



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: FISCAL YEAR 2012-13 PROPERTY TAX LEVY FOR GENERAL
OBLIGATION BONDS **DATE:** July 23, 2012

Approved

Date

7/25/12

RECOMMENDATION

Adopt a resolution establishing the FY 2012-13 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 pay the related administration fee to the County.

OUTCOME

Approval of the recommendation will place the property tax levy on the FY 2012-13 tax roll, which will generate tax revenue sufficient to pay debt service due in 2013 on the following series of general obligation bonds issued by the City: 2001, 2002, 2004, 2005, 2006, 2007, 2008, 2009, and the general obligation bonds to be issued during FY 2012-13 (collectively, the "GO Bonds"); and to pay the County's annual administrative fee.

BACKGROUND

At the City's general election held on November 7, 2000, voters approved Measure O (Neighborhood Libraries Bonds) and Measure P (Safe Neighborhood Parks & Recreation Bonds) in the not-to-exceed respective amounts of \$211,790,000 and \$228,030,000; authorizing the issuance of general obligation bonds for the improvements described in those measures.

At the City's general election held on March 5, 2002, voters approved Measure O (911, Fire, Police, Paramedic and Neighborhood Security Act) in the not-to-exceed amount of \$159,000,000; authorizing the issuance of general obligation bonds for the improvements described in Measure O 2002.

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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"). As of June 30, 2011, the total assessed value of taxable property was \$123.4 billion, which results in a total debt capacity of approximately \$18.5 billion (total assessed value x 15% = debt limit). As of June 30, 2011, the City had \$480.3 million in general obligation debt outstanding, representing 0.39% of the assessed value of taxable property and a debt margin of \$18.0 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 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. In order for the County to place the tax levy on the FY 2012-13 property tax bill, it is necessary for the City Council to adopt a resolution approving the tax rate for FY 2012-13. The FY 2012-13 tax rate is based on the debt service payable on March 1 and September 1, 2013. The City must submit this tax rate to the County each year in early August.

The following table summarizes the bonds issued to date under the libraries, parks and public safety bond authorizations. These eight bond issues resulted in a total amount issued of \$589,590,000 of which \$460.7 million is outstanding as of June 30, 2012. The remaining authorization of \$9,230,000 is planned to be issued during FY 2012-13 (Series 2013). The tax levy calculation for FY 2012-13 includes the anticipated debt service payment due in calendar year 2013 for Series 2013 based on the current estimate of a 4% interest rate. Any collections in excess of the amounts needed to make the debt service payments will be used as credits in the calculation of the GO tax levy rate for the following year.

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City of San José
General Obligation Bonds
Authorization Level and Issuance Amounts

	Measure O (11/07/2000) Library Projects	Measure P (11/07/2000) Parks Projects	Measure O (03/05/2002) Public Safety Projects	Total
Initial Authorization	\$211,790,000	\$228,030,000	\$159,000,000	\$598,820,000
Series 2001 (06/06/2001)	31,000,000	40,000,000	0	71,000,000
Series 2002 (07/18/2002)	30,000,000	46,715,000	39,375,000	116,090,000
Series 2004 (07/14/2004)	58,300,000	46,000,000	14,400,000	118,700,000
Series 2005 (06/23/2005)	21,300,000	0	25,000,000	46,300,000
Series 2006 (06/29/2006)	60,000,000	45,400,000	0	105,400,000
Series 2007 (06/20/2007)	0	22,100,000	67,900,000	90,000,000
Series 2008 (06/25/2008)	5,285,000	27,815,000	0	33,100,000
Series 2009 (06/25/2009)	0	0	9,000,000	9,000,000
Total Issuance to Date	\$205,885,000	\$228,030,000	\$155,675,000	\$589,590,000
Remaining Authorization	\$5,905,000	\$0	\$3,325,000	\$9,230,000

ANALYSIS

The total tax levy to be collected in FY 2012-13 will cover the March 1 and September 1, 2013 estimated debt service payments of \$41,264,885 and the County administrative fee estimated at \$103,162 for a total requirement of \$41,368,047. The County administrative fee estimate is approximately 0.25% of the total collections. The tax rate is based on the City's total assessed valuation on property in the City of San José. The County's Controller-Treasurer Department has confirmed the secured, unsecured, and utility assessed valuations for FY 2012-13. The Secured and Utility Net Assessed Value for FY 2012-13 is \$113,803,220,948. The tax rate for the secured and utility tax roll for FY 2012-13 is 0.0316 per \$100 in assessed value. The Unsecured Net Assessed Value for FY 2012-13 is \$7,329,545,828. The tax rate for the unsecured tax roll for FY 2012-13 is 0.0334 per \$100 in assessed value.

This action will result in the collection of approximately \$35.9 million in secured tax revenue which, when combined with approximately \$3.2 million of balances remaining from prior year tax collection and the unsecured roll of approximately \$2.3 million, will be sufficient to pay debt service due on the City's GO Bonds in March and September 2013 and pay the County's annual administrative fee.

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For a single-family home with a net assessed value of \$500,000 the tax levy is \$158.00 for FY 2012-13, which is slightly lower than the tax levy of \$167.00 for FY 2011-12. This decrease is primarily due to the 1.35% increase in total taxable assessed valuation for the City for FY 2012-13 as compared to FY 2011-12.

EVALUATION AND FOLLOW-UP

This action places the property tax levy on the tax roll for FY 2012-13 and requires no follow-up by the City Council.

PUBLIC OUTREACH/INTEREST

At the City's general election held on November 7, 2000, the voters approved Measure O (Neighborhood Libraries Bond) and Measure P (Safe Neighborhood Parks & Recreation Bonds), in the not-to-exceed respective amounts of \$211,790,000 and \$228,030,000, authorizing the issuance of general obligation bonds.

At the City's general election held on March 5, 2002, the voters approved Measure O (911, Fire Police, Paramedic and Neighborhood Security Act), in the not-to-exceed amount of \$159,000,000, authorizing the issuance of general obligation bonds.

This item does not meet any of the criteria listed below.

- 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 and the City Attorney's Office.

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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 \$35.9 million in secured tax revenue which, when combined with the balances remaining from prior year tax collection and the unsecured tax roll, will be sufficient to pay debt service due on the City's GO Bonds in March and September 2013 and pay the County's annual administrative fee.

CEQA

Not a Project, File No. PP10-067, Non-Project Specific Funding Mechanism.

/s/

JULIA H. COOPER

Acting Director of Finance

For questions, please contact Maria Öberg, Acting Treasury Division Manager, at (408) 535-7045.