CITY OF TORRANCE

Population:	133,500
1990/91 General Fund *Revenues:* *Fund Balance:*	 $93 million $10 million
# URMs:	50
Type of URMs:	70% commercial 30% residential
Ordinance Type:	mandatory retrofitting
Retrofit Incentives:	(1) long-term financing at 10.75% (2) engineering design subsidy
Funding Source:	(1) Special Assessment bond issue (2) general fund

BACKGROUND

The City of Torrance encompasses a 20-square mile area located 10 miles south of Los Angeles along I-405. The city was originally founded in 1912 and incorporated in 1921. Torrance is presently the home to major employers such as Hughes Aircraft Company, Airesearch Manufacturing Company, and Mobil Oil Corporation. Torrance is the first city in California to use a bond instrument as a tool to finance the seismic retrofit of privately owned buildings.

HAZARDOUS BUILDINGS PROFILE

The City of Torrance contains approximately 50 unreinforced masonry buildings (URMs). The majority of these URMs are commercial structures. They range in size from 1,200 to 20,000 square feet, and command rent per square foot of about $0.50 to $1.00. One can find the majority of these buildings in old Downtown Torrance.

ORDINANCE

The city has a mandatory retrofit seismic ordinance that was adopted in 1987. Like some of the other cities in the greater Los Angeles area, Torrance's seismic retrofit ordinance is based on the 1982 Edition of Division 88 of the Los Angeles City Code.

INCENTIVE PROGRAM CONCEPT

Torrance's program provides URM owners with 2 sources of assistance: a subsidy to pay for engineering analysis and a source of long-term financing to pay for retrofit construction.

The city developed the subsidy program to promote the preparation of engineering plans. It was hoped the owners of URMs would be more willing to pay for retrofit plans if the work was subsidized. In addition, the subsidy conveyed the city's concern regarding the life safety hazard posed by URMs and its interest in seeing the issue addressed. Torrance provided a $0.50/square foot of building area subsidy to URM owners to defray the cost of plan preparation.

The city also prepared a voluntary Special Assessment district which would provide members with a long-term, market-rate source of financing for retrofit construction. Torrance allowed a 9 month period in which property owners could apply for participation in the program. Property owners interested in participating submitted to the city, for review by its Building and Safety Director, an assessment report prepared by a California licensed engineer. The assessment was determined using the lowest responsible bid from a series of 3 estimates of the cost of construction obtained by the owner, and a pro-rata share of issuance costs. If the 3 bids were not obtained, the Assessment Engineer determined a reasonable cost of the necessary seismic safety improvements based on comparable costs for similar buildings in the district. The owners' parcels were then examined to determine their appraised values.

A total of 7 parcels were eventually included in the assessment district, representing less than one-fifth of the city's URMs. The parcels in the district are located in the old downtown portion of the city, and consist of retail, office and apartment properties.

In December, 1988, the city council held the required public hearing and, as no protests were received, adopted a resolution establishing the district, authorizing the projects and confirming and levying the assessment for each parcel. Two months later the bonds were issued and money was placed in an Improvement Fund awaiting disbursement to participating owners.

Undertaking and completing projects is the sole responsibility of individual property owners. All owners must submit final building plans to the city and obtain all the usual permits. Owners individually contract and arrange for the projects' construction. A provision was made in the

bond issue for financing construction cost overruns by including a 5% contingency fund in the issue. The time allotted for completion of all the projects is approximately 3 years. If there are bond proceeds remaining at the end of that time (perhaps because owners who participated in the district ultimately chose not to undertake the improvements, or because they did not satisfy the city's requirements for release of the funds) these proceeds will be used to prepay the bonds.

The bonds are repaid through assessment liens against all the parcels included in the district. The annual assessment billed against each parcel represents a pro rata share of the total principal and interest of the bonds coming due that year. Assessment installments are payable in the same manner and time as general taxes on real property. Note that the assessments represent liens against parcels, not personal indebtedness of property owners.

The bonds issued by Torrance are secured by the assessments levied against the parcels. The assessment liens are on parity with all general and special tax liens. They are subordinate to pre-existing Special Assessment liens, but take priority over future fixed Special Assessment liens. Most importantly the assessment liens take priority over all existing and future private liens, including bank loans and mortgages.

Failure of an individual property owner to pay an assessment installment will not increase the assessments against other parcels. Property securing delinquent assessment installments is subject to sale in the same manner as property sold for non-payment of general property taxes. In addition, Torrance has covenanted that it will commence judicial foreclosure proceedings against parcels with assessment installments which are more than 150 days delinquent. (For another discussion of Special Assessment financing see CASE STUDY - CITY OF LONG BEACH)

PROGRAM RESOURCES

Four different city departments were involved in developing Torrance's program: the Building and Safety Department, the Finance Department, the Treasurer's Department and the City Attorney's Office. The services of a financing team (bond counsel and underwriter) were also used extensively. Torrance estimates it cost approximately $30,000 in staff time and other expenses to develop the program and issue the bonds. The fees of the financing team were reimbursed from the proceeds of the bond issue. Ongoing program costs primarily involve the time of the Building and Safety Department to review and approve requests for funds, and the resources of the City Treasurer to administer the bond program and collect the assessments.

