Click here for Table of Contents

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

2008

Comprehensive Annual Debt Report


Downtown San Jose’

Joyce Ellington Library


Almaden Community Center

San Jose’ Fire Station #25

Fiscal Year Ended June 30, 2008

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José
California

17th Comprehensive Annual Debt Report

Fiscal Year Ended June 30, 2008

Prepared by
Finance Department
Treasury Division

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Director of Finance

17th Comprehensive Annual Debt Report
City of San José
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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 2007-08
COMPREHENSIVE ANNUAL DEBT REPORT

TABLE OF CONTENTS

Table of Contents i

Letter of Transmittal v

I. Overview 1

A. Debt Management Program 1

1. Debt Issuance 1

2. Debt Administration 2

3. Debt Management Projects 2

B. Review of Debt Management Policies 6

1. Debt Management Policy 6

2. Policy for the Issuance of Multifamily Housing Revenue Bonds 6

C. Rating Agency Relations and Credit Maintenance 7

1. Credit Analysis Process 7

2. Rating Summary 9

3. Legal Debt Margins 9

D. Legislative and Regulatory Issues 9

II. Debt Issuance 11

A. Debt Issued During Fiscal Year 2007-08 11

B. Debt Planned for Fiscal Year 2008-09 20

1. Completed Financings 20

2. Planned Financings 22

C. Current Market Conditions 25

D. Selection of Debt Financing Teams 27

III. Debt Administration 29

A. Debt Administration System 29

B. Compliance and Monitoring 29

1. Trustee Activities 29

2. Bond Proceeds Expenditures and Reimbursement Procedures 30

3. Arbitrage Rebate 31

4. Continuing Disclosure 32

C. Investment of Bond Proceeds 33

D. Outstanding Variable Rate Debt 35

E. Refunding Opportunities 37

IV. City's Outstanding Debt Portfolio 39

A. General Obligation Bonds 41

B. City of San José HUD Section 108 Loan 42

C. City of San José Financing Authority Obligations 43

1. Non-Self-Supporting Debt with Recourse to the City's General Fund 44

2. Self-Supporting Debt with Recourse to the City's General Fund 46

3. Self-Supporting Debt with No Recourse to the City's General Fund 49

D. Enterprise Fund Obligations 50

1. Airport 50

2. Clean Water Financing Authority 51

E. Land-Secured Financing 53

F. Multifamily Housing Revenue Bonds 54

G. Redevelopment Agency 57

Appendix A: Debt Management Policy 59

Appendix B: Policy for the Issuance of Multifamily Housing Revenue Bonds 67

Appendix C: Current Ratings Summary 71

Appendix D: Summary of Outstanding Debt 79

Appendix E: Overlapping Debt Report 85

Appendix F: Airport Commercial Paper Debt Service Certification 91

Appendix G: Special Tax Annual Report 97

Glossary 101

CITY OF SAN JOSE
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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Finance
SCOTT P. JOHNSON, DIRECTOR

October 7, 2008

HONORABLE MAYOR AND CITY COUNCIL

THE COMPREHENSIVE ANNUAL DEBT REPORT OF THE CITY OF SAN JOSE

I am pleased to present the 17th Comprehensive Annual Debt Report for the City of San José (the "Annual Report") for the Fiscal Year ended June 30, 2008. The Annual Report is submitted for review and approval by the Public Safety Finance & Strategic Support 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 2007-08 and discusses the activities undertaken and managed by the Debt Management Program, a section of the Treasury 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 external borrowings in which the City participates, 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 is administered separately by Redevelopment Agency staff.

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

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Return to Table of Contents

DEBT MANAGEMENT ACTIVITIES

As illustrated on the graph on page 1, Fiscal Year 2007-08 was an extremely active year for City and Redevelopment Agency debt issuance, with a total of eleven series of bonds, one loan, and expansion of the Airport commercial paper program, for nine projects totaling over $1.2 billion. It should be noted that the disruption in financial markets during the second half of the fiscal year necessitated the refunding, under particularly challenging conditions, of the City's entire variable-rate lease revenue bond portfolio. City staff and its financing teams should be congratulated on their successful efforts.

Despite the difficult financial and economic conditions facing the City, Standard & Poor's, one of the three national credit rating agencies, raised the City's general credit rating in May 2008 to AAA, the highest level. The other two rating agencies reaffirmed the City's high general credit ratings: Aa1 from Moody's and AA+ from Fitch. In its press release, Standard & Poor's cited the City's continued strong financial performance and reserve levels, coupled with City management's demonstrated ability to identify and manage budget gaps on a multiyear basis.

In addition to providing debt issuance services, Debt Management staff were also involved in a number of projects during Fiscal Year 2007-08 including the substitution of letter of credit providers for the Airport commercial paper program, extension of the affordable housing program bank line of credit, and financial analysis of the Airport West memorandum of understanding.

The debt calendar for Fiscal Year 2008-09 anticipates continued opportunities and challenges for the City with an estimated eight series of bonds totaling over $360 million. This activity is in addition to administration of an outstanding debt portfolio of over $5.6 billion as of June 30, 2008, with 120 series of bonds outstanding for the City, Redevelopment Agency, and related entities. In addition to the debt anticipated to be issued during Fiscal Year 2008-09 noted above, other projects underway include: formation of a Convention Center Facilities District, solar energy financing initiatives, formalization of debt management procedures related to disbursement of bond proceeds, and continuing activities related to the ongoing financial market disruptions.

FINAL STAGES OF THE "DECADE OF INVESTMENT"

Despite the continuing economic challenges in the local economy, the City's "Decade of Investment" is nearing completion during the City's 2008-09 through 2012-13 Five-Year Capital Improvement Program (the "CIP"). In Fiscal Year 2007-08, community facilities were added to the City's inventory with the completion of fire station construction and improvements, neighborhood parks projects and library projects. These projects, which could not have been accomplished without voter approval of $598.82 million in general obligation debt, provide significant enhancements to our community. The Fiscal Year 2008-09 through 2012-13 Five-Year CIP totals $2.4 billion, which includes the final issuance of voter approved general obligation debt in the spring of 2009. During this five year period, the Police Substation in South San Jose is also scheduled for completion.

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

Return to Table of Contents

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, Karin Murabito, Ed Moran, and Patricia Deignan. Special recognition goes to Julia Cooper, Deputy Director of Finance for the Treasury Division, and David Persselin, Debt Administrator, 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

SCOTT P. JOHNSON
Director of Finance

Return to Table of Contents

Return to Table of Contents

I. OVERVIEW

The Overview section of the Annual 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

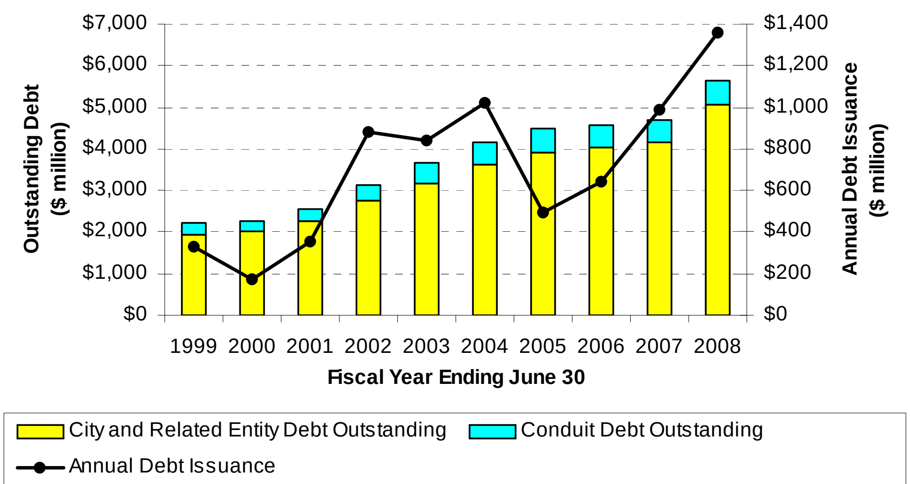
This section of the report provides an overview of debt issuance, debt administration and debt management projects for Fiscal Year 2007-08, including those debt management projects completed, currently underway or planned for Fiscal Year 2008-09.

1. Debt Issuance

The Debt Management Program, part of the Treasury Division within the Finance Department, is responsible for managing the debt issuance process for all City borrowings. Fiscal Year 2007-08 was an extremely active year for City and Redevelopment Agency debt issuance, with a total of eleven series of bonds, one loan, and expansion of the Airport commercial paper program, for nine projects totaling over $1.2 billion. The debt calendar for Fiscal Year 2008-09 projects an estimated eight series of bonds totaling over $360 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 1998-99 through Fiscal Year 2007-08



Return to Table of Contents

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 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 2007-08

Development of Airport West Property: Debt Management staff assisted the City Manager's Office, the Airport Department and the City Attorney's Office in developing a Memorandum of Understanding with potential purchasers of the Airport West Property.

Solar and Energy Efficiency Projects Financing Alternatives: Debt Management staff assisted the Environmental Services Department in energy efficiency initiatives including solar panel programs, evaluating Power Purchase Agreements, and exploring alternative financing strategies for the City's energy efficiency initiatives.

Disposition of Former City Hall Property: Debt Management staff assisted the City Manager's Office in analyzing the economic feasibility of renovating and leasing the former City Hall property.

Airport Commercial Paper Program Letter of Credit Substitution: In December 2007, Debt Management staff successfully negotiated with JPMorgan Chase Bank, Bank of America, and Dexia Credit Local to reduce fees related to the Airport Commercial Paper Program and increase the participation of the above mentioned banks to replace the credit provided by Citibank, N.A.. The unutilized 364-day commitment fee was reduced to 11.0 basis points from 12.5 basis points and the utilized fee was reduced to 15.0 basis points from 30.0 basis points.

Coyote Valley Specific Plan: Debt Management staff represented the Finance Department at meetings of the working group technical advisory committee.

North Coyote Flood Control Project: Debt Management staff participated, along with other City staff, in meetings with representatives of the developer to explore the possibility of financing the completed project components prior to completion of all project components.

Return to Table of Contents

Analysis of Convention Center Debt Capacity: During Fiscal Year 2007-08 Debt Management staff performed an analysis of the debt capacity that could result from a tax on hotel properties to be used for expansion of the Convention Center. The results of the analysis formed the basis for preliminary architectural design work.

Affordable Housing Project Ongoing Administration: In Fiscal Year 2007-08, Debt Management assisted the Housing Department and affordable housing developers in activities related to the ongoing administration of affordable housing projects financed with multifamily housing revenue bonds.

Raintree Apartments Conversion– Debt Management staff worked with the developer, the Housing Department and the City Attorney's Office to coordinate the conversion of this project from construction to permanent financing. The conversion was completed on January 31, 2008.

Foxchase Apartments Transfer of Ownership – The Foxchase Apartments project was financed in part with the City of San José Multifamily Housing Revenue Bonds, Series 1985E. On April 15, 2008, San Francisco Bay Partners III, L.P. and Foxchase Drive San Jose Partners II, L.P. notified the City of its intent to sell the Foxchase Apartments to KMF Foxchase, LLC, a Delaware limited liability company. As part of the sale, the outstanding bonds related to the project were called on May 15, 2008, and redeemed in full with proceeds from the sale of the project. KMF Foxchase, LLC assumed the existing Regulatory Agreement and Declaration of Restrictive Covenants, which require that 20% of the units be rented to low or moderate income tenants until November of 2017.

North White Road Tri-party Agreement– In June 2008, Debt Management staff executed a Tri Party Agreement replacing the Bank of New York with U. S. Bank, National Association for the City of San José Multifamily Housing Revenue Bonds (North White Road Family Apartments Project) Series 2001F.

Affordable Housing Project Line of Credit Extension: Debt Management staff worked with the Bank of New York to extend the Housing Department's Line of Credit for an additional year to April 1, 2009. The Housing Department uses the Line of Credit to fund loans to developers and then replenishes the line of credit with proceeds of Housing Set-Aside Tax Allocation Bonds.

Affordable Housing Project TEFRA Hearings: The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) 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 2007-08, the Finance Department held hearings for seven projects:

Finance Director's TEFRA Hearings for Multifamily Housing Projects
Fiscal Year 2007-08

Date	Project	Amount	Issuer
07/25/2007	Curtner Gardens Apartments Project	$10,000,000	City of San José
10/25/2007	Almaden 1930 Apartments	30,000,000	CA Statewide Communities Dev't. Authority (CSCDA)
10/25/2007	David Avenue Apartments Project	12,000,000	CA Statewide Communities Dev't. Authority (CSCDA)
12/06/2007	Hillsdale Townhomes Project[1]	9,250,000	City of San José
12/11/2007	Fairgrounds Senior Apartments Project	28,000,000	City of San José
01/17/2008	Charter Court Apartments Project	20,000,000	CA Statewide Communities Dev't. Authority (CSCDA)
04/24/2008	Woodside Apartments Project	20,000,000	CA Statewide Communities Dev't. Authority (CSCDA)

[1] The Hillsdale Townhomes Project was financed in part with the Low Income Housing Tax Credit Program (9% Tax Credit); the City did not issue Multifamily Housing Revenue Bonds to finance this project.

<u>Debt Policies</u>: During Fiscal Year 2007-08, 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.

b. Projects for Fiscal Year 2008-09

<u>Bellarmine College Preparatory – TEFRA Hearing</u>: Debt Management staff facilitated a TEFRA hearing held by the City Council on August 5, 2008 for the issuance of $2 million of tax-exempt 501 (c)(3) revenue bonds by the California State Community Development Authority (CSCDA) to finance the acquisition, construction, rehabilitation and improvement of property, including real and personal property and energy efficiency upgrades at Bellarmine's existing school campus.

<u>Formation of Convention Center Facilities District:</u> During Fiscal Year 2008-09 Debt Management staff will be assisting with the formation of a Convention Center Facilities District. If approved, the collection of special tax revenues from hotel properties Citywide will allow bonds to be issued to pay for a portion of the Convention Center renovation and expansion project. In addition, if approved, special taxes will also be used to pay for ongoing capital repair and replacement at the Convention Center.

<u>Analysis of San José-Santa Clara Clean Water Financing Authority Funds:</u> Debt Management staff will continue to work with the Department of Environmental Services to review the historical flow of funds contributed by the City and the tributary agencies for payment of sewer revenue bond debt service. Additionally, the San José-Santa Clara Clean Water Financing Authority 2005B bonds are in a variable rate mode. These bonds initially were not impacted by the market disruptions, but market forces may necessitate

proactive measures on the part of the City to minimize the budgetary impact of rising interest rates.

City Solar Energy Initiatives Status Report: Debt Management staff will assist the Environmental Services Department in preparing a status report on the City's Green Vision activities and energy roadmap which will be presented to the City Council at the special session scheduled on February 5, 2009.

Development of Airport West Property: Debt Management staff will continue to work with the City Manager's Office, the Airport Department and the City Attorney's Office to assess the feasibility of development proposals for the Airport West Property.

Coyote Valley Specific Plan: Debt Management staff will continue to represent the Finance Department at meetings of the working group technical advisory committee.

IRS Audits of Multifamily Housing Revenue Bonds: In September 2008, the City Received notification from the IRS with respect to an audit of the 2002F Multifamily Housing Revenue Bonds (Villa Monterey Apartments) for tax compliance. Debt Management staff worked closely with the Developer, the arbitrage rebate consultant, the Housing Department and the City Attorney's Office to gather all requested information and to prepare an appropriate response to the IRS.

Affordable Housing Project Ongoing Administration: In Fiscal Year 2008-09, Debt Management continues to assist the Housing Department and affordable housing developers in activities related to the ongoing administration of affordable housing projects financed with multifamily housing revenue bonds.

Cinnabar Commons Apartments Conversion– Debt Management staff worked with the developer, the Housing Department and the City Attorney's Office to coordinate the conversion of this project from construction to permanent financing. The conversion was completed on July 1, 2008.

Almaden Lake Village Apartments Transfer of Ownership – The Almaden Lake Village project was financed in part with the City of San José Multifamily Housing Revenue Bonds, Series 1997B. On April 15, 2008, Almaden Lakes Village Associates, Ltd. notified the City of its intent to sell the Almaden Lake Apartments to Governor's Square of Columbus Co. Governor's Square of Columbus Co assumed the existing bond documents and closed on July 9, 2008.

Debt Policies and Procedures: During Fiscal Year 2008-09, staff will be formalizing procedures for the investment and disbursement of bond proceeds, debt service and invoice payment, and monitoring and disposition of special district fund balances.

Technology Projects: In Fiscal Year 2008-09, Debt Management will continue to pursue its database, compliance calendar, and electronic document storage projects, subject to resource and staff availability. Debt Management will also continue to make use of the

Disclosure USA website to transmit annual reports required under various continuing disclosure agreements, or as appropriate, EMMA (Electronic Municipal Market Access), the MSRB's (Municipal Securities Rule Making Board) disclosure site under final review.

B. Review of Debt Management Policies

1. Debt Management Policy

On May 21, 2002, City Council adopted by Resolution #70977 a Debt Management Policy which establishes the following equally important objectives in order to obtain cost-effective access to the capital markets:

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

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 substantive amendments or changes to the Debt Management Policy (Appendix A) are recommended at this time.

2. Policy for the Issuance of Multifamily Housing Revenue Bonds

In addition to the general Debt Management Policy, the Council approved by Resolution #71023 on June 11, 2002, a supplemental Policy for the Issuance of Multifamily Housing Revenue Bonds (the "Housing Policy") (Appendix B), which was subsequently revised on December 6, 2005.

The Housing Policy specifies that the bonds for any project that utilizes City funds must be issued by the City. In Fiscal Year 2007-08, the City granted the following four exceptions to this provision of the Housing Policy.

Almaden 1930 Apartments – This project does not have City loans or grants. The developer, KDF Communities, L.L.C., worked with the California State Community Development Authority (CSCDA) and requested that CSCDA serve as the issuer for this project in order to take advantage of economies of scale with respect to issuance fees.

Return to Table of Contents

David Avenue Apartments – This project does not have City loans or grants. The developer, KDF Communities, L.L.C., worked with the California State Community Development Authority (CSCDA) and requested that CSCDA serve as the issuer for this project in order to take advantage of economies of scale with respect to issuance fees.

Charter Court Apartments – This project does not have City loans or grants. The developer, KDF Communities, L.L.C., worked with the California State Community Development Authority (CSCDA) and requested that CSCDA serve as the issuer for this project in order to take advantage of economies of scale with respect to issuance fees.

Woodside Apartments – This project does not have City loans or grants. The developer, KDF Communities, L.L.C., worked with the California State Community Development Authority (CSCDA) and requested that CSCDA serve as the issuer for this project in order to take advantage of economies of scale with respect to issuance fees.

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 issuer's 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 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 collected from 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. Other 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 maintains 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 from Moody's Investors Service. The California city medians are derived from Fiscal Year 2005-06 data reported by Moody's Investors Service in January 2008. The City of San José ratios are as of June 30, 2008, and are calculated using the Moody's methodology.

Comparison of Rating Agency Medians to City of San José Debt Ratios		
	Rating Agency Median[1]	**City of San José**
Net Direct Debt		
Per Capita ($)	$392	$1,170
As a % of Assessed Value	0.2%	1.1%

[1] Comparison to Aa-category California cities.
Source: 2007 Medians for California Cities, Moody's Investors Service, January 2008.

As illustrated in the table, the City is above the Aa-category California city medians for both categories. Net Direct Debt includes the City's general obligation bonds and lease revenue bonds, but excludes the convention center lease revenue bonds paid by the Redevelopment Agency.

2. Rating Summary

In May 2008, Standard & Poor's, one of the three national credit rating agencies, raised the City's general credit rating to AAA, the highest level. The other two rating agencies reaffirmed the City's high general credit ratings: Aa1 from Moody's and AA+ from Fitch. The four factors described above were instrumental in the City receiving these high ratings, 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 C.

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. As of June 30, 2008, the total assessed value of taxable property was $122.6 billion, which results in a total debt capacity of approximately $18.4 billion. As of June 30, 2008, the City had $528.565 million in general obligation debt outstanding, representing 0.43% of the assessed value of taxable property; therefore the City's debt margin was $17.9 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

Return to Table of Contents

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").

The Deputy Director of Finance for the Treasury Division is Vice Chair of the Government Finance Officers Association of the United States and Canada (GFOA) Debt Committee and actively participates in several task forces and working groups to review pending federal legislation and regulations which impact the ability of the City to issue and administer tax-exempt debt. Current work includes review of the Electronic Municipal Market Access System (EMMA), modifications to IRS record retention requirements, and development of disclosure guidelines and a disclosure checklist.

II. DEBT ISSUANCE

A. Debt Issued During Fiscal Year 2007-08

Fiscal Year 2007-08 was an extremely active year for City and Redevelopment Agency debt issuance, with a total of eleven series of bonds, one loan, and expansion of the Airport commercial paper program, for nine projects totaling over $1.2 billion. These financings are described below and are presented in the summary table at the end of this section.

City of San José Airport Revenue Bonds, Series 2007A (AMT) and Series 2007B

On September 13, 2007, the City issued $545,755,000 of Series 2007A and $179,260,000 of Series 2007B Airport Revenue Bonds (together, the “2007 Bonds”). The proceeds of the 2007 Bonds will be used to pay (and to redeem commercial paper notes issued to pay) a portion of the costs of Phase I of the Airport Development Program at the Norman Y. Mineta San José International Airport. Debt service on the 2007 Bonds will be paid from General Airport Revenues and certain other funds. The 2007 Bonds are insured by Ambac Assurance Corporation.

The Series 2007A Bonds are subject to the Alternative Minimum Tax (AMT), bear interest at fixed rates ranging from 5.00% to 6.00%, and have a final maturity date of March 1, 2047. The Series 2007B Bonds bear interest at fixed rates ranging from 4.25% to 5.00% and have a final maturity date of March 1, 2037.

A note repayment fund for the Series B Commercial Paper Notes, in the amount of $32,445,512 was funded from the 2007 Bonds proceeds and was used to current refund a portion of the outstanding Airport Series B Commercial Paper Notes when those notes matured on December 6, 2007.

U.S. Department of Housing and Urban Development (HUD) Section 108 Loan (Land Acquisition Project Phase II)

On February 10, 2005, the City of San José received a loan commitment in the amount of $25,810,000 from HUD under the Section 108 Loan Guarantee Program for the purchase of property adjacent to the Airport. On February 16, 2005, the City made an initial draw on the loan commitment in the amount of $342,000 to place a deposit on the property and pay other costs associated with the land acquisition. On May 17, 2006, the City drew an additional $25,094,000 to complete the purchase. On November 7, 2007, the City drew the final $374,000 of the loan commitment to pay costs associated with the land acquisition.

Debt service on the HUD loan is paid from the City’s General Fund. The HUD Section 108 Loan bears interest at a monthly variable rate, which on June 30, 2008, was 2.88%, and has a final maturity date of August 1, 2024.

