC, Fuel Farm Cleanup, and the Owner Controlled Insurance Program ("OCIP") Reserve. An additional $30 million of CP Notes were issued for projects such as public parking improvements, Taxiway W, and various other elements of the Terminal Area Improvement Program.

The proposed financing strategy would refund approximately $225 million of the outstanding CP Notes issued for the construction of the ConRAC to long-term fixed rate bonds (2011 B Bonds) and refund all or a portion of the outstanding 2001A Airport Revenue Bonds to the extent that economic savings are realized (2011C Bonds). Following the issuance of the 2011B/C Bonds, approximately $55 million in CP Notes will remain outstanding, consisting of $14 million of private activity Non-AMT CP Notes, $16 million of AMT CP Notes and $25 million of taxable

CP Notes. Staff is currently evaluating the appropriate size of the CP program after issuance of the 2011B/C Bonds. However, it is expected that the letter of credit provided by Citibank currently scheduled to expire on January 12, 2012, will be allowed to expire according to its terms.

Plan of Finance

This section provides a description of the 2011B/C Bonds, including a summary of the estimated sources and uses of funds, and discusses the additional bonds tests that are a prerequisite to the issuance of the 2011B/C Bonds.

Description of the 2011B/C Bonds

The 2011B/C Bonds will be issued in up to two series as the City of San José Airport Revenue Bonds, Series 2011B (the "2011B Bonds") and the Series 2011C (the "2011C Bonds) (collectively, the "2011B/C Bonds") in the not to exceed aggregate principal amount of $315 million. Federal tax law permits the issuance of tax-exempt bonds for governmental purposes ("Non-AMT") or for specified private use purposes that qualify the bonds for tax-exempt status pursuant to the Internal Revenue Code, subject to certain provisions relating to the Alternative Minimum Tax ("AMT"). Federal law generally prohibits the issuance of tax-exempt debt in financings involving other types of private use, such as the construction of the ConRAC facility. The 2011B Bonds, which refund taxable CP Notes, will be issued on a taxable basis; and the 2011C Bonds, which refund Non-AMT bonds, will be Non-AMT bonds.

The 2011B Bonds are being issued to refund CP Notes originally issued to finance and/or refinance the construction of the ConRAC facility, make cash deposits to the Bond Reserve Fund and the Interest Fund (to pay capitalized interest), to fund an additional amount of rolling coverage for the 2011B Bonds, and to pay a portion of the costs of issuing the 2011B/C Bonds. The 2011C Bonds are being issued to refund certain outstanding 2001A Bonds to the extent such refunding would provide sufficient economic savings and to pay a portion of the costs of issuing the 2011B/C Bonds.

The 2011B Bonds will be issued pursuant to an Eighth Supplemental Trust Agreement and if the proposed refunding of the 2001A Bonds proceeds, the 2011C Bonds will be issuance pursuant to potentially a Ninth Supplemental Trust Agreement to the Master Trust Agreement (which, together with prior Supplemental Trust Agreements, is referred to in this memo as the "Trust Agreement"), as described below.

The 2011B Bonds is currently planned to be issued with a 30-year final maturity date of March 1, 2041, with slowly increasing annual debt service structured to mirror the projected revenue stream from customer facility charges ("CFCs") collected by the rental car companies serving the Airport, and designed to produce a substantially level Facility Rent to be paid by the rental car companies serving the Airport. However, if market conditions are favorable at the time of pricing, a shorter final maturity may be contemplated if it is deemed to be economically advantageous.

Security

The principal of and interest on the 2011B/C Bonds, and all of the City's Airport Revenue Bonds, are secured solely by the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement (referred to as "Other Available Funds"), after Maintenance and Operation Costs are paid. The City is not obligated to pay debt service on any outstanding Airport debt except from the General Airport Revenues and such other funds held or made available under the Master Trust Agreement. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal of, premium, if any, or interest on the 2011B/C Bonds. The 2011B/C Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the General Airport Revenues. The owners of the 2011B/C Bonds have no right to compel the exercise of any taxing power of the City.

