



Staff Report

TO: City Council
FROM: Todd Parton, City Manager
DATE: July 21, 2020
SUBJECT: Proposed Refunding of Outstanding Bonds Related to Improvement Areas 8C and 17B of Community Facilities District No. 93-1

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 8C and 17B, for which bonds ("Outstanding Bonds") were subsequently issued to finance public improvements.

On March 3, 2020, staff and its financing team presented City Council ("Council") with an opportunity to refinance outstanding bonds associated with the following five improvement areas of CFD 93-1: 7B, 7C, 8C, 17B and 20. At that time, Council approved moving forward with the refinancing opportunity, establishing a net present value ("NPV") savings threshold of 7% (dollar amount of NPV savings as measured against the par amount of the Outstanding Bonds). At Council's direction, staff and its financing team began preparing legal documents with the goal to return before Council in the following month to seek final approval for the issuance of refunding bonds.

The outbreak of COVID-19 and its impact on the global economy led to significant market volatility (causing a spike in municipal interest rates) in mid-March and April. The refinancing was put on-hold until such time that the municipal market stabilized. In the weeks that followed, the Federal Reserve and US government undertook unprecedented measures to alleviate volatility and as a result, the municipal market has calmed and interest rates have nearly returned to pre-COVID-19 outbreak levels.

Given the return to more 'normal' market conditions, there remains an opportunity to refinance the bonds associated with Improvement Areas 8C and 17B to generate savings for property owners. The bond issues associated with the three other improvement areas (7B, 7C and 20) did not meet Council's NPV threshold of 7%.

- **Improvement Area (“IA”) 8C:** In March 2012, the Beaumont Financing Authority (“BFA”) issued the 2012 Local Agency Revenue Bonds, Series A (“2012A Bonds”) in the par amount of \$5,605,000 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 optional 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 optional call date of the 2011A Bonds is September 1, 2021.

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

Outstanding Bonds: Improvement Areas 8C and 17B

<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 Call</u>	<u>Ratings</u>
2011A Bonds	IA-17B	388	Dec 2011	\$11,930,000	2042	6.375%	Sept 1, 2021	Non-
2012A Bonds	IA-8C	<u>686</u>	Mar 2012	<u>5,605,000</u>	2042	5.875%	Sept 1, 2022	Rated
TOTALS		1,074		\$17,535,000				

As mentioned in the March 3, 2020, 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 the Outstanding Bonds today on a taxable basis does not preclude the City from refinancing on a tax-exempt basis in the future. As a side note, given the favorable taxable interest rate environment, many issuers have pursued taxable advance refundings since the Act passed in 2017.

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 two 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 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 \$17.5 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, assuming interest rates result in the City meeting its savings threshold.

Over the last month, in addition to monitoring savings, City staff and its financing team have evaluated the ability to remove the escalating debt service structure in both improvement areas, 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.

While the Outstanding Bonds are not currently rated, the 2020 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 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 \$2.0 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 June 23, 2020, total savings over the life of the 2020 Refunding Bonds are estimated to be \$7.4 million, assuming the City were to maintain the current escalating debt structure. This translates to annual savings per parcel ranging of \$135 in IA-8C and \$630 in IA-17B. Net present value (NPV) savings are estimated to be \$2.7 million. As measured against the par value of the Outstanding Bonds, NPV savings reflect 15.4%, well above the City’s required threshold. Government Finance Officers Association (GFOA) Best Practices recommends NPV savings of at least 3-5% to warrant refinancing.

While overall savings are higher under the option 'Removing Escalating Structure', there are dissavings to property owners over the first 6 years in IA-8C, as illustrated below.

Please note that Council has the option to remove the escalating structure in one improvement area (e.g., IA-17B) and maintain such structure in the other improvement area (e.g., IA-8C).

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 on current interest rates. Good Faith Estimates, as required by Government Code Section 5852.1, are provided as Attachment L to this staff report. For purposes of the Good Faith Estimates, the more conservative of the two scenarios ('Maintaining Escalating Structure') is provided.

