CITY OF PALO ALTO

City Council Staff Report

From: City Manager
Report Type: CONSENT CALENDAR
Lead Department: Administrative Services

Meeting Date: August 5, 2024
Report #:2404-2846

TITLE
Adoption of a Resolution Establishing Fiscal Year 2025 Property Tax Levy for General Obligation Bonds (Measure N Libraries); CEQA Status: Not a Project

RECOMMENDATION
Staff recommends that the City Council approve a resolution approving the establishment of the Fiscal Year 2025 property tax levy of $7.61 per $100,000 in Assessed Value for the secured and utility tax roll and $8.07 per $100,000 in Assessed Value (AV) for the unsecured tax roll for the City of Palo Alto's Measure N General Obligation Bond Library Bonds.

EXECUTIVE SUMMARY
In 2008, Palo Alto voters passed Measure N which gave the City authority to issue a maximum amount of $76 million of General Obligation bonds (the "Bonds") for capital improvements (libraries). Annually, a property tax levy sufficient to pay debt service on the Bonds must be approved by the City Council and submitted to the County of Santa Clara for collection with the property taxes.

BACKGROUND
On November 4, 2008, City voters passed Measure N which gave the City authority to issue a maximum amount of $76 million of General Obligation bonds (the "Bonds") for capital improvements to the Mitchell Park, Downtown, and Rinconada (formerly Main) libraries and to construct 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 and Moody's awarded their highest credit ratings, Triple A, to both series of Bonds which was affirmed by Standard and Poor's in May 2022 and Moody's in March 2024.

On March 1, 2016, Council approved the decommissioning of the Library Bond Oversight Committee and accepted a financial report showing approximately $3.0 million in project savings (CMR: 6632)[1]. In addition, bond premium of $3.1 million could be used to redeem and/or defease bonds. On June 6, 2016, Council authorized the use of $6.1 million of the Series 2010A & 2013A General Obligation (Measure N) Bonds to defease and/or retire a portion of outstanding bonds and to pay associated redemption costs (CMR: 6993)[2]. To maximize savings to property owners the longest bonds were paid off; total savings of $11 million were realized which includes $4.9 million in interest savings over time. Of the $11 million, $5.4 million will be saved through FY 2040 while $5.6 million will be saved from FY 2041 through FY 2044.

On March 2, 2022, Council approved the refinancing of the Series 2010A and 2013A outstanding principal of $40.6 million and $13.6 million respectively (CMR: 13438; on page 12 of link)[3]. The Series 2010A was refinanced as a tax-exempt bonds and Series 2013A was partially refinanced as taxable bonds. The tax reform bill passed by Congress and signed into law on December 22, 2017, prohibits the issuance of tax-exempt advance refunding bonds during the (ten-year) call protection period. The call protection period had passed on the Series 2010A Bonds, but it had not passed for the Series 2013A Bonds. The portions of the Series 2013A bonds or $2.1 million in principal, that had realized savings were refinanced. In total, a net present value savings of $4.5 million or 10.6% was realized. The cash savings is $6.4 million and average annual debt service savings over 18 years is $356 thousand. There are three General Obligation Bonds outstanding, the portion of the tax-exempt Series 2013A bonds that were not refinanced, the tax-exempt Series 2022A bonds that refinanced the Series 2010A bonds, and the taxable Series 2022B bonds that partially refinanced the Series 2013A bonds. Standard and Poor's affirmed their highest credit ratings, Triple A, to both the issuer or City of Palo Alto’s General Fund credit rating and the long-term rating on the City’s General Obligation Bonds outstanding in May 2022.

As of July 1, 2024, principal amount of $46.6 million is outstanding on the General Obligation Bonds.

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[1] City Council, March 21, 2016, CMR 6632: https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2016/6632-mini-packet.pdf

[2] City Council, June 6, 2016, CMR 6993: https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2016/6993.pdf

[3] City Council, May 2, 2022, CMR 13438: https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220502/20220502pccsmamended-linked.pdf

ANALYSIS
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. The total debt service in FY 2025 is $4 million. 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 $0.00761 per $100 or $7.61 per $100,000 in Assessed Value (AV) for the secured tax roll; and $0.00807 per $100 or $8.07 per $100,000 in AV for the unsecured tax roll. In comparison, prior year's secured and unsecured tax levy was $8.07 and $8.16 respectively, per $100,000 of AV.

The assessment rate for FY 2025 is decreasing for both the secured and unsecured property taxes. The rate decreases are attributable to the rise in the Secured AV for properties throughout Palo Alto by 4.8%, an increase of $2.3 billion. The total AV is $51.8 billion. In addition, the rise in AV during FY 2024, due to property sales and new construction, resulted in excess collections which further reduced the FY 2025 annual assessment.

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 current year's AV increase until FY 2026. However, it did benefit from the Secured AV increase that occurred in FY 2024.

With the new assessment for FY 2025, a house with an assessed value of $1.0 million, for example, would see an annual assessment of $76.10 on their property tax bill. In comparison, in FY 2024, a $1.0 million home had an assessment of $80.70.

FISCAL/RESOURCE IMPACT
The bond issuances result in a 2025 calendar year debt service expenditure of approximately $4.04 million and Council approval of the attached resolution will result in ad valorem tax levy revenue of $3.94 million with the $0.10 million difference attributable to available funds on hand. Secured and unsecured property owners will see a levy of $7.61 and $8.07, respectively, per $100,000 of AV on their FY 2025 property tax statement.

STAKEHOLDER ENGAGEMENT
Staff works with the County of Santa Clara who provide the property assessed valuation for the coming fiscal year which this then used by staff to calculate the property tax levy tax rates.

ENVIRONMENTAL REVIEW
Council action on this item is not a project as defined by the California Environmental Quality Act because approval of the Measure N property tax levy is a government funding mechanism or fiscal activity which does not involve any commitment to any specific project which may

result in a potentially significant physical impact on the environment. CEQA Guidelines section 15378(b)(4).

ATTACHMENTS

Attachment A:	Resolution Establishing FY 2024-25 Property Tax Levy
Attachment B:	Exhibit A - General Obligation Bonds, Election of 2008, Series 2013 2022A, & 2022B Tax Rate Calculation Based on 2024-25 Assessed Values

APPROVED BY:
Lauren Lai, Administrative Services Director