



*City
Council
Report*

Item: 19
Category: NEW BUSINESS
Meeting Date: July 21, 2020

TITLE: Resolution Authorizing an Ad Valorem Tax Levy Based on a Debt Service Estimate to be Provided to Santa Clara County Respecting Unsold General Obligation Bonds for Fiscal Year 2020-21 and Increasing the Revenue Estimate in Fund 348 (Measure O Bond) to Account for Anticipated Measure O Property Tax Levy Revenue in Fiscal Year 2020-21 (Resolution/Roll Call Vote)

RECOMMENDED ACTION

That the City Council adopt a resolution authorizing an ad valorem tax levy based on a debt service estimate to be provided to Santa Clara County respecting unsold general obligation bonds for Fiscal Year 2020-21 and increasing the revenue estimate in Fund 348 (Measure O Bond) to account for anticipated Measure O Property Tax Levy revenue in Fiscal Year 2020-21.

BACKGROUND

On November 6, 2018, City of Campbell voters approved Measure O with a 'Yes' vote of 69.5% by the citizens that voted in the General Election. Bonds issued pursuant to Measure O are authorized to be issued in the aggregate amount of up to \$50 million to construct and/or renovate City facilities to house Police and Library services, as described in the Measure O ballot materials. On July 16, 2019, Council adopted a Resolution setting a tax rate of \$10 per \$100,00 of assessed valuation for the payment of Measure O debt service for fiscal year 2019-20.

DISCUSSION

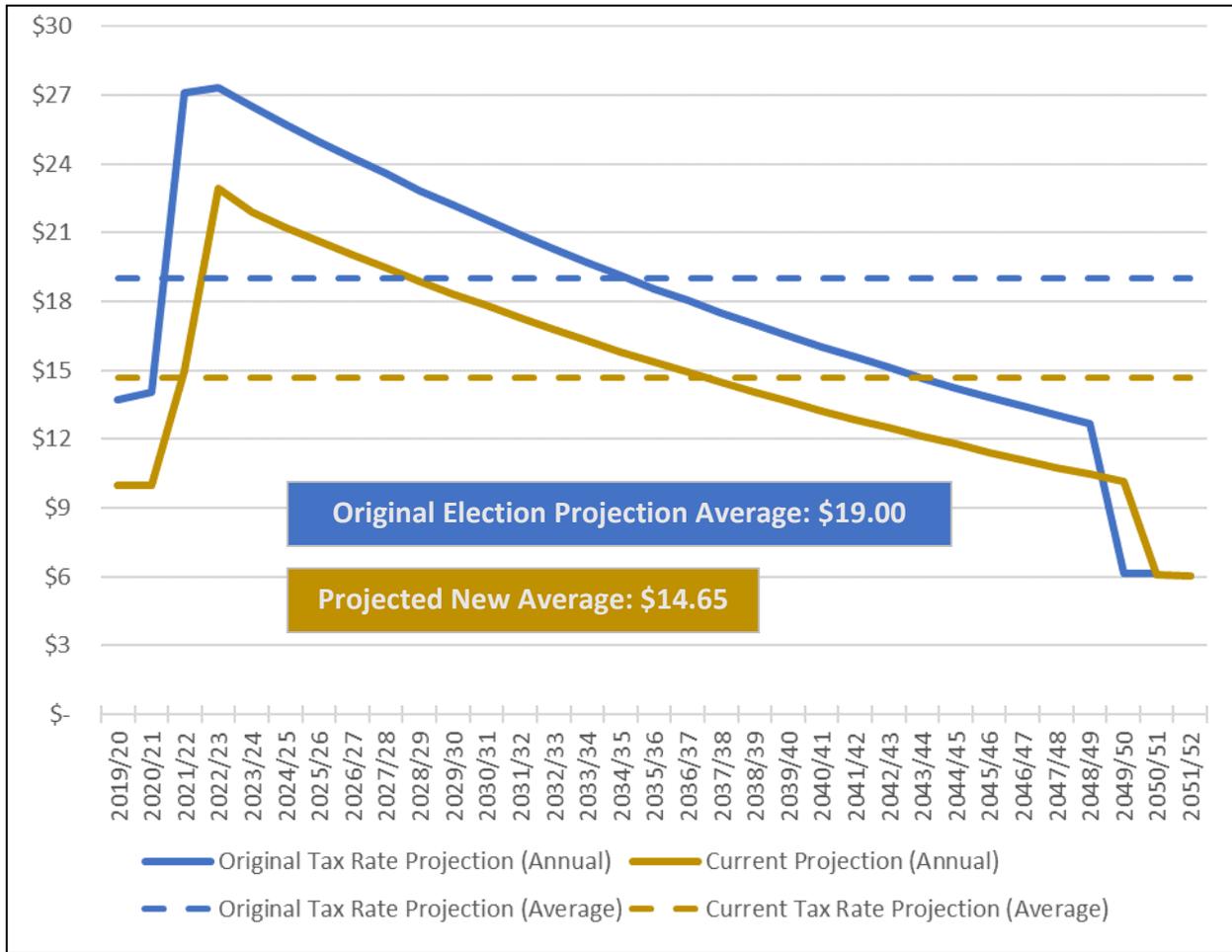
Consistent with a related agenda item to be considered by Council on July 21, 2020, staff anticipates that the first series of Measure O tax-exempt bonds will be issued in or around September 2020 and is recommending an amount of \$20 million. A second bond issuance will likely occur in or around the spring or summer of 2022 for the remaining \$30 million that is authorized by Measure O. The purpose of this report is to request Council authorization to continue the amount of the 2019-20 Measure O tax levy and place an ad valorem tax levy of \$10 per \$100,000 (0.0100%) of assessed valuation on taxable property within the City of Campbell on the Fiscal Year 2020-21 tax roll for the purpose of making anticipated debt service payments that will come due starting September 2021. Approval of staff proposed actions will also allow City staff to communicate the approved ad valorem tax levy and associated debt service estimate to

