



# Memorandum

**TO:** HONORABLE MAYOR AND CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT:** FISCAL YEAR 2018-19 PROPERTY TAX LEVY FOR GENERAL OBLIGATION BONDS

**DATE:** July 24, 2018

Approved

Date

7-25-18

## RECOMMENDATION

Adopt a resolution establishing the FY 2018-19 property tax levy on all taxable property within the City of San José for the purpose of funding the City’s general obligation bonded indebtedness and pay the related administration fee to the County.

## OUTCOME

Approval of the recommendation will place the property tax levy on the FY 2018-19 tax roll, which will generate tax revenue sufficient to pay debt service due in calendar year 2019 on the following series of general obligation bonds issued by the City: 2001, 2002, 2004, 2005, 2006, 2007, 2008, and 2009 (collectively, the “GO Bonds”); and to pay the County’s annual administrative fee.

## BACKGROUND

Voters approved Measure O (Neighborhood Libraries Bond) and Measure P (Safe Neighborhood Parks & Recreation Bond) at the City’s general election held on November 7, 2000, authorizing the issuance of general obligation bonds for the improvements described in those measures in the not-to-exceed respective amounts of \$211.79 million and \$228.03 million.

Voters also approved Measure O (9-1-1, Fire, Police, Paramedic and Neighborhood Security Act) at the City’s general election held on March 5, 2002, authorizing the issuance of general obligation bonds for the improvements described in Measure O 2002 in the not-to-exceed amount of \$159 million.

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The GO Bonds are general obligations of the City. In accordance with all relevant provisions of law, including Chapter 14.28 of the Municipal Code, the City is obligated to levy ad valorem taxes upon all property within the City subject to taxation by the City without limitation of rate or amount (except with respect to certain personal property that is taxed at limited rates) for the payment of the GO Bonds and interest thereon. The City is obligated to direct the County of Santa Clara to collect such ad valorem taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the GO Bonds. Debt service payments on the GO Bonds are due each year on March 1 and September 1.

Section 1216 of the San José City Charter limits outstanding general obligation debt of the City to 15% of the total assessed value of all real and personal property within the City limits ("debt limit"). As of June 30, 2018, the total assessed value of taxable property was \$181.9 billion, which results in a total debt limit of approximately \$27.3 billion (total assessed value x 15% = debt limit). As of June 30, 2018, the City had \$342.8 million in general obligation debt outstanding, representing 1.3% of the debt limit and a debt margin of \$26.9 billion (debt limit less outstanding general obligation debt).

The amount of the ad valorem tax to be levied by the City to repay the GO Bonds is determined by the relationship between the assessed valuation of all taxable property in the City and the amount of debt service due on the GO Bonds. Fluctuations in the annual debt service on the GO Bonds, future general obligation bond issuances and changes in the assessed value of taxable property in the City will cause the annual tax rate to vary each year. Additionally, the amount of tax levied each year is reduced to reflect a credit for any balance remaining from prior year tax collections. In order for the County to place the tax levy on the FY 2018-19 property tax bill, it is necessary for the City Council to adopt a resolution approving the tax rate for FY 2018-19. The FY 2018-19 tax rate is based on the debt service payable on March 1 and September 1, 2019. The City must submit this tax rate to the County each year in early August. Any collections in excess of the amounts needed to make the debt service payments are used as credits in the calculation of the GO tax levy rate for the following year.

The following table summarizes the bonds issued to date under the libraries, parks and public safety bond authorizations. These eight bond issues resulted in a total amount issued of \$589.59 million of which \$342.77 million is outstanding as of June 30, 2018. The remaining authorization of \$9.23 million for libraries and public safety projects will be issued to address future capital needs, tentatively scheduled for 2018-2019.

**City of San José**  
**General Obligation Bonds**  
**Authorization Levels, Issuance Amounts, and Outstanding Balances**

