# CITY OF SACRAMENTO

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March 9, 1982
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APPROVED
BY THE CITY COUNCIL

APR 13 1982

OFFICE OF THE
CITY CLERK

City Council
Sacramento, California

Honorable Members in Session

SUBJECT: City Council Policy on Funding Legally Required Assessment Delinquency Reserve Funds for Future 1915 Act Special Assessment District

## SUMMARY

This report addresses the policy issue of funding required reserve funds for future 1915 Act Special Assessment District. It is recommended that the attached resolution be adopted.

## BACKGROUND

Prior to the passage of Proposition 13 in June 1978, 1915 Act Special Assessment Bonds were backed by the taxing authority of the City of Sacramento. By State statute, the City was empowered to levy up to a 10¢ Property Tax Override levy to finance delinquent assessments. While this taxing authority was never actually used, it was nevertheless available and this security made the City's assessment bonds readily marketable.

Subsequent to the passage of Proposition 13, the "10¢ Tax Override Authority" has been eliminated. In its place, a new State law allows for creation of a special assessment district "Delinquency Reserve Fund". Under current market conditions, bond buyers are demanding delinquency reserve funds not to exceed 15% of the total assessments levied under the proceedings.

## ANALYSIS

The Delinquency Reserve Fund basically can be financed in one of two ways:

1) The Delinquency Reserve Fund Can be Financed by a Contribution From the City

Advantages:

a) Easy to administer by City staff.

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b) Interest earned on reserve returns to City General Fund.

c) Eliminates need to increase costs to parcel owners in subsidized improvement districts.

Disadvantages:

a) Requires a significant City contribution which can not return to City until bonds are retired...in some cases tying up the funds for 20 years.

b) Could be considered an indirect subsidy to developers.

The City Council Budget and Finance Committee does not recommend this alternative.

2) The Delinquency Reserve Fund Can be Financed By the Special Assessment District

a) Eliminates need for City contribution.

b) Eliminates appearance of subsidy to developers.

Disadvantages

a) Creates administrative difficulties for City staff because interest earnings must be credited to each individual parcel.

b) Requires that guaranteed front footage costs in City subsidized districts must be increased to provide for the delinquency reserve. Said reserve would, however, be returned to the property owner at the point in time when all bonds are retired.

The City Council Budget and Finance Committee recommends this alternative be adopted as future City policy.

The disadvantages of the recommended alternative can be mitigated as follows:

a) City staff in accordance with the recommended policy will only credit interest to individual parcels when related bonds are retired. Generally, this means only once at the termination of the district. This interest credit will be in the form of a credit to the final assessment billing.

In the case of early payoffs and retirement of bonds, the City Treasurer will refund a prorata share of the Reserve Fund and interest earnings on said funds.

The above process will be performed manually until such time as the automated systems can be modified to incorporate these new required procedures.

b) With respect to subsidized assessment districts in impoverished areas, the delinquency reserve fund will be added to the cost to individual parcel owners's. (Example 1: $25.00 per front currently used will need to be increased to $26.25 to cover the 5% reserve account. Example 2: If the $25.00 per front foot is retained, the actual cost to the property owners will be $23.75 per front foot with the $1.25 being held in trust for the reserve account, thus increasing the participation of the C.D.B.G. Fund. The City Council will, however, review these districts on a case by case basis and may on occasion fund the reserve fund from City funds where extreme hardship is demonstrated.

FINANCIAL

At the present time, the Engineering Department estimates there are approximately $20,000,000 worth of assessment district projects currently on the drawing boards. Approximately 30% of this total represents subsidized districts in improverished areas.

Delinquency reserve funds on the $20 million would be required as follows:

| | 5% Reserve | 15% Reserve |
|---|---|---|
| Subsidized Districts | $ 300,000 | $ 900,000 |
| Non Subsidized Districts | 700,000 | 2,100,000 |
| Total | $1,000,000 | $3,000,000 |

RECOMMENDATION

That the City Council adopt the attached resolution relating to City policy with respect to financing assessment district delinquency reserve funds.

Respectfully Submitted,

JACK R. CRIST
Director of Finance

THOMAS P. FRIERY
City Treasurer

APPROVED:

WALTER J. SLIPE
City Manager

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# RESOLUTION NO. 82-252

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

APPROVED BY THE CITY COUNCIL
APR 13 1982
OFFICE OF THE CITY CLERK

RESOLUTION ESTABLISHING COUNCIL POLICY RESPECTING SPECIAL SECURITY FUNDS ESTABLISHED UNDER THE IMPROVEMENT BOND ACT OF 1915 BY SPECIAL ASSESSMENTS LEVIED ON LANDS IN SPECIAL ASSESSMENT DISTRICTS

WHEREAS, the City Council desires to encourage the construction of public improvement work, not only in new neighborhoods being created from new subdivisions, but also in older, fully developed neighborhoods; and

