

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2011

NEW ISSUE

RATINGS: _____

See "RATINGS."

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2011 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2011 Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011 Bonds. See "LEGAL MATTERS - Tax Matters."



\$ _____*
CITY OF SAN JOSE
SPECIAL HOTEL TAX REVENUE BONDS, SERIES 2011
(CONVENTION CENTER EXPANSION AND RENOVATION PROJECT)

Dated: Date of Delivery

Due: May 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "Series 2011 Bonds") are being issued by the City of San José (the "City") under Chapter 14.32 of the Municipal Code of the City of San José (the "Chapter") and an Indenture, dated as of ~~March 4~~ April 1, 2011 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee"). The City Council (the "City Council") and the eligible landowner voters in the "Convention Center Facilities District No. 2008-1, City of San José, County of Santa Clara, State of California" (the "Convention Center Facilities District") have authorized the issuance of the Series 2011 Bonds. See "THE SERIES 2011 BONDS – Authority for Issuance."

Use of Proceeds. The Series 2011 Bonds are being issued to (i) finance the acquisition, expansion, construction, reconstruction, rehabilitation, replacement and upgrade of the San José McEnery Convention Center, (ii) fund a reserve fund for the Series 2011 Bonds, (iii) capitalize interest on the Series 2011 Bonds through _____, and (iv) pay the costs of issuing the Series 2011 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE SERIES 2011 BONDS."

Security and Sources of Payment. The Series 2011 Bonds are payable solely from (i) revenues derived from the levy of a special tax (the "Special Tax") on hotel properties within the Convention Center Facilities District according to the rate and method of apportionment of special tax approved by the City Council and the eligible landowner voters in the Convention Center Facilities District, and (ii) moneys deposited in certain funds held by the Trustee under the Indenture. A portion (the "Available T.O.T.") of the moneys received by the City as a result of the levy of the City's transient occupancy tax (the "T.O.T.") may be deposited into the Revenue Fund established under the Indenture and used to pay debt service on the Series 2011 Bonds, but the City Council has no obligation to appropriate the Available T.O.T. for this purpose. See "SECURITY FOR THE SERIES 2011 BONDS."

Additional Bonds Payable on a Parity Basis. Subject to the conditions set forth in the Indenture, the City may at any time issue a series of bonds payable from the Special Taxes on a parity with the Series 2011 Bonds ("Additional Bonds"). See "SECURITY FOR THE SERIES 2011 BONDS – Additional Bonds."

Subordinate Bonds. Concurrently with issuance of the Series 2011 Bonds, the City will cause issuance of a series of lease revenue bonds (the "Series 2011A Lease Revenue Bonds") to provide additional financing for the San José Convention Center project. The Series 2011A Lease Revenue Bonds will be payable from Special Taxes on a subordinate basis to the Series 2011 Bonds, and the City is authorized to cause issuance of additional bonds payable from Special Taxes on a subordinate basis to the Series 2011 Bonds. See "SECURITY FOR THE SERIES 2011 BONDS – Subordinate Obligations."

* Preliminary; subject to change.

Bond Terms. Interest on the Series 2011 Bonds is payable on May 1, 2011, and semiannually thereafter on each May 1 and November 1. The Series 2011 Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. The Series 2011 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Series 2011 Bonds. See “THE SERIES 2011 BONDS – General” and “APPENDIX D – DTC and the Book-Entry Only System.”

Redemption. *Prior to their maturity, the Series 2011 Bonds are subject to optional redemption and mandatory sinking fund redemption. See “THE SERIES 2011 BONDS - Redemption.”*

The Series 2011 Bonds are limited special tax obligations of the City and the interest on and principal of and redemption premiums, if any, on the Series 2011 Bonds are payable solely from the proceeds of the Special Tax, all amounts in the Revenue Fund, and any investment earnings thereon, and the City is not obligated to pay the interest on and principal of and redemption premiums on the Series 2011 Bonds except from the proceeds of the Special Tax and such other funds. The general funds and assets of the City are not liable and the full faith and credit of the City is not pledged for the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds, and no tax or assessment other than the Special Tax shall ever be levied or collected to pay the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds. The Series 2011 Bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any property of the City or any of its income or receipts except the proceeds of the Special Tax and such other funds as provided in the Indenture, and neither the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds is a general debt, liability or obligation of the City. The Available T.O.T. (as defined in this Official Statement) is not pledged for the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds. The Series 2011 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory debt limitation or restriction, and neither the City Council nor the City nor any officer or employee of the City will be liable for the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds otherwise than from the proceeds of the Special Tax and the other funds as provided in the Indenture.

MATURITY SCHEDULE
(see inside cover)

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the Series 2011 Bonds involves risks that may not be appropriate for some investors. See “BOND OWNERS’ RISKS” for a discussion of special risk factors that should be considered in evaluating the investment quality of the Series 2011 Bonds.

The Series 2011 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City by its City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Disclosure Counsel to the City. Hawkins Delafield & Wood LLP is acting as counsel to the Underwriters. It is anticipated that the Series 2011 Bonds, in book-entry form, will be available for delivery on or about _____, 2011.

BofA Merrill Lynch

Citi

Wells Fargo Securities

The date of this Official Statement is: _____, 2011

MATURITY SCHEDULE*
(Base CUSIP†: _____)

\$ _____ Serial Bonds

<u>Maturity</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>	<u>Maturity</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>
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\$ _____ % Term Bonds due May 1, _____ – Price _____; Yield _____% CUSIP† _____

\$ _____ % Term Bonds due May 1, _____ – Price _____; Yield _____% CUSIP† _____

† Copyright 2011, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriters assumes any responsibility for the accuracy of these CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations with respect to the Series 2011 Bonds other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been given or authorized by the City or the Underwriters.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Series 2011 Bonds described in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement does not constitute a contract between any owner of the Series 2011 Bonds and the City or the Underwriters.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters does not guarantee the accuracy or completeness of such information.

Copies of Documents. Copies of documents referred to herein and information concerning the Series 2011 Bonds are available from the City of San José – Finance, Debt Management, 200 East Santa Clara Street, 13th Floor, San José, California 95113, Phone: (408) 535-7010. The City may impose a charge for copying, mailing and handling.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure made by the Authority or the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements.” Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Series 2011 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City, the Convention Center Facilities District or any other party described in this Official Statement, since the date of this Official Statement.

Document Summaries. All summaries of documents contained in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this Official Statement to a document is qualified in its entirety by reference to such document, which is on file with the City.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

No Registration with the SEC. The issuance and sale of the Series 2011 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, and the Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in both cases in reliance upon exemptions provided thereunder.

Public Offering Prices. The Underwriters may offer and sell the Series 2011 Bonds it is underwriting to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page of this Official Statement, and such public offering prices may be changed from time to time.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2011 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2011 BONDS IT IS UNDERWRITING AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

City Website. The City maintains a website. However, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2011 Bonds.

LOCATION MAP

CITY OF SAN JOSE

City Council

Chuck Reed, Mayor

District 1: Pete Constant, Member
District 2: Ash Kalra, Member
District 3: Sam Liccardo, Member
District 4: Kansen Chu, Member
District 5: Xavier Campos, Member
District 6: Pierluigi Oliverio, Member
District 7: Madison Nguyen, Vice Mayor
District 8: Rose Herrera, Vice Mayor
District 9: Donald Rocha, Member
District 10: Nancy Pyle, Member

City Officials

Debra Figone, City Manager
Richard Doyle, City Attorney
Dennis D. Hawkins, CMC, City Clerk
Scott P. Johnson, Director of Finance

City Staff

Julia H. Cooper, Assistant Director of Finance
Patricia A. Deignan, Chief Deputy City Attorney
Arn Andrews, Treasury Division Manager
Charlene Sun, Debt Administrator
Peter Detlefs, Financial Analyst

PROFESSIONAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Financial Advisor

Stone & Youngberg LLC
San Francisco, California

Trustee

U.S. Bank National Association,
San Francisco, California



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OFFICIAL STATEMENT

\$ _____ *

CITY OF SAN JOSÉ
CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
SPECIAL HOTEL TAX BONDS, SERIES 2011
(CONVENTION CENTER EXPANSION AND RENOVATION PROJECT)

INTRODUCTION

This Official Statement, including the cover page and attached appendices, is provided to furnish information regarding the bonds captioned above (the “**Series 2011 Bonds**”) to be issued by the City of San José (the “**City**”) with respect to its “Convention Center Facilities District No. 2008-1, City of San José, County of Santa Clara, State of California” (the “**Convention Center Facilities District**”).

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and attached appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the Series 2011 Bonds to potential investors is made only by means of the entire Official Statement.

The City. The Series 2011 Bonds are being issued by the City. See “THE CITY.”

Authority for Issuance of the Series 2011 Bonds. The Series 2011 Bonds are issued under the following:

- Chapter 14.32 of the Municipal Code of the City of San José (the “**Chapter**”), which includes by reference, to the extent they are not amended by the specific terms of the Chapter, the provisions of the Mello-Roos Community Facilities Act of 1982 as they existed on August 26, 2008 (the date of adoption of the ordinance placing the Chapter into the Municipal Code of the City of San José) (the “**Act**”),
- certain resolutions adopted by the City Council of the City, and
- an Indenture, dated as of ~~March 1~~April 1, 2011 (the “**Indenture**”), by and between the City and U.S. Bank National Association, as trustee (the “**Trustee**”). See “THE SERIES 2011 BONDS – Authority for Issuance.”

The Convention Center Facilities District. The Convention Center Facilities District was established by the City under the Chapter, pursuant to (i) the Resolution of Formation adopted by the City Council (as defined in “THE SERIES 2011 BONDS – Authority for Issuance”) and (ii) an election held on June 9, 2009, at which the then-qualified electors of the Convention Center Facilities District authorized the Convention Center Facilities District to incur bonded indebtedness and approved the levy of special taxes. See “THE SERIES 2011 BONDS – Authority for Issuance.”

Commencing July 1, 2009, all owners of parcels classified as Hotel Property within the boundaries of the Convention Center Facilities District are subject to the Special Tax. There are two

* Preliminary; subject to change

zones in the Convention Center Facilities District, and each zone is initially subject to a different Special Tax rate (see “SECURITY FOR THE SERIES 2011 BONDS – Rate and Method”):

Zone 1: All properties within the Convention Center Facilities District on which a hotel/motel is located within a two-and-one-quarter-mile (2.25 mi) radius of the San Jose Convention Center, 150 W. San Carlos Street, San Jose, CA 95113. There are currently 27 taxable Hotel Properties in Zone 1.

Zone 2: All properties within the City that are not within Zone 1. There are currently 50 taxable Hotel Properties in Zone 2.

The only significance of the zone distinction is that that, while Zone 1 has had a 4% Base Special Tax Rate since fiscal year 2009-10, the Zone 2 Base Special Tax Rate is currently 3% and will adjust to 4% beginning in fiscal year 2011-12.

When it formed the Convention Center Facilities District, the City Council identified all property that may be developed for hotel purposes (as defined in the City’s Municipal Code) anywhere within the City or within the City’s sphere of influence, as determined by the Local Agency Formation Commission of the County of Santa Clara, and which becomes annexed to the City as “territory proposed for annexation in the future”. This means that future hotels in the City can annex into the Convention Center Facilities District if the property owner executes a written consent to the annexation, and no further proceedings or hearings are required. The City has not adopted a development entitlement requirement for future hotel properties to annex into the Convention Center Facilities District, and the City can provide no assurances that any such requirement, if adopted, would be upheld by a court as a reasonable regulation under applicable California and federal law.

Purpose of the Series 2011 Bonds. Proceeds of the Series 2011 Bonds will be used to (i) finance the acquisition, expansion, construction, reconstruction, rehabilitation, replacement and upgrade of the San José McEnery Convention Center (the “**Improvements**”), (ii) fund a reserve fund for the Series 2011 Bonds, (iii) capitalize interest on the Series 2011 Bonds through _____, and (iv) pay the costs of issuing the Series 2011 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE SERIES 2011 BONDS.”

Security and Sources of Payment for the Series 2011 Bonds. The Series 2011 Bonds are secured by a pledge of all revenues as received by the City as a result of the levy of a Special Tax (as defined in the Indenture) on taxable property in the Convention Center Facilities District (the “**Special Tax**”), and all amounts in the Revenue Fund established and held by the Trustee under the Indenture and any investment earnings on amounts in the Revenue Fund. The Indenture defines “Special Tax” as the special tax levied pursuant to the “**Rate and Method**,” which is defined in the Indenture as the “Rate and Method of Apportionment of Special Tax” adopted by the City Council as part of the Resolution of Formation, and approved by the qualified electors. The term “Special Tax” encompasses a “**Base Special Tax**” and an “**Additional Special Tax**.” See “SECURITY FOR THE SERIES 2011 BONDS – Rate and Method”.

The City has covenanted in the Indenture to implement the enforcement mechanism of Section H of the Rate and Method against any parcel whose owner/operator does not pay the Special Tax and, if the City’s efforts prove ineffective, to cause foreclosure proceedings to be commenced and prosecuted against that parcel. For a more detailed description of the foreclosure covenant, see “SECURITY FOR THE SERIES 2011 BONDS - Covenant to Foreclose.”

Revenue Stabilization Reserve. The Trustee will establish a “**Revenue Stabilization Reserve**” under the Indenture. Concurrently with issuance of the Series 2011 Bonds, the City will deposit \$_____ of Special Tax Revenues into the Revenue Stabilization Reserve. Thereafter, as described in “SECURITY FOR THE SERIES 2011 BONDS – Revenue Fund,” the City will deposit certain moneys into the Revenue Stabilization Reserve. Moneys in the Revenue Stabilization Reserve may be used to pay debt service on the Series 2011 Bonds and any Additional Bonds and for the other purposes described in “SECURITY FOR THE SERIES 2011 BONDS – Revenue Stabilization Reserve. It is important to note that moneys in the Revenue Stabilization Reserve may be used to pay debt service on the Series 2011A Lease Revenue Bonds and any other Subordinate Bonds, as described in “Subordinate Obligations” below. See “BOND OWNERS’ RISKS – Depletion of Revenue Stabilization Reserve.”

Available T.O.T. The City has been collecting a transient occupancy tax (“**T.O.T.**”) since at least 1966. The current T.O.T. is equal to 10% of the rent charged by the hotel operator. Of that amount, 4% is a general tax that is deposited into the City’s General Fund. The remaining T.O.T. is deposited into a special fund and allocated to various specified purposes. One of the specified purposes is the funding of a convention and visitors bureau, including a rental subsidy of City facilities for convention purposes. The City has historically appropriated 1.5% of the room charges (15% of T.O.T. revenues) to the convention uses; it is this portion of the T.O.T. that constitutes the “**Available T.O.T.**” as defined in the Indenture.

The City covenants in the Indenture that if, on any May 2 in a Fiscal Year in which the Additional Special Tax is being levied, the amount in the Revenue Stabilization Reserve is less than the Revenue Stabilization Reserve Requirement, then the City Manager will formally request the City Council to appropriate, in its annual budget for the following Fiscal Year, the Available T.O.T. for transfer to and deposit in the Revenue Fund. The Indenture provides that a failure of the City Council to appropriate such funds will not be a violation of this covenant or a default under the Indenture. See “SECURITY FOR THE SERIES 2011 BONDS - Available T.O.T.” In addition, the City is not obligated to continue to appropriate 15% of T.O.T. revenues for convention uses.

Authority to Issue Additional Bonds Payable from Special Taxes on a Parity with the Series 2011 Bonds. In addition to the Series 2011 Bonds, and subject to the conditions set forth in the Indenture (see “SECURITY FOR THE SERIES 2011 BONDS – Additional Bonds”), the City may at any time issue a series of bonds payable from the Special Taxes on a parity with the Series 2011 Bonds (“**Additional Bonds**”; together with the Series 2011 Bonds, the “**Bonds**”). See also “Subordinate Obligations” below.

Subordinate Obligations. Concurrently with issuance of the Series 2011 Bonds, the City of San José Financing Authority (the “**Authority**”) is issuing its Lease Revenue Bonds, Series 2011A (Convention Center Expansion and Renovation Project) (the “**Series 2011A Lease Revenue Bonds**”) to provide additional financing for the Improvements. The Series 2011A Lease Revenue Bonds are payable from Base Rental Payments made by the City under a Facility Lease (Convention Center Expansion and Renovation Project) dated as of ~~March 4~~April 1, 2011 (the “**2011 Lease**”). Pursuant to the Indenture, the City will make payments to the trustee for the Series 2011A Lease Revenue Bonds (the “**2011A Lease Revenue Bond Trustee**”) from the Revenue Fund (“**Subordinate Revenues**”) and the Revenue Stabilization Reserve to pay debt service on and to replenish the debt service reserve account for the Series 2011A Lease Revenue Bonds, subject to satisfaction of certain conditions. See “SECURITY FOR THE SERIES 2011 BONDS – Revenue Fund.”

In addition to the Series 2011A Lease Revenue Bonds, the Indenture authorizes the City to issue two types of obligations that are payable from Special Taxes on a subordinate basis to the Series 2011 Bonds (see “SECURITY FOR THE SERIES 2011 BONDS – Subordinate Obligations”):

(i) “**Super-subordinate bonds**” that are subordinate in all respects to the use of the Special Tax to pay the Bonds and have no right to money in the Revenue Stabilization Reserve.

(ii) Additional “**Subordinate Bonds**,” i.e., lease revenue bonds in addition to the Series 2011 Lease Revenue Bonds (“**Lease Revenue Bonds**”) and any other bonds with claims to Subordinate Revenues and to the Revenue Stabilization Reserve on a parity with those of the Series 2011A Lease Revenue Bonds.

Risk Factors Associated with Purchasing the Series 2011 Bonds. Investment in the Series 2011 Bonds involves risks that may not be appropriate for some investors. See “BOND OWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the Series 2011 Bonds.

