



Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **FROM:** Julia H. Cooper

SUBJECT: CITY OF SAN JOSE GENERAL OBLIGATION BONDS, SERIES 2004 (LIBRARIES, PARKS AND PUBLIC SAFETY PROJECTS) **DATE:** May 24, 2004

Approved _____ Date _____

COUNCIL DISTRICT: City-Wide
SNI: N/A

RECOMMENDATION

Adoption of a resolution:

- a. Authorizing the issuance of City of San José General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety Projects) (the “2004 Bonds”) in the not-to-exceed aggregate principal amount of \$120,000,000 to be sold at a competitive sale.
- b. Approving, in substantially final form, the Fiscal Agent Agreement, the Official Notice Inviting Bids, and the Preliminary Official Statement; authorizing the City Manager or other authorized officers to execute these documents and other related documents as necessary in connection with the issuance of the 2004 Bonds.
- c. Authorizing RBC Dain Rauscher, the Financial Advisor to the City on the issuance of the 2004 Bonds, to bid on the underwriting of the 2004 Bonds.

BACKGROUND

At the City’s general election held on November 7, 2000, voters approved Measure O, the Neighborhood Libraries Bond, and Measure P, the Safe Neighborhood Parks & Recreation Bond, authorizing the issuance of general obligation bonds in the not-to-exceed respective amounts of \$211,790,000 and \$228,030,000. The projects to be funded by Measure O Bonds include the construction of new and expanded libraries (the “Libraries Projects”). The projects to be funded by Measure P Bonds include the construction of improvements to neighborhood and regional parks, community centers and other recreational improvements (the “Parks Projects”).

At the City’s general election held on March 5, 2002, voters approved Measure O (2002), San José 911, Fire, Police and Paramedic Neighborhood Security Act, authorizing the issuance of general obligation bonds in the not-to-exceed amount of \$159,000,000. The projects to be funded by Measure O (2002) Bonds include the acquisition of property and construction of 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 “Public Safety Projects”).

In 2001, the City sold \$71,000,000 of general obligation bonds (the “2001 Bonds”) to fund \$31,000,000 of the Libraries Projects and \$40,000,000 of the Parks Projects. In 2002, the City sold \$116,090,000 of general obligation bonds (the “2002 Bonds”), a portion of which was issued to fund \$30,000,000 of the Libraries Projects, \$46,715,000 of the Parks Projects, and \$39,375,000 for Public Safety Projects

Presented below in tabular format is a summary of the City’s general obligation bond authorizations, the project amounts funded in 2001, 2002, and proposed to be funded in the 2004 Bonds.

**General Obligation Bond
Authorization Level and Issuance Amounts**

<u>Measure</u>	<u>Project</u>	<u>Initial Authorization</u>	<u>2001 Bonds</u>	<u>2002 Bonds</u>	<u>2004 Bonds</u>	<u>Remaining Authorization</u>
Measure O (2000)	Library	\$211,790,000	\$31,000,000	\$30,000,000	\$57,500,000	\$93,290,000
Measure P	Parks	228,030,000	40,000,000	46,715,000	45,000,000	96,315,000
Measure O (2002)	Public Safety	<u>159,000,000</u>	<u>0</u>	<u>39,375,000</u>	<u>14,000,000</u>	<u>105,625,000</u>
		\$598,820,000	\$71,000,000	\$116,090,000	\$116,500,000	\$295,230,000

ANALYSIS

This section of the report is divided into several subsections to address the items in staff’s recommendation to proceed with the issuance of the 2004 Bonds. These subsections include discussions of the plan of finance, bond financing documents, financing team participants and the financing schedule.

Plan of Finance

Sale of 2004 Bonds

The Series 2004 Bonds will be sold on a competitive basis. The financial advisor to the City, RBC Dain Rauscher, will oversee the competitive sale with assistance from the Finance Department. RBC Dain Rauscher may wish to submit a bid through the competitive process. To permit the firm to do so, the resolution to be adopted by the City Council must specifically

authorize RBC Dain Rauscher to submit a bid. The Series 2004 Bonds will be sold to the underwriter(s) presenting the best bid based on the lowest true interest cost, not to exceed eight percent (8%) per year. Currently, the financing schedule calls for the competitive sale of the 2004 Bonds to occur on June 29, 2004.

