



CITY OF SACRAMENTO

28

March 18th, 1980

REAL ESTATE AND STREET ASSESSMENTS DIVISION

915 I STREET
CITY HALL ROOM 207

SACRAMENTO, CALIFORNIA 95814

TELEPHONE (916) 449-5626

CITY MANAGER'S OFFICE
RECEIVED
MAR 13 1980

IRVIN E. MORAES
REAL ESTATE SUPERVISOR

City Council
Sacramento, California

SUBJECT: Report on the Use of Assessment Districts to Finance
Public Improvements

SUMMARY

Attached are three reports which deal with the use of installing various types of improvement by the use of the Improvement Act of 1911 and Municipal Improvement Act of 1913 with the issuance of 1911 or 1915 bonds.

BACKGROUND INFORMATION

In terms of overall understanding, the place to begin when discussing public improvement assessments is with definition of terms. The casual reader tends to become confused in any discussion of 1911 vs. 1915 Act/Bonds, etc. Accordingly, the following discussion is extracted word for word from a report by recognized experts in this field:

"There are two basic reasons for assessments and assessment bonds in a given project:

- (a) To insure equitable and objective distribution of costs among the properties affected and benefited.
- (b) To provide the owners of benefited properties with the means for paying their share of the cost over a period of years at reasonable rates.

The acts relating to assessment proceedings in this state are classified as:

- (a) Assessment Acts
- (b) Assessment Bond Acts
- (c) Combined Assessment Bond Acts

The Assessment Acts are the laws which set forth the procedures for accomplishing the work of a local improvement and for levying the assessment to pay for such work. The Assessment Acts available and in common use are the Municipal Improvement Act of 1913 and the Improvement Act of 1911.

APPROVED FIN/BUD
BY THE CITY COUNCIL

MAR 18 1980

OFFICE OF THE
CITY CLERK

COMMITTEE
P.C.S.

Assessment Bond Acts set forth the procedures for the authorization and issuance of assessment bonds to represent any assessments which are not paid in cash. The Assessment Bond Acts in common use are the Improvement Bond Act of 1911 and the Improvement Bond Act of 1915.

The Act in common use for both the levy of the assessment and the issuance of bonds is the Improvement Act of 1911.

These Acts may be used in various combinations. There can be a 1913 Act assessment with a 1911 Act or a 1915 Act bond. There is no such things as a 1913 Act bond or a 1915 Act assessment."

It is the normal practice for assessment proceedings to be started by the following procedures:

1. Petition signed by over 60% of the property owners within a proposed district which states they waive the Special Assessment Investigation, Limitation and Majority Protest Act of 1931.
2. Constitution Act, whereby the Council declares the public convenience and necessity require the improvement which also waives the Special Assessment Investigation, Limitation and Majority Protest Act of 1931.
3. County Health Officer's Certificate declaring a health hazard.
4. Special Assessment Investigation, Limitation and Majority Protest Act of 1931. This Act is used when less than 60% of the property owners request improvements or when the City Engineer feels improvements are necessary.

With respect to the City of Sacramento, it has generally been our practice in the past to use 1911 Act improvement proceedings and 1915 bonds. However, the City on one occasion utilized the 1913 Improvement Act and in addition has to a limited extent made use of the 1911 Bond Act.

Historically, 1911 Act with 1915 bonds have been accepted by the public as sound investments. Due to the passage of Proposition 13, which stripped away the ability of public agencies to levy a 10¢ tax to cover any possible delinquencies on bonds issued under the 1915 Act and the current high interest rates being charged by lending institutions, these bonds are not as desirable as they were 2 years ago.

To replace the 10¢ tax levy removed by Proposition 13, recent legislation was passed whereby public entities, as part of the proceedings for an assessment district, could create a reserve account for each district which would cover any anticipated delinquencies that occur in a given district and also require the enactment of a fast foreclosure action to recover the City's expenses, thereby replenishing the reserve account.

The investment firm of Stone & Youngberg has informed City staff that due to the current market and the maximum interest rate of 10% allowed on 1915 Act bonds, these bonds are not a salable item at par value. Even with the reserve account available for 1915 bonds, these bonds will be discounted approximately 13%. They also informed us that bonds that mature in more than 15 years are no longer acceptable by the sophisticated bond buyer.

To see how the current market affects the various types of districts, see attached reports, as conditions change due to the type of improvements, whether there is a City Contribution or not, which Improvement Act is used and the type of bonds issued.

