CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

California

Annual Debt Report

Year Ending June 30, 2004

Cover Photographs (clockwise from upper left):

Villa Solera Family Apartment Homes (formerly Kennedy Apartment Homes)
(opened April 2004), Multifamily Housing Revenue Bonds

New City Hall
(expected substantial completion spring 2005), Lease Revenue Bonds

Vineland Branch Library
(opened January 2004), General Obligation Bonds

Norman Y. Mineta San José International Airport North Concourse Conceptual Design
(expected completion late 2007), Airport Revenue Bonds

City of San José
California

13th Annual Debt Report

Fiscal Year Ending June 30, 2004

Prepared by
Finance Department
Debt & Risk Management Division

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Director of Finance

13th Annual Debt Report
City of San José
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Special Assistance – Departments and Offices

City Attorney's Office
City Manager's Office
Environmental Services Department
Fire Department
Housing Department
Library Department
Norman Y. Mineta San José International Airport
Parks, Recreation & Neighborhood Services Department
Police Department
Public Works Department
Redevelopment Agency
Transportation Department

CITY OF SAN JOSE
FISCAL YEAR 2003-04
ANNUAL DEBT REPORT

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December 8, 2004

HONORABLE MAYOR AND CITY COUNCIL

THE ANNUAL DEBT REPORT
OF THE CITY OF SAN JOSE

I am pleased to present the 13th Annual Debt Report for the City of San José (the "Annual Report") for the fiscal year ended June 30, 2004. The Annual Report is submitted for review and approval by the Making Government Work Better Committee and the City Council in accordance with the City's Debt Management Policy which was approved by the City Council on May 21, 2002. This Annual Report covers Fiscal Year 2003-04 and discusses the activities undertaken and managed by the Debt Management Program, a section of the Debt and Risk Management Division within the Finance Department. The major sections in the Annual Report include:

- Overview of the City's Debt Management Program
- Summary of Recent Debt Issuance Activity
- Discussion of Key Debt Administration Tasks
- Review of the City's Outstanding Debt Portfolio

The discussions of debt management activities in the Annual Report only pertain to those activities managed by the City's Debt Management Program, while the section of the Annual Report reviewing the City's outstanding debt portfolio includes all debt issued by the City of San José, its Redevelopment Agency and various other financing authorities of which the City is a member.

The Debt Management Program is responsible for managing the debt issuance process for all City borrowings including the issuance and management of tax increment debt for the Housing Department's Expanded Housing Program. It should be noted that debt issued by the Redevelopment Agency for its Capital Improvement Program is administered separately by Redevelopment Agency staff.

In addition to the activities and programs described above, the Annual Debt Report also includes a review of Debt Management Policies, rating agency relations and credit maintenance issues, and a discussion of legislative and regulatory issues.

DEBT MANAGEMENT ACTIVITIES

Fiscal Year 2003-04 was the most active year for debt issuance in the City's history with respect to total par amount of bonds issued, totaling over $920 million in nineteen series of bonds for thirteen projects, and the establishment of a $98 million lease revenue commercial paper program. In addition to providing these services, Debt Management staff were also involved in a number of debt management projects during Fiscal Year 2003-04 including financial analysis related to the Airport Security Projects, examination and development of alternative financing approaches for affordable housing, exploration of financing structures for the acquisition of land for aviation purposes and confirmation of the City's outstanding long-term ratings of Aa1/AA+/AA+ in June 2004.

The debt calendar for Fiscal Year 2004-05 anticipates continued opportunities and challenges for the City with an estimated ten series of bonds to be issued during the year totaling approximately $433 million and an estimated $10 million expansion of the lease revenue commercial paper program. As of November 30, 2004, two of these series have already closed with an aggregate par amount of approximately $138.1 million. This activity is in addition to an outstanding debt portfolio of over $4.1 billion as of June 30, 2004, with 101 series of bonds outstanding for the City, Redevelopment Agency, and related entities.

Fiscal Year 2004-05 will continue to challenge the City's limited resources given the current economic climate. In addition to the eleven series of bonds anticipated during Fiscal Year 2004-05, other projects underway include: development and implementation of a website for the City's continuing disclosure requirements; use of the newly-established Disclosure USA website to transmit various annual continuing disclosure reports; and preparation of several requests for qualification (RFQs) for financial advisory and debt underwriting services for such pools that expire within the next fiscal year.

DECADE OF INVESTMENT

Despite the continuing economic challenges in the local economy, the City's commitment to the "Decade of Investment" continued in 2003-04 in which significant facilities were added in the City for the benefit of its residents and business community. The 2004-05 through 2008-09 Five-Year Capital Improvement Program (the "CIP") totals $3.51 billion. By continuing the City's commitment to the "Decade of Investment," the City's facilities infrastructure will be transformed. The major investments continue to be in facilities most often used by the public – parks, community centers, and libraries –

primarily as a result of the funding available from voter-approved bond measures with added emphasis on public safety and airport-related improvements.

A significant portion of the growth in revenue to fund the expanded capital improvement program comes from bond proceeds, with approximately 61% of the projects in the Five-Year CIP funded from bond proceeds. In addition to providing funds for CIP projects, the City also provides financing to support an aggressive affordable housing program. The Finance Department Debt Management staff continues to be a key partner with the Housing Department in providing viable financing plans to facilitate delivery of these necessary housing units to the community.

ACKNOWLEDGMENTS

The preparation of this Report represents the culmination of a concerted team effort by Debt Management staff of the Finance Department as well as special assistance and support from key departments and offices throughout the City. Of particular note is the special assistance the Finance Department's Debt Management Program receives on a continuous basis from the City Attorney's Office, especially the dedication of Danielle Kenealey and Ed Moran. Special recognition goes to Julia Cooper, Deputy Director of Finance, Debt and Risk Management, and David Persselin, Debt Administrator, who demonstrated personal determination to produce this exemplary document, and for their continued dedication in managing the daily operations of the Debt Management Program.

In addition, City departments who have participated in partnership with the Debt Management Program should be recognized for responding so positively to the requests for detailed information that are required for every debt issue, as well as for the information they provide to the Debt Management staff for the on-going management and monitoring required of the City's outstanding debt portfolio. The role of the City's Financial Advisors and Bond Counsels should also be acknowledged as a significant contribution to the City's success in its Debt Management Program, especially for the role they have played in helping to secure and maintain the City's excellent bond ratings.

Finally, I wish to express my sincere appreciation to the Mayor, City Council, and the City Manager, for providing leadership, policy direction and support in guiding the City to a secure, strong financial condition. Their leadership assures that financial resources are available through the City's Debt Management Program to provide capital facilities and affordable housing to the community.

Respectfully submitted,

SCOTT P. JOHNSON
Director of Finance

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

I. OVERVIEW

The Overview section of the Annual Debt Report includes a discussion of the Debt Management Program, Review of Debt Management Policies, Rating Agency Relations and Credit Maintenance, and Legislative and Regulatory Issues.

A. Debt Management Program

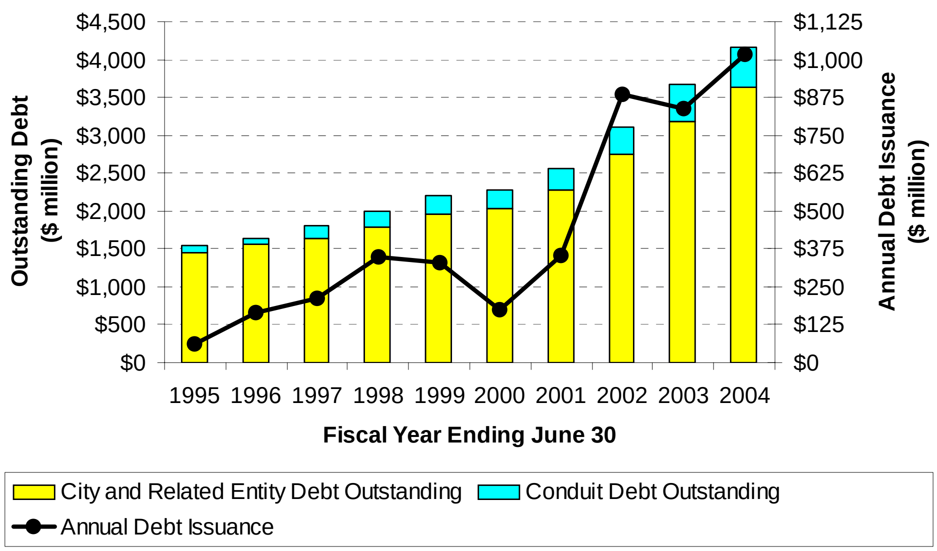
This section of the report provides an overview of debt issuance, debt administration and debt management projects for Fiscal Year 2003-04, including those debt management projects completed, currently underway or planned for Fiscal Year 2004-05.

1. Debt Issuance

The Debt Management Program, part of the Debt and Risk Management Division within the Finance Department, is responsible for managing the debt issuance process for all City borrowings. Fiscal Year 2003-04 was an active year for City and Redevelopment Agency debt issuance, with a total of nineteen series of bonds for thirteen projects totaling over $920 million, and the establishment of a $98 million lease revenue commercial paper program. The debt calendar for Fiscal Year 2004-05 projects an estimated ten series of bonds totaling approximately $433 million and an estimated $10 million expansion of the lease revenue commercial paper program. Through November 2004, two of these series have closed with an aggregate par amount of approximately $138 million.

The graph below illustrates the size of the City's debt portfolio and the dollar volume of debt issued in each of the last ten years.

City Debt Portfolio and Debt Issuance History
Fiscal Year 1994-95 through Fiscal Year 2003-04



2. Debt Administration

After debt has been issued, the Debt Management Program is responsible for managing and administering the debt portfolio. As part of the City's statutory compliance program, the Special Tax Annual Report has been incorporated into this Annual Debt Report as Appendix E. Section III of this report, Debt Administration, provides a detailed discussion of debt administration tasks performed by Debt Management staff.

3. Debt Management Projects

In addition to debt issuance and administration, the Debt Management Program serves in a financial advisory role to other City departments, and works on other projects as necessary.

a. Projects Completed During Fiscal Year 2003-04

<u>Financial Analyses to Support Airport Security Projects:</u> On April 1, 2003, the City Council approved the use of the existing $100 million commercial paper program established for the Airport to fund costs associated with the implementation of the requirements under the federal Aviation and Transportation Security Act (ATSA) (the "Airport Security Projects"). In May 2003, the City began issuing Series B commercial paper notes, which are subject to the Alternative Minimum Tax ("AMT"), to provide interim funding for the Airport Security Projects. A total of $34,450,801 of such Series B notes were issued between May 15, 2003, and May 13, 2004, and were repaid on June 29, 2004, from the Airport Series 2004C and Series 2004D bond proceeds.

Extensive financial analyses were undertaken by Debt Management, with the assistance of the Airport Master Plan Co-Financial Advisors and input from Airport staff, to determine the most cost-effective and appropriate timing for the repayment of the commercial paper notes and issuance of long-term debt to provide funding for the Airport Security Projects.

<u>Hayes Mansion Management Agreement</u>: Debt Management, along with other Finance Department staff, in coordination with the City Manager's Office, played an integral role in the solicitation, selection and agreement negotiation process to establish a new operator for the Hayes Mansion. The Management Agreement with Dolce International/San José, Inc. was approved by the City Council in December 2003.

In addition to the extensive work associated with bringing a new operator to the Hayes Mansion, significant effort was also expended to develop the transition plan which included a line of credit agreement with Comerica Bank-California and an agreement with Devcon Construction Incorporated to assume repayment of the principal of a loan made to Hayes Renaissance, L.P. Finance staff continues to be actively involved in the oversight of the operations of the Hayes Mansion.

Transition of Logitech Ice Centre Oversight to San José Arena Authority: Debt Management staff worked with the Office of Economic Development in the first quarter of the fiscal year to begin the transfer of the administration of the City's Lease and Management Agreement (the "Lease Agreement") for Logitech Ice Centre from City staff to the San José Arena Authority. In addition to a comprehensive review of the Lease Agreement, Debt Management staff conducted an analysis of the City's Community Facilities Revenue Fund as preparation for establishing a stand-alone fund at the beginning of FY 2004-05 for deposit and withdrawal of moneys related to the Ice Centre.

Alternative Financing Approaches for Affordable Housing: As part of the City's effort to provide more affordable housing, Debt Management staff coordinated a Workforce Housing presentation by representatives from Citigroup Global Markets, Inc., for the Housing Department in October 2003.

Debt Management staff worked with the California Debt Limit Allocation Committee (CDLAC), the Housing Department, and its Housing Department general financial advisor to develop a program whereby the City/Redevelopment Agency, along with other issuers in the state, can apply for a tax-exempt CDLAC private activity allocation for the issuance of tax allocation bonds to fund the City's loans for multifamily housing projects. These loans are currently funded from taxable bond proceeds. The use of tax-exempt bond proceeds for these loans will result in the ability to fund approximately 110 to 120 additional affordable housing units. This new program was approved by CDLAC on July 21, 2004.

Parking System Bonding Capacity Analysis: During the second quarter of the fiscal year, Debt Management staff assisted the Department of Transportation in developing a debt capacity analysis of the City Parking Fund. The results of the analysis were presented to Council in October 2003, along with recommendations for prioritizing projects within the Parking Capital Program.

Land Acquisition for Airport and City Use: During Fiscal Year 2003-04, Debt Management worked closely with the Office of Economic Development in the exploration of financing structures and options available for the purpose of acquiring the FMC property on Coleman Avenue. In May 2004, the City Council directed staff to negotiate an agreement with FMC and to return with the final agreement for Council approval. On August 17, 2004, the City Council approved the purchase agreement with FMC which included the development of a financing plan for acquiring approximately 52 acres for aviation purposes through issuance of lease revenue bonds and approximately 23 acres financed through a HUD Section 108 loan.

Evergreen Smart Growth Strategy: In December 2003, Debt Management began to work with Public Works and Planning in support of the Evergreen Smart Growth Strategy. Debt Management participates on the Technical Advisory Committee as the Finance representative. In March 2004, Debt Management initiated a Request for Qualifications process to obtain the services of a Special Tax Consultant to assist the City in determining the borrowing capacity of the properties involved in the strategy. In May 2004, MuniFinancial was selected to serve as Special Tax Consultant to the City.

IRS Audits of Multifamily Housing Revenue Bonds: The IRS recently launched a new audit program for Multifamily Housing Revenue Bonds. Two City of San José projects were randomly selected to be part of the initial pilot testing of the audit program: the North White Road Apartments (Series 2001F) and The Gardens Apartments (Series 1999A and Series 1999B). Debt Management worked with the developers and the Housing Department in compiling the requested information and transmitting it to the IRS. The IRS conducted a walk-through inspection of the North White Road Apartments in July 2003, and in February 2004 the IRS notified the City that it has closed the examination and concluded that interest on the North White Road bonds is tax-exempt. The IRS conducted a walk-through inspection of the Gardens Apartments in May 2004, and the City has subsequently responded to two additional requests for information. To date, the City has not received the final IRS audit finding with respect to The Gardens project.

Affordable Housing Project Credit Enhancement Substitutions: In Fiscal Year 2003-04, Debt Management assisted the Housing Department and affordable housing developers in obtaining substitute credit enhancement for the projects summarized below.

Somerset Park Credit Enhancement Substitution – The Somerset Park Apartments Multifamily Housing Revenue Bonds Series 1987A were issued in 1987 to provide financing for a 128-unit housing project. The bonds were credit enhanced with a letter of credit from Bank of America. On June 24, 2003, City Council approved the substitution of the Bank of America letter of credit with a credit facility from Fannie Mae. The transaction closed on July 31, 2003.

Fairway Glen & Foxchase Drive Credit Enhancement Substitutions – The Fairway Glen and Foxchase Drive Apartments Multifamily Housing Revenue Bonds Series 1985A and 1985B were issued in 1985 to provide financing for the development of two 144-unit housing projects. In 1994 the bonds were remarketed with credit enhancement and liquidity support provided by Financial Guarantee Insurance Corporation ("FGIC"). The term of the liquidity support was to expire at the end of February 2004, and the term of the credit enhancement was to expire at the end of March 2004. On January 13, 2004, City Council approved the substitution of the FGIC credit enhancement and liquidity support with a credit enhancement agreement from Fannie Mae. The transaction closed on February 25, 2004.

Debt Policies: During Fiscal Year 2003-04, staff collected background information on derivative debt instruments and exemplar policies from other municipal issuers as an initial step in developing a City derivatives policy.

Affordable Housing Project TEFRA Hearings: The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 requires a published notice, public hearing and approval by elected officials for issuance of qualified private activity bonds such as multifamily housing revenue bonds. The City's Policy for the Issuance of Multifamily Housing Revenue Bonds, adopted by Council in June 2002, and San José Municipal Code Chapter 5.06 specify that the TEFRA hearing for multifamily housing projects be held before the Director of Finance. In Fiscal Year 2003-04, the Finance Department held hearings for five projects:

Finance Director's TEFRA Hearings for Multifamily Housing Projects
Fiscal Year 2003-04

Date	Project	Amount	Issuer
11/20/2003	Almaden Plaza/ Twin Trees Apartments	$ 9,000,000	CA Statewide Communities Dev't. Authority (CSCDA)
01/09/2004[1]	Fairway Glen Apartments	9,580,000	City of San José
01/09/2004[1]	Foxchase Drive Apartments	9,600,000	City of San José
02/09/2004[2]	Vintage Tower Apartments	6,000,000	City of San José
02/09/2004	Delmas Park Apartments	20,000,000	City of San José

1 Bonds were previously issued, but a maturity extension in conjunction with a credit enhancement substitution necessitated a hearing.
2 An initial hearing occurred on April 25, 2003, but a second hearing was held because the hearing must occur within one year of the bond closing, which took place on June 28, 2004.

b. Projects for Fiscal Year 2004-05

Investment Broker/Advisor Pool for Investment of Bond Proceeds: To facilitate and expedite the investment of bond proceeds derived from new bond financings, Debt Management staff circulated a Request for Qualifications to establish an Investment Broker/Advisor pool in June 2004. In addition to establishing a pool of advisors, the selection process included selection and assignment of an advisor to assist with investment of the 2004 Airport Revenue Bond proceeds.

Evergreen Smart Growth Strategy: In July 2004, Debt Management conducted the first monthly Developer Support meeting. These meetings were established to bring a smaller group (smaller than the full Technical Advisory Committee) of City staff and developer consultants together to encourage sharing of data among the respective consultants. It is anticipated that Developer Support meetings will continue throughout the life of the financing project. The Debt Management division also plans to procure an appraiser who, under the CDIAC guidelines for land-secured financings, will conduct a preliminary appraisal of the properties involved in the project to estimate bonding capacity.

Housing Department Bonding Capacity Analysis: During the first quarter of Fiscal Year 2004-05, Debt Management assisted the Housing Department in evaluating the impact of recent reductions in redevelopment tax increment revenue on the ability of the City to achieve its affordable housing goals. The analysis resulted in identification of a level of housing set-aside tax allocation bond issuance that would maximize near-term housing production while preventing over-extension of the Housing Department's bonding capacity.

Affordable Housing Project Ongoing Administration: In Fiscal Year 2004-05, Debt Management is assisting the Housing Department and affordable housing developers in activities related to the ongoing administration of affordable housing projects financed with multifamily housing revenue bonds.

Fairway Glen Transfer of Ownership – The Fairway Glen Apartments project, financed in part with Multifamily Housing Revenue Bonds, Series 1985A, is being sold by the current owner, Avalon, to Fairfield Residential LLC. As the bond issuer, the City of San José is required to approve the acquisition and the assumption of the bond obligations.

Ohlone-Chynoweth Credit Enhancement Substitution – The Ohlone-Chynoweth Apartments Multifamily Housing Revenue Bonds Series 1999A and taxable 1999B were issued in 1999 to provide financing for the development of a 195-unit housing project. In July 2003, the developer was informed that the current letter of credit bank (Bay View Bank, N.A.) intended to dissolve on September 30, 2003. The letter of credit was assumed by Bay View Capital Corporation ("BVCC") effective October 1, 2003. Since BVCC wishes to exit the letter of credit business, staff anticipates moving forward with a credit enhancement substitution in mid-2005.

Affordable Housing Project TEFRA Hearings: In Fiscal Year 2004-05, the Finance Department has held hearings for four projects:

Finance Director's TEFRA Hearings for Multifamily Housing Projects
Fiscal Year 2004-05 through November 2004

Date	Project	Amount	Issuer
07/29/2004	Story Road Family Apartments (formerly Sunny Apartments)	$ 4,000,000	CA Statewide Communities Dev't. Authority (CSCDA)
09/27/2004	Curtner Gardens Apartments	9,000,000	City of San José
10/18/2004	Raintree Apartments (formerly Shadowbrook Gardens)	24,000,000	City of San José
10/18/2004	Tax Allocation Bonds, Series 2005L and 2005M	125,000,000	The Redevelopment Agency of the City of San José

Debt Policies: During Fiscal Year 2004-05, work is anticipated to continue on program-specific policies for land secured financings and for the use of derivative debt instruments, to the extent workload and staffing levels permit. These policies will be brought forward to the City Council as they are developed.

Technology Projects: In Fiscal Year 2004-05, Debt Management will continue to pursue its investor relations and disclosure website, Debt Management database, and electronic document storage projects, subject to resource and staff availability. Debt Management will also make use of the newly-established Disclosure USA website to transmit annual reports required under various continuing disclosure agreements.

B. Review of Debt Management Policies

On May 21, 2002, City Council adopted by Resolution #70977 a Debt Management Policy which establishes the following equally important objectives:

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

The general Debt Management Policy establishes parameters for when and how the City may enter into debt obligations, but permits sufficient flexibility to allow the City to take advantage of opportunities that may arise. As outlined in the Debt Management Policy, it is to be reviewed annually by the Finance Department to ensure its consistency with respect to the City's debt management objectives. The annual review has been conducted and no amendments or changes to the Debt Management Policy are recommended at this time.

