



CITY OF

NEWPORT BEACH

Newport Beach Public Facilities Corporation Staff Report

August 13, 2019
NBPFC Agenda Item No. 2

TO: HONORABLE MAYOR AND MEMBERS OF THE PUBLIC FACILITIES CORPORATION

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TITLE: Review of Annual Financial Statements

ABSTRACT:

The Bylaws of the Newport Beach Public Facilities Corporation call for an annual meeting of the Board of Directors. The Bylaws also specify that the Chief Financial Officer shall maintain adequate financial records concerning the receipts and disbursements of the Corporation and the Board of Directors are entitled to inspect the associated financial records upon request. The attached financial statements represent the financial position and financial activities of the corporation for the year ended June 30, 2019.

RECOMMENDATION:

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly; and
- b) Receive and file the financial report.

FUNDING REQUIREMENTS:

There are no funding requirements associated with this action.

DISCUSSION:

The Newport Beach Public Facilities Corporation ("Corporation") was created on March 9, 1992, by the City of Newport Beach ("City") under the authority of California law. The purpose of the Corporation is to assist the City in the financing of public improvements, including a public library and most recently the new Civic Center project. This type of non-profit corporation is required by the Federal IRS code in order to issue a public financing instrument called a Certificate of Participation ("COP"). A COP is a typical California public financing instrument for public facilities or equipment. It is a type of lease purchase that requires a third party, the Corporation, for the lease transaction. The Corporation assigns all of the rights, obligations and financial transactions to others, such as the Trustee for the COP.

The Corporation is governed by a Board of Directors that is comprised of the seven City Council Members of the City. Normally, the Mayor serves as Chairperson of the Board, with the Mayor Pro-Tem serving as Vice-Chairperson. The City Manager serves the Corporation as President, the City Clerk serves as Secretary, and the City Treasurer serves as Chief Financial Officer.

In 1992, the City issued \$7.5 million of COPs to finance the construction of the Central Library and subsequent refinanced this obligation in 1998. In 2010, the City issued approximately \$126.7 million of new COPs. Of this financing, \$122.8 million was used for the Civic Center project and \$3.9 million was used to refinance the remaining balance of the Central Library COPs. The Corporation's financial data and transactions are included in the debt service fund in the City's financial statements. The City's debt service fund is used solely to account for the activities of the Corporation and contains no other City debt financing activities. Even though the Corporation is a separate legal entity, it is considered a component unit of the City and is included in the Comprehensive Annual Financial Report.

The main sources of revenues of the Corporation are lease payments from the City and Federal Build America Bond (BAB) Interest Subsidy payments; both of which are pledged for the sole use of paying interest and principal on the COPs. The Corporation has assigned its rights to receive and collect these payments to a trustee who makes the semi-annual debt service payments to the bondholders. Therefore, the lease and BAB subsidy payments are received directly by the Trustee. The debt is an obligation of the City, not the Corporation. The City owns the financed properties.

During the year, the Trustee received lease payments from the City totaling \$8.2 million and Federal Build America Bond (BAB) Interest Subsidy of \$2.3 million. Together with investment earnings, there were sufficient resources necessary to satisfy the annual debt service requirement of \$10.5 million. The table below illustrates the remaining debt service payment and principal balance on the COPs:

Year Ending June 30	2010 COP Debt Service			Balance
	Principal	Interest	Total	
2020	3,405,000	7,052,048	10,457,048	100,695,000
2021	3,065,000	6,895,351	9,960,351	97,630,000
2022	3,165,000	6,733,265	9,898,265	94,465,000
2023	3,275,000	6,556,869	9,831,869	91,190,000
2024	3,390,000	6,365,978	9,755,978	87,800,000
2025-2028	15,060,000	23,000,936	38,060,936	72,740,000
2029-2032	18,025,000	18,326,556	36,351,556	54,715,000
2033-2036	21,580,000	12,681,984	34,261,984	33,135,000
2037-2040	25,890,000	5,894,605	31,784,605	7,245,000
2041	7,245,000	259,661	7,504,661	-
	<u>\$ 104,100,000</u>	<u>\$ 93,767,253</u>	<u>\$ 197,867,253</u>	

The outstanding principal of the obligation was \$104.1 million as of June 30, 2019. The remaining interest of \$93.8 million does not yet reflect the remaining expected BAB subsidy of \$30.8 million so the remaining interest net of the BAB subsidy totals \$63.0 million.

ENVIRONMENTAL REVIEW:

Staff recommends the Board of Directors of the Public Facilities Corporation find this action is not subject to the California Environmental Quality Act ("CEQA") pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the Board of Directors considers the item).

ATTACHMENT:

Attachment A – Financial Statements