Professionals Involved in the Offering. The following professionals are participating in this financing:

- Orrick Herrington & Sutcliffe LLP, San Francisco, California is serving as Bond Counsel to the City.
- Stone & Youngberg LLC, San Francisco, California, is serving as financial advisor (the “**Financial Advisor**”) to the City.
- Merrill Lynch, Pierce, Fenner & Smith Incorporated, San Francisco, California, Citigroup Global Markets, Inc., and Wells Fargo Bank, N.A., are acting as the underwriters of the Series 2011 Bonds (the “**Underwriters**”).
- Willdan Financial Services, Temecula, California, acted as special tax consultant with respect to the Convention Center Facilities District.
- Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City.
- U.S. Bank National Association, San Francisco, California, will serve as the Trustee under the Indenture.
- Hawkins Delafield & Wood LLP, San Francisco, is acting as Underwriters’ Counsel.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2011 Bonds will be deposited into the following funds and accounts under the Indenture:

Table No. 1
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Estimated Sources and Uses of Funds

SOURCES

Principal Amount of Bonds

Less/Plus: Original Issue Discount/Original Issue Premium

Less: Underwriters' Discount

Total Sources

USES

Deposit into Series 2011 Capitalized Interest Account (1)

Deposit into Reserve Fund (2)

Deposit into Costs of Issuance Account (3)

Deposit into Project Fund

Total Uses

-
- (1) Proceeds of the Series 2011 Bonds deposited into the Series 2011 Capitalized Interest Account will be used to pay interest on the Series 2011 Bonds through _____.
 - (2) Equal to the Reserve Requirement with respect to the Series 2011 Bonds as of the date of delivery of the Series 2011 Bonds.
 - (3) Includes, among other things, the fees and expenses of Bond Counsel, Disclosure Counsel, Financial Advisor, and the City Attorney, the cost of printing the Preliminary and final Official Statements, fees and expenses of the Trustee, and the fees of the Special Tax Consultant.
-

IMPROVEMENTS TO BE FINANCED BY THE CONVENTION CENTER FACILITIES DISTRICT AND WITH PROCEEDS OF THE SERIES 2011 BONDS

General. The Convention Center Facilities District is authorized to finance the expansion, construction, reconstruction, rehabilitation, replacement and upgrade of the San José Convention Center (defined as the “**Improvements**” in the Indenture).

Series 2011 Bonds. The first phase of the Improvements, which is expected to be financed with proceeds of the Series 2011 Bonds and the Series 2011A Lease Revenue Bonds, includes:

- An expansion of 131,100 gross square feet, which includes a 35,000 square foot ballroom and 25,000 square feet of meeting rooms, a plating kitchen, pre-function and circulation space, and a lobby. The estimated cost of the expansion work is approximately \$66 million.
- A renovation of the “front of house” of the existing building including new carpet, paint, ceilings, movable walls, signage and wayfinding, restrooms, and accessibility improvements. The estimated cost of this work is \$20 million.
- A new fire alarm, building management system and closed circuit television system; the estimated cost of this work is \$13 million
- A new central utility plant for the existing building and new construction including all new boilers, chillers, cooling towers, pumps and pipes. The estimated cost of this work is \$14 million.
- Reimbursement of City costs—expenditures in respect of the Improvements of approximately \$7 million.

The current schedule anticipates completion of the first phase of the Improvements within 24 months of start of construction.

Improvements are not Security for the Series 2011 Bonds. The Improvements financed with proceeds of the Series 2011 Bonds are not security for the Series 2011 Bonds and the obligation of the taxable property in the Convention Center Facilities District to pay the Special Tax is not contingent upon construction of the Improvements.

THE SERIES 2011 BONDS

General Bond Terms

Dated Date, Maturity and Authorized Denominations. The Series 2011 Bonds will be dated their date of delivery and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Series 2011 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple of \$5,000.

Interest. The Series 2011 Bonds will bear interest at the annual rates set forth on the inside cover page of this Official Statement, payable semiannually on each May 1 and November 1, commencing May 1, 2011 (each, an “**Interest Payment Date**”). Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months.

DTC and Book-Entry Only System. DTC will act as securities depository for the Series 2011 Bonds. The Series 2011 Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC’s partnership nominee). **So long as Cede & Co. is the registered owner of the Series 2011 Bonds, as nominee of DTC, references in this Official Statement to the “Owners” will mean Cede & Co., and will not mean the Beneficial Owners of the Series 2011 Bonds. See APPENDIX D – “DTC and the Book-Entry Only System.”**

Method of Payment. Principal, premium, if any, and interest on the Series 2011 Bonds are payable directly to DTC by the Trustee in lawful money of the United States of America. Upon receipt of payments of principal, premium or interest, DTC is to remit such principal, premium or interest to the “DTC Participants” (as defined in APPENDIX D) for subsequent disbursement to the Beneficial Owners of the Series 2011 Bonds. See APPENDIX D – “DTC and the Book-Entry Only System.”

Authority for Issuance

Convention Center Facilities District Proceedings. The Series 2011 Bonds will be issued under the Chapter and the Indenture. As required by the Chapter, the City Council of the City has taken the following actions with respect to establishing the Convention Center Facilities District and authorizing issuance of the Series 2011 Bonds:

Chapter. On August 26, 2008, the City Council adopted its Ordinance No. 28387, which placed the Chapter into the City’s Municipal Code.

Boundary Map. On September 30, 2008, by its Resolution No. 74604, the City Council approved the boundary map of the Convention Center Facilities District and the boundary map was recorded on November 4, 2008, in the Book of Maps and Assessment and Community Facilities Districts maintained by the County Recorder of the County of Santa Clara in Book 44 at Pages 32-46, as instrument number 20037072. On January 13, 2009, the City Council, by its Resolution No. 74758, ratified its approval of the boundary map. The boundary map is attached to this Official Statement as Appendix I.

Resolutions of Intention: On February 3, 2009, the City Council adopted Resolution No. 74783 (the “**Resolution of Intention**”) and Resolution No. 74784, stating its intention to establish the Convention Center Facilities District, to authorize the levy of a special tax therein and to issue bonds for the Convention Center Facilities District in an amount not to exceed \$750 million.

Resolution of Formation: Immediately following a noticed public hearing, on March 10, 2009, the City Council adopted Resolution No. 74826 (the “**Resolution of Formation**”), which established the Convention Center Facilities District and authorized the levy of a special tax within the Convention Center Facilities District.

Resolution of Necessity: On March 10, 2009, the City adopted Resolution No. 74827, declaring the necessity to incur bonded indebtedness in an aggregate amount not to exceed \$750 million within the Convention Center Facilities District and submitting that proposition to the qualified electors of the Convention Center Facilities District.

Resolution Calling Election: On March 10, 2009, the City Council adopted Resolution No. 74828, calling an election within the Convention Center Facilities District on the issues of the levy of the Special Tax, the incurring of bonded indebtedness and the establishment of an appropriations limit.

Vote of the Qualified Electors and Declaration of Results: On June 9, 2009, a mail ballot election was held in which the qualified electors within the Convention Center Facilities District approved a ballot proposition authorizing the issuance of up to \$750 million in bonds to finance the acquisition and construction of the Improvements, the levy of a special tax and the establishment of an appropriations limit for the Convention Center Facilities District. On June 16, 2009, the City Council adopted Resolution No. 75000, under which the City Council approved the canvass of the votes and declared the Convention Center Facilities District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness and to have the established appropriations limit, all with respect to the Convention Center Facilities District.

Special Tax Lien and Levy: A Notice of Special Tax Lien was recorded in the real property records of the County of Santa Clara (the “**County**”) on June 30, 2009, as document number 20320458.

Ordinance Levying Special Taxes: On June 16, 2009, the City Council introduced Ordinance No. 28605 levying the Special Tax within the Communities Facilities District beginning with fiscal year 2009-10 (the “**Ordinance**”), which Ordinance was adopted by the City Council on June 23, 2009.

Validation Proceedings. On June 16, 2009, the City Council adopted Resolution No. 75001, authorizing the filing of a validation action related to the Bonds and the Convention Center Facilities District pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure. On July 29, 2009, the City filed a complaint in the Superior Court of the State of California for the County of Santa Clara seeking judicial validation of the transactions relating to the issuance of the Series 2011 Bonds, and certain other matters (City of San José vs. All Persons Interested, etc., Case No. 109 CV 148458). On March 30, 2010, the court entered judgment to the effect, among other things, that formation of the Convention Center Facilities District was valid and that the City has the authority to issue the Bonds. On September 23, 2010, the California Court of Appeal, Sixth Appellate District, dismissed an appeal of the judgment and, on November 23, 2010, the judgment became final for all purposes.

In issuing its approving opinion, Bond Counsel has relied, among other things, upon the above-described validation of proceedings.

Resolution Authorizing Issuance of the Series 2011 Bonds: On _____, the City Council adopted Resolution No. _____ approving issuance of the Series 2011 Bonds in an amount not to exceed \$ _____.

Debt Service Schedule

The following table presents the annual debt service on the Series 2011 Bonds (including sinking fund redemptions), assuming there are no optional redemptions.

Table No. 2
CITY OF SAN JOSE
Special Hotel Tax Revenue Bonds, Series 2011
(Convention Center Expansion and Renovation Project)
Debt Service Schedule

Year Ending <u>May 1</u>	<u>Principal</u>	<u>Interest</u>	Total <u>Debt Service</u>
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Total

Redemption

Optional Redemption. The Series 2011 Bonds maturing on or before May 1, 20__ are not subject to redemption prior to their maturity dates. The Series 2011 Bonds maturing on or after May 1, 20__ are subject to optional redemption by the City prior to their respective maturity dates, as a whole on any date or in part on any Interest Payment Date, on or after May 1, 20__ from money derived by the City from any source other than Mandatory Sinking Account Payments upon mailed notice as provided herein. Redemption will be at par without premium.

Mandatory Sinking Payment Redemption. The Series 2011 Bonds maturing on May 1, 20__, are subject to mandatory redemption by the City prior to their maturity date in part on any May 1 on or after May 1, 20____, to and including May 1, 20____, as set forth in the following table, from money derived by the City from the 20__ Mandatory Sinking Account Payments deposited in the 20__ Sinking Account, at the principal amount thereof together with accrued interest thereon to the date of redemption:

Redemption Date (May 1)	Sinking Payments
----------------------------	------------------

The Series 2011 Bonds maturing on May 1, 20____, are subject to mandatory redemption by the City prior to their maturity date in part on any May 1 on or after May 1, 20____, to and including May 1, 20__, as set forth in the following table, solely from money derived by the City from the 20__ Mandatory Sinking Account Payments deposited in the 20__ Sinking Account, at the principal amount thereof together with accrued interest thereon to the date of redemption:

Redemption Date (May 1)	Sinking Payments
----------------------------	------------------

The amounts in the foregoing tables will be reduced to the extent practicable so as to maintain substantially the same debt service profile for the Series 2011 Bonds, as a result of any prior partial redemption of the Series 2011 Bonds as described in "Optional Redemption" above.

Selection of Series 2011 Bonds to be Redeemed If less than all the Outstanding Series 2011 Bonds are to be redeemed pursuant to the optional redemption provisions of the Indenture, the City will select the maturity dates from which the Series 2011 Bonds will be redeemed, and if less than all the Outstanding Bonds of any one maturity date are to be redeemed at any one time, the City will notify the Trustee in writing at least 15 days prior to the date fixed for the selection of any such Series 2011 Bonds for redemption and the Trustee will select the Series 2011 Bonds or the portions thereof of such maturity date to be redeemed in integral multiples of \$5,000 by lot in any manner that it deems appropriate.

Notice of Redemption. The Trustee shall mail by first class mail a notice of redemption, not less than 30 days nor more than 60 days prior to the date fixed for redemption, to the owners of all Series 2011 Bonds selected for redemption in whole or in part and to the MSRB's EMMA System and to any other securities depositories and securities information services selected by the City to comply with custom or the rules of any securities exchange or commission or brokerage board or otherwise as may be determined by the City in its sole discretion and to the original underwriters of the Series 2011 Bonds, but neither failure to receive any such mailed notice nor any immaterial defect contained in a notice will affect the sufficiency or validity of any such proceedings for redemption.

The redemption notice will state the date of the notice, the Series 2011 Bonds to be redeemed, the date of issue of the Series 2011 Bonds, the redemption date, the redemption price, the place of redemption (including the name and appropriate address of the Trustee), the CUSIP number of the maturity or maturities and, if less than all of any such maturity, the numbers of the Series 2011 Bonds of such maturity to be redeemed and, in the case of Series 2011 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and will give notice that further interest on such Series 2011 Bonds or the portions thereof to be redeemed will not accrue from and after the redemption date, and will require that the Series 2011 Bonds to be redeemed be then surrendered for redemption at the Principal Corporate Trust Office of the Trustee; provided, that neither the City nor the Trustee will have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Trustee will be liable for any inaccuracy in such numbers.

The Indenture allows the Trustee to provide a conditional notice of redemption and to rescind, cancel and annul a noticed redemption by giving notice of such rescission, cancellation and annulment at least seven days prior to the date fixed for redemption to the same persons and in the same manner as the original notice of redemption.

Effect of Redemption. If notice of redemption has been duly given as required by the Indenture, and has not been rescinded as permitted by the Indenture, and money for the payment of the principal of and redemption premiums, if any, on, together with interest to the redemption date on, the Series 2011 Bonds or portions thereof so called for redemption is held by the Trustee, then on the redemption date designated in such notice such Series 2011 Bonds or such portions thereof will become due and payable, and from and after the date so designated interest on the Series 2011 Bonds or such portions thereof so called for redemption will cease to accrue and the owners of such Series 2011 Bonds shall have no rights in respect thereof except to receive payment of the principal or such portions thereof and the redemption premiums, if any, thereon and the interest accrued thereon to the redemption date.

Registration, Transfer and Exchange

The provisions regarding the exchange and transfer of the Series 2011 Bonds summarized in "APPENDIX C – Summary of the Indenture," apply only during any period in which the Series 2011 Bonds are not subject to DTC's book-entry system. While the Series 2011 Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX D – DTC and the Book-Entry Only System."

SECURITY FOR THE SERIES 2011 BONDS

General

The Indenture provides that all Special Tax revenues as received by the City, and all amounts in the Revenue Fund, and any investment earnings thereon, are hereby pledged to, and shall constitute a trust fund for, the payment of the principal of and interest on the Series 2011 Bonds and any Additional Bonds. So long as the principal of and interest on the Series 2011 Bonds and any Additional Bonds remain unpaid, the Special Taxes, the funds and accounts established to hold Special Tax proceeds under the Indenture, and any investment earnings thereon will not be used for any other purpose, except as otherwise permitted by the Indenture, and will be held in trust for the benefit of the owners of the Series 2011 Bonds and any Additional Bonds and will be applied pursuant to the Indenture.

“**Special Tax**” is defined in the Indenture to mean the special tax as set forth in the Rate and Method.

“**Rate and Method**” is defined in the Indenture as the “Rate and Method of Apportionment of Special Tax” adopted by the City Council as part of the Resolution of Formation. See “- Rate and Method” below.

Special Taxes

The following are summaries of covenants in the Indenture with respect to the levy of the Special Tax:

Base Special Tax. The City covenants in the Indenture that, so long as any Series 2011 Bonds are Outstanding, it will continually levy the Base Special Tax against all Hotel Property in the Convention Center Facilities District and make provision for the collection of the Base Special Tax. The Indenture defines “**Hotel Property**” as all land within the Convention Center Facilities District taxable under the Chapter in accordance with the proceedings for the authorization of the issuance of the Bonds and the levy and collection of the Special Tax. See “ – Rate and Method” below for a description of the Base Special Tax and its levy.

Additional Special Tax. With respect to the Additional Special Tax, the City covenants in the Indenture as follows:

(a) If, on any May 2 in a Fiscal Year in which the Additional Special Tax is not being levied, the amount in the Revenue Stabilization Reserve is less than the Revenue Stabilization Reserve Requirement, the City will levy the Additional Special Tax for the following Fiscal Year. “**Revenue Stabilization Reserve Requirement**” is defined in the Indenture as 75% of the Revenue Stabilization Reserve Maximum. Upon the issuance of the Series 2011 Bonds and the Series 2011A Lease Revenue Bonds the Revenue Stabilization Reserve Requirement is \$_____.

(b) If, on any May 2 in a Fiscal Year in which the Additional Special Tax is being currently levied, the amount in the Revenue Stabilization Reserve is less than the Revenue Stabilization Reserve Maximum, the City will levy the Additional Special Tax for the following Fiscal Year. “**Revenue Stabilization**

Reserve Maximum” is defined in the Indenture as the lesser of (1) Maximum Annual Debt Service on the Outstanding Bonds plus Maximum Annual Debt Service on the Outstanding Subordinate Bonds, and (2) the maximum permitted by the Code for the preservation of the tax-exempt status of the Bonds. Upon the issuance of the Series 2011 Bonds and the Series 2011A Lease Revenue Bonds, the Revenue Stabilization Reserve Maximum is \$_____.

See “ – Rate and Method” below for a description of the Additional Special Tax and its levy.

Because the annual Special Tax levy is limited to the maximum annual Special Tax rates set forth in the Rate and Method and because the amount of the annual Special Tax levy is tied to the amount of rental charged and received by operators of Hotel Properties in the Convention Center Facilities District, no assurance can be given that, in the event of Special Tax delinquencies or reductions in the rent, the receipts of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the Series 2011 Bonds and any Additional Bonds. See “BOND OWNERS’ RISKS,” for a discussion of factors that could impact the amount of Special Taxes collected by the City and the amount, if any, to be realized by owners of the Series 2011 Bonds as a result of a foreclosure sale.

Rate and Method

The following is a summary of certain provisions of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method attached as Appendix B. The meaning of the defined terms used in this section that are not defined below have the meaning set forth in Appendix B.

General. The Special Tax is levied and collected according to the Rate and Method, which provides the means by which the City or its designee may annually levy the Special Taxes within the Convention Center Facilities District on all Assessor’s Parcels that are not exempt from the Special Tax pursuant to law or the Rate and Method (“**Taxable Property**”). See “ – Exemption” below

Term of the Special Tax. The authority of the City Council to levy the Base Special Tax on all Assessor’s Parcels classified as Hotel Property within the Convention Center Facilities District is perpetual. The Additional Special Tax may only be levied during a period when Bonds (as defined in the Rate and Method) are outstanding as described in “Method of Apportionment of the Special Tax” below. “**Bonds**” is defined in the Rate and Method as “any binding obligation to pay or repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to which the Special Tax has been pledged.”

Certain Definitions. Certain definitions set forth in the Rate and Method are excerpted below. Other definitions not provided below can be found in Appendix B.

“Exempt Property” is defined in the Rate and Method as any parcel that is not classified as Hotel Property.

“Hotel Property” means an Assessor’s Parcel of Taxable Property which consists of one or more buildings or structures situated in the City that has, on file with the Director of Finance, a

transient occupancy registration certificate, including, but not limited to, any hotel, inn, tourist home or house, motel, studio hotel, bachelor hotel, guesthouse, bed and breakfast inn, apartment house, dormitory, public or private club, mobilehome or house trailer at a fixed location, or other similar structure or portion thereof situated in the city, which is occupied or intended or designed for Occupancy by Transients for dwelling, lodging or sleeping purposes.

“Hotel Transient Unit” means a room within Hotel Property as to which the Special Tax may be levied in that it is used for Transient Occupancy.

