

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
SUBJECT: General Obligation Bond Refunding
DATE: April 3, 2007

Needs: For the City Council to consider refinancing Series A and C bonds of the 1998 General Obligation Bond authorization.

Facts:

1. In June 1998, Paso Robles voters authorized the sale of \$38 million in general obligation bonds.
2. The bonds were sold in three series.
3. Only Series A and C can be refinanced. Series B bonds are not callable and will mature August 1, 2027.
4. Current market conditions provide an opportunity to modestly reduce property owner tax liability for bonded indebtedness.

Analysis & Conclusion:

Current market conditions for long-term interest rates provide an opportunity for the City to refund (refinance) Series A and C of the General Obligation bonds.

Two scenarios were analyzed. The first scenario would reduce current property owner taxes on a "level savings" basis. The analysis is based upon a home with an assessed valuation of \$450,000. Assuming an ongoing annual increase in assessed valuation of 2%, the homeowner would receive a \$56 reduction in tax liability beginning in fiscal year 2008, but savings would decline over the remaining life of the bonds to an estimated annual of \$37. Total projected savings would be \$900 over the remaining life of the bonds.

The second scenario proposes "back loading" the savings. In this scenario, the savings is used to reduce the number of years that property owners would be assessed the GOB tax. Homeowners would not see any reduction in their annual tax other than that associated with typical growth in assessed valuation. However, the number of years that they would pay the tax would be reduced by four - for Series A and C bonds. Rather than paying taxes on these bonds to year 2027, the bonds would be retired in 2023 - resulting in a savings of \$1,129 over the last three years. There would be a remaining small tax associated with Series B that would be collected through 2027.

The four years eliminated in the second scenario could be increased. The current reserve level was established to approximate two years of debt service payments. By eliminating four years of bond payments for Series A and C, the City may substantially reduce the reserve as it only needs to be twice the annual debt service. To reduce the reserve, the City would simply retire all outstanding bonds on Series A and C by two additional years, i.e. 2021.

Fiscal

Impact:

The “level savings” scenario would save property owners about \$900 over the remaining life of the bonds, ranging from \$56 per year initially and decreasing over time to about \$37 based upon a residence with assessed valuation of \$450,000.

In the case of the “back loaded” scenario, savings will not occur until 2022 but the property owner’s savings would more than double.

Options:

- a. That the Council authorize staff to proceed with all the necessary actions to refund Series A and C of the 1998 General Obligation bonds; or
- b. Amend, modify, or reject the above option.