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SPECIAL ASSESSMENT AND SPECIAL TAX REVENUE FINANCING IN CALIFORNIA

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The California Debt and Investment Advisory Commission (CDIAC) recently reviewed debt issuance data to analyze trends in land-secured financings between 1985 and 2000. The source of the data is CDIAC's own database, compiled from required reports filed at the time of each bond sale. The population of debt data captured by this analysis included all issues repaid by special assessment or special tax revenues.

Since 1985, public entities have issued 2,997 transactions totaling $23.6 billion in debt, secured by special assessment or special tax revenues. This figure includes issues transacted by joint powers authorities (JPA) under the Marks-Roos Local Bond Pooling Act of 1985, community facilities districts (CFD) under the Mello-Roos Community Facilities Act of 1982, assessment districts (AD) issuing under a variety of bonding methods, as well as "other" types of instruments secured by special assessment or special tax revenues.

Type of Debt Instruments

The type of debt instruments used by each entity varied according to the issuer's bonding authority and the purpose and timing of each transaction. Debt issued by JPAs was almost exclusively in the form of revenue bonds used to purchase the bonds of a local obligator with a special assessment or special tax securing the bonds of the local obligator. JPAs also issued a few special assessment bonds and revenue anticipation notes.

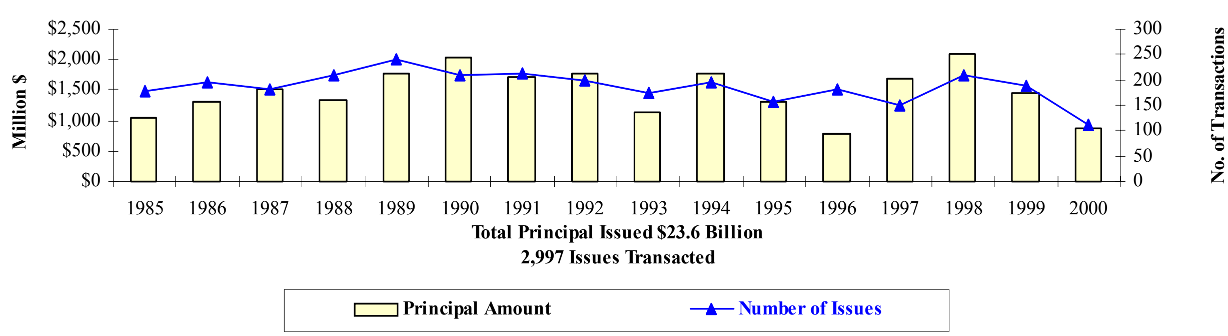
CFDs almost exclusively issued limited tax obligation bonds secured by special taxes. Cities, counties, and special districts issued assessment bonds secured by special assessments and, during the late 80s, by tax increments. The remaining debt secured by special assessment and special tax revenue, but listed by CDIAC under the "other" category of financings, included bond and revenue anticipation notes; certificates of participation; and public lease revenue bonds issued by cities, counties, special districts, and school districts.

Number and Amount of Debt

The number of debt issues secured by special assessment and special tax revenues varied from year to year from a high of 241 issues transacted in 1989 down to a low of 113 in 2000 (Chart 1). Special assessment bonds issued by cities, counties, and special districts on behalf of assessment districts accounted for the majority of issues. These entities transacted 2,043 issues, (roughly 68 percent) of the 2,997

Chart 1

Total Principal Amount and Number of Issues
1985 through 2000



Source: CDIAC Debt Issuance Database

transactions identified between 1985 and 2000. CFDs transacted 828 issues (28 percent) while JPAs accounted for only 86 (3 percent) of the total. (JPAs did not begin issuing land-secured debt until 1989.) Public entities issuing the 40 debt instruments categorized by CDIAC as "other" accounted for only 1 percent.

Special assessment bonds accounted for $10.4 billion or 44 percent of the $23.6 billion issued overall. Community facilities districts issued $10.0 billion in debt or 42 percent.

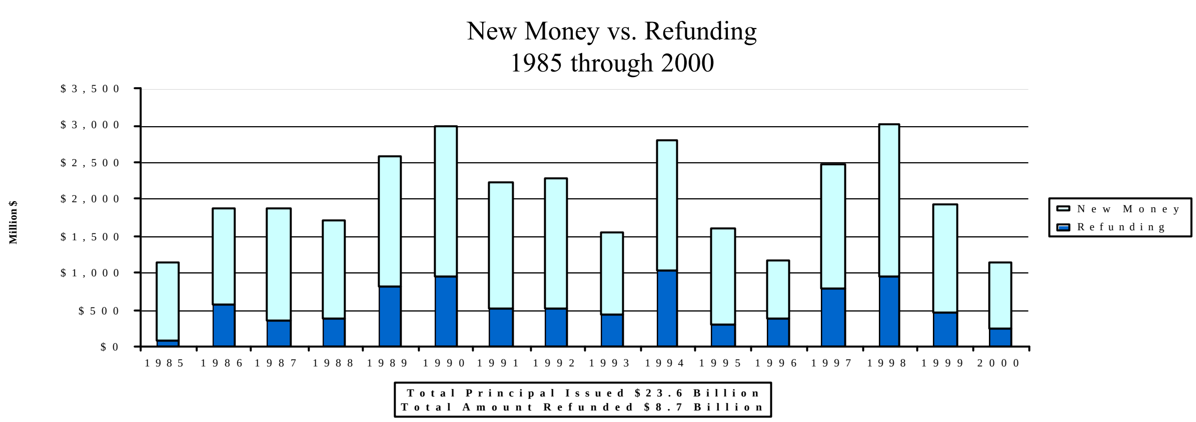
The average amount of each transaction was largest among debt falling into the "other" category. Issues in this category averaged $35.1 million per transaction, including a $135 million issue by the San Francisco Bay Area Rapid Transit District in 1995 secured by a special tax.

