



# Memorandum

**TO:** HONORABLE MAYOR AND CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT: FISCAL YEAR 2022-23 PROPERTY TAX LEVY FOR GENERAL OBLIGATION BONDS**

**DATE:** July 25, 2022

Approved

Date

7/28/2022

## **RECOMMENDATION**

Adopt a resolution establishing the Fiscal Year (FY) 2022-23 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 to pay the respective administration fee to the County of Santa Clara.

## **OUTCOME**

Approval of the recommendation will place the property tax levy on the FY 2022-23 tax roll, which will generate tax revenue sufficient to pay (i) the annual administrative fee of the County of Santa Clara (County) for the respective tax roll collections for the general obligation (GO) Bonds (as defined below), and (ii) when combined with other funds, debt service due in calendar year 2023 on the following series of GO Bonds issued by the City of San José (City):

- Series 2019 Bonds (Series 2019A-1, Series 2019B, Series 2019C, and Series 2019D – collectively the Series 2019 Bonds)<sup>1</sup>, and
- Measure T Series 2021A Bonds (the Series 2021 Bonds<sup>2</sup> and, together with the Series 2019 Bonds, are the GO Bonds).

<sup>1</sup> The Series 2019A-1 and Series 2019 B Bonds were issued under Measure T (2018) authorization and Series 2019C Bonds and Series 2019D Bonds refunded all outstanding bonds issued under the Measure O (2000), Measure P (2000), and Measure O (2002) authorizations, and utilized then remaining unissued authorizations under Measure O (2000) and Measure O (2002).

<sup>2</sup> The Series 2021C Bonds matured on September 1, 2021 and the Series 2021B Bonds mature on September 1, 2022; both series of bonds will be paid in full as of September 1, 2022.

This action will result in the collection of approximately \$42.2 million in secured tax collections and \$1.9 million in unsecured tax collections which, when combined with approximately \$3.5 million of cash balance remaining from prior year tax collections and the \$3.1 million proceeds remaining from the Series 2021 Bonds, will be sufficient to pay \$50.5 million in debt service due on the City's GO Bonds, in March 2023 and September 2023 and pay the County's annual administrative fee.

## **BACKGROUND**

### **General Obligation Bond Measures**

**Measure O (2000) and Measure P (2000).** At the City's general election held on November 7, 2000, voters approved Measure O (2000), the *San José Neighborhood Libraries Bond*, that authorized the issuance of GO bonds not-to-exceed \$211,790,000 and Measure P (2000), the *San José Safe Parks Neighborhood Parks and Recreation Bond*, that authorized the issuance of GO bonds not-to-exceed \$228,030,000. The projects authorized to be funded by Measure O (2000) include the construction of new and expanded neighborhood library facilities; projects authorized to be funded by Measure P (2000) included construction of improvements to parks and recreational facilities. The Series 2019C Bonds exhausted the remaining \$5,905,000 of unutilized authorization pursuant to Measure O (2000) for Library projects. There is no remaining authorization under Measure P (2000).

**Measure O (2002).** At the City's primary election held on March 5, 2002, voters approved Measure O (2002), the *San José 911, Fire, Police, Paramedic, and Neighborhood Security Act*, that authorized the issuance of GO bonds in the not-to-exceed amount of \$159,000,000. The projects authorized to be funded by Measure O (2002) include the acquisition of property and construction of and improvements in various areas throughout the city to add and improve police stations, fire stations and training facilities, and create a state-of-the-art 911 communications facility. The Series 2019C Bonds exhausted the remaining \$3,325,000 of unutilized authorization pursuant to Measure O (2002) for Public Safety projects.

**Measure T (2018).** At the City's general election held on November 6, 2018, voters approved Measure T, the *Disaster Preparedness, Public Safety, and Infrastructure*, that authorized the issuance of GO bonds in the not-to-exceed amount of \$650,000,000 for the purpose of acquiring property for and constructing improvements to improve emergency and disaster response, repair deteriorating bridges vulnerable to earthquakes, repave streets and potholes in the worst condition, prevent flooding and water contamination, including the acquisition of land in the Coyote Valley for these purposes, and repair critical infrastructure, of which a total of \$350 million is dedicated to street repair.

The first and second round of bonds under the Measure T authorization sold in 2019 and 2021 totaled \$440,430,000. There is \$209,570,000 of unissued authorization remaining pursuant to Measure T. The next issuance is tentatively scheduled to occur in the summer of 2023.