“Occupancy” means the use or possession, or right to the use or possession of any Hotel Transient Unit, or portion thereof.

“Operator” means the person who is proprietor of the Hotel Property, whether in the capacity of owner, lessee, sublessee, mortgagee in possession, licensee, or any other capacity. Where the operator performs his functions through a managing agent of any type or character other than an employee, the managing agent shall also be deemed an operator, and shall have the same duties and liabilities as his principal.

“Owner” means the landowner, owner of land, or property owner of Hotel Property, except that if the fee owner of the Hotel Property is a government entity, “Owner” means the lessee of the government entity.

“Rent” means the consideration charged for the Occupancy of Hotel Transient Units valued in money, whether to be received in money, goods, property, labor, service, or otherwise. For purposes of this definition, Rent charged to: 1) a federal or state employee when on official business, or 2) any officer or employee of a foreign government, who is exempt by reason of express provision of federal law or international treaty, shall be excluded from the Base Special Tax and Additional Special Tax calculations defined in accordance with the Rate and Method.

“Revenue Stabilization Reserve” means the Revenue Stabilization Reserve established under the Indenture.

“Revenue Stabilization Reserve Requirement” means the minimum balance required in the Revenue Stabilization Reserve, as specified in the Indenture. See “ – Revenue Stabilization Reserve” below.

“Transient” means a person who exercises occupancy or is entitled to occupancy by reason of concession, permit, right of access, license, or other agreement for a period of 30 consecutive calendar days or less, counting portions of calendar days as full days.

“Zone” means one of the two mutually exclusive geographic areas defined below.

- “*Zone 1*” means all territory in the City located within a two and one quarter (2 ¼) mile radius of the San Jose Convention Center.
- “*Zone 2*” means all territory within the City of San Jose that is not within Zone 1.

Base Special Tax Rate.

Commencing in Fiscal Year 2009-10, each Assessor's Parcel classified as Hotel Property within the Convention Center Facilities District will be subject to a Base Special Tax. The Base Special Tax rate for each Assessor's Parcel classified as Hotel Property within Zone 1 or Zone 2 shall equal the percentage of all Rent charged as identified in the following table for each respective zone.

BASE SPECIAL TAX RATES

Term	Zone 1	Zone 2
July 1, 2009 – December 31, 2009	4%	1%
January 1, 2010 – June 30, 2010	4	2
Fiscal Year 2010-2011	4	3
Fiscal Year 2011-2012 and thereafter	4	4

Additional Special Tax Rate. Each Assessor's Parcel classified as Hotel Property in the Convention Center Facilities District will be subject to an Additional Special Tax. The Additional Special Tax for each Assessor's Parcel classified as Hotel Property within either Zone is equal to 1% of all Rent charged.

If Bonds are outstanding, and the City Council determines, by no later than June 1 (or such other date as specified in the Bond Documents), that the amount in the Revenue Stabilization Reserve is less than the Revenue Stabilization Reserve Requirement, then the City Council may levy and collect the Additional Special Tax in the following Fiscal Year. The City must mail written notice of the imposition of the Additional Special Tax to all Owners, or Operators on behalf of Owners, at least 30 days before the imposition of the Additional Special Tax may commence. See “- Special Taxes” above for a description of the City's covenant in the Indenture with respect to the Additional Special Tax.

Method of Apportionment of the Special Tax. Commencing with Fiscal Year 2009-2010, and for each subsequent Fiscal Year, the City Council will levy Special Taxes as described below:

Step One: The Base Special Tax shall be levied on each Assessor's Parcel classified as Hotel Property up to the rates specified in Base Special Tax Rate above.

Step Two: The Additional Special Tax shall also be levied on each Assessor's Parcel classified as Hotel Property if authorized, and as provided in, “Additional Special Tax Rate” above.

Special Taxes associated with Rent that is charged for Transient Occupancy will be considered levied and due in the calendar month the Transient ceases Occupancy of the Hotel Transient Unit(s), except that Special Taxes associated with Rent that is paid by credit card will be deemed levied and collected on the date that the credit card is presented for payment to the Operator.

Exemption. No Special Tax will be levied on any Assessor's Parcel not classified as Hotel Property.

Collection of Special Tax. The Special Tax will be collected monthly by the City. Each Operator on behalf of the Owner shall, on or before the last day of each calendar month, submit the Special Taxes levied against their Hotel Property to the Director of Finance of the City and shall include a special tax obligation form provided by the City.

Failure to Submit Special Tax. If any Owner, or Operator on behalf of Owner, fails or refuses to pay the Special Tax levied, the Director of Finance will proceed in such manner as he may deem best to obtain facts and information on which to base his estimate of the Special Tax. As soon as the Director of Finance procures such facts and information as he is able to obtain upon which to base the Special Tax for such Assessor's Parcel classified as Hotel Property, the Director of Finance will proceed to determine the amount of such Special Tax due plus any penalties and interest, as described below. In case such determination is made, the Director of Finance will give a Determination of Special Tax Due by serving it personally or by depositing it in the United States mail, postage prepaid, addressed to the Owner or Operator on behalf of the Owner at its last known place of address. Such Owner, or Operator on behalf of the Owner, may file an appeal as described in "Appeals" below.

Any Operator who fails to remit the Special Tax levied within the time required will be subject to a penalty of 10% of the amount delinquent in addition to the delinquent Special Tax. Delinquent Special Taxes will incur an additional 1½% penalty (applied to the amount originally levied without compounding) on the first day of each month which is more than six months after the date when the delinquent Special Tax was levied.

See " – Covenant to Foreclose" for a description of the City's covenant to foreclose on delinquent property.

Special Tax Audit. It is the duty of the Owner, or Operator on behalf of the Owner, for each Assessor's Parcel classified as Hotel Property that is subject to the Special Tax to keep and preserve, for a period of three years, all records as may be deemed necessary by the City (and that will, at a minimum, include a record of all Rents collected) to determine the Special Taxes levied upon such Hotel Property by the City Council. The City has the right to inspect such records at all reasonable times.

Appeals. Any Owner or Operator on behalf of the Owner, claiming that the amount or application of the Special Tax is not correct, may appeal to the City Council by filing a notice of appeal with the City Clerk within 15 calendar days of the serving or mailing of the Determination of Special Tax Due. The City Council will fix a time and place for hearing such appeal, and the City Clerk will give notice in writing to such Owner and Operator at their last known place of address. The findings of the City Council will be final and conclusive, and will be served upon the appellant in the manner prescribed above for service of notice of hearing. Any Special Tax found to be due will be immediately due and payable upon the service of the City Council findings. If the City Council decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the Owner, or Operator on behalf of Owner, a cash refund will not be made, but a credit will be given against future Special Taxes on that Assessor's Parcel.

Prepayment of Special Tax. The Rate and Method does not permit prepayment of the Special Tax.

Teeter Plan

Although the County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “**Teeter Plan**”), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, it has done so only with respect to property taxes on the secured tax roll. Special taxes and assessments are not included in the Teeter Plan, and the Special Taxes in the Convention Center Facilities District are not collected on the secured tax roll, and as a result, the amount of the Special Tax levy received by the City will reflect actual collections. Substantial delinquencies in the payment of Special Taxes could impair the City's ability to pay debt service on the Series 2011 Bonds.

Revenue Fund

General. The Trustee will establish and hold in trust under the Indenture a fund to be known as the “City of San José Convention Center Facilities District Revenue Fund” (the “**Revenue Fund**”).

Deposits into the Revenue Fund. The City agrees and covenants in the Indenture that it will, on or before the 15th of each month, transfer to the Trustee for deposit in the Revenue Fund all Special Taxes it has collected. The City will also transfer any amount of the Available T.O.T. that has been appropriated to pay Debt Service on the Series 2011 Bonds and any Additional Bonds. See “- Transfer of Available T.O.T.” below.

Allocation of Money in the Revenue Fund. The Trustee will transfer all money in the Revenue Fund, when and as received, to the following funds in the following order of priority. The requirements of each fund must be completely satisfied before the Trustee may transfer any money to the next fund in order.

(i) Redemption Fund. See “- Redemption Fund” below.

(ii) Reserve Fund. See “- Reserve Fund” below.

(iii) Subordinate Revenue Fund. The term “**Subordinate Revenue Fund**” is defined in the Indenture as (i) for the Series 2011 Lease Revenue Bonds, the Lease Revenue Fund established under the Trust Agreement for the Series 2011 Lease Revenue Bonds (the “**Lease Revenue Bonds Trust Agreement**”), which includes an Interest Account, a Principal Account and a Lease Revenue Reserve Account and (ii) for all other Subordinate Bonds, the equivalent fund or funds, account or accounts, established in the bond documents governing those Subordinate Bonds that are used to pay interest and principal on those Subordinate Bonds and to provide a debt service reserve for those Subordinate Bonds.

After making the deposits described in (i) and (ii) above, the Trustee will deposit into the Subordinate Revenue Fund the amounts necessary to fulfill its requirement, as follows:

First, the Trustee will deposit into the interest accounts or sub-accounts of the Subordinate Revenue Fund the amounts necessary to pay interest on the Subordinate Bonds served by those accounts or sub-accounts through the next May 1.

Second, the Trustee will deposit in the principal accounts or sub-accounts of the Subordinate Revenue Fund the amounts necessary to make the scheduled payments of principal on the Subordinate Bonds (both serial maturities and scheduled redemptions of Term Bonds) on the next May 1.

Third, the Trustee will deposit into the interest accounts or sub-accounts of the Subordinate Revenue Fund the amounts necessary to pay interest on the Subordinate Bonds served by those accounts or subaccounts through the November 1 following the next May 1.

Fourth, the Trustee will deposit in the Subordinate Bonds Reserve Account the amounts necessary to restore each fund, account or sub-account in the Subordinate Bonds Reserve Account to the Subordinate Bonds Reserve Requirement.

If there are not sufficient funds in the Revenue Fund to fully fund all the amounts specified in any of the stages (first, second, third or fourth) of this paragraph, the Trustee will, within that stage, apportion the available funds among the funds, accounts and sub-accounts of each stage on an equal basis so that the amounts to be contained within each such fund, account and sub-account following the Trustee's deposit of funds hereunder will be the same percentage of the requirements thereof..

(iv) Expense Fund. The Trustee will establish and maintain the Expense Fund. After making the deposits to the Redemption Fund, the Reserve Fund and the Lease Revenue Fund, the Trustee will, from the then remaining money in the Revenue Fund, transfer to and deposit in the Expense Fund a sum equal to the amount required by the City for the payment of Expenses to be incurred on or before the next May 1, as well as any amounts required to reimburse the City for its payment of unscheduled Expenses previously incurred. All money in the Expense Fund will be used and withdrawn by the Trustee only to pay scheduled Expenses (or to reimburse the City for the payment of unscheduled Expenses).

(v) Revenue Stabilization Reserve. See "-Revenue Stabilization Reserve" below.

(vi) Reimbursement to the City. The Trustee will, after making the deposits described in paragraphs (i) through (v) above, transfer to the City any funds still remaining in the Revenue Fund for any lawful use within the authority conferred by the Convention Center Facilities District. **Upon transfer to the City, these funds will be released from the pledge of the Indenture at the time of payment.**

Redemption Fund

General. The Trustee will hold the Redemption Fund, and within the Redemption Fund the Series 2011 Sinking Account and the Series 2011 Capitalized Interest Account.

Deposits into the Redemption Fund. Moneys in the Series 2011 Capitalized Interest Account will be used to pay interest to become due on the Series 2011 Bonds through ____, 20___. The Trustee will, from the money in the Revenue Fund, deposit into the Redemption Fund an amount of money equal to the aggregate amount of interest becoming due and payable on or before the next succeeding May 1.

The Trustee will also, from the then remaining money in the Revenue Fund, deposit into the Redemption Fund an amount of money equal to the aggregate amount of principal becoming due and payable on all Outstanding Serial Bonds on the next succeeding May_1 plus the aggregate of the Mandatory Sinking Account Payments required by the Indenture and by all Supplemental Indentures to be made on such date into the Sinking Accounts; provided, that all of the Mandatory Sinking Account Payments will be made without priority of the payment of any one Mandatory Sinking

Account Payment over the payment of any other Mandatory Sinking Account Payment, and in the event that the money in the Redemption Fund on any May 1 is not equal to the amount of principal to become due and payable on the Outstanding Serial Bonds on such May 1 plus the principal of and redemption premiums, if any, on the Outstanding Term Bonds required to be redeemed or paid at maturity on such May 1, then such money will be applied pro rata in such proportion as such Serial Bonds and the portion of such Term Bonds then required to be redeemed or paid at maturity bear to each other, after first deducting for such purposes for such Term Bonds any of such Term Bonds that have been redeemed or purchased during the twelve-month period ending on such May 1 and commencing on the immediately preceding May 2.

Application of Moneys in the Redemption Fund. All money in the Redemption Fund will be used and withdrawn by the Trustee solely to pay the interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity) plus the principal of the Bonds as they mature or upon their prior redemption, except that any money in any Sinking Account may only be used to purchase or redeem or retire the Term Bonds for which the Sinking Account was established as provided in the Indenture or in any Supplemental Indenture.

Reserve Fund

General. The Reserve Fund is established for the benefit of the Series 2011 Bonds and any Additional Bonds.

General Account. A “General Account” is established within the Reserve Fund. Amounts in the General Account shall be available only to pay the Series 2011 Bonds and any Additional Bonds for which the General Account is made available pursuant to the Supplemental Indenture providing for the issuance of the Additional Bonds.

Additional Accounts. Pursuant to any Supplemental Indenture providing for the issuance of Additional Bonds, the Trustee may establish a separate account within the Reserve Fund available only for the payment of that series of Additional Bonds and which account will have its own Reserve Requirement. If such a separate account is created, the Additional Bonds will not have any claim on the General Account of the Reserve Fund.

Deposits into the Reserve Fund. In order to further secure the payment of principal of and interest on the Series 2011 Bonds, certain proceeds of the Series 2011 Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS”). “**Reserve Requirement**” is defined in the Indenture to mean, for any Series of Bonds, the amount required to be maintained in the reserve fund or account, if any, for such series of Bonds pursuant to the Supplemental Indenture authorizing the issuance of such series of Bonds. The Reserve Requirement for the Series 2011 Bonds (and any Additional Bonds issued on a parity therewith and secured by the General Account within the Reserve Fund pursuant to the Indenture) will be, as of any date of calculation, an amount equal to the lesser of (a) Maximum Annual Debt Service on such Bonds, (b) 10% of the proceeds (within the meaning of Section 148 of the Code) of such Bonds or (c) 125% of Average Annual Debt Service on such Bonds.

The Trustee will, after making the deposits into the Redemption Fund described in “- Redemption Fund” above, from the then remaining money in the Revenue Fund, deposit into the Reserve Fund the amount of money that is required to maintain in each account in the Reserve Fund a balance equal to the applicable Reserve Requirement.

In the event that moneys in the Revenue Fund are insufficient on any date to make all of the required deposits to all of the accounts within the Reserve Fund, the Trustee will apply moneys available for that purpose to each account in proportion to the amount by which each account contains less than the Reserve Requirement with respect to the Outstanding Bonds payable from such account.

Application of Money in the Reserve Fund. Moneys in each account of the Reserve Fund may be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the Bonds for which such account within the Reserve Fund is available in the event there is insufficient money in the Redemption Fund and Revenue Stabilization Reserve available for this purpose. If it is determined that the amount of money in any account within the Reserve Fund exceeds the Reserve Requirement for that account, the Trustee will, unless otherwise required by the terms of a Supplemental Indenture, withdraw the excess amount from the account and will deposit the excess in the Revenue Fund.

See “APPENDIX C – Summary of the Indenture” for a more complete summary of the provisions of the Indenture relating to the Reserve Fund. See also “BOND OWNERS’ RISKS – Depletion of Reserve Fund” below.

Revenue Stabilization Reserve

General. The Trustee will establish and hold the Revenue Stabilization Reserve under the Indenture.

Deposits into the Revenue Stabilization Reserve. The City will make an initial deposit of Special Tax Revenues into the Revenue Stabilization Reserve in the amount of \$_____. Thereafter, ~~1,~~ after making prioritized deposits described in “SECURITY FOR THE SERIES 2011 BONDS – Revenue Fund,” the City will deposit from moneys in the Revenue Fund into the Revenue Stabilization Reserve the amount of money that is required to restore the Revenue Stabilization Reserve to an amount equal to the Revenue Stabilization Reserve Maximum.

Application of Money in the Revenue Stabilization Reserve. All money in the Revenue Stabilization Reserve will be used and withdrawn by the Trustee for the following purposes:

First, for the purpose of paying the interest on, principal of, and premium (if any) on, the Bonds (including the Series 2011 Bonds and any Additional Bonds) to the extent there are insufficient amounts in the Redemption Fund for those purposes.

Second, money in the Revenue Stabilization Reserve will be withdrawn by the Trustee and transferred to the Subordinate Revenue Fund for the purpose of paying the interest on, principal of, and premium (if any) on, the Subordinate Revenue Bonds to the extent there are insufficient amounts in the Subordinate Revenue Fund for those purposes.

Third, if it is determined that the amount of money in the Revenue Stabilization Reserve exceeds the Revenue Stabilization Reserve Maximum, the Trustee will withdraw the amount of money representing such excess from the Revenue Stabilization Reserve and will transfer such amount to the City for any lawful use under the Chapter.

See “BOND OWNERS’ RISKS – Depletion of Revenue Stabilization Reserve” below.

Transfer of Available T.O.T.

General. In addition to the Special Tax on Hotel Properties, the City has been collecting a transient occupancy tax (“**T.O.T.**”) since at least 1966. Unlike the Special Tax which is imposed on the Hotel Properties, and secured by a lien on the hotel parcel, the T.O.T. is a tax on the hotel customer. In order to ease administration of the Special Tax for both the City and the hotels however, the calculation and collection of the Special Tax mirrors the T.O.T. The hotels are permitted, but not required to pass the Special Tax through to their costumers.

The current T.O.T. is equal to 10% of the rent charged by the hotel operator. Of that amount, 4% is a general tax that is deposited into the City’s General Fund. The remaining T.O.T., pursuant to SJMC 4.72.065, is deposited into a special fund and allocated to various specified purposes. One of the specified purposes is the funding of a convention and visitors bureau, including a rental subsidy of City facilities for convention purposes. Although the formula set forth in SJMC 4.72.065 provides substantial discretion to the City Council in allocating revenues between the funding of the convention and visitors bureau and cultural and fine arts programs, the City has historically appropriated 1.5% of the room charges (15% of T.O.T. revenues) to the convention uses. It is this 15% portion of the T.O.T., referred to herein as the “**Available T.O.T.**” and described in more detail below, that the City, subject to annual appropriation at the discretion of the City Council, will transfer and deposit in the Revenue Fund.

