



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT:** CITY OF SAN JOSE GENERAL  
OBLIGATION BONDS, SERIES  
2008 (LIBRARIES AND PARKS  
PROJECTS)

**DATE:** May 12, 2008

Approved

*Christine J. Shippy*

Date

*5-16-08*

**COUNCIL DISTRICT:** Citywide

## RECOMMENDATION

Adoption of a resolution of the City Council:

- a. Authorizing the issuance of the City of San José General Obligation Bonds, Series 2008 (Libraries and Parks Projects) ("2008 Bonds") in the not-to-exceed aggregate principal amount of \$33,100,000 to be sold at a competitive sale.
- b. Approving, in substantially final form, the Fiscal Agent Agreement, Official Notice Inviting Bids, and Preliminary Official Statement and 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 2008 Bonds.

## OUTCOME

Approval of the recommendations will result in issuance of the 2008 Bonds to provide necessary funds to meet the capital financing needs of the Libraries Program and Parks Program based on the Proposed Capital Budget of the respective programs.

## EXECUTIVE SUMMARY

The actions recommended in this staff report, including the approval of the various bond documents, are necessary to issue the next series of general obligation bonds. It is anticipated that of the \$33,100,000 of 2008 Bonds to be issued, \$5,285,000 will be issued for Libraries Projects and \$27,815,000 for Parks Projects. Proceeds from the 2008 Bonds are anticipated to

cover encumbrance needs for the Libraries Projects and the Parks Projects through the end of fiscal year 2010-2011.

The 2008 Bonds will be sold competitively with a final maturity of September 1, 2038, level principal amortization and an expected average borrowing cost of approximately 4.86% based on current market rates plus a modest 0.25% cushion. Costs of issuance will be paid from the original issue premium paid by the purchasers of the bonds.

Debt service on all series of the general obligation bonds is payable from ad valorem taxes upon all property within the City subject to taxation by the City. Total debt service on the 2008 Bonds is estimated to be \$59,144,751 of which \$33,100,000 is repayment of principal and \$26,044,751 is interest cost. For a homeowner with an assessed valuation of \$500,000, the projected average and maximum annual taxes paid over the term of all the outstanding General Obligation Bonds is \$130.15 and \$195.47, respectively, for a total estimated tax through fiscal year 2038-39 of \$4,667.

## **BACKGROUND**

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

At the City's general election held on March 5, 2002, voters approved Measure O (2002), San José 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 to be funded by Measure O (2002) Bonds 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 ("Public Safety Projects").

The City has previously issued general obligation bonds totaling \$547,490,000 against the total voter authorization of \$598,820,000, of which \$495,465,000 remain outstanding. The 2008 Bonds would represent the sixth and final series of general obligation bonds that the City is issuing pursuant to Measure P and the sixth series pursuant to Measure O (2000). After the issuance of the 2008 Bonds, the City will have \$5,905,000 remaining voter authorization for Measure O (2000), \$12,325,000 remaining for Measure O (2002), and no remaining authorization for Measure P.

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Presented below is a summary of the City's general obligation bond authorizations, the amounts utilized in prior general obligation bond issues, the proposed project funding amounts for fiscal year 2008-09 and the remaining amounts of voter authorization.

<b>General Obligation Bonds</b>			
<b>Authorization Level and Issuance Amounts</b>			
	Measure O (2000) Library Projects	Measure P Parks Projects	Measure O (2002) Public Safety Projects
<b>Initial Authorization</b>	<b>\$ 211,790,000</b>	<b>\$ 228,030,000</b>	<b>\$ 159,000,000</b>
<b>Issuances:</b>			
Series 2001 Bonds	31,000,000	40,000,000	0
Series 2002 Bonds	30,000,000	46,715,000	39,375,000
Series 2004 Bonds	58,300,000	46,000,000	14,400,000
Series 2005 Bonds	21,300,000	0	25,000,000
Series 2006 Bonds	60,000,000	45,400,000	0
Series 2007 Bonds	0	22,100,000	67,900,000
Series 2008 Bonds	5,285,000	27,815,000	0
<b>Total Issuances</b>	<b>\$ 205,885,000</b>	<b>\$ 228,030,000</b>	<b>\$146,675,000</b>
<b>Remaining Authorization</b>	<b>\$ 5,905,000</b>	<b>\$ 0</b>	<b>\$ 12,325,000</b>