FINANCIAL DATA

No matter which Act or Bonds are used, there will be a financial impact on the City due to the increased cost caused by the additional administrative cost required to administer the proposed reserve accounts or servicing of 1911 Bonds. This cost increase will require the City Contributions to be increased for those districts where the City is to subsidize approximately 75% of it's cost.

RECOMMENDATION

After analyzing the three reports which are attached, it is our recommendation we proceed as follows:

1. On districts where the City is paying 75% of the cost (Del Rio Junction Street Assessment District No. 2, Del Paso Heights Assessment District No. 3, Del Paso Heights Assessment District No. 4A, Mascot and Warwick Avenues Assessment District and Southside Street Lighting Assessment District)
 - (a) Use Municipal Improvement Act of 1913 and issue 1915 Bonds
 - (b) Establish a Reserve Account recommended by Stone & Youngberg
 - (c) Establish a fast foreclosure procedure for delinquent assessments

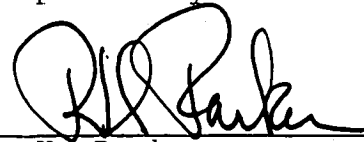
2. On districts where little or no City Contributions are involved and the property is 60% to 100% developed with homes or businesses (Brentwood and Freeport Village Street Lighting Assessment District and Kennedy Acres Sewer Assessment District)
 - (a) Use of the Improvement Act of 1913 and issuance of 1911 or 1915 Bonds
 - (b) Establish a Reserve Account for the 1915 bonds as recommended by Stone & Youngberg
 - (c) Establish a fast foreclosure procedure for delinquent assessments

3. On districts where trunk sanitary and storm sewers and water mains are to be installed in areas of very little or no development
 - (a) Use of the Improvement Act of 1911 and issuance of 1915 Bonds
 - (b) Establish a Reserve Account recommended by Stone & Youngberg
 - (c) Establish a fast foreclosure procedure for delinquent assessments

These recommendations are based on current market conditions, current 10% ceiling on 1911 and 1915 Bonds and advice from the investment firm of Stone & Youngberg.

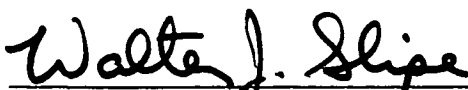
It is further recommended that none of these bonds be purchased by the City but that the contractor be required to take them as payment for this work.

Respectfully submitted,



R. H. Parker
City Engineer

Recommendation Approved



Walter J. Slupe
City Manager



CITY OF SACRAMENTO

Report No. 1

REAL ESTATE AND STREET ASSESSMENTS DIVISION

918 I STREET
CITY HALL ROOM 207

SACRAMENTO, CALIFORNIA 95814
TELEPHONE (916) 449-8828

IRVIN E. MORAES
REAL ESTATE SUPERVISOR

Budget and Finance Committee

Report: Use of Assessment Districts to Provide Various Improvements and the Issuance of 1915 Bonds Where the City is Subsidizing the District

BACKGROUND INFORMATION

The City currently has 5 assessment districts ready to go (Del Rio Junction Street Assessment District No. 2, Del Paso Heights Assessment District No. 3, Del Paso Heights Assessment District No. 4A, Mascot and Warwick Avenues Assessment District and Southside Street Lighting Assessment District) but has not started proceedings because of the uncertainty of the market on the salability of the bonds to be issued for these districts.

The investment firm of Stone & Youngberg has informed City staff that 1915 Bonds issued to cover any unpaid assessments for improvements installed by either the 1911 or 1913 Act are not a salable item at par value. Even with the reserve account available for 1915 bonds, these bonds will be discounted approximately 13%. They also informed us that bonds which mature in more than 15 years are no longer acceptable by the sophisticated bond buyer.

They have further informed us that if we were to issue 1911 Act Bonds for these districts, they are not sure they could find buyers for the bonds and if they did, the discount would be substantially greater than 13%. To see how the discount, reserve account and administrative cost affect these districts, see attached sheet marked Exhibit "A".