Redevelopment Agency of the City of San José Multifamily Housing Revenue Refunding Bonds (101 San Fernando Apartments), Series 2007A

On August 31, 2007, the San José Redevelopment Agency (SJRA) issued $38,000,000 of Series 2007A Multifamily Housing Revenue Refunding Bonds ("Series 2007A Bonds"). The proceeds of the 2007A Bonds were used to refund the 101 San Fernando Apartments project which is a 323 unit multifamily rental housing project. The 2007A Bonds issue is a conduit revenue bond and debt service is payable from the private obligor payments (101 San Fernando Apartments).

The Series 2007A Bonds issue is a private placement with Merrill Lynch, Pierce Fenner & Smith, Inc., bears a fixed interest rate and has a final maturity date of September 1, 2046.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T and Tax Allocation Bonds, Series 2007B

On November 7, 2007, the San Jose Redevelopment Agency (SJRA) issued $21,330,000 of Series 2007A-T (taxable) and $191,600,000 of Series 2007B Tax Allocation Bonds (together, the "2007AB Bonds"). The proceeds of the 2007AB Bonds will be used to finance multiple redevelopment projects within the SJRA's Merged Area Redevelopment Project. Debt service is payable from the SJRA's tax increment revenues.

The Series 2007A-T Bonds, which are insured by XL Capital Assurance Inc., bear interest at a fixed rate of 5.10%, and have a maturity date of August 1, 2017. The Series 2007B Bonds, which are also insured by XL Capital Assurance Inc., bear interest at fixed rates ranging from 4.25% to 5.00%, and have a final maturity date of August 1, 2036.

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

On June 11, 2008, the City of San José Financing Authority (Authority) issued $67,195,000 of Series 2008F Taxable Lease Revenue Bonds. The proceeds of the Series 2008F Bonds were used to current refund the Authority's Series 2005A (taxable) and Series 2005B (AMT) Lease Revenue Bonds (together, the "2005AB Bonds") issued to finance acquisition of and improvements to the Airport West property to be temporarily used by the Airport for aviation purposes. Debt service on the Series 2008F Bonds during the period the property is used for aviation purposes will be paid from base rental payments received by the City from the Airport.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the 2005AB Bonds, which had been negatively impacted by the disruptions in the financial markets related to bond insurer downgrades by the rating agencies. The Series 2008F Bonds financing structure eliminated the bond insurance which provided credit enhancement to the 2005AB Bonds and replaced it with a direct-pay letter of credit. The Series 2005AB bonds were redeemed on June 11, 2008 and the City's basic financial statements were adjusted accordingly.

The Series 2008F Bonds, which are supported by an irrevocable direct-pay letter of credit provided by Bank of America, bear interest at a weekly variable rate, which on June 30, 2008, was 2.60%, and have a final maturity date of June 1, 2034.

City of San José General Obligation Bonds, Series 2008 (Libraries and Parks Projects)

On June 25, 2008, the City issued $33,100,000 of Series 2008 General Obligation Bonds. The proceeds will be used to fund $5,285,000 of libraries projects and $27,815,000 of parks projects. Debt service on the Series 2008 Bonds is payable from ad valorem taxes levied upon all property subject to taxation by the City. The Series 2008 Bonds bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of September 1, 2038.

City of San José General Obligation Bonds Summary
As of June 30, 2008

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	$205,885,000	$5,905,000
11/07/2000	San José Neighborhood Parks and Recreation Bonds	228,030,000	228,030,000	0
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	159,000,000	146,675,000	12,325,000
Total		$598,820,000	$580,590,000	$18,230,000

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

On June 26, 2008, the Authority issued $10,915,000 of Series 2008C and $47,390,000 of Series 2008D (taxable) Lease Revenue Bonds (together, the "2008CD Bonds"). The proceeds of the Series 2008C Bonds were used to current refund the Authority's Series 2001D Lease Revenue Bonds and the proceeds of the Series 2008D Bonds were used to current refund the Authority's Series 2001B (taxable) and Series 2001C (taxable) Lease Revenue Bonds (together with the Series 2001D Bonds, the "2001BCD Bonds"). The 2001BCD Bonds were issued to finance and refinance improvements to the Hayes Mansion Conference Center and Edenvale Garden Park. Debt service on the 2008CD Bonds will be paid from net revenues of the Hayes Mansion Conference Center or, to the extent net revenues are insufficient, the City's General Fund.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the 2001BCD Bonds, which had been negatively impacted by the disruptions in the financial markets related to bond insurer downgrades by the rating agencies. The 2008CD Bonds financing structure eliminated the bond insurance which provided credit enhancement to the 2001BCD Bonds and replaced it with a direct-pay letter of credit. The 2001BCD Bonds were redeemed on June 26, 2008, and have been removed from the City's basic financial statements.

The Series 2008C Bonds, which are supported by an irrevocable direct-pay letter of credit from The Bank of Nova Scotia and the California State Teachers' Retirement System, bear interest at a weekly variable rate, which on June 30, 2008, was 1.30%, and have a final maturity date of June 1, 2027. The Series 2008D Bonds, also supported by an irrevocable direct-pay letter of credit provided by The Bank of Nova Scotia and the California State Teachers' Retirement System, bear interest at a weekly variable rate, which on June 30, 2008, was 2.75%, and have a final maturity date of June 1, 2025.

City of San José Financing Authority 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. On November 9, 2004, the City Council and the Authority authorized use of the commercial paper program to finance the acquisition of the City's consolidated utility billing system.

Subsequently, on June 21, 2005, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of taxable lease revenue commercial paper notes, under the same $98,000,000 not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable commercial paper notes to pay for expenses otherwise authorized under the commercial paper program, but ineligible to be paid from tax-exempt commercial paper proceeds.

On November 15, 2005, the City Council and the City of San José Financing Authority each adopted a resolution expanding the capacity of the lease revenue commercial paper program from $98,000,000 to $116,000,000 and authorizing the issuance of commercial paper notes to pay a portion of the costs of the Phase II improvements at the City's Central Service Yard and a portion of the demolition and clean-up costs at the City's Main Service Yard.

On May 22, 2007, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of lease revenue commercial paper notes to pay for capital improvements at the City's HP Pavilion.

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 direct-pay letter of credit provided by State Street Bank and Trust Company and the California State Teachers' Retirement System (CalSTRS).

During Fiscal Year 2007-08, the Authority issued $806,549 of commercial paper notes for the new City Hall and offsite parking garage, $926,460 for technology, furniture and relocation services for the new City Hall, $1,424 for municipal facility improvements, $1,222,381 for the consolidated utility billing system, $626,186 for the Central Service Yard Phase II project, and $7,763,000 for capital improvements at the City's HP Pavilion.

Also during Fiscal Year 2007-08, the Authority redeemed $6,291,282 for technology, furniture and relocation services for the new City Hall, $127,718 for municipal facility improvements, and $1,377,000 for the consolidated utility billing system.

On June 30, 2008, $76,066,000 of Authority tax-exempt commercial paper notes were outstanding at interest rates ranging from 1.47% to 1.50%. On June 30, 2008, $7,763,000 of Authority taxable commercial paper notes were outstanding at an interest rate of 2.47%.

City of San José, California, San José International Airport Subordinated Commercial Paper Notes

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 three series (Series A – Tax-Exempt, Series B – Subject to the AMT, Series C – Taxable) 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 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).

On June 20, 2006, the City Council approved an expansion of the Airport commercial paper program from $100,000,000 to $200,000,000 to ensure that funding would be available for the award of the design and construction contracts related to the rephased Airport Master Plan projects. On January 9, 2007, the City Council approved an additional expansion of the Airport commercial paper program from $200,000,000 to $450,000,000 to ensure that funding would be available for the award of the design and construction contracts related to the rephased Airport Master Plan projects. Various Airport Master Plan projects over the next several years are focused on completion of the North Concourse Projects as well as the implementation of the Terminal Area Improvement Program (the "TAIP"). Additionally, the Airport commercial paper

Return to Table of Contents

program may be used to pay costs related to the Airport's lease of the former FMC property and to pay debt service costs related to the City of San José Airport Revenue Bonds, Series 2004.

On March 25, 2008, the City Council approved an expansion of the Airport commercial paper program from $450,000,000 to $600,000,000 to provide sufficient capacity to refund the City's outstanding Airport Revenue Bonds, Series 2004A and Series 2004B (the "2004AB Bonds"). This refunding of variable-rate bonds with another form of variable-rate debt constitutes a restructuring of the 2004AB Bonds, which had been negatively impacted by the disruptions in the financial markets related to auction rate securities and rating agency downgrades of bond insurers. The commercial paper notes financing structure eliminated the bond insurance which provided credit enhancement to the 2004AB Bonds and replaced it with a direct-pay letter of credit. The Series 2004AB bonds were redeemed on April 4, 2008, the City's basic financial statements were adjusted accordingly.

Under this program, the City is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The portion of the commercial paper program approved by the City Council on June 20, 2006, is secured by a subordinate pledge of the Airport's revenues and additionally secured by direct-pay letters of credit provided severally by JPMorgan Chase Bank, Bank of America, and Dexia Credit Local in a maximum aggregate principal amount not to exceed $450,000,000 for the Series A, Series B and Series C commercial paper notes. The portion of the commercial paper program approved by the City Council on March 25, 2008, is secured by a subordinate pledge of the Airport's revenues and additionally secured by a direct-pay letter of credit provided by Lloyds TSB Bank plc in a maximum aggregate principal amount not to exceed $140,000,000 for three series of commercial paper notes (Series D – Tax-Exempt, Series E – Subject to the AMT, Series F – Taxable).

During Fiscal Year 2007-08, no Series A, Series D, Series E or Series F commercial paper notes were issued or outstanding. During Fiscal Year 2007-08, the City issued $148,225,000 of Series B commercial paper notes and $28,947,000 of Series C commercial paper notes.

Also during Fiscal Year 2007-08, the City redeemed $32,406,000 of Series B commercial paper notes.

On June 30, 2008, $137,867,000 of Series B commercial paper notes were outstanding at interest rates ranging from 1.30% to 1.45%. On June 30, 2008, $48,323,000 of Series C commercial paper notes were outstanding at an interest rate of 2.80%.

Return to Table of Contents

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 the financings for the following projects.

Multifamily Housing Revenue Bonds Issuance Summary
Fiscal Year 2007-08

Project Name	Date Issued	Amount Issued	Affordable Units
Almaden Family Apartments	12/17/2007	$ 6,385,000	Refunding
Curtner Studios Apartments	12/19/2007	8,794,969	178
Fairgrounds Senior Housing	05/08/2008	26,000,000	199
Totals		$41,179,969	377

Summary of Debt Issued During Fiscal Year 2007-08

The table on the following pages presents a summary of debt issued in Fiscal Year 2007-08.

Summary of Debt Issuance
Fiscal Year 2007-08

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
09/13/2007	CSJ 2007A (AMT) Airport Master Plan Phase I Projects	$545.76	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick	Lehman Brothers	Ambac
09/13/2007	CSJ 2007B Airport Master Plan Phase I Projects	$179.26	Airport Revenue	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick	Lehman Brothers	Ambac
11/07/2007	CSJ HUD Loan Land Acquisition	$0.37	Section 108	N/A	N/A	N/A	N/A	N/A
11/07/2007	RDA 2007A (Taxable) Merged Area	$21.33	Tax Allocation	Competitive	Kitahata & Co.	Jones Hall	Morgan Keegan	XL Capital
11/07/2007	RDA 2007B Merged Area	$191.60	Tax Allocation	Competitive	Kitahata & Co.	Jones Hall	Merrill Lynch	XL Capital
12/17/2007	CSJ 2007B Almaden Family	$6.39	Multifamily Housing Refunding	Private Placement	E. Wagner & Associates	Sidley Austin	N/A	N/A
12/19/2007	CSJ 2007C Curtner Studios	$8.79	Multifamily Housing	Private Placement	CSG Advisors	Orrick	N/A	N/A
03/25/2008	Airport Commercial Paper	$150.00[1]	Airport Revenue Commercial Paper	Negotiated	Public Resources Advisory Group/ Fullerton & Friar	Orrick	Citigroup Lehman Brothers	Lloyds TSB Bank[2]
05/08/2008	CSJ 2008B Fairgrounds Senior	$26.00	Multifamily Housing	Private Placement	Ross Financial	Hawkins	N/A	N/A
06/11/2008	CSJFA 2008F Land Acquisition	$67.20	Lease Revenue Refunding	Negotiated	Public Resources Advisory Group	Jones Hall	Goldman Sachs	Bank of America
06/25/2008	CSJ 2008 Libraries and Parks	$33.10	General Obligation	Competitive	Stone & Youngberg	Jones Hall	Stone & Youngberg	N/A

(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] Represents the increase in the authorized amount from $450 million to $600 million.

[2] In addition to Lloyds TSB Bank, JPMorgan Chase Bank, Bank of America, and Dexia Credit Local are providing liquidity support to the Airport revenue commercial paper program.

Summary of Debt Issuance

Fiscal Year 2007-08 (continued)

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
06/26/2008	CSJFA 2008C Hayes Mansion	$10.91	Lease Revenue Refunding	Negotiated	Public Resources Advisory Group	Jones Hall	Citigroup	Bank of Nova Scotia/CalSTRS
06/26/2008	CSJFA 2008D (Taxable) Hayes Mansion	$47.39	Lease Revenue Refunding	Negotiated	Public Resources Advisory Group	Jones Hall	Lehman Brothers	Bank of Nova Scotia/CalSTRS
FY 2007-08	**13 Issues**	**$1,288.10**						

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

[1] Represents the increase in the authorized amount from $450 million to $600 million.

[2] In addition to Lloyds TSB Bank, JPMorgan Chase Bank, Bank of America, and Dexia Credit Local are providing liquidity support to the Airport revenue commercial paper program.

B. Debt Planned for Fiscal Year 2008-09

The Debt Management Program has identified seven financing projects which are expected to result in issuance of eight series of bonds totaling over $360 million by the end of Fiscal Year 2008-09. Through September 30, 2008, four series of bonds have closed with an aggregate par amount of $150.86 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 Financing Authority Lease Revenue Bonds, Series 2008E (Taxable) (Ice Centre Refunding Project)

On July 3, 2008, the Authority issued $28,070,000 of Series 2008E Taxable Lease Revenue Bonds. The proceeds of the Series 2008E Bonds were used to current refund the Authority's Series 2000C (taxable) and Series 2004A (taxable) Lease Revenue Bonds (together, the "2000/2004 Bonds") issued to finance and refinance improvements to the City's 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, Silicon Valley Sports and Entertainment.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the 2000/2004 Bonds, which had been negatively impacted by the disruptions in the financial markets related to auction rate securities and rating agency downgrades of bond insurers. The Series 2008E Bonds financing structure eliminated the bond insurance which provided credit enhancement to the 2000/2004 Bonds and replaced it with a direct-pay letter of credit. The 2000/2004 Bonds were redeemed on July 3, 2008, and have been removed from the City's basic financial statements.

The Series 2008E Bonds, which are supported by an irrevocable direct-pay letter of credit provided by Bank of America and the California State Teachers' Retirement System, bear interest at weekly variable rates and have a final maturity date of June 1, 2025.

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

On July 10, 2008, the Authority issued $36,580,000 of Series 2008B Lease Revenue Bonds. The proceeds of the Series 2008B Bonds were used to current refund the portion of the Authority's Lease Revenue Commercial Paper Notes issued as an interim financing mechanism to finance land acquisition and construction of the Civic Center Employee Parking Garage and certain improvements to the Civic Center. Debt service on the Series 2008B bonds will be paid from the General Fund, special funds, and capital funds.

This refunding of variable-rate commercial paper notes with a series of variable-rate bonds provides long-term financing for the Civic Center Garage. A note repayment fund for the Lease Revenue Commercial Paper Notes, in the amount of $32,527,604 was funded from the Series 2008B bond proceeds and was used to current refund a portion of the outstanding Lease Revenue Commercial Paper Notes when those notes matured on July 11, 2008.

The Series 2008B Bonds, which are supported by an irrevocable direct-pay letter of credit provided by Bank of America and the California State Teachers' Retirement System, bear interest at weekly variable rates and have a final maturity date of June 1, 2039.

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

On August 14, 2008, the Authority issued $60,310,000 of Series 2008A Lease Revenue Bonds. The proceeds of the Series 2008A Bonds were used to current refund the Authority's Series 2002C Lease Revenue Bonds issued to finance a portion of the costs of the City Hall project. Debt service on the Series 2008A bonds will be paid from the General Fund, special funds, and capital funds.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the Series 2002C Bonds, which had been negatively impacted by the disruptions in the financial markets related to auction rate securities and rating agency downgrades of bond insurers. The Series 2008A Bonds financing structure eliminated the bond insurance which provided credit enhancement to the Series 2002C Bonds and replaced it with a direct-pay letter of credit. The Series 2002C Bonds were redeemed on August 14, 2008, and the City's basic financial statements have been adjusted accordingly.

The Series 2008A Bonds, which are supported by an irrevocable direct-pay letter of credit provided by The Bank of Nova Scotia and the California State Teachers' Retirement System, bear interest at weekly variable rates and have a final maturity date of June 1, 2039.

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 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 2008-09 through September 30, 2008*			
Project Name	**Date Issued**	**Amount Issued**	**Affordable Units**
Las Ventanas Apartments	07/15/2008	$25,900,000	Refunding
Totals		$25,900,000	

2. Planned Financings

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2008A and Tax Allocation Bonds, Series 2008B

In fall 2008, the San Jose Redevelopment Agency (SJRA) anticipates issuing approximately $70,000,000 of Series 2008A (taxable) and $30,000,000 of Series 2008B Tax Allocation Bonds (together, the "2008AB Bonds"). The proceeds of the 2008AB Bonds will be used to finance multiple redevelopment projects within the SJRA's Merged Area Redevelopment Project. Debt service will be payable from the SJRA's tax increment revenues.

City of San José Pension Obligation Bonds, Series 2009

The City is evaluating the possibility of issuing pension obligation bonds in the spring of 2009. The bond proceeds would be used to fund a portion of the Federated City Employees' Retirement System's unfunded accrued actuarial liability (UAAL). Depositing the funds with the Retirement System could raise the funding level to approximately 90% and is anticipated to create budgetary savings by investing the proceeds with the Retirement System at a rate higher than the cost of funds.

City of San José General Obligation Bonds, Series 2009 (Libraries and Public Safety Projects)

The City plans to issue another series of general obligation bonds in June 2009. The proceeds of those bonds would be used to fund a portion of the libraries and public safety projects approved by voters in November 2000 and March 2002. As noted above, $18,230,000 of authorization remains un-issued for the libraries and public safety programs. 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

The City anticipates submitting applications to CDLAC in late 2008, with allocations to be awarded in early 2009.

The table on the following page presents a summary of debt already issued or anticipated to be issued during Fiscal Year 2008-09.

Return to Table of Contents

Summary of Completed and Planned Debt Issuance

Fiscal Year 2008-09

Issue Date	Issue	Size (millions)	Type	Sale Type	Financial Advisor	Bond Counsel	Underwriter	Credit Enhancement
07/03/2008	CSJFA 2008E (Taxable) Ice Centre	$28.07	Lease Revenue Refunding	Negotiated	Public Resources Advisory Group	Jones Hall	Citigroup	Bank of America /CalSTRS
07/10/2008	CSJFA 2008B Civic Center Garage	$36.58	Lease Revenue Refunding	Negotiated	Public Resources Advisory Group	Jones Hall	Banc of America	Bank of America /CalSTRS
07/15/2008	CSJ 2008B Las Ventanas	$25.90	Multifamily Housing	Negotiated	Ross Financial	Orrick	Citigroup	Freddie Mac
08/14/2008	CSJFA 2008A Civic Center	$60.31	Lease Revenue Refunding	Negotiated	Public Resources Advisory Group	Jones Hall	Goldman Sachs	Bank of Nova Scotia/CalSTRS
Fall 2008	RDA 2008A (Taxable) Merged Area	$70.00	Tax Allocation	Competitive	Kitahata & Co.	Jones Hall	TBD	TBD
Fall 2008	RDA 2008B Merged Area	$30.00	Tax Allocation	Competitive	Kitahata & Co.	Jones Hall	TBD	TBD
Spring 2009	CSJ 2009 Federated Pension Plan	$100.00	Pension Obligation	TBD	KNN	TBD	TBD	TBD
June 2009	CSJ 2009 Libraries & Public Safety	$18.23	General Obligation	TBD	TBD	TBD	TBD	TBD
FY 2008-09	**8 Issues**	**$369.09**						

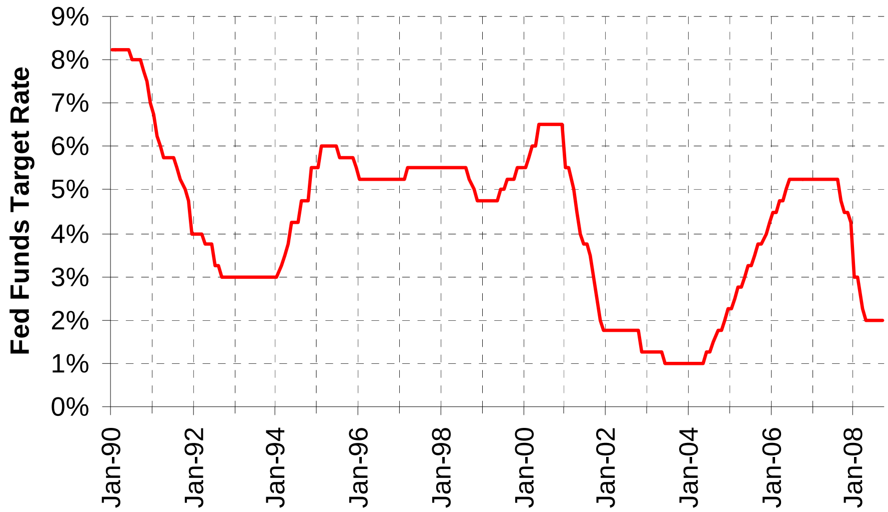
Issuer Key: CSJ-City of San José; CSJFA-City of San José Financing Authority; RDA-Redevelopment Agency of the City of San José.

C. Current Market Conditions

Over the past year, the Federal Open Market Committee (the "FOMC") responded to the deteriorating economy and financial market disruptions by reducing the Fed Funds target interest rate from 5.25% in September 2007 to 2.00% in April 2008.

