Attachment G

Memo Recommending Financing Scenario

Memorandum

To: Scott Catlett, Finance Director
Steve Montano, Deputy Finance Director
City of Newport Beach

From: Michael Busch, Chief Executive Officer
Branden Kfoury, Senior Associate
Urban Futures, Inc.

Date: June 8, 2021

Re: City of Newport Beach
Assessment District No. 113
Limited Obligation Improvement Bonds 2021 Series A

Recommended Structure

In connection with the City of Newport Beach $4,585,000 Assessment District No. 113, Limited Obligation Improvement Bonds, 2021 Series A (the "Bonds"), Urban Futures, Inc. ("UFI"), as Municipal Advisor, has evaluated various financing options available to the City, including method and timing of the sale as well as structuring of the Debt Service Reserve Fund ("DSRF"). In summary, we recommend the City authorize a public sale of non-rated Bonds with a DSRF funded at 50% of Maximum Annual Debt Service ("MADS"), which is less than 5% of the par amount. The following discussion details the approach and analyses undertaken to reach our recommendation.

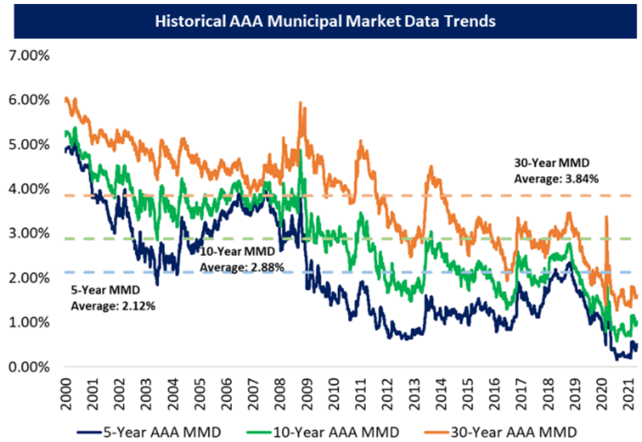
Request for Proposals and Method of Sale

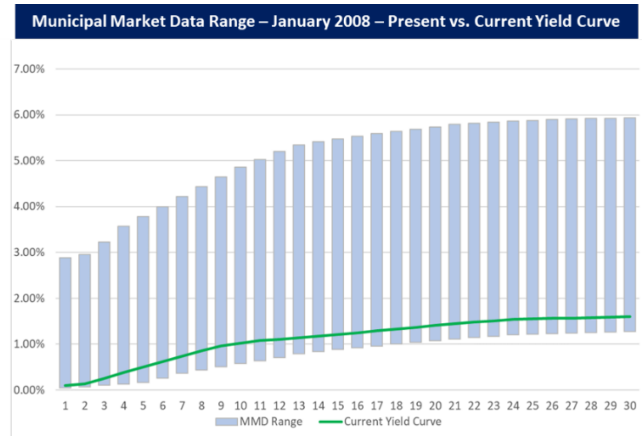
On behalf of the City, UFI solicited proposals from Underwriting firms for the Underground Utility Assessment District No. 113 financing, which were due on March 17, 2021. We asked firms to present their strategies for communicating the credit and marketing the City's bonds. Additionally, firms evaluated the use of a private placement over a negotiated public offering, as well as provided indicative rates for each method of sale. All firms indicated a public sale would be more favorable in the current market (as of 3/17/21). UFI agrees with the underwriters' independent analysis. Proposed fees from underwriters ranged from $7.82 to $10.41 per bond for a public issuance of non-rated bonds.

Ultimately, based on their strong proposal, experienced team, and competitive fees, UFI recommended engaging Stifel as underwriter. Stifel served as underwriter on the City's prior issuance of bonds for Assessment District No. 116 and 116B financings as well as the City's 2020 Fire Station No. 2 financing. Stifel is familiar with City's credit, the California land secured market in general, and has demonstrated a strong ability to place bonds with retail investors on California land secured transactions, including to residents.

In March 2021, the financing team, including the underwriter, confirmed the decision to proceed with a public sale. Several factors supported this decision.