The Master Trust Agreement generally defines General Airport Revenues as meaning all revenues, income, receipts and moneys derived by the City from the operation of the Airport. General Airport Revenues also includes all interest, profits or other income derived from the deposit or investment of any moneys in the General Revenue Fund or any account therein established under the Master Trust Agreement. General Airport Revenues also includes all Facility Rent (as defined below) paid by rental car companies operating at the Airport. Under the terms of their ten year Rental Car Operations and Lease Agreement with the City which expires in May 2020, rental car operators are required to pay an amount equal to the difference between debt service on all debt issued to finance the ConRAC facility plus coverage amounts and reserve fund requirements and the City's operating costs to transport passengers to the ConRAC minus Customer Facility Charges paid by the rental car customers ("CFC revenues") (the difference being referred to as "Facility Rent").

Proposed CFC Increase

In addition to General Airport Revenues, the principal and interest of the City's Airport Revenue Bonds is also secured by any Other Available Funds designated by the City, which includes CFC revenues. Pursuant to State law and City Council approval scheduled to occur on November 8, 2011, the Airport's Customer Facility Charges will be adjusted from $10.00 per contract fee to $6.00 per day (subject to a five day maximum) starting on December 1, 2011, and $7.50 per day (subject to a five day maximum) starting on January 1, 2014. The implementation of the fee increase is anticipated increase annual CFC revenues from approximately $6.0 million based on the current $10 per contract fee to $12 million based on the $6 per contract day in FY 2013. As noted above, the 2011B Bonds debt service is structured to mirror the future CFC revenue stream as projected by the Airport's feasibility consultant, Ricondo & Associates ("Ricondo"), and provide for a projected level annual Facility Rent of approximately $5 million to be paid by Airport rental car companies.

Potential Refundings of Airport Revenue Bonds

As stated above, the 2011C Bonds represent a potential economic refunding of all or a portion of the outstanding maturities of the 2001A Bonds. Incorporating a refunding with a larger, longer-dated bond issuance creates certain market access efficiencies, reduces costs of issuance and streamlines the administration of the Airport debt portfolio.

The Council-adopted Debt Management Policy specifies a minimum of 3% net present value savings for a refunding to be considered economically viable and provides for consideration of refundings below the 3% threshold on a case-by-case basis. The final refunding amount of the remaining 2001A Bonds will be determined closer to the pricing date, consistent with the Debt Management Policy. Staff will evaluate the 3% savings threshold in view of the operational efficiencies of refunding all maturities concurrently with the larger 2011B/C Bond financing. The final refunding will also conform to the requirements of the Master Trust Agreement as it relates to refundings.

Bond Reserve Fund for 2011B Bonds

The City anticipates that the 2011B Bonds will be secured by a separate Bond Reserve Fund securing only the 2011B Bonds. The required reserve for the 2011B Bonds will be equal to 10% of the principal amount outstanding during the term of the 2011B Bonds. The initial reserve requirement is expected to be approximately $26.1 million and will be funded from the proceeds of the 2011B Bonds.

General Account of the Bond Reserve Fund

The City anticipates that the 2011C Bonds debt service reserve requirement will be secured by the General Account of the Bond Reserve Fund ("General Account") for the City's outstanding Airport Revenue Bonds. The General Account serves as a "common reserve" for all of the Airport's outstanding Airport Revenue Bonds except for the Series 2004 Bonds and the Series 2007 Bonds. Since the 2011C Bonds are economic refunding bonds which are anticipated to result in a decrease in annual debt service associated with the 2001A Bonds being refunded, no net deposit to the General Account of the Bond Reserve Fund will be required in conjunction with the issuance of the 2011C Bonds.

It should be noted that the Reserve Requirement in the General Account is presently satisfied, in part, by a $4.25 million surety bond from Ambac Indemnity Corporation and a $6.6 million surety bond from National Public Finance Guaranty Corporation ("NPFG"), as successor to MBIA Insurance Corporation. The ratings of NPFG and Ambac were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the General Account. The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of deposit.

The NPFG surety bond expires on March 1, 2016, and the Ambac surety bond expires on March 1, 2018. If no additional Bonds are issued and no additional amounts are deposited in the General Account prior to such dates, on each such date the City would have to make a deposit to the General Account from accumulated Airport surplus funds or provide a Qualified Reserve Surety to replace the amount of each of the expiring surety bonds. The City will also be obligated to replenish the General Account prior to the expiration dates of the surety bonds in the event of a non-payment or cancellation under either surety bond, including upon the liquidation of a surety bond provider. A detailed discussion on the status of the surety bond providers is included in the draft Official Statement for the 2011B/C Bonds. This document will be posted on the City's agenda website on or about November 3, 2011.

