



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Rick Bruneau

SUBJECT: FISCAL YEAR 2024-2025
PROPERTY TAX LEVY FOR
GENERAL OBLIGATION BONDS

DATE: July 22, 2024

APPROVED

DATE:

7/24/24

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Adopt a resolution establishing the Fiscal Year 2024-2025 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 respective administration fee to the County of Santa Clara.

SUMMARY AND OUTCOME

Approval of the recommendation will place the property tax levy on the Fiscal Year (FY) 2024-2025 tax roll, which will generate tax revenue sufficient to pay (i) the annual administrative fee of the County of Santa Clara (County) for the respective tax roll collections for the general obligation (GO) Bonds (as defined below), and (ii) when combined with other funds, debt service due in calendar year 2025 on the following series of GO Bonds issued by the City of San José (City).

- Series 2019 Bonds (Series 2019A-1, Series 2019B, and Series 2019C – collectively the Series 2019 Bonds)¹, and Series 2021A Bonds (the Series 2021 Bonds² and, together with the Series 2019 Bonds, are the GO Bonds).

¹ The Series 2019A-1 and Series 2019B Bonds were issued under Measure T (2018) authorization and Series 2019C Bonds and Series 2019D Bonds refunded all outstanding bonds issued under the Measure O (2000), Measure P (2000), and Measure O (2002) authorizations, and utilized then remaining unissued authorizations under Measure O (2000) and Measure O (2002). The Series 2019D Bonds mature on September 1, 2024 and will be paid in full. No property tax will be levied in FY 2024-2025 for Series 2019D Bonds.

² The Series 2021C Bonds matured on September 1, 2021, the Series 2021B Bonds matured on September 1, 2022.

This action will result in the collection of approximately \$38.7 million in secured tax collections and \$1.8 million in unsecured tax collections which, when combined with approximately \$8.3 million of cash balance remaining from prior year tax collections will be sufficient to pay \$48.8 million in debt service due on the City's GO Bonds in March 2025 and September 2025 and the County's \$0.1 million annual administrative fee.

BACKGROUND

General Obligation Bond Measures

Measure O (2000) and Measure P (2000). At the City's general election held on November 7, 2000, voters approved Measure O (2000), the *San José Neighborhood Libraries Bond*, that authorized the issuance of GO bonds not-to-exceed \$211,790,000 and Measure P (2000), the *San José Safe Parks Neighborhood Parks and Recreation Bond*, that authorized the issuance of GO bonds not-to-exceed \$228,030,000. The projects authorized to be funded by Measure O (2000) included the construction of new and expanded neighborhood library facilities. Projects authorized to be funded by Measure P (2000) included construction of improvements to parks and recreational facilities. The remaining \$5,905,000 authorized under Measure O (2000) for library projects was issued under Series 2019C Bonds.

Measure O (2002). At the City's primary election held on March 5, 2002, voters approved Measure O (2002), the *San José 911, Fire, Police, Paramedic, and Neighborhood Security Act*, that authorized the issuance of GO bonds in the not-to-exceed amount of \$159,000,000. The projects authorized to be funded by Measure O (2002) included the acquisition of property and construction of and improvements in various areas throughout the City to add and improve police stations, fire stations and training facilities, and create a state-of-the-art 911 communications facility. The remaining \$3,325,000 authorized under Measure O (2002) for public safety projects was issued under Series 2019C Bonds.

Measure T (2018). At the City's general election held on November 6, 2018, voters approved Measure T, *Disaster Preparedness, Public Safety, and Infrastructure*, that authorized the issuance of GO bonds in 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, of which a total of \$300,000,000 is dedicated to street repair.

The first and second round of bonds under the Measure T authorization sold in 2019 and 2021 totaled \$440,430,000. There is \$209,570,000 of unissued authorization remaining pursuant to Measure T. The next issuance is tentatively scheduled to occur in the summer of 2025.

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 San José 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 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 GO debt of the City to 15% of the total assessed value of all real and personal property within the city limits (debt limit). For FY 2024-2025, the total assessed value of taxable property, provided by the County, is approximately \$257.3 billion, which results in a total debt limit of approximately \$38.6 billion (total assessed value x 15% = debt limit). As of the date of this City Council meeting, the City has \$522.8 million in GO debt outstanding, representing 1.4% of the debt limit and a remaining debt margin of \$38.1 billion (debt limit less outstanding GO 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 GO bond issuances or redemptions of bonds and changes in the assessed value of taxable property in the city, cause the annual tax rate to vary each year. The amount of tax levied each year is reduced to reflect a credit for any remaining balance from prior year tax collections.