Fed Funds Rate Targets

January 1990 through September 2008

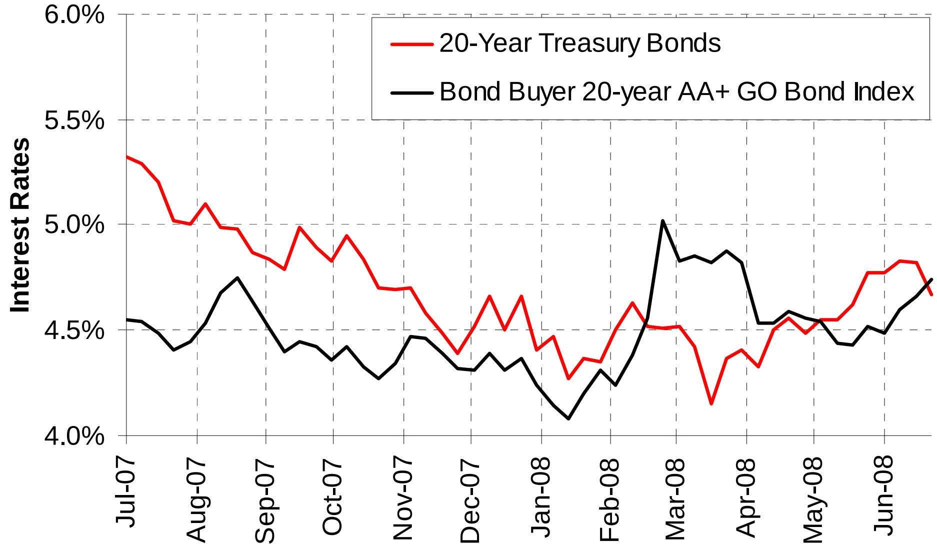


In its statements, the FOMC cited a weak outlook for economic growth, prompted by strained financial markets, and an expectation that inflationary pressures will moderate. In addition to encouraging borrowing activity by reducing the Fed Funds target, the Federal Reserve has taken an active role in providing liquidity to market participants to promote moderate growth over time and to mitigate the risks to economic activity. Since its last reduction in April 2008, the FOMC has held the Fed Funds target steady at 2.00%, noting that the downside risks to growth and the upside risks to inflation are both of significant concern.

The market disruption that began in August 2007 resulted in a shift of investment to U.S. Treasury securities, which are perceived as the safest investment vehicle. As a consequence, the demand in the market for other types of debt, including high-grade municipal bonds, has dropped, and the interest rates on those bonds have significantly increased. As shown in the chart below, during the period February-April 2008, when major bond insurers were downgraded by the rating agencies and the market for auction-rate securities failed, the increase in perceived risk led to a situation in which tax-exempt long-term interest rates rose above the taxable interest rate on U.S. Treasury securities.

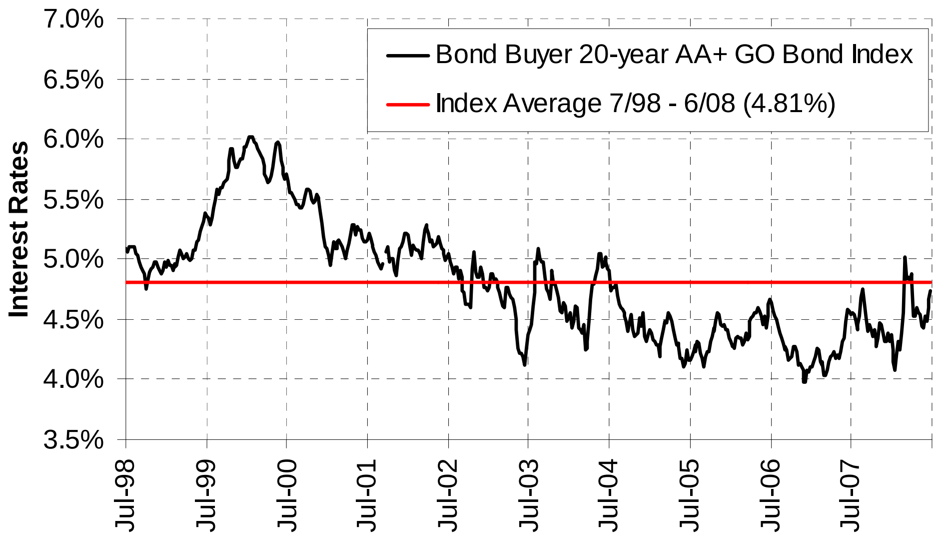
Return to Table of Contents

Comparison of Tax-Exempt and Taxable Interest Rates
July 2007 through June 2008



As can be seen in the chart below, despite a brief spike in March 2008 for the reasons noted above, tax-exempt long-term interest rates remained below their ten-year average for most of the fiscal year.

Ten-Year History of Tax-Exempt Interest Rates
July 1998 through June 2008



Return to Table of Contents

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 request for proposals ("RFP") process in Fiscal Year 2006-07 for financial advisory services in a number of specialized financing areas. The RFP sought proposals for services as the City General Financial Advisor, the Airport General Financial Advisor, the Affordable Housing Program General Financial Advisor, and for the formation of financial advisory pools in the following areas: general obligation and lease revenue financings, affordable housing financings, and land-secured financings (improvement districts and community facilities districts). As a result of this process, general financial advisors and a pool of eligible financial advisors was selected and approved by the City Council on February 27, 2007.

A pool of eligible financial advisors is crucial, as it allows for a more efficient selection of financing teams for each separate bond issue, minimizes the time and the costs spent preparing and reviewing requests for proposals, and shortens the timeline required to finance City projects for the community.

General Financial Advisors and Financial Advisory Pool Eligible List
Financial Advisory Firms Approved by the City Council on February 27, 2007
March 2007 to June 2012

City General Financial Advisor	**Airport Co-Financial Advisors**
Public Resources Advisory Group	Fullerton & Friar
	Public Resources Advisory Group
GO Bonds/Lease Revenue Bonds	**Housing Program Financial Advisors**
First Southwest	CSG Advisors
KNN	Ross Financial
Public Financial Management	
Public Resources Advisory Group	
Ross Financial	
Stone & Youngberg	
Land-Secured Financings	**Affordable Housing Financings**
CSG Advisors	CSG Advisors
E. Wagner & Associates	E. Wagner & Associates
KNN	Kitahata & Company
Public Financial Management	Public Financial Management
Stone & Youngberg	Ross Financial

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 2007-08 and for the debt issues underway in Fiscal Year 2008-09.

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 can meets its debt administration obligations to:

- Pay debt service;
- Invest and disburse bond funds;
- Monitor trustee-held accounts and investment agreements;
- Comply with bond covenants and IRS requirements;
- Provide continuing disclosure and other reports to the municipal bond market;
- Ensure market pricing of variable-rate debt;
- Manage liquidity and credit enhancement contracts; and
- Evaluate potential refunding opportunities.

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, 2008, the City had over $968 million in bond and commercial paper note funds that are held by three trustees and invested in 207 active Funds and Accounts. These figures do not include the Redevelopment Agency's merged area 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

Return to Table of Contents

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, 2008

Trustee	Number of Bond/CP Issues	Original Par Amount of Bonds	Trustee Fund Balance
Bank of New York	10	$1,320,180,000	$585,294,155
US Bank	13	376,507,984	19,020,975
Wells Fargo Bank	25	1,593,970,000	363,898,186
Total	48	$3,290,657,984	$968,213,316

[1] Does not include RDA bonds issued for merged area 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 provisions governing Funds and Accounts of 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 closely monitor investment and 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, 2008, of the $968 million held by the trustees, over $753 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,

Return to Table of Contents

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 2007-08, Debt Management staff reviewed and processed 148 disbursement requests totaling over $312 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 stipulates 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 expenditure exceptions for bond proceeds, the arbitrage earnings will not have to be rebated to the Federal Government. Arbitrage regulations apply to all of the City's tax-exempt financings.

Debt Management staff, working in conjunction with Investment 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 positive arbitrage earnings in one account of a bond series to offset negative arbitrage in another account of the same series.

In Fiscal Year 2007-08, of the 207 funds and accounts held by trustees, 77 funds and accounts containing over $954 million of tax-exempt bond proceeds, were actively monitored for arbitrage compliance. Debt Management staff continually monitors and documents 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 most 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 annual and five-year installment 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. Indeed, within the past few years, the IRS has conducted random audits on two of the City's multifamily housing revenue bond issues and, in both cases, the audits were closed with no change to the status of the bonds or findings by the IRS.

The table below lists the City's tax-exempt bond issues that have a positive arbitrage rebate liability and the next rebate installment date:

Summary of Bond Issues with Positive Rebate Liabilities
as of June 30, 2008

Bond Issue	Estimated Rebate Liability	Next Rebate Installment Date
City of San José General Obligation Bonds, Series 2005	$ 254,741	06/22/2010
City of San José Airport Revenue Bonds, Series 2004ABCD	85,920	06/24/2009
City of San José Financing Authority, Series 2001D	33,432	08/27/2008
City of San José Financing Authority, Series 2001E	44,158	05/01/2010
City of San José Financing Authority, Series 2002C	See Note 1	06/01/2011
City of San José Financing Authority, Series 2006A	99,296	06/01/2011
City of San José Financing Authority, Series 2005B	29,976	09/02/2008
RDA Housing Set-Aside TABs, Series 2005C	See Note 2	06/30/2010
RDA Housing Set-Aside TABs, Series 2005D	601,588	06/30/2010
Total	$1,149,111	

[1] The Series 2002C Bonds and the Series 2006A Bonds are considered a single series for arbitrage rebate purposes by the IRS. The amount shown for the Series 2006A Bonds relates to both series.
[2] The Series 2005C Bonds and the Series 2005D Bonds are considered a single series for arbitrage rebate purposes by the IRS. The amount shown for the Series 2005D Bonds relates to both series.

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, 2008, the City had 33 series of bonds subject to continuing disclosure requirements, excluding the Redevelopment Agency and 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 through the use of the DisclosureUSA website. 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 and compliance reporting constitute a significant part of Debt Management's compliance activity for the life of each series of bonds. In Fiscal Year 2007-08 an unprecedented 60 material event notices were filed by the City all of which were related to bond insurer downgrades and the corresponding impact on the ratings of the City's insured bonds.

Beginning with the disclosure reports for Fiscal Year 2003-04, Debt Management has been utilizing the DisclosureUSA website, either through the City's dissemination agents or through direct postings, for its continuing disclosure reporting. 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, or issuers' dissemination agents, and then transmits them electronically to the nationally recognized municipal securities information repositories ("NRMSIRs") as required by continuing disclosure agreements.

C. Investment of Bond Proceeds

Debt Management works closely with bond trustees as well as with 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 June 24, 2008. 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, 2008, 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 had a maturity of March 1, 2031. The amount invested was $10.5 million and the value as of June 30, 2008, was $10.7 million. The agreement was collateralized with US Treasuries at 104%

and Agencies at 105%, and had a yield of 5.78%. The bond yield on these fixed rate bonds is 5.01%.

On June 24, 2008, Moody's Investors Service downgraded MBIA's rating from "Aaa" to "A2" and Standard and Poor's downgraded MBIA's rating from "AAA" to "AA". As a result of these rating downgrades, the City was required to terminate the investment agreement. Because market conditions would not allow the City to reinvest the principal at as high an interest rate as the MBIA investment agreement, MBIA was required to pay the City a "make-whole" amount in addition to returning the invested principal and accrued interest.

On September 3, 2008, the investment agreement was terminated and the principal, accrued interest and make-whole amounts were wired to the bond trustee. The principal and accrued interest amounts of $10.6 million were deposited in the Series 2001A Airport Bond Reserve Account. The make-whole amount of $2.1 million, determined through a competitive auction process, was treated as liquidated damages and was wired to the City as general airport revenues on September 15, 2008.

City of San José Airport, Series 2004 Reserve Account: The Series 2004 Airport Bond Reserve Account was invested with MBIA in October 2004 and had a maturity of March 1, 2014. The amount initially invested was $23.6 million, however, the 2004AB Bonds were refunded on April 4, 2008, and the investment amount determined to be excess reserve funds subsequent to the refunding, $10.4 million, was liquidated and used to redeem bonds. As a result, the value of the investment as of June 30, 2008 was $13.3 million. The agreement was collateralized with US Treasuries at 104% and Agencies at 105%, and had a yield of 4.314%. The bond yield is a blended rate of the redeemed variable-rate Series 2004AB Bonds and the fixed rate Series 2004CD Bonds.

On June 24, 2008, Moody's Investors Service downgraded MBIA's rating from "Aaa" to "A2" and Standard and Poor's downgraded MBIA's rating from "AAA" to "AA". As a result of these rating downgrades, the City was required to terminate the investment agreement. Because market conditions would not allow the City to reinvest the principal at as high an interest rate as the MBIA investment agreement, MBIA was required to pay the City a "make-whole" amount in addition to returning the invested principal and accrued interest.

On September 3, 2008, the investment agreement was terminated and the principal, accrued interest and make-whole amounts were wired to the bond trustee. The principal and accrued interest amounts of $13.4 million were deposited in the Series 2004 Airport Bond Reserve Account. The make-whole amount of $0.6 million, determined through a competitive auction process, was treated as liquidated damages and was wired to the City as general airport revenues on September 15, 2008.

City of San José Airport, Series 2004 Improvement Funds, Capitalized Fee Fund and Capitalized Interest Accounts: The Series 2004 Improvement Funds, Capitalized Fee Funds and Capitalized Interest Accounts were invested with Citigroup Global

Markets, Inc. in September 2007 in a consolidated agreement. The total initial investment in the consolidated investment agreement was $52.2 million and the amount invested as of June 30, 2008, was $35.4 million. The Improvement Funds had an initial investment of $29.5 million and a maturity of February 28, 2009. The Capitalized Fee Funds and Capitalized Interest Accounts had an initial investment of $22.7 million and a maturity of July 1, 2010. The agreement was collateralized with US Treasuries at 104% and Agencies at 105%, and has a yield of 4.732% for the Improvement Funds and 4.521% for the Capitalized Fee Funds and Capitalized Interest Accounts. The bond yield is a blended rate of the redeemed variable-rate Series 2004AB Bonds and the fixed rate Series 2004CD Bonds.

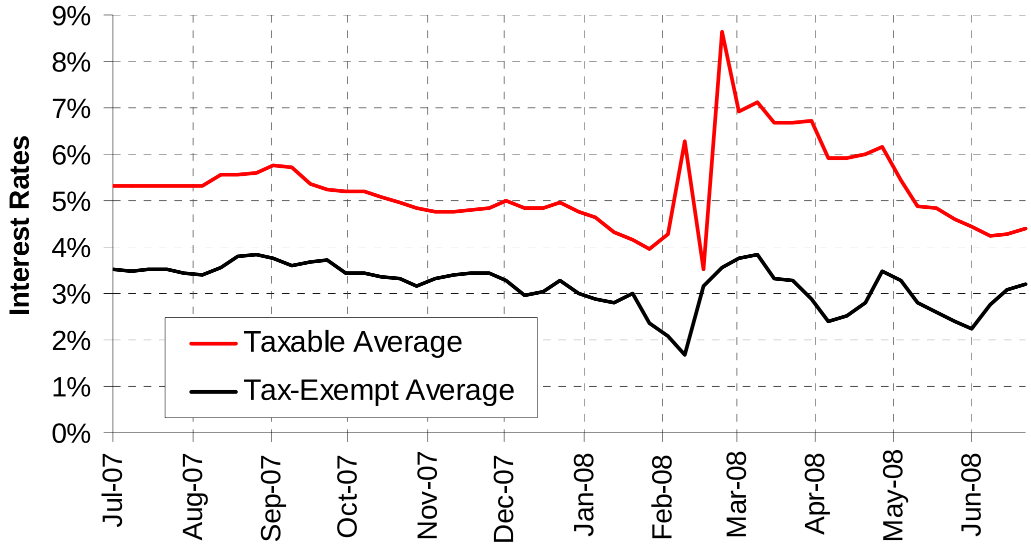
City of San José Airport, Series 2007 Improvement Funds and Capitalized Interest Accounts: The Series 2007 Improvement Funds and Capitalized Interest Accounts were invested with Citigroup Global Markets, Inc. in September 2007 in a consolidated agreement. The total initial investment in the consolidated investment agreement was $613.9 million and the amount invested as of June 30, 2008, was $480.6 million. The Improvement Funds had an initial investment of $530.5 million and a maturity of August 1, 2010. The Capitalized Interest Accounts had an initial investment of $83.4 million and a maturity of September 1, 2010. The agreement was collateralized with US Treasuries at 104% and Agencies at 105%, and has a yield of 4.533% for the Improvement Funds and 4.539% for the Capitalized Interest Accounts. The Series 2007AB Bonds bear interest at fixed rates and the arbitrage yield on the Bonds is 5.19%.

D. Outstanding Variable Rate Debt

During Fiscal Year 2007-08, the City and related entities had thirty-three variable-rate bond series outstanding, including three series of auction rate securities; thirteen of the thirty-three series are multifamily housing issues. Of the thirty-three series, eight are taxable and twenty-five 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.

The chart below provides a history of the average variable rates the City and related entities paid during Fiscal Year 2007-08 for both taxable and tax-exempt bond issues.

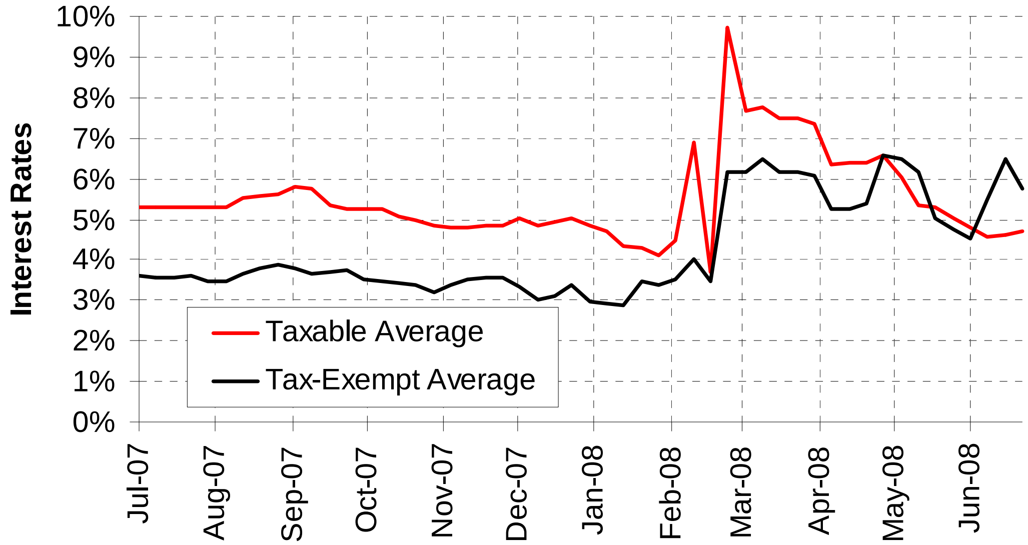
Average Weekly Taxable and Tax-Exempt Rates
Fiscal Year 2007-08



As shown in the chart above, during the period February-April 2008, when major bond insurers were being downgraded by the rating agencies and the market for auction-rate securities failed, the City's interest rates increased. Because most of the City's taxable debt was insured, while much of the City's tax-exempt debt was secured by bank letters of credit, particularly bonds issued by the Redevelopment Agency, the impact on the tax-exempt bonds appears small on the chart.

To better illustrate the impact on the City's insured bonds, the chart below focuses on the City of San Jose Financing Authority lease revenue bond program. All eight series of these bonds were insured, and all of them were significantly affected by the bond insurer rating downgrades. The City and its financing team worked diligently during the last half of the fiscal year to refund all of these insured bonds with bonds secured by bank letters of credit, and completed those refundings during the months of June-August 2008.

Average Weekly Taxable and Tax-Exempt Rates (Lease Revenue Bonds)
Fiscal Year 2007-08



E. Refunding Opportunities

As part of its role as manager of the City's debt portfolio, consisting of outstanding bonds, commercial paper notes, and certain lons, Debt Management undertakes a continual review and analysis of the 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 2007-08 and anticipated refundings for Fiscal Year 2008-09 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.

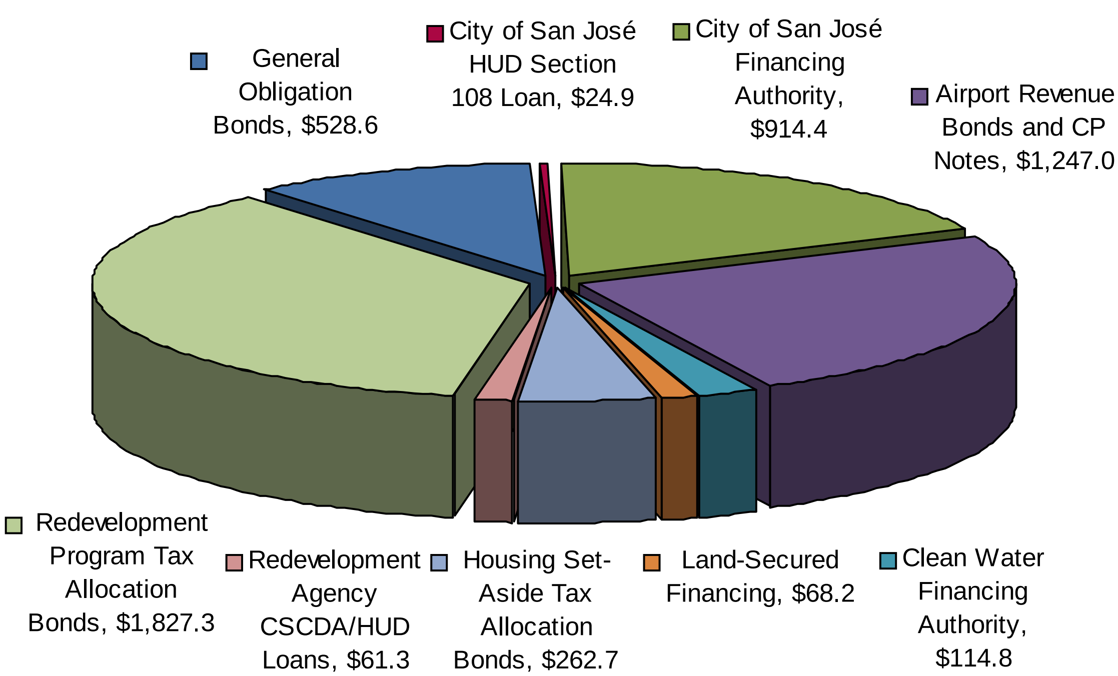
IV. CITY'S OUTSTANDING DEBT PORTFOLIO

The following section includes both a descriptive and illustrative presentation of the City's debt portfolio, comprised of 120 series of bonds, two commercial paper programs and seven loans totaling over $5.0 billion, as of June 30, 2008. This analysis includes all debt issued by the City of San José, its Redevelopment Agency, and various 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, 2008, the City, the Redevelopment Agency, and related entities had 65 series of bonds, two commercial paper programs and seven federal and state loans outstanding, totaling over $5.0 billion. The pie chart below shows the distribution among the various categories of outstanding debt issued by the City and its related entities: general obligation, City HUD loan, 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 and loans).