Estimated Sources and Uses

The estimated sources and uses of funds for the 2011B/C Bonds are shown below. It should be noted that the amounts shown for the Series 2011B and the Series 2011C bonds are preliminary and subject to change.

City of San José
Airport Revenue Bonds, Series 2011B/C
Estimated Sources and Uses of Funds[1]

	2011B (Taxable CP Refunding)	2011C (2001A Refunding)[2]	Total
Sources of Funds:			
Par Amount of Bonds	$261,365,000.00	$44,405,000.00	$305,770,000.00
Premium	--	1,663,037.40	1,663,037.40
Total Sources of Funds	**$261,365,000.00**	**$46,068,037.40**	**$307,433,037.40**
Uses of Funds:			
Refund Commercial Paper	$225,000,000.00	--	$225,000,000.00
Deposit to Refunding Escrow	--	$45,710,000.00	45,710,000.00
Capitalized Interest	5,116,661.94	--	5,116,661.94
Debt Service Reserve Fund	26,136,500.00	--	26,136,500.00
Deposit for Rolling Coverage[3]	2,990,901.66	--	2,990,901.66
Underwriters' Discount	1,437,507.5	238,721.25	1,676,228.75
Costs of Issuance[4]	683,428.90	119,316.15	802,745.05
Total Uses of Funds	**$261,365,000.00**	**$46,068,037.40**	**$307,433,037.40**

(1) Preliminary; subject to change.
(2) Refunding reflects which currently have positive savings. Total par amount of refunding bonds issued will depend on interest rates and savings available at the time of sale.
(3) Deposit to provide rolling debt service coverage to support the 2011B Bonds.
(4) Includes bond counsel fees and expenses, financial advisor fees and expenses, rating agencies fees, trustee fees and expenses, and printing costs. Does not include municipal bond insurance premium, if any.

Conditions for Issuance of Additional Airport Revenue Bonds

Under the Master Trust Agreement, the City is authorized to issue additional bonds conditioned upon certain tests being met. A summary of the City's outstanding airport revenue bonds, and review of Council's prior approval of Airport bond issuances, may be found in Attachment B of this memorandum.

The 2011B Bonds are proposed to be issued under the prospective additional bonds test, which requires that, for the longer of (i) the next five fiscal years or (ii) the three fiscal years following the fiscal year in which the bond-funded project is estimated to be completed, net General Airport Revenues plus other funds available for the payment of airport revenue bonds are projected to be at least equal 125% of annual debt service on all outstanding airport revenue bonds after the 2011B Bonds are issued.

For the purposes of the 2011B Bonds, this forecast period will be through fiscal year 2017, or the next five fiscal years. In connection with the issuance of the 2011A Bonds, Ricondo prepared a report which sets forth findings, assumptions, and projections of the air traffic and financial analysis for the Airport. For the issuance of the 2011B/C Bonds, Ricondo prepared a letter update to this report indicating that subsequent developments at the Airport were either neutral or positive and indicating that the projections prepared in the report remain valid. This letter update and the Feasibility Report are included in Appendix B of the Preliminary Official Statement (collectively the "Ricondo Report"). The City will deliver to the Trustee a certificate setting forth the annual debt service on all bonds subject to the lien of the Master Trust Agreement (including the 2011B Bonds), and the projections of net general airport revenues and other available funds provided by Ricondo, which demonstrate that these projected revenues equal at least 125% of the annual debt service for each corresponding fiscal year through fiscal year 2017. Based on the Ricondo Report, estimated debt service coverage is expected to range from 163% to 193% within the projection period of fiscal years 2012 through 2017.

Pursuant to the Master Trust Agreement, the City is also authorized to issue additional bonds for the purpose of refunding outstanding Airport Revenue Bonds without meeting an additional bonds test, so long as (i) the proceeds are used solely to pay or defease the refunded Airport Revenue Bonds and to pay the costs of issuance, accrued interest, and reserve costs of the refunding Airport Revenue Bonds and (ii) the annual debt service for the refunding Airport Revenue Bonds in each year is less than or equal to the annual debt service for the refunded Airport Revenue Bonds in each year the refunding bonds are to be outstanding. So long as the 2011C Bonds issued to refund the 2001A Bonds are delivered simultaneously with the 2011B Bonds issued to refund outstanding CP Notes, the City expects to show compliance with the prospective additional bonds test described in the preceding paragraphs for all 2011B/C Bonds. However, if the 2011C Bonds issued to refund the 2001A Bonds are delivered on a different date, it is possible that the additional bonds test described in this paragraph that applies only to 2011C refunding bonds would be used.

