BEAUMONT
CALIFORNIA

Staff Report

TO: City Council

FROM: Jeff Mohlenkamp, Finance Director

DATE April 6, 2021

SUBJECT: **FY2021 Proposed Refunding Bonds Related to Improvement Areas 7B, 7C, 17A, 19C and 20 of Community Facilities District No. 93-1**

Background and Analysis:

In 1993, the City of Beaumont ("City") formed Community Facilities District No. 93-1 ("District') and established 13 original improvement areas. Over the years, the City has established additional improvement areas ("IAs") in the District, including 7B, 7C, 17A, 19C, and 20, for which bonds were subsequently issued to finance public improvements.

The City continues to be proactive in monitoring outstanding bonds for refunding candidates and given the low interest rate environment, there is currently an opportunity to refinance the outstanding bonds associated with the aforementioned improvement areas to generate savings for property owners.

Improvement Areas 7B and 7C

In May 2012, the Beaumont Financing Authority ("BFA") issued the 2012 Local Agency Revenue Bonds, Series C ("2012C Bonds") in the par amount of $3,655,000 to finance improvements in IA 7B and IA 7C, both of which are located in the Four Seasons master planned community. Currently, there is $3,320,000 of par outstanding of the 2012C Bonds. The 2012C Bonds were structured with a final term of 2039 and a final interest rate of 5.250%. The call date of the 2012C Bonds is September 1, 2022.

Improvement Area 17A

In April 2013, the BFA issued the 2013 Local Agency Revenue Bonds, Series B ("2013B Bonds") in the par amount of $10,875,000 to finance improvements in IA 17A, which is located in the Tournament Hills master planned community. Currently, there is $8,410,000 of par outstanding. The 2013B Bonds were structured with a final term of 2034 and a final interest rate of 5.000%. The call date of the 2013B Bonds is September 1, 2023.

Improvement Area 19C
In January 2013, the BFA issued the 2013 Local Agency Revenue Bonds, Series A ("2013A Bonds") in the par amount of $8,810,000 to finance improvements in IA 19C, which is located in the Fairway Canyon master planned community. Currently, there is $5,480,000 of par outstanding. The 2013A Bonds were structured with a final term of 2036 and a final interest rate of 5.000%. The call date of the 2013A Bonds is September 1, 2023.

Improvement Area 20
In April 2012, the BFA issued the 2012 Local Agency Revenue Bonds, Series B ("2012B Bonds") in the par amount of $3,265,000 to finance improvements in IA 20, which is located in the neighborhood Aspen Creek. Currently, there is $2,870,000 of par outstanding. The 2012B Bonds were structured with a final term of 2035 and a final interest rate of 5.950%. The call date of the 2012B Bonds is September 1, 2022.

Outstanding Bonds

Issue	Area	Parcels	Date	Par Value Outstanding	Final Term	Final Rate	Optional Call	Ratings
2012B Bonds	IA-20	106	Apr 2012	$2,870,000	2035	5.950%	Sept 1, 2022	Non-Rated
2012C Bonds	IA-7B	237	May 2012	$1,740,000	2039	5.250%	Sept 1, 2022	
	IA-7C	318		$1,580,000	2039	5.250%	Sept 1, 2022	
2013A Bonds	IA-19C	668	Jan 2013	$5,480,000	2036	5.000%	Sept 1, 2023	
2013B Bonds	IA-17A	485	Apr 2013	$8,410,000	2034	5.000%	Sept 1, 2023	
TOTALS		**1,814**		**$20,080,000**				

Given the high interest rate environment at the time of issuing the improvement area 7B, 7C, 17A, 19C, and 20 bonds (all together, the "Outstanding Bonds") there is an opportunity to refinance the Outstanding Bonds today at a much lower interest rate to generate savings for property owners.

The Tax Cuts and Jobs Act of 2017 (the "Act") eliminated the tax exemption for interest on advance refunding bonds (refunding bonds issued more than 90 days before the optional call date), therefore, the proposed bonds contemplate refinancing the Outstanding Bonds on a *taxable* basis. Refinancing the Outstanding Bonds today on a taxable basis does not preclude the City from refinancing on a tax-exempt basis in the future. Given the favorable taxable interest rate environment (30-year US Treasury rate of 2.37%, as of Friday, March 26, 2021), many issuers have pursued taxable advance refundings since 2017.

Given the opportunity to strengthen the underlying credit of the refunding bonds and achieve economies of scale, the refunding contemplates an issuance through the Beaumont Public Improvement Authority ("BPIA"). This structure is similar to the one utilized by the City in August 2020, for the Local Agency Refunding Bonds, Series 2020A, which ended up saving individual homeowners roughly $10.0 million over a 22-year period.

