

IMPARTIAL ANALYSIS OF CITY ATTORNEY
CITY OF MILLBRAE GENERAL OBLIGATION BOND ISSUE
NOVEMBER 6, 2018 ELECTION

The City of Millbrae proposes to issue \$12 million of general obligation bonds to finance the reconstruction of the Millbrae Recreation Center which was destroyed by fire in 2016. The California Constitution authorizes a city to issue general obligation bonds if approved by a 2/3 affirmative vote of those persons voting. The city then pays off the general obligation bonds with revenues obtained from a property tax levied against all parcels of real property, including residential, commercial and industrial, within the city.

According to the tax rate statement provided by the City's Financial Advisor, the approximate cost for a homeowner is \$8.70 for every \$100,000 of assessed value. The City's estimate of the highest tax rate that would have to be levied to fund this bond issue is \$13.50 per \$100,000 of assessed value. The levy would begin in Fiscal Year 2019-2020. The City estimates total debt service of \$21,536,000, including principal of \$12,000,000 plus interest required to be repaid if all the bonds are issued and sold. These estimates, however are merely projections. Actual future tax rates will depend on market conditions when bonds are sold, the number of series and the timing of the bond sales, and actual assessed valuation over the term of the bonds. The City's estimates conservatively assume a 3.4% annual assessed valuation growth. Lower growth rates would mean higher average annual tax rates, while higher growth rates would mean lower tax rates. The City's average annual assessed valuation growth rate for the 10 years ending 6/30/17 is 5.6%.

The City's current debt level, payable from property taxes, is approximately 0.2% of total assessed value, which is well below the maximum 15% authorized by the California Constitution.

General obligation bonds are typically the most cost effective bonds a city can issue. The interest rate for the bonds cannot exceed the legal limit of 12%. Presently, the interest rate for 30 year bonds would slightly exceed 4.25%. The City has determined that other financing alternatives to support this project are either unavailable because there is no source of money for debt repayment or unaffordable in terms of both interest rates and annual administrative costs.

The bond proceeds will help finance the reconstruction of the Millbrae Recreation Center at the same location as the destroyed Community Center. The City has solicited community input since 2016 and in February of 2018 adopted a Master Plan Report and Implementation Plan focused on reconstructing the Recreation Center as quickly as possible and in a manner that suits Millbrae's current needs.

A study of the Recreation Center reconstruction estimates the total project cost at \$30 million: \$12 million to be paid from bond proceeds and \$18 million to be covered by developers' contributions, the City's insurance reimbursement for the destroyed Community Center, and such other private/public sources including grants or loans that may be available for this purpose.

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