



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: David Sykes

SUBJECT: AFFORDABLE HOUSING GENERAL OBLIGATION BOND MEASURE
DATE: August 9, 2018

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

On August 7, 2018, the City Council gave direction to the City Manager to bring forward ballot language, tax statements, and resolutions for Council consideration at a Special Meeting to be held on August 10, 2018.

This memorandum provides updated recommendation language and ballot language. It also includes updated background information about the tax statement for the proposed affordable housing general obligation bond.

RECOMMENDATION – UPDATED

- (a) Adopt a resolution of the City Council calling and giving notice, on its own motion, for a Special Municipal Election to be held on November 6, 2018, to submit to the electors of the City of San José a general obligation bond measure for affordable housing with the following statement of the measure to be printed in the ballot:

Affordable Housing Bond

To provide housing affordable for: <ul style="list-style-type: none">• working families,• veterans,• seniors,• teachers, nurses, paramedics, and other workers; and• helping homeless residents get off of local streets and out of neighborhood parks and creeks;	YES	
Shall San Jose issue \$450,000,000 in general obligation bonds with an average levy of 8 cents per \$1,000 of assessed value, averaging \$26,217,000 annually until repaid, requiring community oversight and annual audits?	NO	

- (b) To save \$89,000 in City costs on the bond measure, approve a Resolution directing the City Clerk to, pursuant to Elections Code Section 12111, cause a synopsis of the proposed measure to be published at least one time not later than one week before the election in the San Jose Mercury News, a newspaper of general circulation within the City of San Jose, instead of printing the full text of the measure in the Sample Ballot;
- (c) Allow rebuttal arguments, pursuant to Elections Code Section 9285;
- (d) Authorize the Mayor to submit a ballot argument in support of the bond measure, pursuant to Elections Code Section 9282;
- (e) Direct the City Attorney to prepare an Impartial Analysis of the measure, where, as authorized under Elections Code Section 9280, the following statement will be printed in the Impartial Analysis to be prepared by the City Attorney: "If you would like to read the full text of the measure, see <http://www.sanjoseca.gov/index.aspx?nid=5694> or call 408-535-1260 and a copy will be sent at no cost to you."; and
- (f) Direct the City Clerk to perform all other actions necessary to place the measure on the November 6, 2018 ballot.

BACKGROUND

On August 7, 2018, the City Council voted 9-1-1 to approve a memorandum from Mayor Liccardo that gave direction to bring forward a general obligation bond for Affordable Housing with the ballot language presented above. In addition, Council approved the following actions outlined in the memorandum:

- To save \$89,000 in City costs on each bond measure, approve a Resolution directing the City Clerk to, pursuant to Elections Code Section 12111, cause a synopsis of the proposed measure to be published at least one time not later than one week before the election in the San Jose Mercury News, a newspaper of general circulation within the City of San Jose, instead of printing the full text of the measure in the Sample Ballot;
- Allow rebuttal arguments, pursuant to Elections Code Section 9285;
- Authorize the Mayor to submit a ballot argument in support of the two bond measures, pursuant to Elections Code Section 9282;
- Direct the City Attorney to prepare an Impartial Analysis of the measures, where, as authorized under Elections Code Section 9280, the following statement will be printed in the Impartial Analysis to be prepared by the City Attorney: "If you would like to read the full text of the measure, see <http://www.sanjoseca.gov/index.aspx?nid=5694> or call 408-535-1260 and a copy will be sent at no cost to you."; and

- Direct the City Clerk to perform all other actions necessary to place the measures on the November 6, 2018 ballot.

Council further gave direction for language to be added to the draft resolution specifying that people who would be eligible for housing produced using bond funds include domestic violence survivors and individuals with disabilities. The Council also directed that staff clarify the language in the resolution regarding area median income. The resolution for the Affordable Housing Bond includes these changes.

Council provided further direction to the City Manager to return to Council within four weeks with a proposed bond allocation plan that contains minimum funding amounts for specified categories of affordable housing projects, for Council review and approval.

ANALYSIS

The State of California Constitution provides that a city may issue general obligation bonds for the acquisition and improvement of real property if authorized by two-thirds of its voters. General obligation bonds are payable only from ad valorem property taxes, which are required to be levied in an amount sufficient to pay interest and principal on the bonds coming due in each year. These property tax revenues are generated from an additional property tax that is distinct from general property tax collections and are dedicated to paying debt service on the bonds and cannot be levied or used for any other purpose. General obligation bonds are generally issued over a period of years and then repaid over a twenty- to thirty-year period from the date of issuance.

The City of San Jose Municipal Code (Section 14.28.060) provides that the City may take a bond measure to the voters when, by a two-thirds vote, the City Council adopts a resolution ordering the submission of the proposition of incurring a bonded debt for the purposes set forth in the resolution to the qualified voters of the city at an election held for that purpose. The attached resolution complies with the requirements of State law and the Municipal Code.

