



## Staff Report

**TO:** City Council  
**FROM:** Todd Parton, City Manager  
**DATE:** June 1, 2021  
**SUBJECT:** Proposed Refunding of Outstanding Bonds Related to Improvement Areas 7B, 7C, 17A, 19C and 20 Community Facilities District No 93-1

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### Background and Analysis:

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

On April 6, 2021, staff and its financing team presented City Council ("Council") with an opportunity to refinance outstanding bonds associated with the aforementioned improvement areas of CFD 93-1. At that time, Council approved moving forward with the refinancing opportunity, directing staff and its financing team to begin preparing legal documents with the goal of returning before Council to seek final approval for the issuance of refunding bonds.

- **Improvement Areas ("IA") 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 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.
- **IA 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 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.

- **IA 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 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.
- **IA 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 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.

A more detailed overview of the Outstanding Bonds and the improvement areas is below.

**Outstanding Bonds:** Improvement Areas 7B, 7C, 17A, 19C, and 20

<u>Issue</u>	<u>Area</u>	<u>Parcels</u>	<u>Date</u>	<u>Par Value</u> <u>Outstanding</u>	<u>Final</u> <u>Term</u>	<u>Final</u> <u>Rate</u>	<u>Optional</u> <u>Call</u>	<u>Ratings</u>
2012B Bonds	20	106	Apr 2012	\$2,870,000	2035	5.950%	Sept 1, 2022	Non-Rated
2012C Bonds	7B	236	Jun 2012	1,740,000	2039	5.250%	Sept 1, 2022	
	7C	318		1,580,000	2039	5.250%	Sept 1, 2022	
2013A Bonds	19C	668	Jan 2013	5,480,000	2036	5.000%	Sept 1, 2023	
2013B Bonds	17A	485	Apr 2013	8,410,000	2034	5.000%	Sept 1, 2023	
<b>TOTALS</b>		<b>1,813</b>		<b>\$20,080,000</b>				

As mentioned in the April 6, 2021, staff report, 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). As such, the proposed bonds contemplate refinancing the Outstanding Bonds on a taxable basis. Refinancing today on a taxable basis does not preclude the City from refinancing on a tax-exempt basis in the future.

Council (acting as the legislative body of CFD 93-1), the BFA (as issuer of the Outstanding Bonds), and the Beaumont Public Improvement Authority (as issuer of the refunding bonds), are being asked to approve the issuance of refunding bonds and all related documents, as further described herein. If the refinancing is approved, City staff will work with the financing team on finalizing all legal documents and the preliminary official statement with the goal of pricing the refunding bonds sometime over the next few weeks.

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 (“PIA”). 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 more than \$10.0 million over a 22-year period.

The proposed Beaumont PIA 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.

While the Outstanding Bonds are not currently rated, the 2021 Refunding Bonds are expected to 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 May 19, 2021, total cash flow savings over the life of the 2021 Refunding Bonds are estimated to be \$4.5 million, assuming the City were to maintain the current debt structure for each improvement area. This translates to annual savings per parcel ranging from \$87 in IA-7C to \$678 in IA-20. Aggregate net present value (NPV) savings are estimated to be \$1.5 million. As measured against the par value of the Outstanding Bonds, aggregate NPV savings are 7.3%, well above the frequently mentioned range of 3-5% by GFOA (Government Finance Officers Association) to determine the appropriateness of a refinancing. Estimated savings shown below are net of all financing costs (including the cost of procuring bond insurance and a reserve fund surety policy).

**Estimated Savings: MAINTAIN Current Debt Structure**

	<u>IA-7B</u>	<u>IA-7C</u>	<u>IA-17A</u>	<u>IA-19C</u>	<u>IA-20</u>	<u>Totals/Avg</u>
NPV Savings (\$)	\$229,656	\$208,880	\$363,360	\$210,380	\$450,974	\$1,463,249
<b>NPV Savings (%)</b>	<b>13.2%</b>	<b>13.2%</b>	<b>4.3%</b>	<b>3.8%</b>	<b>15.7%</b>	<b>7.3%</b>
Annual Savings	\$30,717	\$27,706	\$111,582	\$70,310	\$71,880	\$253,508
<b>Savings Per Parcel</b>	<b>\$130.16</b>	<b>\$87.13</b>	<b>\$230.07</b>	<b>\$105.25</b>	<b>\$678.11</b>	<b>\$139.83</b>
Aggregate Savings	\$552,909	\$498,710	\$1,450,561	\$1,054,647	\$1,006,315	\$4,563,143