In addition, the Council approved by Resolution #71023 on June 11, 2002, a supplemental Policy for the Issuance of Multifamily Housing Revenue Bonds. Among its other provisions, the Policy specifies that the bonds for any project that utilizes City funds must be issued by the City.

In Fiscal Year 2003-04, the City granted the following three exceptions to the Multifamily Housing Revenue Bonds Policy.

Almaden Plaza/Twin Trees Apartments – This project does not have City loans or grants. The developer, KDF, worked with CSCDA on three other transactions throughout California and requested that CSCDA serve as the issuer for this project in order to take advantage of economies of scale by maintaining the same financing team.

Fairgrounds Family Housing – The City has approved loans of up to $8,378,250 for this project to the County of Santa Clara and the Housing Authority of the County of Santa Clara. Instead of issuing multifamily housing revenue bonds to finance a portion of the project costs, the County will be obtaining a loan from the California Housing Finance Agency (CalHFA).

Fairgrounds Family Apartments – The City has approved loans of up to $10,856,800 for this project to the County of Santa Clara and ROEM Development Corporation. Instead of issuing multifamily housing revenue bonds to finance a portion of the project costs, the County and ROEM will be obtaining a loan from the California Housing Finance Agency (CalHFA).

C. Rating Agency Relations and Credit Maintenance

1. Credit Analysis Process

Municipal bond ratings provide investors with a simple way to compare the relative investment quality of different bonds. Bond ratings express the opinions of the rating agencies as to the issuers' ability and willingness to pay debt service when it is due. In general, the credit rating analysis includes the evaluation of the relative strengths and weaknesses of the following four factors as they affect an issuer's ability to pay debt service:

a. Fiscal Factors

Financial results have the most significant impact on the rating process. This review involves an examination of results of operations, including a review of the actual fiscal performance versus planned budget performance, with deviations from the plan to be explained. The general fund financial statement is examined with emphasis on current financial position and fund balances, as well as three- to five-year trends in planning and budgeting procedures. Pension liabilities are also important in the analysis process. The early production of the City's Comprehensive Annual Financial Report is a positive step in providing meaningful, valuable and timely information to the rating agencies.

b. Economic Factors

The overall economic strength of the City is heavily weighted in the evaluation of the City's creditworthiness by diversity of both the economic base and tax base. The diversity of the City's industries reflects its ability to weather industry-specific downturns as well as general economic recession. In either scenario, stronger surviving industries carry the ailing industries through the period of downturn. In a truly diverse economy, it is rare that all industries will deteriorate to the same level at the same time.

The strength of the City's tax base is equally crucial. The City relies on taxes on its residents and businesses for the majority of its revenues. The ability of the City to continue to receive those revenues is directly related to the ability of its taxpayers to pay their taxes. Property values, employment, unemployment, income levels, costs of living, and other factors impacting the wealth of the taxpayers provide an indication of the strength of the City's tax base.

c. Debt Factors

The City's overall debt burden is considered in the credit analysis process. In addition to government regulated debt ceilings, the City's ability to maintain manageable debt levels and debt service coverage is evaluated. Positive indicators are proper management of existing debt, proactive efforts in identifying and executing financially prudent refunding opportunities, and closely matching capital financing structures to the funding needs of the project.

d. Administrative/Management Factors

These factors include the examination of the form of government and assessment of the City's ability to implement plans as well as to fulfill legal requirements. The focus is on the capabilities of the management staff within the City, which is seen as a vital ingredient in assessing its credit quality. Managerial and legislative willingness to make difficult decisions, development of financial policies, and the reliability and continuity of regularly-updated accounting and financial information are key. Management that keeps in regular contact with the rating agencies is well-regarded.

As part of the credit analysis process, the rating agencies look at several quantitative indicators. The table below provides a summary of San José's key debt indicators in comparison with corresponding medians for California cities with AA-category general obligation bond ratings. The California city medians are derived from Fiscal Year 2001-02 data reported by Moody's Investors Service, the most recent year for which Moody's has published medians. The City of San José ratios are based on non-self-supporting debt with recourse to the City's General Fund as of June 30, 2004.

Comparison of Rating Agency Medians to City of San José Debt Ratios
As of June 30, 2004

	Rating Agency Median[1]	City of San José[2]
Net Direct Debt		
Per Capita ($)	$577.8	$514.8
As a % of Assessed Value	0.3%	0.5%
Net Lease Burden		
5-Year Average of Annual Lease Payments as a % of Current General Fund Revenue	2.6%	4.1%

[1] Comparison to AA-category California cities.
[2] Lease burden ratio net of debt service payments made from capitalized interest.
Source: Medians for California Cities: Fiscal 2002, Moody's Investors Service, January 2004.

As illustrated in the table, the City is below the AA-category California city median for net direct debt per capita, but above the medians for net direct debt as a percentage of assessed value and net lease burden. Note that capitalized interest for the City of San José Financing Authority Lease Revenue Bonds, Series 2002 (Civic Center Project), ends in April 2006. At that time, the net lease burden will correspondingly increase. The terms used in the table are defined below.

<u>Net Direct Debt</u>: Tax-supported debt, net of self-supporting and revenue anticipation debt. Includes the City's non-self-sustaining lease revenue debt. Excludes the City's general obligation and special assessment/tax bonds, which are paid from voter-approved special assessments or taxes, lease revenue bonds paid from non-general fund sources, and the airport, parking and sewer revenue bonds, which are limited obligations of those enterprise funds. Also excludes redevelopment tax allocation debt.

<u>Net Lease Burden</u>: Average scheduled annual payment in the five years following the audit year for all outstanding lease obligations (excluding leases which are self-supporting from non-general fund sources) combined, divided by total general fund revenues and other sources of funds for the audit year.

2. Rating Summary

The four factors described above were instrumental in the City receiving its general obligation bond ratings from the three major rating agencies: Aa1 from Moody's; AA+ from Standard & Poor's; and AA+ from Fitch. These ratings, initially assigned in February 2001 and reconfirmed in June 2004, place San José in the second highest rating category (only one "notch" below Aaa/AAA/AAA), ranking it higher than the State of California and the County of Santa Clara, and making it the highest-rated large city in California. The ratings for the City's general obligation, lease revenue, and enterprise debt are summarized in Appendix A.

3. Legal Debt Margins

Section 1216 of the San José City Charter limits outstanding general obligation bonds of the City to 15% of the total assessed value of all real and personal property within the City limits. General obligation debt is debt secured by the City's property tax revenues. According to the City's Fiscal Year 2003-04 Comprehensive Annual Financial Report, based on the Fiscal Year 2003-04 assessed valuation of $92.415 billion, the City's legal debt limit is approximately $13.862 billion. As of June 30, 2004 the City had approximately $178.4 million in general obligation debt outstanding, representing 0.19% of the assessed value of taxable property; therefore the City's debt margin was $13.684 billion (debt limit less outstanding general obligation debt).

D. Legislative and Regulatory Issues

Debt Management reviews legislative referrals at the request of the Office of Intergovernmental Relations. It is important that bills bearing on the City's ability to access the capital markets are tracked through the legislative process to ensure that the City's position is expressed to members of the State Legislature or Congress. Various Federal tax reform legislation proposals are periodically considered and debated, such as the taxability of corporate dividends, flat tax and elimination of tax exemption on municipal bonds. These proposals, if enacted, could result in higher borrowing costs for the City.

It is also important for the City to monitor regulatory changes proposed by governmental agencies such as the IRS, the Securities and Exchange Commission ("SEC") and the Municipal Securities Rule Making Board ("MSRB"), as well as industry organizations such as the National Association of Bond Lawyers ("NABL"), the National Federation of Municipal Analysts ("NFMA"), the National Association of State Auditors, Comptrollers and Treasurers ("NASACT") and the Government Finance Officers Association ("GFOA").

II. DEBT ISSUANCE

A. Debt Issued During Fiscal Year 2003-04

Fiscal Year 2003-04 was an active year for City and Redevelopment Agency debt issuance, with a total of nineteen series of bonds for thirteen projects totaling over $920 million, and the establishment of a $98 million lease revenue commercial paper program. These financings are described below and are presented in the summary table at the end of this section.

Redevelopment Agency of the City of San José Housing Set-Aside Tax Allocation Bonds, Taxable Series 2003J and Series 2003K

On July 10, 2003, the Redevelopment Agency issued $55,265,000 of Series 2003J (taxable) and $13,735,000 of Series 2003K housing set-aside tax allocation bonds (the "Refunding Bonds"). The bond proceeds were used to current refund the Agency's Series 1993A and Series 1993C housing set-aside tax allocation bonds and advance refund the Agency's Series 1993B housing set-aside tax allocation bonds (collectively, the "Refunded Bonds"), repay $12,635,000 of the existing $50,000,000 line of credit with Bank of New York and fund additional affordable housing projects. The Series 2003J bonds bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2024. The Series 2003K bonds bear interest at fixed rates ranging from 2.00% to 4.45%, and have a final maturity date of August 1, 2029.

The Series 1993A and Series 1993B Bonds were redeemed on August 1, 2003, and the Series 1993C Bonds were redeemed on February 1, 2004. The refunding achieved economic savings in the following amounts:

Economic Savings Achieved by Housing Set-Aside Tax Allocation Bond Refunding
Series 2003J (taxable) and Series 2003K

	Series 1993A	Series 1993B	Series 1993C
Aggregate Debt Service Savings (net available funds)	$1,000,670	$1,812,139	$2,406,140
Net Present Value (NPV) Debt Service Savings	$1,446,800	$1,078,949	$2,664,083
NPV Savings as a Percentage of Refunded Principal	11.03%	13.78%	13.20%

City of San José CFD No. 10 (Hassler – Silver Creek), Special Tax Bonds, Series 2003

On July 23, 2003, the City issued $12,500,000 of special tax bonds to finance the acquisition of certain roadway improvements necessitated by development in the Silver Creek area. The bonds are secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 10 ("CFD No. 10"). The CFD No. 10 bonds bear interest at fixed rates ranging from 3.30% to 5.25%, and have a final maturity date of September 1, 2023.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Revenue Bonds (Subordinate Tax Allocation), Series 2003A (Taxable) and Series 2003B

On August 27, 2003, the Redevelopment Agency issued $45,000,000 of Series 2003A (taxable) and $15,000,000 of Series 2003B revenue bonds. The bond proceeds were used to finance redevelopment activities within the Agency's Merged Area Redevelopment Project. Debt service is payable on a subordinate basis from the Agency's tax increment revenues. The Series 2003A bonds were issued as variable rate securities, bearing interest initially at a weekly rate, and have a final maturity of August 1, 2028. The Series 2003B bonds were also issued as variable rate securities, bearing interest initially at a weekly rate, and have a final maturity of August 1, 2032.

City of San José Financing Authority Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project)

On September 18, 2003, the City of San José Financing Authority issued $22,625,000 of Series 2003A lease revenue bonds. The bond proceeds were used to current refund the Authority's Series 1993D lease revenue bonds issued to acquire and construct the City's Central Service Yard. The Series 2003A bonds, which are insured by Ambac, bear interest at fixed rates ranging from 3.00% to 4.70%, and have a final maturity date of October 15, 2023.

The refunded bonds were redeemed on October 20, 2003. This refunding achieved approximately $1,621,473 in aggregate debt service savings net of available funds, and net present value debt service savings of $987,721, which is 4.45% of the refunded principal.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2003

On December 22, 2003, the Redevelopment Agency issued $135,000,000 of Series 2003 tax allocation bonds. The bond proceeds were used to finance multiple redevelopment projects within the Agency's Merged Area Redevelopment Project. Debt service is payable from the Agency's tax increment revenues. The Series 2003 bonds, which are insured by Financial Guaranty Insurance Company, bear interest at fixed rates ranging from 3.00% to 5.00%, and have a final maturity date of August 1, 2033.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2004A

On May 27, 2004, the Redevelopment Agency issued $281,985,000 of Series 2004A tax allocation bonds. The bond proceeds were used to current refund a portion of the Agency's Series 1993 tax allocation bonds and advance refund portions of the Agency's Series 1993, Series 1997, Series 2002, and Series 2003 tax allocation bonds (collectively, the "Partially Refunded Bonds"). Debt service is payable from the Agency's tax increment revenues. The Series 2004A bonds, the majority of which are insured by MBIA, bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2019.

This refunding achieved approximately $12,044,204 in aggregate debt service savings net of available funds, and net present value debt service savings of $10,407,236, which is 3.63% of the refunded principal.

City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2004A (Ice Centre of San José Expansion Project)

On June 3, 2004, the City of San José Financing Authority issued $9,225,000 of Series 2004A taxable lease revenue bonds. The bond proceeds are being used to expand and renovate portions of the City's Logitech Ice Centre of San José. Debt service on the bonds will be paid from base rental payments received by the City from the Ice Centre operator, San Jose Arena Management, LLC. The Series 2004A Bonds, which are insured by MBIA, were issued as auction rate securities, accruing interest at auction rates for successive 28-day auction periods, and have a final maturity date of December 1, 2024.

City of San José Airport Revenue Bonds, Series 2004A (AMT), Series 2004B (AMT), Series 2004C (AMT), and Series 2004D (Non-AMT)

On June 24, 2004, the City issued $250,000,000 in four series of airport revenue bonds, consisting of $70,000,000 of Series 2004A, $70,000,000 of Series 2004B, $75,730,000 of Series 2004C, and $34,270,000 of Series 2004D (together, the "2004 Bonds"). The proceeds of the 2004 Bonds are to be expended on (including the redemption of commercial paper notes issued to pay) a portion of the costs of designing and constructing certain security-related capital improvements at the Norman Y. Mineta San José International Airport. Debt service on the 2004 Bonds will be paid from General Airport Revenues and certain other funds. The 2004 Bonds are insured by MBIA.

The Series 2004A Bonds were issued as auction rate securities, accruing interest at auction rates for successive 7-day auction periods, and have a final maturity of June 1, 2034. The Series 2004B Bonds were issued as auction rate securities, accruing interest at auction rates for successive 35-day auction periods, and have a final maturity of June 1, 2034. The Series 2004C Bonds bear interest at fixed rates ranging from 4.625% to 5.25%, and have a final maturity date of March 1, 2026. The Series 2004D Bonds bear interest at a fixed rate of 5.00% and have a final maturity date of March 1, 2028.

A note repayment fund for the Series B commercial paper notes, in the amount of $34,450,801, was funded from a combination of Series 2004C and Series 2004D Bonds net proceeds. All of the Series B commercial paper notes were redeemed on June 29, 2004.

City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Notes

On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed $98,000,000. This commercial paper program was established as a mechanism for financing public improvements of the City including the offsite parking garage for the new City Hall and non-construction costs for technology, furniture, equipment and relocation services for the new City Hall.

Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and additionally secured by a letter of credit provided by State Street Bank and Trust Company and the California State Teachers' Retirement System (CalSTRS).

On June 30, 2004, $22,673,000 of Authority commercial paper notes was outstanding at interest rates ranging from 1.02% to 1.20%.

City of San José, California, San José International Airport Subordinated Commercial Paper Notes, Series A (Non-AMT), Series B (AMT), and Series C (Taxable)

On November 2, 1999, the City Council adopted a resolution authorizing the issuance of City of San José, San José International Airport subordinated commercial paper notes in several series in an amount not to exceed $100,000,000. The commercial paper program was established to provide an interim source of financing for the initial capital projects in the Airport Master Plan until a permanent financing plan was finalized and implemented. Subsequently, on November 19, 2002, the City Council authorized use of the commercial paper program to fund costs associated with the Airport's Series 2002A Revenue Refunding Bonds, and on April 1, 2003, the City Council authorized use of the commercial paper program to fund costs associated with implementation of the requirements under the federal Aviation and Transportation Security Act (ATSA).

Under this program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper is secured by a subordinate pledge of the Airport's revenues and additionally secured by a letter of credit provided by JPMorgan Chase Bank.

On June 29, 2004, all $34,400,000 of outstanding Series B (subject to alternative minimum tax) commercial paper notes were refunded with a portion of the proceeds of the Series 2004C and Series 2004D Airport Revenue Bonds. On June 30, 2004, $5,786,000 of Series C (taxable) commercial paper notes were outstanding at an interest rate of 1.40%.

Multifamily Housing Revenue Bonds

Federal tax law limits the amount of tax-exempt private activity debt that may be issued. Prior to financing multifamily housing projects on a tax-exempt basis, these projects must receive an allocation of the State's private activity volume cap. The City received allocations from the California Debt Limit Allocation Committee ("CDLAC") and completed financings for the following five projects.

Multifamily Housing Revenue Bonds Issuance Summary
Fiscal Year 2003-04

Project Name	Date Issued	Amount Issued	Affordable Units
The Oaks of Almaden Apartments	07/29/2003	$ 8,350,000	126
Cinnabar Commons Apartments	08/07/2003	25,900,000	245
Almaden Family Apartments	11/14/2003	31,300,000	225
Trestles Apartments (2 series)	03/04/2004	8,625,000	71
Aspen Vintage Tower Apartments	06/28/2004	5,500,000	59
Totals		$79,675,000	726

Summary of Debt Issued During Fiscal Year 2003-04

The table on the following pages presents a summary of debt issued in Fiscal Year 2003-04.

Summary of Debt Issuance
Fiscal Year 2003-04

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
07/10/2003	RDA 2003J (Taxable) Housing Set-Aside	$55.265	Tax Allocation Refunding/New $	Competitive	Kitahata & Company	Jones Hall	Stone & Youngberg	XL Capital Assurance
07/10/2003	RDA 2003K Housing Set-Aside	$13.735	Tax Allocation Refunding/New $	Competitive	Kitahata & Company	Jones Hall	Prudential Securities	XL Capital Assurance
07/23/2003	CSJ 2003 CFD No. 10 Hassler-Silver Creek	$12.500	Special Tax	Competitive	Kelling, Northcross & Nobriga	Quint & Thimmig	Citigroup	None
07/29/2003	CSJ 2003B Oaks of Almaden	$8.350	Multifamily Housing	Private Placement	E. Wagner & Associates	Nixon Peabody	N/A	None
08/07/2003	CSJ 2003C Cinnabar Commons	$25.900	Multifamily Housing	Negotiated	Ross Financial	Orrick, Herrington & Sutcliffe	UBS Financial Services	Freddie Mac[1]
08/27/2003	RDA 2003A (Taxable) Merged Area	$45.000	Tax Allocation	Negotiated	Kitahata & Company	Jones Hall	JPMorgan	JPMorgan Chase Bank[2]
08/27/2003	RDA 2003B Merged Area	$15.000	Tax Allocation	Negotiated	Kitahata & Company	Jones Hall	Banc of America	JPMorgan Chase Bank[2]
09/18/2003	CSJFA 2003A Central Service Yard	$22.625	Lease Revenue Refunding	Competitive	RBC Dain Rauscher	Jones Hall	Citigroup	Ambac
11/14/2003	CSJ 2003D Almaden Family	$31.300	Multifamily Housing	Negotiated	E. Wagner & Associates	Sidley, Austin, Brown & Wood	Newman & Associates	Fannie Mae
12/22/2003	RDA 2003 Merged Area	$135.000	Tax Allocation	Competitive	Stone & Youngberg	Jones Hall	Citigroup	FGIC
01/13/2004	CSJFA Commercial Paper Program	$98.000	Lease Revenue Commercial Paper	Negotiated	Public Resources Advisory Group	Jones Hall	Lehman Brothers	State Street/ CalSTRS[3]

(continued on next page)

Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority; RDA-Redevelopment Agency of the City of San José.

[1] Credit enhancement provided through a Bank of America letter of credit during the construction period.

[2] JPMorgan Chase Bank is providing liquidity support through a direct-pay letter of credit.

[3] State Street Bank and CalSTRS are providing liquidity support to the lease revenue commercial paper program.

Summary of Debt Issuance

Fiscal Year 2003-04 (continued)

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
03/04/2004	CSJ 2004A Trestles Apartments	$7.325	Multifamily Housing	Negotiated	Ross Financial	Jones Hall	E.J. De La Rosa	Freddie Mac
03/04/2004	CSJ 2004A-S Trestles Apartments	$1.300	Multifamily Housing	Private Placement	Ross Financial	Jones Hall	N/A	None
05/27/2004	RDA 2004A Merged Area	$281.985	Tax Allocation Refunding	Negotiated	Ross Financial	Jones Hall	JPMorgan	MBIA
06/03/2004	CSJFA 2004A Ice Centre Expansion	$9.225	Lease Revenue (Taxable)	Negotiated	Public Resources Advisory Group	Jones Hall	Bear Stearns	MBIA
06/24/2004	CSJ 2004A (AMT) Airport Security Projects	$70.000	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	Citigroup	MBIA
06/24/2004	CSJ 2004B (AMT) Airport Security Projects	$70.000	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	Lehman Brothers	MBIA
06/24/2004	CSJ 2004C (AMT) Airport Security Projects	$75.730	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	Citigroup/ Lehman Brothers	MBIA
06/24/2004	CSJ 2004D Airport Security Projects	$34.270	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	Citigroup/ Lehman Brothers	MBIA
06/28/2004	CSJ 2004B Aspen Vintage Tower	$5.500	Multifamily Housing	Private Placement	Ross Financial	Hawkins, Delafield & Wood	N/A	None
FY 2003-04	**20 Series**	**$1,018.010**						

Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority; RDA-Redevelopment Agency of the City of San José.

B. Debt Issued and Planned for Fiscal Year 2004-05

The Debt Management Program has identified eight financing projects which are expected to result in issuance of ten series of bonds and expansion of the lease revenue commercial paper program by the end of Fiscal Year 2004-05. Through November 2004, two series of bonds have closed with an aggregate par amount of $138.1 million. These financings are briefly described below and are presented in the summary table at the end of this section. The information presented relating to the financings in progress should be considered preliminary and used for discussion and planning purposes only.

1. Completed Financings

City of San José General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety Projects)

The City issued $118,700,000 of Series 2004 general obligation (GO) bonds on July 14, 2004. The proceeds will be used to fund $58,300,000 of library projects, $46,000,000 of neighborhood parks and recreation projects, and $14,400,000 of public safety projects. Debt service on the Series 2004 bonds is payable from ad valorem taxes levied upon all property subject to taxation by the City. The Series 2004 bonds bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of September 1, 2034.