2004 Bonds are General Obligations of the City

The 2004 Bonds will be general obligations of the City. In accordance with all relevant provisions of law, the City will be 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 which is taxed at limited rates), for the payment of the 2004 Bonds and the interest thereon. The City will be 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 2004 Bonds.

The amount of the annual ad valorem tax levied by the City to repay the 2001 Bonds, 2002 Bonds and 2004 Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the 2001 Bonds, 2002 Bonds and 2004 Bonds. Fluctuations in the annual debt service on the 2001 Bonds, 2002 Bonds and 2004 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. Economic and other factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate.

Projected Repayment of the Outstanding General Obligation Bonds

Interest on the 2004 Bonds will accrue from the closing date of the Bonds, which is currently estimated to be July 14, 2004. Interest is payable semi-annually on each March 1 and September 1, commencing with the March 1, 2005, payment. Principal on the 2004 Bonds will be payable annually over thirty years from September 1, 2005, through September 1, 2034.

Given the current level of interest rates, the projected average borrowing cost of the 2004 Bonds is 4.99%. Total debt service on the 2004 Bonds is estimated to be \$207,752,432: \$116,500,000 in repayment of principal and \$91,252,432 in interest cost. Based on the FY 2003-04 assessed values, and given homes of various assessed values, projected annual debt service and tax rates for repayment of the 2001, 2002 and 2004 Bonds are presented in Attachment A. As an example, for a homeowner with an assessed valuation of \$200,000, the projected minimum, average and maximum annual taxes paid over the term of the outstanding general obligation bonds is \$7.09, \$36.77 and \$55.22, respectively, for a total estimated tax of \$1,145.42.

The estimated sources and uses of funds for the financing are shown below:

City of San José General Obligation Bonds Series 2004 (Libraries, Parks and Public Safety) <i>Estimated Sources and Uses of Funds ⁽¹⁾</i>	
Sources of Funds:	
Par Amount	\$ 116,500,000
Net Original Issue Premium	1,432,018
Total Sources of Funds	\$ 117,932,018
Uses of Funds:	
Deposit to Project Fund	
Libraries Account	\$ 57,500,000
Parks Account	45,000,000
Public Safety	14,000,000
Net Original Issue Premium	789,668
Bond Insurance Premium	0.00
Underwriter	407,750
Costs of Issuance ⁽²⁾	234,600
Total Uses of Funds	\$ 117,932,018
⁽¹⁾ Preliminary, subject to change ⁽²⁾ Includes bond insurance premium, underwriter's discount, and costs of issuance	

Proceeds from the 2004 Bonds are anticipated to cover encumbrance needs for the Libraries, Parks and Public Safety Projects through the end of fiscal year 2005. It is anticipated that of the 2004 Bonds, \$57,500,000 will be issued for Library Projects, \$45,000,000 for Parks Projects and \$14,000,000 for Public Safety Projects. It is possible that these allocations may be adjusted prior to closing of the 2004 Bonds depending on the needs of the respective programs.

Following this issuance of \$116,500,000 for the City's Series 2004 Bonds (assuming the allocation among the Libraries, Parks and Public Safety Projects as shown above), the City will have \$93,290,000, \$96,315,000, and \$105,625,000 remaining in voter authorization for the Libraries Projects, Parks Projects and the Public Safety Projects, respectively. The City anticipates issuing additional series of general obligation bonds every one to two fiscal years over an approximately five-year period to fully fund the Libraries Projects, the Parks Projects and the Public Safety Projects.

Bond Financing Documents

There are a number of bond financing documents that require City Council approval to proceed with the 2004 Bonds. All of the documents described below, in substantially final form, will be available for review in the City Clerk's Office on or about Tuesday, June 1, 2004. Staff recommends that the City Manager or the City Manager's authorized designees ("Authorized

Officers”) each be authorized to execute each of the agreements described below. As modifications may be required prior to the closing, staff also recommends that the Authorized Officers each be authorized to execute the final version of each of these agreements as may be modified upon consultation with the City Attorney’s Office.