Santa Clara County by their enrollment deadline of August 7, 2020 for Fiscal Year 2020-21 tax assessments.

Levying property tax in Fiscal Year 2020-21 will help to ensure that A) the tax rate does not exceed either the average tax rate of \$19 per \$100,000 (0.019%) or the maximum tax rate of \$27.33 per \$100,000 (0.0273%) estimated in the Measure O Tax Rate Statement once all of the bonds are issued, B) tax revenues collected are able to fully support all debt service costs, and C) necessary increases to the tax rate to support increasing debt services costs are more gradual over time. As such, with guidance from the City's municipal advisors, staff recommends that the ad valorem tax levy for Fiscal Year 2020-21 stay the same as the Fiscal Year 2019-20 rate of \$10 per \$100,000 (0.0100%). This rate is sufficient to meet estimated debt service needs in Fiscal Year 2020-21, but Campbell taxpayers will not see an increase in Measure O tax levies.

The original financing plan and Tax Rate Statement provided to City of Campbell voters again estimated an average tax rate of \$19 per \$100,000 of assessed valuation of all property to be taxed and a maximum tax rate of \$27.33 per \$100,000 of assessed valuation over the term of all Measure O bond issuances. And total debt service costs were estimated to be \$90.5 million. Given current recommendations though for bond sizing and the FY 2020-21 tax rate, City staff and the financing team now estimates an average tax rate of \$14.65 per \$100,000 of assessed valuation, a maximum tax rate of \$22.94 per \$100,000 of assessed valuation, and total debt service costs of \$81.3 million; thereby providing an estimated savings to taxpayers of \$9.2 million. In the chart below, Council will find a comparison of originally projected tax rates and currently projected tax rates given City staff and the financing team's recommendations before Council:

Chart 1 – Campbell Measure O Tax Rate Projection



Based on estimated assessed valuation growth of 4.6% for taxable property within the City of Campbell for Fiscal Year 2020-21, as provided by Santa Clara County, the proposed property tax levy will generate approximately \$1.14 million in Fiscal Year 2020-21. This compares to actual tax revenue of \$1.09 million received in Fiscal Year 2019-20. Combined, the two-year estimated tax revenue collection total equals \$2.23 million. And for reference, tax revenues collected may only be used only to pay debt service due on Measure O bonds.

If the first series of Measure O bonds are issued in or around September 2020, the first debt service payment will be due on September 1, 2021. Levying an ad valorem property tax in Fiscal Year 2020-21 should allow the first debt service payment to be paid entirely by property tax revenues collected in both Fiscal Year 2019-20 and Fiscal Year 2020-21 and is consistent with the Tax Rate Statement provided to voters in connection with Measure O. Based on current interest rates, staff estimates a first payment of \$1.67 million on September 1, 2021. This is approximately \$560,000 less than what is estimated to have been collected by that date and such a cushion has been purposely built in to allow for the fact that interest rates may rise before the bond issuance; thereby resulting in a higher debt service payment than currently estimated.

All tax revenues collected, and all bond proceeds received, will be placed into separate Measure O funds and will be segregated from the City's General Fund. Tax revenues collected and debt service costs are shown in City Fund 348 (Measure O Bond). Tax revenues can again only be used to pay for debt service costs and cannot pay for project costs. All bond proceeds and project costs are shown in City Fund 448 (Measure O Capital Projects). Project costs will be paid by bond proceeds as will City project costs incurred to date.

FISCAL IMPACT

If approved, a Measure O property tax levy of \$10 per \$100,000 (0.0100%) of assessed valuation within the City of Campbell in Fiscal Year 2020-21 will generate approximately \$1.14 million and support future anticipated debt service costs. Since an appropriate Measure O property tax levy for FY 2020-21 tax rate was still being analyzed and developed at the time the FY 2020-21 Budget was adopted, no Measure O property tax revenues was reflected in the FY 2020-21 Budget. And thus, staff is also recommending increasing the property tax revenue estimate in account 348.535.4001 by \$1.13 million.