As of June 30, 2004, the City had issued $187.09 million in GO bonds of which $184.72 million remained outstanding. The table below summarizes the various voter authorizations for GO bonds, the amount of GO bonds issued to date and the amount authorized but unissued as of November 30, 2004.

Date of Election	Projects	Amount Authorized	Amount Issued to Date	Amount Authorized but Unissued
11/07/2000	San José Neighborhood Libraries Bonds	$211,790,000	$119,300,000	$92,490,000
11/07/2000	San José Neighborhood Parks and Recreation Bonds	228,030,000	132,715,000	95,315,000
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	159,000,000	53,775,000	105,225,000
Total		$598,820,000	$305,790,000	$293,030,000

City of San José General Obligation Bonds Summary
As of November 30, 2004

Multifamily Housing Revenue Bonds

The City received an allocation from the California Debt Limit Allocation Committee ("CDLAC") and completed the financing for the following project.

Multifamily Housing Revenue Bonds Issuance Summary
Fiscal Year 2004-05 through October 2004

Project Name	Date Issued	Amount Issued	Affordable Units
Delmas Park Apartments (2 series)	10/15/04	$ 19,379,000	122

2. Planned Financings

Debt Management staff anticipates completing financings for the following six projects during the remainder of Fiscal Year 2004-05.

Land Acquisition Lease Revenue Bonds

Debt Management staff are partnering with Economic Development, Airport and Attorney's Office staff in implementing a financing for the acquisition of land adjacent to the Norman Y. Mineta San José International Airport (the "FMC Property"). A portion of the land is anticipated to be used for aviation purposes, including construction staging and parking. The financing plan includes issuance of lease revenue bonds, with payments received from the Airport supporting debt service, and a HUD Section 108 loan secured by the City's Community Development Block Grant (CDBG) revenues. It is anticipated two series of bonds will be issued in an estimated aggregate par amount of

$80 million. On November 30, 2004, the City Council and Authority Board held a TEFRA hearing and a public hearing with respect to the issuance of lease revenue bonds for the acquisition of and improvements to the FMC Property. It is anticipated that the City Council and Authority Board will consider approval of these lease revenue bonds in January 2005 and, if approved, the lease revenue bond portion of this financing will close in February 2005.

Expansion of City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Program

On November 9, 2004, the City Council and the City of San José Financing Authority Board approved the use of the City's existing lease revenue commercial paper program as a means to finance the purchase, installation, and integration of an Integrated Utility Billing, Customer Service and Performance Management System ("CUSP"). In early 2005, city staff will bring the necessary documents to the Council/Authority Board for approval to expand the capacity of the City of San José Financing Authority tax-exempt lease revenue commercial paper program by approximately $10 million (the estimated cost of the CUSP project).

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds

On October 1, 2004 the City of San José on behalf of the Redevelopment Agency of the City of San José submitted a CDLAC application for qualified private activity bonds in the amount of $75.315 million. The CDLAC allocation meeting is scheduled for December 15, 2004. If approved by CDLAC, the bond proceeds will be used to repay draws on the $50 million Housing Department Line of Credit and to fund additional affordable housing projects. In addition to the uses subject to CDLAC's allocation of private activity volume cap, this series of tax allocation bonds will also be used to refund the Agency's outstanding $10.525 million of Housing Set-Aside Revenue Bonds, Series 1993D. Issuance of the bonds is expected in spring 2005. This will be one of the first issuances under CDLAC's new program to allow for the issuance of private-activity tax-exempt tax allocation bonds to fund loans to affordable housing projects.

General Obligation Bond Series 2005 (Libraries, Parks and Public Safety)

The City plans to issue another series of general obligation bonds in June 2005. The proceeds of those bonds would be used to fund a portion of the libraries, parks, and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.

Multifamily Housing Revenue Bonds

In September 2004, the City submitted an application to CDLAC on behalf of the following project, with allocation scheduled to be awarded on December 15, 2004:

- Raintree (formerly Shadowbrook Gardens) Apartments ($21.1 million, 174 affordable units)

The Housing Department, with the assistance of Debt Management staff, is currently working with a developer on an application to be submitted to CDLAC in early 2005 for the following project:

- Curtner Gardens Apartments ($9 million, 180 affordable units)

The table on the following page presents a summary of debt which the City has either issued or plans to issue during Fiscal Year 2004-05.

Summary of Completed and Planned Debt Issuance

Fiscal Year 2004-05

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
07/14/2004	CSJ 2004 Libraries, Parks & Public Safety	$118.700	General Obligation	Competitive	RBC Dain Rauscher	Sidley, Austin, Brown & Wood	Goldman, Sachs & Co.	MBIA[1]
10/15/2004	CSJ 2004C-1 Delmas Park	$13.780	Multifamily Housing	Private Placement	Ross Financial	Quint & Thimmig	N/A	None
10/15/2004	CSJ 2004C-2 Delmas Park	$5.599	Multifamily Housing	Private Placement	Ross Financial	Quint & Thimmig	N/A	None
February 2005	CSJFA Commercial Paper Program	$10.000	Lease Revenue Commercial Paper	Negotiated	Public Resources Advisory Group	Jones Hall	Lehman Brothers	State Street/ CalSTRS[2]
February 2005	CSJ 2005A Raintree Apartments	$21.100	Multifamily Housing	Negotiated	Ross Financial	Jones Hall	E.J. De La Rosa	Freddie Mac[3]
February 2005	CSJFA 2005A (Taxable) Land Acquisition	$53.280	Lease Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	Lehman Brothers	XL Capital[4]
February 2005	CSJFA 2005B (AMT) Land Acquisition	$25.735	Lease Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick, Herrington & Sutcliffe	JPMorgan	XL Capital[4]
February 2005	RDA 2005L Housing Set-Aside	$10.525	Tax Allocation Refunding	TBD	Ross Financial	Nixon Peabody	TBD	TBD
February 2005	RDA 2005M (AMT) Housing Set-Aside	$75.315	Tax Allocation Refunding	TBD	Ross Financial	Nixon Peabody	TBD	TBD

(continued on next page)

Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority; RDA-Redevelopment Agency of the City of San José.

[1] MBIA has insured the current interest bonds maturing 2007 through 2017 and the term bonds maturing in 2027, 2030 and 2034.
[2] State Street Bank and CalSTRS are providing liquidity support to the lease revenue commercial paper program.
[3] Credit enhancement provided through a Washington Mutual Bank letter of credit during the construction period.
[4] Bank of America is expected to provide liquidity support through a standby letter of credit.

Summary of Completed and Planned Debt Issuance

Fiscal Year 2004-05 (continued)

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
June 2005	CSJ 2005B Curtner Gardens	$9.000	Multifamily Housing	TBD	TBD	TBD	TBD	TBD
June 2005	CSJ 2005 Libraries, Parks & Public Safety	$100.000	General Obligation	TBD	TBD	TBD	TBD	TBD
FY 2004-05	**11 Series**	**$443.034**						

Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority; RDA-Redevelopment Agency of the City of San José.

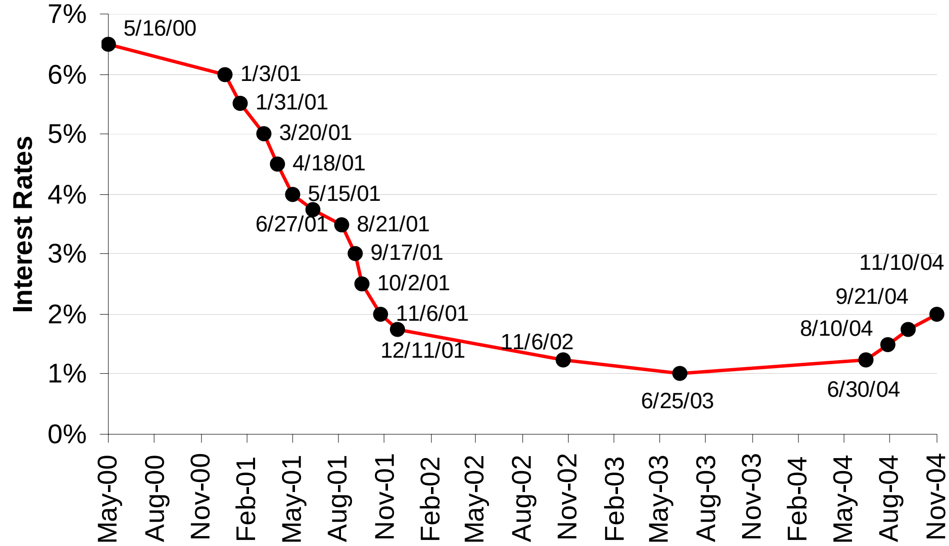
C. Current and Anticipated Market Conditions

After holding the federal funds target rate at a 45-year low of 1.00% for a year, the Federal Open Market Committee (the "FOMC") decided on June 30, 2004, to raise its target rate by 25 basis points to 1.25%. In beginning its long-anticipated tightening, the FOMC noted growth in productivity, expanding output, and improved labor market conditions.

Despite some subsequent moderation in output growth and labor market conditions, as well as the substantial rise in energy prices, the FOMC continued its tightening policy at the subsequent August, September and November meetings. As a result of these actions, the federal funds target rate stood at 2.00% on November 30, 2004.

Federal Funds Rate Targets

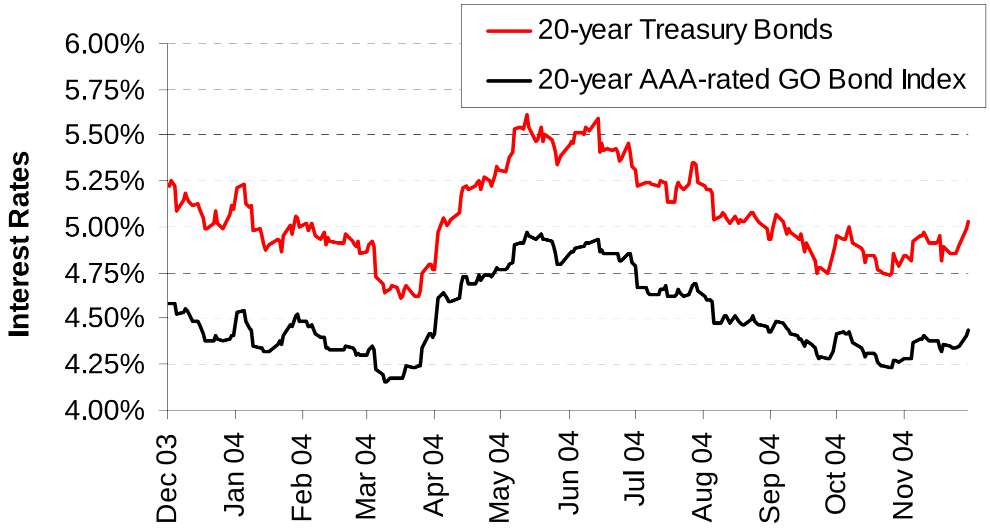
May 2000 through November 2004



The FOMC continues to believe that the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.

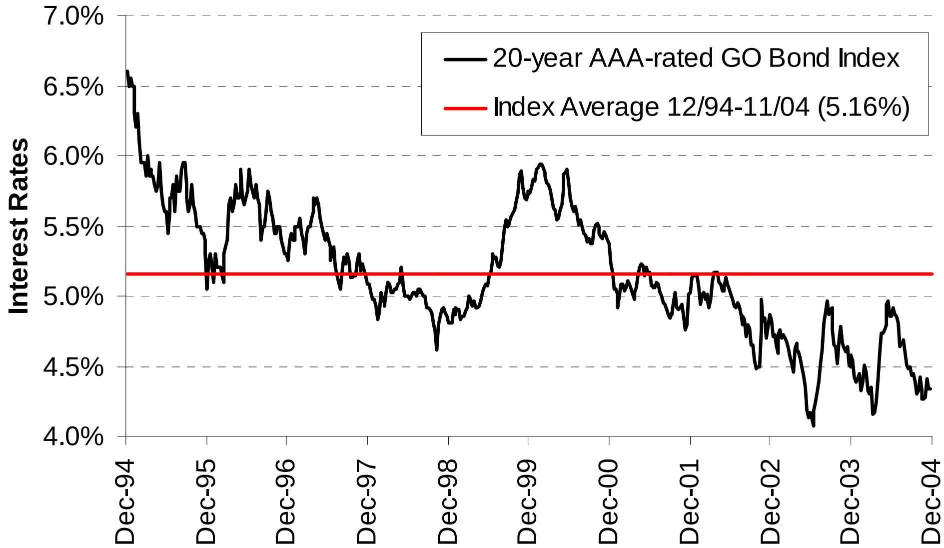
Prompted by the expectation of imminent FOMC action to raise rates, a significant jump in municipal issuance during the March through June period provided a boost to tax-exempt interest rates mid-year, but as issuance dropped off through the summer, tax-exempt interest rates fell as well. Although the spread between taxable and tax-exempt interest rates remained fairly stable throughout the past year, averaging about 55 basis points, it still remains significantly below historical levels.

Comparison of Tax-Exempt and Taxable Interest Rates
December 2003 through November 2004



As can be seen in the charts above and below, tax-exempt interest rates have exhibited volatility during the past year, but they have remained well below their ten-year average.

Ten-Year History of Tax-Exempt Interest Rates
December 1994 through November 2004



D. Selection of Debt Financing Teams

The selection of the financial advisor and underwriter for a financing project is generally done in the form of a competitive request for proposal/qualifications (RFP or RFQ) process. Written proposals are reviewed by representatives from the Finance Department and other city departments involved with the financing and, when appropriate, by other cities' finance directors or finance personnel.

The Finance Department conducted a competitive selection process in Fiscal Year 2000-01 for the City's general financial advisor and for financial advisory services for a number of other pending City projects. As a result of this process, a pool of eligible financial advisors was created and approved by the City Council on April 24, 2001 (see table below). This pool will remain in place until June 30, 2005. Considering the large number of financing projects Debt Management staff is working on, a pool of eligible financial advisors is crucial. It allows for a more efficient selection of financing teams for each separate bond issue, minimizing the time and the costs spent preparing and reviewing requests for proposals, and shortens the timeline required to finance City projects for the community.

Financial Advisory Pool Eligible List
Financial Advisory Firms Approved by the City Council on April 24, 2001
May 2001 to June 2005

City General Financial Advisor	**Housing Program Financial Advisor**
Public Resources Advisory Group	Ross Financial
General Obligation Bonds	**Lease Revenue Bonds**
Public Resources Advisory Group RBC Dain Rauscher	Kitahata & Company Public Resources Advisory Group RBC Dain Rauscher Ross Financial
Multifamily Housing Revenue Bonds	**Land-Secured Financings**
CSG Advisors E. Wagner & Associates Ross Financial Group	E. Wagner & Associates Kelling, Northcross & Nobriga Public Financial Management
Housing Set-Aside Tax Allocation Bonds	
CSG Advisors Kitahata & Company Stone & Youngberg	

The Finance Department, in coordination with the Airport Department, conducted a separate RFP process for financial advisory services for the Airport in the Fall of 1999. As a result of this process, Fullerton & Friar and Public Resources Advisory Group serve as co-financial advisors to the City for Airport related services and financing projects under a Master Agreement with a current termination date of June 30, 2005.

In addition to its project-specific financial advisors, the Debt Management Program continues to utilize the expertise of its general financial advisor, Public Resources Advisory Group ("PRAG"). PRAG has assisted the City in the examination of several financing options for various City projects, including the Lease Revenue Commercial Paper Program, as well as ongoing review of refunding opportunities.

In March 2003, Debt Management, in coordination with the Housing Department, began the RFP process to select a new underwriting pool for the City's multifamily housing revenue bond program. This underwriting pool was approved by the City Council on May 13, 2003, and will remain in place until December 31, 2004 (see table below). Debt Management staff is currently developing an RFP to select the next multifamily housing revenue bond underwriting pool.

Multifamily Housing Revenue Bond Underwriting Pool
Underwriting Firms Approved by the City Council on May 13, 2003
April 14, 2003 to December 31, 2004

Banc of America Securities	RBC Dain Rauscher
E.J. De La Rosa & Co. Inc.	Red Capital Markets, Inc.
Newman & Associates	UBS Financial Services

In July 2000, an RFP process was undertaken for an underwriting pool for the Airport Master Plan. This underwriting pool was approved by the Council on October 31, 2000, and will remain in place until December 31, 2005.

As a result of changes in personnel and the level of airport-specific financing expertise at firms in the Airport pool, in September 2002 a questionnaire was sent to those firms designated as Senior Managers and Co-Managers for the purpose of reevaluating assignments in the pool. Based on the responses from that questionnaire, on November 19, 2002, staff recommended and Council approved a reallocation of underwriting roles within the Airport pool.

Airport Master Plan Financing Underwriting Pool
Underwriting Firms Approved by the City Council on October 31, 2000
(Incorporating Changes Approved by City Council on November 19, 2002)
November 1, 2000 to December 31, 2005

Senior Managers	Co-Managers
Lehman Brothers	E.J. De La Rosa & Company
Morgan Stanley & Company	Merrill Lynch & Company
Citigroup (formerly Salomon Smith Barney)	RBC Dain Rauscher
UBS Financial Services	

Selling Group
A.G. Edwards & Sons
Bank of America
eBondTrade
Prudential Securities Incorporated
Raymond James & Associates

The Summary of Debt Issuance tables shown earlier in this section provide a summary of information on all of the financing team participants for debt issues completed in Fiscal Year 2003-04 and for the debt issues completed and underway in Fiscal Year 2004-05.

III. DEBT ADMINISTRATION

A. Debt Administration System

The Debt Management Program continually works to improve its comprehensive debt administration system. Inputs to the system come from financing documents, trustee reports, reports from the City's remarketing agents and collateral agents, contracts with financial services providers, and reports and requests from City staff. These inputs provide the data needed to ensure that the City is complying with its bond covenants, that reporting to third parties is done timely and accurately, that its bond funds are appropriately allocated, invested and disbursed, that its debt service payments are timely and accurate, that it has correctly calculated its estimated arbitrage rebate liabilities, that its variable rates are set at market levels, that its investment agreements are properly collateralized, and that its liquidity and credit enhancement contracts are renewed in a timely manner.

B. Compliance and Monitoring

Compliance and monitoring activities constitute a large and growing portion of the Debt Management Program's daily tasks. While the process of assembling a specific bond financing project may take only three to six months, compliance with the provisions of bond covenants last the entire life that the bonds are outstanding, up to 40 years or more. Debt Management staff work very closely with other City departments as well as with the City Attorney's Office and the Budget Office to coordinate the investment and disbursement of bond funds to assure expenditures are in compliance with IRS Regulations and the California State Constitution. Debt Management staff also work closely with the bond trustees and the Finance Department's Treasury cash management staff and Accounting Division staff to ensure that bond proceeds are invested properly, funds and accounts are properly established, cash flows are fully accounted for, and all bond covenants are complied with.

1. Trustee Activities

As of June 30, 2004, the City has over $636 million in bond and commercial paper note funds that are held by three trustees and invested in 244 funds and accounts. These figures do not include the Redevelopment Agency's redevelopment project (80%) bonds, Airport commercial paper program, or the City's multifamily housing revenue bonds. Each fund is managed separately according to the provisions of a trust indenture or fiscal agent agreement, tax certificate, and other documents governing the issuance of the bonds. Depending on the terms of the bond issue, bond funds may include, but are not limited to, construction and improvement, capitalized interest, escrow, reserve, debt service and other funds held for the benefit of the bondholders. The table below summarizes the City's trustee activity.

Trustee Summary[1] *as of June 30, 2004*			
Trustee	**Number of Bond Issues**	**Original Par Amount of Bonds**	**Trustee Fund Balance**
Bank of New York	7	$ 533,360,000	$252,598,635
US Bank	16	457,854,854	35,348,726
Wells Fargo Bank	20	988,998,000	348,633,090
Total	43	$1,980,212,854	$636,580,451

[1] Does not include RDA bonds issued for redevelopment projects, Airport commercial paper, or multifamily housing revenue bonds.

Debt Management staff maintains frequent contact with trustees with respect to each trustee's fund management responsibilities. Fund management includes review of, and compliance with, the governing documents for each series of bonds. Fund management also includes compliance with the City's investment policy, financial reporting requirements and generally accepted accounting principles. Debt Management staff monitor cash flows to and from each fund under management, including payment of debt service obligations, to insure accuracy and timeliness.

2. Bond Proceeds Expenditures and Reimbursement Procedures

As an issuer of tax-exempt debt, the City's use of bond proceeds is limited by Federal and State law, and in some cases by the ballot language authorizing the debt. Generally, tax-exempt bond proceeds, including interest earnings on bond funds, may only be spent for governmental purposes and only on capital projects. In the case of voter-approved debt, the bond proceeds may only be used for the purposes described in the ballot language authorizing the debt.

To provide accountability in managing bond funds, most of the City's bond-financed project funds are held by trustees, who disburse the construction or improvement funds only after Debt Management has reviewed a disbursement request from the City department managing the project. As of June 30, 2004, of the $636 million held by the trustees, over $434 million is construction proceeds from the sale of both taxable and tax-exempt bonds and commercial paper notes. These are funds awaiting disbursement for expenditures related to the construction of specific improvements or acquisition of real property as defined in the governing documents of each bond series.

Disbursement requests are reviewed and approved by department heads or their deputies before they are submitted to Debt Management. Debt Management staff then reviews, reconciles and qualifies the bond-financed project expenditures before submitting disbursement requests to the trustees. When there is an ambiguity, the City Attorney's Office assists in determining the eligibility of expenditure items. During Fiscal Year 2003-04, Debt Management staff reviewed and processed 118 disbursement requests totaling over $149 million. The Finance Department is currently in the process of reviewing these procedures to identify streamlining and efficiency opportunities.