The City covenants in the Indenture that if, on any May 2 in a Fiscal Year in which the Additional Special Tax is being levied, the amount in the Revenue Stabilization Reserve is less than the Revenue Stabilization Reserve Requirement, then the City Manager will formally request the City Council to appropriate, in its annual budget for the following Fiscal Year, the Available T.O.T. for transfer to and deposit in the Revenue Fund. The Indenture provides that a failure of the City Council to appropriate such funds will not be a violation of this covenant or a default hereunder.

The City has not covenanted to continue the historical allocation of 15% of the T.O.T. to convention uses and can provide no assurances that the Available T.O.T. will be available for deposit into the Revenue Fund. See “BOND OWNERS’ RISKS - Limited Obligation of the City to Pay Debt Service.”

Applicable Provisions of the San Jose Municipal Code. Chapter 4.72 of the San Jose Municipal Code governs the special fund portion of the T.O.T. Section 4.72.065 specifies how proceeds of the T.O.T. can be spent, and section 4.72.065.B.3 allows the T.O.T. to be used for “Funding of the city's operating subsidy to the convention and cultural facilities of the City of San José, including a rental subsidy of city facilities for convention purposes.” San Jose Municipal Code Section 4.72.065.C limits the amount available for the operating subsidy to the convention and cultural facilities.

Section 4.72.065 as of the date of this Official Statement is set forth in its entirety below:

“4.72.065 Use of tax revenue - Deposit in special fund.

A. Notwithstanding Section 4.72.060, commencing July 1, 1990, the city council shall expend monies as hereinafter provided.

B. All of the taxes collected under this chapter shall, subject to the provisions hereinafter set forth, be expended for the following:

1. Funding of a convention and visitors bureau for the City of San José, including a rental subsidy of city facilities for convention purposes.
2. Funding of the cultural grant program and fine arts divisions programs, including:
 - a. Funding of cultural grants, including the San José Symphony and the San José Museum of Art, and a rental subsidy for cultural use of city facilities; and
 - b. Funding the expenses of the fine arts division of the convention and cultural department, including but not limited to personal, nonpersonal, and equipment expenses, fringe benefits, and overhead.
3. Funding of the city's operating subsidy to the convention and cultural facilities of the City of San José.

C. The amount of moneys currently allocated to activities described in Subparagraphs B.1. and 2. shall serve as the base year funding for purposes of calculating the amounts set forth in this paragraph. In subsequent fiscal years, beginning in 1981-82, the amount of tax receipts used to fund the activities described in Subparagraphs B.1. and 2. herein, shall be the base year funding plus fifty percent of the dollar increase in tax receipts over the base-year tax receipts. Available funds shall be apportioned between the activities described in Subparagraphs B.1. and 2. according to the annual decision of the city council. The remaining fifty percent shall be used for the funding of the activity described in Paragraph B.3. In the event of a decrease of revenues, the decrease will be apportioned on the same 50- 50 basis, fifty percent to the activities described in Subparagraphs B.1. and 2. in a proportion to be decided by the city council, and fifty percent to be the activities described in Subparagraph B.3.”

Collection of the T.O.T. The San Jose Municipal Code requires each operator of a Hotel Property to collect the T.O.T. at the same time as the rent is collected from every transient. Then, each operator is obligated, on or before the last day of each calendar month, to prepare a tax return to the City's Director of Finance detailing the total rents charged and received and the amount of tax collected for transient occupancies for the preceding calendar month. At the time the tax return is filed, the full amount of tax collected for the preceding month must be remitted to the Director of Finance. Operators whose annual T.O.T. debt to the City is less than \$100,000 may elect to pay the T.O.T. on a quarterly basis, and must submit a return along with the tax, on or before the last day of the month following each calendar quarter.

Any operator who fails to remit its T.O.T. within the time required by the San Jose Municipal Code is levied a first penalty of 10% of the amount of the delinquent tax. Any operator who fails to remit any T.O.T. collected on or before 30 days after its due date is levied a second penalty of 10% of the amount of the delinquent tax.

See “THE CONVENTION CENTER FACILITIES DISTRICT – Historical T.O.T. Revenue and Historical Special Taxes” for historical T.O.T. revenue and Available T.O.T.

Additional Bonds

General. In addition to the Series 2011 Bonds, and subject to the conditions set forth in the Indenture (see “SECURITY FOR THE SERIES 2011 BONDS – Additional Bonds”), the City may at any time issue a series of bonds payable from the Special Taxes on a parity with the Series 2011 Bonds (“**Additional Bonds**”; together with the Series 2011 Bonds, the “**Bonds**”).

The conditions include the following, among others:

(a) The principal payment date for the Additional Bonds must be May 1 and the interest payment dates must be May 1 and November 1.

(b) The City must be in compliance with all agreements, conditions, covenants and terms contained in the Indenture and in all supplemental indentures (the “**Supplemental Indentures**”) required to be observed or performed by it, and no default under the Indenture may have occurred and be continuing.

(c) The Revenue Stabilization Reserve must contain at least the Revenue Stabilization Reserve Requirement, calculated as if the proposed Additional Bonds were outstanding, as evidenced by a certificate of the City or an independent, nationally recognized, municipal finance consultant on file with the Trustee.

(d) Either:

(i) The Special Tax revenue available to the City if the Special Taxes (including the Additional Special Tax) were to be levied and collected at the maximum rate and amount in accordance with the Rate and Method on all Taxable Properties in the Convention Center Facilities District during each Fiscal Year that the Series 2011 Bonds and any Additional Bonds will be Outstanding based on a projection of future taxable hotel revenues subject to the Special Tax, would produce a sum equal to at least 150% of the annual Debt Service on the Bonds plus the estimated Expenses during each Bond Year; all as shown by a certificate of an independent, nationally recognized expert in the projection of municipal revenues derived from the hotel industry on file with the Trustee; or

(ii) The Special Tax revenue received by the City during any 12-month period lying entirely within the last 18 months (including the Additional Special Tax if it was being levied or, if the Additional Special Tax was not levied, the amount of Additional Special Tax that would have been received if the hotels actually paying the Base Special Tax had also paid the Additional Special Tax), produced a sum equal to at least 150% of the Maximum Annual Debt Service on the Bonds (assuming such Series of Additional Bonds will be Outstanding) plus the actual Expenses for the same 12-month period; all as shown by a certificate of the City on file with the Trustee.

(e) The Supplemental Indenture for a Series of Additional Bonds must provide for a deposit into the Reserve Fund as follows:

(i) If the Supplemental Indenture providing for the issuance of a Series of Additional Bonds provides that the Series of Additional Bonds will be secured by the General Account of the Reserve Fund, the Supplemental Indenture must require that the Reserve Fund be increased, if and to the extent necessary, immediately upon the receipt of the proceeds of the sale of the Series of Additional Bonds, to an amount at least equal to the Reserve Requirement for the General Account; and

(ii) If a series of Additional Bonds will not be secured by the General Account of the Reserve Fund, the Supplemental Indenture must specify the amount to be deposited in the separate account in the Reserve Fund for the Series of Additional Bonds.

See “APPENDIX C – Summary of the Indenture.”

Refunding Bonds. If the City issues additional bonds payable on a parity with the Series 2011 Bonds and any Additional Bonds for the purpose of refunding any outstanding Bonds (“**Refunding Bonds**”), the City may do so without complying with certain provisions for issuance of Additional Bonds, including the 150% debt service coverage requirement. However, under the Indenture, (i) the final maturity date of the Refunding Bonds may not be later than the final maturity date of the Bonds being refunded and (ii) the total interest cost to maturity on the Refunding Bonds plus the principal amount of the Refunding Bonds must not exceed the total interest cost to maturity on the Bonds to be refunded plus the principal amount of the Bonds to be refunded.

Subordinate Obligations

Series 2011A Lease Revenue Bonds. Concurrently with issuance of the Series 2011 Bonds, the City of San José Financing Authority (the “**Authority**”) is issuing its Lease Revenue Bonds, Series 2011A (Convention Center Expansion and Renovation Project (the “**Series 2011A Lease Revenue Bonds**”). The Series 2011A Lease Revenue Bonds are payable from Base Rental Payments made by the City under a Facility Lease (Convention Center Expansion and Renovation Project) dated as of ~~March 1~~ April 1, 2011 (the “**2011 Lease**”). Pursuant to the Indenture, the City will make payments to the trustee for the Series 2011A Lease Revenue Bonds (the “**2011A Lease Revenue Bond Trustee**”) from the Revenue Fund (“**Subordinate Revenues**”) and the Revenue Stabilization Reserve into the Lease Revenue Fund established under the 2011 Lease, but only after the City has set aside amounts sufficient to pay debt service on the Series 2011 Bonds and any Additional Bonds for May 1 and November 1 in a year.

Additional Subordinate Bonds. Under the Indenture, the City may issue additional Subordinate Bonds (in addition to the Series 2011A Lease Revenue Bonds) in the following circumstances. “**Subordinate Bonds**” are defined in the Indenture as the Lease Revenue Bonds (which includes the Series 2011A Lease Revenue Bonds) and any other bonds with claims to Subordinate Revenues and to the Revenue Stabilization Reserve on a parity with those of the Lease Revenue Bonds.

The conditions to issuance of additional Subordinate Bonds established by the Indenture include the following:

- (i) The Additional Subordinate Bonds can only be issued to provide funds to finance or refinance the acquisition and construction costs (or the reimbursement for) the Improvements, including related incidental expenses.
- (ii) The principal payment date for the additional Subordinate Bonds must be May 1 and the interest payment dates must be May 1 and November 1.
- (iii) The City must be in compliance with all agreements, conditions, covenants and terms contained in the Lease Revenue Bonds Trust Agreement providing for the issuance of Bonds or Subordinate Bonds required to be observed or performed by it, and no default thereunder may have occurred and be continuing.
- (iv) The Revenue Stabilization Reserve must contain at least the Revenue Stabilization Reserve Requirement, calculated as if the proposed additional Subordinate

Bonds were outstanding, as evidenced by a certificate of the City or an independent, nationally recognized municipal finance consultant on file with the City.

(v) Either:

(A) The Special Tax revenue available to the City if the Special Tax (including the Additional Special Tax) were to be levied and collected at the maximum rate and amount in accordance with the Rate and Method on all Taxable Properties in the Convention Center Facilities District during each Fiscal Year that any bonds of such Series of Additional Subordinate Bonds will be Outstanding based on a projection of future taxable hotel revenues subject to the Special Tax, would produce a sum equal to at least 4201% of the annual Debt Service on the Outstanding Bonds plus the annual debt service on the Outstanding Subordinate Bonds (assuming the proposed Series of Subordinate Bonds will be Outstanding) plus the estimated Expenses during each Bond Year; all as shown by a certificate of an independent, nationally recognized expert in the projection of municipal revenues derived from the hotel industry on file with the Trustee; or

(B) The Special Tax revenue received by the City during any 12-month period lying entirely within the last 18 months (including the Additional Special Tax if it was being levied or, if the Additional Special Tax was not levied, the amount of Additional Special Tax that would have been received if the hotels actually paying the Base Special Tax had also paid the Additional Special Tax), produced a sum equal to at least 4201% of the Maximum Annual Debt Service on the Outstanding Bonds plus Maximum Annual Debt Service on the Outstanding Subordinate Bonds (assuming the proposed Series of Additional Subordinate Bonds will be Outstanding) plus the actual Expenses for the same 12-month period; all as shown by a certificate of the City on file with the Trustee.

(vi) If a Supplemental Trust Agreement providing for the issuance of a Series of Additional Subordinate Bonds provides that the Series of Additional Subordinate Bonds will be secured by the General Subaccount of the Subordinate Bonds Reserve Account, the Supplemental Trust Agreement must require that the amount in the General Subaccount of the Subordinate Bonds Reserve Account be increased, if and to the extent necessary, forthwith upon the receipt of the proceeds of the sale of the Series of Additional Subordinate Bonds, to an amount at least equal to the Lease Revenue Reserve Requirement for such General Subaccount; and if the series of Additional Subordinate Bonds will not be secured by the General Subaccount of the Subordinate Bonds Reserve Account, the Supplemental Trust Agreement must specify the amount to be deposited in the separate subaccount in the Subordinate Bonds Reserve Account for the Series of Additional Subordinate Bonds, which deposit in either case may be satisfied from such proceeds or any other source, as provided in the Supplemental Trust Agreement. The term "**Lease Revenue Reserve Requirement**" is defined in the Lease Revenue Bonds Trust Agreement as an amount equal to the lesser of (a) maximum annual Debt Service (relating to the outstanding Lease Revenue Bonds), (b) 10% of the proceeds (within the meaning of Section 148 of the Code) of such Lease Revenue Bonds or (c) 125% of average annual Debt Service on such Lease Revenue Bonds. ;

(vii) If a series of Additional Subordinate Bonds will not be secured by the General Subaccount of the Subordinate Bonds Reserve Account, the document providing for the

issuance of the Additional Subordinate Bonds must specify the amount to be deposited in the separate reserve fund, account or sub-account within the Subordinate Bonds Reserve Account for the Series of Additional Subordinate Bonds, which deposit may be satisfied from such proceeds or any other source, as provided in the document. .

Super-Subordinate Bonds. Under the Indenture, the City may at any time issue a series of bonds payable from the Special Tax if:

(i) the claims to the Special Tax to pay debt service on such bonds will at all times be subordinate to the claims of the Bonds and the Subordinate Bonds,

(ii) such bonds will not be payable under any circumstances from money in the Revenue Stabilization Reserve, and

(iii) such bonds will not cause the bond authorization of the Convention Center Facilities District to be exceeded.

Refunding Subordinate Bonds. The City may issue an additional Series of Subordinate Bonds without complying with the requirements described in paragraphs (iv) and (v) under “Additional Subordinate Bonds” above if, after the issuance and delivery of the Series of Subordinate Bonds, none of the Subordinate Bonds previously issued will be Outstanding. In addition, the City may issue a Series of Subordinate Bonds without complying with the requirements described in paragraphs (iv) and (v) under “Additional Subordinate Bonds” above if, after the issuance and delivery of the Series of Subordinate Bonds, the annual Debt Service on all Subordinate Bonds to be Outstanding after the issuance of the Series of Subordinate Bonds in each Bond Year thereafter will not be increased by reason of the issuance of such Series of Additional Subordinate Bonds.

Covenant to Foreclose

General. The City's obligation under the Indenture to initiate foreclosure in the event of Special Tax delinquencies is described below. It is important for investors to understand that the obligation to pay Special Taxes is a function of Rent rather than a fixed maximum amount that is correlated to debt service on the Series 2011 Bonds and any Additional Bonds. As a result, it is possible that Special Tax revenue will be insufficient to pay debt service on the Series 2011 Bonds and any Additional Bonds even though there are no or nominal delinquencies and, in this situation, the City will have no right to initiate foreclosure of any properties in the Convention Center Facilities District.

Sale of Property for Nonpayment of Taxes. The City covenants in the Indenture to periodically monitor the collections of the Special Tax and, on the basis of such monitoring, the City will require the Assistant Director of Finance of the City to implement the procedures of Section H of the Rate and Method (see Appendix B) to seek the payment of the Special Tax as to the delinquent parcel. If the procedures described in Section H of the Rate and Method prove unsuccessful, the City will institute foreclosure proceedings as authorized by the Chapter against the parcel that is delinquent in the payment of the Special Tax in order to enforce the lien of all delinquent installments of the Special Tax as to that parcel, and will diligently prosecute and pursue the foreclosure proceedings to judgment and sale; provided that any actions taken to enforce delinquent Special Tax liens shall be taken only consistent with Sections 53356.1 through 53356.7, both inclusive, of the Act. The proceeds of all foreclosure actions, after payment from those proceeds of all foreclosure expenses, are Special Tax revenues and will be transferred by the City to the Trustee for deposit to the Revenue Fund.

~~**Foreclosure Under the Mello-Roos Act.** Under Section 53356.1 of the Act, if any delinquency occurs in the payment of the Special Tax, the City may order the institution of a Superior Court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale.~~

Sufficiency of Foreclosure Sale Proceeds; Foreclosure Limitations and Delays. No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Taxes. The Act does not require the City to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale. See "BOND OWNERS' RISKS".

Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post-judgment interest and authorized costs, unless the consent of the owners of 75% of the outstanding Series 2011 Bonds and any Additional Bonds is obtained. However, under Section 53356.6 of the Act, the City, as judgment creditor, is entitled to purchase any property sold at foreclosure using a "credit bid," where the City could submit a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax. If the City becomes the purchaser under a credit bid, the City must pay the amount of its credit bid into the redemption fund established for the Series 2011 Bonds and any Additional Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale.

Foreclosure by court action is subject to normal litigation delays, the nature and extent of which are largely dependent on the nature of the defense, if any, put forth by the debtor, and dependent upon the Superior Court calendar. In addition, the ability of the City to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of

the property owner if the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the “**FDIC**”). See “**BOND OWNERS' RISKS - Bankruptcy and Foreclosure Delays.**”

Limited Obligation

The Series 2011 Bonds are limited special tax obligations of the City and the interest on and principal of and redemption premiums, if any, on the Series 2011 Bonds are payable solely from the proceeds of the Special Tax, all amounts in the Revenue Fund, and any investment earnings thereon, and the City is not obligated to pay the interest on and principal of and redemption premiums on the Series 2011 Bonds except from the proceeds of the Special Tax and such other funds. The general funds and assets of the City are not liable and the full faith and credit of the City is not pledged for the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds, and no tax or assessment other than the Special Tax shall ever be levied or collected to pay the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds. The Series 2011 Bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any property of the City or any of its income or receipts except the proceeds of the Special Tax and such other funds as provided in the Indenture, and neither the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds is a general debt, liability or obligation of the City. The Available T.O.T. is not pledged for the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds. The Series 2011 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory debt limitation or restriction, and neither the City Council nor the City nor any officer or employee of the City will be liable for the payment of the interest on or principal of or redemption premiums, if any, on the Series 2011 Bonds otherwise than from the proceeds of the Special Tax and the other funds as provided in the Indenture.

No Acceleration

The principal of the Series 2011 Bonds are not subject to acceleration under the Indenture as a result of a default relating to the Indenture or the Series 2011 Bonds.

THE CITY

Information in this Official Statement relating to the City is included only for the purpose of supplying general information about the City. The Series 2011 Bonds are not payable from any of the City’s revenues or assets other than the revenues described in “SECURITY FOR THE SERIES 2011 BONDS” above. See, in particular, “SECURITY FOR THE SERIES 2011 BONDS – Limited Obligation.”

