

TO: City Council
FROM: Mike Compton, City Treasurer
SUBJECT: General Obligation Bond Tax Rate – Fiscal Year 2011
DATE: August 17, 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 tax rate must be set annually by Council resolution.
4. The current tax rate is \$0.0876 per \$100 assessed valuation, or \$87.60 per \$100,000 secured assessed valuation.
5. In past years, the City has not used reserves in the calculation to lower the annual tax rate. Even in fiscal year 2010 when assessed valuation first declined, the Council adopted a tax rate that was higher than the prior year due to the decline in assessed valuation. The tax rate rose from \$0.0839 to \$0.0876 only representing an increase of \$3.70 per \$100,000.
6. There is no formal requirement for a bond reserve. GO bond issues don't require a reserve fund because the tax rate is set annually based upon actual assessed valuation. Economic down-turns, to the extent they may cause a decline in assessed valuation, may require a small increase in the tax rate; much like the one experienced by Paso Robles between fiscal years 2009 and 2010.
7. The average annual debt service requirement going forward is \$3.2 million. The reserve fund has \$7.1 million as of 6/30/2010.
8. Without use of reserves, the tax rate for fiscal year 2011 would be calculated as \$0.0896 per \$100 assessed valuation, or \$89.60 per \$100,000 assessed valuation representing an increase of \$0.0020 or \$2.00 per \$100 assessed valuation.
9. The Council, at their August 3, 2010, meeting deferred adopting a tax rate because they wanted to see a tax rate using reserves wherein there were no tax or as little tax increases in the future as possible.

Analysis
and
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 imposed) tax rate of \$0.1775 per \$100 assessed valuation, in order to establish a debt service reserve. The goal was to establish a reserve approximately equal to twice the annual debt service. As noted above, the reserve balance at 6/30/2010 was \$7.1 million representing an amount exceeding twice the annual debt service by \$700,000. It exceeds the annual debt service requirement by \$3.9 million.

For fiscal year 2010, the Council set the rate at \$0.0876 per \$100 assessed valuation an increase over the prior year's rate of \$0.0839.

At the Council's request, I have re-calculated the tax rate with the objective of eliminating any tax rate increase from fiscal year 2011 and going forward while using as much of the \$700,000 or more as possible. The results are as follows *based upon the assumptions that for fiscal year 2012 there will be no increase or decrease in assessed valuation and beginning in fiscal year 2013 there will be 2% annually going forward:*

<u>Fiscal Year</u>	<u>Reserves Used</u>	<u>Tax Rate</u>
2011	\$150,000	\$0.0851
2012	\$150,000	\$0.0855
2013	\$100,000	\$0.0851
2014	\$100,000	\$0.0832
2015	\$100,000	\$0.0815
2016	\$100,000	\$0.0799
2017	\$100,000	\$0.0784
2018	\$ 75,000	\$0.0773
2019	\$ 75,000	\$0.0759
2020	\$ 75,000	\$0.0744
2021	\$ -0-	\$0.0747

The above illustration indicates an aggregate use of reserves totaling \$1,025,000. While it may exceed \$700,000, the difference would be made up from interest earnings on the reserve fund and assessed valuation increases that will likely exceed the 2% growth assumption used in the model. Additionally, the final debt service payment occurs in 2028. Between 2021 and 2028, the City will be required to utilize the full amount of the reserve fund until it is exhausted.

Please note it is most likely that this scenario will NOT hold true going forward and will have to be recalculated annually.

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 without use of reserves would 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. Due to the balance in the reserve fund, it is proposed that a portion of the reserve fund be used to prevent tax rate adjustments going forward to the extend possible.

The various scenarios previously presented to Council plus the revised scenario and their fiscal impact are illustrated in attached Exhibit “A”. *All are based upon the assumptions that for fiscal year 2012 there will be no increase or decrease in assessed valuation and beginning in fiscal year 2013 there will be 2% annually going forward:*

Per the illustration above, an ad valorem tax rate of \$0.0851 per \$100 assessed valuation equates to an annual tax of \$85.10 per \$100,000 in assessed valuation. Thus, a single family residence with an assessed valuation of \$500,000 would pay \$425.50 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:

<u>Fiscal Year</u>	<u>Tax Rate</u>
2003	\$.1775
2004	.1775
2005	.1775
2006	.1082
2007	.0952
2008	.0888
2009	.0839
2010	.0876
2011 (proposed ?)	.0851

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.