### **General Obligation Tax Levy**

The GO Bonds are general obligations of the City. In accordance with all relevant provisions of law, including Chapter 14.28 of the San José 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 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 GO debt of the City to 15% of the total assessed value of all real and personal property within the city limits (debt limit). For FY 2022-23, the total assessed value of taxable property, provided by the County, is approximately \$230.3 billion, which results in a total debt limit of approximately \$34.5 billion (total assessed value x 15% = debt limit). As of the date of this City Council meeting, the City has \$582.1 million in GO debt outstanding, representing 1.7% of the debt limit and a remaining debt margin of \$34.0 billion (debt limit less outstanding GO 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 annual debt service due on the GO Bonds, by dividing the amount of the annual debt service due on the GO Bonds by the assessed valuation. Fluctuations in the annual debt service on the GO Bonds, caused by future GO bond issuances or redemptions of bonds and changes in the assessed value of taxable property in the city, cause the annual tax rate to vary each year. The amount of tax levied each year is reduced to reflect a credit for any remaining balance from prior year tax collections.

For the County to place the City GO tax levy on the FY 2022-23 property tax bill, it is necessary for the City Council to adopt a resolution approving the tax rate for FY 2022-23. The FY 2022-23 tax rate is based on the debt service payable on March 1, 2023 and September 1, 2023. The City must submit this tax rate to the County each year in August of the applicable tax year. 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.

Presented below is a summary of the City's outstanding Series 2019 Bonds, including the 2019 refunding of prior GO bond issuances, the 2019 issuance of bonds under Measure T, the Series 2021 bond issuance under Measure T, the remaining outstanding balances for all GO Bonds, and the remaining Measure T authorization:

## HONORABLE MAYOR AND CITY COUNCIL

July 25, 2022

**Subject: Fiscal Year 2022-23 Property Tax Levy for General Obligation Bonds**

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City of San José General Obligation Bonds Issuance Amounts and Outstanding Balances as of September 2, 2022						
	A		B	C	B + C	
			Measure T Issuance			
Issuance	Final Maturity	Series 2019 (Refunding)	Series 2019 (New Money)	Series 2021 (New Money)	Measure T Total Issued	Principal Outstanding <sup>(4)</sup>
Series 2019A-1	9/1/2049		\$173,400,000		\$173,400,000	\$140,360,000
Series 2019B	9/1/2027		66,500,000		66,500,000	66,500,000
Series 2019C <sup>(1)</sup>	9/1/2035	\$158,185,000				153,795,000
Series 2019D	9/1/2024	103,935,000				38,090,000
Series 2021A	9/1/2051			\$151,210,000	151,210,000	149,850,000
Series 2021B <sup>(2)</sup>	9/1/2022			8,450,000	8,450,000	0
Series 2021C <sup>(3)</sup>	9/1/2021			40,870,000	40,870,000	0
<b>Total</b>		<b>\$262,120,000</b>	<b>\$239,900,000</b>	<b>\$200,530,000</b>	<b>\$440,430,000</b>	<b>\$548,595,000</b>
				Measure T Voter Authorization	\$650,000,000	
				Remaining Measure T Authorization	<u>\$209,570,000</u>	

(1) A portion of the 2019C Bonds funded remaining projects under Measure O (2000) in the amount of \$5,905,000 and under Measure O (2002) in the amount of \$3,325,000.

(2) The Series 2021B Bonds will mature on September 1, 2022 and will be fully redeemed.

(3) The Series 2021C Bonds matured on September 1, 2021 and are fully redeemed.

(4) Outstanding balance is the remaining (unamortized principal) on the Series 2019 and Series 2021 GO Bonds. The FY 2022-23 Tax Levy is calculated based on principal and interest due on these bonds in March and September 2023.

**ANALYSIS**

The total General Obligation Bond debt service payments due in calendar year 2023 is \$50,519,960, which includes the principal and interest due on the \$548,595,000 in principal outstanding on the GO Bonds as shown in the table below.

City of San José General Obligation Bonds Debt Service - Tax Levy Requirements				
	(A)		(B)	(A - B)
Issuance	Final Maturity	Debt Service Due Calendar Year 2023	Cash on Hand Applied to Calendar Year 2023 Debt Service <sup>1</sup>	Net Debt Service for Tax Levy
Series 2019A-1	9/1/2049	\$7,018,000	\$606,251	\$6,411,749
Series 2019B	9/1/2027	1,663,640	143,714	1,519,926
Series 2019C	9/1/2035	10,049,750	868,149	9,181,601
Series 2019D	9/1/2024	21,891,070	1,891,064	20,000,006
Series 2021A	9/1/2051	9,897,500	3,097,164	6,800,336
<b>Total</b>		<b>\$50,519,960</b>	<b>\$6,606,342</b>	<b>\$43,913,618</b>
		County Administrative Fee	0.25%	<u>109,784</u>
		<b>Total GO Bonds Debt Service to be Levied</b>		<b>\$44,023,402</b>

<sup>1</sup> Cash on Hand (Fund 498) as of July 15, 2022 includes supplementary property tax revenue, which includes new construction and reassessed properties (\$3,509,179.60) and funds held by Fiscal Agent in Bond Service Fund for payment on 2021A Bonds (\$3,097,164.69)

The total General Obligation Bond debt service payments due in calendar year 2023 is \$50,519,960, which includes the principal and interest due on the \$548,595,000 in principal outstanding on the GO Bonds as shown in the table above. The tax rate levy is calculated based on the total debt service due, net of funds on hand plus the County administrative fee which for FY 2022-23 totals \$44,023,402. Due to timing of receipt of property tax revenues, debt service payments due in calendar year 2023 are placed on the property tax roll for FY 2022-2023.