3. Arbitrage Rebate

Debt Management actively monitors the investment and disbursement of proceeds of tax-exempt bonds for arbitrage compliance purposes. Arbitrage is the profit that results from investing low-yield tax-exempt bond proceeds in higher-yield securities (also referred to as positive arbitrage). Federal law requires that investment earnings in excess of the bond yield are arbitrage earnings and must be rebated to the Federal Government. However, if a jurisdiction meets certain IRS spend-down exceptions for bond proceeds, it is allowed to keep any positive arbitrage interest earnings. Arbitrage regulations apply to all of the City's tax-exempt financings.

Debt Management staff, working in conjunction with the City's Finance Department Treasury staff, endeavor to invest bond proceeds at the highest yield possible, subject to the City's primary Investment Policy objectives of safety, liquidity and yield. The investment of bond proceeds is in accordance with the City's Investment Policy and the Permitted Investment provisions of the governing documents of each series of bonds. For some types of bond funds, particularly a construction fund that must be held in short-term securities, it may be the case that the fund earns at a rate less than the bond yield. Therefore, the fund is said to be earning negative arbitrage. Through careful management of its investments, the City can use negative arbitrage earnings in one bond fund of a series to offset positive arbitrage in another fund of the same series.

In Fiscal Year 2003-04, 199 funds and accounts held by trustees or by the City, containing $626 million of tax-exempt bond proceeds, were actively monitored for arbitrage compliance. Debt Management staff continually monitors investments and cash flows of the City's bond funds, and then annually reviews all arbitrage provisions of individual bond funds and computes arbitrage earnings. The resulting arbitrage reports are then submitted to the relevant City departments and bond trustees so that the estimated rebate liability can be budgeted and set aside for future payment. Although arbitrage earnings are rebated to the United States Treasury on a five-year installment basis, Debt Management staff conducts annual rebate calculations to assure that the City stays current on compliance issues and to facilitate accountability for any potential rebate liability.

Debt Management staff prepares the annual arbitrage calculations for all of the City's debt, except the Redevelopment Agency bonds issued for redevelopment projects and the conduit multifamily housing revenue bonds. Agency staff tracks arbitrage for redevelopment project bonds, and in the case of conduit multifamily housing revenue bonds, the developer is responsible for the annual arbitrage calculations during the construction period and thereafter on each fifth-year bond anniversary date. Debt Management staff tracks the developer's compliance with this requirement.

In addition to performing its own annual calculations, the City retains the services of Bond Logistix, a subsidiary of Orrick, Herrington & Sutcliffe LLP, to: (1) review the City's arbitrage compliance at five year anniversary dates when rebate is actually due to the Federal Government; (2) compute arbitrage rebate liability on the more complex financings; and (3) provide technical assistance to the City in the area of arbitrage rebate compliance. This third-party review provides an added level of confidence that the City is in compliance with the arbitrage regulations. Such review is particularly important given that the Internal Revenue Service has stepped-up its random audit and target audit programs for tax-exempt bond issues, and has recently conducted audits on two of the City's multifamily housing revenue bond issues. As discussed above, the IRS has closed one of these audits and the other is still pending.

The table below lists the City's tax-exempt bond issues that have balances in their respective rebate funds and the next rebate installment date:

Summary of Rebate Fund Balances
as of June 30, 2004

Bond Issue	Rebate Fund Balance	Next Rebate Installment Date
City of San José Financing Authority, Series 1997A	$ 12,312.93	09/08/2007
City of San José Financing Authority, Series 1997B	6,806.36	09/27/2007
City of San José Financing Authority, Series 2001D	121,447.80	04/15/2006
City of San José Financing Authority, Series 2001E	31,823.82	01/01/2006
Clean Water Financing Authority, Series 1995A and C	123,487.56	01/14/2006
City of San José Community Facilities District No. 1	31,509.23	12/31/2007
Total	$ 327,387.70	

4. Continuing Disclosure

On November 10, 1994, the Securities and Exchange Commission ("SEC") adopted amendments to existing federal regulations ("Rule 15c-12" or the "Rule") under which municipalities issuing securities on or after July 3, 1995 are required to:

1. Prepare official statements meeting current requirements of the Rule;
2. Annually file certain financial information and operating data with national and state repositories; and
3. Prepare announcements of the significant events enumerated in the Rule.

As of June 30, 2004, the City had 41 series of bonds subject to continuing disclosure requirements, excluding multifamily housing revenue bonds, some of which are also subject to continuing disclosure requirements under the Rule. In cooperation with the Redevelopment Agency and other City departments, and with the assistance of the City Attorney's Office, the Finance Department collects, validates, and disseminates financial and operating information to the national repositories. Debt Management staff also monitors compliance with respect to continuing disclosure obligations of the multifamily housing projects. Timely and accurate communication with the municipal marketplace is vital in retaining the City’s creditworthiness and market access. Continuing disclosure constitutes a significant part of Debt Management’s compliance activity for the life of each series of bonds.

Beginning with the annual continuing disclosure reports for fiscal year 2003-04, to be filed by December 31, 2004, Debt Management will be utilizing the newly-established “central post office” for continuing disclosure reporting: DisclosureUSA. DisclosureUSA is an Internet-based electronic distribution system established by the municipal finance industry which functions as a one-stop conduit that receives continuing disclosure filings from issuers and then transmits them electronically to the nationally recognized municipal securities information repositories (“NRMSIRs”) as required by continuing disclosure agreements. Upon receiving a filing, the document repositories automatically send a return receipt to the DisclosureUSA website, which is posted to the site so issuers and the general public can view both the time the filing was sent and the acknowledgement that it was received. Debt Management anticipates that transitioning to “paperless” continuing disclosure will reduce production time and eliminate the cost of paying the City’s bond trustees for dissemination services.

C. Investment of Bond Proceeds

Debt Management works closely with bond trustees as well as with the Finance Department’s Treasury cash management and Accounting Division staff in managing the investment and disbursement of bond proceeds. Bond proceeds are invested in accordance with bond covenants and with the provisions of the City’s Investment Policy, which was most recently amended on March 23, 2004, and which is on the City Council’s December 14, 2004, agenda for consideration of additional amendments. As requested in 2002 by the City Council, as part of the approval of the use of investment agreements for bond proceeds, the status of the investment agreements in place as of June 30, 2004, is briefly summarized below.

City of San José Airport, Series 2001A Reserve Account: The Series 2001A Airport Bond Reserve Account was invested with MBIA in August 2001 and has a maturity of March 1, 2031. The amount invested was $10.5 million and the balance as of June 30, 2004, was $10.7 million. The agreement is collateralized with US Treasuries at 104% and Agencies at 105%, and has a yield of 5.78%. The bond yield on these fixed rate bonds is 5.01%.

City of San José Financing Authority Lease Revenue Bonds, Series 2002B,C,D (Civic Center Project) Reserve Fund: The Reserve Fund for the Series 2002 Civic Center Bonds was invested with AIG Matched Funding Corporation in November 2002 and has a maturity of June 1, 2005. The amount invested was $32.8 million and the balance as of June 30, 2004, was $32.8 million (while the City Hall project is under construction, interest earnings on the Reserve Fund flow to the Construction Fund). The agreement is collateralized with US Treasuries at 104% and Agencies at 105%, and has a yield of 2.41%. The blended bond yield on these fixed and variable rate bonds is 5.06%.

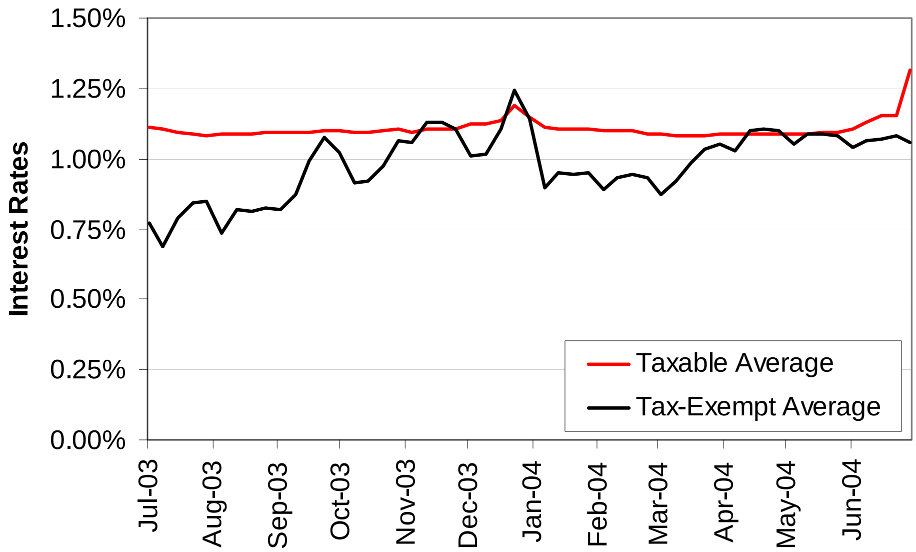
The term of this investment agreement was limited to the expected construction period for the Civic Center Project to provide the City with maximum flexibility. Upon completion of the Project, the City can decide whether to reinvest the Reserve Fund, possibly at a higher yield than was available at the time of the financing, or to purchase a surety bond for all or a portion of the Reserve Requirement. Purchase of a surety bond would release a corresponding amount of Reserve funds, which could then be applied to City capital projects.

D. Outstanding Variable Rate Debt

During Fiscal Year 2003-04, the City had twenty-four variable-rate bond series outstanding, of which thirteen are multifamily housing issues. Of the twenty-four, six are taxable and eighteen are tax-exempt. Debt Management staff track the rates weekly to ensure that the rates are consistent with market conditions, taking into consideration the differences among securities, ratings, and credit enhancement. Variable rates have been tracking significantly below fixed-rate debt, even during the recent period of historically low long-term rates.

The graph below provides a history of the average variable rates the City paid during Fiscal Year 2003-04 for both taxable and tax-exempt bond issues. The graph shows that while taxable rates remained stable until the Fed's rate tightening at the end of June, short-term interest rates have increased, resulting in an abnormal convergence of taxable and tax-exempt rates. The average spread between the taxable and tax-exempt rates the City paid in Fiscal Year 2002-04 of 0.10% compares to the 2.00% historical spread between weekly taxable and tax-exempt interest rates.

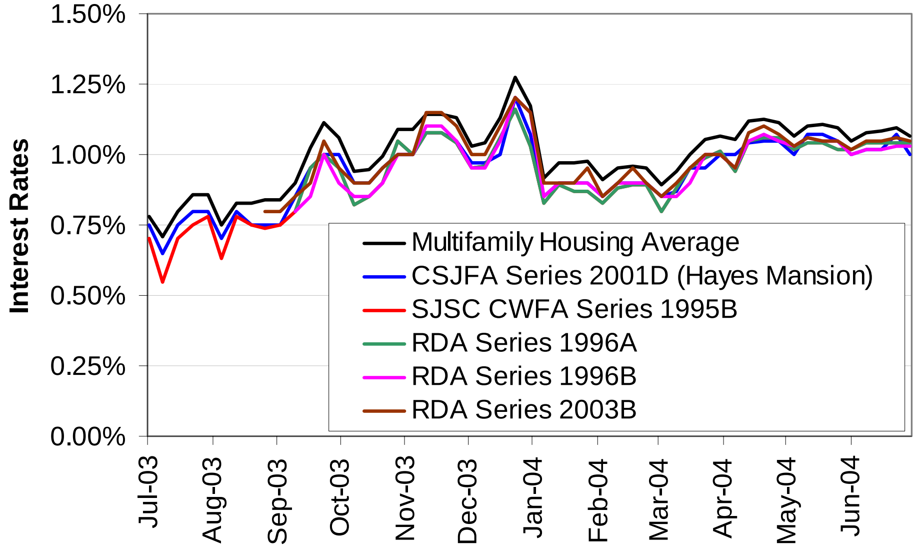
Average Weekly Taxable and Tax-Exempt Rates
Fiscal Year 2003-04



The graph below illustrates the weekly rates for the City's outstanding tax-exempt variable-rate bonds. The graph includes the rates for the Series 2001D City of San Jose

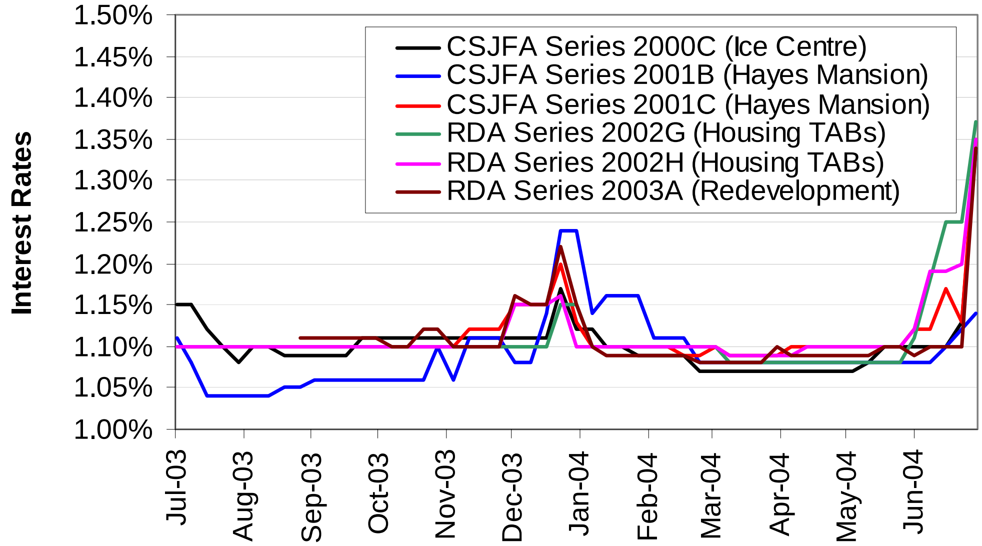
Financing Authority Bonds (Hayes Mansion), the Series 1995B San José-Santa Clara Clean Water Financing Authority Bonds, and the Series 1996A, 1996B and 2003B Redevelopment Agency Bonds. An average of the thirteen outstanding tax-exempt variable-rate multifamily housing bonds is provided for comparison purposes. The Hayes Mansion and Clean Water Financing Authority Bonds are insured, but the Redevelopment Agency Bonds are not.

Tax-Exempt Weekly Variable Interest Rates
Fiscal Year 2003-2004



The following graph illustrates the weekly interest rates for the City's outstanding taxable variable-rate bonds, and includes the rates for the Series 2000C Ice Centre Bonds, the Series 2001B and 2001C Hayes Mansion Bonds, the Agency's Series 2002G and H Housing Tax Allocation Bonds, and the Agency's Series 2003A Revenue Bonds.

Taxable Weekly Variable Interest Rates
Fiscal Year 2003-04



E. Refunding Opportunities

As part of its role as manager of the City's debt portfolio, Debt Management undertakes a continual review and analysis of all outstanding debt. The objective of this ongoing process is to identify opportunities to refund or restructure the debt portfolio with the goal of reducing the City's annual debt service obligations. A discussion of bonds refunded in Fiscal Year 2003-04 and anticipated refundings for Fiscal Year 2004-05 is included in the Debt Issuance section of this report. Although fixed-rate bonds can only be redeemed on or after the first call date specified in the financing documents, variable-rate bonds can be redeemed on any tender date.

Generally, bonds can be refunded in two ways: as a current refunding or as an advance refunding. A current refunding is a refinancing in which the refunding bonds (new bonds) are issued less than 90 days before a date on which the refunded bonds (old bonds) can be called. The proceeds of the refunding bonds are applied immediately to pay principal, interest, and a call premium, if any, on the refunded bonds. Thereafter, the revenues originally pledged to the payment of the refunded bonds are pledged to the payment of the refunding bonds.

An advance refunding is the refinancing of outstanding bonds by the issuance of a new issue of bonds more than 90 days prior to the date on which the outstanding bonds are callable. The proceeds of advance refunding bonds are invested in an escrow until the first call date of the bonds to be refunded. Accordingly, for a period of time, both the issue being refunded and the refunding bond issue are outstanding until the refunded bonds are redeemed from the refunding escrow on their call date. The Internal Revenue Service restricts the yield which may be earned on investment of the proceeds of the refunding bonds and allows for only one advance refunding of any series of bonds issued after 1986.

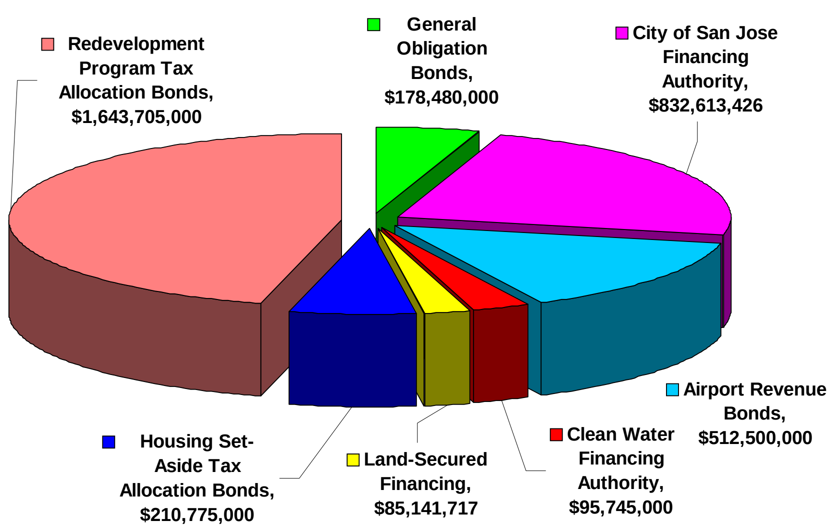
IV. CITY'S OUTSTANDING DEBT PORTFOLIO

Debt Management continues the task of ongoing development and maintenance of a debt management database and tracking system. This database and tracking system provides the opportunity to prepare detailed analyses and track issues and requirements related to the City's debt portfolio. The following section includes both a descriptive and illustrative presentation of the City's debt portfolio, comprised of 101 series of bonds totaling over $4.1 billion, as of June 30, 2004. This analysis includes all debt issued by the City of San José, its Redevelopment Agency, and various other financing authorities of which the City is a member. ***Note that the City has no obligation or connection in any way to Redevelopment Agency Debt.***

As of June 30, 2004, the City, the Redevelopment Agency, and related entities had 61 series of bonds outstanding, totaling $3.56 billion. The pie chart below shows the distribution of outstanding bonds among the various categories of debt issued by the City and its related entities: general obligation, City of San José Financing Authority, airport, sewer (Clean Water Financing Authority), land-secured (assessment district and community facilities district), and Redevelopment Agency tax increment debt (Housing Set-Aside and Agency Merged Area TABs). The chart below does not include the portions of outstanding City of San José Financing Authority or Airport commercial paper that will be repaid from issuance of long-term debt, amounts drawn on the Housing Department Line of Credit, or multifamily housing revenue bonds, but those items are addressed in the more detailed breakouts that follow.

A table of the 50 series of outstanding multifamily housing revenue bonds, totaling over $543 million, is shown later in this section of the report, and a summary table of all other debt by series is presented in Appendix B.

Outstanding Bonds Issued by All Agencies
Outstanding Debt as of June 30, 2004: $3,558,960,143



In addition to examining the par amount of debt outstanding, it is helpful to also examine the debt service repayment schedule. Interest projections for weekly variable rate debt in the annual debt service charts that follow are based on assumptions used in developing the Fiscal Year 2004-05 Adopted Budget as shown in the table below.

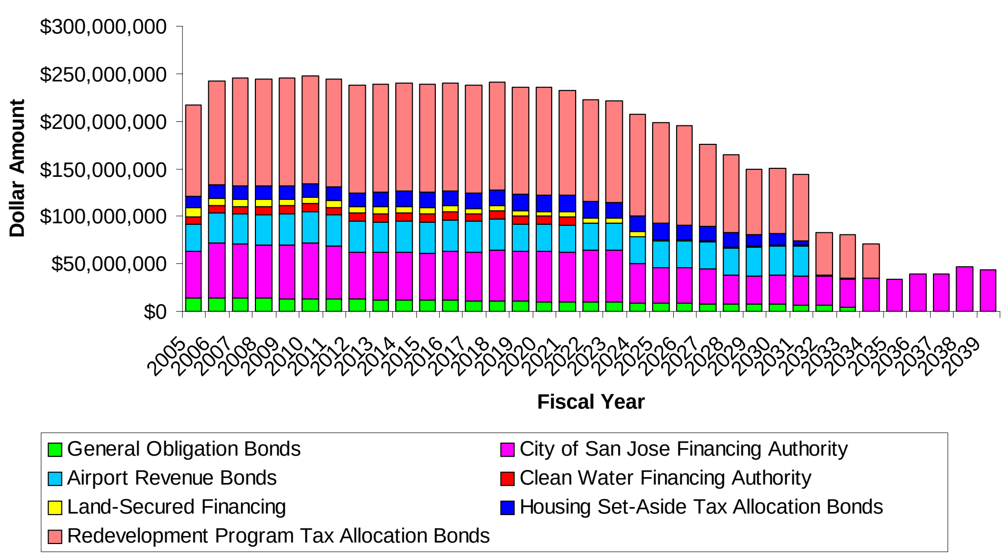
Average Weekly Variable Interest Rate Assumptions
for Annual Debt Service Projections

	Tax-Exempt Rates	AMT Rates	Taxable Rates
Fiscal Year 2004-05	1.90%	1.95%	2.10%
Subsequent Fiscal Years	3.30%	3.35%	4.70%

Source: City of San José Fiscal Year 2004-05 Adopted Budget.

With the exception of the City's conduit multi-family housing revenue bonds, the stacked bar graph below illustrates the annual debt service payments for all of the debt category types shown in the above pie chart. The multifamily indebtedness was omitted from the bar graph due to the complicated nature of multifamily housing amortization schedules. In addition, omitting multifamily housing bonds from the chart more appropriately illustrates the annual debt service obligations for which the City/Redevelopment Agency/other agencies are responsible, either through direct payments or through the effort of collecting payments through the tax roll as in the case of general obligation and land-secured debt.