Official Statement The Official Statement, or prospectus, has been prepared for the City by Bond/Disclosure counsel. Appendix A to the Official Statement describes the City’s current financial situation and provides other information useful to investors regarding the City. It has been prepared by Finance staff in close coordination with the City Attorney’s office, City Manager’s Budget office, Financial Advisor, and Bond/Disclosure Counsel.

The Preliminary Official Statement will be distributed to bidders and investors primarily in electronic form. The Preliminary Official Statement generally discloses material information on the bond issue, such as the projects to be financed, the repayment source for the 2004 Bonds, credit enhancement for the 2004 Bonds (if applicable) and credit ratings. Investors may use this information to evaluate the credit quality of the 2004 Bonds. Staff has carefully reviewed the information contained in the Preliminary Official Statement and believes it to be accurate and complete in all material respects. Following the sale of the 2004 Bonds to the underwriters and prior to the closing, Bond/Disclosure Counsel will prepare a final Official Statement for the 2004 Bonds.

Staff recommends that the Authorized Officers each be authorized to sign the final Official Statements for the 2004 Bonds on behalf of the City and to make such modifications to these documents as may be necessary upon consultation with the City Attorney’s Office. Staff also recommends that the Authorized Officers each be authorized to execute certificates regarding these documents as required to comply with securities laws and to authorize the underwriters to distribute these documents for purpose of marketing the 2004 Bonds.

A copy of the draft Preliminary Official Statement (POS) for the 2004 Bonds, in substantially final form will be distributed to the City Council under separate cover on or about June 1, 2004. Staff has carefully reviewed the information contained in the offering document and believes it to be accurate and complete in all material respects.

If any councilmember has any personal knowledge that any of the material information in either document is false or misleading, the Council member must raise these issues prior to approval of the distribution of the document.

City staff, bond counsel, and the financial advisor will be available at the Council meeting on June 8, 2004 to address any questions, issues and/or concerns.

Fiscal Agent Agreement This agreement is by and between the City of San José, as the issuer, and Wells Fargo Bank, as the Fiscal Agent. This agreement sets forth terms of the 2004 Bonds and contains the responsibilities and duties of the Fiscal Agent and the rights of the bondholders.

Official Notice Inviting Bids This document describes the competitive bidding process, the bidding parameters governing the submission of bids by potential underwriters for the 2004 Bonds and the basis for awarding the 2004 Bonds to an underwriter. Bids for the 2004 Bonds will be accepted over the Internet and by facsimile. The Official Notice Inviting Bids is provided to potential bidders along with the Preliminary Official Statement.

Continuing Disclosure Certificate This Certificate is executed by the City for the benefit of the bondholders and in order to assist the participating underwriters comply with Securities and Exchange Commission Rule 15c2-12(b)(5). In executing this document, the City commits to notify certain parties if certain listed events occur and to file annually an update to certain information contained in the Official Statement.

Financing Team Participants

The financing team participants consist of:

- Financial Advisor: RBC Dain Rauscher
- Bond/Disclosure Counsel: Sidley Austin Brown & Wood, LLP
- Fiscal Agent: Wells Fargo Bank

Financing Schedule

The current proposed schedule is as follows:

- Council approval of bond documents including the POS June 8
- Distribute Preliminary Official Statement to market June 15
- Accept bids for the 2004 Bonds June 29
- Bond Closing; Bond proceeds available July 14
- Tax rates for 2001, 2002 and 2004 Bonds approved by Council August 10

PUBLIC OUTREACH

Not applicable.

COORDINATION

This report was prepared by the Finance Department in coordination with the City Manager's Budget Office, the City Attorney's Office, the Public Works, Library, Police, Fire, and Parks, Recreation, and Neighborhood Services Departments, and the financing team participants.