Ricondo Report, Use of Unspent Bond Proceeds

The projection of debt service coverage in the Ricondo Report discussed above is based on a number of assumptions and projections, including the growth of enplaned passengers, from 4,107,394 in FY 2010 to 4,195,000 in FY 2017. The Ricondo Report will be posted on the City's agenda website on or about November 3, 2011.

In preparing the financial projections, Ricondo worked with Airport staff and Bond Counsel to incorporate certain assumptions relating to the allowable uses of unspent bond proceeds associated with Airport Revenue Bonds, Series 2007A and 2007B. Based on Bond Counsel advice and information provided by Airport staff, Ricondo assumed that a portion of the unspent bond proceeds associated with the 2007A bonds (estimated at $62 million) and certain other Airport funds will be applied towards future principal payments due on the 2007A bonds. Similarly, the unspent bond proceeds associated with the 2007B bonds (estimated at $28 million) are assumed to be applied towards future principal and interest on the 2007B bonds. This represents a conservative assumption for the purpose of calculating certain financial projections, including cost per enplanement and debt service coverage ratios.

It should also be noted that staff has worked with Bond Counsel to evaluate the application of unspent bond proceeds associated with the 2007A and 2007B bonds and the 2004 Bonds, including the potential of reimbursing various Airport capital and operating expenses that have previously been paid with Airport revenues. It is currently estimated that approximately $36 million of prior Airport expenses will be reimbursed from the 2007A and 2007B unspent bond proceeds.

Sale Parameters

Staff recommends that the 2011B/C Bonds will be sold within certain parameters as described below. The Seventeenth Supplemental Resolution sets forth these parameters.

Principal Amount: The estimated principal amount is $305,540,000 which represents the approximately $261,135,000 principal amount that will be required to refund the outstanding commercial paper, plus the principal amount of $44,405,000 needed to refund the 2001A Bonds currently outstanding.

True Interest Cost: The not-to-exceed true interest cost of the taxable 2011B Bonds is 9.00%, which is approximately 2.88% higher than current market rates.

The not-to-exceed true interest cost of the tax exempt 2011C Bonds is 8.50%, which is approximately 3.70% higher than current market rates.

Underwriters' Discount. The not-to-exceed total compensation to underwriters is 0.6% of the par amount of the 2011B/C Bonds.

Bond Insurance

The Council resolution permits the City to solicit a quote for municipal bond insurance. Assurance Guaranty Corporation ("AGC") is the only remaining viable provider of municipal bond insurance. The resolution proposes to delegate this decision and negotiation of terms and conditions with AGC to the Director or Assistant Director of Finance. However, based on discussions with AGC in conjunction with the issuance of the 2011A Bonds, it was determined that AGC's condition of submitting a bid for municipal bond insurance was a requirement that the City dismiss its case against AGC (among other municipal bond insurance providers). Given this factor and the fact that the projected economics of bond insurance were marginal for the 2011A Bonds and bond insurance is not expected to be economically beneficial to the sale of the 2011B/C Bonds, it is unlikely the City will pursue the use of municipal bond insurance for the 2011B/C Bonds.

Bond Financing Documents

There are a number of bond financing documents that require Council approval to proceed with the issuance of the 2011B/C Bonds. All of these documents, in substantially final form, will be posted to the City's agenda webpage on or about November 3, 2011.

Official Statement. The Official Statement is the public offering statement for the issuance of the 2011B/C Bonds. City staff has worked with Disclosure Counsel in preparing the Preliminary Official Statement for the 2011B/C Bonds. This document describes the purpose of the 2011B/C Bonds, activity information on the Airport, and the financial condition of the Airport. Detailed financial and activity information regarding the Airport is included in Appendix A to the Preliminary Official Statement and information regarding the City's pension plans is included in Appendix C. The Preliminary Official Statement also includes, as Appendix B, Ricondo's full report and letter update. Investors use all of this information to evaluate the credit quality of the 2011B/C Bonds. Following the sale of the 2011B/C Bonds and prior to the closing, Disclosure Counsel will prepare the final Official Statement for the 2011B/C Bonds.

