



City of Palo Alto

City Council Staff Report

(ID # 5979)

Report Type: Consent Calendar

Meeting Date: 8/17/2015

Summary Title: Establishing GO Bond Tax Levy

Title: Adoption of Resolution Establishing Fiscal Year 2015-16 Secured and Unsecured Property Tax Levy for the City of Palo Alto's General Obligation Bond Indebtedness (Measure N)

From: City Manager

Lead Department: Administrative Services

Recommendation

Adopt a resolution (Attachments A and B) approving the establishment of the Fiscal Year 2016 property tax levy of \$14.77 per \$100,000 in Assessed Value (AV) for the secured and utility tax roll and \$15.94 per \$100,000 in AV for the unsecured tax roll for the City of Palo Alto's Measure N General Obligation Bond Library Bonds (First and Second Series).

Background

On November 4, 2008, City voters passed Measure N which gave the City authority to issue a maximum amount of \$76,000,000 of General Obligation bonds (the "Bonds") for capital improvements to the Mitchell Park, Downtown, and Main libraries and to the Mitchell Park community center. The City successfully sold the Bonds in two series to provide \$76 million in funds for the design and construction costs. Both Standard and Poor's (S&P) and Moody's awarded their highest credit ratings, Triple A, to both series of Bonds.

Discussion

Debt service payments on these Bonds are paid through ad valorem taxes on all taxable land and improvements (both secured and unsecured assessment roll) within the City. Staff is seeking Council approval of the attached resolution (Attachment A) which authorizes the placement of an ad valorem property tax levy in the amount of \$0.01477 per \$100 or \$14.77 per \$100,000 in AV for the secured tax roll; and \$0.01594 per \$100 or \$15.94 per \$100,000 in AV for the unsecured tax roll. In comparison, prior years secured and unsecured tax levy was \$15.94 and \$17.72, respectively, per \$100,000 of AV.

The assessment rate for FY 2015-16 is decreasing for both the secured and unsecured property taxes. The rate decreases is attributable to the rise in the Assessed Valuation for properties throughout Palo Alto by 8.2 percent, an increase of \$2.2 billion. In addition, the rise in Assessed

Valuation during FY 2014-15, due to property sales and new construction, resulted in \$0.2 million in excess collections. The collections plus part of a bond issuance premium (see explanation below) will offset the FY 2016 annual assessment by \$0.3 million.

General Obligation Bonds are unique in that they must be issued, by Government Code, at a par value that does not include an amount to pay the underwriting fee. To generate this fee and to market the bonds, interest rates on the bonds to be paid to investors were set slightly higher than the market rates. The par amount of bonds issued in June 2010 and June 2013 was \$55.3 million and 20.7 million, respectively. Of this amount, \$75.8 million was deposited into the Project Fund for the projects described above and \$0.2 million paid for cost of issuances expenses on the first series bonds (e.g., disclosure counsel, rating agencies). As a consequence of the interest rates to be paid on the bonds and investor demand, a premium of \$4.8 million was generated. Of this, \$0.8 million went for the underwriter's discount and \$0.2 million for cost of issuance expenses on the second series bonds leaving \$3.8 million in remaining premiums. The remaining premium must be used to offset annual debt service. In effect, use of the premium lowers the true interest cost to property owners to that cited at the time of the bond issuances, 4.2 percent for the 2010 (first series) and 3.85 percent for the 2013 (second series) Bonds. Based on the 30 year life of the bonds, staff will amortize the \$3.8 million in premiums over 30 years or offset the annual assessment by \$126,985 per year. To date \$0.7 million of this has been already applied; leaving a balance of \$3.1 million to be used to reduce future assessments.

As for the unsecured property taxes, per the County of Santa Clara's methodology, the prior year's secured tax rate becomes this year's unsecured tax rate as a result this rate won't benefit from the coming year's Assessed Value increase until FY 2016-17.

With the new assessment for FY 2016, a house with an assessed value of \$1.0 million, for example, would see an annual assessment of \$147.70 on their property tax bill. In FY 2015, a \$1.0 million home had an assessment of \$159.40.

Resource Impact

The bond issuances result in a 2016 calendar year debt service expenditure of approximately \$4.7 million and Council approval of the attached resolution will result in ad valorem tax levy revenue of \$4.4 million with the \$0.3 million difference attributable to available funds on hand. Again, secured and unsecured property owners will see a levy of \$14.77 and \$15.94, respectively, per \$100,000 of AV on their 2015-16 property tax statement.

Environmental Review

There is no environmental review required for this report.