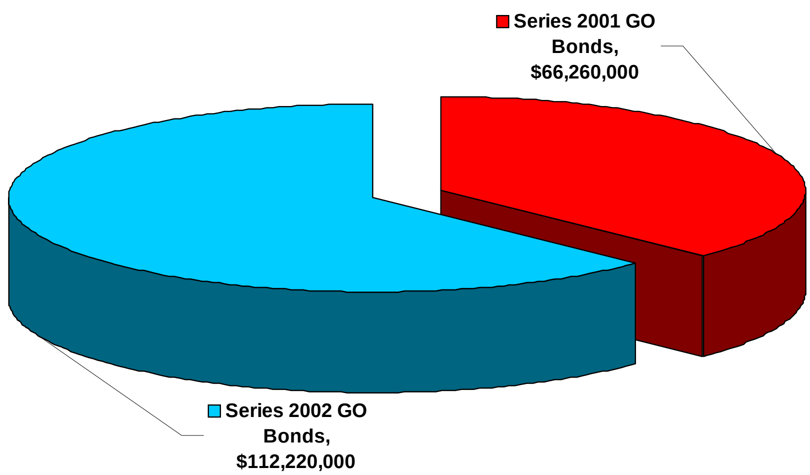
Outstanding Bonds Issued by All Agencies
Annual Debt Service



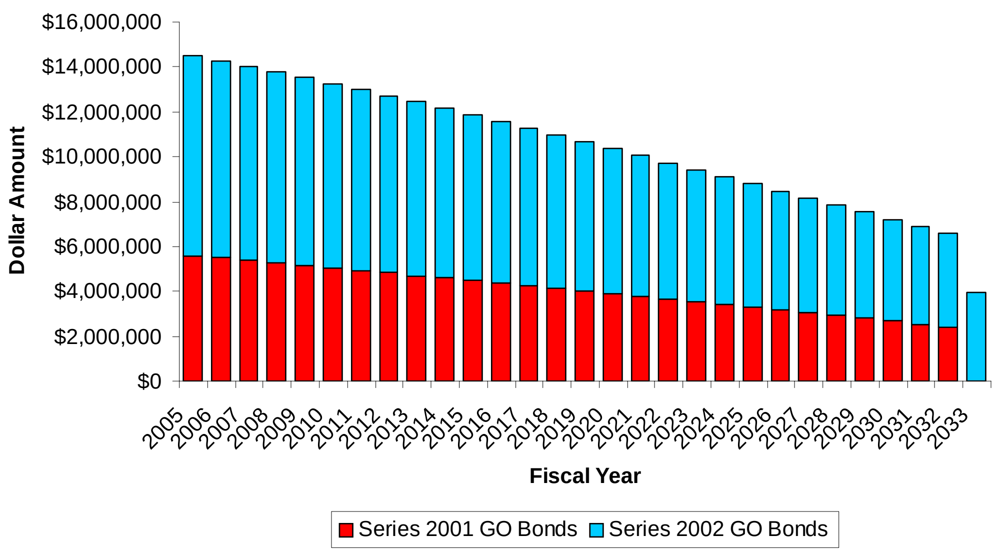
A. General Obligation Bonds

In 2000 and 2002, the voters approved three ballot measures (Measures 2000 O and P and Measure 2002 O) that authorize total issuance of $598,820,000 of general obligation (GO) bonds for library, parks, and public safety projects which are secured by the taxing power of the City. As of June 30, 2004, the City of San José had issued $187.09 million of GO bonds with the proceeds split for three purposes: library projects ($61 million), parks and recreation projects ($86.715 million), and public safety projects ($39.375 million). Through June 30, 2004, $8.61 million in principal payments had been made, resulting in an outstanding balance of $178.48 million.

General Obligation Bonds
Outstanding Debt as of June 30, 2004: $178,480,000



General Obligation Bonds
Annual Debt Service



B. City of San José Financing Authority Obligations

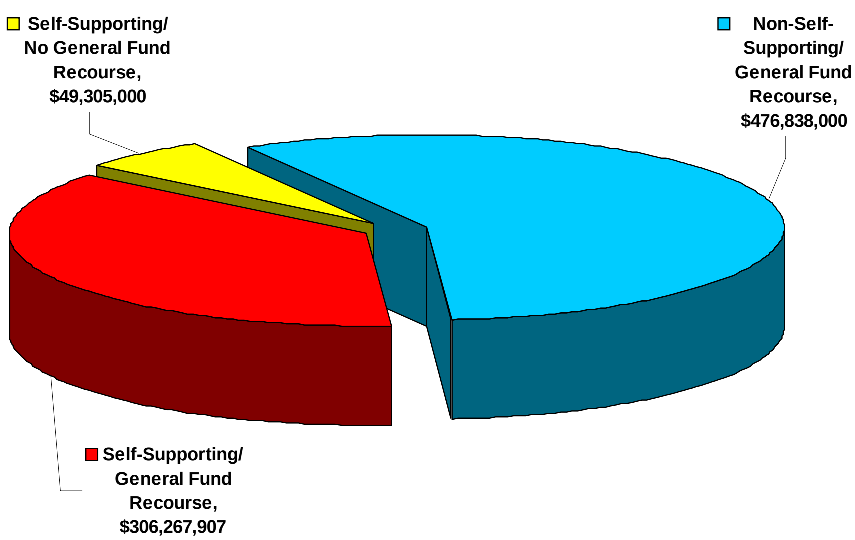
The City of San José Financing Authority (the "Authority") is a joint exercise of powers authority established under state law between the City and the Redevelopment Agency, and is authorized to finance public capital improvements for public entities. Bonds and notes issued by the Authority are repaid through revenues generated by the financed facilities or assets, or lease payments from the City for the use of specified facilities, which in some cases are different from those that were financed. Although payment for a few of the Authority's obligations is limited to specific revenue sources, most of the Authority's obligations are ultimately payable from the City's General Fund.

To better illustrate the variety of Authority debt outstanding, Authority obligations are presented here in several categories. These include:

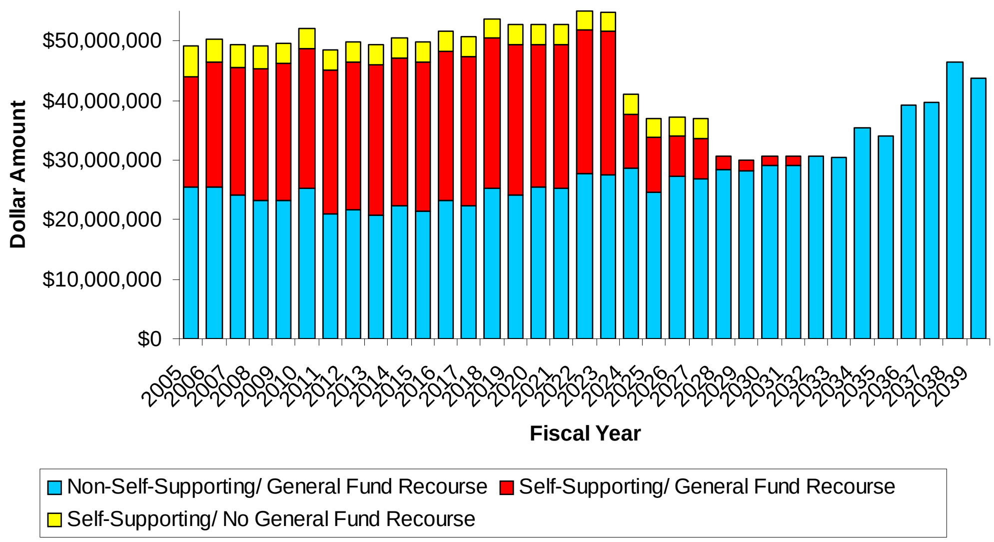
1. Non-Self-Supporting Debt with Recourse to the City's General Fund;
2. Self-Supporting Debt with Recourse to the City's General Fund; and
3. Self-Supporting Debt with No Recourse to the City's General Fund.

The next two charts illustrate the total amount of Authority bonds outstanding by category along with a bar chart illustrating annual debt service obligations by category.

City of San José Financing Authority Obligations
Outstanding Debt as of June 30, 2004: $832,410,907



City of San José Financing Authority Obligations
Annual Debt Service



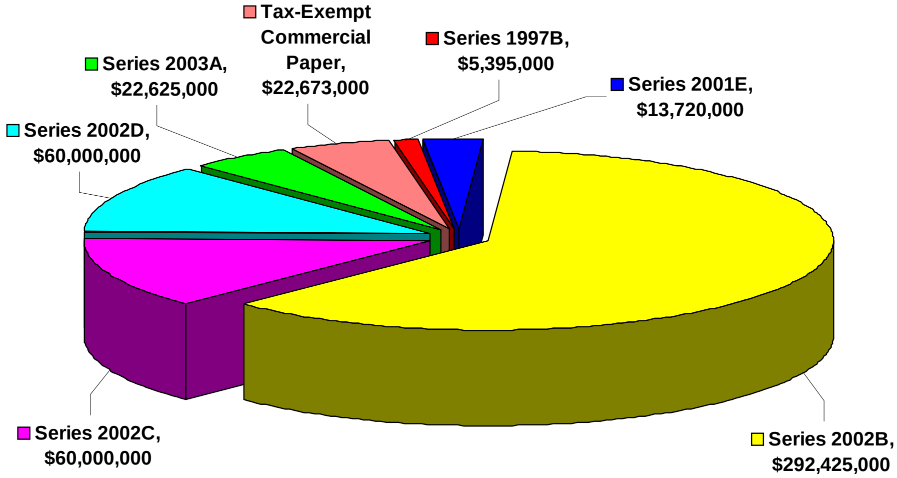
1. Non-Self-Supporting Debt with Recourse to the City's General Fund

The financings included in this category and the next are structured as lease revenue bonds which are repaid from City lease payments for specified facilities. The leased facilities are typically those that are being financed, but in some cases may consist of other City assets.

The financing projects included in this category do not generate revenues that can be applied to offset the City's lease payments. Although City special funds or other revenue sources may be earmarked to make these payments, the City's General Fund bears the majority of the debt burden. The 1997B Bonds financed fire apparatus, childcare facilities, and library land acquisition, the Series 2001E Bonds refunded the City's outstanding debt on its Communications Center, the Series 2002B, 2002C, and 2002D Bonds financed a portion of the new Civic Center project, and the Series 2003A Bonds refunded the bonds issued to finance site acquisition and construction costs of the City's Central Service Yard. The Tax-Exempt Commercial Paper Notes provide interim financing for land acquisition and construction of the Civic Center Offsite Parking Garage, and short-term financing for technology, furniture, equipment and relocation expenses associated with the new Civic Center.

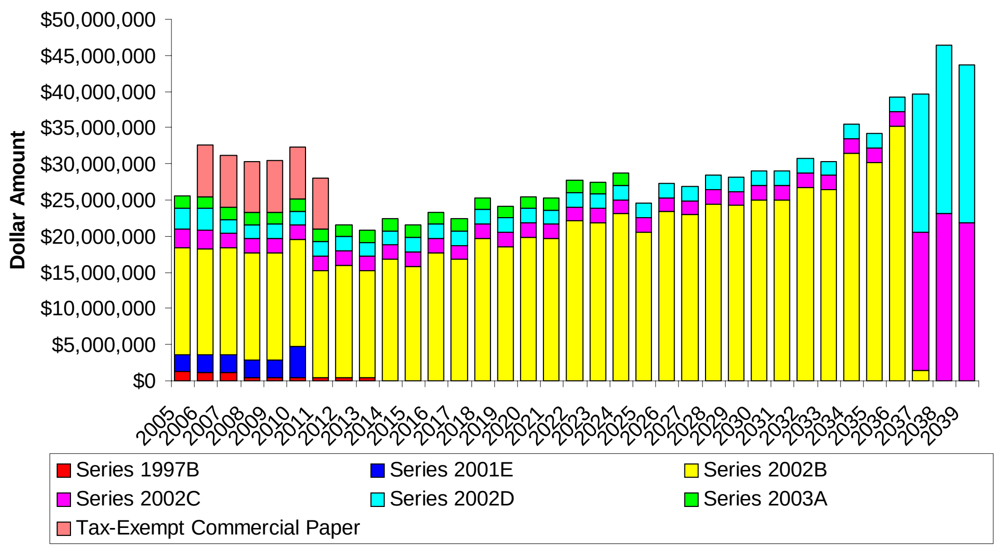
The pie chart below illustrates the total amount of outstanding debt in the category of non-self-supporting Authority debt with recourse to the General Fund. As of June 30, 2004, the total amount was $476,838,000, consisting of $454,165,000 of lease revenue bonds and $22,673,000 of tax-exempt commercial paper.

Non-Self-Supporting Debt/ General Fund Recourse
Outstanding Debt as of June 30, 2004: $476,838,000



The bar chart illustrates the annual debt service obligations for this category. The portion of the commercial paper that is anticipated to be repaid from bond proceeds from the future sale of long-term debt is not included in the bar graph since the interest due on the notes is "rolled" and funded from the issuance of additional commercial paper notes.

Non-Self-Supporting Debt/ General Fund Recourse
Annual Debt Service



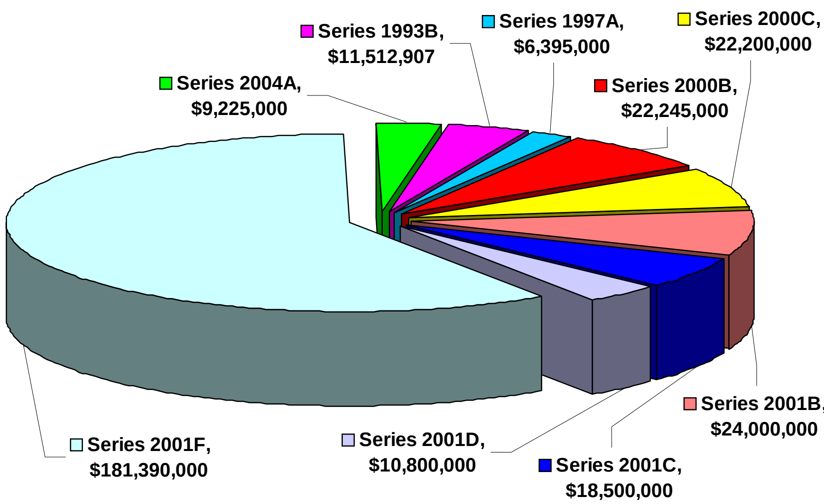
2. Self-Supporting Debt with Recourse to the City's General Fund

As with the previous category of Authority debt, the financings included in this category are structured as lease revenue bonds which are repaid from City lease payments for specified facilities.

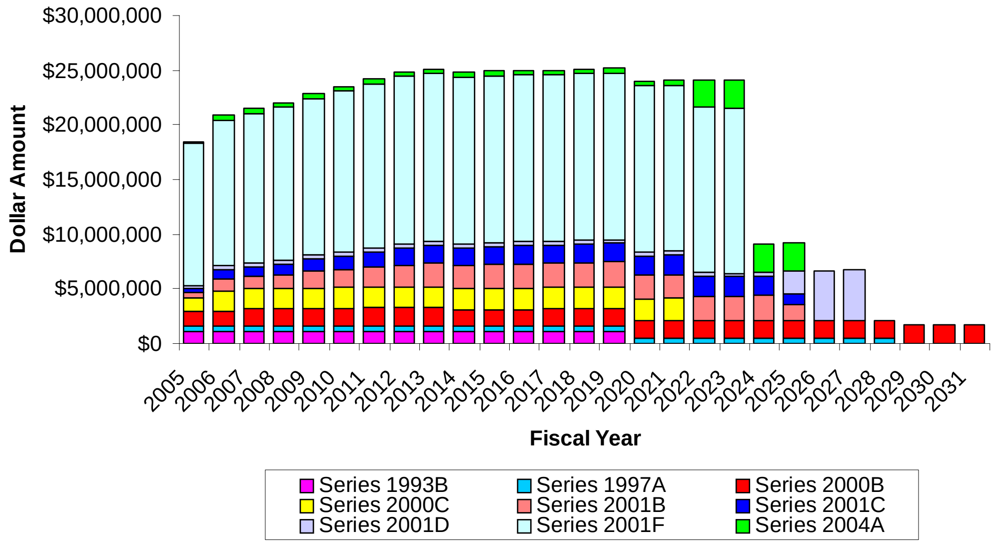
This category, Self-Supporting Debt with Recourse to the City's General Fund, includes bond-financed capital projects which generate revenue that can be applied to offset the City's lease payments. This category also includes the Convention Center refunding, for which the City's lease payments are reimbursed by the Redevelopment Agency. To the extent that offsetting revenues are insufficient to completely cover the debt service payments for any of these bonds, the City's General Fund is committed to make up the difference. A short description of each of these self-supporting projects follows the charts.

Self-Supporting Debt/ General Fund Recourse

Outstanding Debt as of June 30, 2004: $306,267,907



Self-Supporting Debt/ General Fund Recourse
Annual Debt Service



Series 1993B (Community Facilities Project): These fixed-rate bonds funded the first phase of renovation for the Hayes Mansion, construction of the Berryessa Community Center, acquisition of Murdock Park, and construction of the City's Logitech Ice Centre. The Ice Centre portion of these bonds was refunded with proceeds of the Series 2000C Bonds. Debt service on the Series 1993B Bonds is paid primarily from revenues of the Hayes Mansion. To the extent these revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference.

Series 1997A (Golf Course Project): These fixed-rate bonds financed the acquisition, renovation, and conversion of an 18-hole course to a 9-hole course with a driving range (the Rancho del Pueblo Golf Course). Debt service on the 1997A Bonds is paid from golf course revenues. To the extent golf course revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. The Series 1997A Bonds are backed by motor vehicle license fee revenues under the State Controller's Intercept Program. Under that program, the State Controller only makes payments to the Trustee from the City's motor vehicle license fees if the City fails to meet its obligations under the Project Lease.

Series 2000B (Tuers-Capitol Golf Course/Camden Park Refunding): These fixed-rate bonds financed construction of the City's 18-hole Los Lagos Golf Course and refunded outstanding certificates of participation issued by the Association of Bay Area Governments ("ABAG") for the Camden Neighborhood Park. Debt service on the 2000B Bonds is paid from golf course revenues and construction and conveyance tax revenues from Council District #9 funds. To the extent these revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. The Series 2000B Bonds are backed by motor vehicle license fee revenues under the State Controller's Intercept Program.

Series 2000C (Ice Centre of San José Refunding and Improvement Project): These variable-rate bonds refunded the Ice Centre portion of the Series 1993B Bonds and financed construction of an additional ice rink at the facility. Under the operator's Lease and Management Agreement with the City, the City receives fixed quarterly payments to cover debt service on the bonds and to fund capital repair and replacement reserves. To the extent these payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference.

Series 2001B, 2001C, and 2001D (Hayes Mansion Phase III Improvement and Refunding Project): These variable-rate bonds financed the Hayes Mansion Phase III improvements and refunded the Series 1995 Bonds issued to finance the Hayes Mansion Phase II improvements. Under the operator's Management Agreement, revenues of the Hayes Mansion are used to pay debt service and financing costs of the Series 2001 Hayes Mansion Bonds and the Hayes Mansion share of debt service of the Series 1993B Bonds. To the extent these payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference.

Series 2001F (Convention Center Refunding Project): These fixed-rate bonds refunded the Authority's outstanding debt on the City's Convention Center. Under a Reimbursement Agreement between the City and the Redevelopment Agency, the Redevelopment Agency has committed to pay the debt service on the Series 2001F Bonds, subordinate to all other debt issued by the Agency. To the extent the Agency payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference.

Series 2004A (Ice Centre of San José Expansion Project): These auction-rate bonds financed expansion and renovation of the facility, including construction of an additional ice rink. Under the operator's Lease and Management Agreement with the City, the City receives fixed quarterly payments to cover debt service on the bonds and to fund capital repair and replacement reserves. To the extent these payments are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference.

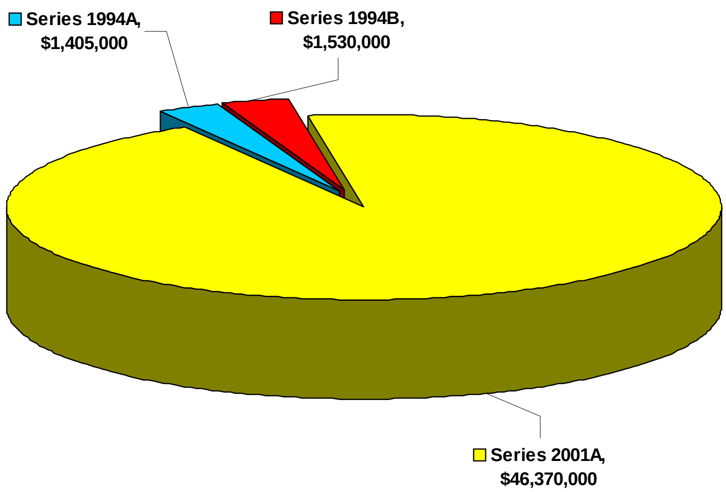
3. Self-Supporting Debt with No Recourse to the City's General Fund

This category includes Authority bond issues for which repayment is limited to specific sources of revenue, and for which bondholders do not have recourse to the City's General Fund in the event those revenues are insufficient to pay debt service on the bonds.

