

City of Grover Beach

Financing Options for Local Street Repairs



City Council Meeting on
Monday December 9, 2013
A. M. Peché & Associates LLC

California Cities Financing Options

- ▶ Cities are looking at traditional financing mechanisms to finance long term capital needs

- ▶ These financing mechanisms are:
 - Assessment Bonds
 - Mello-Roos Bonds (Special Tax Bonds)
 - City General Fund Lease Financing
 - General Obligation Bonds

Assessment Bonds

- ▶ **Assessment on property is based on benefit to each property**
- ▶ **Requires an Engineer's Report that calculates specific benefit to each property in a defined benefit area**
- ▶ **Usually used for specific areas, particularly new large developments**

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Assessment Bonds Pros and Cons

- ▶ **Pros**
 - **Property owner vote**
 - **Minority Protest rules apply (no 2/3rds vote required)**
 - **Simple majority or lack of a significant protest at public hearings**
 - **Direct connection between project and benefit to each parcel**
- ▶ **Cons**
 - **Engineer's report may determine that there are "general benefits" that must be paid for by the City**
 - **Benefit spread may generate perceived inequities between property owners**
 - **Difficult to calculate special benefit for City-wide street improvements**

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Mello-Roos Bonds

- ▶ City creates taxing district - the Community Facilities District (“CFD”)
- ▶ Election will be from registered voters in the CFD, with 2/3rds approval
- ▶ The City must hire a firm to develop a Rate & Method of Apportionment
- ▶ Usually used for specific areas, particularly new large developments

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Mello-Roos Bonds Pros and Cons

- ▶ Pros
 - Homes could be one fixed special tax
 - Commercial/Retail could be taxed based on improved square footage
 - Bonds can be sold in series or taxes can be used as pay-as you go projects with proceeds available for maintenance or improvements
- ▶ Cons
 - Subject to registered voter approval - not property owners
 - Lower rating agency ratings and therefore a higher interest costs
 - Negative “Mello-Roos” connotation for homeowners when buying or selling a property

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General Fund Lease Financing

- ▶ **City can enter into lease arrangements for certain types of projects**
- ▶ **Financing would require budget adjustments to create off-setting revenue source (i.e. not a new source of funds)**
- ▶ **Lease financing has limited applicability due to collateral requirements and affects on the City's General Fund**

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General Fund Lease Financing Pros and Cons

- ▶ **Pros**
 - **No voter approval required**
 - **Generally accepted form of municipal finance**
 - **Lease term cannot exceed useful life of improvements**
- ▶ **Cons**
 - **Requires budget adjustments to make room for debt service payments**
 - **Lower ratings and higher interest costs**
 - **Amount borrowed is limited to value of city assets**

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General Obligation Bonds

- ▶ The most conventional form of municipal financing
- ▶ An *ad valorem* tax based on assessed value of all taxable properties
- ▶ 2/3rds vote of registered voters required to receive authorization
- ▶ Cities can issue up to 3.75% of their Assessed Value in GO Bonds
- ▶ Bond authorization is based on total amount reflected in the ballot initiative and project description
- ▶ Tax rate is calculated each year around July and based on annual debt service divided by total assessed value for that fiscal year in the City limits
- ▶ Bonds can be sold in Series thereby minimizing the impact to tax payers

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General Obligation Bonds Pros

- ▶ Pros
 - Will receive the highest ratings therefore the lowest costs
 - No reserve fund required as this is the most secure form of municipal debt
 - Annual tax will generally decrease when using level debt service and there is increasing AV
 - Taxes based off of assessed value, not market value
 - No annual administration as debt service is given to, and collected, by County
 - The best way to finance street improvements and storm drains over an extended period of time

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General Obligation Bonds Cons

- ▶ **Cons**
 - 2/3rds approval required by voters
 - Adjacent homes may have different annual taxes depending on when property was purchased
 - No ability for property owner to prepay tax obligation
 - Cannot fund equipment, maintenance or other projects not defined as capital improvements

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Information on Assessed Valuation for Grover Beach

