



Memorandum

TO: HONORABLE MAYOR AND CITY
COUNCIL

FROM: Julia H. Cooper

**SUBJECT: FISCAL YEAR 2019-2020
PROPERTY TAX LEVY FOR
GENERAL OBLIGATION BONDS**

DATE: July 23, 2019

Approved

Date

7/24/19

RECOMMENDATION

Adopt a resolution establishing the Fiscal Year 2019-2020 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 related administration fee to the County.

OUTCOME

Approval of the recommendation will place the property tax levy on the FY 2019-2020 tax roll, which will generate tax revenue sufficient to pay debt service due in calendar year 2020 on the following series of general obligation bonds issued by the City: the Series 2019 Bonds, which consist of Measure T Series 2019A, Measure T Taxable Series 2019B, Series 2019C (refunding a portion of existing general obligation bonds and issuing authorized unissued Measure O, 2000 and Measure O, 2002 bonds) and Taxable Series 2019D (refunding remaining portion of existing general obligation bonds) (collectively, the "GO Bonds"); and to pay the County's annual administrative fee.

BACKGROUND

General Obligation Bond Measures

Measure T. At the City's general election held on November 6, 2018, voters approved Measure T, that authorized the issuance of general obligation bonds in the not-to-exceed amount of \$650,000,000 for the purpose of acquiring property for and constructing improvements in order 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.

Measure O (2000) and Measure P (2000). At the City's general election held on November 7, 2000, voters approved Measure O (2000), that authorized the issuance of general obligation bonds in the not-to-exceed amount of \$211,790,000 and Measure P (2000) that authorized the issuance of general obligation 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 and projects authorized to be funded by Measure P (2000) included construction of improvements to parks and recreational facilities.

Measure O (2002). At the City's primary election held on March 5, 2002, voters approved Measure O (2002), San Jose 911, Fire, Police, Paramedic, and Neighborhood Security Act, that authorized the issuance of general obligation 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 in order to add and improve police stations, fire stations and training facilities and to create a state of the art 911 communications facility.

2019 General Obligation Bonds. On July 9, 2019, the City sold \$502,020,000 of General Obligation Bonds, Series 2019 Bonds, for new money and refunding purposes. Collectively, the Series 2019 Bonds (or "GO Bonds") consist of:

- New Issuance Measure T – the first issuance under Measure T authorization in the amount of \$239,900,000, consisting of the Series 2019A Bonds (in the amount of \$173,400,000) and taxable Series 2019B (in the amount of \$66,500,000). There is \$410,100,000 in remaining authorization under Measure T.
- New Issuance – Remaining Authorization under (Measure O, 2000 and Measure O, 2002) – The Series 2019C Bonds provided \$9,230,000 in new issuance under the remaining authorization of (Measure O, 2000 and Measure O, 2002) as follows (there was no remaining authorization under Measure P (2000)):
 - \$5,905,000 for Library projects and constitute the seventh (and final) issuance of general obligation bonds pursuant to Measure O (2000).
 - \$3,325,000 for Public Safety projects and constitute the sixth (and final) issuance pursuant to Measure O (2002).
- Refunding of Prior General Obligation Bonds (Measure O, 2000; Measure P, 2000; and Measure O, 2002) – the Series 2019C Bonds and taxable Series 2019D Bonds provided funds in the amount of \$148,955,000 and \$103,935,000, respectively, to refund all of the prior general obligation bonds, outstanding in the amount of \$323,110,000.

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 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"). For Fiscal Year 2019-20, the total assessed value of taxable property, provided by the County of Santa Clara, is \$195.2 billion, which results in a total debt limit of approximately \$29.3 billion (total assessed value x 15% = debt limit). For purposes of calculating the debt limit for the Series 2019 GO Bonds, the City has \$520.02 million in general obligation debt outstanding, representing 1.7% of the debt limit and a debt margin of \$28.77 billion (debt limit less outstanding general obligation debt). For purposes of calculating the debt limit, the outstanding amount includes the Series 2019A-2 Bonds (in the amount of \$33.04 million, more fully described below, that will be repaid in full on September 1, 2019).

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. There is no credit for FY 2019-2020 since all the funds in the Cash and Securities Account (for GO Debt Service) were required per IRS tax regulations to be used as available funds to refund the Prior GO Bonds. Use of these funds reduced the amount of refunding bonds needed to be issued to refund all the outstanding GO Bonds. However, as a result of the Series 2019 GO Bond issuance, the 2019 Bond Service Funds contributed \$1,446,160 to reduce the tax levy for FY 2019-2020.

In order for the County to place the tax levy on the FY 2019-2020 property tax bill, it is necessary for the City Council to adopt a resolution approving the tax rate for FY 2019-2020. The FY 2019-2020 tax rate is based on the debt service payable on March 1 and September 1, 2020. 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.