## **ANALYSIS**

This section of the report addresses staff's recommendation to proceed with the issuance of the 2008 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 2008 Bonds** The 2008 Bonds will be sold on a competitive basis. The financial advisor selected for this financing, Stone & Youngberg LLC, will oversee the competitive sale with assistance from the Finance Department. Stone & Youngberg LLC 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 Stone & Youngberg LLC to submit a bid. The 2008 Bonds will be sold to the underwriter(s) presenting the best bid based on the lowest true interest cost. The interest rate payable in any year may not exceed eight percent (8%), the total principal amount may not exceed \$33,100,000, and the final maturity date may not be more than 35 years from the date of issuance. Currently, the financing schedule calls for the competitive sale of the 2008 Bonds on or about June 11, 2008, and an expected closing on June 24, 2008.

**Estimated 2008 Bonds Sources and Uses of Funds** It is anticipated that of the 2008 Bonds, \$5,285,000 will be issued for Libraries Projects and \$27,815,000 will be issued for Parks Projects. The 2008 Bonds will not be issued for Public Safety Projects. It is possible that these allocations may be adjusted prior to closing of the 2008 Bonds depending on the needs of the respective programs.

Following this issuance of \$33,100,000 in 2008 Bonds (assuming the allocation between the Libraries and Parks Projects as shown above), the City will have \$5,905,000 in remaining voter authorization for the Libraries Projects and no remaining authorization for the Parks Projects. The City will have \$12,325,000 in remaining voter authorization for Public Safety Projects. The City anticipates issuing a final series of general obligation bonds in fiscal year 2008-09 in the amount of \$18,230,000 that will utilize the remaining authorization of the Libraries and Public Safety bond measures.

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

<b>City of San Jose</b>	
<b>General Obligation Bonds, Series 2008</b>	
<b>(Libraries and Parks Projects)</b>	
<b>Estimated Sources and Uses of Funds <sup>(1)</sup></b>	
<b>Sources of Funds:</b>	
Par Amount.....	\$ 33,100,000
Original Issue Premium.....	519,189
<b>Total Sources of Funds .....</b>	<b>\$ 33,619,189</b>
<b>Uses of Funds:</b>	
Deposits to Project Fund.....	
Libraries Account .....	\$ 5,285,000
Parks Account.....	27,815,000
Underwriter Discount .....	165,500
Bond Insurance <sup>(2)</sup> .....	0
Costs of Issuance <sup>(3)</sup> .....	350,000
Deposit to Debt Service Account .....	3,689
<b>Total Uses of Funds.....</b>	<b>\$ 33,619,189</b>
 <sup>(1)</sup> Preliminary; subject to change.	
<sup>(2)</sup> The City anticipates qualifying for bond insurance but underwriters may choose not to purchase it.	
<sup>(3)</sup> Includes bond counsel fees and expenses, financial advisor fees and expenses, rating agencies fees, fiscal agent fees and expenses, and printing costs.	

**2008 Bonds are General Obligations of the City** The 2008 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 2008 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 2008 Bonds.

The amount of the annual ad valorem tax levied by the City to repay all outstanding general obligation bonds and the Series 2008 Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the aggregate amount of debt service due on the general obligation bonds. Fluctuations in the annual debt service on the general obligation 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 2008 Bonds** Interest on the 2008 Bonds will accrue from the date of delivery of the 2008 Bonds, which is currently expected to be June 24, 2008. Interest will be payable semi-annually on each March 1 and September 1, commencing with the March 1, 2009 payment. Principal on the 2008 Bonds will be payable annually over thirty years from September 1, 2009, through September 1, 2038. Given the current level of interest rates plus a modest 0.25% cushion, the projected average borrowing cost of the 2008 Bonds is 4.86%. Total debt service on the 2008 Bonds is estimated to be \$59,144,751 of which \$33,100,000 is repayment of principal and \$26,044,751 is interest cost.

**Projected Tax Rates for All General Obligation Bonds** The 2008 Bonds will represent the seventh issuance of general obligation bonds by the City since 2001. After the issuance of the 2008 Bonds, the City will have \$528,565,000 in general obligation bonds outstanding to be repaid through incremental voter approved property tax rates. A projection of the annual cost to taxpayers with homes of various assessed values is provided in Attachment A.