For the County to place the City GO tax levy on the FY 2024-2025 property tax bill, it is necessary for the City Council to adopt a resolution approving the tax rate for FY 2024-2025. The FY 2024-2025 tax rate is based on the debt service payable on March 1, 2025 and September 1, 2025. The City must submit this tax rate to the County each year in August of the applicable tax year. 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.

July 22, 2024

Subject: Fiscal Year 2024-2025 Property Tax Levy for General Obligation Bonds

Page 4

Presented below is a summary of the City's GO Bond issuance since 2019, including the 2019 refunding of prior GO bond issuances, the 2019 issuance of bonds under Measure T, the Series 2021 bond issuance under Measure T, the remaining outstanding balances for all GO Bonds, and the remaining Measure T authorization.

City of San José General Obligation Bonds Issuance Amounts and Outstanding Balances as of September 2, 2024						
A		B		C	B + C	
Measure T Issuance						
Issuance	Final Maturity	Series 2019 (Refunding)	Series 2019 (New Money)	Series 2021 (New Money)	Measure T Total Issued	Principal Outstanding ⁽⁵⁾
Series 2019A-1	9/1/2049		\$173,400,000		\$173,400,000	\$140,360,000
Series 2019B	9/1/2027		66,500,000		66,500,000	63,030,000
Series 2019C ⁽¹⁾	9/1/2035	\$158,185,000				148,955,000
Series 2019D ⁽²⁾	9/1/2024	103,935,000				0
Series 2021A	9/1/2051			\$151,210,000	151,210,000	144,920,000
Series 2021B ⁽³⁾	9/1/2022			8,450,000	8,450,000	0
Series 2021C ⁽⁴⁾	9/1/2021			40,870,000	40,870,000	0
Total		\$262,120,000	\$239,900,000	\$200,530,000	\$440,430,000	\$497,265,000
Measure T Voter Authorization					\$650,000,000	
Remaining Measure T Authorization					<u>\$209,570,000</u>	

A portion of the 2019C Bonds funded remaining projects under Measure O (2000) in the amount of \$5,905,000 and under Measure O (2002) in the amount of \$3,325,000.

The Series 2019D Bonds will mature on September 1, 2024 and will be fully redeemed.

The Series 2021B Bonds matured on September 1, 2022 and are fully redeemed.

The Series 2021C Bonds matured on September 1, 2021 and are fully redeemed.

Outstanding balance is the remaining (unamortized principal) on the Series 2019 and Series 2021 GO Bonds. The FY 2024-2025 Tax Levy is calculated based on principal and interest due on these bonds in March and September 2025.

(1) A portion of the 2019C Bonds funded remaining projects under Measure O (2000) in the amount of \$5,905,000 and under Measure O (2002) in the amount of \$3,325,000.

(2) The Series 2019D Bonds will mature on September 1, 2024 and will be fully redeemed.

(3) The Series 2021B Bonds matured on September 1, 2022 and are fully redeemed.

(4) The Series 2021C Bonds matured on September 1, 2021 and are fully redeemed.

(5) Outstanding balance is the remaining (unamortized principal) on the Series 2019 and Series 2021 GO Bonds. The FY 2024-2025 Tax Levy is calculated based on principal and interest due on these bonds in March and September 2025.

ANALYSIS

As of September 2, 2024, there will be \$497,265,000 of GO Bonds principal outstanding. The total GO Bond debt service payments due in calendar year 2025 is \$48,773,845, which includes the principal and interest as shown in the table below.

City of San José General Obligation Bonds Debt Service – Tax Levy Requirements				
		(A)	(B)	(A - B)
Issuance	Final Maturity	Debt Service Due Calendar Year 2025	Cash on Hand Applied to Calendar Year 2024 Debt Service ¹	Net Debt Service for Tax Levy
Series 2019A-1	9/1/2049	\$7,018,000	\$1,194,230	\$5,823,770
Series 2019B	9/1/2027	24,412,095	4,154,125	20,257,970
Series 2019C	9/1/2035	7,447,750	1,267,359	6,180,391
Series 2021A	9/1/2051	9,896,000	1,683,970	8,212,030
Total		\$48,773,845	\$8,299,684	\$40,474,161
	County Administrative Fee		0.25%	101,185
				\$40,575,346

¹ Cash on Hand (Fund 498) as of July 1, 2024 includes supplementary property tax revenue, which includes new construction and reassessed properties (\$8,299,683.91).