*Note: IAs 7C and 20 currently have escalating debt structures.*

Over the last month, in addition to monitoring savings, City staff and the financing team have evaluated the economics of removing the escalating debt service structure in improvement areas 7C and 20 (initially presented to Council on April 6), thereby 'leveling out' payments by homeowners over time, the results of which are illustrated below. Staff requests that Council provide direction on removing the escalating debt structure.

	<b>MAINTAIN</b>		<b>REMOVE</b>	
	<b>Escalating Structure</b>		<b>Escalating Structure</b>	
	<u>IA-7C</u>	<u>IA-20</u>	<u>IA-7C</u>	<u>IA-20</u>
Parcels	318	106	318	106
NPV Savings (\$)	\$208,880	\$450,974	\$226,258	\$466,268
NPV Savings (%)	13.2%	15.7%	14.3%	16.2%
Annual Savings	\$27,706	\$71,880	\$30,899	\$75,723
<b>Savings Per Parcel</b>	<b>\$87.13</b>	<b>\$678.11</b>	<b>\$97.17</b>	<b>\$714.37</b>
Aggregate Savings	\$498,710	\$1,006,315	\$556,174	\$1,060,128
	<b>Detailed Annual Savings</b>			
2022	\$23,996	\$72,344	\$7,110	\$41,256
2023	24,371	72,700	7,136	41,224
2024	28,107	72,804	10,994	46,541
2025	26,669	72,500	14,708	51,465
2026	30,168	71,973	18,363	61,198
2027	28,168	71,091	21,585	65,538
2028	31,143	74,214	24,733	73,834
2029	29,056	72,074	27,850	76,796
2030	26,949	69,616	25,855	84,338
2031	24,842	71,703	33,870	91,181
2032	27,623	73,265	36,519	97,347
2033	30,567	70,000	34,306	103,454
2034	28,143	71,017	36,882	108,529
2035	30,614	<u>71,017</u>	44,196	<u>117,430</u>

2036	27,716		45,984	
2037	24,938		52,690	
2038	26,978		58,870	
2039	<u>28,666</u>		<u>54,526</u>	
<b>Totals</b>	<b>\$498,710</b>	<b>\$1,006,315</b>	<b>\$556,174</b>	<b>\$1,060,128</b>

Good Faith Estimates, as required by Government Code Section 5852.1, are provided as an attachment. For purposes of the Good Faith Estimates, the more conservative of the two scenarios ('Maintain Escalating Structure') is provided.

The attached resolutions for the City, PIA and BFA authorize and approve the issuance of the 2021 Refunding Bonds, subject to the compliance of certain criteria, including that:

- (i) Aggregate principal amount of the 2021 Refunding Bonds does not exceed \$21.1 million (\$21,100,000);
- (ii) Principal amount of the improvement areas do not exceed:
  - a. IA-7B: \$1.8 million (\$1,800,000);
  - b. IA-7C: \$1.7 million (\$1,700,000);
  - c. IA-17A: \$9.0 million (\$9,000,000);
  - d. IA-19C: \$5.6 million (\$5,600,000); and
  - e. IA-20: \$3.0 million (\$3,000,000);
- (iii) Aggregate NPV % savings does not fall below 3.0%; and
- (iv) Underwriter's Discount does not exceed 0.911% of the aggregate principal amount of the 2021 Refunding Bonds.

