



Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: FISCAL YEAR 2020-21 PROPERTY TAX LEVY FOR GENERAL OBLIGATION BONDS

DATE: July 24, 2020

Approved

Date

7/24/2020

RECOMMENDATION

Adopt a resolution establishing the FY 2020-21 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 2020-21 tax roll, which will generate tax revenue sufficient to pay debt service due in calendar year 2021 on the following series of general obligation bonds issued by the City: the Series 2019 Bonds, which consist of Series 2019A, Series 2019B, Series 2019C and Series 2019D (collectively, the "GO Bonds"); and to pay the County's annual administrative fee.

BACKGROUND

General Obligation Bond Measures

Measure T (2018). Voters approved Measure T (Disaster Preparedness, Public Safety, and Infrastructure Bond) at the City's general election held on November 6, 2018, authorizing 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. There is \$410,100,000 of unissued authorization remaining pursuant to Measure T.

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. 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 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. The Series 2019C Bonds also exhausted the remaining \$3,325,000 of unutilized authorization pursuant to Measure O (2002) for Public Safety projects.

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 2020-21, the total assessed value of taxable property, provided by the County of Santa Clara, is approximately \$206.4 billion, which results in a total debt limit of approximately \$31.0 billion (total assessed value x 15% = debt limit). The City has \$469.0 million in general obligation debt outstanding, representing 1.5% of the debt limit and a remaining debt margin of \$30.5 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 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 general obligation bond issuances or redemptions of bonds 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 2020-21 property tax bill, it is necessary for the City Council to adopt a resolution approving the tax rate for FY 2020-21. The FY 2020-21 tax rate is based on the debt service payable on March 1, 2021 and September 1, 2021. 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 Measure T, Measure O (2000) and P (2000) and Measure O (2002) bond authorizations. The Series 2019 Bond issues resulted in a total amount issued of \$502,020,000 of which \$468.98 million is outstanding as of June 30, 2020. The Series 2019 Bonds also refunded all outstanding general obligation bonds.

City of San José General Obligation Bonds Authorization Levels 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	Measure T (11/6/2018) Projects	Outstanding Balance June 30, 2020
Authorization ¹		\$211,790,000	\$228,030,000	\$159,000,000	\$650,000,000	
Series 2019A	9/1/2049	\$ -	\$ -	\$ -	\$173,400,000	\$140,360,000
Series 2019B	9/1/2027	-	-	-	66,500,000	66,500,000
Series 2019C	9/1/2024	5,905,000	-	3,325,000	-	9,230,000
Series 2019C Refunding ²	9/1/2035	-	-	-	-	148,955,000
Series 2019D Refunding ²	9/1/2024	-	-	-	-	<u>103,935,000</u>
Total Issuance to Date					\$239,900,000	\$468,980,000
Remaining Authorization		\$0	\$0	\$0	\$410,100,000	

¹ Represents original voter approved authorization in 2000, 2002 and 2018

² Amounts do not total to Authorization due to amortization of Prior Bonds and refunding with Series 2019 Bonds, no new issuance in 2019.

ANALYSIS

The total obligation in calendar year 2021 for debt service and the County administrative fee is \$42,590,581. This total includes the March 1, 2021 and September 1, 2021 scheduled debt service payments totaling \$42,484,370 and the County administrative fee estimated at \$106,211 (approximately 0.25% of the calendar year 2021 debt service payments). Due to timing of receipt of property tax revenues, the debt service payments due in calendar year 2021 are placed on the property tax roll for FY 2020-2021.

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 2020-21. The calculation of the secured tax rate takes into account \$6.2 million in cash balance.

City of San José Total Assessed Valuation FY 2020-21		
Types of Property ⁽¹⁾	Net Assessed Value ⁽¹⁾	Tax Rate (per \$100 in assessed value)
Secured and Utility	\$197,835,021,804	0.01750
Unsecured	8,597,459,466	0.02260
Total	<u>\$206,432,481,270</u>	
⁽¹⁾ <i>Provided by the County's Controller-Treasurer Department.</i>		

This action will result in the collection of approximately \$34.5 million in secured tax revenue which, when combined with approximately \$6.2 million of cash balance remaining from prior year tax collection and the unsecured tax revenue of approximately \$1.9 million, will be sufficient to pay debt service due on the City's GO Bonds in March 2021 and September 2021 and pay the County's annual administrative fee.

For a single-family home with a net assessed value of \$566,000¹, the tax levy is \$99.05 for FY 2020-21, which is lower than the tax levy of \$120.23 FY 2019-20. This decrease is primarily due to the 5.8% increase in total taxable assessed valuation for the City for FY 2020-21 as compared to FY 2019-20, and no decrease in the amount of outstanding GO Bonds from the prior FY 2019-20 calculation of \$469.0 million due to the impact on refunding of the prior general obligation bonds.

¹ Per the Santa Clara County Assessor's 2019-20 Annual Report (p. 30), the average assessed value for a single family home in San Jose is \$565,794.

CONCLUSION

Approval of the resolution will place the property tax levy on the FY 2020-21 tax roll 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.

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 2020-21 and requires no follow-up by the City Council.

CLIMATE SMART SAN JOSE

The recommendation in this memo 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 4, 2020 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.

At the City's general 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.

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.

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.

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, and is consistent with the City Debt Management Policy, which establishes the following equally important objectives in order to obtain cost-effective access to the capital markets:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting; and
- Ensure compliance with applicable State and Federal laws.

COST SUMMARY/IMPLICATIONS

As discussed above, this action will result in the collection of approximately \$34.5 million in secured tax revenue which when combined with the balance remaining from prior year tax collection \$6.2 million and unsecured tax revenue \$1.9 million, will be sufficient to pay debt service due on the City's GO Bonds in March and September 2021 and pay the County's annual administrative fee in the total amount of \$42.6 million.

HONORABLE MAYOR AND CITY COUNCIL

July 24, 2020

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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.

/s/

JULIA H. COOPER

Director of Finance

For questions, please contact Nikolai J. Sklaroff, Deputy Director of Finance, at (408) 535-7832.