WHEREAS, the Improvement Act laws of the State of California provide a statutory plan for the legislative body of a city to conduct public improvement proceedings, and thereby to cause local public improvement work to be done on public streets and easements in the city, and authorize the legislative body of the city to create geographic areas known as Special Assessment Districts, and authorize the legislative body of the city to assess the costs and expenses of doing and constructing such local public improvement work on the lands located within the boundaries of such Special Assessment Districts by means of affixing Special Assessment Liens on such lands located inside the boundaries of said Special Assessment Districts; and,

WHEREAS, one of the Improvement Act laws of the State of California is the Improvement Bond Act of 1915 (Division 10 of the Streets and Highways Code); and,

WHEREAS, one of the provisions of said Improvement Bond Act of 1915 allows the legislative body of a city to create a Special Security Fund for the benefit of bonds that the legislative body will cause to be issued to represent assessments that the legislative body affixes on lands in a Special Assessment District, and that remain unpaid at the end of a cash collection period set by Improvement Act law; and,

WHEREAS, the Improvement Bond Act of 1915 provides the means by which the legislative body of a city creates a Special Security Fund for the benefit of bonds issued to represent unpaid assessments is to assess the lands in said Assessment District for the amount of said Special Security Fund, and in the case of a public improvement proceeding that the city conducts under the Improvement Act of 1911, to cause the contractor to pay said amount to the city as an incidental expense of the proceedings, or in the case of a public improvement proceeding that the city conducts under the Municipal Improvement Act of 1913, to cause the Treasurer to set apart said sum from the proceeds of the sale of bonds the amount contained in the assessment for the Special Security Fund; and,

WHEREAS, the Improvement Bond Act of 1915 provides that such a Special Security Fund for the benefit of the bonds to be so issued to represent such unpaid assessments shall not exceed fifteen percent (15%) of the total amount of the assessments that the legislative body of the city levies in the public improvement proceedings; and,

WHEREAS, the Improvement Bond Act of 1915 provides that monies in said Special Security Fund may be transferred into the Redemption Fund for such 1915 Act bonds, when said Redemption Fund is deficient by reason of property owners not having paid to the Finance Officer the installment payments on their assessments at their due date; and,

WHEREAS, it may occur that a Special Security Fund created for outstanding bonds issued upon the unpaid assessments in a certain Assessment District will be depleted, and will be exhausted temporarily at the time when a landowner in that particular Assessment District elects to advance the maturity of his unpaid assessment, and to pay it in full, currently, and not over a period of years in installments.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

1. It is the policy of the City that local public improvements constructed and financed under Improvement Act proceedings provided for in the laws of the State of California shall be encouraged, and that in all cases where the City Council deems that a Special Security Fund created under the provisions of the Improvement Bond Act of 1915 will be beneficial to the proceedings for the construction and financing of such local public improvement work, that the City include in the assessments levied on benefiting lands located in the Special Assessment District created in the improvement proceedings an amount necessary to create such a Special Security Fund, which amount shall not exceed the ceiling amount set in the Special Security Fund provisions of the Improvement Bond Act of 1915.

2. That the Treasurer and the Finance Officer, and all City personnel administering and working with each Fund so created, shall maintain its identity with the Special Assessment District, and the lands therein that were specially assessed to create said Special Security Fund, and the Treasurer and the Finance Officer, and all City personnel shall administer each Special Security Fund at all times in accordance with the provisions in the Improvement Bond Act of 1915 directing the administration, use of, and refunds from Special Security Funds.

3. That should it occur that:

(a) At the time when an owner of real property located in a Special Assessment District who did not elect to pay in full his assessment in the cash collection period set in the Improvement Act under which the City levied the Special

Assessment on his land shall, after the close of said cash collection period, elect to advance the maturity of the assessment on his lands, and to prepay it in full and not in installments over a period of years; and,

(b) Should it occur that a Special Security Fund was created in the assessment levied on the lands located in that Special Assessment District; and,

(c) Should it occur that at the time when such an owner elects to advance the maturity of the assessment levied on his land and to prepay it in full, there is temporarily not enough money in the Special Security Fund to repay the pro rata share in the Special Security Fund, that the law created in the Fund for his property at the time when his property was assessed to create the Special Security Fund, and, also the pro rata share of all other components of the Fund allocable to that property,

then in such a case, it is hereby declared to be the policy of the City that no monies be transferred into the Special Security Fund for that Special Assessment District from the General Fund or from any other Fund, and that the property owner shall wait until the time when foreclosure proceedings to sell lands in said Special Assessment District where delinquent assessments exist shall have caused the Special Security Fund for that District to be filled with enough money to pay the share in said Special Security Fund, allocated by law to that owner's real property, and at the time when such amount of money has been placed in the Special Security Fund by such means, then to promptly pay to the property owner his said pro rata share of the Special Security Fund.

MAYOR

ATTEST:

CITY CLERK