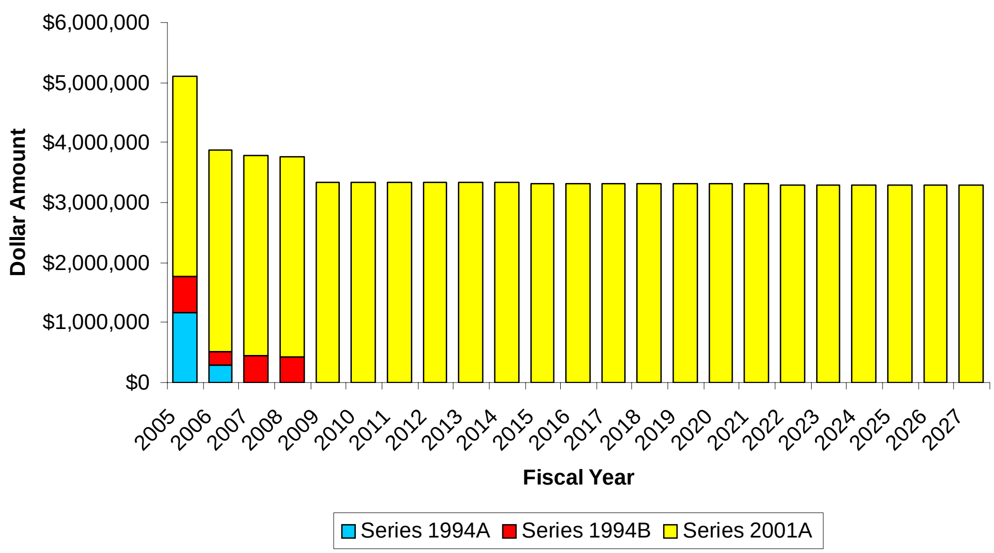
The Series 1994A and Series 1994B are reassessment revenue bonds issued by the Authority to consolidate and refund six series of improvement district bonds. The refunding was accomplished by first creating a consolidated reassessment district and issuing the City of San José Limited Obligation Refunding Bonds, Series 24M. The proceeds of the Authority's Series 1994A and 1994B Bonds were then used to purchase the Series 24M Bonds. Repayment of the Authority reassessment revenue bonds is limited to special assessments levied on property-owners in Consolidated Reassessment District No. 94-214SJ.

The Series 2001A are revenue bonds issued by the Authority to finance construction of the City parking garage located on the corner of North 4th Street and East San Fernando Street (the "4th & San Fernando Parking Garage"). Repayment of these revenue bonds is limited to gross revenues of the City's parking system and surplus revenues of the Redevelopment Agency.

Self-Supporting Debt/ No General Fund Recourse
Outstanding Debt as of June 30, 2004: $49,305,000



Self-Supporting Debt/ No General Fund Recourse
Annual Debt Service



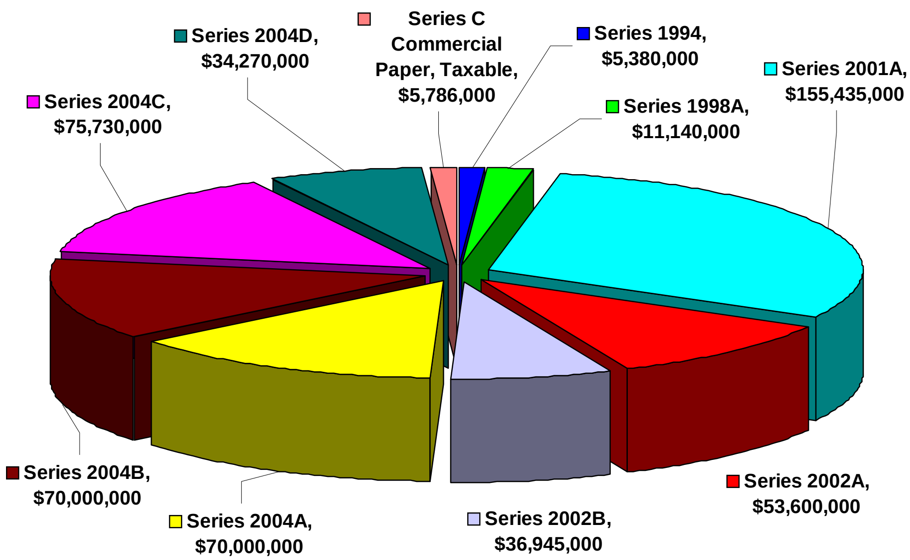
C. Enterprise Fund Obligations

1. Airport

The following pie chart illustrates the total amount of outstanding Airport debt, secured by Airport revenues, broken out by issue series and type. The Airport Revenue Bonds, Series 2004A-D, financed a portion of the construction of the North Concourse and other related security improvements. As of June 30, 2004, the total amount of Airport obligations outstanding was $518,286,000, consisting of senior debt of $512,500,000 and $5,786,000 in outstanding Commercial Paper. The Airport's commercial paper is subordinate to the revenue bonds.

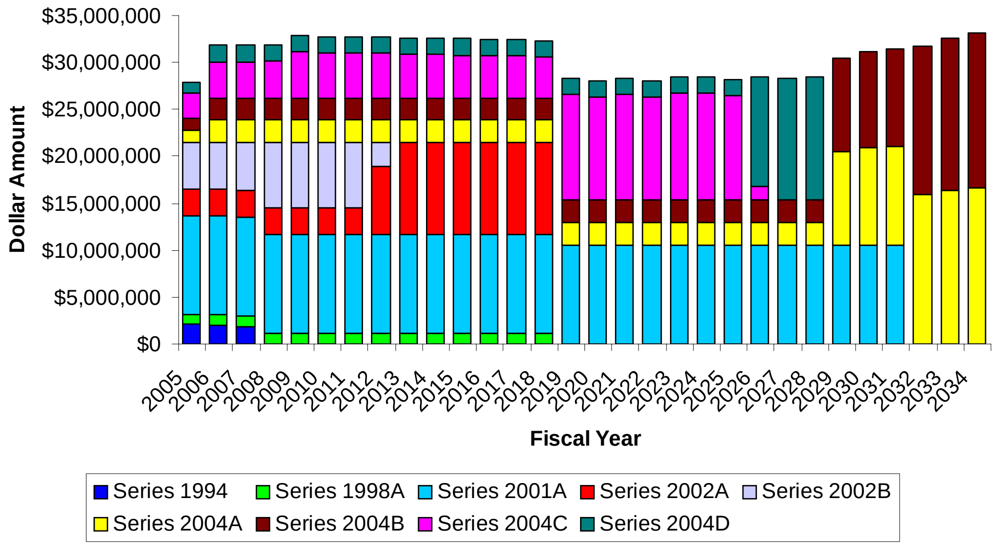
Airport Obligations

Outstanding Debt as of June 30, 2004: $518,286,000



The following bar graph illustrates the annual debt service requirements by airport revenue bond issue. The commercial paper is not included in the bar graph since the interest due on the notes is "rolled" and funded from the issuance of additional commercial paper notes. The outstanding commercial paper is anticipated to be repaid from bond proceeds from the future sale of long-term debt. Appendix C provides the annual commercial paper debt service certification, which gives an estimate of the annual debt service payment that would result from refunding the outstanding commercial paper with sale proceeds of long-term bonds.

Airport Revenue Bonds
Annual Debt Service

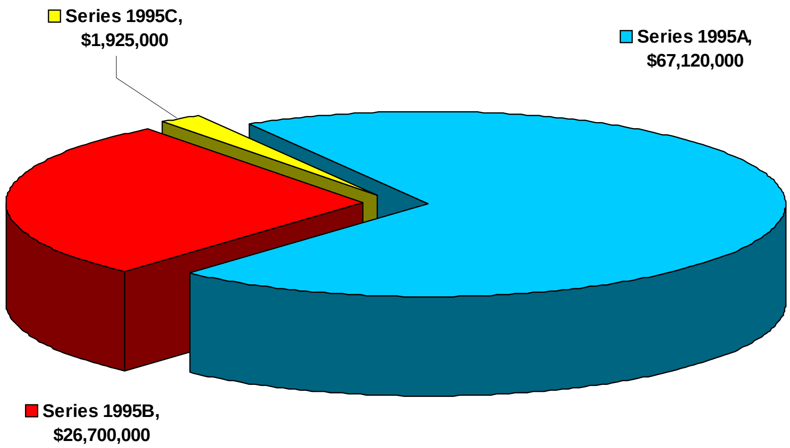


2. Clean Water Financing Authority

The pie chart below illustrates the total amount of outstanding sewer revenue bonds issued by the San José-Santa Clara Clean Water Financing Authority. The Clean Water Financing Authority is the obligor for repayment of this debt. The Improvement Agreement, by and among the San José-Santa Clara Clean Water Financing Authority, the City of San José and the City of Santa Clara, provides the terms and conditions under which the Cities of San José and Santa Clara agree to make payments to the Authority for debt service on the bonds.

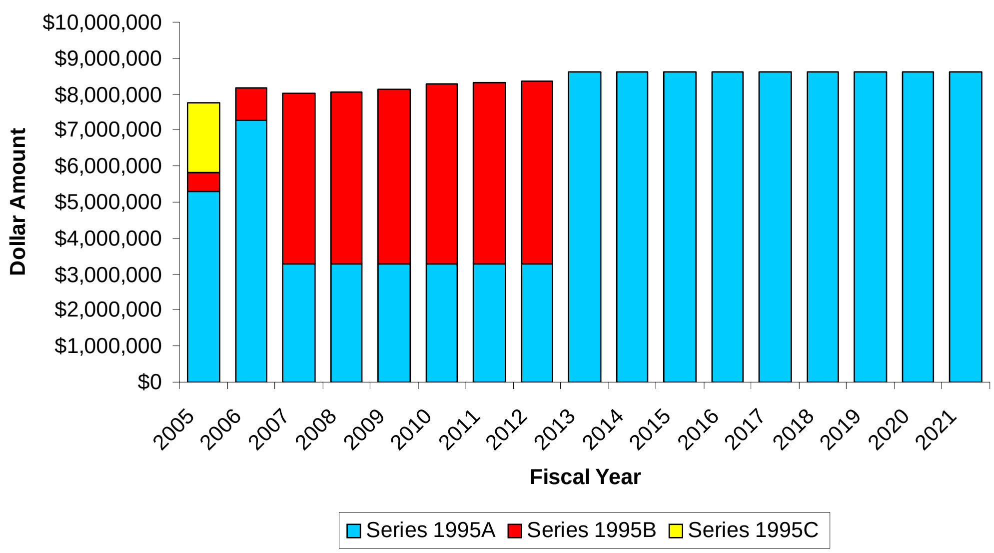
The City of San José and the City of Santa Clara have separate agreements with tributary agencies for those agencies' share of capital costs and ongoing operation expenses of the water treatment system. These revenue streams along with other revenue sources generated from the water treatment system are applied toward the payment obligation the cities of San José and Santa Clara have to the Authority. The tributary agencies include the City of Milpitas, West Valley Sanitation District, Cupertino Sanitation District, Burbank Sanitary District, Sunol Sanitary District and County Sanitation District 2-3.

Clean Water Financing Authority Sewer Revenue Bonds
Outstanding Debt as of June 30, 2004: $95,745,000



The bar graph below illustrates the annual debt service requirements by each Clean Water Financing Authority issue.

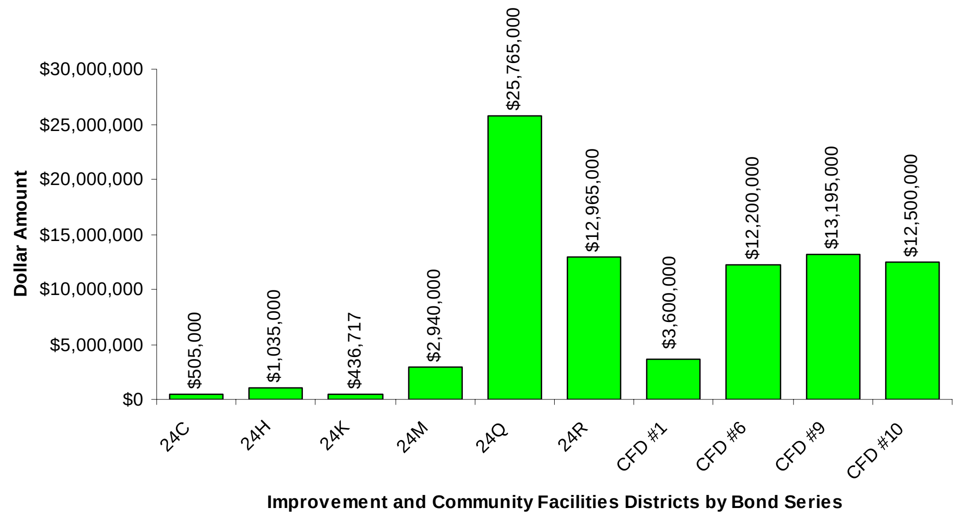
Clean Water Financing Authority Sewer Revenue Bonds
Annual Debt Service



D. Land-Secured Financing

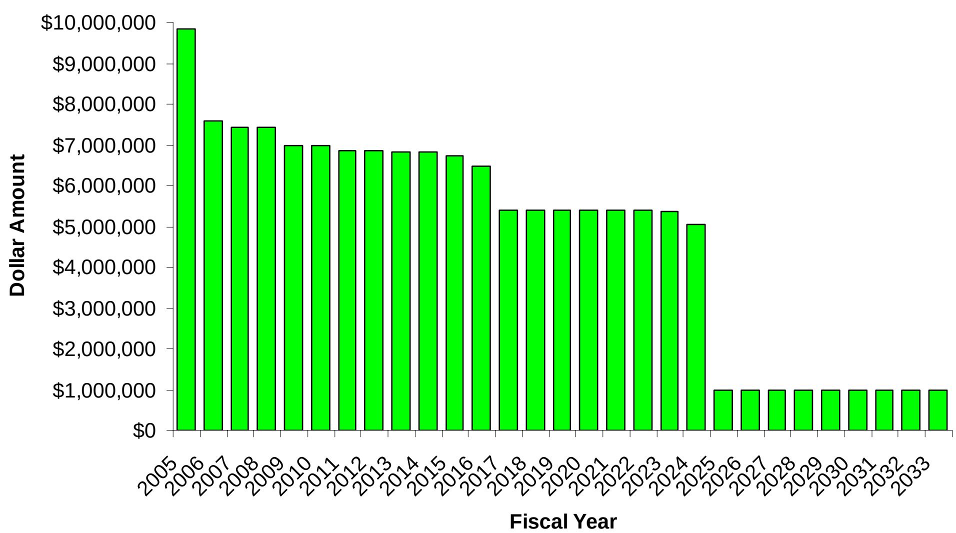
The following bar chart illustrates the total amount of land-secured debt outstanding backed by special assessments and special taxes. As of June 30, 2004, the City had four community facilities district and six improvement district bond issues outstanding. The largest issue was Series 24Q, the Hellyer-Piercy Improvement District. This bond issue represented 30% of all land-secured outstanding debt.

Land-Secured Bonds
Outstanding Debt as of June 30, 2004: $85,141,717



The bar graph below illustrates the total annual debt service requirements for all of the improvement district and community facilities district debt outstanding.

Land-Secured Bonds
Annual Debt Service



E. Multifamily Housing Revenue Bonds

Multifamily housing revenue bonds are issued to finance the development (including acquisition and rehabilitation) by private developers of certain rental apartment projects. The City issues the bonds and then loans the proceeds to the developer/borrower. The bonds are typically issued as tax-exempt securities. The Bonds are limited obligations of the City, payable solely from loan repayments by the Borrower and any credit enhancement. For multifamily housing revenue bonds to qualify for tax-exemption, generally one of two restrictions must apply: either (1) at least 20 percent of the units in the housing development must be reserved for occupancy by individuals and families of very-low income (50% of area median income) or (2) at least 40 percent of the units must be reserved for occupancy by individuals and families of low income (60% of area median income).

The City remains an active issuer of conduit multifamily housing revenue bonds, although the frequency of issuance has slowed recently due to a variety of factors, including the softening of the real estate market and diminished resources available to subsidize affordable housing. The table presented on the next page summarizes the City's portfolio of multifamily revenue bonds.

Since November 1985, the City has issued $590,798,000 of bonds for the City's multifamily housing program, which has financed 4,876 affordable housing units. As of June 30, 2004, the total principal amount of bonds outstanding for the housing program was $543,479,307. It is important to note that in addition to conduit financing through multifamily housing revenue bonds, there are other vehicles available to the City for assisting with financing of affordable housing units, including loans, grants and 9% tax-credits. The information presented in this report only represents affordable housing projects that were financed with tax-exempt bonds issued by the City.

Multifamily Housing Revenue Bonds

As of June 30, 2004

Project Name	Date Issued	Bonds Issued	Bonds Outstanding	Affordable Units
Fairway Glen	11/18/1985	$ 10,100,000	$ 9,580,000	29
Foxchase Drive	11/18/1985	11,700,000	9,600,000	29
Somerset Park Apartments	11/20/1987	8,000,000	7,800,000	26
Timberwood Apartments (2 series)	02/01/1990	14,925,000	12,115,000	166
Countrybrook Apartments	04/15/1992	21,090,000	17,495,000	72
Siena at Renaissance Square (Reissued in 2001)	08/22/1996	60,000,000	60,000,000	271
Almaden Lake Village Apts. (Reissued in 2000)	03/27/1997	27,000,000	27,000,000	142
Subtotal for Fiscal Years 1985-1997		$152,815,000	$143,590,000	735
Carlton Plaza	04/24/1998	$ 14,600,000	12,000,000	26
Coleman Senior Apartments	04/24/1998	8,050,000	7,887,500	140
Italian Gardens Senior Apartments	04/24/1998	8,000,000	7,837,500	139
Subtotal for Fiscal Year 1997-1998		$ 30,650,000	$ 27,725,000	305
The Gardens Apartments Project (2 series)	05/12/1999	$ 21,900,000	$ 21,295,000	286
Helzer Court Apartments (3 series)	06/02/1999	23,169,000	20,734,000	154
Ohlone-Chynoweth Commons Apartments	06/04/1999	16,200,000	13,820,000	192
Subtotal for Fiscal Year 1998-1999		$ 61,269,000	$ 55,849,000	632
Kimberly Woods Apartments	12/20/1999	$ 16,050,000	16,050,000	42
Subtotal for Fiscal Year 1999-2000		$ 16,050,000	$ 16,050,000	42
Sixth and Martha Family Apartments Phase I	07/21/2000	$ 9,900,000	$ 9,780,000	102
Craig Gardens Senior Housing	12/05/2000	7,100,000	4,805,230	89
El Parador Senior Housing (3 series)	12/07/2000	11,530,000	6,915,000	124
Monte Vista Gardens Senior Housing Phase I	12/08/2000	3,740,000	3,347,375	68
Willow Glen Senior Housing (2 series)	12/08/2000	11,020,000	0	132
Subtotal for Fiscal Year 2000-2001		$ 43,290,000	$ 24,847,605	515
Immanuel Lutheran Senior Housing	07/11/2001	$ 5,000,000	$ 3,850,000	62
Sixth and Martha Family Apartments Phase II	08/01/2001	9,000,000	9,000,000	87
Villages Parkway Senior Apartments	08/01/2001	6,800,000	6,800,000	78
Lenzen Affordable Housing Project (2 series)	08/22/2001	9,495,000	8,395,000	87
North White Road Family Apartments	11/15/2001	16,845,000	16,838,635	156
Villa de Guadalupe Apartments (2 series)	11/27/2001	7,600,000	7,470,067	100
Almaden Senior Apartments	12/05/2001	6,050,000	6,050,000	65
Betty Anne Gardens	04/05/2002	11,000,000	7,610,000	75
El Paseo Studios	04/05/2002	9,600,000	9,600,000	97
Sunset Square Apartments	06/26/2002	10,904,000	6,594,000	94
Villa Monterey	06/27/2002	11,000,000	11,000,000	119
Subtotal for Fiscal Year 2001-2002		$103,294,000	$ 93,207,702	1,020
Monte Vista Gardens Senior Housing Phase II	07/24/2002	$ 3,665,000	$ 3,665,000	48
Pollard Plaza Apartments	08/06/2002	14,000,000	14,000,000	129
Evans Lane Apartments	10/08/2002	31,000,000	31,000,000	236
Hacienda Villa Apartments	10/10/2002	7,000,000	7,000,000	79
Kennedy Apartments	12/11/2002	14,000,000	14,000,000	99
Fallen Leaves Apartments	12/18/2002	18,800,000	18,800,000	159
Turnleaf Apartments	06/26/2003	15,290,000	15,290,000	151
Subtotal for Fiscal Year 2002-03		$103,755,000	$103,755,000	901

(continued on next page)

Multifamily Housing Revenue Bonds *As of June 30, 2004 (continued)*				
Project Name	**Date Issued**	**Bonds Issued**	**Bonds Outstanding**	**Affordable Units**
The Oaks of Almaden Apartments	07/28/2003	$ 8,350,000	$ 8,350,000	126
Cinnabar Commons Apartments	08/07/2003	25,900,000	25,900,000	245
Almaden Family Apartments	11/14/2003	31,300,000	31,300,000	225
Trestles Apartments (2 series)	03/04/2004	8,625,000	7,405,000	71
Aspen Vintage Tower Apartments	06/28/2004	5,500,000	5,500,000	59
Subtotal for Fiscal Year 2003-04		$79,675,000	$78,455,000	726
Grand Total		**$590,798,000**	**$543,479,307**	**4,876**

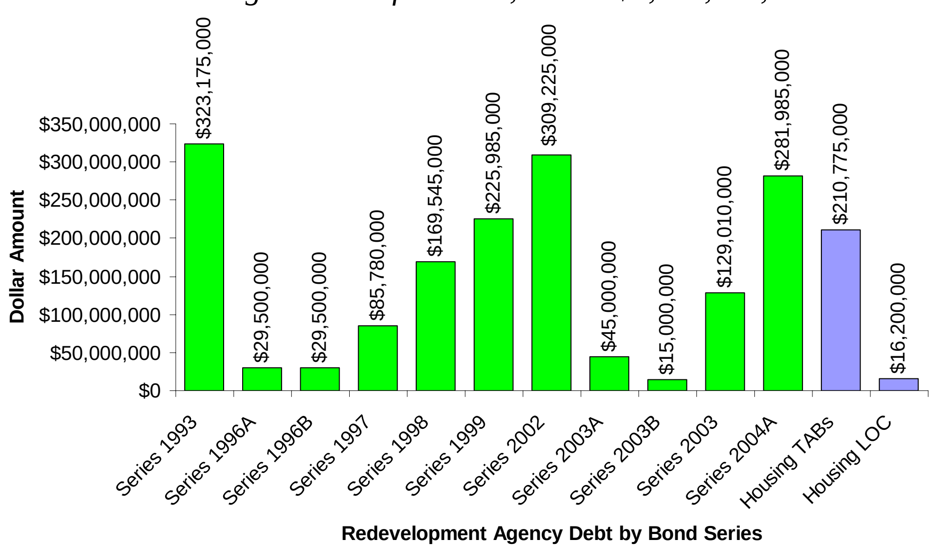
F. Redevelopment Agency

***Please note that the City has no obligation or connection in any way to debt issued by the Redevelopment Agency*.**

The following bar chart illustrates the total amount of direct redevelopment agency tax increment debt outstanding. This includes both the debt issued for the 80% program, shown in green, and the 20% housing program, shown in blue.