A table of the 55 series of outstanding multifamily housing revenue bonds, totaling over $572 million, is shown later in this section of the report, and a summary table of all other debt by series is presented in Appendix D.

Outstanding Bonds Issued by All Agencies
Outstanding Debt as of June 30, 2008: $5,049,042,780
(dollars shown below in millions)



Return to Table of Contents

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 2008-09 Adopted Budget as shown in the table below.

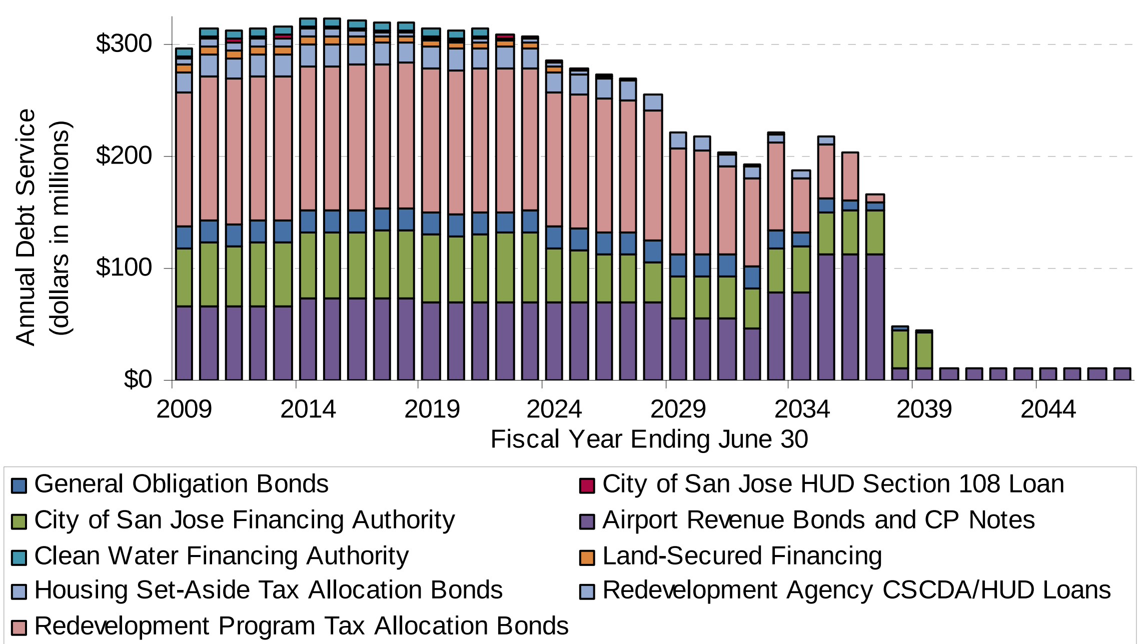
Average Weekly Variable Interest Rate Assumptions
for Annual Debt Service Projections

	Tax-Exempt Rates	AMT Rates	Taxable Rates
Fiscal Year 2008-09	2.80%	2.90%	4.00%
Subsequent Fiscal Years	3.65%	3.70%	5.50%

Source: City of San José Fiscal Year 2008-09 Adopted Budget.

With the exception of the portions of outstanding City of San José Financing Authority or Airport commercial paper that will be repaid from issuance of long-term debt and the City's conduit multi-family housing revenue bonds, the stacked bar chart 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.

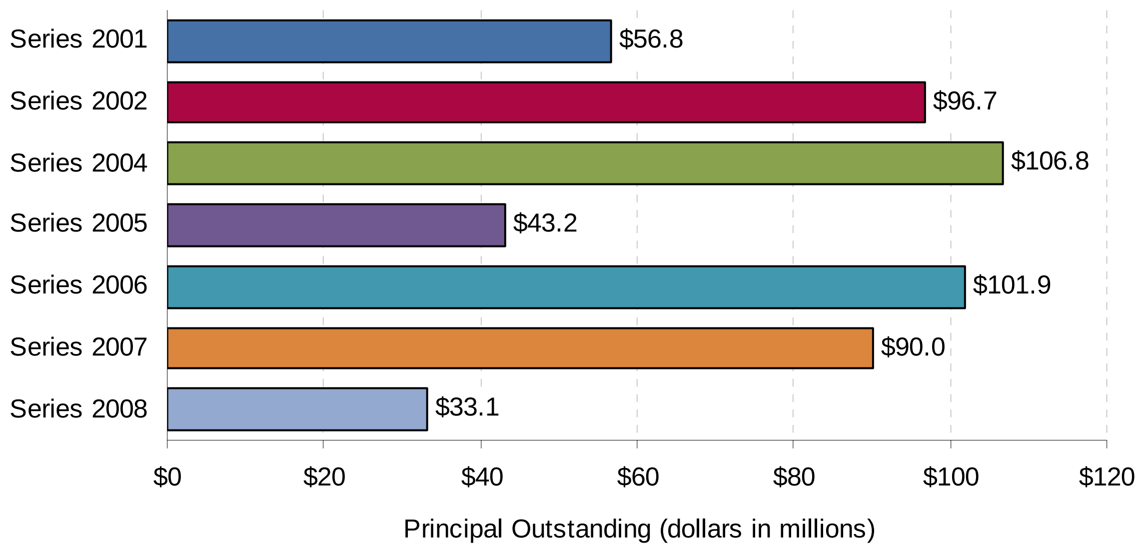
Outstanding Bonds Issued by All Agencies
Annual Debt Service



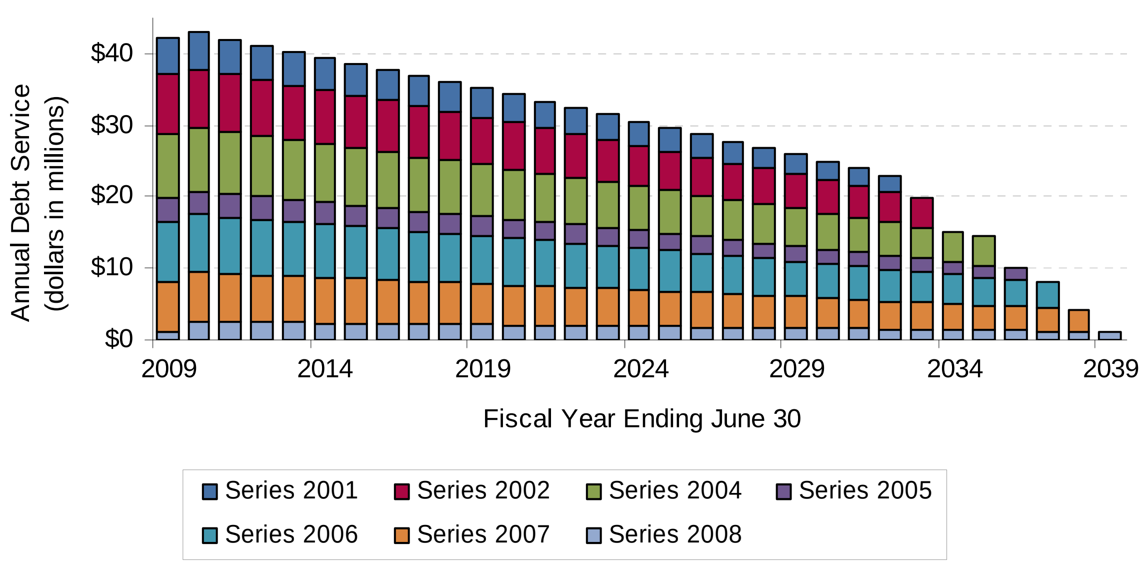
A. General Obligation Bonds

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, 2008, the City of San José had issued $580.6 million of GO bonds with the proceeds split for three purposes: library projects ($205.9 million), parks and recreation projects ($228.0 million), and public safety projects ($146.7 million). Through June 30, 2008, $52.0 million in principal payments had been made, resulting in an outstanding balance of $528.6 million.

General Obligation Bonds
Outstanding Debt as of June 30, 2008: $528,565,000



General Obligation Bonds
Annual Debt Service



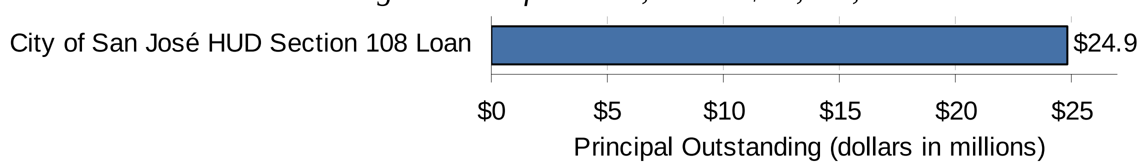
Return to Table of Contents

B. City of San José HUD Section 108 Loan

On February 10, 2005, the City of San José received a loan commitment in the amount of $25,810,000 from HUD under the Section 108 Loan Guarantee Program for the purchase of property adjacent to the Airport. On February 16, 2005, the City made an initial draw on the loan commitment in the amount of $342,000 to place a deposit on the property and pay other costs associated with the land acquisition. On May 17, 2006, the City drew an additional $25,094,000 to complete the purchase. On November 7, 2007, the City drew the final $374,000 of the loan commitment to pay costs associated with the land acquisition. Debt service on the HUD loan was initially paid from HUD Brownfields Economic Development Initiative (BEDI) grant funds received by the City, and then from the City's General Fund.

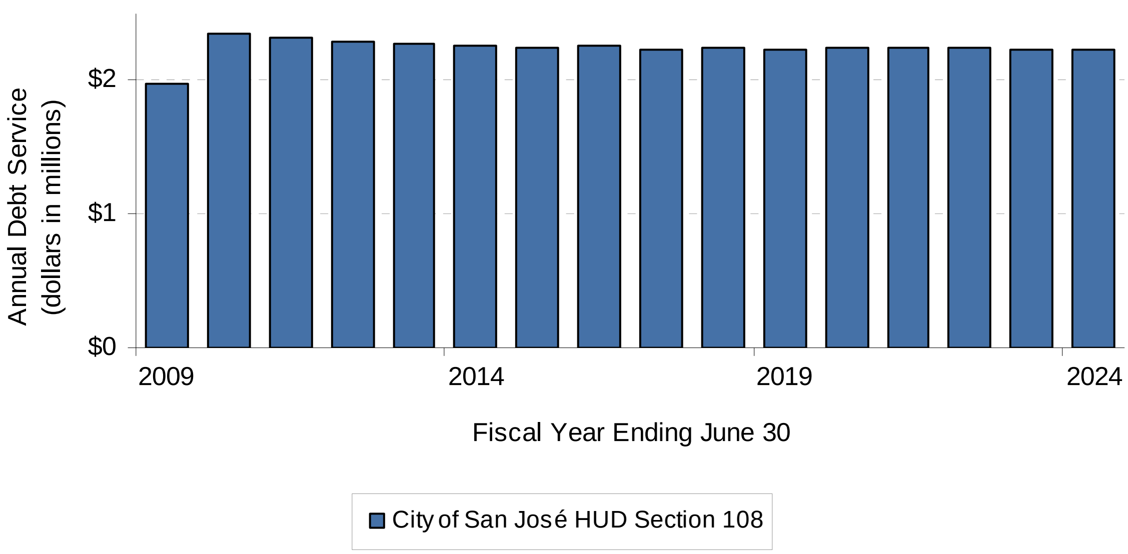
City of San José HUD Section 108 Loan

Outstanding Debt as of June 30, 2008: $24,876,000



City of San José HUD Section 108 Loan

Annual Debt Service



Return to Table of Contents

C. 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 one of the Authority's obligations is limited to specific revenue sources, the remainder of the Authority's obligations are ultimately payable from the City's General Fund.

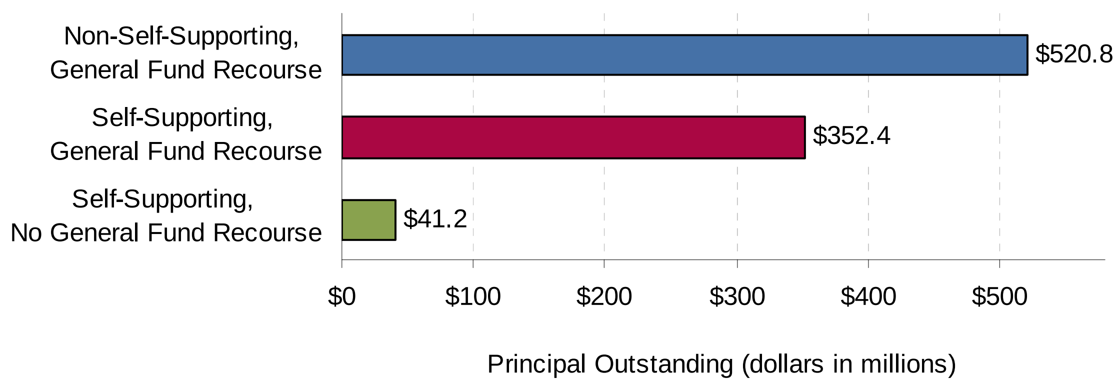
To better illustrate the variety of Authority debt outstanding, Authority obligations are presented here in several categories. These include:

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.

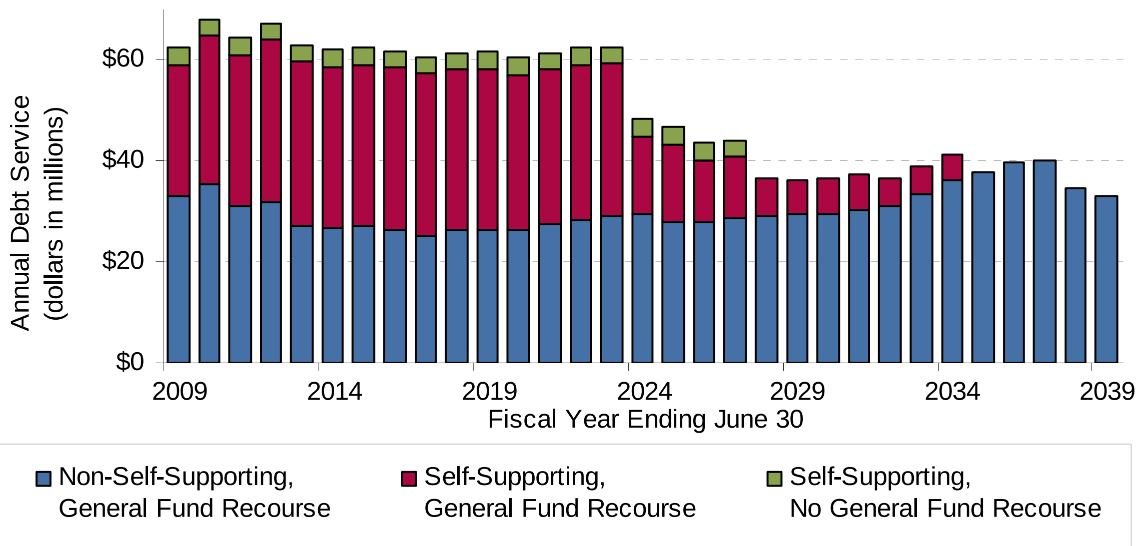
The next two charts illustrate the total amount of Authority bonds outstanding by category along with a bar chart illustrating annual debt service obligations by category.

City of San José Financing Authority Obligations

Outstanding Debt as of June 30, 2008: $914,393,025



City of San José Financing Authority Obligations
Annual Debt Service



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

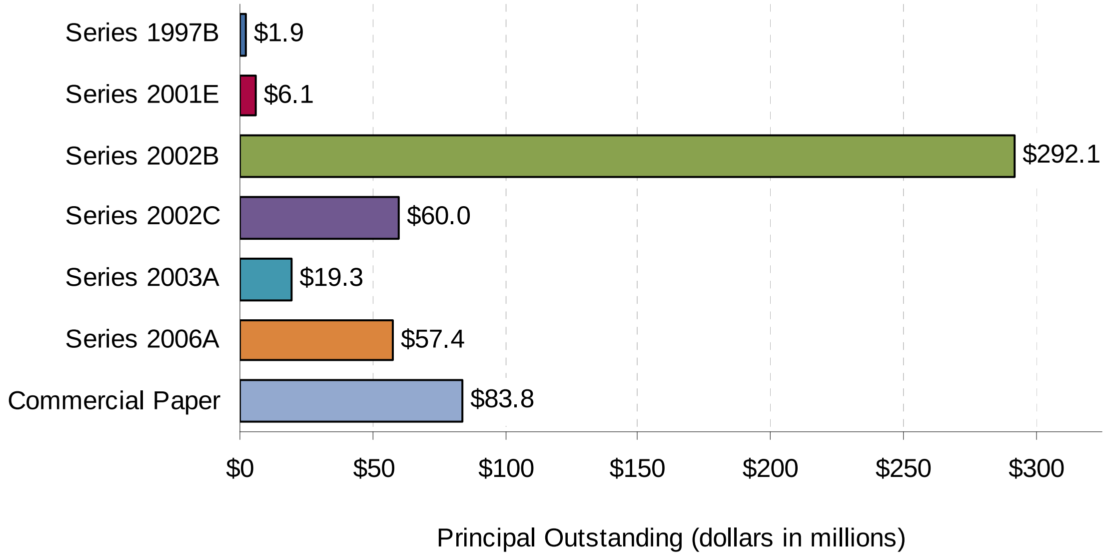
The financings included in this category and the next are structured as lease revenue bonds which are repaid from City lease payments for specified facilities. The leased facilities are typically those that are being financed, but in some cases may consist of other City assets.

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 2006A Bonds financed or refinanced a portion of the new City Hall 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 commercial paper notes provide interim financing for land acquisition and construction of the City Hall Offsite Parking Garage and construction of the Central Service Yard Phase II improvements, and provide short-term financing for technology, furniture, equipment and relocation expenses associated with the new City Hall, the cost of the Consolidated Utility Billing System, and the City's share of capital improvements at the City's HP Pavilion.

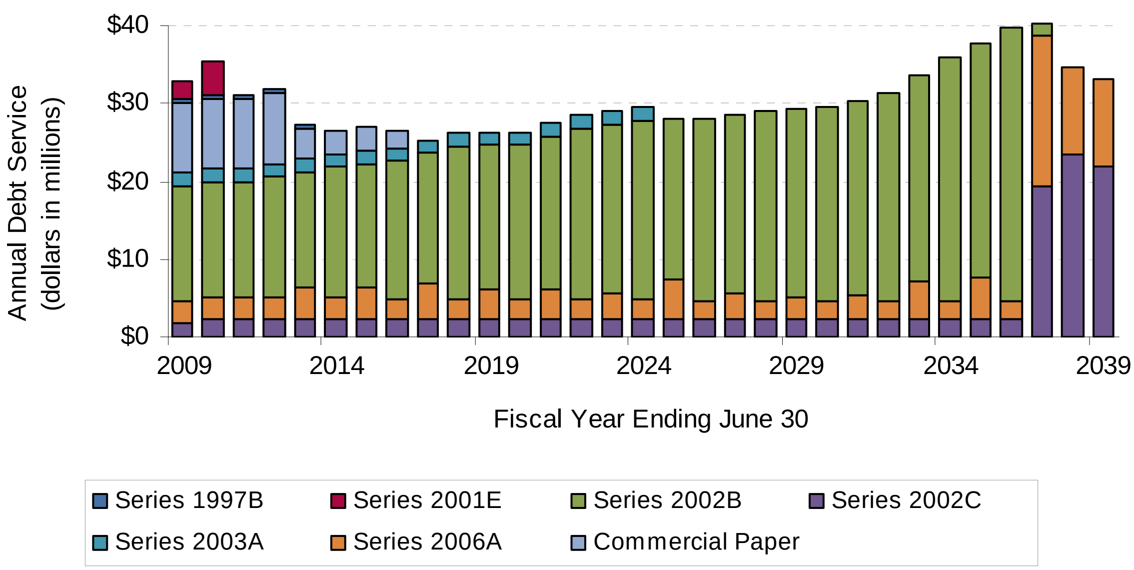
The bar chart below illustrates the total amount of outstanding debt in the category of non-self-supporting Authority debt with recourse to the General Fund. As of June 30, 2008, the total amount was $520,794,000, consisting of $436,965,000 of lease revenue bonds and $83,829,000 of taxable and tax-exempt commercial paper.

Non-Self-Supporting Debt/ General Fund Recourse
Outstanding Debt as of June 30, 2008: $520,794,000



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 chart 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



Return to Table of Contents

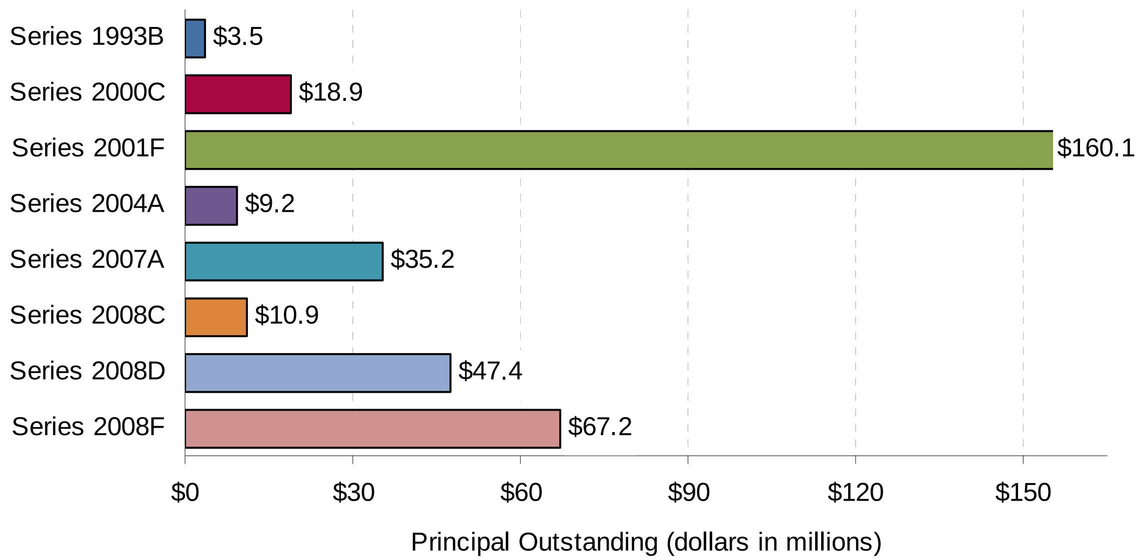
2. Self-Supporting Debt with Recourse to the City's General Fund

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, in whole or in part, 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.

