

**City Council Roles and Responsibilities In Connection with the Issuance of Measure I
General Obligation Infrastructure Bonds
Responses to Questions from the 5/27/2025 Study Session**

1. What is the City's current credit rating?

Response: The City seeks to obtain and maintain the highest possible credit ratings for all categories of debt. The current Debt Management Policy (Debt Policy) states "The City will not issue bonds that do not carry investment grade ratings."

The City's bonds are rated favorably by major bond rating agencies, Fitch and S&P Global. The City received an AA+ issuer credit rating (ICR) from S&P Global in June 2022 and affirmed the City's rating of AA/Stable for the 2013 Refunding Certificates of Participation at the same time. The City's Electric Revenue Bonds, Series 2018A and Series 2024A, are affirmed and rated 'AA-' by Fitch and S&P in September 2024. The City's 2023 Wastewater Certificates of Participation was rated 'AAA' by S&P in September 2023. Maintaining high bond ratings has resulted in a broader market for the City's bonds and lower interest costs to the City.

Above information are available and updated annually in the City's Budget publication, in the Debt Service section, titled "Credit Rating".

2. What is the debt service estimate change between now and the ballot measure? Is there any way to hedge should interest rates exceed assumptions used for the ballot tax statement?

Response: Hedging activities are not allowed for tax-exempt bonds in accordance with Internal Revenue Service (IRS) regulations. The debt service estimated amounts are based on several assumption, including two key factors: interest rates and property assessed value. While interest rates are higher now than they were last July, the current pro-forma estimated debt service figures show a True Interest Cost (TIC) of 4.58%, which is within the estimated range used for the Measure I ballot. An assumed 4% annual growth rate on annual assessed value was used with the City's average growth of 6.37% from 2000 to 2024.

See below parameter and its language on the ballot:

"Interest rates for each bond issue will be determined by the market, but cannot exceed 12%. Assuming the full \$400,000,000 is issued, using a projected interest rate between 4 and 5%,..."
(Impartial Analysis)

Each series of bonds will be issued at fixed rates, rather than variable rates, and the TIC of each series of bonds will be established at the time of bond sale. Although the County is required to levy property taxes at a rate sufficient to pay annual debt service, City staff and consultants will size each series of bonds based on the prevailing interest rates at the time bonds are sold in order to stay within the property tax rates stated in the ballot and the tax rate statement.

Despite increases in interest rates, rates continue to be near historical averages. If interest rates at the time of the first bond sale substantially exceed assumptions used for the ballot tax statement, the City's options are limited to mitigate the increase in rates. The City will have the opportunity to refund the bonds within 10 years after issuance depending on interest rates at that time.

3. What happens if actual project expenditures exceed planned amount, including contingencies?

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Response: Should a capital project's actual expenditures exceed budgeted amount, Department staff must reduce scope and/or identify additional or alternative funding sources for increases in appropriation by proposing such amendment for the Bond Compliance Citizens' Oversight Committee (COC) review and recommendation to the City Council, per COC by-laws, and the related budget actions will require Council approval.

4. What is the procedure to prioritize and decide which capital projects are included in the 1st tranche of General Obligation Bonds (GO Bonds) issuance?

Response: Tax-exempt bonds are meant to be issued to match cash spending needs. Federal tax laws require that, at the time bonds are issued, the City reasonably expect to spend 85% of bond proceeds within 3 years of bond issuance date. Recommended projects will be reviewed by the Capital Project Review Committee (PRC), which has depth and knowledge of the City's procurement process and order of project implementation, to be included in the proposed 1st tranche project list. The proposed list will then be reviewed by the COC to ensure its compliance to the Expenditure Plan before presented to City Council for approval (estimated in August 2025). Proposed list requires Council approval and once approved, will be budgeted and appropriated accordingly. Funding for design will be included in the capital projects budget in the 2nd and 3rd tranches of the GO Bonds issuances. Project lists for subsequent tranches will follow the same review and approval process.

5. What is the benefit of competitive sale method, especially during a volatile interest environment, as compared to the negotiated sale method?

Response: Competitive Sales are well understood to be the best practice when an issuer is selling general obligation bonds and the credit rating is high, as this sale method produces the lowest TIC. The City is a known issuer, in the investment community, of revenue pledged bonds with high credit ratings, as mention in Question No. 1 above. A general obligation bond issuance fully backed by ad valorem property taxes is very low risk and likely to generate high demand, especially in the City's case of issuing GO Bonds for the first time in decades.

Per the City's Debt Policy, should the Director of Finance conclude that determining the composition of the underwriter syndicate to achieve certain policy objectives is important, then a negotiated sale may be considered. If the Director of Finance selects a negotiated sale solely for policy reasons, then the specific rationale and criteria for selection should be clearly specified.

In addition to the "Official Notice of Sale", a legal document distributed to potential underwriting financial institutions in a competitive sale process, a "Purchase Contract" will also be included at the same time for Council approval authorizing the GO Bonds sale. The Purchase Contract could be used if market conditions at the time the GO Bonds are sold are such that a competitive sale is determined by the City and the City's financial advisor to be inadvisable and that a negotiated sale to an underwriter would produce a more favorable financing.

The City's Debt Policy discusses bond sale methods for debt issuance and the merits of each. In a competitive sale, the Preliminary Official Statement (POS) and Official Notice of Sale are distributed to potential underwriters, who submit bids on a determined date though a secure on-line platform. The underwriter whose bid represents the lowest TIC and is in compliance with the bid parameters is awarded the bonds. In a negotiated sale, an underwriter or underwriter syndicate is selected by

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the issuer. The interest rates and underwriter's fee are negotiated prior to the sale, based on market conditions.

City of Santa Clara's Wastewater Revenue bonds were successfully sold via a competitive sale in October 2023, during a turbulent interest rate environment, with 10 bidders and a winning TIC of 4.31%.

6. What is the timing and process for Preliminary Official Statement (POS) feedback from City Council?

Response: A POS is a document prepared by a municipal government in connection with a new issue of securities. It includes/discloses key information such as the purpose of the issue, the structure and repayment of the debt and the financial and economic characteristics of the issuing municipality. It is distributed to potential investors and underwriters for them to make an informed decision on whether to purchase the securities.

For the GO Bonds, the City has formed a working group, including staff from City Manager's Office, City Attorney's Office, Finance, and Public Works. This group collaborates with the appointed Bond Counsel (Jones Hall) and Financial Advisor (PFM), meeting regularly, to create the POS over several months, with multiple rounds of reviews and revisions for information accuracy and proper disclosures. The completed POS will be one of the legal documents for Council approval authorizing the GO Bonds sale, together with some of the other documents mentioned in Question No. 5 above. Staff currently plans to request Council authorization in December 2025.

This Council action will appear on the regular (not consent) agenda and follow the same procedures as all other agenda items, where the Council and the public will have the opportunity to review all documents and ask questions. In addition, the Council will have the opportunity to provide feedback on the POS to staff between the time the agenda packet is distributed and the Council action.