TO: City Council

FROM: Mike Compton, City Treasurer

SUBJECT: General Obligation Bond Tax Rate – Fiscal Year 2011

DATE: August 3, 2010

Needs: For the City Council to set the ad valorem tax rate for general obligation bond debt service for fiscal year 2011.

Facts:

1. In June 1998, Paso Robles voters authorized the sale of $38 million in general obligation bonds.
2. Annual debt service requirements for general obligation bonds are funded from the levy of an ad valorem property tax.
3. The current tax rate is $0.0876 per $100 assessed valuation, or $87.60 per $100,000 secured assessed valuation.
4. The tax rate must be set annually by Council resolution.
5. The tax rate for fiscal year 2011 has been calculated at $0.0748 per $100 assessed valuation, or $74.80 per $100,000 assessed valuation assuming the use of $500,000 in bond reserves. Without the use of reserves, the tax rate would need to be $0.0896 per $100 assessed valuation. An increase rather than decrease from fiscal year 2010.
6. Lowering the tax rate by the use of bond reserves is unsustainable. It is a one time benefit for property owners.

Analysis & Conclusion: The City has issued $38 million in general obligation bonds. The bonds were issued in three series. Series A was for $23 million, Series B for $7 million and Series C for $8 million. The first debt service payment was made 2/1/03. The aggregate average annual debt service requirement is $3,031,200 but going forward from fiscal year 2011, the average annual debt service is $3,180,000.

From fiscal year 2002 through 2005, the City levied the maximum (self impossed) tax rate of $0.1775 per $100 assessed valuation, in order to establish a prudent debt service reserve. The reserve has been establish at approximately twice the annual debt service. The reserve protects the City against economic downturns that might negatively impact assessed valuation. For fiscal year 2010, the Council set the rate at $0.0876 per $100 assessed valuation.

As of June 30, 2010, Measure D debt service fund had a cash balance of $7.088 million which exceeds two times the annual debt service requirement by nearly $700,000. Thus, it is recommended and included herein that $500,000 of reserves be used to calculate the required GO bond tax rate. Rather than set the tax rate at $0.0896, use of the reserve fund provides for a tax rate of $0.0748. *It must be noted that this rate is unsustainable and is one time in nature.* The tax rate for 2012 would likely be in the $0.085 to $0.090 range per $100 assessed valuation.

Fiscal Impact:

Total debt service requirements for fiscal year 2011 are $3,182,300. Per the County Auditor-Controller's Office, the net secured assessed valuation for fiscal year 2011 is $3,374,148,703 and the unsecured roll is $183,358,188. The ad valorem tax rate for fiscal year 2011 should be increased from $0.0876 to $0.0896 per $100 assessed valuation. The slight increase in the tax rate is due to the reduction in the City's assessed valuation. The down turn in the housing market has resulted in 2.72% decline in assessed valuation. This lower assessed valuation equates to the slightly higher tax rate. However, given that the balance in the reserve fund exceeds the policy requirement for two times annual debt service, it is proposed that $500,000 be used to lower the tax rate to $0.0748 or $74.80 per $100 assessed valuation.

An ad valorem tax rate of $0.0748 per $100 assessed valuation equates to an annual tax of $74.80 per $100,000 in assessed valuation. Thus, a single family residence with an assessed valuation of $500,000 would pay $4374.00 as compared to $438.00 last year or $887.50 under the original tax rate. Non-residential and vacant properties would be levied the same tax rate. Unsecured assessed valuations are levied at the prior year rate of $0.0876.

Prior tax rates are illustrated as follows:

Fiscal Year	Tax Rate
2003	$.1775
2004	.1775
2005	.1775
2006	.1082
2007	.0952
2008	.0888
2009	.0839
2010	.0876
2011 (proposed)	.0748

Options:

a. That the Council adopt resolution no. 10-XXX setting an ad valorem tax rate beginning July 1, 2011 to pay debt service on the general obligation bonds; or

b. Amend, modify, or reject the above option.

RESOLUTION NO. 10-xxx

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES SETTING TAX RATE FOR FISCAL YEAR 2010-2011 WITH RESPECT TO GENERAL OBLIGATION BONDS

WHEREAS, more than two-thirds of the electors voting at a special municipal election held on June 5, 1998, voted for a proposition authorizing the issuance by the City of general obligation bonds in the aggregate principal of $38,000,000 (the "Bonds") for the purpose of providing funds for certain municipal improvements; and

WHEREAS, the City has previously issued the Bonds in the form of $38,000,000 principal amount representing a combination of both current interest and capital appreciation bonds; and

WHEREAS, pursuant to Section 43632 of the California Government Code, the City Council is required annually to levy and collect a tax sufficient to pay the principal of and interest on the Bonds coming due and payable before the proceeds of a tax levied at the next general tax levy will be available; and

WHEREAS, the City desires to establish a prudent reserve against poor economic times equal to approximately two times the average annual debt service requirement; and

WHEREAS, the bond reserve balance now exceeds approximately two times the average annual debt service requirement; and

WHEREAS, the City Council desires to use a portion of the reserve fund exceeding two times the average annual debt service requirement to lower the bond tax rate; and

WHEREAS, the City Council recognizes that the use of the reserve fund is unsustainable and represents a one time lowering of the tax rate for property owners; and

WHEREAS, the City has determined that in order to provide sufficient funds to pay the principal and interest on the Bonds coming due and payable each February 1 and August 1 and establish a prudent reserve, it is necessary to levy a tax upon all taxable property in the City at the rate of $0.0748 per $100 of assessed valuation, based on the estimated secured assessed values for all rolls for fiscal year 2010-2011 and the use of bond reserves exceeding two times the average annual debt service requirement.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of El Paso de Robles as follows:

Section 1. Calculation of Tax. The City Council hereby determines the use of a portion of the Bond Reserve Fund that exceeds two time the annual average debt service should be used to calculate the Fiscal Year 2010-2011 tax rate. Specifically, $500,000 should be used.

Section 2. Levy of Tax. The City Council hereby determines that the tax rate necessary to pay the principal of and interest on the Bonds coming due and payable on February 1 and August 1, is equal to $0.0748 per $100 of secured assessed valuation, and such tax rate shall be and is hereby levied in accordance with all applicable requirements of law.

Section 3. Collection of Tax. The City Treasurer is hereby directed to forward a copy of this Resolution to the Auditor-Controller of the County of San Luis Obispo and to the Board of Supervisors of the County, and to take such actions and execute such documents as may be required to cause the tax rate set forth in Section 1 to be placed on the 2010-2011 property tax bill and collected by the County.

Section 4. 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 5. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

APPROVED AND ADOPTED by the City Council of the City of El Paso de Robles this 3rd day of August, 2010.

AYES:
NOES:
ABSENT:
ABSTAIN:

Duane Picanco, Mayor

ATTEST:

Caryn Jackson, Deputy City Clerk