

# CITY OF HERCULES



**Municipal Financial  
Advisory Services**



# General Obligation Bonds vs. Lease Revenue Bonds

# Credit Sectors

	<div> Higher Credit Quality <div>→</div> Lower Credit Quality </div>				
Security Type	General Obligation Bonds	Enterprise Revenue Bonds	Lease Revenue Bonds / COPs	Tax Allocation Bonds	Land-Secured Bonds
Revenue Pledge	Secured by property taxes (cities, schools, special districts) or general fund (state).	Net revenue pledge with rate covenant (water or sewer services, tolls, parking fees, sales tax, etc.).	Lease payments for use of asset (typically essential property is leased back from third party); there is a general fund appropriation.	Tax increment revenue from increased assessed valuation in defined redevelopment project area.	Special tax or assessment on property. Bonds are backed by property in defined area.
Vote Required?	Yes. In California there is a 2/3 vote for local bonds; school districts have the option for 55% approval. California state bond measures require a simple majority vote for passage.	No public vote required. Approval by agency board is required. Sales tax may require registered voter election.	No public vote required. Approval by agency board is required.	No public vote required. Approval by agency board is required. Public process required to establish project area.	Yes. In California a 2/3 vote by property owners for Community Facilities Districts (CFDs) and simple majority for assessment districts (ADs).

# General Obligation Bonds

## ❖ Overview

- ❖ Annual tax levied on property tax roll in proportion to total assessed property values
- ❖ 2/3rds voter approval or 55% for certain school G.O. bonds (Proposition 39)
- ❖ Voters approve total bond amount and use of proceeds, not tax rate or annual payment

## ❖ Advantages

- ❖ Generates new revenue source to repay debt
- ❖ Broad-based tax support for public improvements
- ❖ Lowest interest cost due to ad valorem security and unlimited tax pledge

## ❖ Disadvantages

- ❖ Time, expense and uncertain outcome of election
- ❖ Property tax increase

## ❖ When Used?

- ❖ Typically for projects with broad political support – varies by community



# City Bond & Assessed Value History

City of Hercules Historical Assessed Value		
Year	Total Assessed Value	% Change
2014	\$2,432,594,373	
2015	\$2,864,065,832	17.74%
2016	\$3,034,936,504	5.97%
2017	\$3,279,462,767	8.06%
2018	\$3,505,453,844	6.89%
2019	\$3,654,869,380	4.26%
2020	\$3,873,305,959	5.98%
2021	\$4,113,845,828	6.21%
2022	\$4,341,814,600	5.54%
2023	\$4,506,106,654	3.78%
2024	\$4,675,408,790	3.76%
Average		6.82%

Source: Urbics Analytics LLC

- ❖ The City's tax base has grown by 92% since 2014
- ❖ The City's 2023-24 assessed value is approximately \$4.7 billion; the average annual AV growth rate is 6.8%

# General Obligation Bond Proceeds

- ❖ The City can generate between \$27.9 million and \$44.0 million

City of Hercules Bond Proceeds at Varying Tax Rates <sup>(1)</sup>				
Tax Rate per \$100,000 of A.V.	Series A 2025	Series B 2027	Series C 2029	Total Bond Proceeds
<b>\$19.00</b>	\$9,200,000	\$8,800,000	\$9,900,000	\$27,900,000
<b>\$25.00</b>	\$12,100,000	\$11,600,000	\$13,000,000	\$36,700,000
<b>\$30.00</b>	\$14,400,000	\$14,000,000	\$15,600,000	\$44,000,000

(1) Assumes AV growth of 3.50% and 30 year bond terms; Preliminary – Subject to change

Source: Urban Futures, Inc.