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The following table summarizes the GO Bonds (new issuance bonds and refunding bonds) issued to date under the Measure T, Measure O and P (2000) and Measure (2002) bond authorizations. The Series 2019A-D GO Bond issue resulted in a total amount issued of \$502,020,000, comprised of five separate issue components: Series 2019A-1 (tax-exempt - \$140.36 million); Series 2019A-2 (taxable - \$33.04 million); Series 2019B (taxable - \$66.5 million); Series 2019C (tax-exempt - \$158.185 million); and Series 2019D (taxable - \$103.935 million). The GO Bonds were structured with 5% coupons to produce the best results in the current bond environment. To address the potential for bond premium exceeding federal tax law requirements, the City issued a short-term taxable series (the 2019A-2 Bonds) that provided Measure T funding and would be completely paid off on September 1, 2019 by using the excess premium generated from the 2019A-1 Bonds. For the purpose of the Fiscal Year 2019-20 Property Tax Levy for General Obligation Bonds, \$468.98 million is outstanding and does not include the Series 2019A-2 Bonds.

City of San José General Obligation Bonds Authorization Levels, Issuance Amounts, and Outstanding Balances								
Authorization	Final Maturity	Measure O (11/07/2000) Library Projects \$211,790,000	Measure P (11/07/2000) Parks Projects \$228,030,000	Measure O (03/05/2002) Public Safety Projects \$159,000,000	GO Refunding	Measure T (11/6/2018) Projects \$650,000,000	Issuance Total \$502,020,000	Outstanding Balance June 30, 2019
Series 2019A	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	9/1/2024	5,905,000	-	3,325,000	-	-	9,230,000	9,230,000
Series 2019C	9/1/2035	-	-	-	148,955,000	-	148,955,000	148,955,000
Series 2019D	9/1/2024	-	-	-	103,935,000	-	103,935,000	103,935,000
Total Issuance to Date		\$211,790,000	\$228,030,000	\$159,000,000	\$252,890,000	\$239,900,000	\$502,020,000	\$468,980,000
Remaining Authorization		\$0	\$0	\$0	N/A	\$410,100,000		

* Does not include the Series 2019A-2 Bonds in the amount of \$33,040,000, and is not included in the 2019-2020 GO Tax Levy calculation.

ANALYSIS

The total obligation in calendar year 2020 for debt service and the County administrative fee is \$43,520,092. This total includes the March 1, 2020 and September 1, 2020 scheduled debt service payments totaling \$43,411,563 and the County administrative fee estimated at \$108,529 (approximately 0.25% of the calendar year 2020 debt service payments). Due to timing of receipt of property tax revenues, the debt service payments due in calendar year 2020 are placed on the property tax roll for FY 2019-2020.

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 2019-2020. Per the County's methodology, because the Series 2019A-D GO Bonds were not outstanding last fiscal year, the debt service for these bonds is not placed on the unsecured roll. Accordingly, all the debt service on the Series 2019A-D GO Bonds for calendar year 2020 will be placed on the secured tax roll.

City of San José Total Assessed Valuation FY 2019-2020		
Types of Property ⁽¹⁾	Net Assessed Value ⁽¹⁾	Tax Rate (per \$100 in assessed value)
Secured and Utility	\$186,562,604,708	0.02260
Unsecured	8,597,949,056	0.00000
Total	\$195,160,553,764	

⁽¹⁾ *Provided by the County's Controller-Treasurer Department. The FY 2019-2020 Property Tax Levy for GO Bonds is based on Secured and Utility property only.*

This action will result in the collection of approximately \$42.1 million in secured tax revenue which when combined with amounts in the 2019 Bond Service Fund of \$1,446,160, will be sufficient to pay debt service due on the City's GO Bonds in March and September 2020 and pay the County's annual administrative fee. Since this a new bond issuance, there is a one-year lag for the unsecured tax levy and will not result in any revenue for FY 2019-2020 for the payment of debt service.

For a single-family home with a net assessed value of \$532,000¹, the tax levy is \$120.23 for FY 2019-2020, which is higher than the tax levy of \$85.00 for FY 2018-2019. While there is a 41% increase in the tax levy for FY 2019-2020, there is a 37% increase in the total GO bonds outstanding over FY 2018-2019. The impact of the increase in GO Bonds outstanding was reduced to the tax payers due to a 7.3% increase in assessed value but was primarily the result of the refunding of all outstanding GO Bonds, and a bond structure of the Series 2019A-D bonds which optimized the savings to tax payers. An Informational Memo highlighting the results of the bond sale will be distributed prior to the August 6, 2019 Council meeting.

¹ Per the Santa Clara County Assessor's 2018-2019 Annual Report (p. 30), the average assessed value for a single family home in San Jose is \$531,973.

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 2019-2020 and requires no follow-up by the City Council.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the August 6, 2019 City Council meeting.

At the City's general election held on November 6, 2018, voters approved Measure T, that authorized the issuance of general obligation bonds in the not-to-exceed amount of \$650,000,000 for the purpose of acquiring property for and constructing improvements in order 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.

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COORDINATION

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

COMMISSION RECOMMEDATION / 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 \$42.1 million in secured tax revenue which when combined with amounts in the 2019 Bond Service Fund of \$1,446,160, will be sufficient to pay debt service due on the City's GO Bonds in March and September 2020 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

For questions, please contact Julia H. Cooper, Director of Finance, at (408) 535-7011.