See “APPENDIX A – The City of San José: Demographic, Economic and Financial Information.”

THE CONVENTION CENTER FACILITIES DISTRICT

Description of the Convention Center Facilities District

General. In general, all existing hotel properties in the City are a part of the Convention Center Facilities District. More specifically, since July 1, 2009, all owners of parcels classified as Hotel Property within the boundaries of the Convention Center Facilities District have been subject to the Special Tax. The Rate and Method defines “Hotel Property” as an “Assessor’s Parcel of Taxable Property which consists of one or more buildings or structures situated in the City that has, on file with the Director of Finance, a transient occupancy registration certificate, including, but not limited to, any hotel, inn, tourist home or house, motel, studio hotel, bachelor hotel, guesthouse, bed and breakfast inn, apartment house, dormitory, public or private club, mobilehome or house trailer at a fixed location, or other similar structure or portion thereof situated in the city, which is occupied or intended or designed for Occupancy by Transients for dwelling, lodging or sleeping purposes.” See “BOND OWNERS’ RISKS – Exempt Properties and Exemptions from the Special Tax” for a description of some of the circumstances in which a Hotel Property is not obligated to pay Special Taxes.

There are two zones in the Convention Center Facilities District, and each zone is initially subject to a different Special Tax, as described in “SECURITY FOR THE SERIES 2011 BONDS – Rate and Method” above:

Zone 1: All properties in the Convention Center Facilities District on which a hotel/motel is located within a two-and-one-quarter-mile (2.25 mi) radius of the San José Convention Center, 150 W. San Carlos Street, San José, CA 95113. As of the date of this Official Statement, there are 27 taxable Hotel Properties in Zone 1 with 3,157 rooms (35.5% of the total Citywide hotel rooms).

Zone 2: All properties in the City other than those in Zone 1.. As of the date of this Official Statement, there are 50 taxable Hotel Properties in Zone 2 with 5,735 rooms (64.5% of the total Citywide hotel rooms).

The only significance of the zone distinction is that that, while Zone 1 has had a 4% Base Special Tax Rate since fiscal year 2009-10, the Zone 2 Base Special Tax Rate is currently 3% and will adjust to 4% beginning in fiscal year 2011-12.

Future Annexation to the Convention Center Facilities District. When it formed the Convention Center Facilities District, the City Council identified all property that may be developed for hotel purposes (as defined in the City’s Municipal Code) anywhere within the City or within the City’s sphere of influence, as determined by the Local Agency Formation Commission of the County of Santa Clara, and which becomes annexed to the City as “territory proposed for annexation in the future”. This means that future hotels in the City can annex into the Convention Center Facilities District if the property owner executes a written consent to the annexation, and no further proceedings or hearings are required. The City has not adopted a development entitlement requirement for future hotel properties to annex into the Convention Center Facilities District, and the City can provide no assurances that any such requirement, if adopted, would be upheld by a court as a reasonable regulation under applicable California and federal law.

Hotel Sector in the City

The City commissioned Horwath HTL (“**Horwath HTL**”) to analyze estimated taxable hotel revenues in the City. Horwath HTL reports that it is the world's largest consulting organization specializing in the hospitality industry, with more than 50 offices in 39 countries. Horwath HTL’s report to the City, entitled “Report on the Projections of Taxable Hotel and CCFD Revenues to be Used for the Expansion and Renovation of the San José Convention Center,” dated January 2011 (the “**Horwath Report**”), is attached to this Official Statement as Appendix G.

The following summary of the hotel sector in the City is based on information set forth in greater detail in the Horwath Report. A more detailed discussion of the hotel sector of the City, including a summary of relevant regional and local economic conditions, is set forth in the Horwath Report.

Current Hotel Stock. As of December 31, 2010, there were 77 hotels with a total of 8,892 guestrooms located in the City, according to the City’s parcel database.

Hotel Property Under Construction. According to the Horwath Report, there is one hotel under construction: the 160-room Hotel Sierra, which is expected to open in March 2011. In addition, two other hotels have received development approvals: a Marriott Residence Inn/Fairfield Inn with 321 rooms and the America Center project with 176 rooms. Horwath HTL assumes the latter two hotels will be completed in 2013 and 2014, respectively.

Categories of Hotel Stock. There are three broad categories of hotels in the Citywide market (a table in the Addenda to the Horwath Report presents a complete list of the City’s hotels by category):

Convention Hotels: There are 14 major hotels, including both the major downtown hotels as well as larger hotels in other parts of the City, that serve the convention market and also attract their own group business, representing a total of 4,409 guestrooms, or approximately 49.6% of the total lodging inventory of the City. The Convention Hotels tend to achieve the highest average rates due to the high quality of their facilities, the level of services provided, and the strong brand affiliation of several of these hotels.

Branded Hotels: This category includes 32 hotels with 3,206–199 guestrooms, or 36.0% of the total citywide supply. These Branded Hotels are either affiliated with the major brands or an upscale marketing association such as Preferred Hotels, but have limited meeting space and cater primarily to transient travelers. The Branded Hotels, generally smaller and more moderately priced, achieve the highest occupancy level of the hotel categories.

Independent Hotels: The hotels in this category are generally smaller and older. These Independent Hotels make up the smallest component of the market, with 31 properties comprising 1,277–284 guestrooms, or 14.4% of the total. The Independent Hotels trail the market in both occupancy and RevPAR because their age and condition is generally poorer than the other hotels and they lack the reservations systems provided by the national chains.

Nature of Occupancy. Transient demand in the market is generated primarily by the many corporations in the City that attract business travelers. Because the City is not a tourist destination,

only a small portion of transient demand is leisure-related, with people visiting friends and relatives and attending special events in the area. Horwath HTL reports that over the past four years, the City's 14 Convention Hotels have averaged approximately 40% group business and 60% transient travelers. Because the Convention Hotels represent the largest and most group-oriented of the hotels in the City, these results somewhat overstate the group market for the City overall. Horwath HTL estimates that the Citywide market is made up of approximately 75% transient demand and 25% group demand.

Competition. The hotels in the City compete with other hotels in the neighboring cities within the Silicon Valley for corporate transient demand and group business. The cities of Milpitas, Santa Clara, and Sunnyvale all have hotels that compete directly for some of the major corporate demand generators in the area, as do some of the smaller nearby communities such as the cities of Campbell and Los Gatos. The hotels in Santa Clara, Sunnyvale and Cupertino are located closer to the largest corporations in Silicon Valley such as Google, Intel, Apple, Yahoo! And Advanced Micro Devices.

The Convention Center and large convention hotels also compete for major group business with regional convention centers such as Phoenix, Portland, Reno, Sacramento and Seattle. Team San José, which acts as the convention and visitors bureau for the City, has also reported increased competition from the large Las Vegas casino hotels, which have been discounting heavily to try to build business during the economic downturn.

Horwath HTL reports that the increased competition for convention business, when coupled with the eroding condition of the existing Convention Center facilities, has made it more difficult for the City to attract the core association and corporate groups it needs to effectively serve the City's lodging market.

Short-Term and Long-Term Impact on Demand of Convention Center Expansion/Renovation Project. Horwath HTL reports that group demand is expected to grow slowly in the City until the completion of the proposed convention center expansion and renovation project, in calendar year 2013. More immediately, Horwath HTL estimates that approximately 20,000 room nights of demand will be lost in the market per year due to the proposed expansion/renovation project. As set forth more completely in the Horwath Report, Horwath HTL projects that when the Convention Center project is completed, demand will increase annually by 25,000 room nights per year, which is approximately 20% of the current room nights generated by the Convention Center.

Historical Operating Performance. The lodging market in the City has been tracked by Smith Travel Research ("STR") since 1987; STR's database reports on a census of 71 of the 77 hotels (92%) and 8,606 of the 8,892 rooms (97%); in general, the Independent Hotel properties do not contribute their data to the STR database.

The following table estimates the calendar year 2010 performance for the three categories of hotels in the City using data from the STR database and Team San Jose.

**Table No. 3
CITY OF SAN JOSE
Citywide Hotels - Performance by Category
Calendar Year 2010**

Category	Number of Rooms	Occupancy	Average Daily Rate (ADR)	Revenue per Available Room (RevPAR)
Convention Hotels	4,409	59%	\$117	\$69
Branded Hotels	3,199	69	78	54
Independent Hotels	1,284	58	82	48

Source; Horwath HTL (based on STR and Team San Jose data).

The following table presents the historical operating performance for the Citywide group of properties as reported by STR for calendar years 1987 through 2010.

**Table No. 4
CITY OF SAN JOSE
Citywide Lodging Performance
Calendar Years 1987 through 2010**

Calendar Year	Annual Room Nights Available	Room Nights Occupied	Occupancy Rate	Available Daily Rate (ADR)	Revenue per Available Room (RevPAR)
1987 (1)	1,653,181	1,138,587	68.9%	\$53.08	\$36.56
1988	1,811,495	1,250,785	69.0	59.68	41.21
1989 (2)	1,713,666	1,242,981	72.5	65.30	47.37
1990 (2)	1,744,253	1,192,990	68.4	67.87	46.42
1991 (2)	1,866,205	1,190,268	63.8	69.15	44.11
1992 (3)	1,955,713	1,238,799	63.3	67.95	43.04
1993 (4)	2,140,426	1,397,614	65.3	66.90	43.69
1994	2,150,920	1,478,549	68.7	69.99	48.11
1995	2,127,010	1,608,914	75.6	76.35	57.75
1996	2,150,215	1,711,785	79.6	87.37	69.55
1997	2,170,020	1,682,653	77.5	104.92	81.35
1998 (5)	2,310,252	1,692,612	73.3	114.62	83.97
1999	2,392,307	1,794,445	75.0	119.75	89.82
2000 (6)	2,487,455	2,026,252	81.5	138.58	112.88
2001 (7)	2,651,664	1,690,428	63.7	130.81	83.39
2002 (8)	2,786,552	1,572,178	56.4	107.48	60.64
2003 (9)	3,020,488	1,609,163	53.3	95.64	50.95
2004	3,134,640	1,761,465	56.2	93.20	52.37
2005	3,159,075	1,896,218	60.0	96.93	58.18
2006	3,159,075	2,087,613	66.1	106.19	70.17
2007	3,145,500	2,126,912	67.6	116.48	78.76
2008	3,156,147	2,033,492	64.4	119.29	76.86
2009	3,141,555	1,753,324	55.8	100.75	56.25
2010	3,141,249	1,988,523	63.3	99.40	62.92
CAGR (10)	2.8%	2.5%		2.8%	2.4%

- (1) Fairmont Hotel opened in late-1987. The hotel was opened with assistance from the San Jose Redevelopment Agency.
 - (2) In 1989-1991, the Courtyard San Jose Airport, Holiday Inn Silicon Valley and Staybridge Suites opened. The Convention Center opened in 1989.
 - (3) Homewood Suites opened.
 - (4) Hilton San José opened with assistance from the San Jose Redevelopment Agency to build demand for the Convention Center.
 - (5) Homestead, Residence Inn opened.
 - (6) Extended Stay Deluxe opened.
 - (7) Three Extended Stay Americas, Towne Place Suites and Moorpark Hotel opened.
 - (8) Hampton Inn & Suites and Comfort Suites opened.
 - (9) Marriott San José and Hotel Valencia opened. The Marriott San José was opened with assistance from the San Jose Redevelopment Agency.
 - (10) Compounded annual growth rate.
- Source; Horwath HTL (based on STR data).

Recent trends in rooms, rates and occupancy. The City's taxable hotel revenue was \$186.0 million in fiscal year 2009-10, the lowest level since fiscal year 2004-05. The City's taxable

hotel revenues peaked in fiscal year 2000-01 at \$255.4 million, at the end of the high tech boom and the dotcom bubble. Market demand dropped dramatically in 2001 following the addition of new supply, the economic downturn resulting from the bursting of the tech bubble and the drop in travel following the events of September 11, 2001. The downturn continued through 2003. Thereafter, RevPAR steadily improved through 2007, but still had not returned to the 1997 level, indicating the continuing struggle the hotels in the City were facing despite a relatively robust economy. Then, beginning in the second half of 2008, the national economy suffered from the financial crisis and the Citywide market was affected like most of the country with a sharp drop in demand. Average Daily Rates (“**ADR**”) fell in concert with occupancy, and continued to fall through 2010.

Hotel market data for calendar year 2010 indicates the beginning of a rebound with an increase in Revenue Per Available Room (“**RevPAR**”) to \$62.92 for the Citywide market, up 11.9% from \$56.23 for the same period in calendar year 2009. Although the ADR has continued to decline (by 1.3%), the increased demand and occupancy led to the gain in rooms revenue and RevPAR. Interviews by Horwath HTL with managers of major hotels in the market indicate that the resurgence in individual business travelers is leading the recovery. Group business has been slower to return.

The overall Compounded Annual Growth Rate (“**CAGR**”) for RevPAR from 1987 through 2010 is 2.0%, although market data for the City reflects cyclical “boom or bust” activity levels rather than level growth as a result of the nature of the local high-tech economy. Over the 22 years of the market data reported by STR, there have been 14 years with positive growth (average growth rate in those years: 12.8%), and 8 years in which the market RevPAR declined (average decrease in those years: 13.5%).

Largest Hotel Properties

Largest Hotel Properties Based on Number of Rooms. The following table identifies, as of January 1, 2011, the top 10 hotels in the City based on number of rooms.

Table No. 5
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Top 10 Hotel Properties Based on Rooms
As of January 1, 2011

Name of Hotel	Type of Hotel	Number of Rooms	Zone
Fairmont Hotel	Convention	805	1
San José Airport Garden Hotel (1)	Convention	512	2
San José Marriott	Convention	506	1
Doubletree Hotel	Convention	505	2
San José Hilton	Convention	355	1
Wyndham Hotel	Convention	355	2
Crowne Plaza	Convention	240	1
Hayes Mansion Hotel	Convention	214	2
Hotel Valencia Santana Row	Branded	213	2
Holiday Inn Silicon Valley	Branded	<u>210</u>	2
Total = Top 10			
		3,915	
Total = Top 20		5,575	
Total = Citywide		8,892	

(1) Formerly Holiday Inn; converted as of the end of October 2010.
 Source: City of San José.

These 10 hotels have a total of 3,915 rooms, comprising approximately 44% of the total rooms inventory in the City. The top three hotels – the Fairmont, the Holiday Inn and the Marriott – make up approximately 20% of the Citywide total. See Addendum A to the Horwath Report (Appendix G) for a list of all of the hotels in the City by category.

Top Hotel Properties Based on Rent. The following table identifies, in alphabetical order as of January 1, 2011, the top 10 hotels in the Convention Center Facilities District based on Rent. The amount of Rent collected by each hotel is confidential.

**Table No. 6
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Top 10 Hotel Properties Based on Rent
As of January 1, 2011**

Name of Hotel (Alphabetical)	Type of Hotel	Year Built	Last Renovation	Zone
Courtyard by Marriott	Branded	1990	2004	2
Crowne Plaza	Convention	1974	2008	1
Doubletree Hotel	Convention	1982	2004	2
Fairfield Inn & Suites	Convention	1969	2000	2
Fairmont Hotel	Convention	1987	2008	1
Hotel Valencia Santana Row	Branded	2003	2008	2
San José Airport Garden Hotel (1)	Convention	1961	1998	2
San José Hilton	Convention	1992	2002	1
San José Marriott	Convention	2003	2008	1
Wyndham Hotel	Convention	1974	2005	2
	<u>FY 09-10 Rent</u>			<u>% of Total FY 09-10 Rent</u>
Total FY 09-10 Rent of Top 3 Hotels	\$53,636,957			28.8%
Total FY 09-10 Rent of Top 1-10 Hotels	109,172,733			58.7
Total FY 09-10 Rent of Top 11-20 Hotels	30,322,715			16.3
Total FY 09-10 Rent of Top 1-20 Hotels	139,495,448			75.0
Total FY 09-10 Citywide	186,001,647			100.0

(1) Formerly Holiday Inn; converted as of the end of October 2010.
Source: City of San José.

The top 10 hotels were responsible for approximately 58.7% of the total collections for the City over the past five years, which is higher than the percentage of rooms (approximately 43%) because the 10 hotels tend to be more upscale/higher priced and perform with a higher ADR and RevPAR than the market overall. For calendar year 2010, the top 10 hotels represented a slightly higher proportion of total rent than their 5-year average.

In fiscal year 2009-10, which was the first year of collection of the Special Tax, the City collected \$_____ in Base Special Tax revenues; the levy was based on the following:

**Table No. 7
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Fiscal Year 2009-10 Base Special Tax Revenues**

Zone	# of Rooms	% of Total Rooms	Rent	Base Special Tax Rate	Base Special Tax Revenue	% of Base Special Tax Revenues
Zone 1	3,157	35.5%	\$73,299,869	4%		
Zone 2	5,735	64.5%				
July 1, 2009	1, -					
December 31, 2009			\$59,227,348	1		
January 1, 2010	1, -					
June 30, 2010			\$53,474,430	2		
Total			\$186,001,647			

Source: City of San José.

Historical T.O.T. Revenue and Historical Special Taxes

The T.O.T. in general and the Available T.O.T. are described above in “SECURITY FOR THE SERIES 2011 BONDS – Transfer of Available T.O.T.”

Annual T.O.T. Collections, Available T.O.T. and Hypothetical Special Tax Revenues. The following table identifies the amount of the Available T.O.T. along with hypothetical Base Special Tax revenue (assuming a 4% Base Special Tax rate) as of June 30 for each of the preceding 20 fiscal years. The City's T.O.T. revenues are a function of both the hotels' RevPAR and the changes in the supply of guestrooms; as a result, even in years in which the RevPAR in the City declined, such as fiscal year 1990-91, the added supply resulted in an increase in T.O.T. Revenue.