Until bond proceeds are received, Fund 448 will temporarily have a negative balance for accounting purposes, but the fund will be made positive with anticipated bond proceeds in Fiscal Year 2020-21. The City is able to absorb this temporary negative balance since it pools together cash within its investment portfolio. Staff is again targeting in or around September 2020 for the first issuance of Measure O GO bond sales, at which time it will replenish the Fund 448 cash assets and fully offset the temporary negative balance as allowed by City of Campbell Resolution 12400, which permits the City to reimburse City funds for certain expenditures for voter-approved projects from the future sale of tax-exempt bonds.

ALTERNATIVES

1. Do not adopt the resolution and provide alternate direction to staff.

Prepared by:



Will Fuentes, Finance Director

Approved by:



Brian Loventhal, City Manager

Attachment:

- a. RESOLUTION - Tax Levy and Budget Adjustment

RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CAMPBELL
AUTHORIZING AN AD VALOREM TAX LEVY BASED ON A DEBT
SERVICE ESTIMATE TO BE PROVIDED TO SANTA CLARA COUNTY
RESPECTING UNSOLD GENERAL OBLIGATION BONDS
FOR FISCAL YEAR 2020-21 AND INCREASING THE REVENUE
ESTIMATE IN FUND 348 (MEASURE O BOND) TO ACCOUNT FOR
ANTICIPATED MEASURE O PROPERTY TAX LEVY REVENUE IN
FISCAL YEAR 2020-21**

WHEREAS, more than two-thirds of the electors voting at an election duly and regularly held in the City of Campbell (the "City") on November 6, 2018, voted in favor of a bond measure known as Measure O (the "Bond Measure"), authorizing the issuance by the City of general obligation bonds in the aggregate principal amount of \$50,000,000 (the "Bonds") for the purpose of providing funds for certain municipal improvements; and

WHEREAS, the City expects that it will issue an initial series of the Bonds pursuant to the authority of the Bond Measure in or around September 2020 (the "Bonds"), which will require a tax to be placed on the 2020-21 tax roll to provide for payments of any principal or interest coming due on said Bonds; and

WHEREAS, the City Council of the City (the "City Council") expects and determines that the Bonds will be sold following the date established by the County of Santa Clara (the "County"), for submitting debt service requirements to be placed on the fiscal year 2020-21 tax roll; and

WHEREAS, the City Council wishes to inform the County of its intention to sell such bonds prior to the next tax levy; and

WHEREAS, the City Council wishes at this time to separately authorize the City Manager and the Finance Director to make certain communications with the County respecting the foregoing.

NOW, THEREFORE, BE IT RESOLVED that the City Council hereby finds, determines, declares and resolves as follows:

Section 1. Recitals. The City Council hereby finds and determines that the foregoing recitals are true and correct.

Section 2. Intention to Issue Bonds. The City Council hereby expresses its current expectation to cause the sale and issuance of approximately \$20 million aggregate principal amount of the Bonds during fiscal year 2020-21 pursuant to the Bond Measure. The Bonds are currently expected to be issued in or around September of 2020, which follows the deadline for filing with the County debt service requirements for general obligation bonds, such that tax rates can be set by the County. It is expected that the financing will require a tax levy to be included on the 2020-21 tax roll for the purpose of amortizing a portion of the Bonds in fiscal year 2020-21.

Section 3. Information to County. The Mayor, the City Manager, the Finance Director and the City Clerk are each hereby separately authorized to (a) file a certified copy of this

Resolution with the Clerk of the Board of Supervisors and such other County officials as the County shall require to facilitate such levy, and (b) provide, or cause to be provided, an estimate of debt service for the Bonds to the Auditor-Controller of the County.

Section 4. Request to County to Levy Tax. The Board of Supervisors of the County is hereby requested to adopt a tax rate of \$10 per \$100,000 (0.0100%) with respect to the City, which takes into account the Bonds expected to be sold during fiscal year 2020-21, based upon estimated debt service schedules prepared by officers of the City, together with the City's municipal advisor, and to levy a tax in fiscal year 2020-21 on all taxable property in the City sufficient to pay the estimated debt service.

Section. 5. Application of Tax. As provided in Section 43634 of the California Government Code, all taxes levied pursuant to this Resolution shall be used only for payment of the Bonds and the interest thereon.

Section 6. Effective Date. This resolution shall take effect immediately upon its adoption; and

BE IT FURTHER RESOLVED that the City Council authorizes increase the FY 2020-21 revenue estimate in account 348.535.4001 by \$1,300,000 to account for anticipated Measure O Property Tax Levy revenue in Fiscal Year 2020-21.

I, Andrea Sanders, hereby certify that the foregoing Resolution No. ___ was adopted at a regular meeting of the Campbell City Council on July 21, 2020, by the following vote:

AYES: Councilmembers:
NOES: Councilmembers:
ABSENT: Councilmembers:

APPROVED:

Susan M. Landry, Mayor

ATTEST:

Andrea Sanders, Acting City Clerk

Attachment: RESOLUTION - Tax Levy and Budget Adjustment (Authorization of FY 2020-21 Measure O Tax Rate)