As an example, for a homeowner with an assessed valuation of \$500,000, the projected average and maximum annual taxes paid over the term of the outstanding general obligation bonds is \$130.15 and \$195.47, respectively, for a total estimated tax through fiscal year 2038-39 of \$4,667.

### **Bond Financing Documents**

There are a number of bond financing documents that require City Council approval to proceed with the 2008 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 May 23, 2008.

Staff recommends that the City Manager or the City Manager's authorized designees ("Designated Officers") each be authorized to execute each of the agreements described below.

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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 counsel/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 Counsel/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 2008 Bonds, credit enhancement for the 2008 Bonds (if applicable) and credit ratings. Investors may use this information to evaluate the credit quality of the Series 2008 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 2008 Bonds to the underwriters and prior to the closing, Bond Counsel/Disclosure Counsel will prepare a final Official Statement for the 2008 Bonds.

Staff recommends that the Designated Officers each be authorized to sign the Preliminary and final Official Statements for the 2008 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 Designated 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 the purpose of marketing the 2008 Bonds.

Copies of the draft Preliminary Official Statement along with Appendix A, which generally describes the City's demographic, economic and financial information, in substantially final form will be distributed to the City Council under separate cover on or about May 23, 2008. Staff will have carefully reviewed the information contained in the draft Preliminary Official Statement and believes it to be accurate and complete in all material aspects.

***If any councilmember has any personal knowledge that any of the material information in the Preliminary Official Statement is false or misleading, the councilmember must raise these issues prior to approval of the distribution of the document.***

City staff, bond counsel/disclosure counsel, and the financial advisor will be available at the Council meeting on June 3, 2008 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 of the 2008 Bonds, and Wells Fargo Bank, National Association, as the Fiscal Agent for the 2008 Bonds. This agreement sets forth terms of the 2008 Bonds and contains the

responsibilities and duties of the Fiscal Agent and the rights of the bondholders. Wells Fargo Bank was selected to be the Fiscal Agent as it currently serves as Fiscal Agent for all of the City's outstanding General Obligation Bonds. Retaining a single bank to serve as fiscal agent for all of the City's outstanding General Obligation Bonds allows more administrative efficiency.

**Official Notice Inviting Bids/Notice of Intention to Sell Bonds** The Official Notice Inviting Bids describes the competitive bidding process, the bidding parameters governing the submission of bids by potential underwriters for the 2008 Bonds, and the basis for awarding the Bonds to an underwriter. This document is provided to potential bidders with the Official Statement. The City's bond counsel will publish a notice of intention to sell the Bonds, in the form on file with the City Clerk, in "The Bond Buyer," a financial publication generally circulated throughout the State of California, at least 5 days prior to the date for submission of bids.

**Continuing Disclosure Certificate** This document is executed for the benefit of the bondholders and obligates the City to immediately disclose to the marketplace the occurrence of any material events that are required to be disclosed by federal Securities Laws. It also requires the City to prepare an annual report to the marketplace, the contents of which are outlined in the Continuing Disclosure Certificate. These actions are taken in accordance with Rule 15c2-12(b) adopted by the Securities and Exchange Commission.

### **Financing Team Participants**

The financing team participants consist of:

- Financial Advisor: Stone & Youngberg LLC
- Bond Counsel/Disclosure Counsel: Jones Hall, A Professional Law Corporation
- Fiscal Agent: Wells Fargo Bank, National Association

Stone & Youngberg LLC was selected as the Financial Advisor from the City Council approved Financial Advisory Pool<sup>1</sup>. Jones Hall was selected as the Bond Counsel/Disclosure Counsel through a competitive process. Wells Fargo Bank was selected to be the Fiscal Agent as it currently serves as Fiscal Agent for all of the City's outstanding General Obligation Bonds. Costs of the financial advisor, bond counsel/disclosure counsel, and fiscal agent related to issuance of the 2008 Bonds are contingent on the sale of the 2008 Bonds and will be paid from bond proceeds.

### **Financing Schedule**

The current proposed schedule is as follows:

- Council approval of bond documents including the POS June 3
- Distribute Preliminary Official Statement to market June 4

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<sup>1</sup> Per the Financial Advisory Services Agreements and Pool Assignments approved by City Council on February 27, 2007 (Item No. 3.6).