The average amounts issued by JPAs and CFDs were $20.3 million and $12.1 million respectively, while the average amount issued as an assessment bond was $5.1 million.

Refinancing vs. New Money

Debt issued by public entities and secured by special assessments and special tax revenues also included refundings. Of the 2,997 deals, 836 (or 28 percent), amounting to $8.7 billion (or 37 percent) of the total $23.6 billion issued between 1985 and 2000, were used for this purpose. Refunding accounted for 71 percent of the debt issued by JPAs and 35 percent of the debt issued by CFDs. Additionally, refundings accounted for 34 percent of the assessment bonds secured by special assessment or special tax revenues and 25 percent of the debt issued under the "other" category.

Chart 2



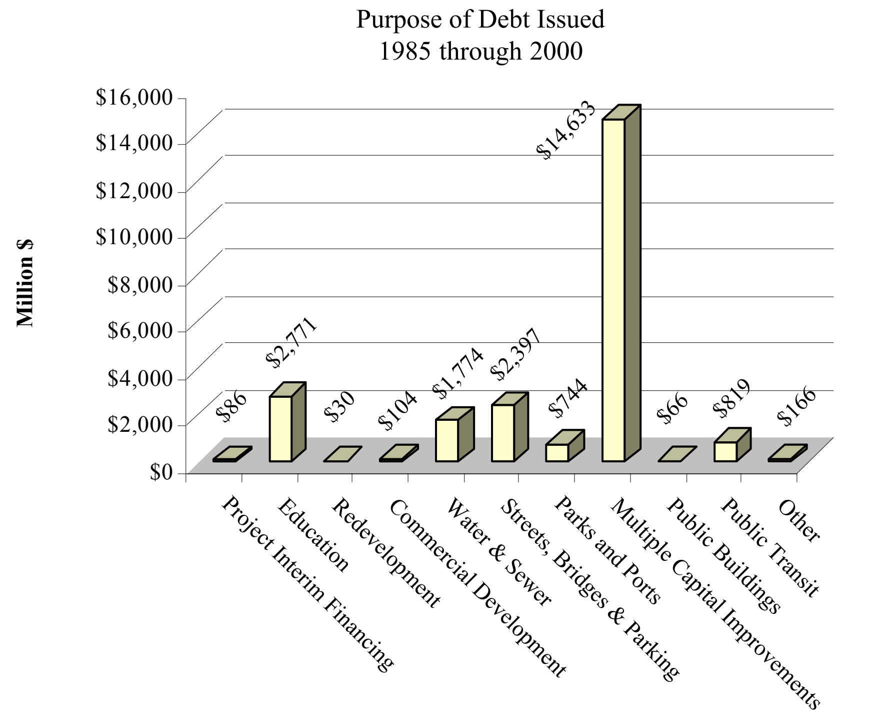
Source: CDIAC Debt Issuance Database

Chart 2 highlights the pattern of new money issuance and refundings. In 1994, the year with the greatest percentage of refundings, 58 percent of the total debt issued and secured by special assessment and special tax revenues were issued for refunding purposes.

Purposes of Land-Secured Debt

The purposes of debt secured by special assessments and special tax revenues favored large capital projects over other uses (Chart 3). Of the $23.6 billion issued since 1985, $14.6 billion (or 62 percent) was utilized for multiple capital improvements. Other uses, including education (12 percent), streets, bridges and parking (10 percent), and water and sewers (8 percent) paled in comparison.