Staff recommends that the Director or Assistant Director of Finance and the Director of Aviation be authorized to sign the final Official Statement for the 2011B/C Bonds on behalf of the City and to make such modifications to these documents as may be necessary upon consultation with the City Attorney's Office. Prior to the distribution of the Preliminary Official Statement and the Official Statement to investors, staff will update budget or financial information, as well as other topics included in the Preliminary Official Statements and in Appendices A and C to reflect the most recent information available to the City to the extent that the updates could affect the deliberations of a reasonable investor in making the decision to purchase the 2011B/C Bonds.

Staff also recommends that the Director or Assistant Director of Finance and the Director of Aviation 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 purpose of marketing the 2011B/C Bonds.

Staff has carefully reviewed the information contained in the draft Preliminary Official Statement and believes it to be accurate and complete in all material respects. As part of the process of issuing new debt, it is important that elected officials read through the Preliminary Official Statement, including Appendices A, B and C.

Understanding the following elements of the bond issue is key to Council's review of these documents:

- Purpose of the bond issue
- Sources of repayment of the bonds
- Risks that the sources of repayment may be insufficient to repay the bonds
- Discussion of any other facts or events that could affect the deliberations of a reasonable investor

After such review of the document the following additional elements should be considered:

- Have identified risks, facts, and events been brought to the attention of staff, bond counsel, and other professionals?
- Have such risks, facts, and events been disclosed, and if not, what is the rationale for the non-disclosure?

The information to address these areas in the Preliminary Official Statement can be found in the INTRODUCTION section which describes the purpose of the 2011B/C Bonds and the source of repayment, among other things. More detailed information on these topics and on the risks related to repayment of the 2011B/C Bonds is provided in the SECURITY FOR THE BONDS; and CERTAIN FACTORS AFFECTING THE AIRPORT as well as in Appendices A and B. Appendix C which provides detailed information regarding the pension plans is included in order to give investors an understanding of this cost on Airport operations.

If any Council member has any personal knowledge that any of the material information in the Preliminary Official Statement is false or misleading, or that the Official Statement omits to state a fact that would be material to investors, the Council member must raise these issues prior to approval of the distribution of the document.

City staff, bond counsel, and the financial advisors will be available at the Council meeting on November 15, 2011, to address any questions, issues and/or concerns.

Staff recommends that the Director of Finance, Assistant Director of Finance, or their authorized designees ("Authorized Officials") be authorized to execute each of these agreements described below. As modifications may be required prior to the closing, staff also recommends that the Authorized Officials be authorized to execute the final version of each of these agreements as may be modified upon consultation with the City Attorney's Office.

Supplemental Trust Agreement. The Supplemental Trust Agreement contains the terms of repayment of the 2011B/C Bonds, as well as the responsibilities and duties of the Trustee and the rights of the bondholders in connection with the 2011B/C Bonds. The version posted to the agenda webpage is the Eighth Supplemental Trust Agreement related to the 2011B Bonds. The 2011C Bonds, if issued, would be pursuant to the Ninth Supplemental Trust in a similar form, with changes as necessary to reflect the tax status of the 2011C Bonds and any other terms relating to the final determination of refunded maturities.

The Supplemental Trust Agreement also amends Section 12.02 of the Master Trust Agreement to clarify the reserve fund valuation procedures by providing that the Trustee shall first obtain approval from the City for its valuations of investments held within the Bond Reserve Fund prior to transferring any amounts on deposit in an account within the Bond Reserve Fund to the Interest Fund. Additionally, the Supplemental Trust Agreement amends Section 4.01 of the Master Trust Agreement to clarify an ambiguity related to the application of eminent domain proceedings to the redemption of bonds. These amendments may be made without the consent of the owners of the bonds or municipal bond insurers pursuant to Section 10.02 of the Master Trust Agreement, which provides for the amendment of the Master Trust Agreement for the purpose of curing, correcting of supplementing any ambiguous or defective provision contained in the Master Trust Agreement, as the City may deem necessary or desirable and which shall not materially affect the interest of the owners of the bonds.

Bond Purchase Agreements. The Bond Purchase Agreement is a contract between the City and the underwriters as the purchasers of the 2011B and the 2011C Bonds. The Bond Purchase Agreement specifies the representations and warranties of the City, the documents to be executed at closing, and the conditions that allow the purchaser to cancel the purchase of the applicable series of bonds.