The tax rate levy is calculated based on the total debt service due, net of funds on hand, plus the County administrative fee which for FY 2024-2025 totals \$40,575,346. Due to timing of receipt of property tax revenues, debt service payments due in calendar year 2025 are placed on the property tax roll for FY 2024-2025.

The secured tax rate for FY 2024-2025 is determined based on the City's total assessed valuation on property in the City for FY 2024-2025; the unsecured tax rate is the prior fiscal year's secured tax rate (i.e., FY 2023-2024). The unsecured taxes are ad valorem property taxes assessed to the owner of record as of January 1 of each year. The unsecured property tax is applied to personal property such as furniture, fixtures, machinery and equipment, and luxury items such as boats, jet skis, and airplanes; unsecured taxes are not secured by a real property such as land. The Office of the County Controller-Treasurer has confirmed the secured and unsecured assessed valuations for FY 2024-2025 as shown in the tables below.

City of San José General Obligation Bonds FY 2024-2025 Tax Rate Calculation			
Total GO Bonds Debt Service to be Levied ⁽¹⁾			\$40,575,346
<i>FY 2024-2025 Unsecured Tax Roll Collections (Estimated)</i>			
(A)	FY 2023-2024 Secured Tax Rate ⁽²⁾	0.01670%	
(B)	5-Year Average Collection Rate for Unsecured Property ⁽²⁾	98.276%	
(C)	FY 2024-2025 Unsecured Property Assessed Value ⁽²⁾	11,243,574,199	
(A) x (B) x (C) = Estimated Unsecured Tax Roll Revenue			(1,845,306)
Remaining GO Bonds Debt Service to be Levied			\$38,730,040
<i>FY 2024-2025 Secured Tax Roll Collections (Estimated)</i>			
(D)	Remaining GO Bonds Debt Service to be Levied	\$38,730,040	
(E)	FY 2024-2025 Secured Property Assessed Value ⁽²⁾	246,046,414,545	
(D) / (E) = Estimated Secured Tax Roll Rate (Rounded and per \$100 in assessed value)			0.01570
⁽¹⁾ Net of funds on hand			
⁽²⁾ Controller-Treasurer, Property Tax Division, County of Santa Clara, July 2024.			

City of San José Total Assessed Valuation FY 2024-2025		
Types of Property ⁽¹⁾	Net Assessed Value ⁽¹⁾	Tax Rate (per \$100 in assessed value)
Secured	\$ 246,046,414,545	0.01570
Unsecured	11,243,574,199	0.01670
Total	\$ 257,289,988,744	
⁽¹⁾ Provided by the County's Controller-Treasurer.		

This action will result in the collection of approximately \$38.7 million in secured tax collections and \$1.8 million in unsecured tax collections which, when combined with approximately \$8.3 million of cash balance remaining from prior year tax collections, will be sufficient to pay \$48.8 million in debt service due on the City's GO Bonds, in March 2025 and September 2025 and the County's \$0.1 million annual administrative fee.

For a single-family and condominium owner with a net assessed value of \$700,000³, the tax levy is \$109.86 for FY 2024-2025.

³ Per the Santa Clara County Assessor's 2023-2024 Annual Report (page 44), the average assessed value for a single family and condominium housing in San José is \$699,752.

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 2024-2025 and requires no follow-up by the City Council.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the August 13, 2024 City Council meeting. As described above, the voters authorized four separate general obligation bond programs in 2000 (Measures O and P), 2002 (Measure O), and 2018 (Measure T).

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Statutorily Exemption, File No. PP17-005, Adjustment to Fees, Rates and Fares without changes to or expansion of services.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/
RICK BRUNEAU
Director of Finance

For questions, please contact Qianyu Sun, Deputy Director of Finance – Debt and Treasury Management, at qianyu.sun@sanjoseca.gov or (408) 535-7832.