

CITY COUNCIL / COMMUNITY
REDEVELOPMENT AGENCY MEETING
FY 2011-2013 BUDGET PROPOSAL



May 4, 2011

6:30 pm

Sierra Madre City Council Chambers

232 W. Sierra Madre Blvd.

Sierra Madre, California 91024

Sierra Madre City Council / Board Members

Mayor John Buchanan, Mayor Pro Tempore Josh Moran,
Council Members MaryAnn MacGillivray, Joe Mosca, and Nancy E. Walsh

City of Sierra Madre, California

Village of the Foothills
2007 All-America City Recipient



Debt Administration FY 2011-2013





DEBT ADMINISTRATION

Debt management is an important component of a Sierra Madre's financial management practices. Cities use the option of debt financing to fund large projects at a time when paying for these projects out of current revenues would be impractical. Since the City does not have a formally adopted debt policy, State law pertaining to local government debt, and past City debt transactions do serve as a de facto policy. As part of our on-going debt management program, the City periodically reviews all outstanding debt to evaluate the cost/benefit of restructuring or retiring any outstanding debt. All debt service payments are budgeted and are anticipated to be covered by current revenues each year.

It is often equitable to spread the cost of a project over time, thereby sharing the cost burden for the project with both current and future taxpayers who will benefit from the project. For such long-term investments, borrowing is the most appropriate means for the City to maintain its assets and build for the future. Additional factors that influence City borrowing included the amount of outstanding debt, the opportunity cost of borrowing, and the cost of borrowing in the credit markets.

Examples of projects which are of long-term public interest and which enhance the community's quality of life, include: Water Treatment and Reservoir projects funded by the 1998 and 2003 Water Bonds, and Senior Housing project partially funded by the Community Redevelopment Agency 1998 bonds.

TYPES OF DEBT

Capital Leasing can be used to acquire tangible assets where there is a pledge to pay the debt from current annual receipts and where the acquired assets can be placed under a lien until the debt obligation is paid off. The City of Sierra Madre has used capital leasing to acquire equipment. In FY 2009-2010, the City, as part of the long term capital purchase plans, purchased four major equipment vehicles through the use of a new ten-year master lease. The General Fund Fire Safety acquired a water tender and fire apparatus; the Sewer Fund acquired a vactor truck; and the Fleet-Internal Services Fund acquired a CAT-Loader. The total estimated capital purchase was \$1.6 million; however, the Fleet-Internal Services fund refunded \$300,000 of its estimated costs. (As of the date of budget proposal the refinancing is still taking place and will be updated at adoption.)



**CITY of SIERRA MADRE
DEBT ADMINISTRATION
FY 2011-2013**

General Obligation Debt: A bond secured by a pledge of the issuer's taxing powers (limited or unlimited). More commonly the general obligation bonds of local governments are paid from ad valorem property taxes and other general revenues. Considered the most secure of all municipal debt. Limited in California by Proposition 13 to debt authorized by a vote of two-thirds of voters in the case of local governments or a simple majority for state issuance. The City of Sierra Madre does not currently have any General Obligation Bonds

Tax Increment Financing, or TIF, is a public financing method which has been used as a subsidy for redevelopment and community improvement projects in many cities in California (and throughout the country) for more than 50 years. The City has one twenty year Tax Increment Financing Bond for the Community Redevelopment Agency (CRA). These funds are used support general operations of the CRA, infrastructure and capital purchases within the Project Area, and providing Low-Moderate housing within the City. Use of Tax Increment Financing bonds is used in correlation with the Project Area's Five Year Plan adopted October 2010.

Within the CRA Debt Fund, the budget reflects the annual interest payments for the 2003 Tax Increment Bonds, \$135,625 in FY 2011-2012 and \$122,500 in FY 2012-2013. Under the modified accrual method, the bond principal payment is also appropriated in the budget process; the payments are \$255,000 in FY 2011-2012 and \$270,000 in FY 2012-2013.

CRA BOND PAYMENTS FOR FY 2011-2013

FYE	RATE	PRINCIPAL DUE	SERIAL REDEMPTION INTEREST	TOTAL DEBT SERVICE
2012	5.00%	\$ 255,000	\$ 135,625	\$ 390,625
2013	5.00%	\$ 270,000	\$ 122,500	\$ 392,500

Special Assessment Districts can be used to finance infrastructure for a limited area of the City. With this kind of debt, special assessments, or special taxes are levied against the property owners in a defined district who directly benefit from the infrastructure improvement. The City of Sierra Madre has used this type of debt to finance infrastructure for specific services approved by the property owners within the assessment districts. Examples include: sewer, street lighting, and downtown landscaping assessment districts.



**CITY of SIERRA MADRE
DEBT ADMINISTRATION
FY 2011-2013**

Special Revenue Debt can be used to finance capital projects where there is a pledge to pay the debt from a stream of revenue accruing to the City. This form of debt is used to finance facilities and improvements from enterprise fund activities, which generate ongoing revenues. The City of Sierra Madre has used this type of debt for its water enterprises with the issuance of the 1998 and 2003 Water Bonds. Revenues are collected through customer fees on the utility bills.