It has been past policy to issue 20 year bonds with level payments for districts where the City has installed complete new streets and lights and subsidizes the Assessment District approximately 75%. These bonds are not acceptable on today's market according to Stone & Youngberg. To make the bonds for these Assessment Districts acceptable will require that the duration be for 15 years with one-fifteenth of the principal being paid each year and a reserve account established to cover any delinquent installments. Changing to 15 year bonds, as mentioned above, will cause some confusion on proposed assessment districts not yet under way as neighborhood meetings have been held in the proposed districts with payment

schedules distributed to the property owners stating that we were proposing 20 year bonds with level payments at an annual rate of 8%. Also, to implement and maintain the reserve account required to make the bonds salable will require considerable staff time by the Attorney's Office, Treasurer's Office and Finance Department. The City of San Jose has informed us that to administer the few reserve accounts they have takes 30 minutes for each parcel per year.

There is a second possibility. Instead of using the Improvement Act of 1911, we could use the Municipal Improvement Act of 1913. This will allow the City to pay the contractor for work as it is completed by making progress payments to him until all of the work is completed and hopefully it will virtually eliminate any financing cost the contractor would incur.

ANALYSIS

To proceed as we have in the past for subsidized districts, there is only 8.3% difference between the City Contribution (\$635,811.00) in an Assessment District where the property owner is paying \$25.00 per foot, and installing the improvements at no cost to the property owner (\$693,165.00). If we were to continue to use the 1911 Act Proceedings and make progress payments to the contractor in the amount of the City Contribution (\$588,811.00), the difference between the City paying the entire cost (\$635,165.00) and charging the property owner \$25.00 per foot is 15%.

All indications are that it is possible to further reduce the City Contribution if we were to start these proceedings by use of the Municipal Improvement Act of 1913, whereby the assessments are levied prior to any work starting and the bonds are sold prior to the award of the contract to provide funds for making progress payments to the contractor for work as it is completed. The disadvantage to the Act is the property owner is required to pay for work not yet performed if he wishes to pay his assessment in full and not let it go to bond. If he allows it to go to bond, there is still a possibility that his first installment on the assessment will become due prior to the work being completed. It is estimated that 17.6% would be the difference between the property owner paying \$25.00 per foot with the City contributing \$570,811.00 and the City paying the entire cost of \$693,165.00.

RECOMMENDATION

To continue to upgrade the environment in areas where the City is paying approximately 75% of the cost, it is recommended that we use the Municipal Improvement Act of 1913 and issue 1915 Bonds with a reserve account established. It is further recommended that the maximum interest rate of 10% be charged on the bonds. The reserve accounts are going to create an additional work load on the Attorney's Office, Treasurer's Office and Department of Finance due to their administration of this account.

EXHIBIT "A"

A typical Assessment District where the City is paying a majority of the cost and is proposing to issue 1915 Bonds.

| | (1) Prior to the Current Market (Imp. Act of 1911) | (2) Based on Current Market (Imp. Act of 1911) | Based on Current Market With Pro- gress Payments (Imp. Act of 1911) | Based on Current Market With Pro- gress Payments (Muni. Imp. Act of 1913) | No cost to Property Owners |
|------------------------------|--|--|---|---|----------------------------------|
| Est. Contract Cost | \$727,473.00 | \$727,473.00 | \$680,473.00 | \$662,473.00 | \$662,473.00 |
| Est. Engineering | 30,692.00 | 30,692.00 | 30,692.00 | 30,692.00 | 30,692.00 |
| Est. Bond Counsel Fee | 3,986.00 | 3,986.00 | 3,986.00 | 3,986.00 | -0- |
| Est. Bond Printing Cost | 2,300.00 | 2,300.00 | 2,300.00 | 2,300.00 | -0- |
| Est. Discount on Bonds (13%) | -0- | 24,960.00 | 24,960.00 | 24,960.00 | -0- |
| Est. Reserve Account (5%) | -0- | 9,600.00 | 9,600.00 | 9,600.00 | -0- |
| Est. Admin. Cost (15%) | -0- | 28,800.00 | 28,800.00 | 28,800.00 | -0- |
| Est. Total Cost | <u>\$764,451.00</u> | <u>\$827,811.00</u> | <u>\$780,811.00</u> | <u>\$762,811.00</u> | <u>\$693,165.00</u> |
| Est. City Contribution | 572,451.00 | 635,811.00 | 588,811.00 | 570,811.00 | 693,165.00 |
| Est. Amount to be Assessed | <u>\$192,000.00</u> | <u>\$192,000.00</u> | <u>\$192,000.00</u> | <u>\$192,000.00</u> | <u>-0-</u> |

(1) and (2) above is where the City is not making any progress payments to the Contractor with a lump sum payment upon completion of the work.