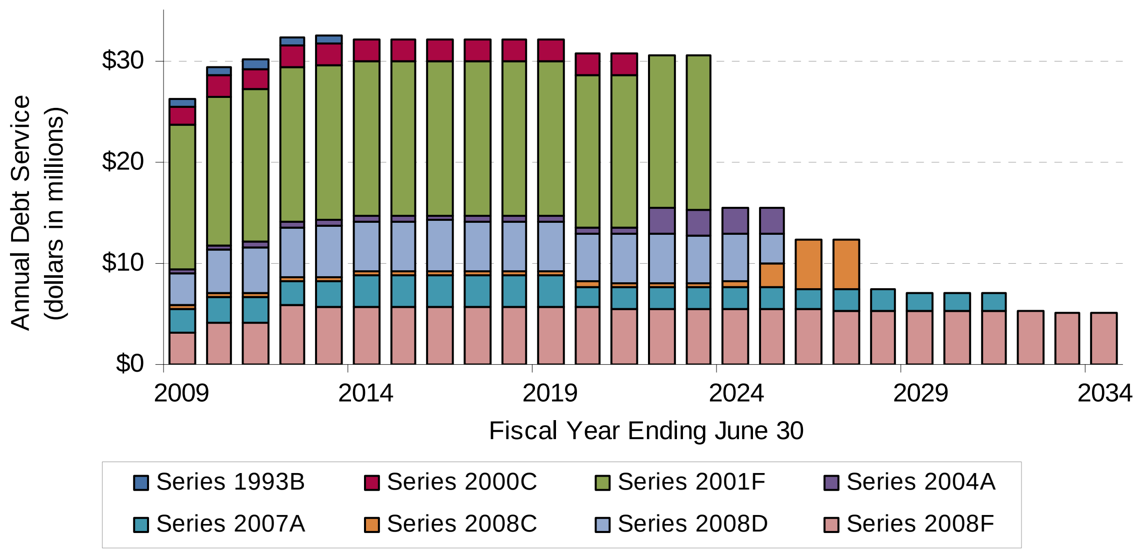
Self-Supporting Debt/ General Fund Recourse

Outstanding Debt as of June 30, 2008: $352,429,025



Return to Table of Contents

Self-Supporting Debt/ General Fund Recourse
Annual Debt Service



Series 1993B (Community Facilities Project): These fixed-rate bonds funded the construction of the Berryessa Community Center, acquisition of Murdock Park, and construction of the City's Logitech Ice Centre, and the financing program made other funds available for the Hayes Mansion Phase I Improvements project. The Ice Centre portion of these bonds was refunded with proceeds of the Series 2000C Bonds, and a portion of the remaining debt was refunded with proceeds of the Series 2007A Bonds. Debt service on the Series 1993B Bonds is paid from revenues of the Hayes Mansion and construction and conveyance tax revenues from Council Districts #1 and #4. To the extent these revenues are insufficient to fully pay the debt service, the General Fund or other available funds make up the difference. In recent years the General Fund has been subsidizing debt service payments on the Series 1993B Bonds.

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. On July 3, 2008, the Authority issued Series 2008E Bonds (Ice Centre Refunding Project) and redeemed all of the outstanding Series 2000C Bonds.

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. On July 3, 2008, the Authority issued Series 2008E Bonds (Ice Centre Refunding Project) and redeemed all of the outstanding Series 2004A Bonds.

Series 2007A (Recreational Facilities Refunding Project): These fixed-rate bonds refunded all or a portion of several series of bonds as summarized below.

> **Series 1993B (Community Facilities Project)**: These bonds, which were partially refunded with proceeds of the Series 2007A Bonds, financed the construction of the Berryessa Community Center, acquisition of Murdock Park, and construction of the City's Logitech Ice Centre and made other funds available for the Hayes Mansion Phase I Improvement Project. The portion of Series 2007A Bonds debt service attributable to the refunded portion of the Series 1993B Bonds is paid from revenues of the Hayes Mansion and construction and conveyance tax revenues from Council Districts #1 and #4.
>
> **Series 1997A (Golf Course Project)**: These bonds, which were completely refunded with proceeds of the Series 2007A 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). The portion of Series 2007A Bonds debt service attributable to the 1997A Bonds is paid from golf course revenues.
>
> **Series 2000B (Tuers-Capitol Golf Course/Camden Park Refunding)**: These bonds, which were completely refunded with proceeds of the Series 2007A 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. The portion of Series 2007A Bonds debt service attributable to the 2000B Bonds is paid from golf course revenues and construction and conveyance tax revenues from Council District #9.

To the extent these revenues are insufficient to fully pay the debt service on the Series 2007A Bonds, the General Fund or other available funds make up the difference.

Series 2008C and 2008D (Hayes Mansion Refunding Project): These variable-rate bonds refunded the Series 2001 Bonds issued to finance the Hayes Mansion Phase III improvements and refund 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 2008 Hayes

Mansion Bonds and the Hayes Mansion share of debt service of the Series 1993B and Series 2007A 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 2008F (Land Acquisition Refunding Project): These variable-rate bonds refunded the Series 2005 Bonds issued to finance acquisition of property adjacent to the Airport. Under an Operating Sublease with the City for aviation uses, the Authority receives rental payments to cover debt service on the bonds. The City is in negotiations for development of the property, and option payments related to those negotiations are currently being used to pay debt service on the Series 2008F Bonds. To the extent these option payments are insufficient to fully pay the debt service, rental payments under the Operating Sublease, the General Fund or other available funds would be required.

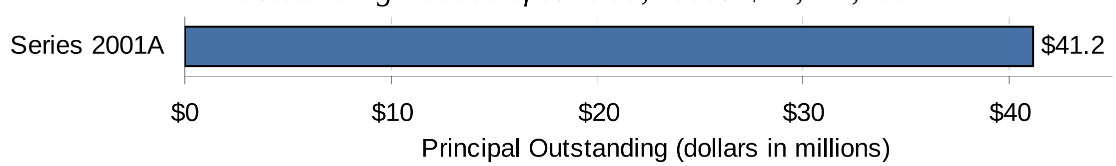
3. Self-Supporting Debt with No Recourse to the City's General Fund

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. Only one series of Authority bonds is currently in this category.

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.

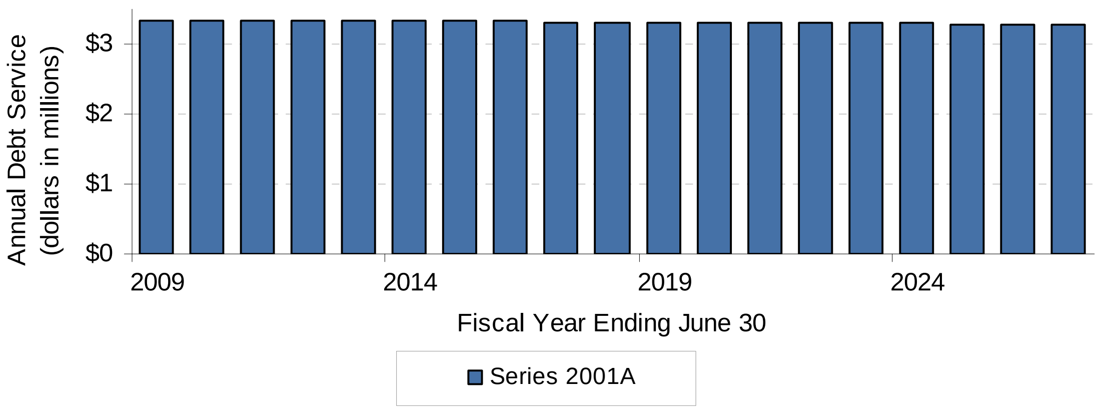
Self-Supporting Debt/ No General Fund Recourse

Outstanding Debt as of June 30, 2008: $41,170,000



Return to Table of Contents

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

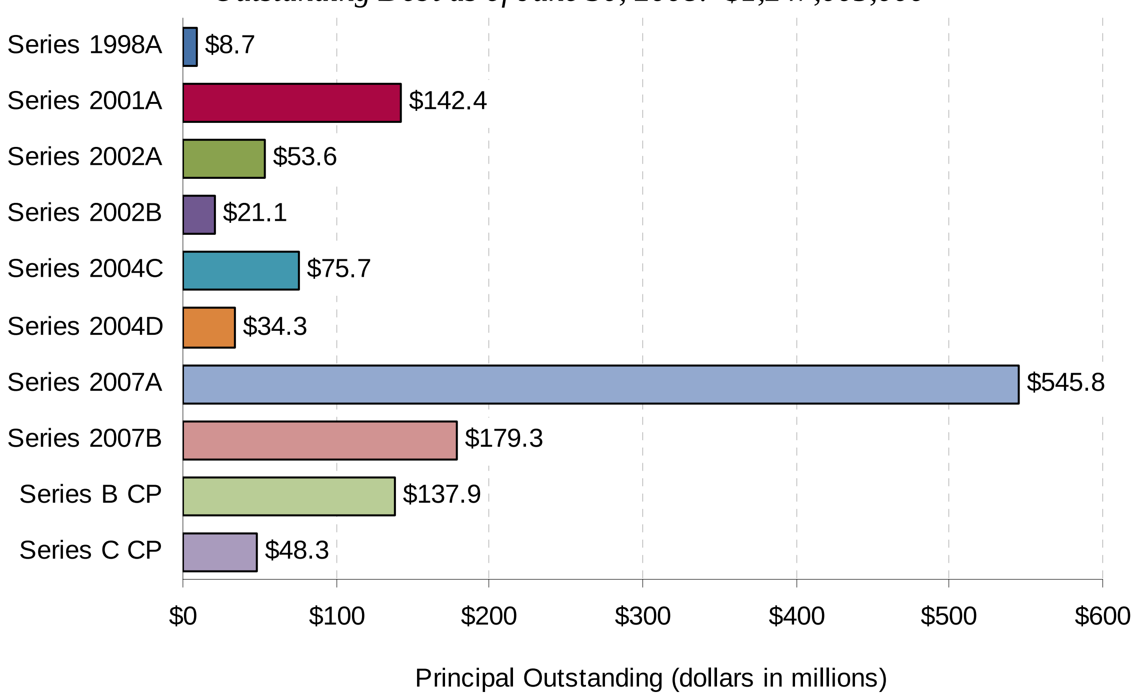


D. Enterprise Fund Obligations

1. Airport

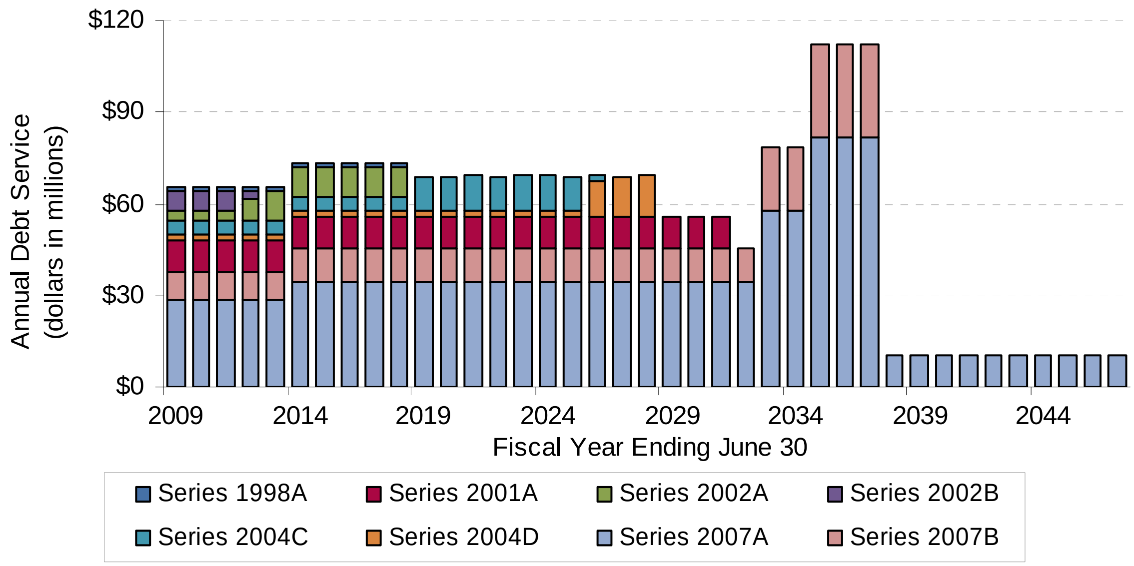
The following bar chart illustrates the total amount of outstanding Airport debt, secured by Airport revenues, broken out by issue series and type. As of June 30, 2008, the total amount of Airport obligations outstanding was $1,247.0 million, consisting of senior debt of $1,060.8 million and $186.2 million of outstanding Commercial Paper (CP). The Airport's commercial paper is subordinate to the revenue bonds.

Airport Obligations
Outstanding Debt as of June 30, 2008: $1,247,005,000



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 F 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

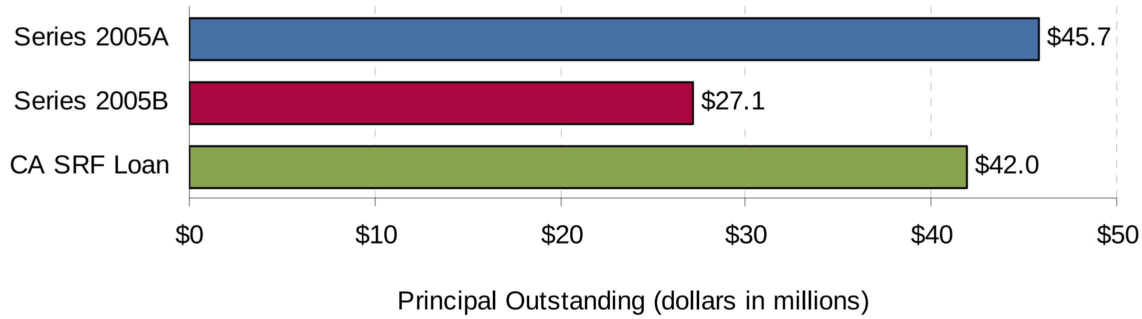


2. Clean Water Financing Authority

The bar chart below illustrates the total amount of outstanding sewer revenue bonds issued by the San José-Santa Clara Clean Water Financing Authority and the outstanding principal on the Authority's State of California Revolving Fund loans of June 30, 2008. 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. With respect to the Series 2005A and 2005B Bonds, Santa Clara has no repayment obligation under the Improvement Agreement. Santa Clara cash-funded its share of the South Bay Water Recycling Project for which the bonds refunded by the Series 2005A and 2005B Bonds were issued.

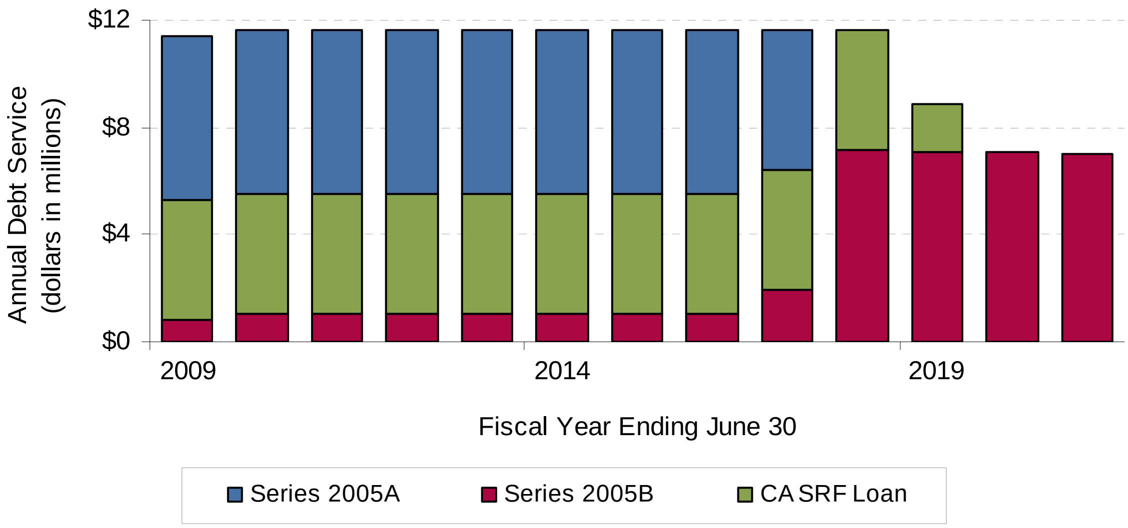
The City of San José and the City of Santa Clara have agreements with each of the tributary agencies for those agencies' share of capital costs and ongoing operation expenses of the waste water treatment system. These revenue streams along with other revenue sources generated from the waste water treatment 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 Debt
Outstanding Debt as of June 30, 2008: $114,827,855



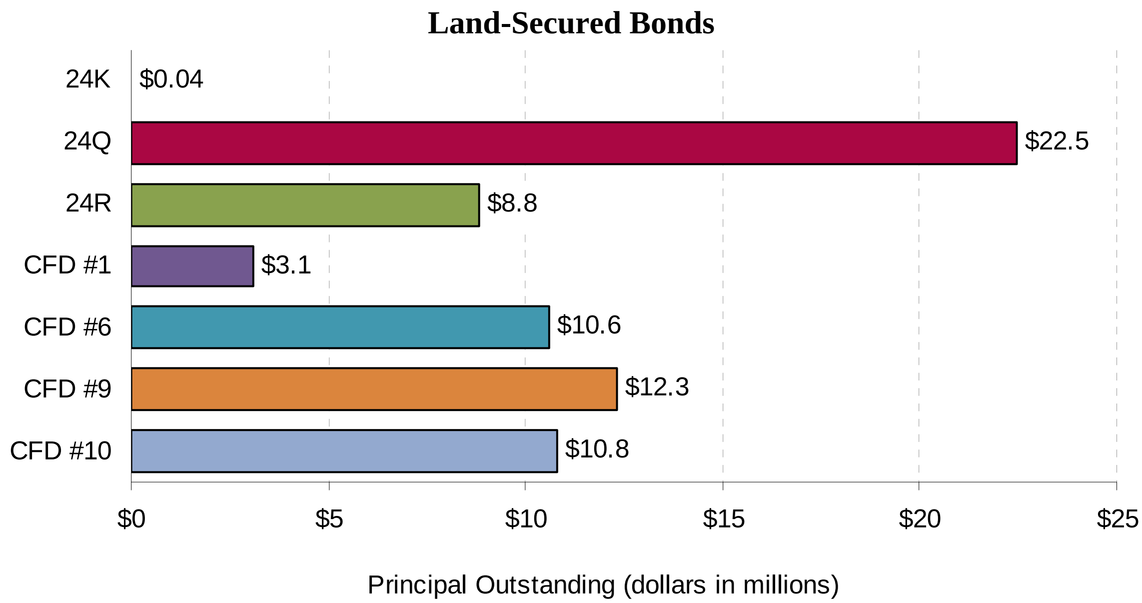
The bar graph below illustrates the annual debt service requirements by each Clean Water Financing Authority issue.

Clean Water Financing Authority Debt
Annual Debt Service

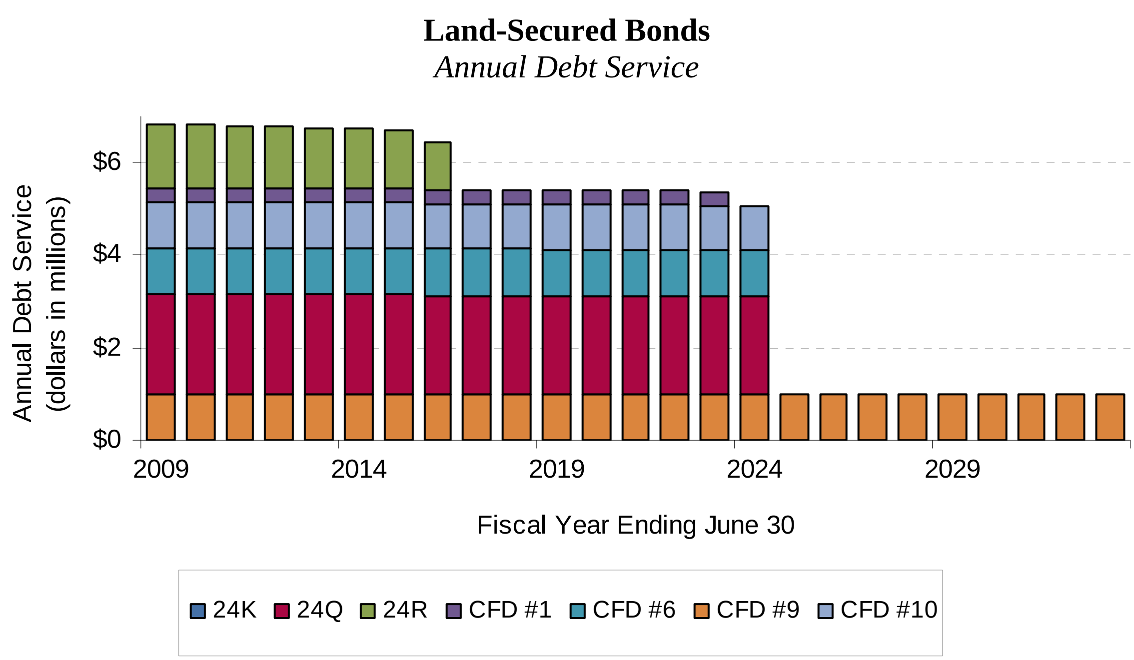


E. Land-Secured Financing

The following bar chart illustrates the total amount of land-secured debt outstanding backed by special assessments and special taxes. As of June 30, 2008, the City had four community facilities district and three improvement district bond issues outstanding. The largest issue was Series 24Q, the Hellyer-Piercy Improvement District. This bond issue represented 33% of all land-secured outstanding debt.



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



Return to Table of Contents

F. Multifamily Housing Revenue Bonds

Multifamily housing revenue bonds are issued to finance the development (which includes new construction as well as 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 historically has been an active issuer of conduit multifamily housing revenue bonds. However, 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 following pages summarizes the City's portfolio of multifamily revenue bonds.

Since November 1985, the City has issued $740,083,969 of bonds for the City's multifamily housing program, which has financed 5,795 affordable housing units. As of June 30, 2008, the total principal amount of bonds outstanding for the housing program was $572,363,039. 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, in whole or in part, with bonds issued by the City.