**Table No. 8
CITY OF SAN JOSE
Historical T.O.T. Collections, Available T.O.T. and
Hypothetical Special Tax Revenues**

Fiscal Year Ending June 30	Taxable Hotel Revenue	Total T.O.T. Revenue	Percentage Change	Available T.O.T.	Hypothetical Base Special Taxes (1)	Hypothetical 1% Additional Special Taxes	Hypothetical Total Special Taxes (1)
1990	\$66,267,870	\$6,626,787	-	\$994,018	\$2,650,715	\$662,679	\$4,307,412
1991	67,799,477	6,779,948	2.3%	1,016,992	2,711,979	677,995	4,406,966
1992	73,049,396	7,304,940	7.7	1,095,741	2,921,976	730,494	4,748,211
1993	78,076,149	7,807,615	6.9	1,171,142	3,123,046	780,761	5,074,950
1994	88,816,493	8,881,649	13.8	1,332,247	3,552,660	888,165	5,773,072
1995	97,198,923	9,719,892	9.4	1,457,984	3,887,957	971,989	6,317,930
1996	120,553,349	12,055,335	24.0	1,808,300	4,822,134	1,205,533	7,835,968
1997	147,031,794	14,703,179	22.0	2,205,477	5,881,272	1,470,318	9,557,067
1998	172,056,806	17,205,681	17.0	2,580,852	6,882,272	1,720,568	11,183,692
1999	185,488,980	18,548,898	7.8	2,782,335	7,419,559	1,854,890	12,056,784
2000	224,325,055	22,432,506	20.9	3,364,876	8,973,002	2,243,251	14,581,129
2001	255,415,480	25,541,548	13.9	3,831,232	10,216,619	2,554,155	16,602,006
2002	165,774,679	16,577,468	-35.1	2,486,620	6,630,987	1,657,747	10,775,354
2003	164,796,014	16,479,601	-0.6	2,471,940	6,591,841	1,647,960	10,711,741
2004	163,951,186	16,395,119	-0.5	2,459,268	6,558,047	1,639,512	10,656,827
2005	179,786,082	17,978,608	9.7	2,696,791	7,191,443	1,797,861	11,686,095
2006	211,536,136	21,153,614	17.7	3,173,042	8,461,445	2,115,361	13,749,849
2007	224,596,462	22,459,646	6.2	3,368,947	8,983,858	2,245,965	14,598,770
2008	267,250,158	26,725,016	19.0	4,008,752	10,690,006	2,672,502	17,371,260
2009	194,819,035	19,481,903	-27.1	2,922,286	7,792,761	1,948,190	12,663,237
2010	186,001,647	18,600,165	-4.5	2,790,025	7,440,066	1,860,016	12,090,107

(1) Assumes a 4% Base Special Tax Rate in Zone 1 and Zone 2.
Source: City of San José.

As mentioned earlier in this Official Statement, the STR data for the City's hotels samples the majority of hotels in the City, but not all of them; the data generally does not include the small, older independent hotels in the City. The independent hotels typically underperform the overall market and, therefore, the STR figures are slightly inflated for the City overall. In addition, the STR data does not factor in any exemptions for long-term stays or governmental employees, which affects the T.O.T. revenues but not the overall market. The STR sample has covered a larger percentage of the Citywide hotel rooms over time, growing from under 60% in 1990 to nearly 90% for the past five years, which has narrowed the variance in revenues and RevPAR. A more complete discussion of the variance is included in the Horwath Report. The Horwath Report includes a table reconciling STR data and actual results.

Monthly T.O.T. Collections. Horwath HTL reports that, over the past five years, with fluctuations due to the economic downturn as well as seasonal patterns, the overall monthly T.O.T. revenues have mostly remained within a range from approximately \$1.3 million to \$2.0 million. When totaled for the five-year period, every month except November and December has seen revenues average more than \$1.6 million, with December being the low month at \$1.46 million and March the high month with an average of more than \$1.9 million. The following table and chart show the monthly revenues over the past five years. As set forth in the table, the T.O.T. revenues for fiscal year 2009-10 were below the pace of fiscal year 2008-09 until February, when hotel room demand began to increase.

**Table No. 9
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Monthly T.O.T. Revenues
Fiscal Years 2005-06 through 2009-10**

Month	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10
Jul	\$1,482,993	\$1,604,490	\$1,923,933	\$1,922,891	\$1,322,815
Aug	1,403,073	1,728,245	2,011,252	1,861,309	1,359,796
Sep	1,459,360	1,747,015	1,910,042	1,986,431	1,382,419
Oct	1,519,658	2,055,975	2,037,096	1,693,173	1,487,984
Nov	1,594,270	1,543,131	1,792,521	1,466,382	1,276,908
Dec	1,278,514	1,457,651	1,788,476	1,493,323	1,305,704
Jan	1,619,625	1,836,761	1,939,823	1,432,281	1,240,425
Feb	1,787,522	1,776,973	2,039,655	1,275,223	1,471,732
Mar	2,181,951	2,178,756	2,161,208	1,468,972	1,605,031
Apr	1,595,334	1,864,669	1,958,589	1,243,515	1,382,538
May	1,581,221	1,918,435	1,951,671	1,225,990	1,693,864
Jun	1,816,204	2,183,408	2,166,472	1,290,089	1,572,802
YE Reconciliation ⁽¹⁾	<u>1,833,889</u>	<u>564,136</u>	<u>3,055,112</u>	<u>1,122,323</u>	<u>1,498,147</u>
Annual	\$21,153,614	\$22,459,646	\$26,735,850	\$19,481,903	\$18,600,165

(1) Year-end reconciliation includes late payments, post-audit collections and prior year adjustments.
Source: Horwath HTL; City of San José Department of Finance.

Horwath HTL reports that, for the first five months of fiscal year 2010-11 (through November 2010), T.O.T. revenues have increased substantially over the prior year. The following table presents the monthly and cumulative data for the first half of fiscal year 2010-11 compared with the same data for fiscal year 2009-10.

**Table No. 10
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Monthly T.O.T. Revenues – Comparison of 1st Half FY 2009-10 and 1st Half 2010-11**

Month	1st Half FY 09-10	1st Half FY 09-10 Cumulative	1st Half FY 10-11	First Half FY 10-11 Cumulative	Percent Change - Month	Percent Change - Cumulative
Jul	\$1,322,815	\$1,322,815	\$1,520,360	\$1,520,360	14.9%	14.9%
Aug	1,359,796	2,682,611	1,388,523	2,908,883	2.1	8.4
Sep	1,382,419	4,065,030	1,550,371	4,459,254	12.1	9.7
Oct	1,487,984	5,553,014	1,759,568	6,218,821	18.3	12.0
Nov	1,276,908	6,829,922	1,524,613	7,743,434	19.4	13.4

Source: Horwath HTL

Projected Special Tax Revenues and Available T.O.T.

Set forth in the following table is Horwath HTL's projected taxable hotel revenue, Available T.O.T., Base Special Tax revenues, Additional Special Tax revenues and total Special Tax revenues for fiscal years 2010-11 through 2040-41.

The projections assume the following (as described in greater detail in Appendix G):

- For the purpose of projecting Special Tax revenues, Horwath HTL assumes that no new hotels will be annexed to the Convention Center Facilities District because the City does not currently have a mechanism by which it can obligate new hotels to annex to the Convention Center Facilities District.
- Horwath HTL assumes that no currently-existing hotels will discontinue operating as hotels.
- For purposes of projecting Available T.O.T., Horwath HTL takes projected increases in hotel room supply in the City into account because new rooms will impact T.O.T. revenues. Horwath HTL assumes (i) that the two projects that are approved and awaiting financing (a Marriott Residence Inn/Fairfield Inn with 321 rooms and the America Center project with 176 rooms) will be completed in 2013 and 2014, respectively and (ii) that approximately 400 rooms will open every five years during the projection period. These growth assumptions result in a CAGR for supply of 0.8% from 2010 through 2046, in comparison to a CAGR of 2.9% from 1990 through 2010. Horwath HTL uses a slower projected growth rate than historical growth because Horwath HTL assumes (i) new real estate construction of all kinds will occur at a slower pace than historically, (ii) future additions represent smaller percentage increases than historical percentage increases because of the large base of hotel rooms in the mature City hotel market, and (iii) there are greater limitations on the availability of land for hotel development in the City. The revenue from the projected new rooms is not included in Horwath HTL's estimates of Special Tax revenue.
- Horwath HTL assumes that economic cycles with five years of growth, two years of downturn and a flat year.
- Horwath HTL assumes that RevPAR will increase from \$57.31 in fiscal year 2009-10 to \$100.43 in fiscal year 2045-46, equating to a CAGR of 1.6% over the 36-year period. This projection is significantly below the historical City RevPAR growth of 2.3% from 1990 through 2010. Over the projection period, the average annual growth in RevPAR during years of positive growth is 6.8%, while the average decline during downturns is -8.5%, although with growth cycles being longer than the downturns the net result is positive long-term growth. Because RevPAR combines both occupancy and ADR, inflationary pressure is reflected as growth in average room rates over the period.
- Horwath HTL projects that supply growth will slightly outpace demand leading to lower occupancy levels over time. The estimated CAGR for supply is 0.8%, compared to 2.9% historically, and the estimated growth in demand is 0.7% as compared to 2.1% historically. Horwath HTL's estimate of future overall growth in ADR is 1.7% annually, compared to 3.1% historically.
- Using the cyclical model as a basis, Horwath HTL calculated the cumulative Special Tax revenue over the 36-year projection period, which equates to approximately \$10.3 million annually. This estimate was then used to prepare an annual revenue model using steady annual growth in Taxable Hotel Revenue of 2.3% annually, as shown in the table below.

Additional information about the assumptions underlying Horwath HTL's projections is presented in greater detail in Appendix G.

Table No. 11
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Projected Taxable Hotel Revenue, Available T.O.T. and Special Tax Revenues
Fiscal Years 2010-11 through 2045-46 – Constant Annual Growth

Fiscal Year	City Taxable Hotel Revenue ⁽¹⁾	Total T.O.T. Revenue	Percentage Change	Available T.O.T. ⁽²⁾	CCFD Taxable Hotel Revenue ⁽¹⁾	Percentage Change	Base Special Tax Revenue	1% Additional Special Tax	Total Special Taxes
2010-11	\$190,810,203	\$19,081,020	2.6%	\$2,862,153	\$189,172,469	1.7%	\$6,431,864	\$1,891,725	\$11,185,742
2011-12	195,743,071	19,574,307	2.6	2,936,146	192,397,345	1.7	7,695,894	1,923,973	12,556,013
2012-13	200,803,464	20,080,346	2.6	3,012,052	195,677,196	1.7	7,827,088	1,956,772	12,795,912
2013-14	205,994,680	20,599,468	2.6	3,089,920	199,012,960	1.7	7,960,518	1,990,130	13,040,568
2014-15	211,320,101	21,132,010	2.6	3,169,802	202,405,589	1.7	8,096,224	2,024,056	13,290,081
2015-16	216,783,195	21,678,320	2.6	3,251,748	205,856,054	1.7	8,234,242	2,058,561	13,544,551
2016-17	222,387,523	22,238,752	2.6	3,335,813	209,365,340	1.7	8,374,614	2,093,653	13,804,080
2017-18	228,136,735	22,813,673	2.6	3,422,051	212,934,449	1.7	8,517,378	2,129,344	14,068,773
2018-19	234,034,577	23,403,458	2.6	3,510,519	216,564,402	1.7	8,662,576	2,165,644	14,338,739
2019-20	240,084,891	24,008,489	2.6	3,601,273	220,256,236	1.7	8,810,249	2,202,562	14,614,085
2020-21	246,291,619	24,629,162	2.6	3,694,374	224,011,006	1.7	8,960,440	2,240,110	14,894,925
2021-22	252,658,805	25,265,881	2.6	3,789,882	227,829,784	1.7	9,113,191	2,278,298	15,181,371
2022-23	259,190,597	25,919,060	2.6	3,887,859	231,713,662	1.7	9,268,546	2,317,137	15,473,542
2023-24	265,891,250	26,589,125	2.6	3,988,369	235,663,750	1.7	9,426,550	2,356,637	15,771,556
2024-25	272,765,131	27,276,513	2.6	4,091,477	239,681,176	1.7	9,587,247	2,396,812	16,075,536
2025-26	279,816,716	27,981,672	2.6	4,197,251	243,767,088	1.7	9,750,684	2,437,671	16,385,605
2026-27	287,050,600	28,705,060	2.6	4,305,759	247,922,653	1.7	9,916,906	2,479,227	16,701,892
2027-28	294,471,496	29,447,150	2.6	4,417,072	252,149,060	1.7	10,085,962	2,521,491	17,024,525
2028-29	302,084,239	30,208,424	2.6	4,531,264	256,447,516	1.7	10,257,901	2,564,475	17,353,639
2029-30	309,893,788	30,989,379	2.6	4,648,407	260,819,248	1.7	10,432,770	2,608,192	17,689,369
2030-31	317,905,232	31,790,523	2.6	4,768,578	265,265,507	1.7	10,610,620	2,652,655	18,031,854
2031-32	326,123,789	32,612,379	2.6	4,891,857	269,787,562	1.7	10,791,502	2,697,876	18,381,235
2032-33	334,554,814	33,455,481	2.6	5,018,322	274,386,706	1.7	10,975,468	2,743,867	18,737,658
2033-34	343,203,800	34,320,380	2.6	5,148,057	279,064,253	1.7	11,162,570	2,790,643	19,101,270
2034-35	352,076,381	35,207,638	2.6	5,281,146	283,821,539	1.7	11,352,862	2,838,215	19,472,223
2035-36	361,178,339	36,117,834	2.6	5,417,675	288,659,925	1.7	11,546,397	2,886,599	19,850,671
2036-37	370,515,602	37,051,560	2.6	5,557,734	293,580,791	1.7	11,743,232	2,935,808	20,236,774
2037-38	380,094,254	38,009,425	2.6	5,701,414	298,585,545	1.7	11,943,422	2,985,855	20,630,691
2038-39	389,920,536	38,992,054	2.6	5,848,808	303,675,616	1.7	12,147,025	3,036,756	21,032,589
2039-40	400,000,849	40,000,085	2.6	6,000,013	308,852,459	1.7	12,354,098	3,088,525	21,442,636
2040-41	410,341,760	41,034,176	2.6	6,155,126	314,117,554	1.7	12,564,702	3,141,176	21,861,004
2041-42	420,950,007	42,095,001	2.6	6,314,250	319,472,403	1.7	12,778,896	3,194,724	22,287,870
2042-43	431,832,501	43,183,250	2.6	6,477,488	324,918,539	1.7	12,996,742	3,249,185	22,723,414
2043-44	442,996,331	44,299,633	2.6	6,644,945	330,457,516	1.7	13,218,301	3,304,575	23,167,821
2044-45	454,448,771	45,444,877	2.6	6,816,732	336,090,918	1.7	13,443,637	3,360,909	23,621,277
2045-46	466,197,282	46,619,728	2.6	6,992,959	341,820,354	1.7	13,672,814	3,418,204	24,083,977

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- (1) "City Taxable Hotel Revenue" reflects Horwath HTL's assumptions with respect to increased room supply. Because the City currently has no entitlement mechanism to obligate future hotels to annex into the Convention Center Facilities District, "CCFD Taxable Hotel Revenue" does not reflect any increase in hotel room supply (Horwath also assumes that no existing hotels will discontinue operations.)
 - (2) Subject to appropriation by the City Council. In addition, the City is not obligated to continue to appropriate 15% of T.O.T. revenues to convention uses. See "BOND OWNERS' RISKS – Limited Obligation of the City to Pay Debt Service."

Source: Horwath HTL.

The projection represents Horwath HTL's estimate of projected financial results based upon its judgment of the most probable occurrence of certain future events. Actual results achieved during the projection period may vary from those presented in the forecast and such variations may be material. It is important to be aware that the tourism and convention industry is susceptible to a broad swath of macro- and micro-economic factors. The City can provide no assurances as to the accuracy or reasonableness of the projection.

Projected Debt Service Coverage

Based on the total Special Tax revenues projected by Horwath HTL, the following table shows projected debt service coverage on the Series 2011 Bonds. The assumptions made by Horwath HTL in projecting Special Tax revenues are described in the previous section and in the Horwath Report appended to this Official Statement.

Actual fiscal year 2009-10 Special Tax proceeds are equal to ____% of maximum annual debt service on the Series 2011 Bonds (\$_____ in fiscal year ____-__).

Table No. 12
CITY OF SAN JOSE CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
Projected Debt Service Coverage

Fiscal Year	Total Special Taxes ⁽¹⁾	Available T.O.T. ⁽²⁾	Series 2011 Bonds Debt Service*	2011A Lease Revenue Bond Debt Service*	Debt Service Coverage Ratio Without Available T.O.T.*	Debt Service Coverage Ratio With Available T.O.T.*	Projected Balance in Revenue Stabilization Reserve
2010-11	\$11,185,742	\$2,862,153					
2011-12	12,556,013	2,936,146					
2012-13	12,795,912	3,012,052					
2013-14	13,040,568	3,089,920					
2014-15	13,290,081	3,169,802					
2015-16	13,544,551	3,251,748					
2016-17	13,804,080	3,335,813					
2017-18	14,068,773	3,422,051					
2018-19	14,338,739	3,510,519					
2019-20	14,614,085	3,601,273					
2020-21	14,894,925	3,694,374					
2021-22	15,181,371	3,789,882					
2022-23	15,473,542	3,887,859					
2023-24	15,771,556	3,988,369					
2024-25	16,075,536	4,091,477					
2025-26	16,385,605	4,197,251					
2026-27	16,701,892	4,305,759					
2027-28	17,024,525	4,417,072					
2028-29	17,353,639	4,531,264					
2029-30	17,689,369	4,648,407					
2030-31	18,031,854	4,768,578					
2031-32	18,381,235	4,891,857					
2032-33	18,737,658	5,018,322					
2033-34	19,101,270	5,148,057					
2034-35	19,472,223	5,281,146					
2035-36	19,850,671	5,417,675					
2036-37	20,236,774	5,557,734					
2037-38	20,630,691	5,701,414					
2038-39	21,032,589	5,848,808					
2039-40	21,442,636	6,000,013					
2040-41	21,861,004	6,155,126					
2041-42	22,287,870	6,314,250					
2042-43	22,723,414	6,477,488					
2043-44	23,167,821	6,644,945					
2044-45	23,621,277	6,816,732					
2045-46	24,083,977	6,992,959					

* Preliminary; subject to change.

(1) Includes Base Special Tax revenues and Additional Special Tax revenues.

(2) * Subject to appropriation by the City Council. In addition, the City is not obligated to continue to appropriate 15% of T.O.T. revenues to convention uses. See "BOND OWNERS' RISKS – Limited Obligation of the City to Pay Debt Service."

Source: Horwath HTL.

BOND OWNERS' RISKS

The purchase of the Series 2011 Bonds described in this Official Statement involves a degree of risk that may not be appropriate for some investors. The following includes a discussion of some of the risks which should be considered before making an investment decision, in no particular order of importance.

Limited Obligation of the City to Pay Debt Service

The City has no obligation to pay principal of and interest on the Series 2011 Bonds other than from proceeds of the Special Tax and, if any, amounts on deposit in the Revenue Fund, the Reserve Fund, the Revenue Stabilization Reserve or funds derived from the tax sale or foreclosure and sale of parcels for Special Tax delinquencies. The City is not obligated to advance its own funds to pay debt service on the Series 2011 Bonds.