CITY OF SACRAMENTO

Report No. 2

REAL ESTATE AND STREET ASSESSMENTS DIVISION

915 I STREET
CITY HALL ROOM 207

SACRAMENTO, CALIFORNIA 95814
TELEPHONE (916) 449-8628

IRVIN E. MORALES
REAL ESTATE SUPERVISOR

Budget and Finance Committee

Report: Use of Assessment Districts to Provide Various
Improvements and Issuance of 1915 or 1911 Bonds
Where There is Little or no City Contribution

BACKGROUND INFORMATION

The background information is basically the same as that for issuance of 1915 Bonds as stated in the report for subsidized districts only the discount percentage on the bonds would change.

In this report we will talk about improvements in areas where 60 to 100% of the parcels are improved with homes or businesses. Two examples are Brentwood and Freeport Village Street Lighting Assessment District and Kennedy Acres Sanitary Sewer Assessment District. These projects can be done by either of the following methods: Improvement Act of 1911 and issuance of 1911 or 1915 bonds, Municipal Improvement Act of 1913 and issuance of 1911 or 1915 Bonds. See attached Exhibit "B" for how the various Acts and Bonds affect the cost of the Districts.

FINANCIAL DATA

The financial impact to the City for these projects will be the additional work load of administrating the Reserve Account for 1915 Bonds or processing 1911 Bonds which will hopefully be borne by the property owner through an increase in their assessment.

RECOMMENDATION

It is recommended that we use both the 1911 Impr. Act or 1913 Impr. Act for this type of district with a determination being based on the type of improvement district and what the current market dictates at the time the proceeding is started.

CONTINUED EXHIBIT "B"

60% Developed

Kennedy Acres Sewer Assessment District (48 parcels)

| | 1911 Act with 1915 Bonds | 1911 Act with 1911 Bonds | 1913 Act with 1915 Bonds | 1913 Act with 1911 Bonds |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Est. Contract Cost | \$209,924.00 | \$209,924.00 | \$193,130.00 | \$193,130.00 |
| Est. Engineering | 18,628.00 | 18,628.00 | 17,033.00 | 17,033.00 |
| Est. Bond Council Fee | 1,424.00 | 1,424.00 | 1,340.00 | 1,340.00 |
| Est. Bond Printing Cost | 940.00 | 240.00 | 940.00 | 240.00 |
| Est. Discount on Bonds (13%) | 35,480.00 | (20%) 46,620.00 | (13%) 35,670.00 | (20%) 46,925.00 |
| Est. Reserve Account (5%) | 10,500.00 | -0- | 10,500.00 | -0- |
| Est. Administrative Cost (15%) | 31,500.00 | 2,880.00 | 31,500.00 | 2,880.00 |
| Est. Contingency | -0- | -0- | 20,000.00 | 20,000.00 |
| | <u>\$308,396.00</u> | <u>\$279,716.00</u> | <u>\$310,113.00</u> | <u>\$281,548.00</u> |

Analysis

Even though 1911 Act with 1911 Bonds represents the most inexpensive way to proceed, there is some doubt that the Contractor could find a buyer for the 1911 Bonds, therefor, the possibility no bid would be received. It is therefor recommended that we proceed on the type district with the use of 1911 Act with 1915 Bonds.

EXHIBIT "B"

100% Developed

Brentwood & Freeport Village Street Lighting Assessment District (288 units)

| | 1911 Act 1915 Bonds | 1911 Act 1911 Bonds | 1913 Act 1915 Bonds | 1913 Act 1911 Bonds |
|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Est. Contract Cost | \$100,000.00 | \$100,000.00 | \$ 92,000.00 | \$ 92,000.00 |
| Est. Engineering | 8,725.00 | 8,725.00 | 8,725.00 | 8,725.00 |
| Est. Bond Council Fee | 875.00 | 875.00 | 835.00 | 835.00 |
| Est. Printing Cost | 1,350.00 | 1,300.00 | 1,350.00 | 1,300.00 |
| Est. Discount on Bonds | (10%) 12,995.00 | (20%) 25,300.00 | (10%) 12,499.00 | (20%) 24,612.00 |
| Est. Reserve Account (4%) | 4,000.00 | -0- | 3,680.00 | -0- |
| Est. Administrative Cost (15%) | 15,000.00 | 15,600.00 | 13,800.00 | 15,600.00 |
| Est. Contingency (5) | -0- | -0- | 4,600.00 | 4,600.00 |
| | <u>\$142,945.00</u> | <u>\$151,800.00</u> | <u>\$137,489.00</u> | <u>\$147,672.00</u> |
| | \$496.00 per lot or unit | \$527.00 per lot or unit | \$477.00 per lot or unit | \$513.00 per lot or unit |

Analysis

Because of the smallness of the Assessments, ranging from \$477.00 to \$527.00 for a lot, it seems that the 1911 Act, 1915 Bonds would be the best way to proceed.



