City of San José

Comprehensive Annual Debt Report
Fiscal Year 2011-2012

Debt Management Policy Amendment

Debt Comparison

December 4, 2012
Item 3.7

Debt Management Program

Debt Issuance

Debt Administration

Financial Advisory Services

Policy Objectives

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with Federal and State laws
- Assess financial impacts of significant City projects

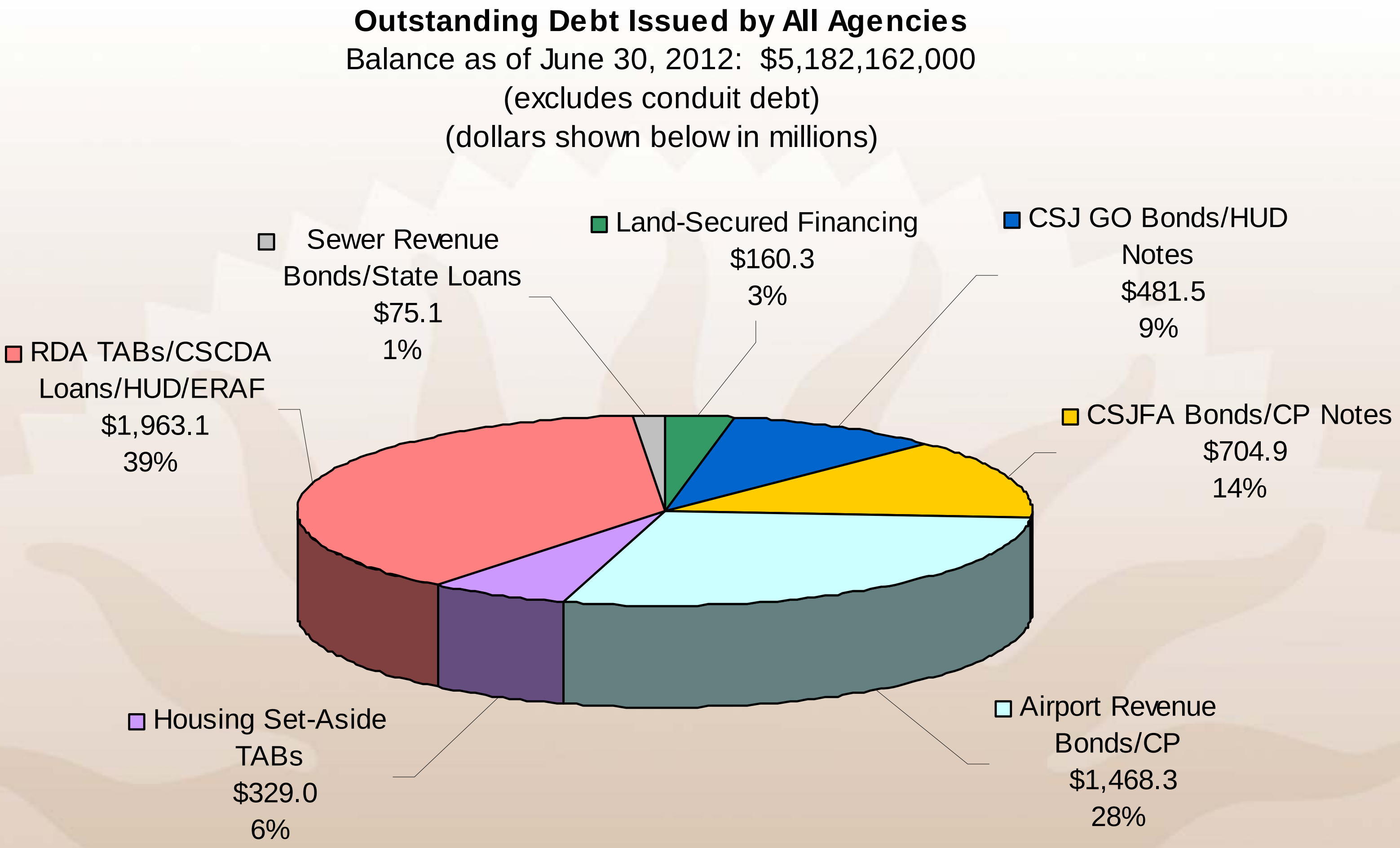
Overview

- Comprehensive Annual Debt Report
  - Debt Portfolio Overview
  - Types of Bonds
  - Variable-Rate Debt
  - Restructuring/Refunding Opportunities
  - Issuance/Financial Advisory Services Summary
- Debt Management Policy Amendment
- Debt Comparison to Peer California Cities

