



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: FISCAL YEAR 2019-20 PROPERTY TAX LEVY FOR GENERAL
OBLIGATION BONDS **DATE:** August 1, 2019

Approved

Date

8/2/19

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

On June 25, 2019, the City Council approved the issue of general obligation bonds for the purpose of issuing the first series of bonds under the 2018 Measure T authorization, issuance of the remaining authorization under Measure O (2000) and Measure O (2002) and refunding all the outstanding general obligation bonds.¹ This Supplemental Memo provides the results of the bond sale, refunding savings, and discussion of the rating agency credit reviews.

2019 General Obligation Bonds

On July 9, 2019, the City sold \$502,020,000 of General Obligation Bonds, Series 2019A-D. The 2019 Bonds consisted 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" or the "2019 Bonds"). The 2019 Bonds were sold by competitive bid with an aggregate true interest cost of 2.867%.

The first portion of the 2019 Bonds provided \$239,900,000 in capital funds for Measure T projects (Series 2019 A and Series 2019B) and represents the first series of general obligation bonds issued pursuant to the voter approval of Measure T on November 6, 2018. Measure T authorized 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.

¹ June 25, 2019, Item 3.8 (<https://sanjose.legistar.com/LegislationDetail.aspx?ID=3978564&GUID=0C02A599-6F35-4F0C-9F98-7166E35DF77D&Options=&Search=>)

The second portion of the 2019 Bonds provided \$9,230,000 for Library projects (in the amount of \$5,905,000) and Public Safety projects (in the amount of \$3,325,000) from authorized but unissued prior Measure O authorizations (2000 and 2002, respectively).

The third portion of the 2019 Bonds provided \$252,890,000 (comprised of the tax-exempt Series 2019C in the amount of \$148,955,000 and the taxable Series 2019D in the amount of \$103,935,000) with \$45,362,041 of premium sufficient to refund all the \$323,110,000 outstanding general obligation bonds. The 2019 Bonds mature over 30 years with a final maturity in 2049, there was no extension of the maturity date for the refunding bonds. A total of \$410,100,000 remains authorized, but unissued under Measure T.

Presented below is a summary of the City's general obligation bond authorizations, the amounts utilized in prior general obligation bond issues, the 2009 Bonds funding amount, and the remaining amounts of voter authorization.

General Obligation Bonds Authorization Levels and Issuance Amounts				
	Measure O (2000) Library Projects	Measure P (2000) Parks Projects	Measure O (2002) Public Safety Projects	Measure T Disaster Preparedness, Public Safety, and Infrastructure
Initial Authorization	<u>\$211,790,000</u>	<u>\$228,030,000</u>	<u>\$159,000,000</u>	<u>\$650,000,000</u>
Issuances:				
2001 Bonds	31,000,000	40,000,000		
2002 Bonds	30,000,000	46,715,000	39,375,000	
2004 Bonds	58,300,000	46,000,000	14,400,000	
2005 Bonds	21,300,000		25,000,000	
2006 Bonds	60,000,000	45,400,000		
2007 Bonds		22,100,000	67,900,000	
2008 Bonds	5,285,000	27,815,000		
2009 Bonds			9,000,000	
2019 Bonds	5,905,000		3,325,000	239,900,000
Total Issuances	<u>\$211,790,000</u>	<u>\$228,030,000</u>	<u>\$159,000,000</u>	<u>\$239,900,000</u>
Remaining Authorization	\$0	\$0	\$0	\$410,100,000

Debt Service on 2019 GO Bonds Compared to 2018 Bond Measure Assumptions

At the time the City's voters authorized the issuance of the Measure T Bonds, the bond measure arguments assumed all bonds would pay interest at a 5.00% rate for tax-exempt bonds and a 6.00% rate for taxable bonds. The actual aggregate true interest cost obtained for the 2019 Bonds, 2.867%, is significantly lower. For a single family homeowner with an assessed

valuation of approximately \$532,000² the projected tax levy is \$120.23 for FY 2019-20 (assuming FY 2019-20 net assessed valuation of \$186,562,604,708), which compares to the previous fiscal year's annual tax of \$85.00 (with an average assessed valuation of \$500,000 for FY 2018-19). While there is a 41% increase in the tax levy for FY 2019-20, there is a 37% increase in the total GO bonds outstanding over FY 2018-19. 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 2019 GO bonds which optimized the savings to tax payers.