### Documents Subject to Approval

Approval of the Resolutions authorize the execution of the following documents:

- **Preliminary Official Statement:** The document pursuant to which the 2021 Refunding Bonds will be offered for purchase by investors. This document must contain all facts material to the 2021 Refunding Bonds, the City, and Improvement Areas (with certain permitted exceptions to be completed in the final Official Statement) and must not omit any such material facts;
- **Bond Purchase Agreement:** Pursuant to the Bond Purchase Agreement, the PIA agrees to sell the 2021 Refunding Bonds to the underwriter and the underwriter agrees to purchase the 2021 Refunding Bonds, subject to standard closing conditions. City staff, its municipal advisor and bond counsel will sign off on the final pricing prior to the execution of the Bond Purchase Agreement;
- **Escrow Agreements:** These documents contain terms by which the Trustee will hold 2021 Refunding Bond proceeds on the behalf of the owners of the Outstanding

Bonds to pay and discharge the Outstanding Bonds on the applicable redemption date;

- **Indenture of Trust (PIA):** This document contains the terms of the 2021 Refunding Bonds, including payment and redemption provisions, definition and pledge of Revenues to pay the 2021 Refunding Bonds, Rights and Duties of the Trustee, remedies upon a default in the payment of the 2021 Refunding Bonds, and final discharge of the 2021 Refunding Bonds and other related matters;
- **Bond Indentures (7C, 17A, 20) and Supplemental Indentures of Trust (7B, 19C):** These documents contain the terms of the refunding bonds in connection with the underlying improvement areas, including payment and redemption provisions, definition and pledge of revenues to pay the underlying obligations, Rights and Duties of the Trustee, remedies upon a default in the payment of the underlying obligations, and final discharge of the underlying obligations and other related matters; and
- **Continuing Disclosure Agreement:** Executed for the benefit of bondholders, the Continuing Disclosure Agreement obligates the PIA to file an annual report that includes, among other things, the most recent audited financial statements of the City and financial data of the underlying improvement areas. The PIA is also required to report certain events that are significant to bondholders, if, and when they occur.

These documents listed above have been reviewed by staff and its financing team.

### **Fiscal Impact:**

If, and when, the 2021 Refunding Bonds price, the property owners are estimated to save between \$87 (IA-7C) to \$678 (IA-20) per parcel annually through 2039 (reflective of the 'Maintain Escalating Structure' scenario), based on market conditions as of May 19, 2021. The savings quoted above are net of all financing costs (including the cost of purchasing bond insurance and a reserve fund surety policy).

### **Recommended Action:**

Waive the full reading and adopt by title only, "A Resolution of the City Council of the City of Beaumont Acting as Legislative Body of Community Facilities District No. 93-1, Authorizing the Issuance of Special Tax Refunding Bonds and Taking Other Actions in Connection Therewith" and Recess the City Council Meeting;

Convene a Meeting of the Board of Directors of the Beaumont Financing Authority and Waive the Full Reading and Adopt by Title Only, "A Resolution of the Board of Directors of the Beaumont Financing Authority Approving the

Execution of Escrow Agreements in Connection with the Refunding of Certain Local Agency Revenue Bonds of the Authority and Special Tax Bonds of the City of Beaumont Community Facilities District No. 93-1, and Taking Certain Other Actions in Connection Therewith”, and Adjourn the Board Meeting;

Convene a Meeting of the Board of Directors of the Beaumont Public Improvement Authority and Waive the Full Reading and Adopt by Title Only, “A Resolution of the Board of Directors of the Beaumont Public Improvement Authority, Riverside County, California, Authorizing the Issuance of its Local Agency Refunding Bonds, in One or More Series, in an Aggregate Principal Amount of Not-to-Exceed Twenty-One Million One Hundred Thousand Dollars (\$21,100,000) and Approving Certain Documents and Taking Other Actions in Connection Therewith” and Adjourn the Board Meeting and Reconvene the City Council Meeting; and

Provide Direction to Staff and Financing Team on the ‘Debt Service Structure’ for IA 7-C and IA-20, as Previously Discussed.

**Attachments:**

- A. City Council CFD Resolution
- B. BFA Resolution
- C. BPIA Resolution
- D. BPIA Indenture of Trust
- E. Bond Indenture IA 7C
- F. Bond Indenture IA 17A
- G. Bond Indenture IA 20
- H. Supplemental Indenture IA 7B
- I. Supplemental Indenture IA 19C
- J. Form of Escrow Agreements
- K. Preliminary Official Statement
- L. Bond Purchase Agreement
- M. Good Faith Estimate 7B
- N. Good Faith Estimate 7C
- O. Good Faith Estimate 17A
- P. Good Faith Estimate 19C
- Q. Good Faith Estimate 20
- R. Good Faith Estimate CFD 2021