- ▶ 2012–13 AV \$1,247,859,047
- ▶ 2013–14 AV \$1,309,746,639
 - There was a 4.96% increase in AV for the City
 - Based on this 2013–14 AV, the City's Bonding Capacity is \$49,115,499
 - Average single family home is assessed (not market value) at \$252,180 in 2013–14
 - AV by land use in City consists of 15% of Non-Residential and 85% of Residential
 - Largest components: Single family 58%, Condo/Townhomes 12%, Commercial/Office 11%

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Financing Examples Using GO Bonds

- ▶ Scenario 1: \$10,000,000 Authorization
 - Repair approximately half of major streets
- ▶ Scenario 2: \$20,000,000 Authorization
 - Repair all of the major streets and a few others
- ▶ Scenario 3: \$35,000,000 Authorization
 - Repair all of the major streets and most of the residential streets

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Assumptions Using GO Bonds

Current Status

2013-14 AV is \$1,309,746,639

Assumptions

- 2 % annual increase in AV starting in 2014-15 with \$1,335,941,572
- 25 year maturity at 5.50%
- Level debt service where any increase in AV will lower the tax rate
- \$5,000,000 every 3 years starting in 2014-15 (proceeds have to be spent in 3 years for tax law purposes)
- No use of capital appreciation bonds (this would require further analysis and discussion)

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Estimated Tax Rate Impact per \$100,000 of AV

**Scenario 1: \$10 million Authorization
Two \$5,000,000 Bond Issues
2014–15 Tax rate \$28
2017–18 Tax rate \$52**

**Scenario 2: \$20 million Authorization
Two additional \$5,000,000 Bond Issues
2020–21 Tax rate \$74
2023–24 Tax rate \$93**

**Scenario 3: \$35 million Authorization
Three additional \$5,000,000 Bond Issues
2026–27 Tax rate \$110
2029–30 Tax rate \$124
2032–33 Tax rate \$136**

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Main Objectives of a Bond Poll

- ▶ **Explore current image of the City of Grover Beach among likely City registered voters**
- ▶ **Determine voter perceptions of City street related improvements needs, including storm drains, and the priorities that voters set for those needs**
- ▶ **Determine voter attitudes towards a possible bond measure for the City and the optimum amount of a bond authorization and tax rate to place before voters**
- ▶ **Evaluate voter's top priorities for money raised in order to design a measure that best addresses the desires of the community for a level of street improvements, and the corresponding tax rate, that would help determine the chances for success of a bond measure**
- ▶ **Determine the most effective and important reasons for your voters to support a measure for the City**

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Main Objectives of a Bond Poll (continued)

- ▶ **Determine if there are any potential issues or uses for bond money that could present a danger to the successful passage of a measure**
- ▶ **Determine the best election date to place a measure before the voters, whether in a general or primary ballot**
- ▶ **Be sure that the poll has obtained information from only likely voters in prior elections**
- ▶ **Develop a demographic profile of likely City voters and how the various demographic groups differ in their attitudes and opinions**
- ▶ **If the time is not right to hold an election, determine when to look towards an election and identify the keys for changing public perceptions**

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Members of Bond Team Pre Election Roles

- ▶ **Polling Consultant – Prepares a survey based on City’s project list and conducts a poll of likely voters to determine support for a possible bond measure**
- ▶ **Bond Counsel – Prepares Legal Documentation for City Council adoption calling for Bond Election. Works with City Staff and Bond Team to prepare ballot initiative**
- ▶ **Financial Advisor – Prepares numerical analysis showing how different G.O. Bond structures affect different levels of Assessed Value; develops tax rate thresholds that are used in the Polling Consultant in the opinion poll. Prepares Tax Rate Statement that becomes part of the ballot information going to voters**

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Next Steps

- ▶ Review long term capital needs of the City and develop potential project list
- ▶ Determine financing structure
- ▶ Hire Polling Consultant, Bond Counsel and Financial Advisor to begin the development of public opinion poll with potential City projects and various tax rates
- ▶ Conduct poll and determine specifics of bond measure and whether to proceed with election in June or November 2014
- ▶ Determine bond authorization amount
- ▶ Prepare bond initiative legal documentation to call election, ballot initiative and tax rate statement