Multifamily Housing Revenue Bonds

As of June 30, 2008

(dollars in thousands)

Project Name, Bond Series	Date Issued	Issue Amount	Balance	Final Maturity	Affordable Units
Fairway Glen, 1985A	11/18/85	$ 10,100	$ -	04/15/07	29
Foxchase Drive, 1985B	11/18/85	11,700	-	05/15/08	29
Somerset Park Apartments, 1987A	11/20/87	8,000	-	08/01/05	26
Timberwood Apartments, 1990A	02/01/90	13,425	-	09/01/05	166
Timberwood Apartments, 1990B (Sub.)	02/01/90	1,500	-	08/01/05	0
Countrybrook Apartments, 1992A	04/15/92	20,090	15,140	04/01/12	72
Countrybrook Apartments, 1992B (Tax.)	04/15/92	1,000	-	04/01/97	0
Siena at Renaissance Square, 1996A	08/22/96	50,000	60,000	12/01/29	271
Siena at Renaissance Square, 1996B	08/22/96	10,000	-	04/01/98	0
Almaden Lake Village Apartments, 1997A	03/27/97	25,000	25,000	03/01/32	142
Almaden Lake Village Apartments, 1997B	03/27/97	2,000	-	03/29/00	0
Carlton Plaza , 1998A	04/24/98	12,000	12,000	10/15/32	26
Carlton Plaza , 1998A (Tax.)	04/24/98	2,600	-	04/02/01	0
Coleman Senior Apartments, 1998	04/24/98	8,050	7,430	05/01/30	140
Italian Gardens Senior Apartments, 1998	04/24/98	8,000	7,382	05/01/30	139
The Gardens Apartments, 1999A	05/12/99	18,970	18,970	01/01/32	286
The Gardens Apartments, 1999B (Tax.)	05/12/99	2,930	965	01/01/11	0
Helzer Court Apartments, 1999A	06/02/99	16,948	16,223	12/01/41	154
Helzer Court Apartments, 1999B	06/02/99	3,950	460	12/01/08	0
Helzer Court Apartments, 1999B (Tax.)	06/02/99	2,271	-	12/01/04	0
Ohlone-Chynoweth Commons Apartments, 1999	06/04/99	16,200	13,150	06/01/39	192
Kimberly Woods Apartments, 1999A	12/20/99	16,050	16,050	12/01/29	42
Almaden Lake Village Apartments, 2000A	03/29/00	2,000	2,000	03/01/32	0
Sixth and Martha Apartments Phase I, 2000	07/21/00	9,900	9,230	03/01/33	102
Craig Gardens Apartments, 2000A	12/05/00	7,100	4,565	12/01/32	89
El Parador Apartments, 2000A	12/07/00	6,130	5,900	01/01/41	124
El Parador Apartments, 2000B	12/07/00	900	615	01/01/16	0
El Parador Apartments, 2000C	12/07/00	4,500	-	01/01/04	0
Monte Vista Gardens Senior Housing, 2000A	12/08/00	3,740	3,178	07/15/33	68
Willow Glen Senior Apartments, 2000A	12/08/00	9,700	-	02/01/03	132
Willow Glen Senior Apartments, 2000B	12/08/00	1,320	-	02/01/03	0
San Jose Lutheran Seniors Apartments, 2001A-1	07/11/01	3,850	3,624	02/15/34	62
San Jose Lutheran Seniors Apartments, 2001A-2	07/11/01	1,150	-	02/15/04	0
Sixth and Martha Apartments Phase II, 2001C	08/01/01	9,000	7,820	04/01/34	87
The Villages Parkway Senior Apartments, 2001D	08/01/01	6,800	5,515	04/01/34	78
Lenzen Housing, 2001B	08/22/01	8,395	8,070	02/20/43	87
Lenzen Housing, 2001B (Sub.)	08/22/01	1,100	-	10/01/03	0
North White Road Family Apartments, 2001F	11/15/01	16,845	16,478	04/01/44	156
Villa de Guadalupe Apartments, 2001E	11/27/01	6,840	6,840	01/01/32	100
Villa de Guadalupe Apartments, 2001E (Tax.)	11/27/01	760	360	04/01/12	0
Almaden Senior Housing Apartments, 2001G	12/05/01	6,050	3,085	07/15/34	65
Betty Anne Gardens Apartments, 2002A	04/05/02	11,000	7,210	04/01/34	75
El Paseo Apartments, 2002B	04/05/02	9,600	4,945	10/01/34	97
Sunset Square Apartments, 2002E	06/26/02	10,904	4,469	06/01/34	94
Villa Monterey Apartments, 2002F	06/27/02	11,000	10,500	07/15/35	119

(*continued on next page*)

Return to Table of Contents

Multifamily Housing Revenue Bonds (continued)

As of June 30, 2008
(dollars in thousands)

Project Name, Bond Series	Date Issued	Issue Amount	Balance	Final Maturity	Affordable Units
Monte Vista Gardens Phase II, 2002C-1	07/24/02	3,465	2,967	02/01/35	48
Monte Vista Gardens Phase II, 2002C-2	12/13/02	200	-	02/01/05	0
Pollard Plaza Apartments, 2002D	08/06/02	14,000	7,395	08/01/35	129
Evans Lane Apartments, 2002H	10/08/02	31,000	31,000	04/15/36	236
Hacienda Villa Creek Apartments, 2002G-1	10/10/02	4,453	3,812	12/01/34	79
Hacienda Villa Creek Apartments, 2002G-2	10/10/02	2,547	-	05/12/06	0
Kennedy Apartment Homes, 2002K	12/11/02	14,000	6,575	12/15/35	78
Fallen Leaves Apartments, 2002J-1	12/18/02	13,360	11,945	06/01/36	159
Fallen Leaves Apartments, 2002J-2 (Sub.)	12/18/02	3,340	3,025	05/01/36	0
Fallen Leaves Apartments, 2002J-3 (Jr. Sub.)	12/18/02	2,100	-	07/31/07	0
Turnleaf Apartments, 2003A	06/26/03	15,290	15,290	06/21/36	151
The Oaks of Almaden Apartments, 2003B-1	07/29/03	4,365	4,006	02/15/36	125
The Oaks of Almaden Apartments, 2003B-2	07/29/03	3,985	-	10/04/05	0
Cinnabar Commons, 2003C	08/07/03	25,900	25,900	02/01/37	243
Almaden Family Apartments, 2003D	11/14/03	31,300	24,915	11/15/37	223
Trestles Apartments, 2004A	03/04/04	7,325	7,325	03/01/37	70
Trestles Apartments, 2004A (Sub.)	03/04/04	1,300	1,215	04/15/37	0
Vintage Tower Apartments, 2004B-1	06/28/04	4,150	3,335	01/15/37	59
Vintage Tower Apartments, 2004B-2	06/28/04	1,350	-	11/01/06	0
Delmas Park, 2004C-1	10/15/04	13,780	13,695	01/01/47	122
Delmas Park, 2004C-2	10/15/04	5,599	-	06/01/07	0
Raintree Apartments, 2005A	02/01/05	21,100	21,000	02/01/38	174
Paseo Senter I, 2005B-1	12/21/05	6,142	6,142	12/01/38	115
Paseo Senter I, 2005B-2	12/21/05	23,805	20,811	06/01/09	0
Paseo Senter II, 2005C-1	12/21/05	4,903	4,903	06/01/38	99
Paseo Senter II, 2005C-2	12/21/05	19,776	16,756	12/01/08	0
Casa Feliz Studio Apartments, 2007A	06/13/07	11,000	4,319	12/01/09	59
Curtner Studios, 2007C-1	12/19/07	5,520	5,520	12/01/39	178
Curtner Studios, 2007C-2	12/19/07	3,275	953	06/01/09	0
Almaden Family Apartments, 2007B (Sub.)	12/17/07	6,385	6,385	11/15/37	0
Fairgrounds Senior Housing Apartments, 2008B	05/08/08	26,000	26,000	05/01/41	199
Grand Total		**$740,084**	**$572,363**		**5,795**

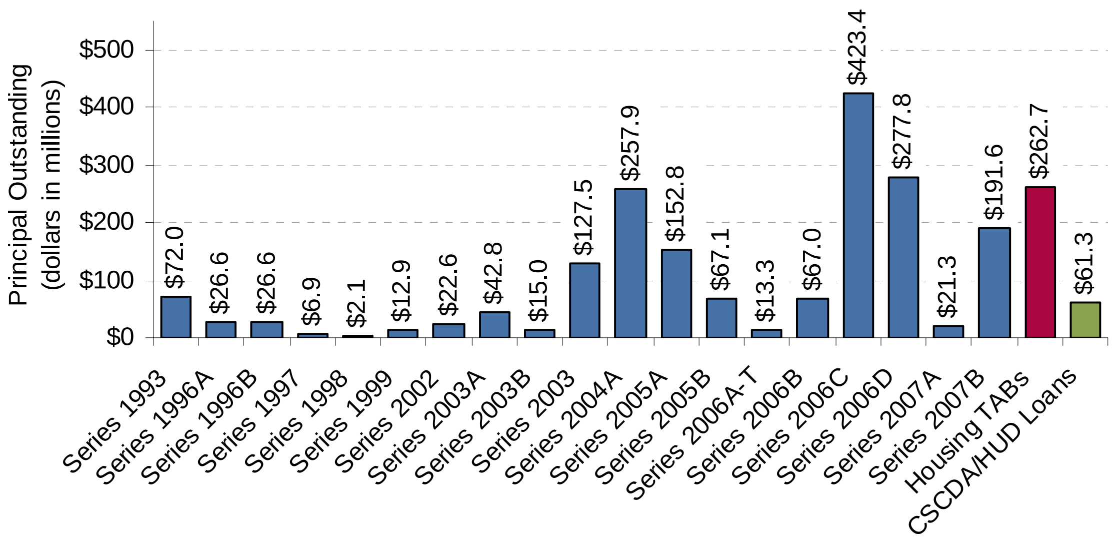
Return to Table of Contents

G. Redevelopment Agency

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

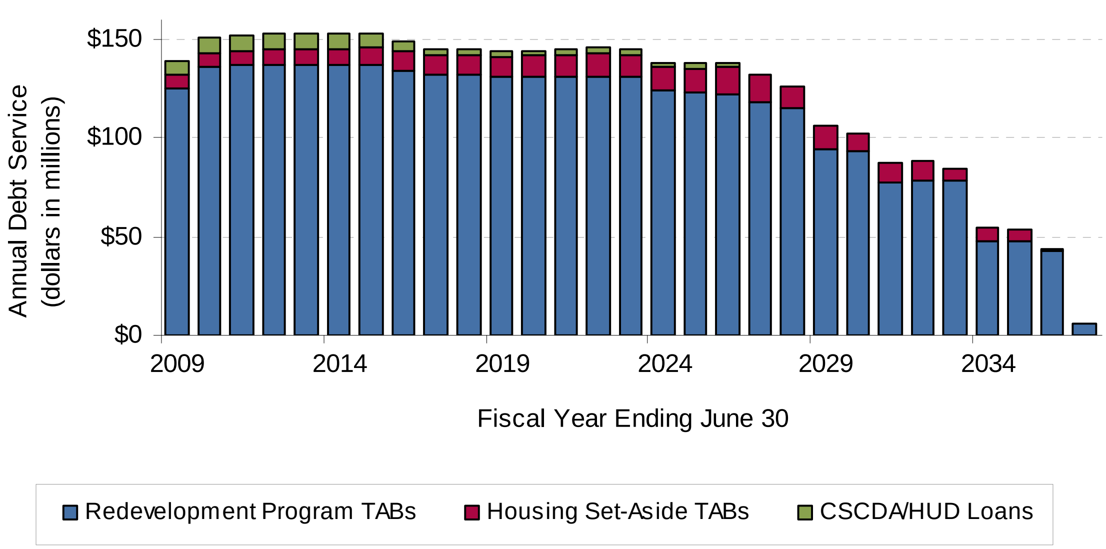
The following bar chart illustrates the total amount of direct redevelopment agency tax increment debt outstanding. This includes the debt issued for the 80% program, the 20% housing program, and the Agency's CSCDA ERAF loans and HUD Section 108 loans.

Redevelopment Agency Tax Increment Debt
Outstanding Debt as of June 30, 2008: $2,151,225,000



The following bar graph illustrates the total annual debt service requirements for all of the Agency debt outstanding.

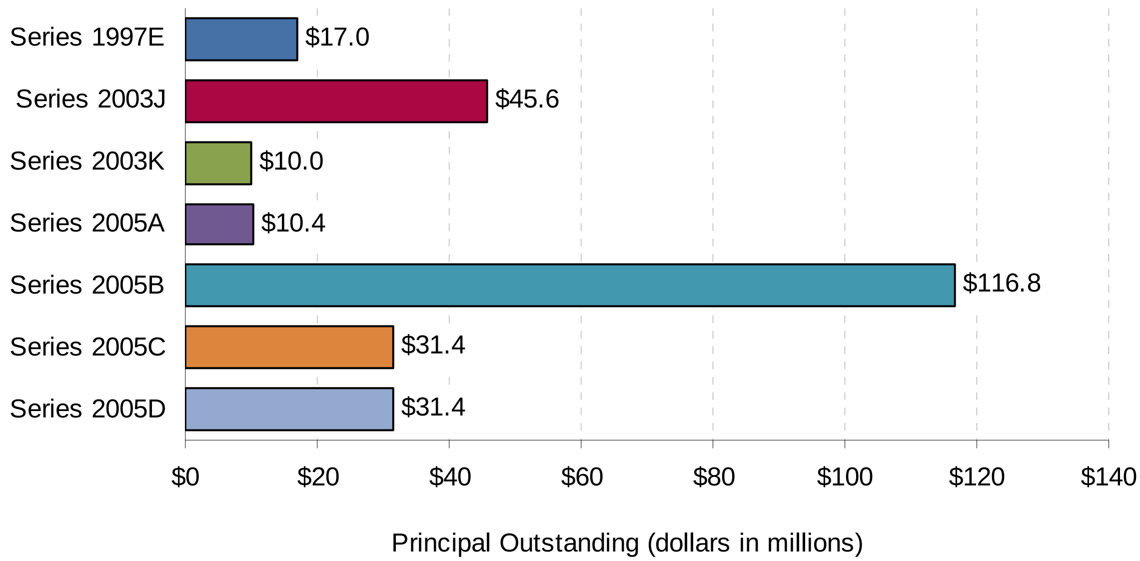
Redevelopment Agency Tax Increment Debt
Annual Debt Service



Return to Table of Contents

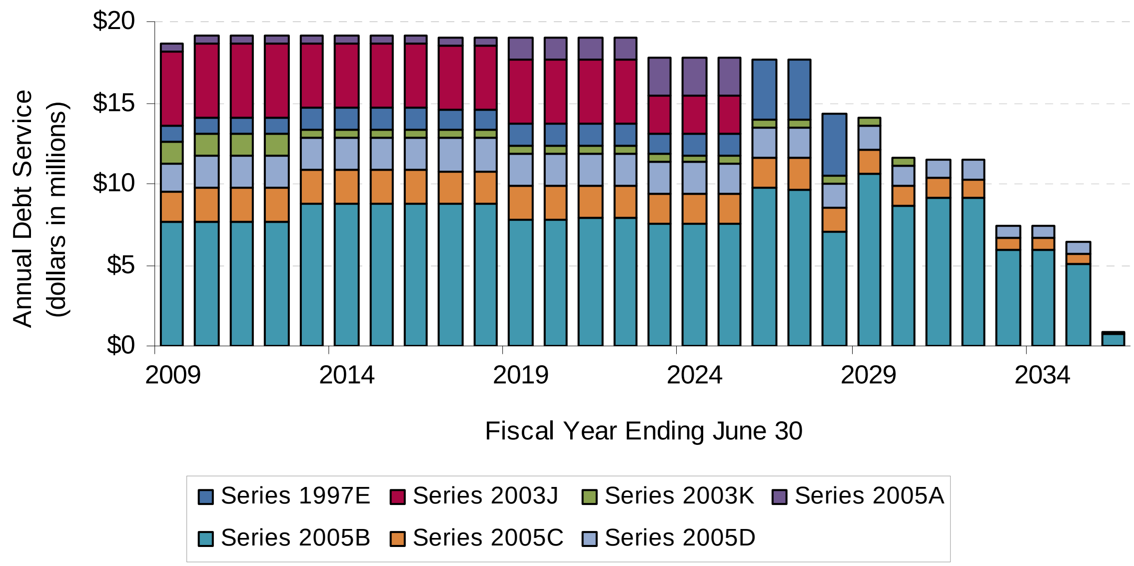
The bar chart below provides a more detailed view of the Agency's outstanding housing set-aside tax allocation bonds. The $50 million line of credit with Bank of New York was repaid on June 30, 2005, from proceeds of the Series 2005 Bonds, but remained available through April 1, 2009.

Agency Housing Set-Aside Tax Allocation Bonds
Outstanding Debt as of June 30, 2008: $262,675,000



The bar chart below illustrates the annual debt service requirements for the Agency's housing set-aside tax allocation bond issues.

Agency Housing Set-Aside Tax Allocation Bonds
Annual Debt Service



Return to Table of Contents

APPENDIX A: DEBT MANAGEMENT POLICY

Return to Table of Contents

CITY OF SAN JOSE, CALIFORNIA

CITY COUNCIL POLICY

TITLE	PAGE	POLICY NUMBER
DEBT MANAGEMENT POLICY	**1 OF 5**	**1-15**
	EFFECTIVE DATE	**REVISED DATE**
	5/21/02	

APPROVED BY COUNCIL ACTION

May 21, 2002, Item 3.3, Resolution No. 70977

POLICY

This Debt Management Policy sets forth certain debt management objectives for the City, and establishes overall parameters for issuing and administering the City's debt. Recognizing that cost-effective access to the capital markets depends on prudent management of the City's debt program, the City Council has adopted this Debt Management Policy by resolution.

DEBT MANAGEMENT OBJECTIVES

The purpose of this Debt Management Policy is to assist the City in pursuit of 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;
- Ensure compliance with applicable State and Federal laws.

GENERAL PROVISIONS

I. SCOPE OF APPLICATION

These policies establish the parameters within which debt may be issued by the City of San José, the City of San José Financing Authority, and the City of San José Parking Authority. Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, and conduit-type financing by the City for multifamily housing or industrial development projects.

Return to Table of Contents

The City Council, as a member of Joint Powers Authorities such as the San José-Santa Clara Clean Water Financing Authority, shall take these policies into account when considering the issuance of Joint Powers Authority debt.

Supplemental policies, tailored to the specifics of certain types of financings, may be adopted by the City Council in the future. These supplemental policies may address, but are not limited to, the City's general obligation, lease revenue, enterprise, multifamily housing, and land-secured financings.

II. RESPONSIBILITY FOR DEBT MANAGEMENT ACTIVITIES

The Finance Department shall be responsible for managing and coordinating all activities related to the issuance and administration of debt. The Director of Finance is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City Charter, Article VIII, Section 806, the Director of Finance is charged with responsibility for the conduct of all Finance Department functions.

Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

A. Debt Management Policy Review and Approval

This policy shall be adopted by City Council resolution, and reviewed annually by the Finance Department to insure its consistency with respect to the City's debt management objectives. Any modifications to this policy shall be reviewed and approved by the Finance and Infrastructure Committee and forwarded to the City Council for approval by resolution.

B. Annual Debt Report

The Finance Department shall prepare an annual debt report for review and approval by the Finance and Infrastructure Committee and the City Council, containing a summary of the City's credit ratings, outstanding and newly-issued debt, a discussion of current and anticipated debt projects, refunding opportunities, a review of legislative, regulatory, and market issues, and an outline of any new or proposed changes to this Debt Management Policy.

C. Debt Administration Activities

The Finance Department is responsible for the City's debt administration activities, particularly investment of bond proceeds, compliance with bond covenants, continuing disclosure, and arbitrage compliance, which shall be centralized within the Department.

III. PURPOSES FOR WHICH DEBT MAY BE ISSUED

A. Long-term Borrowing

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs which may be legally capitalized. Long-term borrowing shall not be used to fund City operating costs.

B. Short-term Borrowing

Short-term borrowing, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

C. Refunding

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

DEBT ISSUANCE

I. DEBT CAPACITY

The City will keep outstanding debt within the limits of the City's Charter and any other applicable law, and at levels consistent with its creditworthiness objectives.

The City shall assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the City has limited capacity for debt service in its budget, and that each newly issued financing will obligate the City to a series of payments until the bonds are repaid.

II. CREDIT QUALITY

The City seeks to obtain and maintain the highest possible credit ratings for all categories of short- and long-term debt. The City will not issue bonds directly or on behalf of others that do not carry investment grade ratings. However, the City will consider the issuance of non-rated special assessment, community facilities, multifamily housing, and special facility bonds.[1]

[1] In most cases, a bond which cannot achieve an investment-grade rating will not be rated at all, because there is little value from a bond-marketing perspective in a below investment-grade rating.

Return to Table of Contents

III. STRUCTURAL FEATURES

A. Debt Repayment

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The City shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

B. Variable-rate Debt

The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with the City's creditworthiness objectives.

C. Derivatives

Derivative products[2] may have application to certain City borrowing programs. In certain circumstances these products can reduce borrowing cost and assist in managing interest rate risk. However, these products carry with them certain risks not faced in standard debt instruments. The Director of Finance shall evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

IV. PROFESSIONAL ASSISTANCE

The City shall utilize the services of independent financial advisors and bond counsel on all debt financings. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net City debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The City Attorney's Office shall be responsible for selection of bond counsel and, in those circumstances where the City Attorney's Office determines it to be necessary or desirable, disclosure counsel. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost.

V. METHOD OF SALE

Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The City's preferred method of sale is competitive bid. However, other methods such as negotiated sale and private placement may be considered on a case-by-case basis.

[2] A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.

DEBT ADMINISTRATION

I. INVESTMENT OF BOND PROCEEDS

Investments of bond proceeds shall be consistent with federal tax requirements, the City's Investment Policy as modified from time to time, and with requirements contained in the governing bond documents.

II. DISCLOSURE PRACTICES AND ARBITRAGE COMPLIANCE

A. Financial Disclosure

The City is committed to full and complete primary and secondary market financial disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and Municipal Securities Rulemaking Board, as may be amended from time to time. The City is also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information.

B. Arbitrage Compliance

The Department of Finance shall maintain a system of record keeping and reporting to meet the arbitrage compliance requirements of federal tax law.

Return to Table of Contents

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Return to Table of Contents

APPENDIX B: POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Return to Table of Contents

CITY OF SAN JOSE, CALIFORNIA

CITY COUNCIL POLICY

Title	Page	Policy Number
POLICY FOR THE ISSUANCE OF MULTIFAMILY HOUSING REVENUE BONDS	**1 of 11**	**1-16**
	Effective Date	**Revised Date**
	06/11/02	**12/06/05**

Approved By Council Action

June 11, 2002, Item 3.7, Resolution No. 71023

GENERAL MATTERS

I. ISSUER

The City of San Jose (the "City") shall be the issuer of all bonds financing multifamily housing rental projects (a "Project" or "Projects") within the City, except as provided below. The City's Housing Department and Finance Department will consider other issuing agencies as follows:

A. The Redevelopment Agency

The Redevelopment Agency may issue bonds for any Project located within a redevelopment project area.

B. ABAG, CSCDA, Other Conduits

The City may agree to the issuance of bonds by the Association of Bay Area Governments ("ABAG"), California Statewide Community Development Authority ("CSCDA") or a similar issuing conduit provided that the City is not making a loan or grant to the Project *and* the Project is one of multiple projects being financed by the Project Sponsor through such issuing conduit agency in the same California Debt Limit Allocation Committee ("CDLAC") round under a similar financing program so as to result in economies of issuance.