CITY OF SACRAMENTO

Report No. 3

REAL ESTATE AND STREET ASSESSMENTS DIVISION
818 I STREET
CITY HALL ROOM 207

SACRAMENTO CALIFORNIA 95814
TELEPHONE (916) 449-3828

IRVIN E. MORAES
REAL ESTATE SUPERVISOR

Budget and Finance Committee

Report: Use of Assessment Districts to Install Trunk Sanitary and Storm Sewers and Water Transmission Mains into Areas Where There is Little or no Development

BACKGROUND INFORMATION

The background information is basically the same as that for issuance of 1915 Bonds as stated in the prior two reports. Again, only the discount percentage and reserve account for the bonds will change. This report deals with areas that are basically undeveloped and have no trunk sewers or water main in the area.

The installation of trunk sewer and water mains is the first step to enable raw land to become developed for either residential or industrial use. Because these areas generally are not in one ownership, it is virtually impossible for developers or individuals to install these improvements by themselves.

This is the reason for the various Improvement Acts that are available to public agencies to use for installing various types of public improvements. The City currently has two such districts either under design (Morrison Creek Storm, Sanitary and Water Main Assessment District), or ready to start (Florin Road Storm and Sanitary Sewer Assessment District). Both of these districts have several owners involved and you cannot install trunk facilities to a parcel without providing benefit to it's surrounding parcels.

On these types of districts, Stone & Youngberg has suggested that we use the Improvement Act of 1911 and 1915 Bonds and create a 7% Reserve Account with an estimated 13% discount being given to the bonds and that we also provide for the fast foreclosure proceedings.

FINANCIAL DATA

No City funds are involved in these type projects, but again, there is the additional administrative cost to handle the Reserve Account which we hopefully will recover by including this cost in the Assessment District.

RECOMMENDATION

Continue as we have in the past for these type districts with 1911 Act and issuance of 1915 Bonds.

EXHIBIT "C"

A typical Assessment District, where there is no City Contribution, the property is virtually vacant and we are providing trunk facilities only (Florin Road Storm and Sanitary Sewer Assessment District)

| | Based on the current Market 1911 Act 1915 Bonds | Based on current Market 1913 Act 1915 Bonds |
|--------------------------------|---|---|
| Est. Contract Cost | \$1,133,650.00 | \$1,042,958.00 |
| Est. Engineering | 103,755.00 | 95,706.00 |
| Est. Bond Council Fee | 6,610.00 | 5,590.00 |
| Est. Bond Printing Cost | 3,000.00 | 3,000.00 |
| Est. Discount on Bonds (13%) | 186,428.00 | 188,665.00 |
| Est. Reserve Account (7%) | 100,384.00 | 101,590.00 |
| Est. Administrative Cost (15%) | 187,052.00 | 189,296.00 |
| Est. Contingency (10%) | -0- | 114,725.00 |
| | <hr/> \$1,720,879.00 | <hr/> \$1,741,530.00 |



CITY OF SACRAMENTO

OFFICE OF THE CITY CLERK

915 I STREET

CITY HALL ROOM 203

SACRAMENTO, CALIFORNIA 95814

TELEPHONE (916) 449-5426

LORRAINE MAGANA
CITY CLERK

MEMORANDUM

TO: WALTER J. SLIPE, CITY MANAGER

FROM: JACI PAPPAS, ACTING CITY CLERK *J.P.*

SUBJECT: REFERRAL OF ITEM NO. 28, AGENDA OF MARCH 18, 1980

DATE: MARCH 20, 1980

Pursuant to Council action, the following subject matter is referred for action deemed necessary:

1. Council adopted staff recommendations 1 & 2 conditional upon report re: specific mechanics to establish reserve funds to come back to Budget & Finance Committee and Council.
2. Request reports re: Recommendation 3:
 - a. Whether City should provide reserve fund and if so where money to come from; and,
 - b. Feasibility of not bonding at all.

(Use of A/D's to finance public imprv.)

cc: City Engineer
Real Estate Supvr.