	Maintaining Escalating Structure			Removing Escalating Structure		
	IA-17B	IA-8C	TOTALS	IA-17B	IA-8C	TOTALS
Parcels	388	686	1,074	388	686	1,074
NPV Savings (\$)	\$2,213,029	\$488,702	\$2,701,731	\$2,365,195	\$605,288	\$2,970,483
NPV Savings (%)	18.55%	8.72%	15.41%	19.83%	10.80%	16.94%
Annual Savings (2021-Mat)	\$244,538	\$92,707	\$337,244	\$281,828	\$134,050	\$415,877
Annual Savings Per Parcel	\$630.25	\$135.14	\$314.01	\$726.36	\$195.41	\$387.22
Aggregate Savings	\$5,379,830	\$2,039,543	\$7,419,374	\$6,200,206	\$2,949,097	\$9,149,303
Detail of Annual Savings to Property Owners						
2021	\$251,197	\$94,753	\$345,950	\$85,044	-\$165,989	-\$80,945
2022	247,382	91,180	338,562	97,265	-142,416	-45,151
2023	249,297	90,429	339,726	112,225	-103,556	8,669
2024	250,751	94,490	345,241	136,847	-75,079	61,768
2025	246,265	93,213	339,478	155,449	-41,883	113,566
2026	251,313	91,864	343,177	168,410	-9,038	159,372
2027	250,533	90,271	340,803	190,665	28,164	218,829
2028	252,495	93,547	346,041	210,357	79,580	289,937
2029	248,440	91,358	339,798	228,725	114,386	343,111
2030	253,337	94,040	347,378	255,540	153,101	408,641
2031	246,799	91,127	337,925	270,374	190,187	460,561
2032	250,149	93,390	343,539	289,561	226,111	515,672
2033	250,510	95,373	345,883	310,257	270,581	580,838
2034	253,705	91,585	345,290	338,117	262,773	600,891
2035	249,566	92,672	342,238	357,806	269,840	627,646
2036	248,110	93,338	341,448	374,340	271,151	645,491
2037	248,506	94,690	343,196	396,520	272,076	668,596
2038	251,450	90,655	342,105	425,243	272,413	697,656
2039	251,623	91,342	342,965	449,989	272,070	722,059
2040	208,907	90,883	299,790	450,640	265,380	716,020
2041	210,381	93,987	304,368	448,471	272,253	720,724
2042	<u>209,118</u>	<u>95,359</u>	<u>304,477</u>	<u>448,364</u>	<u>266,992</u>	<u>715,356</u>
Totals	\$5,379,830	\$2,039,543	\$7,419,374	\$6,200,206	\$2,949,097	\$9,149,303

All Numbers are Preliminary and are Subject to Change.

The attached resolutions for the PIA and BFA authorize and approve the issuance of the 2020 Refunding Bonds, subject to the compliance of certain criteria, including that: (i) the aggregate principal amount of the 2020 Refunding Bonds does not exceed \$20.0 million (\$20,000,000); (ii) the principal amount of the underlying improvement areas do not exceed \$13.0 million (\$13,000,000) for IA-17B and \$7.0 million (\$7,000,000) for IA-8C; (iii) the NPV % savings does not fall below 7.0%; and (iii) the Underwriter's Discount does not exceed 1.21% of the aggregate principal amount of the 2020 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 2020 Refunding Bonds will be offered for purchase by investors. This document must contain all facts material to the 2020 Refunding Bonds and the City (with certain permitted exceptions to be completed in the final Official Statement) and must not omit any such material facts;
- **Bond Purchase Agreement:** This document contains the obligation of the underwriter to accept and pay for the 2020 Refunding Bonds, provided that all of the covenants and representations of the PIA and the City are met and certain other conditions excusing performance by the underwriter do not exist;
- **Escrow Agreements:** These documents contain terms by which the Trustee will hold 2020 Refunding Bond proceeds on the behalf of the owners of the 2011A and 2012A Bonds to pay and discharge the Outstanding Bonds on the redemption date;
- **Indenture of Trust (PIA):** This document contains the terms of the 2020 Refunding Bonds, including payment and redemption provisions, definition and pledge of Revenues to pay the 2020 Refunding Bonds, Rights and Duties of the Trustee, remedies upon a default in the payment of the 2020 Refunding Bonds, and final discharge of the 2020 Refunding Bonds and other related matters;
- **Indenture of Trust (IA-17B) and Supplemental Indenture of Trust (IA-8C):** 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 2020 Refunding Bonds price, the property owners are estimated to save between \$135 (IA-8C) to \$630 (IA-17B) per parcel annually through 2042 (reflective of the 'Maintaining Escalating Structure' scenario), as previously illustrated, based on current market conditions. 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 Million Dollars (\$20,000,000) 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 'Debt Service Structure' as Discussed Herein.

Attachments:

- A. City Resolution No. 2020-__
- B. BFA Resolution No. 2020-__
- C. PIA Resolution No. 2020-__
- D. Indenture of Trust (PIA)
- E. Indenture of Trust (17B)
- F. Supplemental Indenture of Trust (IA-8C)
- G. Escrow Agreement (17B)
- H. Escrow Agreement (8C)
- I. Preliminary Official Statement
- J. Bond Purchase Agreement
- K. Continuing Disclosure Agreement
- L. Good Faith Estimates