- Accept bids for the 2008 Bonds June 11
- Bond Closing; Bond proceeds available June 24
- Tax rates for outstanding GO bonds approved by Council August 5

### ALTERNATIVES

Not applicable.

### PUBLIC OUTREACH/INTEREST

Not applicable.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

### 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, Libraries and Parks, Recreation and Community Services Departments and the financing team participants.

### FISCAL/POLICY ALIGNMENT

No appropriation of funds is required at this time. Compensation for all the consultants (financial advisor, bond/disclosure counsel and fiscal agent) and the costs of the financing (including the underwriting compensation) is contingent on the sale of the 2008 Bonds and will be paid from bond proceeds. The costs of issuance and underwriter's compensation for the 2008 Bonds will be covered by the underwriter delivering proceeds to the City in excess of the par amount of the 2008 Bonds ("Bid Premium"). Application of the Bid Premium to cover the cost of the financing will ensure that voter authorization will be spent directly on project-related costs.

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**COST SUMMARY/IMPLICATIONS**

Not applicable.

**BUDGET REFERENCE**

Not applicable.

**CEQA**

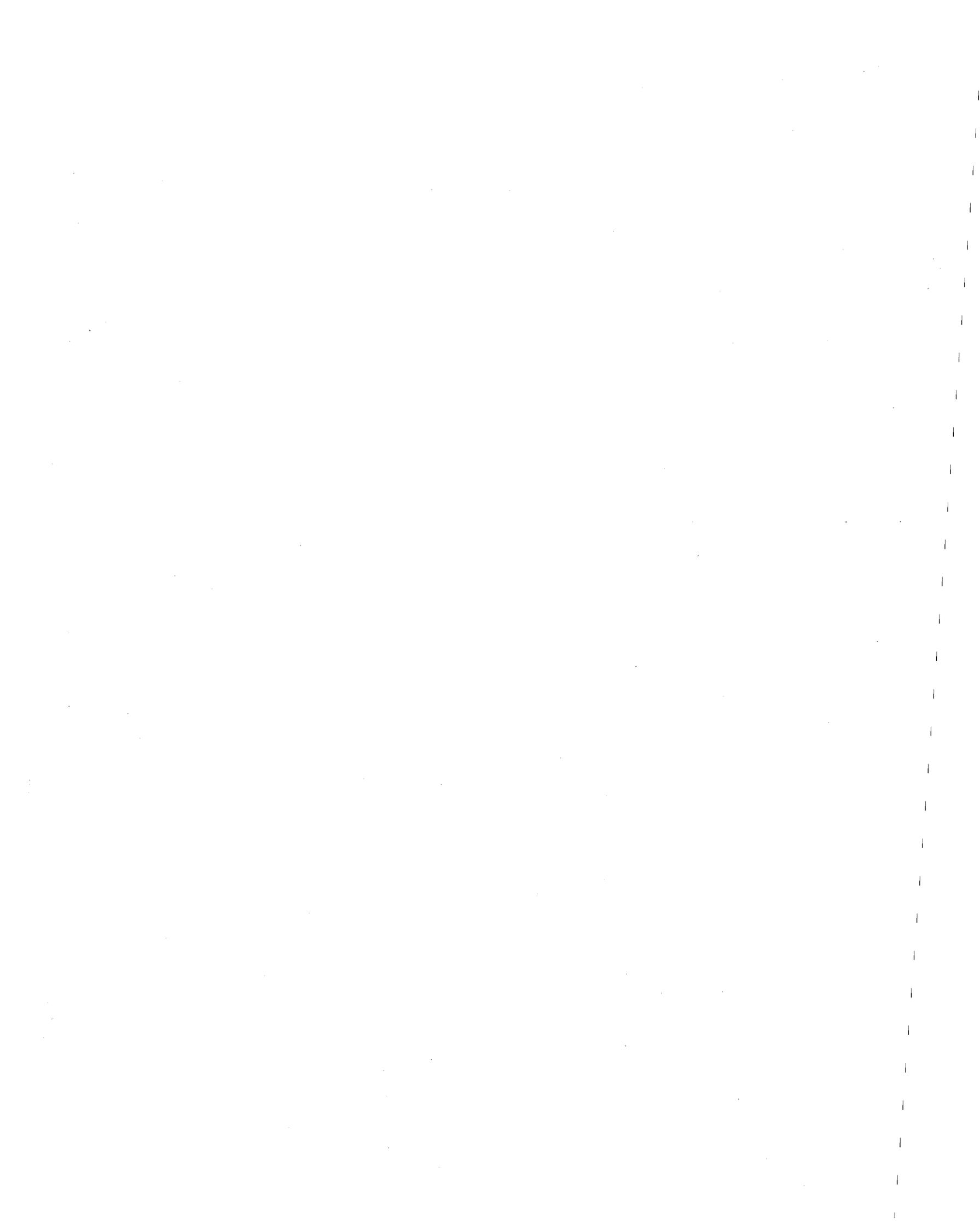
Not a Project.