Torrance issued bonds in the amount of $679,325. The funds were allocated as follows:

- $563,430 of the bond proceeds were set aside to cover project costs. This amount represents an estimated cost of $10/square foot for seismic safety improvements, plus a 5% reserve for construction contingency.

- The bond proceeds also funded a $33,966 reserve account, required in most bond financings, which ensures that funds will be available to make timely bond payments.

- Approximately $36,514 was borrowed to cover interest payments which needed to be made on the bonds prior to collection of assessments.

- $45,415 was expended to pay the financing team and cover other issuance costs.

PROGRAM DEVELOPMENT

As with the City of Long Beach, Torrance's use of Special Assessment district bonds to finance seismic retrofit projects might better be called an enabling rather than an incentive program. The city felt that its most suitable function would be to obtain financing for the owners while steering clear of any responsibility for repayment.

While assessment bonds of the type contemplated were commonly used by cities throughout California, they had never before been issued to finance repairs of privately-owned structures. The uniqueness of this purpose made the assessment bond issuance process more complicated than would normally be expected. The process ended up taking 13 months rather than the 3 to 6 months more commonly spent on assessment financings. Rather than being sold publicly, the bond issue was privately placed with an investor.

One of the more difficult aspects of the development process involved establishing the procedures for participation in the district and explaining the process to property owners. It was important for participants to realize the nature of the assessment on their property, how each account would be impacted by both interest earnings and construction drawdowns, and the impact of being fully responsible for any amount committed to.

As investors in assessment bonds are secured by the property upon which the lien is assessed, an important ratio in an assessment financing is the value-to-lien ratio. This ratio suggests to investors how much might be recouped from the sale of a property if its owner defaults on the

assessment. Typically investors will require that assessment districts contain properties with minimum value-to-lien ratios of 3.0 to 1. Torrance's financing team established a minimum 2.0 to 1 ratio. The lowest value-to-lien ratio in the district was 2.1 to 1. Thirty percent of the assessment was on properties with ratios less than 3.0 to 1, while the remaining 70% of the assessment was on properties with ratios greater than 3.6 to 1.

The following table illustrates the value-to-lien ratios of parcels which comprise the assessment district.

Value-to-Lien Ratio	# Parcels (Value = Assessed Value)	$ Amount of Assessment	% of Total Assessment
1.00:1 to 1.99:1	0	$0	0
2.00:1 to 2.9:1	2	$202,275	30
3.0:1 to 4.9:1	4	$456,750	67
> 5.0:1	1	$20,300	3
TOTAL	7	$679,3225	100.0

PROGRAM EFFECTIVENESS

More than half of Torrance's 50 URMs took part in the subsidy program for plan preparation, a sign that the URM owners take the situation as seriously as the city does. Only 7 of the 50 URMs were enrolled in the assessment district; the majority of the property owners, who elected not to participate in the district, had the ability to obtain monies from their own sources at comparable interest rates and/or prefered to perform the needed repairs from their own funds. To date 43 of Torrance's 50 identified URMs have been retrofitted.

PROGRAM STRENGTHS

The primary advantage of the program to the city lies in the fact that Torrance is able to provide owners with financing while retaining no repayment liability. Although the program does require ongoing monitoring and administration, these costs are not material. Because the program is privately financed and full financial responsibility lies with the property owners, the projects are not subject to regulations applied to public funds such as Davis-Bacon wage requirements.

KEYS TO SUCCESS

The effectiveness of Torrance's program is likely linked to the city's 2 step approach. The subsidy for plan preparation got URM owners to think about retrofitting, and the assessment district gave them an option for financing the work. This also let URM owners know that the city was serious about its retrofit program.

The issue of life safety related to URMs is very well understood by staff, elected officials, and the public at large. As a result very little controversy surrounded the city's development of its program.

Finally, the city showed a great deal of flexibility in its willingness to experiment with an untried method of financing. Torrance exhibited a tremendous amount of "municipal bravery" in being the first California city to use assessment district bonds for financing this type of program.

Torrance is a charter city. While this was considered a key factor at the time, some bond counsels now believe that general law cities can use Special Assessment financing to fund retrofit programs too (See: LOCAL GOVERNMENT FINANCING OPTIONS - SPECIAL ASSESSMENT DISTRICT).

CONTACT

Mary Giordano-Specht	Finance Director	(310) 618-5855
Jim Isomoto	Acting Building & Safety Director	(310) 618-5920