The secured tax rate for FY 2022-23 is determined based on the City's total assessed valuation on property in the city of San José for FY 2022-23; the unsecured tax rate is the prior fiscal year's secured tax rate (i.e., FY 2021-22). The unsecured taxes are ad-valorem property taxes that are assessed to the owner of record as of January 1 of each year. The unsecured property tax is applied to personal property such as furniture, fixtures, machinery and equipment, and luxury items such as boats, jet skis, and planes; unsecured taxes are not secured by a real property such as land. The Office of the County Controller-Treasurer has confirmed the secured, unsecured, and utility assessed valuations for FY 2022-23 as shown in the tables below.

City of San José General Obligation Bonds FY 2022-23 Tax Rate Calculation			
Total GO Bonds Debt Service to be Levied <sup>(1)</sup>			\$44,023,402
<i>FY 2022-23 Unsecured Tax Roll Collections (Estimated)</i>			
(A)	FY 2021-22 Secured Tax Rate <sup>(2)</sup>	2.070%	
(B)	5-Year Average Collection Rate for Unsecured Property <sup>(2)</sup>	98.250%	
(C)	FY 2022-23 Unsecured Property Assessed Value <sup>(2)</sup>	9,432,856,498	
(A) x (B) x (C) = Estimated Unsecured Tax Roll Revenue			(1,918,431)
Remaining GO Bonds Debt Service to be Levied			\$42,104,971
<i>FY 2022-23 Secured &amp; Utility Tax Roll Collections (Estimated)</i>			
(D)	Remaining GO Bonds Debt Service to be Levied	\$42,104,971	
(E)	FY 2022-23 Secured & Utility Property Assessed Value <sup>(2)</sup>	220,817,923,201	
(D) / (E) = Estimated Secured & Utility Tax Roll Rate (Rounded and per \$100 in assessed value)			0.01910

<sup>(1)</sup> Net of funds on hand (prior year collections and funds held by Fiscal Agent in the Bond Service Fund for 2021A Bonds)

<sup>(2)</sup> Controller-Treasurer, Property Tax Division, County of Santa Clara, July 2022.

City of San José Total Assessed Valuation FY 2022-23		
Types of Property <sup>(1)</sup>	Net Assessed Value <sup>(1)</sup>	Tax Rate (per \$100 in assessed value)
Secured and Utility	\$220,817,923,201	0.01910
Unsecured	9,432,856,498	0.02070
Total	\$230,250,779,699	

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

This action will result in the collection of approximately \$42.2 million in secured tax collections and \$1.9 million in unsecured tax collections which, when combined with approximately \$3.5 million of cash balance remaining from prior year tax collections and the \$3.1 million proceeds remaining from the Series 2021 Bonds, will be sufficient to pay \$50.5 million in debt service due on the City's GO Bonds, in March 2023 and September 2023 and pay the County's annual administrative fee.

For a single-family and condominium owner with a net assessed value of \$618,000<sup>3</sup>, the tax levy is \$118.04, for FY 2022-23.

### **CONCLUSION**

Approval of the resolution will place the property tax levy on the FY 2022-23 tax roll on all taxable property within the city of San José for the purpose of funding the City's GO bonded indebtedness and to pay the related administration fee to the County.

### **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 2022-23 and requires no follow-up by the City Council.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the August 9, 2022 City Council meeting. As described above, the voters authorized four separate general obligation bond programs in 2000 (Measures O and P), 2002 (Measure O), and 2018 (Measure T).

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<sup>3</sup> Per the Santa Clara County Assessor's 2021-22 Annual Report (p. 30), the average assessed value for a single Family and Condominium housing in San José is \$618,287.

### **COORDINATION**

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

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

### **COST SUMMARY/IMPLICATIONS**

As discussed above, this action will result in the collection of approximately \$42.2 million in secured tax collections and \$1.9 million in unsecured tax collections which, when combined with approximately \$3.5 million of cash balance remaining from prior year tax collections and the \$3.1 million proceeds remaining from the Series 2021 Bonds, will be sufficient to pay \$50.5 million in debt service due on the City's GO Bonds, in March 2023 and September 2023 and pay the County's annual administrative fee.

### **CEQA**

Statutorily Exemption, File No. PP17-005, Adjustment to Fees, Rates and Fares without changes to or expansion of services.

/s/

JULIA H. COOPER  
Director of Finance

For questions, please contact Luz Cofresi-Howe Assistant Director of Finance, at (408) 535-7041 or via email at [luz.cofresi-howe@sanjoseca.gov](mailto:luz.cofresi-howe@sanjoseca.gov).