- ❖ With projected annual assessed value growth of 3.50%, the City of Hercules can generate up to \$44.0 million
- ❖ At more aggressive growth rates or a longer bond program, the City could generate up to \$50.0 million
- ❖ Depending on tax rate selected and assessed value assumptions, the City can generate significant proceeds

# Lease Revenue Bonds

## ❖ Overview

- ❖ Lease-leaseback structure with third-party entity
- ❖ Issuer covenants to appropriate annual lease payments from general fund
- ❖ May be structured as lease revenue bonds or “certificates of participation” (“COPs”)
- ❖ Not subject to constitutional debt limits

## ❖ Advantages

- ❖ No voter approval required
- ❖ Fairly quick financing process

## ❖ Disadvantages

- ❖ Requires leasable essential assets of value  $\geq$  borrowing amount
- ❖ Competes with other general fund priorities

## ❖ When Used?

- ❖ For projects of general community benefit
- ❖ To indirectly leverage a general fund revenue stream
- ❖ To provide “credit enhancement” for less credit-worthy borrowing or for desired “risk-sharing”



# City General Fund Obligations

- ❖ The City has two series of Lease Revenue Bonds outstanding
  - ❖ 2009 Taxable Lease Revenue Bonds debt service is paid by Bio-Rad
  - ❖ 2020 Lease Revenue Refunding Bonds
    - ❖ Encumbers Civic Center
    - ❖ Annual debt service approximately \$562,000

Series	Dated Date	Outstanding Par	Coupon Range	Tax Status	Final Maturity	Call Date
<b>General Fund Obligations</b>						
2009 Taxable Lease Revenue Bonds (Bio-Rad)*	Jul 2009	\$7,930,000	7.00%-8.40%	Taxable	Jul 2038	Jul 2019
2020 Lease Revenue Refunding Bonds	Aug 2020	\$5,490,180	2.210%	Tax-Exempt	Dec 2033	Any Time
H.E.L.P Loan	Apr 2005	\$1,363,521	1.500%	*	Apr 2027	*
R.D.L.P Loan	Feb 2007	\$3,750,000	1.500%	*	Aug 2026	*
Engie Energy Conservation Loan	Aug 2020	\$4,000,642	2.710%	Tax-Exempt	Sep 2040	*
<b>Total</b>		<b>\$22,534,343</b>				

\*Lease Payments from Bio-Rad



# Sales Tax Measure

- ❖ The City of Hercules' current sales tax rate is 9.25%, and the cap for Contra Costa County is currently 9.75%, which means that the City has remaining capacity of 0.50%.
- ❖ In 2022, the City received approximately \$2 million in Measure B Sales Tax Revenue; using that as a proxy, the City could generate approximately \$1 million per 0.25% of additional sales tax.
- ❖ If voters approve a 0.50% sales tax measure with no sunset, the City could issue 30-year Lease Revenue Bonds that could generate approximately \$30.7 million in total bond proceeds.

City of Hercules Bond Proceeds at Varying Tax Rates <sup>(1)</sup>				
Additional Tax Rate	2025 Series	2027 Series	2029 Series	Total Bond Proceeds
0.25%	\$10,000,000	\$5,230,000	--	\$15,230,000
0.50%	\$10,680,000	\$10,000,000	\$10,000,000	\$30,680,000

(1) Assumes sales of taxable goods remains consistent; Preliminary, subject to change.

Source: Urban Futures, Inc.

- ❖ Alternatively, the City could allocate half the projected sales tax revenue for debt service (generating approximately \$15.2 million in bond proceeds), and the other half (i.e., \$1 million/year) could be used for other General Fund purposes.

# Comparison of Financing Options

- ❖ Given the repayment of GO Bonds is based on the unlimited ad valorem tax, they are a lower cost of financing than Lease Revenue Bonds
- ❖ The table below compares the cost of financing a \$10 million project with GO Bonds versus Lease Revenue Bonds

	Lease Revenue Bonds	General Obligation Bonds
<b>Par Sold</b>	\$10,515,000	\$10,200,000
<b>Project Fund Deposit</b>	\$10,000,000	\$10,000,000
<b>TIC</b>	4.89%	4.79%
<b>Net Payments</b>	\$20,041,725	\$19,188,542
<b>Avg Ann Payment</b>	\$679,381	\$661,674
<b>Repayment Ratio</b>	1.9x	1.9x
<b>Final Payment</b>	Aug 2053	Aug 2053

**Notes:** TIC = average interest rate for the term of the bonds; Assumes current market rates; A rated LRBs / A+ rated GOBs; 30-year terms



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