Comprehensive Annual Debt Report (CADR)

Fiscal Year 2011-2012

Outstanding Debt Issued by All Agencies Excluding Multifamily Housing Revenue Bonds



General Obligation Bonds

- Ratings: Aa1/AA+/AA+
- Requires 2/3 voter approval.
- Secured by ad valorem property tax levy in an amount to pay debt service.
- Measures 2000 O and P and Measure 2002 O for library, park, and public safety facilities.
- Capacity and ability to repay:
  - Charter Restriction – 15% of total assessed value (0.37% as of June 30, 2012).
  - Limited by voters willingness to tax.

Lease Revenue Bonds

- Ratings: Aa3/AA/AA
- Does not require voter approval.
- Issued by City of San José Financing Authority.
- City annually covenants to budget and appropriate funds for lease payments.
- Repaid by City's lease payments on an asset pledged as security to bondholders.
- Capacity and ability to repay:
  - Non-Self Supporting with Recourse to the General Fund.
  - Self-Supporting with Recourse to the General Fund.

Parking Revenue Bonds

- 4th & San Fernando Garage Bonds
- Ratings: A1/--/BB
- Secured by parking revenues and pledge of subordinate RDA tax increment revenue.
- No recourse to General Fund for payment of debt service, and the credit or taxing power of the City is not pledged.
- FY 2011-12 debt service coverage: 4.50x
- Capacity and ability to repay:
  - Covenant to increase parking rates for debt service coverage.
  - City pledges maintenance reserve of 25% of annual O&M expenses.

Land-Secured Bonds

- Ratings: generally non-rated.
- Community Facilities District and Assessment District bonds.
- Requires 2/3 voter approval of properties within District or 2/3 of registered voters if more than 12 within District.
- Payable from special taxes or special assessments levied on property tax bill sufficient to pay debt service.
- No recourse to General Fund, and the credit or taxing power of the City is not pledged.
- Capacity and ability to repay:
  - Value-to-lien ratio.
  - Foreclosure proceeds from non-payment.

Airport Revenue Bonds

- Ratings: A2/A-/BBB+
- Does not require voter approval.
- Secured solely by the General Airport Revenues and certain other funds net of maintenance and operation costs.
- No recourse to General Fund, and the credit or taxing power of the City is not pledged.
- FY 2011-12 debt service coverage: 2.03x
- Capacity and ability to repay:
  - Covenant to raise rates and charges.

Sewer Revenue Bonds

- Ratings: Aa2/AAA/AAA
- Issued by San José-Santa Clara Clean Water Financing Authority (“CWFA”).
- Does not require voter approval.
- Payable from rates, fees, and charges.
- No recourse to General Fund, and the credit or taxing power of the City is not pledged.
- FY 2011-12 debt service coverage: 9.34x
- Capacity and ability to repay:
  - Covenant to raise rates, fees, and charges.

Tax Allocation Bonds

- Ratings: 80%: Ba3/BBB/BB-

  20%: Aa1/A/A
- Secured by incremental property tax revenues generated above base year from former redevelopment project areas.
- No recourse to General Fund, and the credit or taxing power of the City is not pledged.
- RDA eliminated as of February 1, 2012.
- Capacity and ability to pay:
  - Tax increment revenue received from County from RPTTF.

Multifamily Housing Revenue Bonds

- Ratings: varied; unrated private placements.
- $534.4 million outstanding for 36 projects.
- Finance construction, acquisition, and rehabilitation of affordable housing.
- Proceeds are lent to developer/borrower (conduit debt).
  - Payable solely from loan repayments by the borrower.
  - No recourse to General Fund, and the credit or taxing power of the City is not pledged.
- Capacity and ability to pay:
  - Measured by cash flow/pro forma of the project.