HONORABLE MAYOR AND CITY COUNCIL

May 24, 2004

Subject: City of San José General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety)

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FISCAL IMPACT

No appropriation of funds is required at this time. Compensation for all the consultants (financial advisor, bond counsel and fiscal agent) and the costs of the financing, (including the discount of the winning underwriter), is contingent on the sale of the 2004 Bonds and will be paid from bond proceeds. The costs of issuance and underwriter's discount for the 2004 Bonds will be covered by the underwriter delivering proceeds to the City in excess of the par amount of the 2004 Bonds (the "bid premium"). Application of the bid premium to cover the cost of the financing will ensure that amounts of the voter authorization will be spent directly on project-related costs.

CEQA

Not a Project.

JULIA H. COOPER
Deputy Director, Finance Department

Attachment A
Projected General Obligation Tax Rate for
Various Levels of Assessed Values

Fiscal Year Ending	2001 Bonds, 2002 Bonds and 2004 Bonds Annual Debt Service	\$100,000 AV Homeowner's Tax Payment	\$200,000 AV Homeowner's Tax Payment	\$500,000 AV Homeowner's Tax Payment	\$750,000 AV Homeowner's Tax Payment	\$1,000,000 AV Homeowner's Tax Payment
Totals	514,260,951	\$572.71	\$1,145.42	\$2,863.56	\$4,295.33	\$5,727.11
06/30/02	2,633,120.63	3.42	7.09	18.10	27.29	36.47
06/30/03	9,339,822.50	11.66	24.19	61.76	93.07	124.38
06/30/04	14,809,870.00	17.67	36.61	93.44	140.79	188.15
06/30/05	24,791,248.06	27.61	55.22	138.04	207.07	276.09
06/30/06	23,691,382.22	26.38	52.77	131.92	197.88	263.84
06/30/07	23,305,498.86	25.95	51.91	129.77	194.66	259.54
06/30/08	22,909,940.50	25.51	51.03	127.57	191.35	255.14
06/30/09	22,510,632.14	25.07	50.14	125.35	188.02	250.69
06/30/10	22,056,890.44	24.56	49.13	122.82	184.23	245.64
06/30/11	21,590,511.24	24.04	48.09	120.22	180.33	240.44
06/30/12	21,126,040.38	23.53	47.05	117.64	176.45	235.27
06/30/13	20,676,077.85	23.03	46.05	115.13	172.70	230.26
06/30/14	20,210,577.82	22.51	45.02	112.54	168.81	225.08
06/30/15	19,756,356.96	22.00	44.00	110.01	165.01	220.02
06/30/16	19,279,920.26	21.47	42.94	107.36	161.03	214.71
06/30/17	18,800,376.90	20.94	41.87	104.69	157.03	209.37
06/30/18	18,317,726.87	20.40	40.80	102.00	153.00	204.00
06/30/19	17,827,521.00	19.85	39.71	99.27	148.90	198.54
06/30/20	17,329,759.31	19.30	38.60	96.50	144.75	192.99
06/30/21	16,826,550.11	18.74	37.48	93.70	140.54	187.39
06/30/22	16,317,505.07	18.17	36.34	90.86	136.29	181.72
06/30/23	15,805,353.37	17.60	35.20	88.01	132.01	176.02
06/30/24	15,287,376.67	17.02	34.05	85.12	127.69	170.25
06/30/25	14,769,397.97	16.45	32.90	82.24	123.36	164.48
06/30/26	14,250,453.87	15.87	31.74	79.35	119.03	158.70
06/30/27	13,728,311.66	15.29	30.58	76.44	114.66	152.89
06/30/28	13,203,938.81	14.70	29.41	73.52	110.29	147.05
06/30/29	12,679,565.96	14.12	28.24	70.60	105.91	141.21
06/30/30	12,151,309.78	13.53	27.06	67.66	101.49	135.32
06/30/31	11,623,053.60	12.94	25.89	64.72	97.08	129.44
06/30/32	11,092,928.67	12.35	24.71	61.77	92.65	123.54
06/30/33	8,257,538.11	9.20	18.39	45.98	68.97	91.96
06/30/34	4,087,206.93	4.55	9.10	22.76	34.14	45.52
	Mimumum	\$3.42	\$7.09	\$18.10	\$27.29	\$36.47
	Average	\$18.35	\$36.77	\$92.03	\$138.08	\$184.12
	Maximum	\$27.61	\$55.22	\$138.04	\$207.07	\$276.09