Although the City has covenanted to in certain circumstances require its City Manager to recommend to the City Council that the City Council appropriate, in its annual budget for the following fiscal year, the Available T.O.T. for transfer to and deposit in the Revenue Fund, a failure of the City Council to follow the recommendation and to appropriate such funds will not be a violation of this covenant or a default under the Indenture. See "SECURITY FOR THE SERIES 2011 BONDS – Transfer of Available T.O.T."

The City has not covenanted to continue the historical allocation of 15% of the T.O.T. to convention uses and can provide no assurances that the Available T.O.T. will be available for deposit into the Revenue Fund.

Levy and Collection of the Special Tax

The principal source of payment of principal of and interest on the Series 2011 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Convention Center Facilities District. The Special Tax is equal to a percentage of Rent; it is not levied on the property tax roll. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Series 2011 Bonds.

If sales or foreclosures of property are necessary as a result of delinquencies in the payment of Special Taxes, there could be a delay in payments to owners of the Series 2011 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the City of the proceeds of sale if the Reserve Fund is depleted. It is important for investors to understand that the obligation to pay Special Taxes is a function of Rent rather than a fixed maximum amount that is correlated to debt service on the Series 2011 Bonds and any Additional Bonds. As a result, it is possible that Special Tax revenue will be insufficient to pay debt service on the Series 2011 Bonds and any Additional Bonds even though there are no or nominal delinquencies and, in this situation, the City will have no right to initiate foreclosure of any properties in the Convention Center Facilities District. See "SECURITY FOR THE SERIES 2011 BONDS – Covenant to Foreclose."

Cyclical Nature of Hotel Tax Revenue Stream

Horwath HTL reports that the hotel market in the City has experienced cyclical "boom or bust" activity levels as a result of the nature of the local high-tech economy and other economic factors.

Horwath HTL reports that, although overall CAGR in RevPAR for the City's hotel market from 1987 through 2009 is 2.0%, there have been 14 years during that period with positive growth (average growth rate in those years: 12.8%), and 8 years in which the market RevPAR declined (average decrease in those years: 13.5%).

In projecting taxable hotel revenue, Horwath HTL assumes economic cycles with five years of growth, two years of downturn and a flat year, although the projection table set forth in this Official Statement shows steady annual growth. See the Horwath Report in Appendix G for a more complete discussion of the assumptions underlying Horwath HTL's projection of taxable hotel revenue.

Neither the City nor the operators of the Hotel Properties can control the macro- and micro-economic factors that contribute to the cyclical lodging market. If one or more of these events were to occur, it would probably not only reduce Special Tax revenues but also the Available T.O.T.

Factors Affecting Hotel Tax Revenues

Special Tax revenues are a function of Rent charged by and received by operators of the Hotel Properties. A variety of factors can impact the amount of Rent charged and received by operators of Hotel Properties, including, but not limited to, the following:

- Competition from outside the City could force the operators to reduce their rental rates or reduce occupancy levels. The Horwath Report discusses competition to the City's hotels.
- Mismanagement of a Hotel Property or a deteriorating hotel stock could result in reduced occupancy levels and reduced rental income.
- Damage to or destruction of a hotel could reduce rental income or eliminate rental income altogether (see "- Natural Disasters" below).
- The presence of hazardous substances could reduce rental income or eliminate rental income altogether (see "- Hazardous Substances" below).
- Changes in general economic conditions in the United States and around the world, including a severe and long-lasting economic downturn like the current one, could decrease the demand for transient rooms and related lodging services, including as a result of a reduction in business travel.
- The number of Hotel Properties and hotel rooms and the performance of the Hotel Properties in the Convention Center Facilities District are subject to a variety of local economic factors, including the health of the technology-focused local economy and the location of major companies.
- Hotel Properties could be converted to other uses not subject to the Special Tax such as condominiums or office space. In this regard, it should be noted that the City is considering a sale of the Hayes Mansion Hotel, which is a 214-room hotel owned by the City. The City realized an operating loss of \$2,286,018 at the Hayes Mansion Hotel in fiscal year 2009-10 (on room revenue of \$4,373,250). The Hayes Mansion Hotel is one of the 15 largest hotels in the City based on fiscal year 2009-10 revenue and one of the 10 largest hotels in the City based on number of rooms.

- Changes in travel patterns could adversely impact the demand for the Hotel Properties. For example increased teleconferencing could reduce Rent. In addition, the financial condition of the airline industry could reduce demand for Hotel Properties; substantial increases in air and ground travel costs and decreases in airline capacity have recently reduced demand for hotel rooms across the United States. Furthermore, war and terrorist activity (including threatened terrorist activity), domestic and international political conditions, and heightened travel security measures could reduce travel. Finally, many businesses, particularly financial institutions, face restrictions on the ability to travel and hold conferences or events. The negative publicity associated with such companies holding large events, typically at resort locations, may result in reduced bookings. New or revised regulations on businesses participating in government financial assistance programs, as well as the negative publicity associated with conferences and events could adversely impact Rent.
- Travelers' fears of exposures to contagious diseases and other conditions, such as bedbug infestation, could reduce travel and, as a result, demand for the Hotel Properties. The Hotel Properties could be materially and adversely affected by the effect of a pandemic disease on the travel industry. For example, the past outbreaks of SARS and avian flu had a severe impact on the travel industry, and the recent outbreak of swine flu in Mexico had a similar impact. A prolonged recurrence of SARS, avian flu, swine flu or another pandemic disease also may result in health or other government authorities imposing restrictions on travel. Any of these events could result in a significant drop in demand for the Hotel Properties.
- Increased internet room bookings through third-party intermediaries (often at lower rates) could reduce Rent.
- The cyclical nature of the City's lodging market could result in reduced Rent at various periods during the term of the Series 2011 Bonds. (see "Cyclical Nature of Hotel Tax Revenue Stream" above).
- Changes in operating costs including, but not limited to, energy, labor costs (including the impact of unionization), food costs, workers' compensation and health-care related costs, insurance and unanticipated costs such as acts of nature and their consequences could adversely the financial viability of the Hotel Properties.
- Congress and the State are considering and have undertaken actions to regulate and reduce greenhouse gas emissions. New or revised laws and regulations or new interpretations of existing laws and regulations, such as those related to climate change, could affect the operation of the Hotel Properties and/or result in significant additional expense and operating restrictions on the Hotel Properties. In addition, regulation or taxation of carbon dioxide emissions by airlines and other forms of transportation could adversely impact the demand for Hotel Properties.

Payment of Special Tax is not a Personal Obligation of Property Owners

An owner of Taxable Property is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation only against the parcels of Taxable Property. If, after a default in the payment of the Special Tax and a foreclosure sale by the City, the resulting proceeds are insufficient, taking into account other obligations also constituting a lien against the parcels of Taxable Property, the City has no recourse against the owner.

Natural Disasters

The Rents generated by Hotel Property and the value of the Hotel Property in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements and private improvements on the Taxable Property and the continued habitability and enjoyment of such private improvements.

Seismic. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the City. According to the safety element of the City's "2020 General Plan" (the "**General Plan**"), the City is located in a region of very high seismic activity. As described in the General Plan, the major earthquake faults in the region are the San Andreas Fault, located near the crest of the Santa Cruz Mountains, and the Hayward and Calaveras fault systems located in the Diablo Range. Numerous other active and potentially active faults are located in the hills throughout the Santa Clara Valley, including among others, the Silver Creek Fault. A U.S. Geological Survey study, which was released in April 2009, provides additional information regarding the Silver Creek Fault and charts its course throughout downtown San José and other parts of the City. The most recent significant earthquake in the San José area, which had a magnitude of 7.1, occurred on October 17, 1989. The extent of damage and the long-term effects from an earthquake, particularly ongoing earthquake activity, may be difficult to determine immediately. Additionally, an earthquake resulting from movement at the Silver Creek Fault could cause substantial damage given its proximity to downtown San José and other parts of the City. Earthquakes can result in the hazards of surface rupture, landslides, ground shaking, liquefaction and seismically induced inundation.

Pursuant to applicable state law, the California Geological Survey has prepared maps to identify certain areas as liquefaction hazard zones. "**Liquefaction**" is the transformation of soil from a solid state to a liquid state during a major earthquake, and liquefaction hazard zones are areas where historic occurrence of liquefaction or local geological, geotechnical and ground water conditions indicate a potential for permanent ground displacements during a major earthquake. According to the most recent published maps prepared by the California Geological Survey, the Taxable Property is located in an area that has potential for liquefaction during a major earthquake. The Taxable Property is located within the State of California Seismic Hazard Zone of Required Investigation for Liquefaction (CGS, 2002).

Flooding. The City and the Santa Clara Valley have a history of flooding due to among other things heavy rain, inadequate storm drains, and levee failure which has resulted in property damage. The Federal Emergency Management Agency ("**FEMA**") has prepared a flood map for territory within the City and established designations to identify the risk of flooding in particular areas.

The City participates in the National Flood Insurance Program ("**NFIP**") administered by FEMA. Approximately 20,000 parcels within the 100-year flood hazard area (area subject to a flood that has a 1% chance of being equaled or exceeded in any given year) established by FEMA are located in the City. This represents approximately 10% of the total number of properties within the City. This can be extrapolated to estimate that roughly 10% of the area of the City may be inundated by flood waters of at least one foot in depth.

The City, per NFIP requirements, regulates new construction and substantial improvements to existing structures to protect new and redeveloped properties from the 100-year flood event. In addition, the Santa Clara Valley Water District (the "**District**") is in the process of improving the Upper Guadalupe River. Upon anticipated completion in 2016, it is estimated that approximately 7,500 parcels will be removed from the 100-year flood boundary.

In the event of a catastrophic event, damage to one or more dams from any number of causes could result in flooding within the City. On October 13, 2010, the District issued a press release and notified City officials regarding the results of a preliminary evaluation report showing how Anderson Dam could be affected by a major earthquake with a magnitude of 7.25 on the Calaveras Fault within two kilometers of the dam. Anderson Dam, located east of Morgan Hill, is an earth and rock fill structure constructed in 1950 which creates the Anderson Reservoir, the largest reservoir in Santa Clara County. The press release stated that the analysis found loosely compacted layers of liquefiable materials in the lower portions of the dam. These materials are susceptible to a reduction in strength when subjected to severe earthquake shaking (i.e., liquefaction). If this reduction in strength occurred, parts of the dam could experience significant slumping. If the reservoir were full at the time, there could be an uncontrolled release of water. As a result, the district's dam operators will keep the water at no higher than 57 feet below the dam crest until further analysis is completed and the results discussed with dam safety regulators (Anderson Dam is regulated by the State of California Division of Safety of Dams, which performs yearly reviews and requires maintenance and safety standards to be enforced by the dam owners and operators. Additionally, the Federal Energy Regulatory Commission also has dam safety jurisdiction at Anderson Dam.). Although the chances are remote, a complete failure of Anderson Dam could send a wall of water 35 feet high into downtown Morgan Hill in 14 minutes, and 8 feet deep into San Jose within three hours.

Subsequent to the work noted above, further studies on the dam have yielded more information on the amount of movement and slumping, known as deformation that could occur in a large earthquake and what corrective measures are needed to ensure public safety and continue dam operations. That additional work resulted in a revised recommendation to keep the water at no higher than 40 to 45 feet below the dam crest. The District will review this information with dam safety regulators. The District is also studying a fault trace under the dam to see if it is active, and whether it could cause damage to the dam's outlet.

Like Anderson Dam, there are four other dams (Almaden, Calero, Guadalupe and Lenihan) that are being evaluated to determine the impact of a major earthquake. Each of these dams is located upstream from the City and could impact the City as a result of an earthquake. For Almaden, Calero and Guadalupe Dams, the reservoir levels will be kept lower than normal to ensure public safety while these questions are being answered.

The preliminary data on Calero Dam indicate the presence of alluvium—gravel and sand from the underlying creek bed—under the downstream dam embankment, which could make the dam vulnerable to damage during a major earthquake. The district will keep the water at no higher than 20 feet below the dam crest until the full integrity of the dam can be assessed or corrective action can be completed. This information and operating restriction has been shared with the State of California Division of Safety of Dams for review.

District staff will continue to work with the State of California Division of Safety of Dams on the results of the field and laboratory investigations with the preliminary seismic stability results in September 2011, and a final report in 2012. Additionally, a study has begun on the

impact of an earthquake on Lenihan Dam, which creates Lexington Reservoir. A final report on seismic stability of Lenihan Dam is expected to be available in January 2012.

Natural Gas Transmission Pipelines

On September 9, 2010 a Pacific Gas and Electric Company ("**PG&E**") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous similar pipelines owned, operated and maintained by PG&E located throughout the City.

PG&E's website (www.pge.com) provides information regarding its high pressure natural gas transmission pipelines and its long range natural gas transmission pipeline planning. This information is summarized below.

According to its website, PG&E has a comprehensive inspection and monitoring program to ensure the safety of its natural gas transmission pipeline system, and uses a risk management program that inventories each of the 20,000 segments within PG&E's natural gas transmission pipeline system and evaluates them against criteria such as:

- the potential for third party damage like dig-ins from construction,
- the potential for corrosion,
- the potential for ground movement, and
- the physical design and characteristics of the pipe segment.

PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high density populations, potential reliability impacts and environmentally sensitive areas, and uses the data it collects to help plan and prioritize future work.

Based on all of these factors, PG&E determines which segments warrant further evaluation, monitoring or other future action. PG&E has created a list of the "Top 100" segments to help inform future work plans (although it should be noted that the pipeline that caused the explosion in the City of San Bruno was not on the Top 100 list). As conditions change from year to year, PG&E reevaluates the segments included on the list. This list can be found on PG&E's website at: http://www.pge.com/includes/docs/pdfs/myhome/customerservice/response/planning_segments.pdf.

A pipeline segment may be placed into planning for further study and long-range planning based upon its risk for one of five factors:

- Potential for Third-Party Damage,
- Potential for Corrosion,
- Potential for Ground Movement,
- Physical Design and Characteristics, and

- Overall (did not score high in any one factor of the above factors, but scored moderately high in more than one factor).

As noted above, additional information may be found on PG&E's website, specifically at http://www.pge.com/includes/docs/pdfs/myhome/customerservice/response/planning_segments.pdf.

One of the natural gas transmission pipelines on the PG&E Top 100 list is located within the City. However, as noted above, the pipeline that caused the explosion in the City of San Bruno was not on the Top 100 list.

The City is not able to independently confirm the information set forth above or the information contained on the PG&E website with respect to PG&E's pipelines, and can provide no assurances as to its accuracy or completeness. Further, the City can provide no assurances as to the condition of PG&E pipelines in the City, or predict the extent of the damage to the surrounding property that would occur if a PG&E pipeline located within the City were to explode.

Hazardous Substances

One of the most serious risks in terms of the potential reduction in the Rents generated by Hotel Properties and the value of Hotel Property is a claim with regard to a hazardous substance. In general, the owners and operators of Taxable Property may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the use, marketability and value of the parcel.

Hotel Properties use certain substances and generate certain wastes that may be deemed hazardous or toxic under applicable environmental laws, and from time to time have incurred, and in the future may incur, costs related to cleaning up contamination resulting from historic uses of certain substances. Environmental laws govern occupational exposure to asbestos containing materials ("**ACMs**") and require abatement or removal of certain ACMs that may be present in various building materials in the Hotel Properties, such as spray-on insulation, floor coverings, ceiling coverings, tiles, decorative treatments and piping. Environmental laws also regulate polychlorinated biphenyls ("**PCBs**"), which may be present in electrical equipment. Some of the Hotel Properties may have underground storage tanks ("**USTs**") and equipment containing chlorofluorocarbons ("**CFCs**"); the operation and subsequent removal or upgrading of certain USTs and the use of equipment containing CFCs also are regulated by environmental laws.

Concentration of Tax Base

Approximately 44% of the hotel rooms in the City are concentrated in the 10 largest hotels in the City (the 3 largest hotels account for approximately 20% of the Citywide total) and approximately 28.8% of the fiscal year 2009-10 rent was concentrated in the top 3 hotels in that category.

Failure of one or more of the largest Special Tax payers in the Convention Center Facilities District to pay installments of the Special Tax when due could result in an insufficiency of Special Tax

proceeds to meet obligations under the Indenture. Further, the elimination of one or more of the larger Hotel Properties could significantly reduce Rents generated in the District. In that event, there could be a delay or failure in payments of the principal of and interest on the Series 2011 Bonds.

As explained in “- Factors Affecting Hotel Tax Revenues” above, the City is considering a sale of the Hayes Mansion Hotel, which is a 214-room hotel owned by the City. The Hayes Mansion Hotel is one of the 15 largest hotels in the City based on fiscal year 2009-10 revenue and one of the 10 largest hotels in the City based on number of rooms.

Other Possible Claims Upon the Value of Taxable Property

While the Special Taxes are secured by the Taxable Property, the security only extends to the value of such Taxable Property that is not subject to senior, priority and parity liens and similar claims.

Other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the Series 2011 Bonds.

In general, the Special Tax is on equal priority to other taxes, assessments and charges collected on the tax roll. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the Series 2011 Bonds, the Special Tax would usually be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes would generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy. See “- Bankruptcy and Foreclosure Delays” below.

Exempt Properties and Exemptions from the Special Tax

Only Hotel Properties in the Convention Center Facilities District are subject to the Special Tax. Hotel Properties include three properties owned by the City or its redevelopment agency: the Hayes Mansion Hotel, which is owned and operated by the City, and the Fairmont Hotel and the Hilton Hotel (the ground under each of which is owned by the City’s redevelopment agency and leased to the hotel owners). Properties that are currently Hotel Properties but whose land use is changed in the future to a non-hotel use will no longer be subject to the Special Tax. See “SECURITY FOR THE SERIES 2011 BONDS – Rate and Method.”

In addition, “Rent” on which the Special Tax is calculated does not include (i) rent charged to federal or state employees when on official business, (ii) rent charged to any officer or employee of a foreign government who is exempt by reason of express provisions of federal law or international treaty and (iii) rent paid by a person who occupies a hotel room for more than 30 consecutive days. The same exclusions apply to the T.O.T.

In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and

operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. See also "SECURITY FOR THE SERIES 2011 BONDS - Covenant to Foreclose". The constitutionality and operative effect of these provisions have not been tested in the courts, but it is doubtful that they would be upheld as to, for example, property owned by the federal government, agencies of the federal government or government sponsored enterprises such as Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac").

