



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: David Sykes

SUBJECT: SEE BELOW

DATE: August 9, 2018

SUPPLEMENTAL

**SUBJECT: DISASTER PREPAREDNESS, PUBLIC SAFETY, AND
INFRASTRUCTURE BOND MEASURE**

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 Disaster Preparedness, Public Safety, and Infrastructure Bond Measure.

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 with the following statement of the measure to be printed in the ballot:

Disaster Preparedness, Public Safety, and Infrastructure Bond

To: <ul style="list-style-type: none">• Upgrade 911 communications, police, fire, and paramedics facilities to improve emergency and disaster response;• Repair deteriorating bridges vulnerable to earthquakes;• Repave streets and potholes in the worst condition;• Prevent flooding and water quality contamination;• Repair critical infrastructure; <p>Shall San Jose issue \$650,000,000 in general obligation bonds with an average levy of 11 cents per \$1,000 of assessed value, averaging \$34,208,000 annually until repaid, requiring community oversight and annual audits?</p>	YES	
	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 take all other actions necessary to place this measure on the November 6, 2018 ballot.

BACKGROUND

On August 7, 2018, the City Council voted unanimously to approve a memorandum from Mayor Liccardo that gave direction to bring forward a general obligation bond for Disaster Preparedness, Public Safety and Infrastructure 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 \$300 million of the bond is to be spent on repaving streets in the worst conditions assuming the full authorized amount of \$650 million is issued. The resolution for the Disaster Preparedness, Public Safety and Infrastructure Bond includes these changes.

Council provided further direction to the City Manager to add maintenance history, focusing on assets in greatest disrepair to the criteria that will be used to evaluate projects to be funded from this potential general obligation bond measure. Council additionally directed the Administration to return to Council with a list of projects and/or specific, clearly defined project categories for final approval and, in developing this list, to engage the community and solicit City Council office feedback.

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.

Ballot Language

After consulting with Fairbank, Maslin, Maullin, Metz & Associates (FM3), the City's contracted survey research consultants, the Department of Public Works and Environmental Services staff and the City Attorney, the Administration is recommending a one-word change to the ballot language approved by Council. The language would be amended to read "Prevent flooding and water quality contamination" rather than "Prevent flooding and water supply contamination."

Through all three rounds of polling, the City and FM3 tested variations of phrases around flood control, storm drain work, keeping creeks and waterways clean, with the common theme of addressing water quality. Staff's recommended word change showed higher support levels and would allow projects such as the proposed installation of new pumping stations at Charcot Avenue that might not fall under a strict interpretation of the water supply chain. All projects will still be evaluated through the project list development process as Council discussed and directed on August 7, 2018.

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 Disaster Preparedness, Public Safety, and Infrastructure 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. The amount of taxable bonds to be issued will be dependent on tax analysis at the time of bond issuance. 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 Disaster Preparedness, Public Safety and Infrastructure Bond GO Authorization	\$650,000,000
Tax-Exempt	\$600,000,000
Taxable	\$ 50,000,000
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 Tax-exempt Bonds	5.00%
Average Interest Rate on Taxable Bonds	6.00%
Aggregate Cost of Issuance (5 bond issuances)	\$7,050,000
Net Bond Proceeds Available for Projects	\$642,950,000
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 1.07 cents per \$100 of assessed valuation of all property to be taxed or \$10.69 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 1.84 cents per \$100 of assessed value of all property to be taxed or \$18.41 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 \$1.3 billion (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 \$73.77 per year, with an estimated maximum annual tax would be \$107.61.

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 30 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.

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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 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.


DAVID SYKES
City Manager

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