Short-Term and Variable-Rate Debt

- Tax and Revenue Anticipation Notes
  - General Fund cash flow borrowing to smooth mismatch between receipt of revenues and expenditures.
  - Payable from revenues within a single fiscal year.
- Commercial Paper
  - Short-term promissory notes.
  - Secured by letter of credit.
- Variable-Rate Demand Bonds
  - Secured by letter of credit.
  - Interest rate periodically changes.
  - Payable to bondholder upon “demand or put” following interest rate change.

Variable-Rate Debt

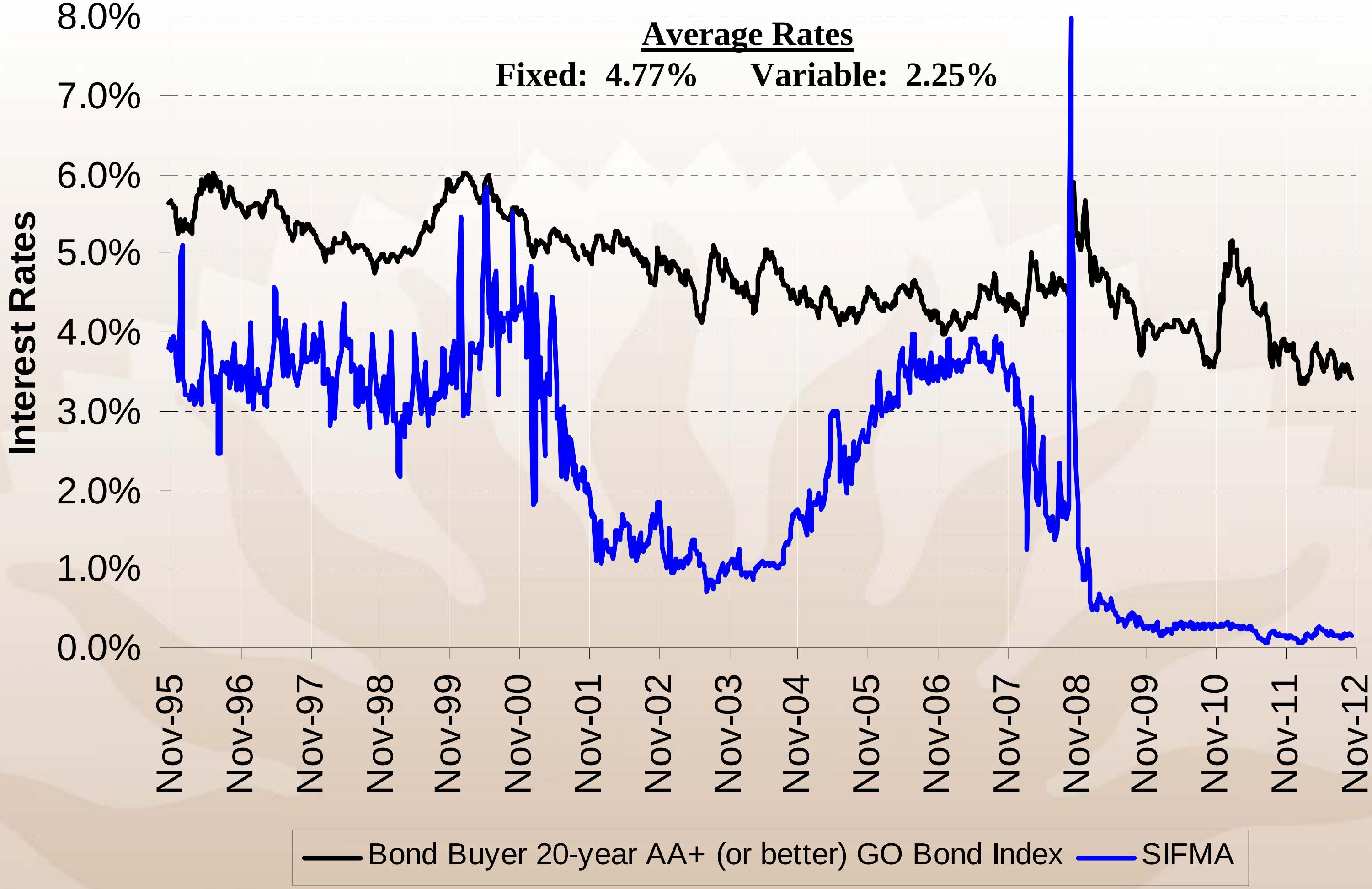
- What is a letter of credit?
  - Liquidity support requirement for variable-rate bonds.
  - Bonds repriced weekly based on short-term rates.
  - Weekly bondholders can elect to “keep” or “sell” their bonds.
  - LOC provides mechanism for investors to “put” or return the bonds to bank if bonds not resold to another investor.