The City will be entering into a Bond Purchase Agreement with J.P. Morgan Securities LLC as the Co-Senior Manager and representative of the underwriting team for the 2011B Bonds, which includes Barclays Capital and Morgan Stanley. The underwriters will be paid a takedown for the 2011B Bonds in a not to exceed amount of $4.50/$1,000 of the par amount issued. The City will reimburse the senior managing underwriter for its expenses, including underwriters' counsel.

The City will also be entering into a Bond Purchase Agreement with Citigroup Global Markets, Inc. as a Co-Senior Manager for the 2011C Bonds. The underwriters will be paid a takedown for the 2011C Bonds in a not to exceed amount of $4.50/$1,000 of the par amount issued. The City will reimburse the senior managing underwriter for its expenses, including underwriters' counsel.

Continuing Disclosure Certificate. This Certificate is executed by the City for the benefit of the bondholders and in order to assist the participating underwriters to comply with Securities and Exchange Commission Rule 15c2-12(b)(5). In executing this document, the City commits to notify certain parties if certain listed events occur and to file annually an update to certain information contained in the Official Statement.

Financing Team

The financing team participants consist of:

City's Co-Financial Advisors:	Public Financial Management Public Resources Advisory Group
Bond and Disclosure Counsel:	Orrick Herrington & Sutcliffe LLP
Book-Running Co-Senior Manager (2011B):	J.P. Morgan
Book-Running Co-Senior Manager (2011C):	Citigroup Global Markets
Co-Manager	Barclays Capital
Co-Manager	Morgan Stanley
Airport Consultant:	Ricondo & Associates
Trustee:	The Bank of New York Mellon Trust Company, N.A.

Financing Schedule

The current proposed schedule for the issuance of the 2011B/C Bonds is outlined below.

City Council:	November 15, 2011
Bond Pricing:	Late November 2011
Closing	Mid-December 2011

EVALUATION AND FOLLOW-UP

This memorandum presents a recommendation for the Council's approval of various actions related to the issuance of City of San José Airport Revenue Bonds Series 2011B/C. An informational memo to the Council will be prepared summarizing the results of the bond sale.

PUBLIC OUTREACH/INTEREST

☑ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater.
(Required: Website Posting)

☐ **Criterion 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)**

☐ **Criterion 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 has been prepared by the Finance Department in coordination with the City Attorney's Office, Airport Department, and financing team participants.

COST IMPLICATIONS

Professional services (bond counsel fees, financial advisor fees, airport consultant fees and rating agency fees) and other related costs are estimated to be approximately $805,000 and will be paid from costs of issuance of the 2011B/C Bonds.

CEQA

Not a project, File No. PP10-066(e), Services that involve no physical changes to the environment.

/s/
JULIA H. COOPER
Acting Director of Finance

For questions, please contact Arn Andrews, Acting Assistant Director of Finance, at (408) 535-7041.

Attachment A

History of the City's Airport Commercial Paper Program

On November 2, 1999, the City Council adopted Resolution No. 69200 approving the implementation of a commercial paper program (the "Airport CP Program") for the Norman Y. Mineta San José International Airport (the "Airport"), which authorized the issuance of up to $100 million through a combination of three series of commercial paper notes: Series A (Non-AMT), Series B (AMT), and Series C (Taxable). The Airport CP Program was established to provide interim financing for Airport capital needs in anticipation of issuance of Airport revenue bonds that would replace the short-term notes with permanent long-term financing. Airport commercial paper notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues. Net General Airport Revenues are the Airport's gross revenues less maintenance and operation expenses and are first pledged to repay Airport revenue bonds and then Airport commercial paper notes.

Since 1999, the commercial paper notes have been used to initially fund the Airport's runway projects, consolidated rental car garage project design efforts, costs associated with the 2002 Refunding Bonds, the initial costs associated with the implementation of the requirements under the federal Aviation and Transportation Security Act, the Claims Loss Reserve for the Airport's Owner Controlled Insurance Program for the North Concourse Project, the Terminal Area Improvement Program, and to fund associated interest costs during construction of these projects.