C. Special circumstances

Another agency may issue bonds when merited by special circumstances of the Project and the financing.

Where the City is not the issuer of bonds for a Project, it shall be the City's policy to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal tax and state laws. Where feasible, however, the City shall seek to hold The Equity and Fiscal Responsibility Act of 1986 Hearing, better known as the "TEFRA" Hearing for such Project.

Return to Table of Contents

II. FINANCING TEAM

The City shall select the financing team for all multifamily housing revenue bonds issued by the City. The Finance Department is responsible for selecting the financial advisor, trustee and the investment banker/underwriter (assuming a negotiated public sale of bonds). The City Attorney's Office is responsible for selecting the bond counsel firm. The financial advisor, investment banker and bond counsel shall be selected from approved lists determined from time to time by a request for qualifications/proposal process.

III. COORDINATION AMONG CITY DEPARTMENTS

The City recognizes that the issuance of housing bonds entails a coordinated effort among the Housing Department, Finance Department and City Attorney's Office. The Housing Department shall ensure that the Finance Department and the City Attorney's Office are provided with regular updates on projects that may involve the issuance of bonds.

THE FINANCING PROCESS

I. INITIAL MEETING WITH PROJECT SPONSOR

A. Prior Due Diligence

Prior to arranging an initial meeting with the Project Sponsor, the Housing Department shall perform initial due diligence on the Project Sponsor, including whether the Project Sponsor has ever failed to use an allocation from CDLAC and whether the Project Sponsor has failed to comply with the terms of any other City financings or City loans.

B. Determination of Readiness

Following the initial meeting, City representatives shall determine if the project is in a state of sufficient "readiness" to proceed with the CDLAC application process. This includes the status of the project in terms of the development process. In general, a project will be deemed "not ready" if the discretionary planning approvals will not have been completed by the time of the CDLAC application.

C. Selection of Financing Team

Following a determination of readiness, the Finance Department and City Attorney shall recommend the financial advisor, underwriter (if applicable) and bond counsel, as the case may be, for each project.

II. DEPARTMENTAL APPROVALS

Pursuant to the Delegation of Authority by the City Council, both the City's Directors of Finance and Housing must approve each Project, the financing, and the filing of a CDLAC application before the City can make an application to CDLAC for private activity bond allocation. The approval of the Finance and Housing Directors shall be evidenced by a jointly signed "Notice to Proceed" addressed to the Project Sponsor. The Notice to Proceed shall

Return to Table of Contents

describe the project, identify the developer or Project Sponsor, the affordability mix, the proposed plan of finance and the amount of bond funding requested.

A. Resolution

The City Attorney's Office will be responsible for preparing a resolution for joint approval by the Directors of Finance and Housing. The resolution will:

1. Memorialize the Council's intent to issue the debt in order to induce others to provide project financing;
2. Authorize the filing of a CDLAC application; and
3. Authorize the execution of a Deposit and Escrow Agreement.

B. TEFRA Hearing

The TEFRA hearing will be held before the Director of Finance on the date specified in the TEFRA Notice. The Director of Finance has the discretion to have the TEFRA hearing held by the City Council.

III. CDLAC APPLICATIONS

A. Description

Before the City is legally able to issue private activity tax-exempt bonds for a project, an application must be filed with CDLAC in Sacramento and an allocation of the State ceiling on qualified private activity bonds must be approved by CDLAC.

B. City to File

The City is the applicant to CDLAC for each project to be financed with tax-exempt bonds issued by the City. The Housing Department will file all applications to CDLAC on behalf of project sponsors.

C. Project Sponsor to Prepare Application

Each project sponsor shall take responsibility for preparing the CDLAC application for its project with input from City representatives, the City's financial advisor and bond counsel.

D. Deposit and Escrow Agreement

The City will not file a Project Sponsor's CDLAC application unless the Project Sponsor executes a Deposit and Escrow Agreement **and makes the necessary deposits specified in this Agreement**. The Deposit and Escrow Agreement shall contain the items identified below. It shall be the responsibility of the Housing Department to see that all requirements under the Deposit and Escrow Agreement are met.

1. CDLAC Performance Deposit

The Deposit and Escrow Agreement must require the payment of the CDLAC performance deposit, provided that current CDLAC rules require the payment of such deposit to the issuer.

2. City of San Jose Performance Deposit

In addition to the CDLAC performance deposit, the Deposit and Escrow Agreement shall require the Project Sponsor to deposit $50,000 with the City as a City of San Jose performance deposit. This deposit shall be forfeited in the event that the City, on behalf of the Project Sponsor, receives an allocation but does not issue bonds. The deposit may be applied to pay costs of issuance or returned to the Project Sponsor as soon as practicable. By agreement between the City and the Project Sponsor, the Project Sponsor may designate its City loan as the source of payment in the event of forfeiture.

3. Financing Team Fees

The Deposit and Escrow Agreement shall identify, if available, the fees of the bond counsel, financial advisor, and underwriter (if applicable). It shall be the responsibility of the Finance Department and the City Attorney's Office to identify these fees.

IV. COUNCIL APPROVAL

A. Staff Report

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall prepare a staff report recommending final Council approval for a bond issue. The staff report shall be submitted to the City Manager's Office in accordance with the timing requirements of the then-current City procedures.

The staff report shall specify the approvals that are recommended, provide background on the project being financed, describe the financing structure, indicate any exceptions to the City's investment policy, describe the financing documents to be approved, identify the financing team participants, and seek approval of consultant agreements and financing participants that have not previously been approved by Council. The staff report should indicate if a separate City loan is being provided. However, the terms of that loan should be discussed in a separate staff report which, whenever possible, shall be submitted for the same agenda. The staff report shall be signed by the Directors of Finance and Housing.

The staff report should be submitted only after the major transaction terms (e.g., financing structure, security provisions, bond amount, maximum maturity, etc.) are identified and agreed to by the parties. The staff report may note that the bond issue is contingent upon certain other approvals and may identify certain issues to be resolved at a later time.

B. Substantially Final Documents

The City Council shall approve documents that are "substantially final" documents. Documents are in "substantially final" form if they identify the final security provisions and financing structure for the transaction. The City Attorney's Office shall determine whether documentation is in substantially final form.

C. Council Meeting

The Council meeting shall occur on a date after which all approvals from major financial participants (e.g., credit enhancement provider, bond purchaser, tax credit investor) have been obtained. At the discretion of the City Attorney and Finance Department, the Council

Return to Table of Contents

may proceed with its approval process without such other final approvals if: (1) such final approval is likely; (2) the Council's approval is subject to such other party's final approval; and (3) the Council approval process cannot be delayed without jeopardizing the financing.

V. BOND SALE AND CLOSING

A. Timing

The bond sale and closing may commence only after the Council authorizes the bond issue, including the distribution of a Preliminary Official Statement, if applicable.

B. Investment Agreements

If authorized by the Council, the Project Sponsor, through its representative, which may include the underwriter or financial advisor, may solicit investment agreement providers for the purpose of reinvesting bond proceeds and revenues. The investment agreement providers must meet the City's requirements and the requirements in the bond resolution and trust indenture for the bonds. Bond counsel and the financial advisor shall review the investment agreement solicitation forms, the eligible providers, and the investment agreements.

C. Payment of Issuance Fee

The City's issuance fee shall be funded from the Costs of Issuance Fund held by the Trustee.

D. Information Memorandum to Council

Promptly after the issuance of all bonds for a CDLAC round, the City Finance Department shall prepare an information memorandum summarizing the salient points of each bond issue.

CITY FEES

I. TEFRA HEARING FEE

The City shall charge a fee of $5,000 for the administrative costs associated with holding a TEFRA hearing relating to a Project. The fee shall be payable prior to the date that notice of the TEFRA hearing is published. No separate TEFRA hearing fee shall be charged if the City or Redevelopment Agency is issuing the bonds for the Project.

II. ISSUANCE FEE

The City shall charge a fee for the administrative costs associated with issuing the bonds for a Project Sponsor. The fee shall be payable at bond closing and may be contingent on the bond sale. The issuance fee shall be based on the total amount of the bonds (both tax-exempt and taxable) to be issued in accordance with the following sliding scale:

$0 to $10 million: 0.5% of the principal amount of bonds issued, with a minimum fee of $30,000.

Over $10 million: 0.5% of the first $10 million principal amount of bonds; 0.25% of any additional amount.

III. ANNUAL MONITORING FEE

The City shall charge an annual fee for monitoring the restricted units. The fee shall be in an amount equal to 0.125% of the original principal amount of tax-exempt bonds issued. Except for non-profit or government agency Project Sponsors, the fee shall not be reduced until all of the tax-exempt bonds are retired and the bond regulatory agreement ceases to have validity or is no longer in effect, at which time it will terminate. Upon conversion to permanent financing, a nonprofit or government agency Project Sponsor, may have a reduction in their annual fee to 0.125% of the permanent bond amount after conversion subject, to a minimum annual fee of $7,500.

The City annual monitoring fee shall be paid “above the line,” i.e., on a parity with bond debt service and trustee fees. This parity provides the greatest assurance that the City’s fee will be paid, although it may reduce the amount that the Project Sponsor’s lender may be willing to underwrite. The City may determine, at its sole discretion, to subordinate all or a portion of its annual fee to bond debt service only when the Housing Department has made a substantial loan to the Project, so long as the Project Sponsor provides adequate assurance of the payment of such fees. The City shall not subordinate its fee in circumstances where no City funds are subsidizing the Project.

CREDIT CONSIDERATIONS

I. CREDIT ENHANCEMENT

A. General Policy

It shall be the general policy of the City to encourage the use of credit enhancement for bonds issued by the City. Credit enhancement shall be a requirement for any multifamily bonds that are publicly distributed. The minimum rating on such credit enhancement shall be “A” or higher by Moody’s, Standard & Poor’s, and/or Fitch. This policy shall be subject to the exceptions described below.

B. Forms of Credit Enhancement

Credit enhancement may be in the form of a bank letter of credit, bond insurance, surety, financial guaranty, mortgage-backed security (e.g., Fannie Mae, Freddie Mac or Ginnie Mae) or other type of credit enhancement approved by the market. If the City has not previously issued bonds with a particular kind of credit enhancement, the Finance Department and financial advisor shall determine whether such credit enhancement is acceptable and whether marketing restrictions shall be imposed.

C. Project Sponsor Responsibility

It shall be the responsibility of the Project Sponsor to obtain and pay for the costs of credit enhancement. The City will assume no responsibility therefor.

II. NON-CREDIT ENHANCED BONDS

A. General Policy

It shall be the general policy of the City to require bonds that are not secured with credit enhancement to be sold through private placement or through a limited public offering to institutional or accredited investors. As an exception to this policy, the City may authorize the public distribution of non-credit enhanced bonds that are rated at least in the "A" category by Moody's, Standard & Poor's, and/or Fitch, after consultation with the underwriter and financial advisor. In connection with such authorization, the City shall consider the sophistication of the Project Sponsor, its financial resources, commitment to the community and other factors.

B. Additional Requirements for Non-Rated Bonds

Non-rated bonds must comply with the following additional requirements:

1. Minimum Denominations and Number of Bondholders

In order to limit the transferability of non-rated bonds, the City shall seek minimum denominations of at least $100,000. In addition, the City may also limit the number of bondholders to further limit the transferability of non-rated bonds.

2. Qualified Institutional Buyer ("QIB") Letter

The bond purchaser in a private placement or limited public offering must certify that it is a qualified or accredited investor (a "big boy letter"). Such letter must be signed by subsequent bond purchasers so long as the bonds remain unrated.

REFUNDING/RESTRUCTURING/REMARKETING

I. GENERAL

The City has issued both fixed rate and variable rate multifamily bonds. On occasion, the Project Sponsor may ask the City to refund those bonds to lower the interest rate, to remarket the bonds with a new credit enhancement, and/or to remarket the bonds as fixed rate bonds. The Project Sponsor will be responsible for all costs and fees related to the refunding.

II. OPTIONAL REFUNDING

A. Reasons to Refund Outstanding Bonds

A Project Sponsor may ask the City to refund its outstanding bonds for one of several reasons:

1. Lower the interest rate on fixed rate bonds at the call date (through the issuance of fixed rate or variable rate refunding bonds);
2. Substitute a new credit structure that was not expressly provided for in the existing documents; or
3. Restructure the existing debt.

B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

C. Legal/Documentation

New documents shall be prepared to meet the City's then-current legal, credit, financial, and procedural requirements. The City shall follow the documentation process applicable to new bonds. Because the City's primary purpose in issuing multifamily housing bonds is to preserve and increase the supply of affordable housing in the City, if federal or state affordability, income, and/or rent restrictions have changed between the time of the original financing and the refunding bonds, the more restrictive provisions shall apply. If new requirements are more restrictive than existing requirements, the new requirements shall be applied in phases to new tenants over a period of time, not to exceed five (5) years, as determined by the Housing Department staff and the City Attorney.

D. Bond Maturity

Subject to the approval of bond counsel, the final maturity of the refunding bonds may be later than the final maturity of the prior bonds so as to allow the Project Sponsor the longest possible period for repayment under federal law.

E. Compliance

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

F. Fees

The Project Sponsor shall pay the following City fees in connection with the refunding:

1. Issuance Fee

The City shall charge an issuance fee in accordance with the City's current policy on issuance fees for new projects.

2. Annual Monitoring Fee

The City shall continue to charge the same annual fee for monitoring the Project as for the original bonds. Such fee shall not be reduced even if the refunding bond size is lower.

G. Cash Flow Savings

Cash flow savings from refunding fixed rate bonds at a lower fixed interest rate or a variable rate shall be applied as follows:

1. Projects with a City Loan

A portion of the projected cash flow savings, to be determined by the Housing Department, shall be used to accelerate the repayment of the City loan, subject to restrictions in existing documents.

2. Projects with No City Loan

The City Housing Department shall require the Project Sponsor to provide affordability or other financial concessions to the City as a condition for refunding. Such concessions may include increasing the percentage of affordable units and extending the term of affordability restrictions.

H. City Council Approval

All refunding bonds and related legal documentation must be approved by the City Council in accordance with the procedures set for the issuance of new bonds.

III. DEFAULT REFUNDING

A. General

In the event of a default on the bonds or the underlying mortgage, a fixed rate bond issue may be refundable in advance of the call date without premium. The issue does not arise with variable rate bonds, as such bonds are callable at any time. Default refunding bonds are an area of potential sensitivity for the City as it will not want a developer to manufacture a default to take advantage of more favorable interest rates.

B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

C. Confirming the Default

To confirm a default, the City must receive a notice from an independent party, such as the bond trustee. If applicable, notice of cash flow insufficiency is then filed as part of the Continuing Disclosure Certificate. In addition, the City shall retain, at the expense of the Project Sponsor, an independent feasibility consultant to review the default. The City will proceed with the transaction only if a review by staff and the independent consultant indicates that:

1. Net cash flow from the Project is currently insufficient to pay debt service on the outstanding bonds and is unlikely to do so within a reasonable period;
2. The Project is being operated in accordance with reasonable real estate management practices and the net operating income has not been artificially reduced by failing to rent units actively, inflating operating expenses, or other reasons within the control of the Project Sponsor; and

Return to Table of Contents

3. The Project Sponsor has provided audited operating statements, Continuing Disclosure filings (if applicable), and arbitrage rebate reports for all years, has cooperated in providing requested information, and has used operating income and other resources to pay debt service.

D. Additional Requirements

1. Indemnification

The City shall be indemnified as to any costs incurred as a result of the refunding. Such indemnification shall come from a party or parties with adequate net worth or other financial capacity and whose assets are not limited to ownership of the Project.

2. Future Debt Coverage

The analysis of the feasibility consultant shall show that, upon the refunding, the Project's current net operating income will be at least sufficient to pay the revised debt service plus a reasonable coverage ratio (or adequate non-bond proceeds will be available to cover such deficiencies). In other words, ***the City shall not proceed with the refunding if it will not cure the cash flow problem.***

3. Bond Counsel Review

Bond counsel shall have determined that the original bond and disclosure documents provided adequate disclosure of such a potential redemption and that the provisions of the prior documents have been satisfied.

4. Compliance

The City shall not proceed with a refunding if the Project is not in compliance with the current regulatory agreement, continuing disclosure reporting, or arbitrage rebate reporting and payment.

E. Fees

The fees and expenses of the feasibility consultant, financial advisor and bond counsel shall **not** be contingent on their findings or completion of a refunding. The City shall require that the Project Sponsor deposit the estimated fees and expenses with the City **prior** to the commencement of any analysis.

F. Affordability Restrictions

The affordability requirements for a default refunding shall be the same as those listed under "Legal/Documentation" for an optional refunding.

G. City Council Approval.

1. Initial City Council Approval

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain initial City Council approval prior to proceeding with any documentation for a default refunding. Initial City Council approval shall occur after the

Return to Table of Contents

independent feasibility consultant performs the initial analysis, a default is confirmed, and it is determined that a refunding will cure the cash flow problem.

2. Final City Council Approval

The Finance Department, in conjunction with the Housing Department and City Attorney's Office, shall obtain final City Council authorizing the bond issue and execution of the relevant documentation.

H. City Fees

The City shall charge the same issuance fee and annual monitoring fee that it otherwise would in conjunction with a new bond issue.

IV. REMARKETING

A. General

A Project Sponsor may ask the City to remarket outstanding bonds under one of three basic scenarios: (1) converting variable rate bonds to fixed rate bonds; (2) a mandatory tender of bonds; or (3) substituting a new credit enhancement for the bonds in accordance with existing documentation.

B. Financing Team

The City shall select the financing team to implement the refunding. Where possible and if desired by the City, the financing team shall consist of the bond counsel, financial advisor and, if applicable, underwriter that were retained for the original financing.

C. Legal/Documentation

A remarketing of fixed rate bonds will not require new legal documentation. However, the City Attorney's Office, in conjunction with bond counsel, may require a new disclosure document. A remarketing of bonds with a new credit enhancement may require amended documentation, as well as a new disclosure document, as determined by the City Attorney's Office and bond counsel.

D. Fees

A remarketing will not result in the payment of additional or revised City issuance or annual fees. However, the City shall charge a fee of $10,000 to $25,000 to the Project Sponsor for administrative costs.

E. Council Approval

All remarketed bonds and any related documentation shall be approved by the City Council prior to any remarketing.

Return to Table of Contents

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Return to Table of Contents

APPENDIX C: CURRENT RATINGS SUMMARY

CURRENT RATINGS SUMMARY

The recent disruption in the financial markets related to the default potential of subprime mortgages has disrupted the municipal bond market. This market dislocation is evidenced by the recent rating downgrades of bond insurers, who insure mortgage backed securities in addition to municipal bonds.

These rating downgrade actions are not in response to any change in the City's high credit quality, but the result of a change in the market's confidence in the bond insurers. The City continues to maintain its high credit ratings of Aa1/AAA/AA+ from Moody's Investor Service, Standard & Poor's and Fitch, respectively. The City continues to make timely debt service payments on all of its outstanding obligations. The insured ratings for certain bonds on the Current Ratings Summary table on the following pages reflect the City's underlying ratings instead of the insurer's financial strength ratings which have been downgraded to levels below the City's underlying ratings on the bonds.

A summary of the major insurer's financial strength ratings are provided below:

Insurer Financial Strength Ratings
As of October 7, 2008

Insurer	**Moody's**	**S&P**	**Fitch**
Ambac Assurance Corp.	Aa3	AA	N/A[1]
Financial Guaranty Insurance Co.	B1	BB	BBB
Financial Security Assurance Inc.	Aaa	AAA	AAA
MBIA Inc.	A2	AA	N/A[2]
XL Capital[3]	B2	BBB-	N/A

[1] Ratings withdrawn at Ambac's request on 6/26/2008.
[2] Ratings withdrawn at MBIA's request on 6/26/2008.
[3] Effective August 4, 2008, XL Capital Assurance Inc. has changed its name to Syncora Guarantee Inc.

Return to Table of Contents

Current Ratings Summary
as of September 29, 2008

	Moody's	S&P	Fitch
City of San José			
General Obligation Bonds, Series 2001	Aa1	AAA	AA+
General Obligation Bonds, Series 2002			
Maturities Insured by MBIA (2032)	Aa1	AAA	AA+
Uninsured Maturities	Aa1	AAA	AA+
General Obligation Bonds, Series 2004			
Maturities Insured by MBIA	Aa1	AAA	AA+
Uninsured Maturities (2007, 2018-2025)	Aa1	AAA	AA+
General Obligation Bonds, Series 2005			
Maturities Insured by MBIA (2031, 2035)	Aa1	AAA	AA+
Uninsured Maturities	Aa1	AAA	AA+
General Obligation Bonds, Series 2006			
Maturities Insured by MBIA (2020-2026, 2036)	Aa1	AAA	AA+
Uninsured Maturities	Aa1	AAA	AA+
General Obligation Bonds, Series 2007			
Maturities Insured by MBIA (2032, 2037)	Aa1	AAA	AA+
Uninsured Maturities	Aa1	AAA	AA+
General Obligation Bonds, Series 2008	Aa1	AAA	AA+
City of San José Financing Authority			
Lease Revenue Bonds, Series 1993B	Aa3	AA-	--
Lease Revenue Bonds, Series 1997B			
All Maturities Insured by Ambac	Aa3	AA	AA
Underlying Rating	(A1)	--	(AA)
Revenue Bonds, Series 2001A			
All Maturities Insured by Ambac	Aa3	AA	A-
Underlying Rating	(A2)	--	(A-)
Lease Revenue Bonds, Series 2001E	Aa3	AA+	AA
Lease Revenue Bonds, Series 2001F			
Maturities Insured by MBIA (2007-2020)	Aa3	AA+	AA
Uninsured Maturities	Aa3	AA+	AA
Lease Revenue Bonds, Series 2002B			
Maturities Insured by Ambac (2008-2037)	Aa3	AA+	AA
Uninsured Maturities	Aa3	AA+	AA
Lease Revenue Bonds, Series 2003A			
All Maturities Insured by Ambac	Aa3	AA+	AA
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Bonds, Series 2006A			
All Maturities Insured by Ambac	Aa3	AA+	AA
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Bonds, Series 2007A			
All Maturities Insured by Ambac	Aa3	AA+	AA
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Bonds, Series 2008A[1]			
LOC – Scotiabank/CalSTRS (expires 8/14/10)	Aaa/VM1G1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa3)	(AA+)	(AA)

[1] Variable rate bonds.