	Final Maturity	Measure O (11/07/2000) Library Projects	Measure P (11/07/2000) Parks Projects	Measure O (03/05/2002) Public Safety Projects	Issuance Total	Outstanding Balance June 30, 2018
Authorization		\$211,790,000	\$228,030,000	\$159,000,000	\$598,820,000	
Series 2001	9/1/2031	31,000,000	40,000,000	0	71,000,000	\$33,110,000
Series 2002	9/1/2032	30,000,000	46,715,000	39,375,000	116,090,000	58,040,000
Series 2004	9/1/2034	58,300,000	46,000,000	14,400,000	118,700,000	67,270,000
Series 2005	9/1/2035	21,300,000	0	25,000,000	46,300,000	27,810,000
Series 2006	9/1/2036	60,000,000	45,400,000	0	105,400,000	66,785,000
Series 2007	9/1/2037	0	22,100,000	67,900,000	90,000,000	60,000,000
Series 2008	9/1/2038	5,285,000	27,815,000	0	33,100,000	23,155,000
Series 2009	9/1/2039	0	0	9,000,000	9,000,000	6,600,000
Total Issuance to Date		\$205,885,000	\$228,030,000	\$155,675,000	\$589,590,000	\$342,770,000
Remaining Authorization		\$ 5,905,000	\$ 0.00	\$ 3,325,000	\$ 9,230,000	

**ANALYSIS**

The total obligation in calendar year 2019 for debt service and the County administrative fee is \$35,375,957. This total includes the March 1, 2019 and September 1, 2019 scheduled debt service payments totaling \$35,287,737 and the County administrative fee estimated at \$88,220 (approximately 0.25% of the calendar year 2019 debt service payments). Due to timing of receipt of property tax revenues, the debt service payments due in calendar year 2019 are placed on the property tax roll for FY 2018-2019.

The secured tax rate is determined based on the City's total assessed valuation on property in the City of San José for the current fiscal year and the unsecured tax rate is the prior fiscal year's secured tax rate. The County's Controller-Treasurer Department has confirmed the secured, unsecured, and utility assessed valuations for FY 2018-19. The calculation of the secured tax rate takes into account \$4.4 million in cash balance.

<b>City of San José</b>		
<b>Total Assessed Valuation</b>		
<b>FY 2018-19</b>		
Types of Property <sup>(1)</sup>	Net Assessed Value <sup>(1)</sup>	Tax Rate (per \$100 in assessed value)
Secured and Utility	\$173,895,592,314	0.01700
Unsecured	8,030,931,860	0.01860
<b>Total</b>	<b>\$181,926,524,174</b>	

<sup>(1)</sup> Provided by the County's Controller-Treasurer Department

This action will result in the collection of approximately \$29.6 million in secured tax revenue which, when combined with approximately \$4.4 million of cash balance remaining from prior year tax collection and the unsecured tax revenue of approximately \$1.5 million, will be sufficient to pay debt service due on the City's GO Bonds in March and September 2019 and pay the County's annual administrative fee.

For a single-family home with a net assessed value of \$500,000, the tax levy is \$85.00 for FY 2018-19, which is lower than the tax levy of \$93.00 for FY 2017-18. This decrease is primarily due to the 6.7% increase in total taxable assessed valuation for the City for FY 2018-19 as compared to FY 2017-18, and declining annual debt service from \$36.2 million in FY 2017-18 to \$35.3 million in FY 2018-19.

**EVALUATION AND FOLLOW-UP**

This action places the property tax levy required for funding the City's general obligation indebtedness and the County's administrative fee on the tax roll for FY 2018-19 and requires no follow-up by the City Council.

**PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the August 7, 2018 City Council meeting.

At the City's general election held on November 7, 2000, the voters approved Measure O (Neighborhood Libraries Bond) and Measure P (Safe Neighborhood Parks & Recreation Bond), authorizing the issuance of general obligation bonds in the not-to-exceed respective amounts of \$211.79 million and \$228.03 million.

At the City's general election held on March 5, 2002, the voters approved Measure O (9-1-1, Fire Police, Paramedic and Neighborhood Security Act), authorizing the issuance of general obligation bonds in the not-to-exceed amount of \$159 million.

**COORDINATION**

This report was prepared by the Finance Department in coordination with the City Manager's Budget Office and the City Attorney's Office.

**COMMISSION RECOMMENDATION / INPUT**

No commission recommendation or input is associated with this action.

**FISCAL/POLICY ALIGNMENT**

Levying of the annual ad valorem tax for the collection of revenue for payment of debt service on the City's outstanding general obligation bonds is consistent with the Council approved *Guiding Principles for Budget and Financial Management* for the City to meet its legal commitments and requirements with respect to repayment of bonds.

**COST SUMMARY/IMPLICATIONS**

As discussed above, this action will result in the collection of approximately \$29.6 million in secured tax revenue which, when combined with the balances remaining from prior year tax collection (\$4.4 million) and unsecured tax revenue (\$1.5 million), will be sufficient to pay debt service due on the City's GO Bonds in March and September 2019 and pay the County's annual administrative fee.

**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.

/s/

JULIA H. COOPER  
Director of Finance