On June 20, 2006, the City Council approved an expansion of the Airport CP Program from $100 million to $200 million to ensure that funding would be available for the award of the design and construction contracts related to the amended Airport Master Plan projects and to pay costs related to the Airport's lease of the former FMC property.

On January 9, 2007, the City Council approved an expansion of the Airport CP Program from $200 million to $450 million to ensure that funding would be available for the design and construction contracts related to the rephased Airport Master Plan projects. The Series A-C Notes of the Airport CP Program were secured by letters of credit issued on a several, not joint, basis by JPMorgan Chase Bank, N.A. ("JPMorgan"), Bank of America, N.A. ("Bank of America"), and Dexia Credit Local, acting through its New York Branch ("Dexia")[2], pursuant to the Second Amended and Restated Letter of Credit and Reimbursement Agreement (the "JPM/BofA/Dexia Agreement").

On March 25, 2008, the City Council approved an expansion of the Airport CP Program from $450 million to $600 million primarily to refund the Series 2004A/B Bonds that were adversely impacted by disruptions in the financial markets related to auction rate securities. This expansion was accomplished through a combination of three additional series of commercial paper notes: Series D (Non-AMT), Series E (AMT), and Series F (Taxable), and is secured by a letter of credit issued by Lloyds TSB Bank plc, acting through its New York Branch ("Lloyds"), pursuant to a Letter of Credit and Reimbursement Agreement (the "Agreement").

Attachment A (continued)

On September 1, 2009, the City Council adopted a resolution authorizing the issuance of tax-exempt private activity Non-AMT commercial paper notes as provided for in the American Recovery and Reinvestment Act of 2009. At that time, the Series A Notes were redesignated as Series A-1 (Non-AMT) and Series A-2 (Non-AMT/Private Activity) and the Series D Notes were authorized to be redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity).

On November 9, 2010, the City Council authorized an amendment to the JPM/BofA/Dexia Agreement that extended the term of the agreement for two months from December 2, 2010 to February 2, 2011, removed Dexia Credit Local as a party to the agreement, reduced the amount of available credit from $450 million to approximately $283 million, and amended other terms of the Agreement. The two-month extension provided additional time to complete negotiations related to the replacement letters of credit approved by the City Council on January 11, 2011.

On January 11, 2011, the City Council approved letter of credit and reimbursement agreements with each of JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A. ("Citibank") and Wells Fargo Bank, N.A. ("Wells Fargo"). The terms of the agreements range from one year to three years and the replacement letters of credit provide aggregate credit support of $383 million to the Airport CP Program.

On April 26, 2011, the City Council approved an amended and restated letter of credit and reimbursement agreement (the "Amended Agreement") with Lloyds, which provided for the extension of the credit facility for the Series D, Series E and Series F Notes to September 7, 2011 from its previous termination date of May 7, 2011. The Amended Agreement, which provided aggregate credit support of $140 million to the Airport CP Program, was terminated on August 26, 2011 according to its terms.

Attachment B

Summary of Council Approval of Outstanding Airport Revenue Bonds

The City, pursuant to the City Charter and Municipal Code, has the authority to issue Airport Revenue Bonds. Currently, the City has nine outstanding series of Airport Revenue Bonds.

The 1998A Bonds (which were refunded in whole by the proceeds of the Series 2011A Bonds) were issued pursuant to Resolution No. 57794, as amended and supplemented, originally adopted by the City Council in 1984 (the "1984 Resolution"). In 2001, the City adopted Supplemental Resolution No. 70532 approving the amendment and restatement of the 1984 Resolution in the form of the Master Trust Agreement dated as of July 1, 2001 (the "Master Trust Agreement") between the City and BNY Western Trust Company, predecessor in interest to The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Trustee").

Under the Master Trust Agreement, the City has issued the 2001A Bonds pursuant to the First Supplemental Trust Agreement, the 2002A Bonds and 2002B Refunding Bonds pursuant to the Second Supplemental Trust Agreement, the 2004C and the 2004D Bonds pursuant to the Fourth Supplemental Trust Agreement, the 2007A and the 2007B Bonds pursuant to the Fifth Supplemental Trust Agreement, and the 2011A-1 and 2011A-2 Bonds pursuant to the Seventh Supplemental Trust Agreement. The 2004A and 2004B Bonds which were issued pursuant to the Third Supplemental Trust Agreement were refunded by Airport CP Notes in 2008 as described in the body of the memorandum.