Chart 3

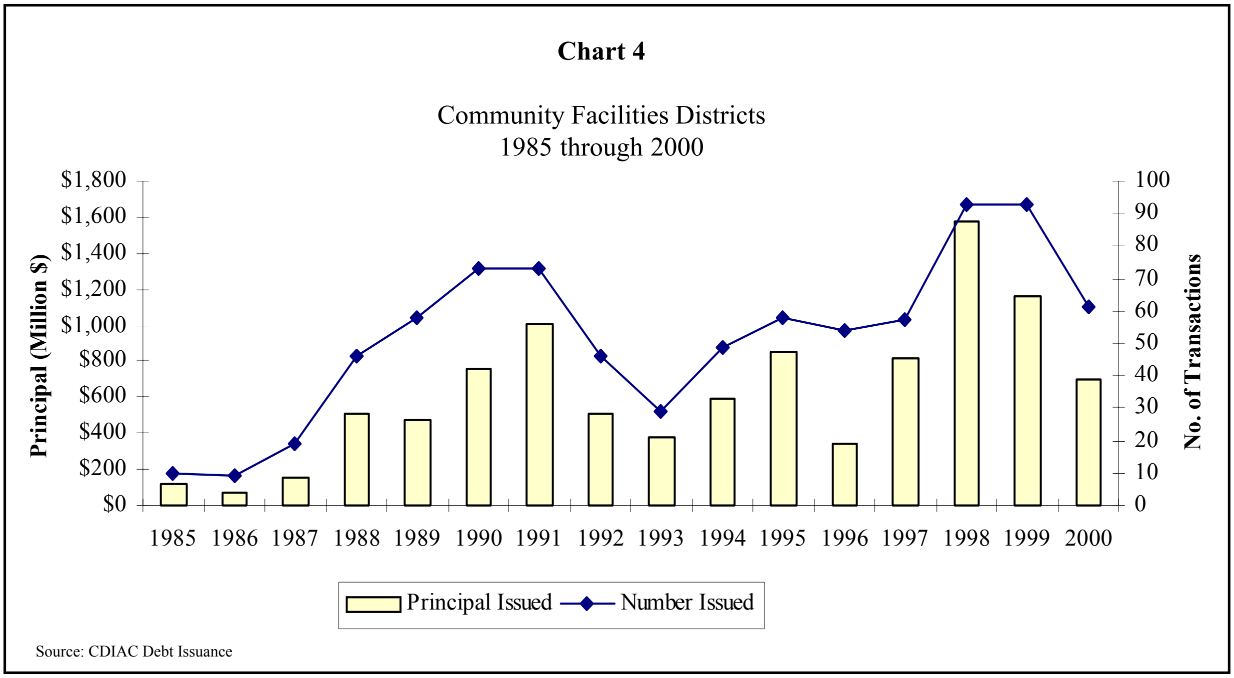


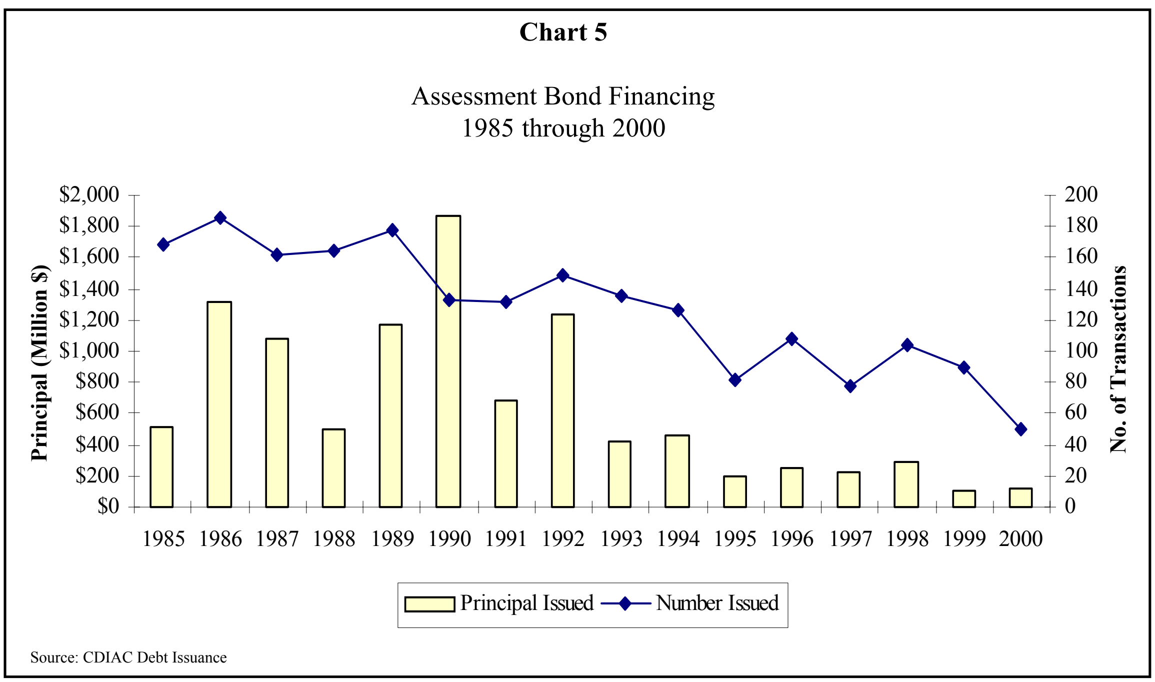
Source: CDIAC Debt Issuance Database

Organizational Formation and Land-Secured Debt

Charts 4 and 5 capture the shift in land-secured debt from assessment districts to community facilities districts between 1985 and 2000.

A number of factors may have contributed to this shift including changes in population growth, voter opinion, and legal requirements for formation of the districts. CDIAC will work towards studying and identifying the impact of these and other key factors for discussion in future articles and reports.





This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at http://www.treasurer.ca.gov/stocda.htm.