Debt Service Savings from Refunding of Prior Bonds

The City previously issued the \$323,110,000 of outstanding general obligation bonds between 2001 and 2009 with coupons ranging from 4.000% to 5.125%. A portion of the Series 2019C and all the Series 2019D will provide bond proceeds to refund the outstanding general obligation bonds which will result in over \$74 million in debt service savings (\$63.2 million of net present value savings or 19.6% of the refunded bonds) to property taxpayers.

Competitive Sale Results

The interest rates on the tax-exempt 2019 Bonds were lower than those of the MMD Index for July 9, 2019, with a weighted average spread of approximately 0.059% below the MMD Index. The MMD Index is an index of the borrowing cost of State-level "AAA" general obligation issuers which is representative of the highest credit quality issuers in the municipal bond market. The lower average interest cost compared to the MMD Index can be attributed to the City's high credit ratings and strong demand for high-quality California municipal bonds.

The pricing of the 2019 Bonds resulted in historically low borrowing costs for the City's general obligation bonds. The 2.867% aggregate true interest cost of the 2019 Bonds is 1.402% lower than the lowest true interest cost for previous GO bond issuances, as summarized below:

<u>Series</u>	<u>True Interest Cost</u>	<u>Series</u>	<u>True Interest Cost</u>
2001	4.964%	2006	4.632%
2002	4.661%	2007	4.525%
2004	4.763%	2008	4.475%
2005	4.269%	2009	4.536%

² Per the Santa Clara County Assessor's 2018-19 Annual Report (p. 30), the average assessed value for a single family home in San Jose is \$531,973.

Bids Received for the 2019 Bonds

The City structured the 2019 Bonds with five distinct series to produce an optimal structure for new money and for refunding bond savings. These five series of bonds were bid in three separate groups as outlined below.

- Bid Group A consisted of Series 2019A-1 and Series 2019A-2. Bid Group A provided \$173,400,000 (of \$239,900,000) in Measure T funding.
- Bid Group B consisted of Taxable Series 2019B and Taxable Series 2019D. The Series 2019B bonds provided the balance of Measure T funding in the amount of \$66,500,000. The Series 2019D bonds provided \$103,935,000 (of \$252,890,000 to refund the outstanding general obligation bonds).
- Bid Group C consisted of Series 2019C and provided \$9,230,000 in proceeds for Library and Public Safety projects previously authorized but unissued from Measure O (2000 and 2002); and provided \$148,955,000 to refund the outstanding general obligation bonds).

A summary of the bids received, by bid group, is presented below.

City of San José General Obligation 2019 Bonds Summary of Bids Bid Group A (Series 2019A-1 and Series 2019A-2)		
Bidder Firm	TIC	Spread to Winning Bid
1. Citigroup Global Markets, Inc.	3.496881%	Winning Bid
2. J.P. Morgan Securities LLC	3.498488	0.001607%
3. Bank of America Merrill Lynch	3.502237	0.005356
4. Goldman Sachs & Co. LLC	3.504040	0.007159
5. Barclays Capital Inc.	3.504217	0.007336
6. Morgan Stanley & Co., Inc.	3.506867	0.009986
7. Stifel, Nicolaus & Co., Inc.	3.510969	0.014088
8. Wells Fargo Bank	3.517688	0.020807

Citigroup Global Markets, Inc. was the awarded bidder, offering to buy the Series 2019A-1 Bonds and Series 2019A-2 Bonds at a true interest cost ("TIC") of 3.496881%. The cover bid, or next best bid, provided by J.P. Morgan Securities LLC, was 0.001607% higher in yield than the winning bid, and the spread between the lowest and highest bids was 0.020807%.

