



CITY OF

NEWPORT BEACH

City Council Staff Report

June 23, 2020
Agenda Item No. 18

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Resolution No. 2020-63: Underground Utility Assessment District
No. 111 – Authorization of Limited Obligation Improvement Bonds

ABSTRACT:

Staff requests City Council to authorize the issuance of limited obligation improvement bonds and the execution and delivery of all legal documents, substantially to form, necessary to issue limited obligation improvement bonds to finance the remaining unpaid assessments in Assessment District No. 111. The proposed bond issue is secured by private properties within the district and the City is in no way responsible for repaying this obligation.

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;
- b) Adopt Resolution No. 2020-63, *A Resolution of the City Council of the City of Newport Beach, California, Authorizing the Issuance and Sale of Limited Obligation Improvements Bonds with Respect to Assessment District No. 111* (Attachment A); and
- c) Authorize the City Manager and or designee to take any and all actions necessary to execute and deliver any and all documents deemed necessary or advisable in consultation with the City Attorney and Bond Counsel in order to carry out the intent of this resolution, the Fiscal Agent Agreement and the Term Sheet.

FUNDING REQUIREMENTS:

The cost of the project and financing are borne by the residents that electively self-assessed themselves for the cost of the project and financing. In no event shall the City be liable for the payment of the principal of or interest on the bonds.

DISCUSSION:

Underground Utility Assessment District No. 111 (AD 111) is the area bounded by Newport Boulevard, 23rd Street, Ocean Front W. and 31st Street (Attachment B). The City Council has previously indicated its intention to issue limited obligation improvement bonds pursuant to the provisions of the Improvement Bond Act of 1915 (Act) in a principal amount not to exceed the unpaid assessments of AD 111.

On January 12, 2016, a public hearing and vote was held, at which time it was determined that a weighted majority of the ballots received were in favor of forming AD 111. As such, Council adopted a resolution approving the Final Engineer's report, approving and confirming a total assessment of \$3,426,186 on the parcels determined to be specially benefited by the undergrounding project as indicated in the Final Engineer's Report, designating AD 111 as an underground utilities district, and declaring the intention to issue bonds.

In February 2016, a cash collection period was opened to afford property owners the opportunity to prepay all or any portion of the assessments levied upon their parcel or parcels at a 7.3% discount since certain prepaid financing costs could otherwise be avoided if bond financing was not required as follows:

Bond Reserve	5.00%
Capitalized Interest	1.30%
Underwriter's Discount	<u>1.00%</u>
Total	7.30%

The cash collection period expired on March 30, 2020 and an Amended Notice of Assessment was recorded on April 21, 2020, in the official records of the County Recorder of the County of Orange, discharging the liens on those parcels for which the assessment had been fully paid. Cash payments totaling \$940,708 were received, representing 30% of the discounted value of the assessments. The sum of the cash payments, together with the \$73,423 assumed financing cost previously included in the total assessment, reduces the remaining amount of unpaid assessments to \$2,412,055 as depicted below.

Assessment levied – cost of improvement project and financing	\$3,426,186
Less: City received – prepaid contributions from property owners	\$940,708
Less: Exercised financing discount	\$73,423
Remaining unpaid assessment amount	\$2,412,055

Due to extreme financial market volatility in March 2020, the sale of municipal securities in the public market became severely disrupted. Based on the analysis at the time, a private placement was determined to be more cost effective than a public offering. The successful placement bank offered a financing rate at 2.35% for 20 years with a rate lock through June 26, 2020. The rate lock was particularly attractive during a time of significant market volatility, which, unlike a public offering, protected the financing against interest rate risk.

The financing team recommends proceeding with a private placement. A more detailed analysis is included with this report as Attachment E.

If Council wishes to proceed with financing the remaining unpaid assessments, City Council should adopt a resolution, included with this report as Attachment A, to authorize the issuance of bonds pursuant to the Act, designated the “City of Newport Beach Assessment District No. 111” in a principal amount not to exceed \$2,412,055, to complete the funding for the Undergrounding Project, to fund a reserve fund and to pay incidental costs of the Assessment District proceedings and the costs of issuance for the Bonds.

This resolution would also authorize the form, execution and delivery of all documents necessary to issue and deliver the bonds including:

- (1) Fiscal Agent Agreement, a document between the City and US Bank National Association which governs the terms of the Bonds (Attachment C); and
- (2) Term Sheet, a document between the City and City National Bank, or an affiliate thereof, which details the terms of the Bonds (Attachment D).

This resolution also authorizes officers of the City to take any and all actions necessary to execute and deliver any and all documents deemed necessary or advisable in consultation with the City Attorney, Bond Counsel and Disclosure Counsel in order to carry out the intent of this resolution, the Fiscal Agent Agreement and the Term Sheet. In accordance with the City’s Debt Management Policy (F-6), Exhibit A of this resolution provides additional information relating to the issuance of Bonds, including: the maximum term, estimated maximum annual debt service, call provisions, estimated cost of issuance and a list of consultants hired for this issuance.

Also, as required by F-6, included as an attachment to this Staff Report, is a memo from Urban Futures, Inc., the Independent Registered Municipal Advisor (IRMA) for this issuance, recommending a private placement of bonds. Included in that memo, also in order to comply with F-6, is the analyses of all financing scenarios considered.

Finally, per the requirements of Senate Bill 450, Attachment F contains the good faith estimates provided by Urban Futures, Inc.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this project exempt from the California Environmental Quality Act (CEQA) pursuant to Class 2 Section 15302 (d) (conversion of overhead electrical utility distribution lines where the surface is restored to the condition existing prior to the undergrounding) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it will not have an adverse effect on the environment.

NOTICING:

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

ATTACHMENTS:

Attachment A – Resolution No. 2020-63
Attachment B – Location Map
Attachment C – Fiscal Agent Agreement
Attachment D – Term Sheet
Attachment E – Memo Recommending Financing Scenario and Analysis
Attachment F – Good Faith Estimates