The proposed BPIA Local Agency Revenue Refunding Bonds, Series 2021A (Federally Taxable) ("2021 Refunding Bonds") would be in a par amount of approximately $18.9 million with a final maturity in 2039. However, each underlying obligation would maintain the same final maturity for each of the improvement areas under consideration. In other words, there will be no extension of the original terms. The final interest rate structure will be determined if, and when, the 2021 Refunding Bonds are priced and sold. Assuming City Council approves moving forward, the pricing date is estimated to be sometime in May, assuming interest rates meet the City's savings threshold, as further described below.

While the Outstanding Bonds are not currently rated, the 2021 Refunding Bonds may qualify for an investment grade rating and bond insurance, which would lead to a lower cost of borrowing (and potentially more savings to property owners). Furthermore, the 2021 Refunding Bonds may also qualify for a reserve fund surety policy. With a reserve fund surety policy, the 2021 Refunding Bonds would not need to cash fund a debt service reserve (estimated to be $1.9 million) as part of the issuance. This would enable the City to downsize the 2021 Refunding Bonds, lower annual payments, and increase savings to property owners.

Based on taxable interest rates as of March 26, 2021, total estimated savings over the life of the 2021 Refunding Bonds is $4.4 million, assuming the City were to maintain the current escalating debt structure (see 'Consideration: Evaluate Removing the Escalating Debt Structure' below). Net present value (NPV) savings is $1.3 million, or 6.6% as measured against par value refunded.

To put estimated NPV percent savings into context, GFOA (Government Finance Officers Association) Best Practices frequently mentions between 3-5% NPV savings to determine the appropriateness of a refinancing. City staff requests that Council provide direction on an NPV savings threshold.

The interest rate savings combined with the reduction of the bond size would produce aggregate annual cash flow savings that would range between $55,000 and $310,000 over the next 18 years (2022-2039). Estimated savings are net of all financing costs (including the cost of procuring insurance and a reserve fund surety policy). The table below highlights detailed savings based upon current interest rates and assuming the City maintains the existing debt structure for each improvement area.

Estimated Savings (Maintain Existing Debt Structure)						
	IA 20	**IA 7B**	**IA 7C**	**IA 19C**	**IA 17A**	**TOTALS AVG.**
Property Owners	106	237	318	668	485	1,814
True Interest Cost	2.60%	3.10%	3.10%	2.40%	2.50%	2.60%
NPV Savings ($)	$436,423	$213,633	$193,746	$165,135	$314,081	$1,323,017
NPV Savings (%)	**15.20%**	**12.30%**	**12.30%**	**3.00%**	**3.70%**	**6.60%**
Annual Savings (2021-Mat)	$71,081	$29,874	$26,705	$67,139	$107,911	$245,749
Annual Savings Per Parcel	**$670.58**	**$126.05**	**$83.98**	**$100.51**	**$222.50**	**$135.47**
Aggregate Savings	$995,135	$537,729	$480,697	$1,007,081	$1,402,845	$4,423,487

In addition to monitoring savings, City staff and the financing team have evaluated the ability to remove the escalating debt service structures in IA 7C, IA 19C, and IA 20 (annual debt payments for IA 7B and IA 17A do not escalate and are already level). Maintaining the escalating debt structure will result in level annual savings while removing the escalating debt structure will level out annual payments by homeowners over time. A detailed presentation by the City's financing team will accompany this staff report and provide more information on the structures and their impact on annual savings.

City staff requests that City Council provide direction on maintaining or removing the escalating debt structures for IA 7C, IA 19C, and IA 20. Please note that City Council has the option to remove the escalating structure in one area (e.g., IA 20) and maintain such structure in the other areas (e.g., IA 7C and IA 19C).

Fiscal Impact:

There is no cost to the City to approve moving forward. As noted above, if approved this evening, City staff will work with the financing team on all the necessary legal documents to return to City Council and the Beaumont Public Improvement Authority for approval of the issuance of refunding bonds and all associated legal documents at a later date (likely in May). At that time, City staff will also provide an update on estimated homeowner savings, based on current market conditions. City staff estimates that it cost approximately $2,750 to prepare this report.

Recommended Action:

City staff is seeking guidance from the City Council on the following options.

Moving forward with refinancing the Outstanding Bonds,

Establishing an NVP savings threshold (e.g. 5%) whether on each individual improvement area or in aggregate, and

Removing the escalating debt structure in improvement areas 7C, 19C, and 20.