- Benefits of variable-rate debt
  - Budgetary savings due to historical average lower interest cost.
  - Allows flexibility to change use of property and/or prepay debt, a feature not easily available with fixed rate bonds.

Variable-Rate Debt Exposure Risks

- Risks of variable-rate debt
  - Letter of credit renewal risk
  - Interest rate risk
  - Downgrade risk
  - Marketability risk
- Increased costs due to Basel III
  - Global regulatory standard on bank capital adequacy, stress testing, and market liquidity risk.
  - Requires banks to maintain 100% liquidity coverage.
  - Full implementation in 2015.

Historical Fixed and Variable Interest Rates



Variable-Rate Debt Restructuring

Series	June 2010	November 2012	February 2013 (Projected)
Airport	$590.0	$125.0	$75.0
Financing Authority	357.4	348.3	257.5
Agency	193.0	179.0	179.0
Total	**$1,140.1**	**$652.3**	**$511.5**

2012-13 Refunding Opportunities

- Airport Revenue Bonds (closed November 8, 2012)
  - $49.1 million.
  - Refunded Series 2002A bonds.
  - Annual savings of $1.0 million.
- Civic Center/Civic Center Garage Lease Revenue Bonds
  - ~$381 million.
  - Refund Series 2002B, 2008A, and 2008B-1/B-2 bonds.
  - Provides variable-rate risk mitigation.
- General Obligation Bonds
  - ~$228.8 million.
  - $9.3 million new money issuance.
  - Refund Series 2001, 2002, 2004 bonds.

Debt Issuance

- FY 2011-12 debt issues: $713.0 million
  - Tax revenue anticipation note
  - 5 series of multifamily housing revenue bonds
  - 3 series of airport revenue bonds
  - Commercial paper
- FY 2012-13 planned debt issues: $854.1 million
  - Tax revenue anticipation note
  - 2 series of multifamily housing revenue bonds
  - 1 series of airport revenue bonds
  - 2 series of general obligation bonds
  - 2 series of lease revenue bonds
  - Commercial paper

Financial Advisory Services – Major Projects

- Financial management and transition of the former Redevelopment Agency;
- Perform financial analysis for procuring power purchase agreements to install solar systems;
- Private activity analyses;
- Complete the inactive improvement district close-out process; and
- Support various compliance projects related to multifamily housing.

Debt Management Policy

Debt Management Policy Amendment

- Short-term Borrowing
  - Short-term borrowing, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. **<u>Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years.</u>** Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

Debt Management Policy Amendment (cont)

- Variable-Rate Debt
  - The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with the City's creditworthiness objectives. **When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, and the overall debt portfolio structure when issuing variable rate debt for any purpose.**

Debt Comparison
To Peer California Cities

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Debt Comparison to Peer CA Cities

Issuer	General Obligation	General Fund		Total
		Lease	*Pension*	
Los Angeles	$1,215.6	$1,915.2	-	$3,130.8
San Francisco	1,506.3	1,131.1	-	2,637.4
San José[1]	481.5	823.7	-	1,305.2
Oakland	247.1	319.7	387.3	954.0
San Diego	-	500.5	-	500.5
Long Beach	-	335.0	55.0	390.0

[1] Includes HUD Loan.

Summary

- Debt Management program continues to be highly active in the areas of administration and financial advisory services.
- Maintaining a strong and dedicated program protects the City’s financial interests, credit ratings, and long term management of debt compliance to minimize financial penalties.
- Failure to comply with regulatory requirements can result in significant penalties.

Recommendation

- Accept the Comprehensive Annual Debt Report.
- Accept and approve the proposed revisions to the City's Debt Management Policy.