  
JULIA H. COOPER  
Deputy Director, Finance

For questions, please contact David Persselin, Debt Administrator, at (408) 535-7012.

**Attachments**

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



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

FYE	GO Series Aggregate 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
Total	\$ 1,040,985,600	\$ 933	\$ 1,867	\$ 4,667	\$ 7,000	\$ 9,333
2002	\$ 2,633,121	\$ 3.64	\$ 7.27	\$ 18.18	\$ 27.26	\$ 36.35
2003	9,280,499	10.47	20.94	52.35	78.53	104.71
2004	14,716,048	15.92	31.85	79.62	119.43	159.24
2005	18,049,474	18.94	37.88	94.69	142.04	189.38
2006	25,230,660	24.43	48.85	122.14	183.20	244.27
2007	30,466,775	26.98	53.96	134.90	202.35	269.80
2008	38,484,589	34.08	68.16	170.40	255.60	340.81
2009	43,366,734	38.40	76.81	192.02	288.03	384.04
2010	44,144,949	39.09	78.19	195.47	293.20	390.93
2011	43,284,061	38.33	76.66	191.65	287.48	383.31
2012	42,420,211	37.57	75.13	187.83	281.74	375.66
2013	41,529,174	36.78	73.55	183.88	275.83	367.77
2014	40,643,261	35.99	71.98	179.96	269.94	359.92
2015	39,786,739	35.23	70.47	176.17	264.25	352.34
2016	38,939,779	34.48	68.97	172.42	258.63	344.84
2017	38,070,254	33.71	67.43	168.57	252.85	337.14
2018	37,160,291	32.91	65.82	164.54	246.81	329.08
2019	36,212,254	32.07	64.14	160.34	240.51	320.68
2020	35,246,766	31.21	62.43	156.07	234.10	312.13
2021	34,272,371	30.35	60.70	151.75	227.63	303.50
2022	33,295,965	29.49	58.97	147.43	221.14	294.86
2023	32,318,178	28.62	57.24	143.10	214.65	286.20
2024	31,339,838	27.75	55.51	138.77	208.15	277.53
2025	30,360,807	26.89	53.77	134.43	201.65	268.86
2026	29,376,211	26.01	52.03	130.07	195.11	260.14
2027	28,395,753	25.15	50.29	125.73	188.60	251.46
2028	27,414,309	24.28	48.55	121.39	182.08	242.77
2029	26,430,103	23.41	46.81	117.03	175.54	234.06
2030	25,438,266	22.53	45.05	112.64	168.95	225.27
2031	24,451,559	21.65	43.31	108.27	162.40	216.53
2032	23,459,978	20.78	41.55	103.88	155.81	207.75
2033	20,169,125	17.86	35.72	89.31	133.96	178.61
2034	15,535,500	13.76	27.52	68.79	103.18	137.58
2035	14,863,500	13.16	26.33	65.81	98.72	131.63
2036	10,335,375	9.15	18.31	45.76	68.64	91.53
2037	8,354,750	7.40	14.80	36.99	55.49	73.99
2038	4,379,500	3.88	7.76	19.39	29.09	38.78
2039	1,128,875	1.00	2.00	5.00	7.50	10.00
Minimum		\$ 1.00	\$ 2.00	\$ 5.00	\$ 7.50	\$ 10.00
Average		\$ 26.03	\$ 52.06	\$ 130.15	\$ 195.23	\$ 260.30
Maximum		\$ 39.09	\$ 78.19	\$ 195.47	\$ 293.20	\$ 390.93

\* Includes annual debt service for Series 2001, 2002, 2004, 2005, 2006 and 2007 GO Bonds, and estimated annual debt service for Series 2008 GO Bonds.