Attachments:

- Attachment A: Resolution Establishing FY 2015-16 Property Tax Levy (PDF)
- Attachment B: General Obligation Bonds, Election of 2008, Series 2010 and 2013 Tax Rate Calculation Based on 2015-16 AV (PDF)

Attachment A

Not Yet Approved

Resolution No. _____

Resolution of the Council of the City of Palo Alto Establishing Fiscal Year 2015-16 Property Tax Levy of \$14.77 Per \$100,000 of Secured and \$15.94 Per \$100,000 of Unsecured Assessed Valuations for the City's General Obligation Bond Indebtedness (Measure N Library Projects)

R E C I T A L S

A. The City of Palo Alto's ("City") general election held on November 4, 2008, more than two thirds of voters approved Measure N, authorizing the issuance of general obligation bonds in the amount not to exceed \$76,000,000 (the "Authorization") to fund construction of a new Mitchell Park Library and Community center and renovation and improvements to Downtown and Main libraries.

B. Pursuant to the Authorization, the City issued two series (Series 2010A and 2013A) of general obligation bonds in June 2010 and June 2013 that yielded \$75.8 million for project needs.

C. The City is obligated to levy ad valorem taxes on all property within the City subject to taxation by the City, without limitation on rate or amount (except with respect to certain personal property which is taxed at limited rates), for the payment of the debt service on the Bonds.

D. 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 Bonds.

E. The amount of the annual ad valorem tax levied by the City to repay the Bonds is determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the bonds.

The Council of the City of Palo Alto RESOLVES as follows:

SECTION 1. Pursuant to the Authorization, an ad valorem property tax is hereby established to be levied on all land and improvements in the City of Palo Alto during fiscal year 2015-16 in the amount of \$0.01477 per \$100 in assessed value for the secured and utility tax roll and \$0.01594 per \$100 in assessed value for the unsecured tax roll based on the calculations set forth in the attached Exhibit "A".

SECTION 2. The City's Director of Administrative Services shall cause a certified copy of this Resolution to be delivered to the Auditor of the County of Santa Clara for entry in the assessment book of the respective sums in dollars and cents.

Not Yet Approved

SECTION 3. The Council finds that this is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

Senior Asst. City Attorney

City Manager

Director of Administrative Services

City of Palo Alto
General Obligation Bonds, Election of 2008, Series 2010 and 2013
Tax Rate Calculation Based on 2015-16 Assessed Values

A) Assessed Valuations (AV)

1)	2015-16 Taxable Secured Assessed Valuation (AV)		\$ 27,620,832,865.00
2)	2015-16 Taxable Unsecured AV		\$ 1,794,920,762.00
3)	Less: Estimated Delinquency	0.00%	-
4)	Net Taxable Unsecured AV		<u>1,794,920,762.00</u>
5)	Total Assessed Valuation		<u>\$ 29,415,753,627.00</u>

B) Tax Levy Requirement

5)	2015-16 Debt Service Payments		
6)	2010 Bonds February 1,2016	\$ 1,190,334.38	
7)	2010 Bonds August 1, 2016	<u>2,300,334.38</u>	3,490,668.76
8)	2013 Bonds February 1,2016	\$ 405,600.00	
9)	2013 Bonds August 1, 2016	<u>795,600.00</u>	1,201,200.00
10)	Total Calendar Year 2013 Debt Service Payment		<u>4,691,868.76</u>
11)	Excess Funds on Hand Applied Toward Debt Service		<u>(336,984.64)</u>
12)	Sub-total		4,354,884.12
13)	Santa Clara County Administration Fee (0.25% of Principal & Interest)		<u>10,887.21</u>
14)	Total 2015-16 Annual Debt Service Requirement		<u>4,365,771.33</u>

C) Secured and Unsecured Tax Rate

15)	2015-16 Unsecured Tax Rate per \$100 of Unsecured AV (Prior Year's Secured Tax Rate)	\$ 0.01594
16)	2015-16 Unsecured Tax Rate per \$100,000 of Unsecured AV	\$ 15.94
17)	2015-16 Estimated Revenue from Unsecured AV (line 4 divide by 100 times by line 12)	\$ 286,110.37
18)	2015-16 Estimated Revenue from Secured AV (line 11 minus line 13)	<u>4,079,660.96</u>
19)	Total 2015-16 Annual Debt Service Requirement	<u>\$ 4,365,771.33</u>
20)	2015-16 Secured Tax Rate per \$100 of Secured AV (line 14 divided by line 1*100)	\$ 0.01477
21)	2015-16 Secured Tax Rate per \$100,000 of Secured AV (line 14 divided by line 1 times 100,000)	\$ 14.77