BEAUMONT
CALIFORNIA

Staff Report

TO: Mayor, and City Council Members

FROM: Todd Parton, City Manager

DATE March 3, 2020

SUBJECT: **Proposed Refunding of Outstanding Bonds Related to Improvement Areas 7B, 7C, 8C, 17B 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 in the District, including **7B**, **7C**, **8C**, **17B** 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 historic 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 Area ("IA") 7B and IA 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 $3,385,000 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 8C**: In March 2012, the BFA issued the 2012 Local Agency Revenue Bonds, Series A ("2012A Bonds") in the par amount of $5,650,000 to finance improvements in IA 8C, which is located in the Sundance master planned community. Currently, there is $5,605,000 of par outstanding. The 2012A Bonds were structured with a final term of 2042 and a final interest rate of 5.875%. The call date of the 2012A Bonds is September 1, 2022.
- **IA 17B**: In December 2011, the BFA issued the 2011 Local Agency Revenue Bonds, Series A ("2011A Bonds") in the par amount of $12,145,000 to finance

improvements in IA 17B, which is located in the Tournament Hills master planned community. Currently, there is $11,930,000 of par outstanding. The 2011A Bonds were structured with a final term of 2042 and a final interest rate of 6.375%. The call date of the 2011A Bonds is September 1, 2021.

- **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 located in the neighborhood Aspen Creek. Currently, there is $2,955,000 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 underlying improvement areas is provided below.

Issue	Area	Parcels	Date	Par Value Outstanding	Final Term	Final Rate	Optional Call	Ratings
2011A Bonds	IA-17B	388	Dec 2011	$11,930,000	2042	6.375%	Sept 1, 2021	Non-Rated
2012A Bonds	IA-8C	686	Mar 2012	$5,605,000	2042	5.875%	Sept 1, 2022	
2012B Bonds	IA-20	106	Apr 2012	$2,955,000	2035	5.950%	Sept 1, 2022	
2012C Bonds	IA-7B	237	Jun 2012	$1,775,000	2039	5.250%	Sept 1, 2022	
	IA-7C	318		$1,610,000	2039	5.250%	Sept 1, 2022	
TOTALS		**1,735**		**$23,875,000**				

As previously mentioned, given the high interest rate environment at the time of issuing the improvement area 7B, 7C, 8C, 17B, and 20 bonds (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.

Because 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), 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 1.79%, as of February 27, 2020), many issuers have pursued taxable advance refundings since 2017.

City staff and the City's consulting team continue to monitor the outstanding CFD debt for opportunities to refinance them for savings. Mr. Tom Jacob of Stifel identified these specific issues and presented them to City staff for consideration since they provide an opportunity to take advantage of existing market conditions and have the potential to realize some significant savings for the homeowners. At City Council's direction, City staff and the financing team will prepare the necessary documents and return to City Council and the Beaumont Public Improvement Authority for consideration, most likely mid-May.

Discussion

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 like the one utilized by the City in August 2019 for the Local Agency Refunding Bonds, Series 2019A, which ended up saving individual homeowners nearly $2.0 million in interest costs over a 13-year period.

The proposed Beaumont PIA Local Agency Revenue Refunding Bonds, Series 2020A (Federally Taxable) ("2020 Refunding Bonds") would be in a par amount of approximately $23.1 million with a final maturity in 2042. 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 2020 Refunding Bonds are priced and sold. The pricing date is estimated to be late-May or early June, assuming interest rates meet the City's savings threshold, as further described below.

While the Outstanding Bonds are not currently rated, the 2020 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 2020 Refunding Bonds may also qualify for a reserve fund surety policy. With a reserve fund surety policy, the 2020 Refunding Bonds would not need to cash fund a debt service reserve (estimated to be $2.3 million) as part of the issuance. This would enable the City to downsize the 2020 Refunding Bonds, lower annual payments and increase savings to property owners.

Based on taxable interest rates as of February 27, 2020, total estimated savings over the life of the 2020 Refunding Bonds is $11.2 million. Net present value (NPV) savings is $5.2 million, or 21.7% 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. Nevertheless, staff recommends setting a minimum NPV savings threshold of 7% on the Outstanding Bonds.

The interest rate savings combined with the reduction of the bond size would produce aggregate annual cash flows savings that would range between $380,000 and $550,000 over the next 22 years (2021-2042). Estimated savings are net of all financing costs (including the cost of procuring bond insurance and a reserve fund surety policy). The table below highlights detailed savings based upon current interest rates.

Estimated Savings: Improvement Areas 7B, 7C, 8C, 17B and 20

	IA 7B	IA 7C	IA 8C	IA 17B	IA 20	TOTALS
Parcels	237	318	686	388	106	1,735
Par Amount	$1,730,000	$1,580,000	$5,545,000	$11,400,000	$2,840,000	$23,095,000
True Interest Cost	2.97%	2.97%	3.17%	3.08%	2.78%	3.07%
NPV Savings ($)	$177,111	$161,188	$1,150,597	$3,360,706	$331,147	$5,180,750
NPV Savings (%)	9.98%	10.01%	20.53%	28.17%	11.21%	21.70%
Annual Savings (2021-Mat)	$26,977	$23,782	$119,827	$303,786	$60,475	$508,683
Annual Savings Per Parcel	$114	$75	$175	$783	$571	$293
Aggregate Savings	$512,558	$451,853	$2,636,199	$6,683,282	$907,124	**$11,191,017**

Fiscal Impact:

There is no cost to the City to approve moving forward with the proposed 2020 Refunding Bonds. If, and when, the 2020 Refunding Bonds price, the property owners are estimated to save between $75 (IA 7C) and $783 (IA 17B) per parcel annually through 2042, as illustrated above, based on current market conditions. The estimated aggregate NPV savings is $5.2 million (or 21.7% or par value refunded). 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:

The City Council acting as the legislative body of the Community Facilities District 93-1 authorize City staff and the City's financing team to pursue the issuance of the proposed 2020 Refunding Bonds, based on the estimated savings analysis completed on February 27, 2020. As previously mentioned, given the volatility in the marketplace, staff recommends setting a minimum NPV savings threshold equal to 7% of the par value refunded for each of the Outstanding Bonds.