Any expansion of an existing hotel that occurs on a different parcel than the parcel on which the hotel currently sits will not be subject to the Special Tax if the parcel is not already in the Convention Center Facilities District, unless the owner elects to annex the expansion parcel into the Convention Center Facilities District.

Depletion of Reserve Fund

The General Account within the Reserve Fund is to be maintained at an amount equal to the Reserve Requirement for the Series 2011 Bonds and any Additional Bonds for which the General Account is made available. See "SECURITY FOR THE SERIES 2011 BONDS – Reserve Fund." Funds in the General Account of the Reserve Fund may be used to pay principal of and interest on the Series 2011 Bonds and any Additional Bonds for which the General Account is made available if insufficient funds are available from the proceeds of the levy and collection of the Special Tax against property within the Convention Center Facilities District. If funds in the General Account of the Reserve Fund are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the owners of the Series 2011 Bonds and any Additional Bonds pursuant to the Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Convention Center Facilities District at the maximum Special Tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the General Account of the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

Depletion of Revenue Stabilization Reserve

A Revenue Stabilization Reserve is established pursuant to the Indenture (see "SECURITY FOR THE SERIES 2011 BONDS – Revenue Stabilization Reserve"). The Revenue Stabilization Reserve is available to pay debt service on the Series 2011 Bonds and any Additional Bonds, and it is also available to pay debt service on the Series 2011A Lease Revenue Bonds and other Subordinate Bonds. See "SECURITY FOR THE SERIES 2011 BONDS – Subordinate Obligations").

A decline in Special Taxes (which are pledged to the Series 2011 Bonds, any Additional Bonds and the Subordinate Bonds) is likely to result in a draw on the Revenue Stabilization Reserve. In addition, the inability of the City to pay lease payments under the 2011 Lease from sources other than Special Taxes may result in a draw on the Revenue Stabilization Reserve.

If funds in the Revenue Stabilization Reserve are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax, but Special Taxes will first be applied to a variety of purposes described in "SECURITY FOR THE SERIES 2011 BONDS – Revenue Fund." Because adverse economic conditions in the City could result in a rapid depletion of the Revenue Stabilization Reserve, and because the demand on the Revenue Stabilization Reserve may increase over time as Additional Bonds and additional Subordinate Bonds are issued, it is possible that the Revenue Stabilization Reserve will be depleted and not be replenished by the levy of the Special Tax.

Bankruptcy and Foreclosure Delays

Bankruptcy. The payment of the Special Tax and the ability of the City to foreclose the lien of a delinquent unpaid tax, as discussed in "SECURITY FOR THE SERIES 2011 BONDS," may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State of California relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the Series 2011 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of a property owner or any other person claiming an interest in Taxable Property, could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments not being paid in part or in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Series 2011 Bonds. To the extent that property in the Convention Center Facilities District continues to be owned by a limited number of property owners, the chances are increased that the Reserve Fund established for the Series 2011 Bonds could be fully depleted during any such delay in obtaining payment of delinquent Special Taxes. As a result, sufficient moneys would not be available in the Reserve Fund for transfer to the Series 2011 Bond Fund to make up shortfalls resulting from delinquent payments of the Special Tax and thereby to pay principal of and interest on the Series 2011 Bonds on a timely basis.

Property Owned by FDIC. In addition, the ability of the City to foreclose upon the lien on property for delinquent Special Taxes may be limited for properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. On November 26, 1996, the FDIC adopted a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "**Policy Statement**") (which superseded a prior statement issued by the FDIC and the Resolution Trust Corporation in 1991). The Policy Statement applies to the FDIC when it is liquidating assets in its corporate and receivership capacities. The Policy Statement provides, in part, that real property of the FDIC is subject to state and local real property taxes if those taxes are assessed according to the property's value, and that the FDIC is immune from ad valorem real property taxes assessed on other bases. The Policy Statement also provides that the FDIC will pay its proper tax obligations when they become due and will pay claims for delinquencies as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC interest in the property is appropriate. It further provides that the FDIC will pay claims for interest on delinquent property taxes owned at the rate provided under state law, but only to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay for any fines or penalties and will not pay nor recognize liens for such amounts. The Policy Statement also provides that if any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. No property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, a lien for taxes and interest may attach, but the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

With respect to challenges to assessments, the Policy Statement provides: "The [FDIC] is only liable for state and local taxes which are based on the value of the property during the period for which the tax is imposed, notwithstanding the failure of any person, including prior record owners, to challenge an assessment under the procedures available under state law. In the exercise of its business judgment, the [FDIC] may challenge assessments which do not conform with the statutory

provisions, and during the challenge may pay tax claims based on the assessment level deemed appropriate, provided such payment will not prejudice the challenge. The [FDIC] will generally limit challenges to the current and immediately preceding taxable year and to the pursuit of previously filed tax protests. However, the [FDIC] may, in the exercise of its business judgment, challenge any prior taxes and assessments provided that (1) the [FDIC's] records (including appraisals, offers or bids received for the purchase of the property, etc.) indicate that the assessed value is clearly excessive, (2) a successful challenge will result in a substantial savings to the [FDIC], (3) the challenge will not unduly delay the sale of the property, and (4) there is a reasonable likelihood of a successful challenge.”

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee simple interest unless the amount of tax is fixed at the time the FDIC acquires its fee simple interest in the property, nor will the FDIC recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Because the Special Taxes are neither ad valorem taxes nor special assessments, and because they are levied under a special tax formula under which the amount of the Special Tax is determined each year, the Special Taxes appear to fall within the category of taxes the FDIC generally will not pay under the Policy Statement.

Following the County of Orange bankruptcy proceedings filed in December 1994, the FDIC filed claims against the County of Orange in the U.S. Bankruptcy Court and the Federal District Court which challenged special taxes that Orange County had levied on FDIC-owned property (and which the FDIC had paid) under the Act. The FDIC took a position similar to that outlined in the Policy Statement, to the effect that the FDIC, as a governmental entity, is exempt from special taxes under the Act. The Bankruptcy Court agreed, finding that the FDIC was not liable for post-receivership Mello-Roos taxes, and the Bankruptcy Appellate Panel affirmed. On appeal, the U.S. Court of Appeals for the Ninth Circuit, while not specifically asked to decide on the issue, stated in its decision filed on August 28, 2001, that “the FDIC, as a federal agency, is exempt from the Mello-Roos tax,” and quoted Section 53340(c) of the Act in stating that “‘properties or entities’ of the federal government are exempt from the tax.” The County of Orange did not appeal the decision.

The City is unable to predict what effect the application of the Policy Statement would have in case of a Special Tax delinquency on a parcel in which the FDIC has an interest. However, prohibiting the judicial foreclosure sale of an FDIC-owned parcel would likely reduce the number of or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Series 2011 Bonds should assume that the City will be unable to foreclose on parcels of land in the Convention Center Facilities District owned by the FDIC. Such an outcome would cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment of the Series 2011 Bonds.

Property Owned by Other Federal Government Entities. In the event a parcel of Taxable Property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution (“This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”), in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that,

unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the City wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest.

Disclosure to Future Purchasers

The City has recorded a notice of the Special Tax lien in the real property records of the County of Santa Clara. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such special tax obligation in the purchase of a parcel of Taxable Property or the lending of money secured by Taxable Property.

California Civil Code Section 1102.6b requires a seller to at least make a good faith effort to notify the prospective purchaser of the Special Tax lien in a format prescribed by statute. Failure by an owner of the property to comply with these requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

No Acceleration Provisions

The Indenture does not contain a provision allowing for the acceleration of the Series 2011 Bonds in the event of a payment default or other default under the terms of the Series 2011 Bonds or the Indenture. Under the Indenture, a Bond holder is given the right for the equal benefit and protection of all Bond holders similarly situated to pursue certain remedies, subject to the compliance with certain requirements.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS – Tax Matters," interest on the Series 2011 Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2011 Bonds were issued as a result of future acts or omissions of the City in violation of its covenants in the Indenture. For example, if the Internal Revenue Service were to conclude that the City or its various contractors at the Convention Center were violating applicable management contract rules, the interest on the Series 2011 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2011 Bonds were issued. The Indenture does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the Series 2011 Bonds were to be includable in gross income for purposes of federal income taxation, the Series 2011 Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Tax. See "THE SERIES 2011 BONDS – Redemption."

Voter Initiatives

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, the most recent of which was approved as Proposition 218 in the general election held on November 5, 1996.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Series 2011 Bonds.

Proposition 218 (Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges - Initiative Constitutional Amendment) added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges.

The Special Taxes and the Series 2011 Bonds were each authorized by at least a two-thirds vote of the landowner within the Convention Center Facilities District which constituted the qualified electors at the time of such voted authorization. The City believes, therefore, that issuance of the Series 2011 Bonds does not require the conduct of further proceedings under the Act or Proposition 218.

Among other things, Section 3 of Article XIII C states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Act provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that the exercise by the voters of the initiative power referred to in Article XIII C to reduce or terminate a Special Tax is subject to the same restrictions as are applicable to the City, in its actions in respect of the Convention Center Facilities District, pursuant to the Act. Accordingly, it is likely that Articles XIII C and XIII D have not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Series 2011 Bonds.

It may be possible, however, for voters or the City to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Series 2011 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for administrative expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Series 2011 Bonds.

Like its antecedents, Proposition 218 is likely to undergo both judicial and legislative scrutiny before its impact on the City, the Convention Center Facilities District and the Series 2011 Bonds can be determined. Certain provisions of Proposition 218 may be examined by the courts for their constitutionality under both State and federal constitutional law, the outcome of which cannot be predicted.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2011 Bonds or, if a secondary market exists, that any Series 2011 Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price. No assurance can be given that the market price for the Series 2011 Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Series 2011 Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Series 2011 Bonds or obligations that present similar tax issues as the Series 2011 Bonds.

CONTINUING DISCLOSURE

The City will covenant in a continuing disclosure certificate, the form of which is set forth in “APPENDIX E –Continuing Disclosure Certificate” (the “**Continuing Disclosure Certificate**”), for the benefit of holders and beneficial owners of the Series 2011 Bonds, to provide certain financial information and operating data relating to the Convention Center Facilities District and the Series 2011 Bonds (the “**Annual Report**”) by not later than eight months after the end of the City’s Fiscal Year (which would correspond to a distribution date of not later than March 1 based on the City’s current fiscal year ending of June 30). The City Continuing Disclosure Certificate also requires the City to provide notices of the occurrence of certain enumerated events.

The covenants of the City in the Continuing Disclosure Certificate are being made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”).

A default under the Continuing Disclosure Certificate would not constitute an Event of Default under the Indenture, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the City to comply would be an action to compel specific performance.

The City has never failed to comply, in all material respects, with an undertaking under the Rule. However, when submitting fiscal year 2004-05 Annual Reports, the City filed all reports with its dissemination agents by the required dates specified in the City’s continuing disclosure undertakings, but one dissemination agent neglected to meet its deadline for submission of one of the fiscal year 2004-05 Annual Reports to the applicable repositories by the deadline specified in the applicable continuing disclosure undertaking.

LEGAL MATTERS

Legal Opinions

The legal opinion of Orrick Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, approving the validity of the Series 2011 Bonds will be made available to purchasers at the time of original delivery and is attached as Appendix F.

The City Attorney of the City will also pass upon certain legal matters for the City as Special Counsel to the City.

Jones Hall, A Professional Law Corporation, San Francisco, California is serving as Disclosure Counsel to the City.

Hawkins Delafield & Wood LLP, San Francisco, California, is acting as Underwriters' Counsel.

See "*PROFESSIONAL FEES*" below.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP ("**Bond Counsel**"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "**Code**") and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2011 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2011 Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Series 2011 Bonds is less than the amount to be paid at maturity of such Series 2011 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2011 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2011 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2011 Bonds is the first price at which a substantial amount of such maturity of the Series 2011 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2011 Bonds accrues daily over the term to maturity of such Series 2011 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2011 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2011 Bonds. Beneficial Owners of the Series 2011 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2011 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2011 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2011 Bonds is sold to the public.

Series 2011 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("**Premium Bonds**") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners

of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2011 Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2011 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2011 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2011 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2011 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2011 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2011 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2011 Bonds. Prospective purchasers of the Series 2011 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2011 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("**IRS**") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2011 Bonds ends with the issuance of the Series 2011 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Series 2011 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with

which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2011 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2011 Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

The complete text of the final opinion that Bond Counsel expects to delivery upon issuance of the Series 2011 Bonds is set forth in Appendix F.

Absence of Material Litigation

[confirm] To the best knowledge of the City, there is no controversy of any nature now pending or threatened against the City which seeks to restrain or enjoin the sale or issuance of the Series 2011 Bonds or which in any way contests or affects the validity of the Series 2011 Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2011 Bonds, the use of the Series 2011 Bonds proceeds or the existence or powers of the City relating to the issuance of the Series 2011 Bonds.

RATINGS

It is anticipated that, on the date of issuance of the Series 2011 Bonds, Moody's Investors Service ("**Moody's**") will assign its municipal bond rating of "____" to the Series 2011 Bonds, Fitch Ratings ("**Fitch**") will assign its municipal bond rating of "____" to the Series 2011 Bonds, and Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("**S&P**"), will assign its municipal bond rating of "____" to the Series 2011 Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Series 2011 Bonds may have an adverse effect on the market price or marketability of the Series 2011 Bonds.

FINANCIAL ADVISOR

The City has retained Stone & Youngberg LLC, San Francisco, California, as Financial Advisor in connection with the authorization and delivery of the Series 2011 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2011 Bonds is contingent upon the authorization and delivery of the Series 2011 Bonds. Stone & Youngberg LLC, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status

of the Series 2011 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

The Series 2011 Bonds are being purchased by the underwriters named on the cover page of this Official Statement (the “**Underwriters**”) at a purchase price of \$_____ (which represents the aggregate principal amount of the Series 2011 Bonds (\$_____) *less* original issue discount/*plus* net original issue premium of \$_____ and *less* an Underwriters’ discount of \$_____).

The purchase agreement relating to the Series 2011 Bonds provides that the Underwriters will purchase all of the Series 2011 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriters may offer and sell Series 2011 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

PROFESSIONAL FEES

In connection with the issuance of the Series 2011 Bonds, fees payable to certain professionals are contingent upon the issuance and delivery of the Series 2011 Bonds. Those professionals include:

- the Underwriters;
- Stone & Youngberg LLC, as financial advisor;
- Orrick Herrington & Sutcliffe LLP, as Bond Counsel;
- Jones Hall, A Professional Law Corporation, as Disclosure Counsel to the City; and
- U.S. Bank National Association, as Trustee for the Series 2011 Bonds.
- Hawkins Delafield & Wood LLP is acting as Underwriters’ Counsel.

EXECUTION

This Official Statement has been duly authorized by the City Council of the City.

CITY OF SAN JOSE

By: _____
Authorized Representative

APPENDIX A

CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION

APPENDIX B
RATE AND METHOD OF APPORTIONMENT

APPENDIX C
SUMMARY OF THE INDENTURE

APPENDIX D

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Series 2011 Bonds, payment of principal, interest and other payments on the Series 2011 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series 2011 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Series 2011 Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Series 2011 Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2011 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2011 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2011 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “**Rules**” applicable to DTC are on file with the Securities and Exchange Commission and the current “**Procedures**” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“**DTC**”), New York, NY, will act as securities depository for the securities (the “**Bonds**”). The Series 2011 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Series 2011 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation,

Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Series 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2011 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those

Direct Participants to whose accounts the Series 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Series 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Series 2011 Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

**CITY OF SAN JOSE
CONVENTION CENTER FACILITIES DISTRICT NO. 2008-1
SPECIAL HOTEL TAX BONDS, SERIES 2011
(CONVENTION CENTER EXPANSION AND RENOVATION PROJECT)**

This CONTINUING DISCLOSURE CERTIFICATE (this “**Disclosure Certificate**”) is executed and delivered by the CITY OF SAN JOSE (the “**City**”) in connection with the execution and delivery of the bonds captioned above (the “**Bonds**”). The Bonds are being executed and delivered pursuant to an Indenture, dated as of ~~March 1~~April 1, 2011 (the “**Indenture**”), by and between the City and U.S. Bank National Association, as trustee.

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is eight months after the end of the City’s fiscal year (currently March 1 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means the U.S. Bank National Association City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriters*” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets, Inc., and Wells Fargo Bank, N.A., the original Underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 1, 2012, with the report for the 2010-11 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

The City shall also include the following statement:

THE CITY’S ANNUAL FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF’S INTERPRETATION OF RULE 15C2-12. NO

FUNDS OR ASSETS OF THE CITY ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS, AND THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) Principal amount of Bonds outstanding as of November 2 of the most recently-completed fiscal year.

(ii) Balance in the General Account and any other accounts in the Reserve Fund and a statement of the applicable Reserve Requirement(s) as of May 2 in the most recently-completed fiscal year.

(iii) Balance in the Revenue Stabilization Reserve and a statement of the Revenue Stabilization Reserve Maximum as of May 2 in the most recently-completed fiscal year.

(iv) A description of (A) any Additional Bonds issued during the most recent fiscal year and (B) any additional Subordinate Bonds, the debt service on which is payable from moneys in the Revenue Stabilization Reserve.

(v) The amount, if any, of the Available T.O.T. deposited into the Revenue Stabilization Reserve during the most recent fiscal year.

(vi) As of June 30 of the most recent fiscal year, the 10 largest hotel properties in the Convention Center Facilities District based on hotel rooms, in substantially the form of Table No. 5 of the Official Statement.

(vii) For the most recent fiscal year, the top 10 hotel properties in the Convention Center Facilities District based on Rent, in substantially the form of Table No. 6.

(viii) The amount of the Available T.O.T. and Special Tax revenues in the most recent fiscal year, in substantially the form of Table No. 8 of the Official Statement.

(ix) For the most recent fiscal year (no projected information is required), debt service coverage on the Series 2011 Bonds and any Additional Bonds in substantially the form of Table No. 12 of the Official Statement.

(x) Any changes to the Rate and Method for the Convention Center Facilities District.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are

available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events

described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier “if material.” The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the CityU.S. Bank National Association. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made

shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriters or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 20__

CITY OF SAN JOSE

By: _____

Name: _____

Title: _____

U.S. BANK NATIONAL ASSOCIATION

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of San José

Name of Issue: Convention Center Facilities District No. 2008-1 Special Hotel Tax Bonds, Series 2011 (Convention Center Expansion and Renovation Project)

Date of Issuance: _____, 20__

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture, dated as of January , 2011, by and between the City and U.S. Bank National Association, as trustee. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____

Its: _____

APPENDIX F
FORM OF OPINION OF BOND COUNSEL

APPENDIX G
HOTEL TAX REVENUE REPORT