The Water budget does include the annual interest payments for the 1998 and 2003 Revenue Bonds, \$498,345 in FY 2011-2012 and \$480,245 in FY 2012-2013. Under the full accrual method, the bond principal payment is shown as a Balance Sheet and Cash Flow entry only; the payments are \$350,000 in FY 2011-2012 and \$370,000 in FY 2012-2013. The principal amounts represent only the 1998 Revenue Bonds. The Water fund will begin making principal and interest payments on the 2003 Revenue Bonds in 2020 after the 1998 Revenue Bonds are repaid in 2019.

Beginning in FY 2012-2013, the Water Fund will begin repayment of the 10 year interest free loan to the San Gabriel Valley Municipal Water District (SGVMWD); \$145,688 annually until FY 2020-2021. The City received a two year extension from SGVMWD allowing time for the City to implement its first water rate increase since 2005 following the Proposition 218 Bighorn Decision. The SGVMWD loan extension allows the City to maintain its Debt Service Coverage at 1.01 in FY 2011-2012 and 1.2 in FY 2012-2013. Like the bond principal payment, the loan payment is not reflected in the annual budget of the Water Fund, but is only reported in the annual financial statements.



CITY of SIERRA MADRE
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WATER REVENUE BONDS (1998 SERIES) PAYMENTS FOR FY 2011-2013

FYE	RATE	PRINCIPAL DUE	SERIAL REDEMPTION INTEREST	TOTAL DEBT SERVICE
2012	5.00%	\$ 350,000	\$ 159,000	\$ 509,000
2013	5.00%	\$ 370,000	\$ 141,000	\$ 511,000

WATER REVENUE BONDS (2003 SERIES) PAYMENTS FOR FY 2011-2013

FYE	RATE	PRINCIPAL DUE	SERIAL REDEMPTION INTEREST	TOTAL DEBT SERVICE
2012	5.00%	\$ 0	\$ 339,345	\$ 339,345
2013	5.00%	\$ 0	\$ 339,345	\$ 339,345

SAN GABRIEL VALLEY WATER DISTRICT TEN-YEAR INTEREST FREE NOTE
PAYMENTS FOR FY 2012-2013

FYE	RATE	PRINCIPAL DUE	SERIAL REDEMPTION INTEREST	TOTAL DEBT SERVICE
2012	0.0%	\$ 0	\$ 0	\$ 0
2013	0.0%	\$ 145,688	\$ 0	\$ 145,688



OUTSTANDING DEBT

Tax Increment Revenue Refunding Bonds, Series 1998A

- *Purpose:* to refund the 1988 Community Redevelopment Agency Debt and to fund improvements within the Agency Project area
- *Issue Date:* May 1, 1998
- *Maturity Date:* November 1, 2020
- *Original Principal Amount:* \$5,175,000
- *July 1, 2011 Principal Outstanding:* \$ 2,335,000
- *Interest Rate:* 3.8% - 5.0%
- *Funding Source:* property tax revenue from Community Redevelopment Project Area

Water Revenue Refunding Bonds, Series 1998A

- *Purpose:* to refund the 1988 Water Enterprise Debt and to fund improvements and betterments within the Water Infrastructure
- *Issue Date:* May 1, 1998
- *Maturity Date:* November 1, 2019
- *Original Principal Amount:* \$6,740,000
- *July 1, 2011 Principal Outstanding:* \$3,385,000
- *Interest Rate:* 3.65% - 5.0%
- *Funding Source:* fees for water services

Water Revenue Parity Bonds, Series 2003

- *Purpose:* to fund improvements and betterments within the Water Infrastructure
- *Issue Date:* September 1, 2003
- *Maturity Date:* November 1, 2034
- *Original Principal Amount:* \$6,750,000
- *July 1, 2011 Principal Outstanding:* \$6,750,000
- *Interest Rate:* 5.00% - 5.01%
- *Funding Source:* fees for water services

San Gabriel Valley Municipal Water District: Interest Free 10-year Note

- *Purpose:* to fund improvements and betterments within the Water Infrastructure
- *Issue Date:* December 1, 2009
- *Maturity Date:* December 1, 2021
- *Original Principal Amount:* \$1,456,875
- *July 1, 2011 Principal Outstanding:* \$1,456,875
- *Interest Rate:* 0%
- *Funding Source:* fees for water service



Master Lease (Municipal Financing Corp):

- *Purpose:* to fund equipment for the General Fund-Fire Safety, Sewer Fund, and Fleet-Internal Services fund
- *Issue Date:* March 1, 2010
- *Maturity Date:* March 1, 2021
- *Original Principal Amount:* \$1,657,731
- *July 1, 2011 Principal Outstanding:* \$1,523,624
- *Interest Rate:* 4.63%
- *Funding Source:* General Fund, Sewer Fund, Fleet-Internal Services Fund