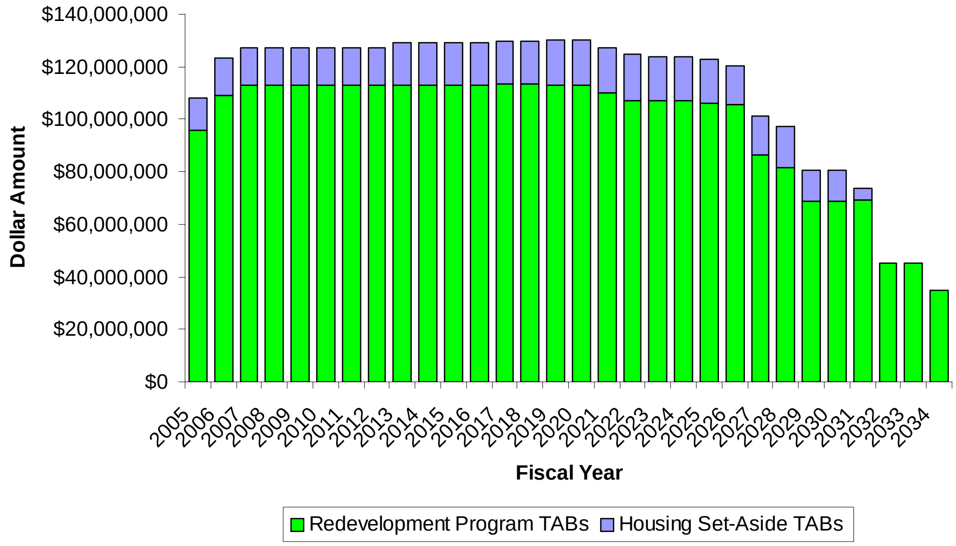
Redevelopment Agency Tax Increment Debt

Outstanding Debt as of June 30, 2004: $1,870,680,000



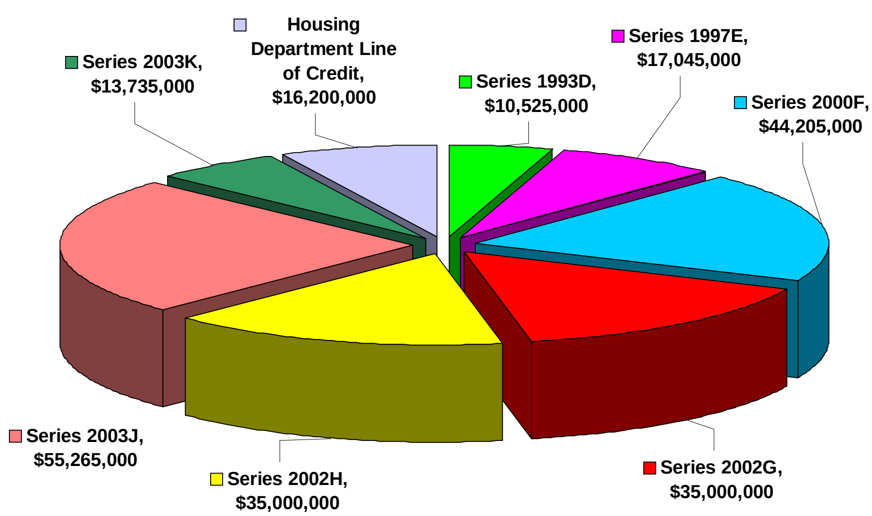
The following bar graph illustrates the total annual debt service requirements for all of the Agency debt outstanding, except for the Housing Department Line of Credit which will be redeemed with proceeds of future housing set-aside tax allocation bonds.

Redevelopment Agency Tax Increment Debt
Annual Debt Service



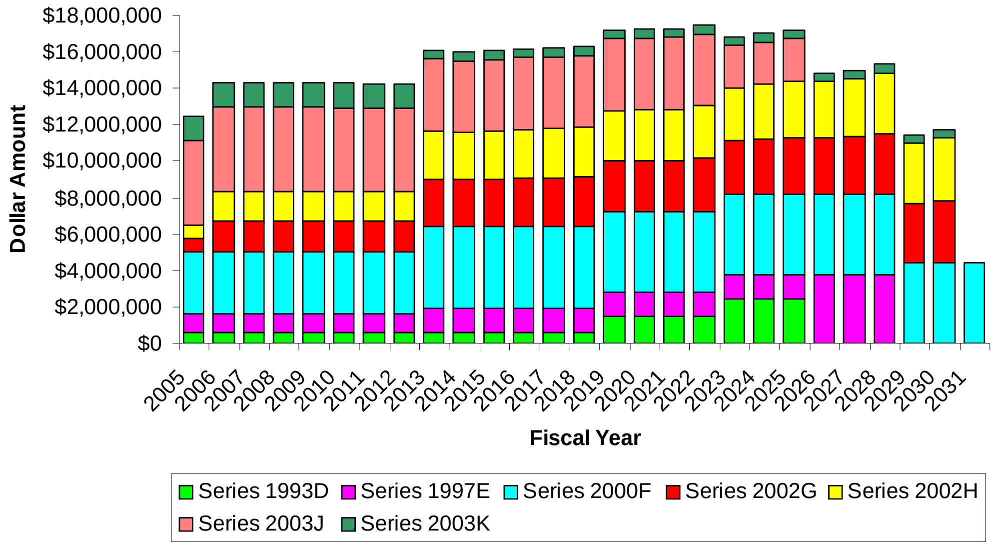
The pie chart below provides a more detailed view of the Agency's outstanding housing set-aside tax allocation bonds and the $50 million line of credit with Bank of New York. As of June 30, 2004, the balance outstanding on the Line of Credit was $16,200,000.

Agency Housing Set-Aside Tax Allocation Bonds and Housing Line of Credit
Outstanding Debt as of June 30, 2004: $226,975,000



The bar graph below illustrates the annual debt service requirements for the Agency's housing set-aside tax allocation bond issues, except for the Housing Department Line of Credit, which will be redeemed with proceeds of future housing set-aside tax allocation bonds.

Agency Housing Set-Aside Tax Allocation Bonds
Annual Debt Service



APPENDIX A: CURRENT RATINGS SUMMARY

Current Ratings Summary
as of November 30, 2004

	Moody's	S&P	Fitch
City of San José			
General Obligation Bonds, Series 2001	Aa1	AA+	AA+
General Obligation Bonds, Series 2002			
Maturities Insured by MBIA (2032)	Aaa	AAA	AAA
Uninsured Maturities	Aa1	AA+	AA+
General Obligation Bonds, Series 2004			
Maturities Insured by MBIA	Aaa	AAA	AAA
Uninsured Maturities (2005-2006, 2018-2025)	Aa1	AA+	AA+
City of San José Financing Authority			
Lease Revenue Bonds, Series 1993B	A1	AA	--
Lease Revenue Bonds, Series 1997A			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(A1)	--	(AA-)
Lease Revenue Bonds, Series 1997B			
All Maturities Insured by Ambac	--	AAA	AAA
Underlying Rating	A1	--	(AA-)
Lease Revenue Bonds, Series 2000B			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(A1)	--	--
Lease Revenue Bonds, Series 2000C[1]			
MBIA Insured/JPMorgan Chase Liquidity	Aaa/VMIG-1	AAA/A-1+	AAA
Revenue Bonds, Series 2001A			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(A2)	--	(A-)
Lease Revenue Bonds, Series 2001B[1]			
Ambac Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1+	AAA/S1+
Lease Revenue Bonds, Series 2001C[1]			
Ambac Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1+	AAA/S1+
Lease Revenue Bonds, Series 2001D[1]			
Ambac Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1+	AAA/S1+
Lease Revenue Bonds, Series 2001E	Aa3	AA	AA
Lease Revenue Bonds, Series 2001F			
Maturities Insured by MBIA (2002-2020)	Aaa	AAA	AAA
Uninsured Maturities	Aa3	AA	AA
Lease Revenue Bonds, Series 2002B			
Maturities Insured by Ambac (2008-2037)	Aaa	AAA	AAA
Uninsured Maturities	Con. Aa3	AA	AA
Lease Revenue Bonds, Series 2002C			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	Con. (Aa3)	--	(AA)
Lease Revenue Bonds, Series 2002D			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	Con. (Aa3)	--	(AA)
Lease Revenue Bonds, Series 2003A			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(Aa3)	(AA)	(AA)
Lease Revenue Commercial Paper Notes			
State Street Bank/CalSTRS Letter of Credit	P-1	A-1+	F1+
Lease Revenue Bonds, Series 2004A[1]			
All Maturities Insured by MBIA	Aaa	AAA	--

[1] Variable rate bonds.

Current Ratings Summary (continued)

as of November 30, 2004

	Moody's	S&P	Fitch
Redevelopment Agency of the City of San José			
Housing Set-Aside Tax Allocation Bonds			
Series 1993D			
All Maturities Insured by MBIA	--	AAA	AAA
Underlying Rating	A3	(A)	--
Series 1997E			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	--
Series 2000F			
All Maturities Insured by FSA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A)
Series 2002G[1]			
Bank of New York Credit Facility	Aa2/VMIG-1	--	--
Series 2002H[1]			
Bank of New York Credit Facility	Aa2/VMIG-1	--	--
Series 2003J			
All Maturities Insured by XL Capital	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A)
Series 2003K			
All Maturities Insured by XL Capital	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A)
Redevelopment Project Tax Allocation Bonds			
Series 1993			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A3)	(A)	(A)
Series 1997			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A3)	--	(A)
Series 1998			
Maturities Insured by Ambac (2005-2026)	Aaa	AAA	AAA
Maturities Insured by MBIA (2029)	--	--	AAA
Uninsured Maturities/Underlying Rating	A3	(A)	(A)
Series 1999			
All Maturities Insured by Ambac	Aaa	AAA	AAA
Underlying Rating	(A3)	(A)	(A)
Series 2002			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A3)	(A)	(A)
Series 2003			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A3)	(A)	(A)
Series 2004A			
Maturities Insured by MBIA (2006-2019)	Aaa	AAA	AAA
Uninsured Maturities	A3	A	A

[1] Variable rate bonds.

Current Ratings Summary (continued)

as of November 30, 2004

	Moody's	S&P	Fitch
Redevelopment Agency of the City of San José (continued)			
Redevelopment Project Revenue Bonds (Subordinate)			
Series 1996A[1]			
JP Morgan Chase Credit Facility	--	AA-/A-1+	--
Series 1996B[1]			
JP Morgan Chase Credit Facility	--	AA-/A-1+	--
Series 2003A[1]			
JP Morgan Chase Credit Facility	--	AA-/A-1+	--
Series 2003B[1]			
JP Morgan Chase Credit Facility	--	AA-/A-1+	--
Norman Y. Mineta San José International Airport			
Revenue Refunding Bonds, Series 1994			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	--	(A)	(A+)
Revenue Refunding Bonds, Series 1998A			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Subordinated Commercial Paper Notes, Series A			
JPMorgan Chase Letter of Credit	P-1	A-1+	F1
Subordinated Commercial Paper Notes, Series B			
JPMorgan Chase Letter of Credit	P-1	A-1+	F1
Subordinated Commercial Paper Notes, Series C			
JPMorgan Chase Letter of Credit	P-1	A-1+	F1
Revenue Bonds, Series 2001A			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2002A			
All Maturities Insured by FSA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2002B			
All Maturities Insured by FSA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2004A[1]			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2004B[1]			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2004C			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2004D			
All Maturities Insured by MBIA	Aaa	AAA	AAA
Underlying Rating	(A2)	(A)	(A+)

[1] Variable rate bonds.

Current Ratings Summary (continued)

as of November 30, 2004

	Moody's	S&P	Fitch
San José-Santa Clara Clean Water Financing Authority			
Revenue Bonds, Series 1995A			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A1)	(AA-)	(AA)
Revenue Bonds, Series 1995B[1]			
FGIC Insured/ScotiaBank Liquidity	Aaa/VMIG-1	AAA/A-1+	AAA/F1+
Underlying Rating	(A1)	--	--
Revenue Bonds, Series 1995C			
All Maturities Insured by FGIC	Aaa	AAA	AAA
Underlying Rating	(A1)	(AA-)	(AA)
City of San José Financing Authority			
Reassessment Revenue Bonds, Series 1994A	--	A-	--
City of San José Reassessment District No. 02-219SJ			
Limited Obligation Refunding Bonds, Series 24R			
All Maturities Insured by MBIA	Aaa	AAA	AAA

[1] Variable rate bonds.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

APPENDIX B: SUMMARY OF OUTSTANDING DEBT

Summary of Outstanding Debt as of June 30, 2004

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance 06/30/04
City of San José				
General Obligation Bonds				
Series 2001 (Libraries and Parks Project)	71,000	06/06/2001	09/01/2031	66,260
Series 2002 (Libraries, Parks and Public Safety Projects)	116,090	07/18/2002	09/01/2032	112,220
General Obligation Bond Subtotal				178,480
Special Assessment Bonds				
Series 24C (Evergreen Creek)	1,080	09/07/1988	09/02/2009	505
Series 24H (Hellyer-Fontanoso)	8,560	05/01/1992	09/02/2004	1,035
Series 24K (Taxable) (Seismic Retrofit)	823	07/29/1993	09/02/2013	437
Series 24M (Consolidated Refunding)	22,240	06/01/1994	09/02/2007	2,940
Series 24Q (Hellyer-Piercy)	27,595	06/26/2001	09/02/2023	25,765
Series 24R (2002 Consolidated Refunding)	13,940	07/03/2002	09/02/2015	12,965
Special Tax Bonds				
CFD No. 1 (Capitol Expressway Auto Mall)	4,100	11/18/1997	11/01/2022	3,600
CFD No. 6 (Great Oaks-Route 85)	12,200	12/18/2001	09/01/2003	12,200
CFD No. 9 (Bailey/Highway 101)	13,560	02/13/2003	09/01/2032	13,195
CFD No. 10 (Hassler-Silver Creek)	12,500	07/23/2003	09/01/2023	12,500
Special Assessment and Special Tax Bond Subtotal				85,142
City of San José Financing Authority				
Lease Revenue Bonds				
Series 1993B (Community Facilities)	18,045	03/01/1993	11/15/2018	11,513
Series 1997A (Golf Course Project)	6,875	07/01/1997	08/15/2027	6,395
Series 1997B (Fire Apparatus, Childcare, Library)	9,805	07/01/1997	08/01/2012	5,395
Series 2000B (Tuers-Capitol/Camden)	22,635	08/08/2000	08/15/2030	22,245
Series 2000C (Taxable) (Ice Centre of San José)	22,200	12/13/2000	12/01/2021	22,200
Series 2001B (Taxable) (Hayes Mansion Phase III)	24,000	02/14/2001	07/01/2024	24,000
Series 2001C (Taxable) (Hayes Mansion Phase III)	18,500	02/14/2001	07/01/2024	18,500
Series 2001D (Hayes Mansion Phase III)	10,800	02/14/2001	07/01/2026	10,800
Series 2001E (Communication Center)	18,610	03/01/2001	05/10/2010	13,720
Series 2001F (Convention Center Refunding)	186,150	07/01/2001	09/01/2022	181,390
Series 2002B (Civic Center Project)	292,425	11/14/2002	06/01/2037	292,425
Series 2002C (Civic Center Project)	60,000	11/14/2002	06/01/2039	60,000
Series 2002D (Civic Center Project)	60,000	11/14/2002	06/01/2039	60,000
Series 2003A (Central Service Yard Refunding)	22,625	09/18/2003	10/15/2023	22,625
Series 2004A (Taxable) (Ice Centre Expansion Project)	9,225	06/03/2004	12/01/2024	9,225
Parking Revenue Bonds				
Series 2001A (4th & San Fernando Parking Facility)	48,675	04/10/2001	09/01/2026	46,370
Reassessment Revenue Bonds				
Series 1994A	16,680	06/23/1994	09/02/2005	1,405
Series 1994B (Subordinate)	8,035	06/23/1994	09/02/2007	1,530
City of San José Financing Authority Subtotal				809,738

Summary of Outstanding Debt as of June 30, 2004 (continued)

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance 06/30/04
Redevelopment Agency:				
Merged Area Tax Allocation Bonds				
Series 1993 (Merged Area Refunding)	692,075	12/01/1993	02/01/2024	323,175
Series 1997 (Merged Area)	106,000	03/27/1997	08/01/2028	85,780
Series 1998 (Merged Area)	175,000	03/19/1998	08/01/2029	169,545
Series 1999 (Merged Area)	240,000	01/06/1999	08/01/2031	225,985
Series 2002 (Merged Area)	350,000	01/24/2002	08/01/2032	309,225
Series 2003 (Merged Area)	135,000	12/22/2003	08/01/2033	129,010
Series 2004A (Merged Area Refunding)	281,985	05/27/2004	08/01/2019	281,985
Merged Area Tax Allocation Bonds Subtotal				1,524,705
Merged Area Revenue Bonds (Subordinate)				
Series 1996A (Merged Area)	29,500	06/27/1996	07/01/2026	29,500
Series 1996B (Merged Area)	29,500	06/27/1996	07/01/2026	29,500
Series 2003A (Taxable) (Merged Area)	45,000	08/27/2003	08/01/2028	45,000
Series 2003B (Merged Area)	15,000	08/27/2003	08/01/2032	15,000
Merged Area Revenue Bonds Subtotal				119,000
Housing Set-Aside Tax Allocation Bonds				
Series 1993D (Merged Area)	10,525	12/01/1993	08/01/2024	10,525
Series 1997E (AMT) (Merged Area)	17,045	06/23/1997	08/01/2027	17,045
Series 2000F (Taxable) (Merged Area)	44,205	12/13/2000	08/01/2030	44,205
Series 2002G (Taxable) (Merged Area)	35,000	05/29/2002	08/01/2029	35,000
Series 2002H (Taxable) (Merged Area)	35,000	05/29/2002	08/01/2029	35,000
Series 2003J (Taxable) (Merged Area)	55,265	07/10/2003	08/01/2024	55,265
Series 2003K (Merged Area)	13,735	07/10/2003	08/01/2029	13,735
Housing Set-Aside Tax Allocation Bonds Subtotal				210,775
Clean Water Financing Authority:				
Sewer Revenue Bonds				
Series 1995A	68,820	11/30/1995	11/15/2020	67,120
Series 1995B	26,700	11/30/1995	11/15/2011	26,700
Series 1995C	12,230	11/30/1995	11/15/2004	1,925
Sewer Revenue Bonds Subtotal				95,745
Norman Y. Mineta San José International Airport:				
Airport Revenue Bonds				
Series 1994	19,345	01/25/1994	03/01/2007	5,380
Series 1998A	14,015	01/27/1998	03/01/2018	11,140
Series 2001A	158,455	08/14/2001	03/01/2031	155,435
Series 2002A	53,600	01/09/2003	03/01/2018	53,600
Series 2002B (AMT)	37,945	01/09/2003	03/01/2012	36,945
Series 2004A (AMT)	70,000	06/24/2004	06/01/2034	70,000
Series 2004B (AMT)	70,000	06/24/2004	06/01/2034	70,000
Series 2004C (AMT)	75,730	06/24/2004	03/01/2026	75,730
Series 2004D	34,270	06/24/2004	03/01/2028	34,270
Airport Revenue Bonds Subtotal				512,500
Grand Total:				3,536,085

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APPENDIX C: OVERLAPPING DEBT REPORT

CITY OF
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City of San José Statement of Overlapping Debt
as of June 30, 2004

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt on 6/30/04
Santa Clara County Flood Control and Water Conservation District, Zone W-1	46.175 %	$ 2,694,311
Foothill Community College District	4.402	8,338,933
Gavilan Joint Community College District	7.819	2,345,700
San José Community College District	85.942	105,356,902
Milpitas Unified School District	0.0003	17,474
Morgan Hill Unified School District	20.781	14,978,478
San José Unified School District	97.751	221,122,108
Santa Clara Unified School District	4.591	5,623,516
Campbell Union High School District	59.610	43,962,375
East Side Union High School District	94.549	220,559,131
Fremont Union High School District	9.184	12,298,294
Los Gatos Joint Union High School District	0.763	546,651
Alum Rock Union School District	75.015	35,266,426
Berryessa Union School District	93.222	46,655,775
Burbank School District	19.227	326,859
Cambrian School District	66.832	10,375,609
Campbell Union School District	45.570	35,979,022
Cupertino Union School District	15.930	19,483,115
Evergreen School District	99.417	85,393,935
Evergreen School District Community Facilities District No. 92-1	100.000	6,135,000
Franklin-McKinley School District	97.817	42,856,726
Los Gatos Union School District	1.730	1,004,265
Moreland School District	75.306	38,081,705
Mount Pleasant School District	87.046	9,383,559
Oak Grove School District	99.781	68,579,299
Orchard School District	100.000	31,660,697
Union School District	72.290	45,243,878
City of San José	**100.000**	**178,480,000**
City of San José Community Facilities Districts	100.000	37,895,000
San José Special Assessment Bonds	100.000	43,646,717
Santa Clara Valley Water District Benefit Assessment District	38.618	76,119,940
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,450,411,400

DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION:	% Applicable	Debt on 6/30/04
Santa Clara County General Fund Obligations	38.618 %	$243,308,847
Santa Clara County Board of Education Certificates of Participation	38.618	7,148,192
Community College District Certificates of Participation	Various	16,357,241
San José Unified School District Certificates of Participation	97.751	103,507,919
Santa Clara Unified School District Certificates of Participation	4.591	347,768
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.763	34,449
Alum Rock Union School District Certificates of Participation	75.0154	1,320,264
Cupertino Union School District Certificates of Participation	15.930	1,029,078
Franklin-McKinley School District Certificates of Participation	97.817	17,500,542
Moreland School District Certificates of Participation	75.306	4,251,024
City of San José General Fund Obligations	**100.000**	**757,731,740**
Midpeninsula Regional Open Space Park District General Fund Obligations	0.017	19,859
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,152,556,923
Less: **San José Convention Center (100% self-supporting from tax increment revenues)** (1)		**181,390,000**
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		971,166,923
GROSS COMBINED TOTAL DEBT (2)		$2,602,968,323
NET COMBINED TOTAL DEBT		$2,421,578,323

(1) Supported from surplus tax increment revenues pursuant to a Reimbursement Agreement between the City and the Redevelopment Agency
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital leases.