Notably, municipal markets have stabilized over the past year with steady inflows into municipal bond funds, manageable municipal bond supply and low interest rates. As of May 17, 2021, 10-year MMD was 1.02%, which is well-below the historical average of 2.88% - See graphs below.





There are currently a limited number of private placement banks willing to offer a 20-year term. This will result in a less competitive private placement process, and potentially higher borrowing costs. Based on indicative rates received by underwriters for the RFP responses, banks noted higher all-in true interest costs of approximately 15 to 140 basis points with a private placement.

Furthermore, there are limited process efficiencies that can be achieved with a private placement for the City's Bonds. The City prepared a form of the Preliminary Official Statement for its 2019 Assessment District No. 116 and 116B financings. The staff time required to update the Preliminary Official Statement for AD 113 is minimal. Also the bonds will be issued as non-rated. In the underwriting RFP responses, all firms highlighted the marketability of the Bonds as a non-rated credit. Given the strong Newport Beach name and strong value-to-lien ratio of approximately 64 to 1 for AD 113, investors would view the credit in the "investment grade" category, thereby limiting the pricing benefit of obtaining a rating. As a result of the additional cost and staff time required for the rating process, and the minimal net pricing benefit, we agree with this assessment and recommendation to issue the Bonds without a credit rating. Given the City's experience of selling nonrated assessment districts bonds in 2019 and the current strong market conditions for non-rated land secured bonds, we have no concern with issuing the bonds non-rated. For all of these reasons, we recommended the City pursue a public offering.

Analysis of Financing Scenarios

We recommend a 50% MADS funded DSRF to increase project funds while maintaining flexibility with respect to initiating foreclosure proceedings. Reducing the DSRF to 50% of MADS from 5% of par will downsize the reserve requirement by approximately $83,000, which allows the funds to be available for projects – see Appendix A. Also, Appendix A provides an analysis of the foreclosure implications of the two different DSRF sizings based on the City's 70% funding threshold to initiate foreclosure. The 50% MADS funded DSRF, being smaller, will reach the 70% funding threshold sooner than a 5% Par funded DSRF. However, there is still likely enough time for a delinquency to resolve itself or be addressed before the City's discretion to foreclose is removed.

We also recommend a 103% premium call option in 2026 declining to a 100% par call option in 2029, which allows the City to refund the bonds three years earlier for a 3% premium. Additionally, structuring the Bonds with an optional redemption feature beginning in 2026 will align the redemption feature on the Bonds with the City's outstanding debt for other Assessment Districts. This will give the City the ability to execute a pooled refunding of its Assessment District bonds, should the City desire, and achieve process efficiencies by refunding multiple series simultanesouly. Ultimately, the refundability of the bonds, and thus the call option preference, will largely depend on the final couponing of the bonds to be decided at the time of pricing.

The anticipated closing date for the 2021 Bonds is July 20, 2021. A closing date in late July reduces the amount needed to fund for capitalized interest through September 1, 2021, which allows additional funds to be available for projects. Assuming authorization is received by Council, staff will have all documents and approvals in place necessary to price and close the transaction. The financing team will be able to amend the financing schedule as necessary, should market conditions fluctuate. The City intends to set aside approximately $50,000 of net proceeds of the Bonds for pre-funding administrative expenses.

Appendix A – Analysis of DSRF Sizing*

DSRF	5% of Par	50% MADs
Par Amount	$4,585,000	$4,585,000
Project Fund	$4,199,917	$4,303,434
Reserve Fund	$229,250	$146,247
Capitalized Interest Fund	$12,095	$12,095
Cost of Issuance	$143,738	$143,738
Foreclosure Analysis		
70% Threshold	$160,475	$102,373
DSRF loss to 70%	$68,775	$43,874
Largest Unpaid Assessment	$57,961	$57,961
Total Unpaid Assessment	$4,589,189	$4,589,189
Largest Unpaid Assessment % of total	1.26%	1.26%
MADS	$292,494	$292,494
Largest Unpaid Assessment % of MADS	$3,694	$3,694
Est. Years to reach 70% Threshold	18.62	11.88

*Preliminary; subject to change