Return to Table of Contents

Current Ratings Summary
as of September 29, 2008

	Moody's	S&P	Fitch
City of San José Financing Authority (continued)			
Lease Revenue Bonds, Series 2008B[1]			
LOC – Bank of America/CalSTRS (expires 7/9/10)	Aaa/VM1G1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Bonds, Series 2008C[1]			
LOC – Scotiabank/CalSTRS (expires 6/25/10)	Aaa/VM1G1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Bonds, Series 2008D[1]			
LOC – Scotiabank/CalSTRS (expires 6/25/10)	Aaa/VM1G1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Bonds, Series 2008E[1]			
LOC – Bank of America/CalSTRS (expires 7/2/10)	Aaa/VM1G1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Bonds, Series 2008F[1]			
LOC – Bank of America (expires 7/11/10)	Aaa/VM1G1	AAA/A-1+	AAA/F1+
Underlying Rating	(Aa3)	(AA+)	(AA)
Lease Revenue Commercial Paper Notes			
LOC - State Street Bank/CalSTRS (expires 1/26/10)	P-1	A-1+	F1+
Redevelopment Agency of the City of San José			
Housing Set-Aside Tax Allocation Bonds			
Series 1997E			
All Maturities Insured by MBIA	A2	AA	--
Underlying Rating	(A2)	(A)	--
Series 2003J			
All Maturities Insured by XL Capital	A2	A	A
Underlying Rating	(A3)	(A)	(A)
Series 2003K			
All Maturities Insured by XL Capital	A2	A	A
Underlying Rating	(A2)	(A)	(A)
Series 2005A			
All Maturities Insured by FGIC	A2	A	A
Underlying Rating	(A2)	(A)	(A)
Series 2005B			
All Maturities Insured by FGIC	A2	A	A
Underlying Rating	(A2)	(A)	(A)
Series 2005C[1]			
Bank of New York Direct-Pay Letter of Credit	Aaa/VMIG1	AA/A-1+	--
Series 2005D[1]			
Bank of New York Direct-Pay Letter of Credit	Aaa/VMIG1	AA/A-1+	--

[1] Variable rate bonds.

Current Ratings Summary
as of September 29, 2008

	Moody's	S&P	Fitch
Redevelopment Project Tax Allocation Bonds			
Series 1993			
Maturities Insured by MBIA (2006-2020, 2024)	Aaa	AA	--
Uninsured Maturities/Underlying Rating	--	(A)	--
Series 1997			
All Maturities Insured by MBIA	A2	AA	--
Underlying Rating	(A3)	--	--
Series 1998			
Maturities Insured by Ambac (2007-2026)	A3	AA	A
Uninsured Maturities/Underlying Rating	(A3)	(A-)	(A)
Series 1999			
All Maturities Insured by Ambac	Aa3	AA	A
Underlying Rating	(A3)	(A-)	--
Series 2002			
All Maturities Insured by MBIA	A2	AA	A
Underlying Rating	(A3)	(A-)	(A)
Series 2003			
All Maturities Insured by FGIC	A3	A-	A
Underlying Rating	(A3)	(A-)	(A)
Series 2004A			
Maturities Insured by MBIA (2007-2019)	A2	AA	A
Underlying Rating	(A3)	(A-)	(A)
Series 2005A			
All Maturities Insured by MBIA	A2	AA	A
Underlying Rating	(A3)	(A-)	(A)
Series 2005B			
All Maturities Insured by Ambac	Aa3	AA	A
Underlying Rating	(A3)	(A-)	(A)
Series 2006A-T			
All Maturities Insured by Radian	A3	A-	A
Underlying Rating	(A3)	(A-)	(A)
Series 2006B			
All Maturities Insured by Radian	A3	A-	A
Underlying Rating	(A3)	(A-)	(A)
Series 2006C			
All Maturities Insured by MBIA	A2	AA	A
Underlying Rating	(A3)	(A-)	(A)
Series 2006D			
All Maturities Insured by Ambac	Aa3	AA	A
Underlying Rating	(A3)	(A-)	(A)
Series 2007A			
All Maturities Insured by XL Capital	Aa3	A-	A
Underlying Rating	(A3)	(A-)	(A)
Series 2007B			
All Maturities Insured by XL Capital	Aa3	A-	A
Underlying Rating	(A3)	(A-)	(A)

[1] Variable rate bonds.

Current Ratings Summary
as of September 29, 2008

	Moody's	S&P	Fitch
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 1998A			
All Maturities Insured by FGIC	A2	A	A+
Underlying Rating	(A2)	(A)	(A+)
Subordinated Commercial Paper Notes, Series A			
JP Morgan/BofA/Dexia Letter of Credit	P-1	A-1+	F1+
Subordinated Commercial Paper Notes, Series B			
JP Morgan/BofA/Dexia Letter of Credit	P-1	A-1+	F1+
Subordinated Commercial Paper Notes, Series C			
JP Morgan/BofA/Dexia Letter of Credit	P-1	A-1+	F1+
Revenue Bonds, Series 2001A			
All Maturities Insured by FGIC	A2	A	A+
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 2004C			
All Maturities Insured by MBIA	A2	AA	A+
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2004D			
All Maturities Insured by MBIA	A2	AA	A+
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2007A			
All Maturities Insured by Ambac	Aa3	AA	A+
Underlying Rating	(A2)	(A)	(A+)
Revenue Bonds, Series 2007B			
All Maturities Insured by Ambac	Aa3	AA	A+
Underlying Rating	(A2)	(A)	(A+)

[1] Variable rate bonds.

Current Ratings Summary
as of September 29, 2008

	Moody's	S&P	Fitch
San José-Santa Clara Clean Water Financing Authority			
Revenue Bonds, Series 2005A			
All Maturities Insured by FSA	Aaa	AAA	AAA
Underlying Rating	(Aa3)	(AA)	(AA)
Revenue Bonds, Series 2005B[1]			
FSA Insured/DEPFA Bank Liquidity	Aaa/VMIG1	AAA/A-1	AAA/F1+
Underlying Rating	(Aa3)	(AA)	(AA)
City of San José Reassessment District No. 02-219SJ			
Limited Obligation Refunding Bonds, Series 24R			
All Maturities Insured by MBIA	A2	AA	--

[1] Variable rate bonds.

Return to Table of Contents

APPENDIX D: SUMMARY OF OUTSTANDING DEBT

Summary of Outstanding Debt as of June 30, 2008

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance 06/30/08
City of San José				
General Obligation Bonds				
Series 2001 (Libraries and Parks Projects)	$ 71,000	06/06/2001	09/01/2031	$ 56,780
Series 2002 (Libraries, Parks and Public Safety Projects)	116,090	07/18/2002	09/01/2032	96,740
Series 2004 (Libraries, Parks and Public Safety Projects)	118,700	07/14/2004	09/01/2034	106,835
Series 2005 (Libraries and Public Safety Projects)	46,300	06/23/2005	09/01/2035	43,220
Series 2006 (Libraries and Parks Projects)	105,400	06/29/2006	09/01/2036	101,890
Series 2007 (Parks and Public Safety Projects)	90,000	06/20/2007	09/01/2037	90,000
Series 2008 (Libraries and Parks Projects)	33,100	06/25/2008	09/01/2038	33,100
General Obligation Bond Subtotal				528,565
HUD Loans				
Section 108 Loan (Land Acquisition)	25,810	02/10/2005	08/01/2024	24,876
Special Assessment Bonds				
Series 24K (Taxable) (Seismic Retrofit)	823	06/29/1993	09/02/2013	41
Series 24Q (Hellyer-Piercy)	27,595	06/26/2001	09/02/2023	22,455
Series 24R (2002 Consolidated Refunding)	13,940	07/03/2002	09/02/2015	8,820
Special Tax Bonds				
CFD No. 1 (Capitol Expressway Auto Mall)	4,100	11/18/1997	11/01/2022	3,105
CFD No. 6 (Great Oaks-Route 85)	12,200	12/18/2001	09/01/2023	10,605
CFD No. 9 (Bailey/Highway 101)	13,560	02/13/2003	09/01/2032	12,340
CFD No. 10 (Hassler-Silver Creek)	12,500	07/23/2003	09/01/2023	10,785
Special Assessment and Special Tax Bond Subtotal				68,151
City of San José Financing Authority				
Lease Revenue Bonds				
Series 1993B (Community Facilities)	18,045	04/13/1993	11/15/2012	3,534
Series 1997B (Fire Apparatus, Childcare, Library)	9,805	07/29/1997	08/01/2012	1,935
Series 2000C (Taxable) (Ice Centre of San José)	22,200	12/13/2000	12/01/2024	18,900
Series 2001E (Communication Center)	18,610	03/29/2001	05/01/2010	6,135
Series 2001F (Convention Center Refunding)	186,150	07/26/2001	09/01/2022	160,070
Series 2002B (Civic Center Project)	292,425	11/14/2002	06/01/2037	292,145
Series 2002C (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	19,310
Series 2004A (Taxable) (Ice Centre Expansion Project)	9,225	06/03/2004	12/01/2024	9,225
Series 2006A (Civic Center Project)	57,440	06/01/2006	06/01/2039	57,440
Series 2007A (Recreational Facilities Refunding)	36,555	06/28/2007	08/15/2030	35,200
Series 2008C (Hayes Mansion Refunding)	10,915	06/26/2008	06/01/2027	10,915
Series 2008D (Taxable) (Hayes Mansion Refunding)	47,390	06/26/2008	06/01/2025	47,390
Series 2008F (Taxable) (Land Acquisition Refunding)	67,195	06/11/2008	06/01/2034	67,195
Lease Revenue Commercial Paper				
Commercial Paper Notes	116,000	01/13/2004	Various	83,829
Parking Revenue Bonds				
Series 2001A (4th & San Fernando Parking Facility)	48,675	04/10/2001	09/01/2026	41,170
City of San José Financing Authority Subtotal				914,393

Summary of Outstanding Debt as of June 30, 2008 (continued)

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance 06/30/08
San José –Santa Clara Clean Water Financing Authority:				
Sewer Revenue Bonds				
Series 2005A	$ 54,020	10/05/2005	11/15/2016	$ 45,745
Series 2005B	27,130	10/05/2005	11/15/2020	27,130
Sewer Revenue Bonds Subtotal				72,875
State of California Loans				
Revolving Fund Loan (Wastewater Facilities)	73,566	Various	05/01/2019	41,953
Norman Y. Mineta San José International Airport:				
Airport Revenue Bonds				
Series 1998A	14,015	01/27/1998	03/01/2018	8,695
Series 2001A	158,455	08/14/2001	03/01/2031	142,390
Series 2002A	53,600	01/09/2003	03/01/2018	53,600
Series 2002B (AMT)	37,945	01/09/2003	03/01/2012	21,115
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
Series 2007A (AMT)	545,755	09/13/2007	03/01/2047	545,755
Series 2007B	179,260	09/13/2007	03/01/2037	179,260
Airport Revenue Bonds Subtotal				1,060,815
Airport Revenue Commercial Paper				
Commercial Paper Notes	600,000	11/02/1999	Various	186,190
Norman Y. Mineta San José International Airport Subtotal				1,247,005
Redevelopment Agency:				
Merged Area Tax Allocation Bonds				
Series 1993 (Merged Area Refunding)	692,075	12/15/1993	02/01/2024	71,970
Series 1997 (Merged Area)	106,000	03/27/1997	08/01/2028	6,940
Series 1998 (Merged Area)	175,000	03/19/1998	08/01/2029	2,050
Series 1999 (Merged Area)	240,000	01/06/1999	08/01/2031	12,920
Series 2002 (Merged Area)	350,000	01/24/2002	08/01/2032	22,565
Series 2003 (Merged Area)	135,000	12/22/2003	08/01/2033	127,545
Series 2004A (Merged Area Refunding)	281,985	05/27/2004	08/01/2019	257,885
Series 2005A (Merged Area Refunding)	152,950	07/25/2005	08/01/2028	152,840
Series 2005B (Merged Area Refunding)	67,130	07/25/2005	08/01/2015	67,130
Series 2006A (Taxable) (Merged Area)	14,300	11/14/2006	08/01/2022	13,300
Series 2006B (Merged Area)	67,000	11/14/2006	08/01/2035	67,000
Series 2006C (Merged Area Refunding)	423,430	12/15/2006	08/01/2032	423,430
Series 2006D (Merged Area Refunding)	277,755	12/15/2006	08/01/2023	277,755
Series 2007A (Taxable) (Merged Area)	21,330	11/07/2007	08/01/2017	21,330
Series 2007B (Merged Area)	191,600	11/07/2007	08/01/2036	191,600
Merged Area Tax Allocation Bonds Subtotal				1,716,260
Merged Area Revenue Bonds (Subordinate)				
Series 1996A (Merged Area)	29,500	06/27/1996	07/01/2026	26,600
Series 1996B (Merged Area)	29,500	06/27/1996	07/01/2026	26,600
Series 2003A (Taxable) (Merged Area)	45,000	08/27/2003	08/01/2028	42,800
Series 2003B (Merged Area)	15,000	08/27/2003	08/01/2032	15,000
Merged Area Revenue Bonds Subtotal				111,000

Summary of Outstanding Debt as of June 30, 2008 (continued)

(dollars in thousands)

	Issue Amount	Issue Date	Final Maturity	Balance 06/30/08
Redevelopment Agency (continued):				
HUD Loans				
Section 108 Note (Masson/Dr. Eu/Security)	$ 5,200	02/11/1997	08/01/2016	$ 3,220
Section 108 Note (CIM Block 3/Central Place)	13,000	02/08/2006	08/01/2025	13,000
Section 108 Note (Story/King Retail)	18,000	06/30/2006	08/01/2025	18,000
HUD Loans Subtotal				34,220
CSCDA Loans				
ERAF Loan (State ERAF Program)	19,085	04/27/2005	08/01/2015	14,375
ERAF Loan (State ERAF Program)	14,920	05/03/2006	08/01/2016	12,695
CSCDA Loans Subtotal				27,070
Housing Set-Aside Tax Allocation Bonds				
Series 1997E (AMT) (Merged Area)	17,045	06/23/1997	08/01/2027	17,045
Series 2003J (Taxable) (Merged Area)	55,265	07/10/2003	08/01/2024	45,640
Series 2003K (Merged Area)	13,735	07/10/2003	08/01/2029	10,010
Series 2005A (Merged Area)	10,445	06/30/2005	08/012024	10,445
Series 2005B (Taxable) (Merged Area)	119,275	06/30/2005	08/01/2035	116,765
Series 2005C (AMT) (Merged Area)	33,075	06/30/2005	08/01/2035	31,385
Series 2005D (AMT) (Merged Area)	33,075	06/30/2005	08/01/2035	31,385
Housing Set-Aside Tax Allocation Bonds Subtotal				262,675
Redevelopment Agency Subtotal				2,151,225
Grand Total:				$5,049,043

Return to Table of Contents

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

APPENDIX E: OVERLAPPING DEBT REPORT

Return to Table of Contents

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

OVERLAPPING DEBT REPORT

Contained within the City are overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics, Inc., as of June 30, 2008, is shown in this appendix. The City makes no representations as to the completeness or accuracy of such statement.

Return to Table of Contents

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Return to Table of Contents

CITY OF SAN JOSE STATEMENT OF OVERLAPPING DEBT
as of June 30, 2008

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/2008	% Applicable (1)	City's Share of Debt 6/30/08
Foothill-DeAnza Community College District	$484,814,288	4.60%	$22,291,761
Gavilan Joint Community College District	75,845,000	7.933	6,016,784
San Jose-Evergreen Community College District	251,497,123	87.028	218,872,916
West Valley Community College District	86,275,000	27.629	23,836,920
Milpitas Unified School District	53,135,000	0.0003	159
Morgan Hill Unified School District	73,169,040	20.977	15,348,670
San Jose Unified School District	548,547,986	97.679	535,816,187
Santa Clara Unified School District	167,580,000	3.771	6,319,442
Campbell Union High School District	143,980,000	59.905	86,251,219
East Side Union High School District	471,612,216	94.471	445,536,777
East Side Union High School District Benefit Obligations	32,050,000	94.471	30,277,956
Fremont Union High School District	132,000,000	9.777	12,905,640
Los Gatos-Saratoga Joint Union High School District	65,100,000	0.642	417,942
Alum Rock Union School District	44,247,782	73.841	32,673,005
Berryessa Union School District	45,618,031	94.033	42,896,003
Burbank School District	9,108,590	15.585	1,419,574
Cambrian School District	19,894,944	66.618	13,253,614
Campbell Union School District	104,347,213	46.11	48,114,500
Cupertino Union School District	128,129,883	16.346	20,944,111
Evergreen School District	102,119,701	99.495	101,603,997
Evergreen School District Community Facilities District No. 92-1	4,730,000	100	4,730,000
Franklin-McKinley School District	64,352,329	98.226	63,210,719
Los Gatos Union School District	86,950,000	1.454	1,264,253
Moreland School District	72,492,206	76.291	55,305,029
Mount Pleasant School District	9,914,992	87.159	8,641,808
Oak Grove School District	67,571,754	99.816	67,447,422
Orchard School District	27,306,381	100	27,306,381
Union School District	79,657,700	72.294	57,587,738
City of San Jose	**528,565,000**	**100**	**528,565,000**
City of San Jose Community Facilities Districts	36,835,000	100	36,835,000
City of San Jose Special Assessment Bonds	31,315,897	100	31,315,897
Santa Clara Valley Water District Benefit Assessment District	165,020,000	39.929	65,890,836
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$2,612,897,260
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Santa Clara County General Fund Obligations	$895,655,000	39.93%	$357,626,085
Santa Clara County Pension Obligations	389,484,822	39.929	155,517,395
Santa Clara County Board of Education Certificates of Participation	15,445,000	39.929	6,167,034
Community College District Certificates of Participation	59,550,000	16.922	10,076,937
San Jose Unified School District Certificates of Participation	107,361,413	97.679	104,869,555
Santa Clara Unified School District Certificates of Participation	12,980,000	3.771	489,476
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	3,795,000	0.642	24,364
Alum Rock Union School District Certificates of Participation	385,000	73.841	284,288
Cupertino Union School District Certificates of Participation	2,375,000	16.346	388,218
Franklin-McKinley School District Certificates of Participation	5,970,000	98.226	5,864,092
City of San Jose General Fund Obligations	**787,311,544**	**100**	**787,311,544**
Santa Clara County Vector Control District	4,275,000	39.929	1,706,965
Midpeninsula Regional Open Space Park District General Fund Obligations	104,840,193	0.016	16,774
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$1,430,342,727
Less: **San Jose Convention Center Lease Revenue Bonds (100% self-supporting from tax increment revenues)**			**160,070,000**
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$1,270,272,727
GROSS COMBINED TOTAL DEBT			$4,043,239,987
NET COMBINED TOTAL DEBT			$3,883,169,987

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2) Supported from surplus tax increment revenues pursuant to a Reimbursement Agreement between the City and the Redevelopment Agency.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-08 Assessed Valuation:	
Direct Debt ($528,565,000)	**0.45%**
Total Direct and Overlapping Tax and Assessment Debt	2.21%
Ratios to Adjusted Assessed Valuation:	
Gross Combined Direct Debt ($1,315,876,544)	**1.30%**
Net Combined Direct Debt ($1,155,806,544)	**1.14%**
Gross Combined Total Debt	3.99%
Net Combined Total Debt	3.84%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: $0

Source: California Municipal Statistics, Inc.

Return to Table of Contents

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

APPENDIX F: 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, as subsequently amended (collectively, the "Series A/B/C Reimbursement Agreement") and the Letter of Credit and Reimbursement Agreement between the City of San José and Lloyds TSB Bank plc, acting through its New York Branch, dated May 1, 2008 (the "Series D/E/F Reimbursement Agreement", and with the Series A/B/C Reimbursement Agreement, the "Reimbursement Agreements"), relating to the City of San José, San José International Airport Subordinated Commercial Paper Notes, the certification presented in this appendix is included in the Annual Report for transmission to the City Council.

Pursuant to the definition of Debt Service set forth in Section 1.1 of the Reimbursement Agreements, the City'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, 2008, of the Airport's commercial paper notes. A copy of the memorandum from Fullerton & Friar indicating the results of this calculation is included on the next page. As specified in the above-referenced definition of Debt Service, the assumed interest rate used in the amortization calculation is 115% of the weighted average rates on the outstanding commercial paper notes during the 90-day period prior to June 30, 2008.

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.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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 Airport's Commercial Paper Program

Date: September 18, 2008

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 Agreements 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 portion of the Airport's commercial paper outstanding as of June 30, 2008 which is allocable to completed projects. In doing so, we have used assumptions we believe are consistent with the requirements of Parts (c) and (d) of the definition of "Debt Service" contained in the Reimbursement Agreements.

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 115% of the weighted average rates on the City's Series B (AMT) and Series C (taxable) commercial paper for the 90 day period prior to June 30, 2008:

Type of CP	*Principal Outstanding as of 6/30/08 Allocable to Completed Projects*	*Assumed Interest Rate*	*Assumed Debt Service*
Series B	$1,240,803	1.565%	$60,072
Series C (taxable)	$106,311	3.251%	$6,168

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

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Return to Table of Contents

APPENDIX G: SPECIAL TAX ANNUAL REPORT

CITY OF SAN JOSE

CAPITAL OF SILICON VALLEY

Return to Table of Contents

SPECIAL TAX ANNUAL REPORT

This information is provided in the Annual 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 2007-08

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	$15,391,577	13 Completed 7 Under Design or Construction
11/07/2000	San José Neighborhood Parks and Recreation Bonds	See Note 1	$14,299,132	87 Completed 10 Under Design or Construction
03/05/2002	San José 911, Fire, Police and Paramedic Neighborhood Security Act	See Note 1	$8,116,603	21 Completed 11 Under Design or Construction
03/27/2001	Community Facilities District No. 6 (Great Oaks-Route 85) (See Note 2)	$1,002,272	$964,039	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
09/03/2002	Community Facilities District No. 8 (Communications Hill)	$658,834	$59,089	On-going maintenance
12/17/2002	Community Facilities District No. 9 (Bailey/Highway 101) (See Note 2)	$1,025,628	$977,407	Project Completed
04/01/2003	Community Facilities District No. 10 (Hassler-Silver Creek) (See Note 2)	$647,742	$968,712	Project Completed
06/07/2005	Community Facilities District No. 11 (Adeline-Mary Helen)	$52,540	$9,729	On-going maintenance
11/08/2005	Community Facilities District No. 12 (Basking Ridge)	$470,898	$29,185	On-going maintenance

[1] The City has issued seven series of General Obligation Bonds through Fiscal Year 2007-08 for a total of $580,590,000 to fund a portion of the projects authorized by voters under these measures. A total of $41,789,115 was collected in Fiscal Year 2007-08 to pay debt service on the series 2001, 2002, 2004, 2005, 2006 and 2007 Bonds.

[2] Funds collected include property taxes and assessments and prior year delinquent taxes, assessments, penalties and interest. Funds expended include maintenance services, debt service, administration charges, and trustee fees.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Return to Table of Contents

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. In 2007, the Securities Industry and Financial Markets Association(SIFMA) was formed through the merger between the Securities Industry Association (SIA) and the BMA, and the BMA Index is now referred to as the SIFMA Index.

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.

Return to Table of Contents

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

Return to Table of Contents

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.

Return to Table of Contents

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.