Ratios to 2003-04 Assessed Valuation:	
Direct Debt ($178,480,000)	**0.20%**
Total Direct and Overlapping Tax and Assessment Debt	1.61%
Ratios to Adjusted Assessed Valuation:	
Gross Combined Direct Debt ($936,211,740)	**1.27%**
Net Combined Direct Debt ($754,821,740)	**1.02%**
Gross Combined Total Debt	3.52%
Net Combined Total Debt	3.27%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04:	$8,757,201

Source: California Municipal Statistics, Inc.

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APPENDIX D: AIRPORT COMMERCIAL PAPER DEBT SERVICE CERTIFICATION

AIRPORT COMMERCIAL PAPER DEBT SERVICE CERTIFICATION

In accordance with the Letter of Credit and Reimbursement Agreement between the City of San José and JPMorgan Chase Bank, dated November 1, 1999 (the "Reimbursement Agreement"), for the Airport's Commercial Paper Program, the certification presented in this appendix is included in the Annual Debt Report for transmission to the City Council.

Pursuant to Section 1.1(c) of the Reimbursement Agreement, the Airport's financial advisor, Fullerton & Friar, Inc., has prepared an estimate of the annual debt service needed to amortize over a 25-year period the outstanding principal, as of June 30, 2004, on the Airport's commercial paper notes. As specified in Section 1.1(c), the assumed interest rate is the average of the outstanding commercial paper notes during the 90-day period prior to June 30, 2004.

This estimate of annual debt service is used by the City to calculate the debt service coverage ratio in compliance with Section 7.9 of the Reimbursement Agreement.

FULLERTON & FRIAR, INC.

8200 BRYAN DAIRY ROAD, SUITE 325
LARGO, FLORIDA 33777

TELEPHONE: (727) 319-9292
FACSIMILE: (727) 319-9203
E-MAIL: kfullerton@fullertonfriar.com

Memorandum

To: City of San Jose

From: Kenneth D. Fullerton

Re: Information for Debt Service Coverage Calculations Required in Connection with the Commercial Paper Program for San Jose International Airport

Date: July 22, 2004

We have developed the calculations required from our firm to enable the City of San Jose (the "City") to comply with Section 7.9 of its Reimbursement Agreement with Morgan Guaranty Trust Company related to the commercial paper program for San Jose International Airport (the "Airport"). Specifically, we have developed an estimate of what the long-term debt service would have been on the Airport's commercial paper outstanding as of June 30, 2004. In doing so, we have used assumptions we believe are consistent with the requirements of Part (c) of the definition of "Debt Service" contained in the Reimbursement Agreement.

The results of our calculations are presented below. As required by the Reimbursement Agreement, we have assumed that the principal amount of the commercial paper would be amortized over a period of 25 years. As also required, the interest rates we have assumed are the weighted average rates on the City's Series C (taxable) commercial paper for the 90 day period prior to June 30, 2004:

Type of CP	*Principal Outstanding*	*Assumed Interest Rate*	*Assumed Debt Service*
Series C (taxable)	5,786,000	1.154%	267,753

Please contact me if the City has any questions or requires any additional information.

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APPENDIX E: SPECIAL TAX ANNUAL REPORT

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SPECIAL TAX ANNUAL REPORT

This information is provided in the Annual Debt Report to the City Council pursuant to California Government Code Sections 50075 and 50075.3. California Government Code Section 50075 requires that on or after January 1, 2001, any local special tax measure that is subject to voter approval that would provide for the imposition of a special tax by a local agency shall provide accountability measures that include an annual report.

Pursuant to Government Code Section 50075.3, the Chief Financial Officer of the levying local agency shall file the annual report with its governing body no later than January 1, 2002, and at least once a year thereafter. The annual report shall contain both of the following: (a) the amount of funds collected and expended; and (b) the status of any project required or authorized to be funded as identified in the special tax measure indicating the specific purposes of the special tax.

Special Tax Annual Report
Fiscal Year 2003-04

Date of Election	Special Tax Measure	Funds Collected	Funds Expended	Status of Funded Projects
11/07/2000	San José Neighborhood Libraries Bonds	See Note 1	$4,821,321	1 Completed 12 Under Design or Construction
11/07/2000	San José Neighborhood Parks and Recreation Bonds	See Note 1	$6,841,758	72 Completed 19 Under Design or Construction
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	See Note 1	$3,052,968	1 Completed 27 Under Design or Construction
03/27/2001	Community Facilities District No. 6 (Great Oaks-Route 85)	$1,049,213	$668,512	99% Completed
06/19/2001	Community Facilities District No. 5A (North Coyote Valley Facilities)	$0	$0	No Activity
06/19/2001	Community Facilities District No. 5B (North Coyote Valley Services)	$0	$0	No Activity
12/17/2002	Community Facilities District No. 9 (Bailey/Highway 101)	$832,224	$1,223,187	75% Completed
04/01/2003	Community Facilities District No. 10 (Hassler-Silver Creek)	$1,051,414	$391,690	Project Completed (Pending Final Acceptance)

[1] The City issued two series of General Obligation Bonds through Fiscal Year 2003-04 for a total of $116,090,000 to fund a portion of the projects authorized by voters under these measures. A total of $12,886,042 was collected in Fiscal Year 2003-04 to pay debt service on those bonds.

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GLOSSARY

GLOSSARY

Accrued Interest: In general, interest that has been earned on a bond, but not yet paid – usually because it is not yet due. More specifically, this term is often used to refer to interest earned on a bond from its dated date to the closing date.

Ad Valorem Tax: A tax which is based on the value (assessed value) of property.

Advance Refunding: A procedure whereby outstanding bonds are refinanced from the proceeds of a new bond issue more than ninety (90) days prior to the date on which the outstanding bonds ("refunded bonds") become due or are callable.

Alternative Minimum Tax (AMT): An income tax based on a separate and alternative method of calculating taxable income and separate and alternative schedule of rates. With respect to bonds, the interest on certain types of qualified tax-exempt private activity bonds is included in income for purposes of the individual and corporate alternative minimum tax.

Arbitrage: With respect to municipal bonds, "arbitrage" is the profit made from investing the proceeds of tax-exempt bonds in higher-yielding securities.

Arbitrage Rebate: Payment of arbitrage profits to the United States Treasury by a tax-exempt bond issuer.

Basis Point: One basis point is equal to 1/100 of one percent. If interest rates increase from 4.50% to 4.75%, the difference is referred to as a 25 basis point increase.

BMA Index: An index published by the Bond Market Association (BMA). The index is produced from Municipal Market Data and is a 7-day high-grade market index comprised of tax-exempt variable rate demand obligations.

Bond: Any interest-bearing or discounted government or corporate security that obligates the issuer (borrower) to pay the bondholder a specific sum of money (interest), usually at specific intervals, and to repay the principal amount of the loan at maturity.

Bond Counsel: An attorney or a firm of attorneys, retained by the issuer, that gives the legal opinion delivered with the bonds confirming that (i) the bonds are valid and binding obligations of the issuer; (ii) the issuer is authorized to issue the proposed securities; (iii) the issuer has met all legal requirements necessary for issuance, and; (iv) and in the case of tax-exempt bonds, that interest on the bonds is exempt from federal and state income taxes.

Bond Insurance: Noncancellable insurance purchased from a bond insurer by the issuer or purchaser of a bond or series of bonds pursuant to which the insurer promises to make scheduled payments of interest, principal and mandatory sinking fund payments on an issue if the issuer fails to make timely payments. When an issue is insured, the investor relies on the creditworthiness of the insurer rather than the issuer. Payment of an installment by the insurer does not relieve the issuer of its obligation to pay that installment; the issuer remains liable to pay that installment to the insurer.

Bond Insurer: A company that pledges to make all interest and principal payments when due if the issuer of the bonds defaults on its obligations. In return, the bond issuer or purchaser pays a premium ("bond insurance premium") to the insurance company. Insured bonds generally trade on the rating of the bond insurer rather than the rating on the underlying bonds, since the bond insurer is ultimately at risk for payment of the principal and interest due on the bonds. The municipal bond insurers used by the City include: Ambac, MBIA, FGIC, FSA and XL Capital, which are all rated Aaa/AAA/AAA.

Bond Purchase Contract or Agreement: In a negotiated sale, the bond purchase contract is an agreement between an issuer and an underwriter or group of underwriters in a syndicate or selling group who have agreed to purchase the issue pursuant to the price, terms and conditions outlined in the agreement.

Bond Resolution: See Indenture/Bond Resolution/Trust Agreement.

Bond Series: An issue of bonds may be structured as multiple bond series reflecting differences in tax status, priority of debt service payment, or interest rate mode, as well as to facilitate marketing of the bonds.

Bondholder: The owner of a bond. Bondholders may be individuals or institutions such as banks, insurance companies, mutual funds, and corporations. Bondholders are generally entitled to receive regular interest payments and return of principal when the bond matures.

Call: The terms of the bond giving the issuer the right or requiring the issuer to redeem or "call" all or portion of an outstanding issue of bonds prior to their stated date of maturity at a specified price, usually at or above par.

Closing Date (Delivery Date): The date on which an issue is delivered by the issuer to, and paid for by, the original purchaser (underwriter), also called the delivery date. This date may be a different date than the sale date or the dated date.

Commercial Paper: Short term, unsecured promissory notes, usually backed by a line of credit with a bank, with maturities of fewer than 270 days.

Competitive Sale: The sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale (also called a "public sale").

Coupon: Interest rate on a bond or note that the issuer promises to pay to the bondholder until maturity, expressed as an annual percentage of the face value of the bond.

CUSIP: The acronym for "Committee on Uniform Security Identification Procedures", which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, United States government and corporate securities. A separate CUSIP number is assigned for each maturity of each issue and is printed on each bond and generally on the cover of the Official Statement.

Dated Date: The dated date is the date on which interest on the bonds begins to accrue to the benefit of bondholders.

Debt Retirement: Repayment of debt.

Debt Service: The total interest, principal and mandatory sinking fund payments due at any one time.

Debt Service Coverage: The ratio of pledged revenues available annually to pay debt service on the annual debt service requirement. Pledged revenues are either calculated before operating and maintenance expenses ("Gross Revenue") or net of operating and maintenance expenses ("Net Revenue"). This ratio is one indication of the margin of safety for payment of debt service.

Debt Service Reserve Fund/Account: An account from which moneys may be drawn to pay debt service on an issue of bonds if pledged revenues and other amounts available to satisfy debt service are insufficient. The size of the debt service reserve fund and investment of moneys in the fund/account are subject to restrictions contained in federal tax law for tax-exempt bonds.

Default or Event of Default: Failure to make prompt debt service payment or to comply with other covenants and requirements specified in the financing agreements for the bonds.

Defeasance: Usually occurs in connection with the refunding of an outstanding issue by final payment or provision for future payment of principal and interest on a prior issue. In an advance refunding, the defeasance of the bonds being refunded is generally accomplished by establishing an escrow of high quality securities to provide for payment of debt service on the bonds to redemption or maturity.

Federal Open-Market Committee (FOMC): Committee that sets interest and credit policies for the Federal Reserve Board (the "Fed"), the United States' central bank. The Committee's decisions are closely watched and interpreted by economists and stock and bond markets analysts, who try to predict whether the Fed is seeking to tighten credit to reduce inflation or to loosen credit to stimulate the economy.

Financial Advisor: A consultant who advises the issuer on matters pertinent to a bond issue, such as structure, cash flow, timing, marketing, fairness of pricing, terms, bond ratings, and at times investment of bond proceeds. A financial advisor may also be hired to provide analysis relating to an issuer's debt capacity or future debt issuance.

Fiscal Agent: A commercial bank or trust company designated by an issuer under the Indenture or Bond Resolution to act as a fiduciary and as the custodian of moneys related to a bond issue. The duties are typically limited to receiving moneys from the issuer which is to be held in funds and accounts created under the Indenture or Bond Resolution and paying out principal and interest to bondholders.

General Obligation Bond: A bond which is secured either by a pledge of the full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. With very few exceptions, local agencies in California are not authorized to issue "full faith and credit" bonds. Typically, general obligation bonds of a city are payable only from ad valorem property taxes which are required to be levied in an amount sufficient to pay debt service. Under the State Constitution, a city's authority to issue general obligation bonds must be approved by a two-thirds vote of the electorate and the bond proceeds are limited to the acquisition and improvement of real property.

Indenture/Bond Resolution/Trust Agreement: An agreement executed by an issuer and a fiscal agent/trustee which pledges certain revenues and other property as security for the repayment of the bonds, sets forth the terms of the bonds and contains the responsibilities and duties of the trustee and the rights of the bondholders. The rights of the bondholders are set forth in the indenture provisions relating to the timing of the interest and principal payments, interest rate setting mechanisms (in the case of variable rate bonds), redemption provisions, events of default, remedies and the mailing of notices of various events.

Issuance: Sale and delivery of a series of bonds or other securities.

Issue: One or more bonds or series of bonds initially delivered by an issuer in a substantially simultaneous transaction and which are generally designated in a manner that distinguishes them from bonds of other issues. Bonds of a single issue may vary in maturity, interest rate, redemption and other provisions.

Issuer: An entity that borrows money through the sale of bonds or notes and is committed to making timely payments of interest and principal to bondholders.

Lease Revenue Bonds: Bonds issued by one public entity, such as the City of San Jose Financing Authority, on behalf of another public entity, such as the City of San Jose. A bond issue which is repaid from lease payments on an asset pledged as security to the bondholders. The pledged asset is not necessarily the asset financed with the bond proceeds. The City makes the lease payments to the Authority and covenants to annually budget and appropriate funds to make the lease payments so long as the leased asset is able to be used. These payments are included in the City Budget as part of the annual appropriation process.

Letter of Credit: An arrangement between an issuer and a bank which provides additional security that money will be available to pay debt service on a bond issue.

Customarily, a letter of credit is issued by a commercial bank directly to the trustee allowing the trustee, if certain conditions are met, to draw upon the letter of credit by submitting to the bank a written request for payment. Letters of Credit are also referred to as liquidity facilities in connection with obligations such as commercial paper and variable rate bonds.

LIBOR: An acronym for London Interbank Offered Rate, a rate that the most creditworthy international banks dealing in Eurodollars charge each other for large loans. The LIBOR rate is usually the basis for other large Eurodollar loans to less creditworthy corporate and government borrowers. This rate is often used as a benchmark for short-term taxable municipal securities.

Line of Credit: A Line of Credit, also referred to as a liquidity facility, is a contract between the issuer and a bank that provides a source of borrowed moneys to the issuer in the event that moneys available to pay debt service, for example on commercial paper.

Liquidity: The ease with which an investment may be converted to cash.

Liquidity Facility: See “Letter of Credit” and “Line of Credit”.

Maturity: With respect to a single bond, the date upon which the principal of the bond is due; with respect to an issue, all of the bonds of an issue which are due on a single date.

Municipal Securities Rulemaking Board (MSRB): An independent, self-regulatory organization established by Congress in 1975 having general rulemaking authority over municipal securities market participants, generally brokers and dealers. The MSRB is required by federal law to propose and adopt rules in the areas which include professional qualification standards, rules of fair practice, record keeping, the scope and frequency of compliance examinations, the form and content of municipal bond quotations, and sales to related portfolios during the underwriting period.

National Association of Security Dealers (NASD): A self-regulatory organization established as a “registered securities association” pursuant to the Securities Exchange Act of 1934, for the purpose of preventing fraudulent and manipulative acts and practices; promoting just and equitable principles of trade among over-the-counter brokers and dealers; and promoting rules of fair practice and self-discipline in the securities industry.

Negotiated Sale: The sale of bonds, the terms and price of which are negotiated by the issuer through an exclusive agreement with a previously selected underwriter and/or underwriting syndicate.

NRMSIR: An acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs are the repositories for all annual reports and event notices filed under SEC Rule 15c2-12. NRMSIRs are required to be approved by the MRSB.

Official Statement: A document containing information about the bonds being offered, the issuer, and the sources of repayment of the bonds. Federal securities law generally requires that if an Official Statement is used to market an issue of bonds, it must fully and accurately disclose all facts that would be of interest (material) to a potential buyer of bonds.

Par/Par Value: Refers to the principal amount of a bond or the total principal amount of a bond series or issue.

Parity Bonds: Two or more issues of bonds which have the same priority of claim or lien against the issuer's pledge of particular revenues, e.g., revenues from an enterprise such as an airport or parking garage. With respect to the initial issue of bonds, called the "prior issue", the indenture or bond resolution normally provides the requirements which must be satisfied before subsequent issues of bonds, called "additional parity bonds" may be issued.

Present Value: The current value of a future payment, or stream of payments, calculated by discounting the future payments by an appropriate interest rate. Alternatively, present value is the amount of money which should be invested today to return a certain sum at a future time.

Private Placement: The sale of bonds by the issuer directly to one or more investors rather than through an underwriter. Often, the terms of the issue are negotiated directly between the issuer and the investor. Sometimes, an investment banker will act as the placement agent; bring parties together and acting as an intermediary in the negotiations. Instead of and Official Statement, an Offering Circular, Offering Memorandum or Private Placement Memorandum may be prepared.

Project Lease: The document, in a Lease Revenue Bond issue, is the means by which the issuer leases to another public entity (the "obligor") the project to be acquired or constructed with the proceeds of the bond issue and by which the obligor agrees to make periodic lease payments to the issuer, generally for the period of time the bond issue is outstanding.

Proceeds: Funds received by the issuer upon sale of the bonds which may include accrued interest and a premium. For tax purposes bond proceeds include interest earnings on the sale proceeds.

Rating Agencies: The organizations which provide, for a fee customarily paid by the issuer, an independent appraisal of the credit quality and likelihood of timely repayment of a bond issue. The term is most often used to refer to the three nationally recognized agencies, Moody's Investor Services, Inc., Standard & Poor's Corporation, and Fitch Ratings.

Redemption: The payment of principal of a bond, whether at maturity, or, under certain circumstances described in the bond, prior to maturity. Redemption of a bond by the issuer prior to maturity is sometimes referred to as "calling the bond."

Refunding: An issue of new bonds (the "refunding bonds") to pay debt service on a prior issue (the "refunded bonds"). Generally, the purpose of a refunding is either to reduce the debt service on the financing or to remove or replace restrictive covenant imposed by the terms of the refunded bonds. The proceeds of the refunding bonds are either deposited in a defeasance escrow to pay the refunded bonds on a date more than 90 days after the issuance ("Advance Refunding") or applied to the payment of the refunded bonds within 90 days of the issuance ("Current Refunding").

Reserve Fund/Account: See Debt Service Reserve Fund/Account

Revenue Bond: A bond which is payable solely from a specific source of revenue. Revenue bonds do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. Revenue bonds are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.

Sale Date: In the case of a negotiated sale, the date on which the bond purchase agreement is signed, and in the case of a competitive sale, the date on which the bonds are awarded to the winning bidder.

Serial Bonds: Bonds of an issue which are payable as to principal in amounts due at successive regular intervals, generally annual or semiannual and generally in the early years of the term of the issue. An issue may consist of both serial bonds and term bonds.

Sinking Fund: An account, sometimes called a debt service fund or sinking fund to provide for the redemption or payment at maturity of term bonds. Generally, sinking fund payments are mandatory in a specified amount for each payment period to provide for the periodic redemption of term bonds prior to their final maturity. The individual term bonds to be redeemed each year are customarily selected at random by the trustee.

Surety: In the public finance context, a surety policy is a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issue. Under this arrangement, instead of depositing cash in a reserve fund, the issuer buys a surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. If the reserve fund is needed to make a debt service payment, the trustee notifies the surety provider and the provider makes the payment, up to the face amount of the policy. The issuer then has an obligation to reimburse the provider for the payment, plus interest.

Tax Allocation Bonds: Bonds secured by the incremental property tax revenues generated from a redevelopment project area. As usually structured, a project area is designated, its property tax base frozen, and revenue from the incremental growth of the property tax base is used to provide additional funds for further redevelopment or for debt service on bonds issued for redevelopment purposes.

Tax-Exempt Bonds: Bonds whose interest is exempt from federal income taxation. In California, the interest on bonds issued by a California governmental entity is also exempt from state income tax.

Term Bonds: Bonds coming due in a single maturity. The issuer generally agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

Trustee: Financial institution, with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the Trust Agreement or Indenture.

Underwriter: An investment banking firm which, singly or as a member of an underwriting group or syndicate, agrees to purchase a new issue of bonds from an issuer for resale and distribution to investors. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of competitive sale.

Variable Rate: An interest rate which periodically changes based upon an index or pricing procedure. Variable rate bonds generally have a "demand" feature allowing the bondholder to demand that the issuer or another party repurchases the bond upon a specified number of days' notice or at certain times which reflect the intervals at which the rate varies.

Yield: In general, rate of return on bonds or on any capital investment. Technically, yield is the discount rate which makes the present value of all future streams of payments equal to the present value.

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