City of San José General Obligation 2019 Bonds

Summary of Bids

Bid Group B (Series 2019B and Series 2019D)

Bidder Firm	TIC	Spread to Winning Bid
1. <i>Morgan Stanley & Co., Inc.</i>	2.307711%	<i>Winning Bid</i>
2. J.P. Morgan Securities LLC	2.310009	0.002298%
3. Wells Fargo Bank	2.355199	0.047488
4. Bank of America Merrill Lynch	2.391723	0.084012
5. Citigroup Global Markets Inc.	2.500970	0.193259

Morgan Stanley & Co., Inc. was the awarded bidder, offering to buy the Series 2019B Bonds and Series 2019D Bonds at a true interest cost ("TIC") of 2.307711%. The cover bid, or next best bid, provided by J.P. Morgan Securities LLC, was 0.002298% higher in yield than the winning bid, and the spread between the lowest and highest bids was 0.193259%.

City of San José General Obligation 2019 Bonds

Summary of Bids

Bid Group C (Series 2019C)

Bidder Firm	TIC	Spread to Winning Bid
1. <i>Jefferies LLC</i>	2.120601%	<i>Winning Bid</i>
2. Citigroup Global Markets Inc.	2.126269	0.005668%
3. Goldman Sachs & Co. LLC	2.135037	0.014436
4. Wells Fargo Bank	2.137999	0.017398
5. Mesirow Financial, Inc.	2.140191	0.019590
6. Stifel, Nicolaus & Co., Inc.	2.141883	0.021282
7. Morgan Stanley & Co., Inc.	2.147170	0.026569
8. J.P. Morgan Securities LLC	2.156587	0.035986
9. Barclays Capital Inc.	2.157465	0.036864
10. Bank of America Merrill Lynch	2.158642	0.038041
11. TD Securities	2.180615	0.060014

Jefferies LLC was the awarded bidder, offering to buy the 2019C Bonds at a true interest cost ("TIC") of 2.120601%. The cover bid, or next best bid, provided by Citigroup Global Markets Inc., was 0.005668% higher in yield than the winning bid, and the spread between the lowest and highest bids was 0.060014%.

Rating Agency Credit Review

An interdepartmental team led by the Department of Finance, with significant input from the City Manager's Offices of Budget and Economic Development, made presentations to the national rating agencies on May 31, 2019 in anticipation of the City's general obligation (GO) bond sale that occurred on July 9, 2019. The bonds subsequently received ratings of "Aa1" from Moody's, "AA+" from Standard & Poor's, and "AA+" from Fitch.

The strong credit ratings and related competitive sale of the City's 2019 Bonds resulted in the following achievements:

- San José maintained its standing as a highly rated city. The Aa1/AA+/AA+ ratings are one notch below the highest rating of AAA. San Jose is the third highest city among the nation's ten largest cities, and has the second highest rating of large cities within the State of California.
- Key Factors in the City of San Jose's credit rating:
 - Large and diverse tax base poised for moderate growth with a strong local economy to provide financial resilience through economic downturns;
 - Very strong management, with strong financial policies and practices;
 - Healthy reserves and liquidity; and
 - Overall debt and direct unfunded pension liabilities are moderate relative to the city's large and growing resource base.

Bond Sale Outcomes

Due to the excellent credit ratings, interest rates on the tax-exempt 2019 Bonds were lower than those of Municipal Market Data's (MMD) "AAA" General Obligation bond index (the "MMD Index") for July 9, 2019, with a weighted average spread of about -0.059% (below) to the MMD Index. The taxable 2019 Bonds priced at a weighted average spread of only 0.226% above yields for U.S. Treasury securities (arguably the most secure taxable fixed income investments and therefore the lowest yielding).

- Refunded all the City's \$323.1 million of outstanding General Obligation Bonds, structured optimally to produce \$63.3 million in net present value savings.
- Provided capital funding for Measure T projects (disaster preparedness, public safety, and infrastructure projects) and funding for projects previously authorized but unissued for Measure O (2000 and 2002) for Libraries and Public Safety projects.

HONORABLE MAYOR AND CITY COUNCIL

August 1, 2019

Subject: Fiscal Year 2019-20 Property Tax Levy for General Obligation Bonds

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- For the \$239,900,000 of 2019 Bonds funding Measure T projects, property owners will save \$105 million in property taxes over the life of the bonds compared to the interest cost assumptions at the time the City's voters authorized Measure T.

/s/

JULIA H. COOPER

Director of Finance

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