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Record Reduction in Property Assessed Values Continues to Distress San José, Region

***Recession's impact on industrial property values and tax revenues put
affordable housing, neighborhood, and job creation programs at risk***

San José ---- For the second straight year the prolonged and severe recession in Silicon Valley has dramatically reduced industrial and commercial property values and the resulting tax revenues that support redevelopment projects in San José, according to the Santa Clara County Assessor today.

Assessed values of property in San José redevelopment areas have sharply declined by an estimated 11.5 percent, compared to a drop of 10 percent last year. This represents about a \$4 billion loss in property value over the last two years, mostly in the high tech industrial and commercial zones of San José.

As a result, tax revenue in the coming fiscal year that supports San José public investments for affordable housing, neighborhood improvements, job creation, and downtown revitalization will drop 11.5 percent from the \$168 million originally projected to an estimated \$149 million.

“This is bad news for San Jose, but we are not surprised,” said Mayor Ron Gonzales. “Unfortunately this means we won’t be able to make as much progress as we would like on our priorities to build strong neighborhoods and a vibrant downtown, get our families back to work, and create affordable housing in our community.”

Gonzales noted that the redevelopment agency had already planned to wait until the County Assessor released assessment roll data before developing its final budget and long-term capital improvement plan later this summer.

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In addition, current state budget proposals by the Governor and Legislature would take away an additional \$1.3 billion from all local government agencies in the state to help address the continuing California budget crisis. The San José Redevelopment Agency estimates it would lose another \$18 million to the state as a result, compounding the impact of the reduced property values.

Sitting as the San José Redevelopment Agency Board, the City Council approved a one-year agency operating budget on June 22 to allow projects in progress to move forward.

“When the agency board considers our budget this September based on this latest information, we will have to adjust our priorities and seriously lower our goals because we won’t be able to do as much as our residents would like us to do” said Harry Mavrogenes, interim San José redevelopment executive director.

“Despite this decline in property values, however, we remain committed to our core values to achieve as much as we can for our housing, neighborhoods, jobs and downtown programs that improve quality of life for residents and opportunities for businesses.”

In anticipation of the continuing recession’s impact on property values, the redevelopment agency bolstered its cash reserves over the last year through a reduction in capital expenditures by \$40 million and an increase in resources from bond refinancing.

Assessed property values for all of San José increased by six percent, which is consistent with the revenue projections for the city’s General Fund budget that covers the costs of basic municipal services such as police, fire, parks, and libraries.

Under California law, redevelopment projects are funded by the increase in property taxes stemming from the higher assessed values that follow redevelopment investments. The “tax increment” pays for debt service over the life of the redevelopment projects.

When the final tax rolls are released by the Assessor’s Office later this summer, the redevelopment agency will analyze the data to make its final budget projections. The agency will determine how much of the decline is short-term because of the temporary impact of assessment reductions, and how much might be long-term because of property transactions that have reduced the redevelopment tax base permanently.

According to the County Assessor’s Office, industrial and commercial assessments in San José redevelopment areas this year have actually fallen below market values, unlike in the prior years when property values continued to increase despite the recession.

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In addition, the total assessed value of business equipment and furnishings continues to fall dramatically, reflecting both reduced business operations and the high commercial and industrial vacancy rates in Silicon Valley.

The redevelopment agency will continue to be able to provide debt service coverage on its tax allocation bonds well beyond contractual requirements even with the projected drop in annual tax increment revenue. The debt service covenants for redevelopment tax allocation bonds require \$1.15 of tax increment to each \$1.00 of debt. Agency staff estimates that the redevelopment debt service coverage will remain approximately \$1.30 to \$1.00.

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