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Public Forum

Let's Be Smarter About How We Fund Public Works Projects

Submitted by CZ Czerner

Orinda has fantastic City Council members who are anxious to fix the City's streets. They need 20 million dollars over a period of six years; so they paid a company to do a survey of how they should fund these repairs. Seventy percent of those surveyed chose bonds over other alternatives. I can only conclude from this that those voting for bonds don't know how they work. Here are the main things you should know:

1. When the state, county or city says they want to issue millions of dollars worth of bonds, the community will actually be paying almost double for that issuance. For the 20 million dollars Orinda wants to obtain from bonds, the consultant for the City estimates that bonds paid over 20 years would cost taxpayers a total of 32 million dollars and bonds paid over 30 years would cost a total of 41 million dollars. This is in addition to the \$300,000 or \$400,000 that has to be paid for fees to lawyers, consultants and underwriters.

2. When the vote is taken for a bond, we will not know what the interest rate will be, and therefore we will not know how much we have to pay annually. We are basically giving someone a blank check. The interest rate is not known until immediately before the underwriters issue the bonds. Various factors are taken into consideration. One of those is how the bonds are rated. Recently, the Orinda consultant was quoted in this newspaper as saying the bonds would be triple A. However, at the City Council meeting he indicated he thought the rating would be double A. We cannot be sure Orinda bonds will get even a double A rating, and a single A rating would mean an even higher interest rate, which would cost taxpayers more money. Other factors affecting the interest rate are too numerous to detail here, but you now understand why no one can give

you a guarantee on the interest rate or the cost when you go to the polls.

3. Voting for bonds because your assessed value is low does not mean that you pay less than you would for other alternatives, for example, a parcel tax. Let's do the math. Let's assume that someone with an assessed value of \$500,000 would pay \$100 annually for a 20 million dollar bond for 20 years (this is a guess since we don't know the interest rate). The total over twenty years would be \$2,000. But instead, let's say that the community agreed to pay a parcel tax of \$230 annually for a six-year period. The total parcel tax paid would be \$1,380, a savings of \$620 over the supposedly lower bond tax for 20 years. Now I'm not suggesting that a parcel tax at \$230 over 6 years adds up to \$20m. The total is a bit lower than \$10 million if there are 7,000 households; however, our solution can and should be multifaceted. I say that because homeowners alone should not have to bear the entire cost of the public project. Those renting should also contribute money to the project. We can use several different alternatives to get the other 10 million dollars that we need over this 6-year period. As an example, a 1/2 cent sales tax in Orinda would bring in one million dollars per year or a total of six million dollars over 6 years. We know that because the 1/2 percent sales tax that we already voted for gave us one million dollars this year for our residential roads. If we voted for another 1/2 percent sales tax, the two combined would bring in 12 million dollars in 6 years, bringing the total for a parcel tax plus sales tax to 22 million dollars, two million dollars over what is needed.

On top of that, the City of Orinda contributes at least \$1.5 million every year for roadwork, which we would expect

them to continue paying. Therefore, the grand total for a parcel tax together with an additional 1/2 percent sales tax for six years would be 31 million dollars. So, with the entire community pitching in, instead of homeowners paying 32 million dollars (or more) for 20 million dollars in bonds for a period of 20 years, the City would have 31 million dollars over a 6-year period for the roads and each taxpayer would have saved hundreds of dollars.

(Note: If the City wants additional funds, they could take one or two million dollars from their five million dollar reserve fund to pay for additional roadwork. What is a reserve fund for if not to make urgent repairs to roads? Since the City of Orinda spends approximately 10 million dollars annually, a five million dollar reserve seems excessive)

The argument in favor of bonds is that they are just like a mortgage, the way you fund the purchase of a home. This is not true. BEFORE you sign your mortgage papers, you know the interest rate and what your payments will be. You can also pre-pay over time to reduce your interest payments. For bonds, you don't know what you will pay and you have no way to reduce interest payments.

My husband and I will vote yes on the Orinda bonds because we have been told that if the vote is no, we will have to wait to do the road work until another survey is completed. This would not happen for a long time, further delaying urgently needed repairs. However, for future public works projects, let's make sure our community leaders know that issuing bonds is not an acceptable alternative.

CZ Czerner, an Orinda resident, is an attorney with a JD from USF, LLM from Harvard Law School and MBA from UCLA.

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