EXHIBIT "A" - TAX RATE IMPACT ILLUSTRATION

Treasurer's Original Proposal:

	Per \$100 AV	Per \$100,000	(Increase)/ Decrease Per \$100K	Impact For \$400k Home	
FY 2009 Tax Rate - Adopted	0.0839	\$83.90			
FY 2010 Tax Rate - Adopted	0.0876	\$87.60	-\$3.70	-\$14.80	Pay More
FY 2011 Tax Rate - Proposed	0.0748	\$74.80	\$12.80	\$51.20	Pay Less
FY 2012 Tax Rate - Proposed	0.0846	\$84.60	-\$9.80	-\$39.20	Pay More
FY 2013 Tax Rate - Estimated	0.0880	\$88.00	-\$3.40	-\$13.60	Pay More
FY 2014 Tax Rate - Estimated	0.0859	\$85.90	\$2.10	\$8.40	Pay Less
FY 2015 Tax Rate - Estimated	0.0842	\$84.20	\$1.70	\$6.80	Pay Less
				<u>-\$1.20</u>	Pay Less

Former Scenario - Spread Equally:

	Per \$100 AV	Per \$100,000	(Increase)/ Decrease Per \$100K	Impact For \$400k Home	
FY 2009 Tax Rate - Adopted	0.0839	\$83.90			
FY 2010 Tax Rate - Adopted	0.0876	\$87.60	-\$3.70	-\$14.80	Pay More
FY 2011 Tax Rate - \$250k Annually for 3 yrs.	0.0822	\$82.22	\$5.38	\$21.52	Pay Less
FY 2012 Tax Rate - Estimated	0.0827	\$82.70	-\$0.48	-\$1.92	Pay More
FY 2013 Tax Rate - Estimated	0.0809	\$80.90	\$1.80	\$7.20	Pay Less
FY 2014 Tax Rate - Estimated	0.0863	\$86.30	-\$5.40	-\$21.60	Pay More
FY 2015 Tax Rate - Estimated	0.0842	\$84.20	\$2.10	\$8.40	Pay Less
				<u>-\$1.20</u>	Pay Less

Former Scenario - Spread Slightly Unequally:

	Per \$100 AV	Per \$100,000	(Increase)/ Decrease Per \$100K	Impact For \$400k Home	
FY 2009 Tax Rate - Adopted	0.0839	\$83.90			
FY 2010 Tax Rate - Adopted	0.0876	\$87.60	-\$3.70	-\$14.80	Pay More
FY 2011 Tax Rate - \$300k/\$200k/\$200k	0.0807	\$80.70	\$6.90	\$27.60	Pay Less
FY 2012 Tax Rate - Estimated	0.0843	\$84.30	-\$3.60	-\$14.40	Pay More
FY 2013 Tax Rate - Estimated	0.0822	\$82.20	\$2.10	\$8.40	Pay Less
FY 2014 Tax Rate - Estimated	0.0862	\$86.20	-\$4.00	-\$16.00	Pay More
FY 2015 Tax Rate - Estimated	0.0842	\$84.20	\$2.00	\$8.00	Pay Less
				<u>-\$1.20</u>	Pay Less

Council Request - No Rate Increase:

	Per \$100 AV	Per \$100,000	(Increase)/ Decrease Per \$100K	Impact For \$400k Home	
FY 2009 Tax Rate - Adopted	0.0839	\$83.90			
FY 2010 Tax Rate - Adopted	0.0876	\$87.60	-\$3.70	-\$14.80	Pay More
FY 2011 Tax Rate - \$300k/\$200k/\$200k	0.0851	\$85.10	\$2.50	\$10.00	Pay Less
FY 2012 Tax Rate - Estimated	0.0855	\$85.50	-\$0.40	-\$1.60	Pay More
FY 2013 Tax Rate - Estimated	0.0851	\$85.10	\$0.40	\$1.60	Pay Less
FY 2014 Tax Rate - Estimated	0.0832	\$83.20	\$1.90	\$7.60	Pay More
FY 2015 Tax Rate - Estimated	0.0815	\$81.50	\$1.70	\$6.80	Pay Less
				<u>\$9.60</u>	PAY MORE

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 Council desires to use a portion of the bond reserve fund annually to prevent to the extent possible an increase in the bond tax rate; 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 maintain a prudent reserve, it is necessary to levy a tax upon all taxable property in the City at the rate of \$0.0851 per \$100 of assessed valuation based on the estimated secured assessed values for all rolls for fiscal year 2010-2011.

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 to calculate the Fiscal Year 2010-2011 tax rate is appropriate.

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 \$0.0851 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 17th day of August, 2010.

AYES:
NOES:
ABSENT:
ABSTAIN:

ATTEST:

Duane Picanco, Mayor

Caryn Jackson, Deputy City Clerk