Tax Rate Statement and Bond Accountability – UPDATED

Tax Rate Statement — Pursuant to California Elections Code Section 9401, a Tax Rate Statement has been prepared, and is attached as Exhibit B of the Council Resolution for the Affordable Housing Bond. The Tax Rate Statement will be included in the Voter's Sample Ballot.

To determine the information contained in the Tax Rate Statement, assumptions were developed and are presented in Table 1. This information is based on the City's projections and estimates and are not binding upon the City. The actual tax rates and years in which they will apply will vary from those presented in the Tax Rate Statement. The variations from the estimates will be the result of the timing of the bond sales, the amount of the bonds sold at each sale and market interest rates at the time of each bond sale, and actual assessed valuation over the term of the repayment of the bonds.

The dates of bond sales and the amount of the bonds to be sold at any given time will be determined by the City based on the need for construction funds and other factors. The actual interest rates at which the bonds will be sold depends on the bond market at the time of each sale. All bonds issued for affordable housing will be sold as taxable bonds. Actual future assessed valuation will depend upon the amount and value of taxable property within the City as determined by the Santa Clara County Assessor in the annual assessment and the equalization process.

Table 1 - General Obligation Bond Assumptions

Total Affordable Housing GO Authorization	\$450,000,000
Taxable \$450,000,000	
Number of Bond Issuances (Sales)	5
Years of Bond Issuance	2019, 2021, 2023, 2025 and 2027
Taxable bonds issued only in 2019 & 2023	
Annual Assessed Valuation Growth	3.50%
Average Interest Rate on Taxable Bonds	6.00%
Aggregate Cost of Issuance (5 bond issuances)	\$5,650,000
Net Bond Proceeds Available for Projects	\$444,350,000
Amortization Period for each Series	30 years

Based on these assumptions, the Tax Rate Statement includes the following information:

- Average Annual Tax Rate (best estimate) during the entire duration of bond debt service is .82 cents per \$100 of assessed valuation of all property to be taxed or \$8.15 per \$100,000 of assessed valuation.
- Final fiscal year (best estimate) in which the tax is anticipated to be collected is FY 2056-57 which will make the debt service payments due during calendar year 2057.
- Highest Tax Rate (best estimate) to be levied to pay the debt service on the bonds is 1.43 cents per \$100 of assessed value of all property to be taxed or \$14.29 per \$100,000 of assessed valuation.
- Year in which highest tax rate (best estimate) will apply is FY 2027-28.
- Total debt service, including principal and interest to be repaid if all the bonds are issued and sold is \$996 million (best estimate).

It is important for voters to note that estimated tax rates are based on the *assessed value* of taxable property on Santa Clara County's official tax rolls, not on the property's market value. Property owners should consult their own property tax bills to determine their property's assessed value and any applicable tax exemptions. Currently, the approximate *average assessed valuation* of a single-family home in San Jose is \$500,000, which based on the assumptions above and a 2% growth in assessed value for a homeowner (maximum amount permitted under Proposition 13), the estimated average annual tax would be \$56.43 per year, with an estimated maximum annual tax would be \$83.56.

Bond Accountability — In addition, as outlined in the resolution, the Council acknowledges the provisions of California Government Code Section 53410 et seq. related to bond accountability and outlines the following bond accountability provisions which will be applicable to the Bonds if authorized by the voters and issued:

- Specific purpose of the Bonds is to finance the costs of the Projects as outlined in the staff report and Section 1. B and 1.C of the Resolution.
- Proceeds of the Bonds will be used only for the purposes outlined in the staff report and as specified in Section 1. A. of the Resolution.
- Proceeds of the Bonds will be accounted for in a separate account. The proceeds of the Bonds may be held by either the City or a trustee for the Bonds, as directed by the City's Director of Finance.
- City Auditor is directed to cause a separate audit of the proceeds of the Bonds in connection with the annual audit of the City's financial statements conducted by the City's external auditor.
- City's Director of Finance will file an annual report with the Council which will provide information as of June 30th of the prior fiscal year related to the amount of Bonds issued, the amount of ad valorem property tax collected and the status of the Projects.
- Council will appoint a committee comprised of residents of the City to provide community oversight over the expenditure of the Bonds. The size, composition and specific responsibilities of the Community Oversight Committee will be determined by separate action of this Council prior to the issuance of any of the Bonds.

CEQA

Not a Project, File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

The adoption of the resolution for placement of the proposed measure on the November 6, 2018 ballot is not a "project" under the California Environmental Quality Act ("CEQA"), because neither the resolution nor the proposed ballot measure involves any commitment to a specific project which may result in a potentially significant physical impact on the environment, pursuant to Title 14, California Code of Regulations, (CEQA Guidelines) Section 15378(b)(4). The proposed ballot measure is for the creation of government funding mechanisms and other

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government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

A handwritten signature in black ink, appearing to read "D. D. Sykes". The signature is stylized with a large, sweeping "D" and "S".

DAVID SYKES
City Manager

For questions, please contact Lee Wilcox, Chief of Staff, at (408) 535-4873.